

HOUSE RESEARCH ORGANIZATION

Texas House of Representatives

focus report

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Summary of SB 4: School Finance and Property Tax Relief

The 76th Texas Legislature dedicated more than \$3.86 billion of additional money to public education, the largest single increase in the state's history. This infusion of new money will increase the state's spending on education for fiscal 2000-01 by more than 13 percent over fiscal 1998-99 levels.

SB 4 by Bivins targets funding at four main areas of the public education system: increasing teacher salaries, providing property-tax rate reductions through state equalization funding for school facilities, providing grants and funding to targeted educational programs, and increasing overall funds available to school districts. The new law also makes other changes to school finance formulas that lessen the amount of money recaptured from wealthy school districts and provide additional financial help for fast-growing districts. The targeted infusion of state money will reduce property taxes by an average 6 cents per \$100 valuation statewide.

The new money significantly increases the equity in the school finance system, according to the Legislative Budget Board. Under SB 4, nearly all revenue and more than 90 percent of students are in the equalized system. That means that more money flows through the equalized school finance formulas and more students attend school districts with equalized revenue per pupil.

Teacher Salaries

Under SB 4, all teachers in all districts will earn \$3,000 more in the 1999-2000 school year than they would have earned otherwise. Teachers who normally get a salary "step" increase for an additional year of service will receive the \$3,000 raise on top of any amount to which they were entitled already. The law also extends the state minimum salary schedule to cover full-time school nurses and

counselors in addition to the teachers and librarians already included under the schedule.

SB 4 repeals the current "escalator" clause that increases the minimum salary schedule and minimum number of days of service based on increased funding in the school finance system. Instead, SB 4 sets the minimum number of service days at 187. The total cost of the increase in teacher salaries is estimated at \$1.7 billion for fiscal 2000-01.

To ensure that all districts have enough money to pay every teacher the increase, the basic allotment — the amount of money that a district is entitled to receive per student — will be increased from \$2,396 to \$2,537. For districts that will not receive enough money from that increase and from increases in the Tier 2 guaranteed yield, discussed below, the state will provide additional salary

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assistance, estimated at \$65 million for fiscal 2000-01. This assistance will go to any district that cannot cover the salary increase with 80 percent of the funds that the district is entitled to receive under SB 4. Districts that cannot cover increases to the minimum salary schedule implemented in 1997 will get additional help if they cannot meet their salary needs with 20 percent of the new money provided under SB 4.

Equalized Funding for School Facilities

Under the current school finance system, property taxes for maintenance and operations of school districts are capped at \$1.50 per \$100 of valuation. Districts may go above that rate only to pay for debt service for construction of school facilities. While revenue raised below the \$1.50 cap is equalized by the state, revenue above the cap is not equalized. The Texas Supreme Court, in the most recent school finance case, *Edgewood v. Meno*, 917 S.W.2d 717 (1995), cautioned that the lack of a separate facilities component in the school finance system eventually could render the entire system unconstitutional. The 75th Legislature in 1997 provided some equalization for new facilities by creating the Instructional Facilities Allotment (IFA), which provides a guaranteed yield to qualified districts for construction of facilities. However, because the available funds are limited by appropriations, districts must apply for funding under the IFA.

SB 4 creates a separate “tier” of equalized funding for facilities debt. The IFA is expanded by the appropriation of \$150 million for fiscal 2000-01, and the guaranteed yield for the IFA is increased from \$28 to \$35 per student per penny of tax effort. New provisions also increase the likelihood that a district will receive IFA assistance if the district has experienced significant growth in the past five years.

The bill creates a new Existing Debt Allotment (EDA) to equalize continuing debt for facilities included in the district’s debt-service collections for the 1998-99 school year for which the district receives no other assistance. The guaranteed yield of the EDA is \$35 per student per penny of tax effort up to 12 cents. This allotment, estimated to cost the state \$930 million for fiscal 2000-01, will enable direct property tax reductions in districts that receive the allotment. Because districts now must fund debt-service payments entirely with local tax revenues, the infusion of state money will require districts to lower the tax dedicated to debt service.

Property Tax Relief

In addition to the \$930 million in property tax relief provided by the equalization of school funding, SB 4 provides more than \$400 million in other relief, bringing the total property tax relief to nearly \$1.35 billion. Part of this reduction comes from raising the equalized wealth level — the point at which a district must exercise one of five recapture options to lower its property wealth per student — from the current \$280,000 of property wealth per weighted student to \$295,000. This increase will reduce the amount of money recaptured from wealthy districts, basically allowing them to keep \$29.50 per student per penny of tax effort rather than \$28. The increase in the equalized wealth level may allow other districts to avoid having funds recaptured as their property values increase.

The law also permanently extends the “hold harmless” provision for wealthy school districts originally granted in 1993, which ensures that those schools can maintain per-student funding at 1992-93 levels before exercising one of the recapture options. The hold-harmless provision is indexed to take into consideration the new equalized wealth level, but the indexing is based on the district’s tax rate. The higher a district’s tax rate, the less money will be subject to recapture. These changes will cost the state about \$200 million for fiscal 2000-01.

Other property tax relief will result from extending the hold-harmless provision for homestead exemptions. In 1997, voters approved a \$10,000 increase in the homestead exemption that reduced the taxable property value in all school districts. Extending this hold-harmless provision, which helps districts that have not had sufficient property value increases to cover the revenue lost to the homestead exemption, will cost the state \$90 million for fiscal 2000-01.

The remainder of property tax relief results from “compressing” Tier 2 tax rates. Currently, districts are guaranteed a yield of \$21 per weighted student per penny of tax effort on tax rates between 87 cents and \$1.50. SB 4 increases the guaranteed yield to \$23.10 and allows the commissioner of education to recompute the tax rate the district would need to generate the same amount of revenue at the higher yield. The district’s tax rate then will be adjusted down to that level.

To ensure that districts do not raise tax rates significantly following the rate reductions outlined above, SB 4 reduces the district tax-rate rollback amount. Current law requires a district to receive voter approval to adopt a tax-rate increase greater than the calculated rollback rate. The rollback rate generally is the rate that a district would

need to levy to receive the same amount of funding with the current year's property values as it received in the previous year, plus 8 cents and any rate necessary for debt service. SB 4 lowers the rollback rate to 3 cents for the 1999 tax year and to 6 cents for every year after that.

Additional Funding for Districts

SB 4 will increase the Tier 2 guaranteed yield — the amount of revenue a district is entitled to raise on tax rates between 87 cents and \$1.50 of taxation — from the current level of \$21 per weighted student per penny of tax effort to \$24.99. That increase will cost the state about \$855 million for fiscal 2000-01 and is in addition to the compression of Tier 2 tax rates, discussed in the previous section. This new rate allows districts that were receiving Tier 2 funds to receive more state aid and allows districts with a wealth per student between \$210,000 and \$250,000 to receive some state aid on Tier 2 tax rates.

SB 4 provides a new per-student allotment to districts in the first and second years of operation of a new facility. This allotment is designed to help fast-growing districts cover the costs of opening new facilities that are not covered by the amounts included in the bonds for the new facilities. The allotment is limited to \$250 per student and to a total of \$50 million for fiscal 2000-01.

Current law allows the commissioner to allocate additional funds to districts whose property values decline more than 4 percent annually. The general appropriations act for fiscal 1998-99 provided \$21 million in general revenue to assist school districts with declining property values, and the fiscal 2000-01 budget includes \$133 million for this purpose.

Ending Social Promotion

SB 4 creates a new Student Success Initiative to end social promotion. Beginning in the 1999-2000 school year, kindergarten students who fail to perform at or above grade level on a reading diagnostic instrument will be placed in an accelerated reading instruction program. This program will be expanded to the first grade in 2000-01 and to the second grade in 2001-02, if sufficient funds are appropriated statewide. The general appropriations act for fiscal 2000-01 includes \$173 million for this program.

For students in the third, fifth, and eighth grades to be promoted to the next grade level, they will have to perform

satisfactorily on certain Texas Assessment of Academic Skills (TAAS) tests for that grade level. Third graders will have to pass the reading test, beginning in the 2002-03 school year, and fifth and eighth graders will have to pass the reading and mathematics tests, beginning in the 2004-05 and 2007-08 school years, respectively. Students who fail to perform satisfactorily on tests in those grades will get at least two more opportunities to take the test. If, after the third attempt, the student still does not perform satisfactorily, the student will be held back in the next school year. A parent may appeal a retention decision to a grade-placement committee, composed of the principal or a designee, the teacher of the subject of the test, and the student's parent or guardian. The committee's decision to promote a student must be unanimous.

Regardless of whether a student is promoted, a student who fails to pass the required tests after three attempts will be assigned to an accelerated instruction program during the next school year to ensure that the student will be able to perform at the appropriate grade level by the end of that year. As part of the accountability system, SB 4 establishes a new performance indicator of the number of students, by grade level, who received accelerated instruction, the results of tests administered to those students, the number of students promoted by their grade-placement committees, the tests those students failed to pass, and their results on the TAAS tests administered in the subsequent year.

Competitive Grant Programs

SB 4 establishes a competitive grant program to implement or expand kindergarten and pre-kindergarten programs to a full-day basis or to implement new pre-kindergarten programs. Grant priority must be given to districts in which third-grade TAAS performance is below the state average. The grant program is funded at about \$200 million for fiscal 2000-01.

The bill creates a similar grant program to allow districts to add an education component to federally funded Head Start programs for preschool children. This program is funded at about \$15 million for fiscal 2000-01.

SB 4 also creates a competitive grant program to allow districts to provide a "second chance" program for students who have not earned enough credits to advance from the ninth to the tenth grade. Once a program is established, the district may assign the student to the program with the consent of the student's parent or guardian. This program is funded at \$85 million for fiscal 2000-01.

Other Provisions

SB 4 creates a state troops-to-teachers grant program that will provide a \$5,000 stipend to any person who leaves the armed forces to pursue a teaching certification, so long as that person obtains employment with a school district. This program, modeled on the federal troops-to-teachers program, will be funded with discretionary or excess funds only if federal funding for the program is discontinued.

SB 4 also allows the state to fund up to one-half of the total amount of the optional residential homestead exemption. Current law allows school districts to exempt from property taxation a portion of the market valuation of a residence homestead, not to exceed 20 percent. The state will provide funding based on amounts certified by the comptroller only if funds are appropriated specifically for that purpose, or if the commissioner certifies that excess funds are available.

The new law also expands the memorandum of understanding entered into by the Texas Education Agency and the Texas Department of Mental Health and Mental Retardation concerning students in residential facilities that provide 24-hour custody or care. It establishes additional certification requirements for such facilities and allows students residing in such facilities to be considered residents of the district in which the facility is located.

Other changes made by SB 4 to the funding and operation of school systems include:

- simplifying the procedure for calculating transferred students into a district's average daily attendance so the district can use those students to reduce its wealth-per-student calculation under the recapture system;
- allowing an adjustment to the school finance calculations for districts that do not provide all grade levels for students and that must pay another district tuition to educate its students;
- allowing a district to pledge past, current, or future delinquent taxes as security for a loan to be used for maintenance expenses and expanding the acceptable uses of maintenance loans;
- requiring all head coaches and chief sponsors of extracurricular athletic activities to be certified in cardiopulmonary resuscitation;
- prohibiting elementary students from being placed with non-elementary students in an alternative education program and prohibiting students younger than six years old from being placed in such programs; and
- requiring the Charles A. Dana Center at the University of Texas to conduct a study of the methods of adjusting the school finance formulas to reflect changes in resource costs and the cost of education in districts across the state.

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