

TASB School Finance Plan Frequently Asked Questions

General Questions

(1) Why did TASB develop a new school finance plan?

School board members, educators, and policymakers have expressed concern that the Texas school finance system is out of date, complex, unfair, and unrelated to the performance goals established for public education. The current system, substantially revised in 2006, was intended as a temporary measure until a better and permanent system could be devised. As a response to these concerns, the TASB Board's strategic plan for 2008-12 calls for TASB to develop and propose a school finance plan that meets legal adequacy and equity requirements.

(2) How was the TASB Plan developed? How was member feedback gathered? Is the Plan supported by all school board members?

The TASB Plan was adopted unanimously by 39 members of the TASB Board of Directors in September 2010. During the eighteen months prior to adopting the plan, the Board met regularly with TASB staff in Board work sessions, Board meetings, and special committee meetings to provide guidance on the underlying principles and then the parameters of an acceptable school finance plan.

During the early stages of the Plan's development, TASB staff gathered input from TASB membership about the underlying principles of an acceptable school finance plan through the online grassroots survey, the regional grassroots meetings, the Legislative Advisory Council and the Delegate Assembly which unanimously adopted Advocacy Priorities addressing features of a school finance system. TASB members were updated regularly about the progress of the Plan's development through multiple articles in TASB publications and videos on the TASB website.

Additionally, TASB staff gathered guidance from the larger education community through the Coalition to Invest in Texas Public Schools.

TASB members were updated regularly about the progress of the Plan's development through multiple articles in TASB publications and videos on the TASB website.

During the last quarter of 2010, TASB Directors and staff will be communicating the Plan, as adopted by the Board, to the TASB membership and education community to gauge their reaction. If there is consensus support for the Plan, TASB Governmental Relations staff will seek a legislative sponsor.

(3) Why should legislators consider a new school finance plan when there is no new money for education?

Legislators themselves have expressed concern that the current school finance system is overly complex and treats districts unfairly with respect to one another. TASB's school finance plan is not dependent on a specific level of state funding; it can be implemented with whatever level of funding legislators choose to appropriate. However, reaching ambitious adequacy and equity goals in future years will require new money.

(4) What is a single-tier system and how is it different from the current finance system?

The current school finance system is made up of two formula-driven tiers:

- Tier 1, the foundation tier, provides state funding based on the school district's 2005-06 compressed M&O tax rate and a Basic Allotment, the amount of which is set by the legislature;
- Tier 2, the enrichment tier, provides two different guaranteed yields on the pennies of the district's M&O tax rate (above the 2005-06 compressed rate). This is explained further in the answer to the next question.

Layered on top of this two-tier system is a hold harmless arrangement, commonly referred to as the "Target Revenue" system, that assures each district a minimum amount of funding per student based on funding levels in 2005-06. This is a very complicated arrangement. Today, most districts are funded through the target revenue hold harmless rather than the two-tier formula system.

The single-tier system TASB is proposing would distribute state funding to districts through a single guaranteed yield on each penny of the district's M&O tax rate, up to the current \$1.17 tax cap. The Legislature would establish the guaranteed yield each biennium. Under the TASB Plan, the amount of state revenue a district would receive for maintenance and operations is calculated by multiplying the district's M&O tax rate by the guaranteed yield, and then multiplying that product by the number of weighted students (or WADA) enrolled in the district. The number of weighted students in a district would be calculated separately, based on the weights and allotments currently used for that purpose.

(5) Texas already has a guaranteed yield system in Tier 2. How is TASB's plan different?

The current system has two yields in Tier 2: the six "golden" pennies yield \$59.97 per penny per WADA, and the remaining 11 "copper" pennies yield \$31.95 per penny per WADA. School boards may adopt the first four golden pennies without seeking voter approval, but adoption of any additional pennies

requires voter ratification of the school board's action. Tier 2 is limited to 17 pennies. The current system applies state recapture only to the 11 copper pennies; the golden pennies are exempt from state recapture.

The TASB Plan has one tier and one guaranteed yield applied to each penny of the district's M&O tax rate (from \$0.01-\$1.17). Recapture is applied to every penny of the district's M&O tax rate. TASB proposes that the legislature set the guaranteed yield at \$51.50 per penny per WADA for FY 2012 and increase it each year to achieve greater equity and adequacy.

(6) Does the TASB Plan get all districts off target revenue?

The goal of the TASB Plan is to move all districts off target revenue and on to a system that is equitable and more adequate. To do so *quickly* would require a significant increase in state funding, but the goal can also be accomplished incrementally over time.

(7) Does the TASB Plan create a formula-funded school finance system?

Yes. The TASB Plan is a simple guaranteed-yield formula with a single yield. The legislature can change the guaranteed yield each year. There is also a calculation or formula for determining the number of weighted students (WADA). TASB's plan does not change the calculation of WADA. But, legislators could adjust the weights and allotments used to calculate WADA without affecting the fundamental structure of the TASB Plan.

Equity

(8) How does the TASB Plan measure "Equity"?

TASB has reviewed its proposed plan using several different measures of equity:

- the percent of students attending school in districts that are funded on formulas, rather than on target revenue;
- the correlation between property wealth level and state revenue; and,
- gap between high-revenue and low-revenue districts.

Over time, the TASB Plan reduces the wealth-to-revenue correlation and reduces the revenue gap among districts. Districts that currently have low revenue targets, high proportions of low-income students, and low property wealth benefit more, relative to other districts under the TASB Plan.

(9) The equity goal in the TASB Plan is 85 percent or greater. What does that mean? How did TASB select 85 percent?

The equity goal of 85 percent means that only 15 percent of students will attend school in districts that are funded with a hold harmless rather than formulas. The TASB Plan could easily be set to a higher level of equity—90 or 95 percent. Reaching higher equity goals would require a greater investment of state revenue, and would require districts to accept less revenue per student and/or greater state recapture in the short-term. TASB selected 85 percent as a reasonable equity goal that could be reached in six years.

(10) Reaching the TASB equity goal will take several years and more state funding. What if the state does not increase funding in the manner TASB estimates?

If the state does not increase funding, the number of districts funded through the target revenue system will continue to be high, and it will take longer to reach the 85 percent equity goal.

(11) Is the TASB Plan more equitable than the current school finance system?

In 2009-10, 28 percent of students attend school in districts that are funded with the current formula system. The TASB Plan phases in equity improvements each year. In FY 2012, equity would be about 33 percent; in FY 2013 it would be about 48 percent. In three biennia, or six years, the plan reaches its 85 percent equity goal. The equity goal could be reached more quickly if more state funding is available.

(12) Does the TASB Plan have recapture?

The TASB Plan implements recapture above the single guaranteed yield on each penny of the district's tax rate (from \$.01 to \$1.17). As proposed, the TASB Plan has a guaranteed yield of \$51.50 in FY 2012. That means that districts able to raise more than \$51.50 per penny per WADA in local tax revenue would experience recapture above the \$51.50 level. In other words, districts with property wealth of \$515,000 per WADA would experience recapture on each penny of the local tax rate. In the following years, the guaranteed yield in the TASB Plan would be increased and fewer districts would experience recapture.

(13) How are weighted students (WADA) calculated in the TASB Plan?

The formula for determining WADA in the TASB Plan is the same formula use in current law. At this time, the TASB Plan proposes no changes, but the TASB Board of Directors is studying possible changes to the weights, allotments and adjustments that go into the calculation of WADA. Changes to WADA could be made without changing the framework for distributing revenue to districts under the TASB Plan.

Adequacy

(14) How does the TASB Plan improve adequacy?

Improved adequacy could mean at least two things. It could mean adequate funding to achieve the state's goals for student and district performance. Or, it could mean sufficient funding to keep up with inflation and wage and benefit requirements in law. TASB has not conducted a study to determine the cost to districts of reaching state academic goals, so TASB's Plan implements modest increases in district funding to help them keep up with inflation.

The TASB Plan proposes a guaranteed yield of \$51.50/WADA at a cost to the state of about \$447 million in FY2012, and resulting in an average increase of about \$74 per WADA over current law. In FY 2013, the TASB Plan calls for a yield of \$53.30, increasing the state cost by about \$1.069 billion and resulting in an average increase of

about \$173 per WADA. In both years, greater increases accrue to districts with relatively low revenue targets and property wealth.

The extent to which the TASB Plan improves adequacy depends on the level of state appropriations for education. If more money is appropriated, the guaranteed yield can be higher, and districts will see greater per-student funding increases. The TASB Plan can also be implemented with levels.

(15) If the state has more money in future years, how would that affect the TASB Plan?

If the state appropriated more money for education, it would increase the guaranteed yield and the revenue per student that districts receive. The TASB Plan structure would not change.

(16) Does the TASB Plan provide for additional “golden pennies?”

The TASB Plan does not have golden pennies. Every penny of a district’s M&O tax rate receives the same guaranteed yield, and recapture applies to every penny.

(17) Does the TASB Plan provide school boards with local control over the tax rate without voter approval?

The TASB Plan does not address the process for setting tax rates or the state’s truth-in-taxation requirements. Current law on those issues would remain in effect.

(18) Does the TASB Plan attribute statewide property value growth back to the school finance system?

Like the current system, the TASB Plan shifts funding responsibility from the state to local property taxpayers when property values grow, and shifts from local taxpayers to the state when property values decline. There is not an explicit link to property value growth in TASB’s proposed Plan.

(19) Is the TASB Plan “indexed” to inflation or property value growth? Does it update the Cost of Education Index (CEI), the transportation allotment, or other features of the school finance system TASB has advocated for in the past?

The TASB Plan is not indexed to inflation or property value growth. Policymakers could set the guaranteed yield level high enough to cover both without changing the framework proposed by the TASB Plan. The TASB Plan does not update the CEI, transportation formulas, district size adjustments or program weights. However, lawmakers could implement a new CEI or new transportation funding program without changing the TASB Plan framework. Such changes would affect calculation of WADA, which is calculated separately. But, changes in the calculation of WADA would impact the level of funding districts receive as a result of the TASB Plan (see the calculation in the answer to Question 3).

(20) Does TASB have a facilities funding plan or does the TASB Plan make changes to IFA and EDA?

The TASB Plan addresses funding for districts' maintenance and operations (M&O) only. Funding for school district facilities and debt service would continue to be addressed separately through existing NIFA, IFA and EDA program formulas.

Systemic Impact of the TASB Plan

(21) Which districts benefit most from the TASB Plan?

The TASB Plan is set so that every district benefits from a guaranteed minimum gain of \$30 per WADA in both FY 2012 and FY 2013. Beyond that, some districts experience a greater benefit. These districts tend to be low wealth, have low target revenue, and/or have high percentages of low-income students.

(22) Which districts lose revenue under the TASB Plan?

The TASB Plan is framed so that no district loses revenue, compared with what districts would receive if the current system were carried forward.

(23) What is the cost to the state of the TASB Plan?

The cost in fiscal year FY 2012 is estimated to be \$447 million. The cost in FY 2013 is estimated to be \$1.069 billion. These cost estimates are based on data available in the first quarter of 2010, and do not reflect any estimated change in property values or tax rates.

(24) What could increase or decrease the state's cost for the TASB Plan?

The TASB Plan considers student enrollment estimates, property values, and tax rates that will inevitably change over time, yielding changes in the state's cost for the TASB Plan. Additionally, changes to the values TASB has proposed for the guaranteed yield, minimum gain and maximum annual gain limits would affect the state's cost under the TASB Plan.

(25) Which districts would be impacted if the legislature were to decrease the annual minimum gain provision in the TASB Plan? Would this change increase or decrease "equity" under the TASB Plan?

As proposed, the TASB Plan includes a minimum annual gain of \$30/WADA for FY 2012 and FY 2013. High property wealth and high target revenue districts will be impacted most if the legislature decreases the annual minimum gain (or if the legislature removes it), since recapture applies to every penny of the local tax rate. If anything, such a change would improve equity of the school finance system under the TASB Plan.

(26) Which districts would be impacted if the legislature were to increase the annual maximum gain limit? Would this change increase or decrease “equity” under the TASB Plan?

As proposed, the TASB Plan includes an annual maximum gain limit of \$200/WADA. If the legislature were to increase the annual maximum gain limit, districts that have low revenue targets will gain most from such a change. Permitting a greater gain for those districts would improve equity of the school finance system.

(27) If the state has more money in future years, where should the legislature invest it under the TASB Plan?

The legislature should invest additional state funding (if available) in increasing the level of the guaranteed yield. This will improve equity and reduce recapture. Another use of additional funding would be to implement improvements in weights and allotments used in the calculation of weighted students.