Vol. 25, No. 4 EQUITY CENTER December 2006

News & Notes

Advocating School Finance Equity and Adequacy in Texas

The Instructional Facilities Allotment: Too Little of a Very Good Program

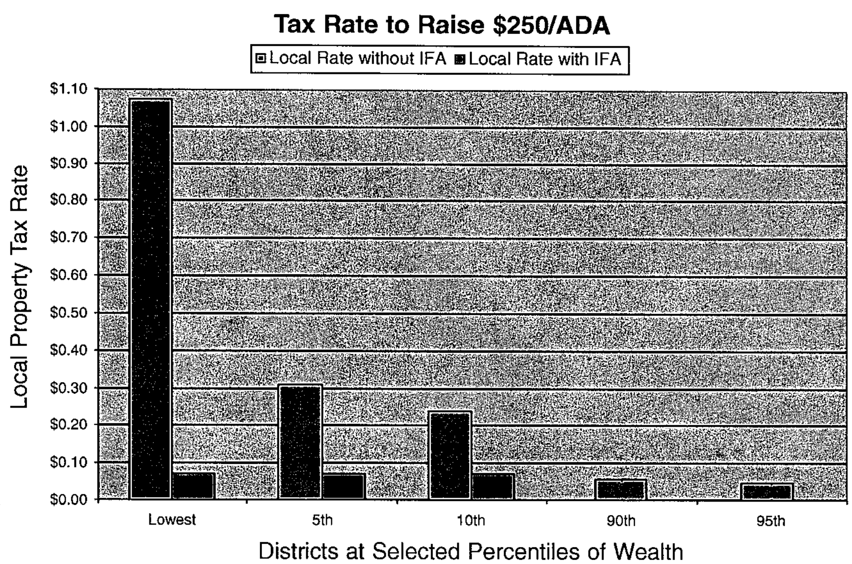
The Legislature enacted the Instructional Facilities Allotment (IFA) in 1997. The IFA is intended to provide special state assistance to school districts with such low wealth (taxable value per ADA) they cannot provide the instructional facilities they need at tax rates that are within reason.

These districts are so poor they cannot take the risks required for the Existing Debt Allotment (EDA), reported in the November issue of *News & Notes*. They need state assistance literally from day one—the first year debt payments are due.

The state guarantees a $35 yield per ADA for each penny of tax effort up to 7.14 pennies for each IFA project. That equalizes annual debt payments of up to $250 per ADA. Plus the state assistance begins with the first year's debt payments. (Districts with fewer than 400 ADA receive additional state assistance due to their diseconomies of scale.)

IFA is intended to provide special state assistance to school districts that as so poor they cannot provide instructional facilities they need at tax rates that are within reason.

The bars in the graph below show tax rates required for annual debt payments equal to $250 per ADA with and without state assistance under IFA. (The rate with IFA is 7.14 cents.) Rates are shown for the poorest district and for the districts at the 5th, 10th, 90th, and 95th percentiles of wealth. Note that the richest districts can raise the $250 per ADA with substantially lower rates than the IFA's 7.14 cents.



The bars in the first graph on page 2 show the yields for each cent of tax effort for the same districts with and without IFA. Again, note the substantial advantage enjoyed by the richest districts, even after the poorest districts receive IFA assistance.

The data in these graphs, especially the tax rates for the poorest districts without IFA, clearly demonstrate why IFA is absolutely essential.

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The IFA: Too Little of a Very Good Program

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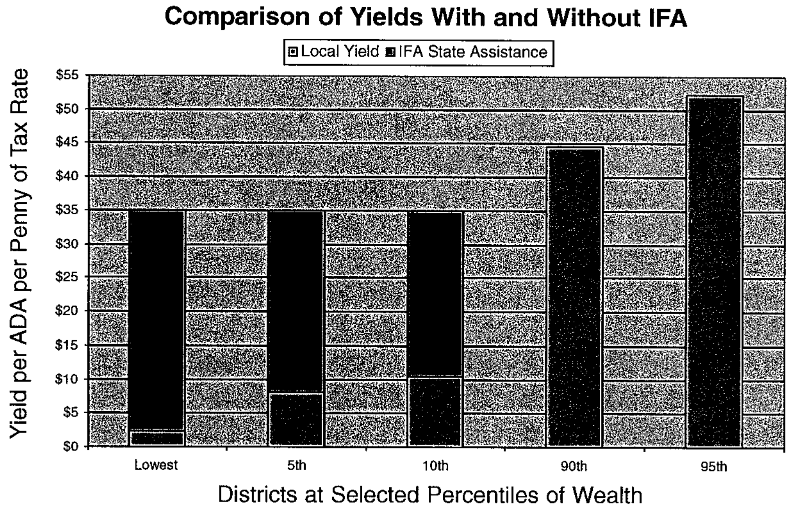
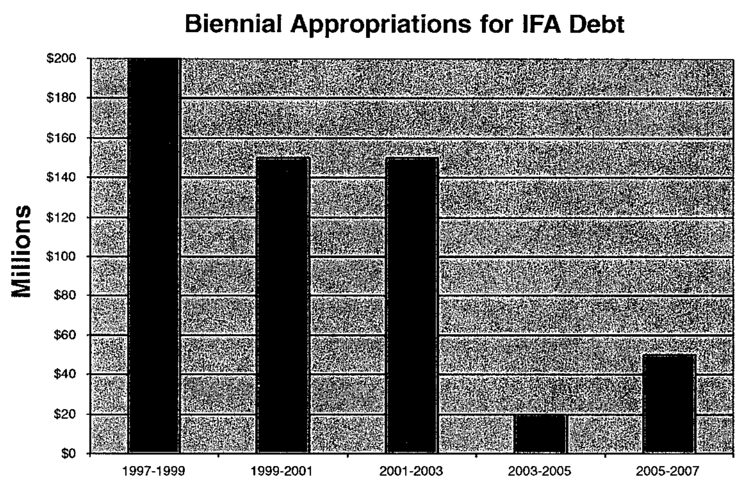
Unfortunately, many facilities deficiencies and problems have yet to be addressed by the state, with special impacts on the poorest districts.



IFA funding over the past five biennia since IFA was created has been so inconsistent that the districts IFA was designed to help cannot depend on it. The graph to the right shows the biennial appropriations for new IFA debt. Under these circumstances, districts cannot efficiently plan their facilities programs. They may or may not get state assistance when they need to build or renovate, so they have little choice but to apply for IFA awards whenever funds are available.

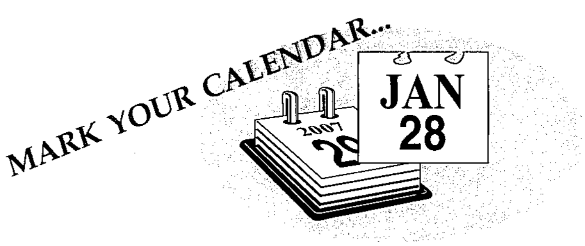


IFA has always been under-funded, even in its best times. This is reflected in the fact that applications for IFA awards over the five biennia of IFA have exceeded appropriations by hundreds of millions of dollars.

And finally, to function effectively and efficiently, all school districts need a variety of facilities that do not fit the definition of instructional facilities. Limiting special assistance for the poorest districts to instructional facilities leaves those districts with substantial unmet needs in other areas.

The intent of IFA is commendable and fully justified. The inconsistent and inadequate funding levels are quite the opposite.

The Equity Center's 7th Annual School Finance and Legislative Workshop



Austin Convention Center
Sunday, January 28, 2007
(registration and program details to follow...)

www.equitycenter.org

Vol. 25, No. 3 EQUITY CENTER November 2006

News & Notes

Advocating School Finance Equity and Adequacy in Texas

School Taxpayers Forced to Play Russian Roulette for Facilities Funding

The school board is meeting. The first item on the agenda is the public forum. The president gavels the meeting to order and invites patrons to come forward. A well-known and respected businessman walks to the microphone. This is what he has to say:

"You know that I've always supported our public schools, and I agree the population growth we've had over the years gives us no choice but to build a new elementary school, and we must build it now. But according to the newspaper, the school board is asking us to vote for a bond issue to build the new school, but can't tell us whether the tax rate to pay off the bonds will be 15 cents or 40 cents.

"The newspaper says it depends on whether the state agrees to help us make the payments, and we won't know what the state will do until after the next legislative session. How can this be true? Why won't the state tell us up front whether or not we'll get state assistance?

...the school board is asking us to vote for a bond issue to build the new school, but can't tell us whether the tax rate to pay off the bonds will be 15 cents or 40 cents.

"I can afford the 15 cents, and I'd guess most of my fellow businessmen can too, but 40 cents could put us in a bind. If we vote the bond issue down, that's not fair to our students. If we pass the bond issue, and the state doesn't come through, that's not fair to our taxpayers.

"Not only do we have to vote without knowing the rate, the newspaper also says the district has to issue the bonds and levy taxes to start paying them off before we know what the state decides. What happens if there is no state assistance—are we stuck with the bond issue and the 40 cent rate for the next 25 years?

"This sounds like something out of Ripley's *Believe it or Not.*"

Not only do we have to vote without knowing the rate, the newspaper also says the district has to issue the bonds and levy taxes to start paying them off before we know what the state decides.

The board president asks the superintendent to respond. This is his answer:

"Unfortunately, what the newspaper has reported is exactly the way the Existing Debt Allotment, known as EDA, has worked since it was enacted by the Legislature in 1999. It's all clearly spelled out in the law.

"As late as the end of May of the second year of the state's fiscal biennium the Legislature decides whether to extend EDA to cover bonded indebtedness that has already been created in that biennium. Prior to that decision by the

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School Taxpayers Forced to Play Russian Roulette...

(continued from FRONT)

Legislature, a school district that wishes to issue bonds must hold an election, and if the voters approve the bonds, the district must sell the bonds, commit the district to pay the debt service over the life of the bonds, *with or without state assistance*, and levy taxes for the payment(s) due during that biennium.

"The district must then make the payment for the second year of the biennium on or before August 31 of that year to be eligible for state assistance beginning the next year. Otherwise, the district is forced to wait at least two more years before it is eligible to receive state assistance.

Each biennium since 1999 the Legislature has extended EDA to cover such bond issues. Chances are good they will do the same when they meet next year. ***But there's no guarantee.***

"Fortunately, each biennium since 1999 the Legislature has extended EDA to cover such bond issues. Chances are good they will do the same when they meet next year. But there's no guarantee.

"That's why we can't tell you whether the tax rate will be 15 cents or 40 cents. If another extension is approved, the state assistance, plus our 15 cent rate will cover the debt payments beginning next biennium. If it's not approved, we're on our own, and, with our current property values, that will require a 40 cent rate.

"We could hope that our growth will increase property values enough to give us at least *some* relief on the 40 cents. And we could hope that the Legislature might make our bonds eligible for state assistance beginning in some biennium further down the road. Otherwise, to answer your question, we will be stuck with the 40 cents for 25 years."

The businessman could be seen shaking his head in disbelief and dismay.

Contact your legislators **and let them know how you feel about the situation we are facing in our district as we try to provide essential facilities for our children.**

The Superintendent continued, "There have been a lot of people trying to get the Legislature to change the EDA so taxpayers can be assured that new bond issues will automatically be covered, and so that they will know what tax rate they are agreeing to pay. Not knowing until after they commit themselves is just asking too much.

"I would also urge all of you to contact your legislators and let them know how you feel about the situation we are facing in our district as we try to provide essential facilities for our children.

"The message is simple: EDA is a good thing, but the uncertainty of state assistance is not fair to our children, and it's not fair to our taxpayers."

"The message is simple: EDA is a good thing, but the uncertainty of state assistance is not fair to our children, and it's not fair to our taxpayers."

The President then moved on to the next item on the agenda.

EQUITY CENTER

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August 27, 2008

The attached articles were written in fall 2006 to underscore the primary structural weaknesses in TEC Chapter 46—*Assistance with Instructional Facilities and Payment of Existing Debt* and to present in a clearly understandable manner the decline in effective funding levels since the 2000-01 school year. In the spring of 2007, the legislature funded $87.5 million for new IFA debt and rolled forward EDA coverage to include debt created in the 2005-2007 biennium. However, the structural weaknesses were not addressed during the session and continue today. Consequently, these articles remain appropriate and continue to illustrate the foundation of the Equity Center's goals for facility funding.

Vol. 25, No. 2 EQUITY CENTER October 2006

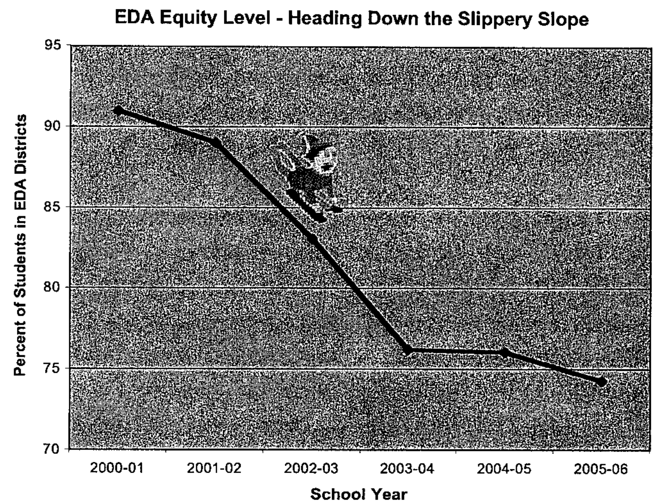
News & Notes

Advocating School Finance Equity and Adequacy in Texas

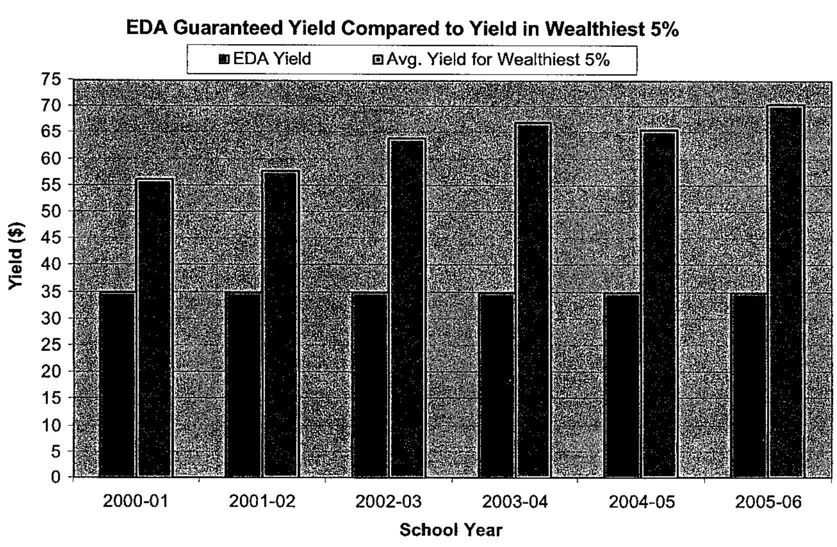
Equity in Facilities Funding Under the EDA: Heading Down a Slippery Slope

The equity level is so low under the state's primary facilities equalization formula, the Existing Debt Allotment (EDA), that fewer than 75% of the state's students are in school districts with equal access to funds. And this equity level of less than 75% is down from a high of 91% in the 1999-2001 biennium when the EDA first became available.

When a guaranteed yield level (GYL) is frozen at a particular dollar level, like the GYL for the EDA has been frozen at $35 for the past seven years, the equity level drops as the wealth of the state rises, as shown in the graph to the right.



On the other hand, most wealthy districts enjoy *rising* yields, and that's on top of substantially higher yields to begin with. As their wealth levels have risen, their yields have increased significantly compared to the frozen yield for EDA districts, as shown for the top 5% in wealth in the graph below. For example, the average yield for each cent of tax effort for the top 5% has grown from $56.09 in 2000-01 to $70.47 in 2005-06. At an average yield of $70.47, the wealthiest districts with 5% of students can raise more than twice as much revenue for facilities debt at the same tax rate as the districts in the EDA equalized system. *Or, to say it another way, taxpayers in EDA districts on average must pay twice the tax rate as taxpayers in the wealthiest districts to raise the same amount of revenue for facilities debt.*



To put it mildly, when it comes to equalizing facilities funding in Texas, things are bad and getting worse at an alarming rate.

Editor's Note: Look for future articles on facilities funding that will expose other problems with the EDA, explain how the majority of Texas taxpayers continue to bear the burden of unequalized facilities funding, and investigate the role and shortcomings of the Instructional Facilities Allotment (IFA).