

Comparison of Equity of HB3646 and CSHB3646

The features that make a school finance plan equitable are:

1) “Equal yield for equal effort”, which the *Edgewood* decision defined as the key characteristic to which an efficient system should be compared (it permitted less than perfect equity by allowing for “similar”.)

- Linking the three yields (BA, GY and EWL) to one definition, as is done in HB3646, is a key to guaranteeing equity. It eliminates structural “gaps” between rich and poor districts. Current law uses identical definitions for each, but doesn’t link them. The proposed committee substitute, CSHB3646, continues the use of unlinked definitions for the BA and EWL, setting them at an arbitrary amount – another step back from equity.
- That structural gap created much of the existing inequity that the target revenue system of HB1 froze into place and then added to. The larger the gap, the greater the inequity and inefficiency and the more likely that the system will be found unconstitutional.
- We have bad experience with separate yields. For example, in 2001 the EWL and GY were raised, but not the BA. As a result, Chapter 41 districts, which already were funded at much higher levels than Chapter 42 districts, received their increase on 150 pennies, while Chapter 42 districts received an increase on only 64 pennies.
- HB3646 treats all equal tax rates the same – a given tax rate produces a given yield which is the same for all districts – other than the impact of the golden pennies.
- CSHB3646 continues the HB1 practice of making yields dependent on when they were levied, so that one district with a \$1.04 tax rate might get the \$47 uniform yield on 100 pennies and a higher yield on the four golden pennies, while another district with exactly the same tax rate might receive that \$47 yield on a lesser number of pennies, with the remainder up to 100 pennies at \$31.95 (plus their 4 golden pennies.)
- Making some (in fact, most) districts second-class citizens, is not just wrong, it’s bad public policy. The future of Texas depends on our ability to educate all children.

2) A dynamic system that raises the Foundation School Program costs as automatically as it raises the local share cost to the district.

- Failure of the program to rise with rising costs increases the inequity of the system. Districts with lower yields per penny have less ability to cover those cost increases and need higher tax rates to make up the difference.
- “Frozen” costs or yields, or even yields that don’t grow as fast as property values, shift the overall cost from the state onto local property taxes. As the Supreme Court has found, the more the system relies on local taxes, the greater the likelihood it will be inequitable and inefficient, and therefore, unconstitutional.
- A frozen system increases the likelihood districts will have to raise tax rates, increasing the likelihood of again having the equivalent of a state property tax.
- HB3646 uses wealth per pupil as the dynamic driver, assuring that the system will not shift back onto increasing reliance on local property taxes.

3) Proper reflection of costs beyond the control of districts through weights and formulas that are part of the dynamic system.

- Most weights are derived in large part from differences in class sizes needed. As such, they indicate a proportional relationship to the cost of a student in the regular program. By moving more funding outside of weights, CSHB3646 weakens that cost relationship.

4) Updated weights and formulas that reflect uncontrollable costs rather than political pressure.

- Both bills move the HS allotment, which demonstrably favors rich over poor districts and advantaged over disadvantaged students, from target revenue to a permanent allotment, although HB3646 changes the distribution to weighted students. CSHB3646 adds an additional “per ADA” allotment for Career and Technology with unknown equity impact.
- HB3646 commissions an interim study, but it will need broad participation and guidelines designed to assure outcomes that properly reflect uncontrollable costs.

5) A reduced gap between rich and poor districts.

- HB3646 repeals all of the old hold-harmless provisions that contributed to the gap, replacing them with a single guaranty tied to this year’s revenue. This allows the higher yield in the bill to “level up” poorer districts while guaranteeing some increased revenue to all districts, closing the gap. HB3646 also repeals the disequalizing compensatory education set-asides.
- CSHB3646 leaves in place the Chapter 41 hold-harmless and option credit provisions, which will actually make the gap grow between the wealthiest districts and Chapter 42 districts as the yield goes up. It leaves set-asides in place.
- HB3646 sets a higher yield, moving more districts off target revenue onto formulas.

6) A reduced reliance on local property taxes, which the Supreme Court considers important to an “efficient” system.

- By setting a fixed, rather than dynamic basic allotment and yield, CSHB3646 continues the current policy of allowing the state to “skim off” rising property tax revenues for purposes other than public education.
- Setting a fixed basic allotment and yield continues appraisal creep.

In summary, HB3646 contains many features that would make the current school finance system more equitable, both for students and for property taxpayers. CSHB3646 would repeal some of the few gains in equity made in HB1, increase the advantages already held by some of the wealthiest districts in the state, would not move most districts back onto formula funding and would not provide sufficient revenue to adequately cover the increased costs districts will face, let alone make up for the deficit financing many districts have faced over the past several years.

Impact of \$47 Yield on Chapter 41 Hold Harmless w/Sec. 41.002 (g)

	ADA	Original Ch41 H-H	H-H at 88th %ile	H-H at 470,000	Increase per 1¢	M&O tax rate	Increase per WADA	2008-9 M&O	6% Limit
Glen Rose	1,598	536,059	635,249	736,124	10.09	0.825	832	8,663	520
Highland Park	6,179	324,288	398,985	474,951	7.60	1.027	780	6,368	382
Seminole	2,154	347,537	405,218	463,879	5.87	0.740	434	6,718	403
Denver City	1,386	359,515	444,987	531,911	8.69	1.060	921	8,514	511
Groesbeck	1,322	320,758	393,419	467,314	7.39	1.010	746	7,430	446
Barbers Hill	3,868	335,241	414,942	495,997	8.11	1.060	859	7,507	450
Kelton	75	1,528,024	1,770,323	2,016,737	24.64	0.707	1,742	11,711	703

Impact of HB3646 by Wealth Deciles, 2009-10 School Year

Wealth Decile	# of Districts	Avg M&O Rate	Wealth / WADA	Current Law WADA	CL Rev / WADA	Formula Rev/WADA	Formula Change	Change W/H-H	Avg Dist Change
1	153	1.070	75,143	586,892	5,316	5,487	170	178	185
2	181	1.063	133,596	587,359	5,339	5,523	184	190	147
3	92	1.059	173,528	587,886	5,437	5,614	177	201	147
4	102	1.069	202,865	589,440	5,433	5,609	177	186	136
5	89	1.059	238,992	583,603	5,500	5,633	133	145	122
6	52	1.053	277,409	634,896	5,463	5,596	133	150	133
7	86	1.046	317,409	591,528	5,668	5,860	193	193	115
8	62	1.046	388,200	672,264	5,941	6,041	101	107	121
9	55	1.043	461,580	541,270	5,885	5,983	98	101	103
10	153	1.011	730,469	497,478	6,575	6,681	106	115	134
Total	1,025	1.052	293,178	5,872,616	5,642	5,790	147	157	140
Hi - Lo		-0.059	655,327		1,258	1,194	-64	-62	-51

* Based on current law definition of WADA.

* Based on House committee substitute prior to floor amendments.

* Wealth per WADA is based on "T5" estimated property values for 2009-10 and the state average does not include charter and special district students.

* Columns labeled "Avg" are calculated by summing the values for all districts in the decile and dividing by the number of districts.

Impact of HB3646 by Wealth Deciles, 2010-11 School Year

Wealth Decile	# of Districts	Avg M&O Rate	Wealth / WADA	Current		CL Rev / WADA	Formula Rev/WADA	Formula Change	Change W/H-H	Avg Dist Change
				Law WADA	WADA					
1	153	1.070	76,506	599,090	5,324	5,544	220	228	227	
2	177	1.064	135,943	595,099	5,356	5,576	220	226	178	
3	88	1.057	174,713	601,742	5,461	5,672	211	236	176	
4	106	1.066	204,938	591,549	5,437	5,654	216	228	161	
5	89	1.065	242,274	605,942	5,489	5,678	189	200	142	
6	51	1.048	277,430	577,508	5,404	5,637	233	252	164	
7	78	1.044	309,465	601,981	5,722	5,848	126	135	121	
8	76	1.051	378,123	626,215	6,002	6,131	129	129	127	
9	56	1.040	468,175	716,804	5,856	5,950	94	101	104	
10	151	1.011	763,881	463,744	6,614	6,722	108	119	138	
Total	1,025	1.052	296,510	5,979,674	5,652	5,826	174	185	162	

Hi - Lo	-0.059	687,375	1,290	1,177	-112	-109	-89
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* Based on current law definition of WADA.

* Based on House committee substitute prior to floor amendments.

* Wealth per WADA is based on "T5" estimated property values for 2009-10 and the state average does not include

* Columns labeled "Avg" are calculated by summing the values for all districts in the decile and dividing by the