

SUBJECT: Modifying public school financing

COMMITTEE: Public Education — committee substitute recommended

VOTE: 13 ayes — Huberty, Bernal, Allen, Allison, Ashby, K. Bell, Dutton, M. González, K. King, Meyer, Sanford, Talarico, VanDeaver

0 nays

WITNESSES: For — Richard Sena, Boerne ISD Board of Trustees; Sheri Bonds and Robin Painovich, Career and Technical Association of Texas; Rachel Behnke, Career and Technical Association of Texas (CTAT), New Braunfels ISD; Gus Reyes, Christian Life Commission, Texas Baptists; Chandra Villanueva, Center for Public Policy Priorities; Eric Ban, Dallas County Promise; Priscilla Camacho, Dallas Regional Chamber; Bibi Yasmin Katsev, District Charter Alliance; Maresa Bailey, Lakeview Centennial High School, Garland ISD; Shaleah Rose, Lewisville ISD; Lisa Hermes, McKinney Chamber of Commerce; Holli Davies, North Texas Commission; Greg Hart, Project Educo; Bob Popinski, Raise Your Hand Texas; Jeannie Ston, Richardson ISD; Dan Hooper, ScholarShot; Jesus Chavez, South Texas Association of Schools; Scott Muri, Spring Branch ISD; David Feigen, Texans Care For Children; Molly Weiner, Texas Aspires Foundation; Barry Haenisch, Texas Association of Community Schools; Michael Lee, Texas Association of Rural Schools; Doug Williams, Texas Association of School Administrators; Jim De Garavilla, Texas Association of School Boards; Tracy Ginsburg, Texas Association of School Business Officials; Justin Yancy, Texas Business Leadership Council; Michael Barba, Texas Catholic Conference of Bishops; Christine Nishimura, Texas Charter Schools Association; Mary Libby, Texas Counseling Association and Texas School Counselor Association; Stephanie Haug, Texas PTA; William Clay Montgomery, Texas Rural Education Association, Spearman ISD; Brian Woods, Texas School Alliance; Kelli Moulton, Texas School Coalition, Galveston ISD; Dale Craymer, Texas Taxpayers and Research Association; Michael Hinojosa, Texas Urban Council, Dallas ISD; Xavier De la Torre, Texas Urban Council, Ysleta ISD; Kate Greer, The Commit Partnership; and 21

individuals; (*Registered, but did not testify*: David Anderson, Arlington ISD Board of Trustees; Colby Nichols, Austin ISD; Adam Haynes, Conference of Urban Counties; Jim Allison, County Judges and Commissioners Association of Texas; Janis Carter, Dallas Citizens Council; Robbi Cooper, Decoding Dyslexia Texas; Heather Hardeman and Lauren Ward, Dyslexia Parent Network-Austin; Veronica Garcia, Good Reason Houston; Traci Berry, Goodwill Central Texas; Ben Melson, Greater Houston Partnership; Kevin Chisum, Guthrie CSD; Ashlea Turner, Houston ISD-Houston Education Advocacy Representatives (HEAR); Tom Nelson, Donald Carter, Shannon Meroney, and Serenity Owens, Impact Dyslexia; Erica Mulder, Irving-Las Colinas Chamber of Commerce; David Emerick, JPMorgan Chase and Co.; Jarod Love, Lovejoy ISD; Will Francis, National Association of Social Workers-Texas Chapter; Trisha Windham, Plano Chamber of Commerce; James Dickey, Republican Party of Texas; Seth Rau, San Antonio ISD; Christi Morgan, Sunnyvale ISD; Lindsay Sobel, Teach Plus Texas; David Edmonson, TechNet; Heather Sheffield, Texans Advocating for Meaningful Student Assessment, Eanes Advocates, Decoding Dyslexia; Rebecca Gould, Texas Academic Language Therapy Association; Jesse Romero, Texas Association for Bilingual Education; James Hines, Texas Association of Business; Mike Meroney, Texas Association of Manufacturers; Robert Flores, Texas Association of Mexican American Chambers of Commerce (TAMACC); Grover Campbell, Texas Association of School Boards; Robert Floyd, Texas Coalition for Quality Arts Education, Texas Music Educators Association; Jennifer Bergland, Texas Computer Education Association; Mark Terry, Texas Elementary Principals and Supervisors Association (TEPSA); Kate Kuhlmann, Texas High School Coaches Association; Joshua Houston, Texas Impact; Julian Acevedo, Texas Industrial Vocational Association; Daniel Gonzalez and Julia Parenteau, Texas Realtors; Jerod Patterson, Texas Rural Education Association; Erin Jones, The College Board; Dwain York, Wimberley ISD; and 23 individuals)

Against — Alex Little, Creative Child Care, Inc. dba Little Tyke Learning Centers; Bobby Johnson, Kids Academy of Texas; Lonnie Hutson, Kids R Kids Childcare Centers; Jason Jones, McMullen Co. ISD; Robert

Villarreal, My Little Playhouse; David Fincher, National Child Care Coalition; Stephanie Stoebe; Steve Swanson; (*Registered, but did not testify*: Jay Gopal; Cheryl Morse)

On — Jacquie Benestante, Autism Society of Texas; Adam Cahn, Cahnman's Musings; Miles Brandon, Central Texas Interfaith, Industrial Areas Foundation Organizations in Texas; Steven Aleman, Disability Rights Texas; Ray Freeman, Equity Center; Richard Atkinson, Family To Family Network; Anne McCausland, Frisco ISD; Morgan Craven, Intercultural Development Research Association (IDRA); Richard Beaulé, Killeen Educators Association, Texas State Teachers Association; Diann Andy, League of Women Voters of Texas; Fatima Menendez, Mexican American Legal Defense and Education Fund; Jennifer Overpeck, Northside American Federation of Teachers; Christine Broughal, Texans for Special Education Reform; Lonnie Hollingsworth, Texas Classroom Teachers Association; Jose Flores, Texas Criminal Justice Coalition; Leonardo Lopez, Texas Education Agency; Linda Litzinger, Texas Parent to Parent; Kara Belew, Texas Public Policy Foundation; Lisa Dawn-Fisher and Giana Ortiz, Texas State Teachers Association; Monty Exter, The Association of Texas Professional Educators; Jacqueline Hailey, The Metropolitan Organization and Network of Texas Industrial Areas Foundation Organizations; Patty Quinzi, Texas-American Federation of Teachers; Clint Carpenter and Kristina Hartman, Windham School District; John Fitzpatrick; Sabrina James; (*Registered, but did not testify*: Chris Masey, Coalition of Texans with Disabilities; Kristin McGuire, Texas Council of Administrators of Special Education; Chloe Sikes, Texas Center for Education Policy; Von Byer, Allison Friedlander, Terri Hanson, Mike Meyer, Melody Parrish, and Tim Regal, Texas Education Agency; Joan Altobelli, Texas Licensed Child Care Association; Drew Scherbele, The Greater Austin Chamber of Commerce; Craig Campbell; Laura Greff; Daphne Hoffacker; Brady Mayo; Amy Rattleff)

BACKGROUND: Education Code ch. 42 establishes the Foundation School Program (FSP), the system of statutory funding formulas that provide the primary means of distributing state aid to Texas public schools. The FSP is funded jointly through a combination of local property tax revenue and state revenue,

which together make up a total revenue entitlement for school districts and charter schools. FSP funding is distributed to schools for basic operations and enrichment through two tiers. The Tier 1 formula for maintenance and operations (M&O) is determined by multiplying a basic allotment amount set in the general appropriations act by adjustments and allotments for varying district and student characteristics. Tier 2 local enrichment funding is provided through a guaranteed revenue yield per cent of local school property tax levied in excess of the rate dedicated to meet the local share of M&O funding.

Districts levy an M&O tax on local property to pay for school operations. This tax is capped at \$1.17 per \$100 taxable property value. A district's tax revenue is used to calculate the level of state funding in school finance formulas. Education Code ch. 41 establishes provisions required under the Texas Constitution, as interpreted by the Texas Supreme Court in school finance litigation, to equalize wealth levels among districts of varying property valuations.

Education Code sec. 29.153 requires districts to offer prekindergarten classes if the district identifies 15 or more children who are at least age 4 and are educationally disadvantaged, non-English speakers, homeless, the child of an active-duty member of the military, in state conservatorship, or who meet certain other conditions. Districts are required to provide half-day prekindergarten programs. For these programs, they receive half of the amount of funding that is provided for similar students who are in kindergarten or other grade levels.

DIGEST:

CSHB 3 would compress school district Tier 1 maintenance and operations taxes, revise limits on Tier 2 enrichment taxes, and change the amount of revenue that those enrichment taxes would be guaranteed by the state to generate. The bill would make changes to the school finance formulas used to determine how much FSP revenue a district was entitled to receive, including increasing the basic allotment per student. Several existing adjustments and allotments would be repealed. Some allotments would be revised and several new ones created, including an early education allotment to help districts provide full-day prekindergarten for

eligible students. The bill would create grant programs to help districts transition to the new funding formulas and to provide blended learning programs. Another new grant program would help certain students in special education programs obtain academic services beyond those offered during the school day.

Local school taxes

Tier 1 M&O taxes. The bill would establish the Tier 1 M&O tax rate as the state compression percentage, set in the bill at 96 percent or lower by appropriation, multiplied by \$1.00 per \$100 of property valuation.

It would establish a temporary provision for districts taxing at a rate of less than \$1.00 for the 2018-19 school year. The M&O rate for those districts for the 2019-2020 school year would be the state compression percentage applied to the number of cents levied by the district for the 2018-2019 school year. This provision would expire September 1, 2020.

Property wealth equalization. The bill would replace Education Code references to "equalized wealth level" for purposes of state funding recapture with references to "local revenue level in excess of entitlement."

Districts would have to reduce their Tier 1 local share revenue if it exceeded their Tier 1 entitlement amount minus the district's distribution from the available school fund. The bill would retain existing options for such a district to purchase attendance credits or use another specified method to reduce its revenue.

Equalized wealth transition grants. The bill would phase out funding provisions that allowed certain districts to receive an annual "hold harmless" allotment based on their M&O revenue for the 1992-1993 school year. It would establish a series of progressive reductions in the funding from 20 percent to 80 percent, applicable to the four school years from 2020-2021 to 2023-2024.

Tier 2 enrichment taxes. A district's enrichment tax rate would consist of

the first eight cents of additional M&O over the district's Tier 1 tax rate, known as golden pennies, and any additional cents, known as copper pennies, up to the cap on M&O taxes of \$1.17 per \$100 property valuation. The bill would set the guaranteed level of state and local funds per weighted student per cent of tax effort for these enrichment taxes.

Golden pennies. Districts would be limited to 6 cents of enrichment tax effort per \$100 of property valuation for the 2019-2020 school year and 7 cents for the 2020-2021 school year. These limitations would expire September 1, 2021, after which districts would be limited to 8 cents. As under current law, golden pennies would not be subject to recapture.

The bill would change the guaranteed level of state and local funds per weighted student per cent of tax effort from the level generated by Austin ISD. Districts instead would be entitled to either the amount available to a school district at the 96th percentile of wealth per weighted student, or the amount that resulted from multiplying the basic allotment by 0.016, whichever was greater.

Copper pennies. The bill would change the guaranteed level for each additional cent of tax effort levied beyond the golden pennies up to the \$1.17 cap on total M&O taxes. Instead of generating \$31.95 per weighted student per cent of tax effort, these copper pennies would generate the amount that resulted from multiplying the basic allotment by 0.008. As under current law, copper pennies would be subject to recapture.

For a school year in which a district's guaranteed level of state and local funds for its copper pennies resulted in greater revenue per weighted student per cent of tax effort than for the preceding school year, a district would have to reduce its tax rate for that tax year to a rate that resulted in the amount of revenue that was available to the district for the preceding year.

Rollback tax rate. CSHB 3 would amend Tax Code provisions under which school districts would have to hold an election to approve a tax rate that exceeded the district's rollback tax rate. The bill would establish a

transitional method for calculating the rollback tax rate for the 2019 tax year and a separate method for calculating the rollback tax rate for the 2020 tax year and subsequent tax years. The bill would change ballot language associated with a rollback election to include the percentage increase in M&O tax revenue under the adopted tax rate compared to the revenue generated in the preceding year.

The bill would establish that a tax rate adopted by a district board of trustees for the year following a year in which the district expended increased revenue for disaster response would apply only in the year for which the rate was adopted.

Efficiency audit. The bill would require a school district board of trustees to conduct an efficiency audit examining the district's fiscal management before seeking voter approval to adopt an M&O tax rate. The district would be required to pay for the audit and select an auditor from a list approved by the state auditor and to post the audit results on the district's website before the election.

Foundation School Program funding

General provisions. CSHB 3 would transfer certain sections from Education Code ch. 42 to ch. 48 and certain sections from ch. 41 to ch. 49. The bill would change the order in which funds were applied to finance the Foundation School Program (FSP) by requiring state available school funds to be applied before locally generated property tax revenue and state funds appropriated for purposes of public education.

Commissioner's authority. The bill would transfer responsibility from the State Board of Education to the commissioner of education to adopt rules as necessary to implement and administer the FSP. The commissioner would be authorized to resolve unintended consequences from the school finance formulas. The commissioner could adjust a district's funding entitlement to address an unanticipated loss or gain in funding. Before making an adjustment, the commissioner would be required to notify and receive approval from the Legislative Budget

Board. The commissioner would be required to provide to the Legislature an explanation regarding an adjustment and could not make an adjustment beginning with the 2021-2022 school year.

Basic allotment. The bill would increase the statutory basic allotment awarded to districts from \$4,765 to \$6,030. The basic allotment for the current biennium was set at \$5,140 by the 85th Legislature in the general appropriations act.

Funding factors repealed. CSHB 3 would repeal the cost of education adjustment that adjusts the basic allotment to reflect the geographic variation in known resource costs and costs of education due to factors beyond school districts' control. The bill would repeal a district's entitlement to an annual high school allotment of \$275 for each student in average daily attendance in grades 9-12. It also would repeal a district's entitlement to \$500 multiplied by the number of full-time non-professional employees and \$250 multiplied by the number of part-time district employees, other than administrators.

Gifted and talented programs. The bill would repeal a district's entitlement to the adjusted basic allotment multiplied by 0.12 for students served in a program for gifted and talented students for up to 5 percent of a district's students. Districts would be required to annually certify to the commissioner that the district had established a program for gifted and talented students. If the commissioner determined that a district had failed to comply for a school year, the commissioner would be required to reduce total funding due the district by an amount equal to the basic allotment multiplied by the product of 0.12 and an amount equal to 5 percent of the students in average daily attendance. Funding could be restored if the district complied during the school year.

Compensatory education allotment. CSHB 3 would increase the compensatory education allotment weight of 0.2 for educationally disadvantaged students and establish a new method of calculating the allotment that accounted for severity of economic disadvantage in a student's neighborhood.

Funding would be calculated by multiplying the basic allotment by the weight assigned to a student's census block. The commissioner would be required to establish an index that categorized blocks in five tiers according to their relative severity of economic disadvantage. Factors considered in determining severity would include the median household income, the average educational attainment of the population, the percentage of single-parent households, the rate of home ownership, and other economic criteria determined by the commissioner as likely to disadvantage a student's preparedness and ability to learn.

Weights ranging from 0.225 to 0.275 would be assigned from least to most severe economic disadvantage. If available data on a census block was insufficient, a district would be entitled to the weight of 0.225 for students residing in that census block. Districts would be required to report to the commissioner the census block in which each student who was educationally disadvantaged resided. The commissioner would be required to review and, if necessary, update the census block index not later than March 1 of each year.

The commissioner would have to establish an advisory committee to advise TEA in adopting rules for the compensatory education allotment, including establishing the economic criteria. The committee would be abolished September 1, 2021.

The bill would remove provisions in current law relating to the authorized use of compensatory education funds, associated reporting and auditing procedures, and an evaluation of the effectiveness of accelerated instruction and support programs for students at risk of dropping out of school.

Educator effectiveness allotment. CSHB 3 would create an educator effectiveness allotment to incentivize and provide pay increases for effective classroom teachers at high-needs campuses and rural schools and in areas experiencing a critical shortage of teachers. Districts would be entitled to the basic allotment multiplied by 0.012 for each student in

average daily attendance at a campus located in a census block assigned the greatest weight for the compensatory education allotment or if the district qualified as a rural school district. A district could not receive both allotments.

Districts that received funding would have to use a collaborative process that included educators, parents, and community members to develop a method to identify effective classroom teachers and allow them to apply to teach at the identified schools. Districts would have to clearly provide the methods through which their use of funding increased the compensation available for eligible classroom teachers and post the policy on the district's website. TEA would be required to conduct an evaluation of the effectiveness of the allotment, and information received by TEA would be confidential and could not be used in evaluating individual teachers.

Bilingual education allotment. The bill would increase the bilingual education allotment for students in certain bilingual education programs. Funding would be calculated by multiplying the basic allotment by 0.15 if a student of limited English proficiency was in a bilingual education program using a dual language immersion/one-way or two-way program model. It would be multiplied by 0.05 for English speaking students in that model. The allotment for students of limited English proficiency in other types of bilingual education programs would remain at 0.1.

The bill would remove provisions relating to the authorized uses of bilingual allotment funds and associated reporting and auditing requirements.

Transportation allotment. The bill would change the transportation allotment to be based on a rate per mile per regular eligible student set by the Legislature in the general appropriations act. The transportation allotment would be applied to a homeless child or youth, as defined by federal law. The bill also would require that a district be reimbursed on a per-mile basis for the cost of transporting a dual credit student to another campus, another district, or a postsecondary educational institution for purposes of attending a course not available at the student's campus. It

also would expand the use of transportation funding for career and technology education students to including transportation from a district campus to a location where students were provided work-based learning under the district's career and technology program.

Allotment for students with dyslexia. CSHB 3 would include a multiplier of 0.1 or a greater amount provided by appropriation by which the basic allotment would be increased for students with dyslexia or a related disorder.

Funding would be available only for students who were receiving instruction that met applicable dyslexia program criteria established by the Texas Education Agency (TEA) and that was provided by an instructor specifically trained for that purpose. Funding also would be available to students who have received the required instruction and were permitted, on the basis of having dyslexia or a related disorder, to use modifications in the classroom or on state assessments.

Districts could receive funding for a student who met the criteria for dyslexia instruction and also was receiving funding for special education services if the student satisfied the requirements of both programs.

Small and mid-sized district allotment. The bill would replace the small and mid-sized district adjustment to the basic allotment with a small and mid-sized district allotment that would be in addition to the basic allotment. The bill would establish a formula for calculating the allotment for a district that had fewer than 1,600 students in average daily attendance. A district that offered a kindergarten through grade 12 program and had fewer than 5,000 students in average daily attendance would be entitled to an annual allotment for each student based on the formula for the smaller schools or another formula in the bill, whichever formula resulted in the greatest annual allotment.

The small and mid-sized district allotment would be added to the basic allotment for each student in a special education program in a mainstream instructional arrangement.

Career and technology education allotment. The bill would expand the allotment for career and technology programs for students in grades 9 through 12 to include students in grades 6, 7, and 8. It would remove provisions relating to the authorized use of allotment funds, a certain cost-benefit comparison, and a certain set-aside to support regional career and technology education planning.

Charter school funding. CSHB 3 would revise provisions relating to the applicability of certain adjustments and allotments regarding a charter holder's entitlement to FSP funding.

Early Childhood Education

Early education allotment. The bill would create an early education allotment for each student in average daily attendance in kindergarten through grade 3. Districts would be entitled to an annual allotment equal to the basic allotment multiplied by 0.1 if a student was educationally disadvantaged or was of limited English proficiency and in a bilingual education or special language program. Districts would be required to use funds from the allotment on programs and services designed to improve student performance in reading and mathematics in prekindergarten through grade 3. A district could receive funding for a student under the early education allotment, the compensatory education allotment, and the bilingual allotment if the student satisfied requirements of all the allotments.

Prekindergarten. Districts would be required to provide full-day prekindergarten classes for eligible students who were at least age 4. They could provide half-day prekindergarten classes for eligible children under age 4. Programs would have to comply with Education Code standards for high-quality prekindergarten.

The commissioner would have to exempt a district from all or part of the requirements if the commissioner determined that a district would be required to construct classroom facilities or that implementing the

requirements would result in fewer eligible children being enrolled in a prekindergarten class. A district could not receive an exemption unless it had solicited and considered at a public meeting proposals for partnerships with public or private entities regarding the required prekindergarten classes. An exemption could not be granted for a period longer than three school years and could be renewed only once.

Proficiency plans. District boards of trustees would have to adopt early childhood literacy and math proficiency plans that set specific annual goals for the following five school years to reach quantifiable goals for student performance in reading and math at each campus. The bill would specify requirements for the plans.

Kindergarten reading comprehension. The bill would require the commissioner to adopt a multidimensional assessment tool for diagnosing the reading development and comprehension of kindergarten students. Districts would administer the reading instrument at the kindergarten level if funds were appropriated for that purpose or if the assessments were provided at no cost to districts.

Special education

Special education allotment. The bill would transfer rulemaking authority relating to the special education allotment from the State Board of Education to the commissioner of education. If the commissioner determined that the total amount of funding for any school year was less than the amount required under federal law, the commissioner would be required to increase the total amount of funding for that school year to comply with federal requirements. The commissioner could reduce other FSP funding to achieve the necessary amount.

Academic services grant program. The bill would create a grant program for eligible students to obtain academic services that supplemented the student's public education, promoted and improved the student's overall academic performance, and exceeded the level of services that the student's admission, review, and dismissal (ARD)

committee had determined to be necessary. A student would be eligible to participate in the program if the student was enrolled in the district or charter school during the entire preceding school year, was educationally disadvantaged, had one or more of dyslexia, autism, a speech disability, or a learning disability, and if an individualized education program had been developed for the student or the student was receiving accommodations under the federal Rehabilitation Act of 1973, sec. 504.

The bill would establish requirements for districts to notify parents of potentially eligible students and help them apply to TEA for funding. Funds could be used for transportation costs, instructional materials, fees for academic educational therapies or support services provided by a practitioner or provider. A student could not be excused from school to receive academic services.

The bill would establish eligibility and contracting requirements for service providers and vendors. A service provider or vendor would have to apply to and be approved by the commissioner to receive money distributed under the program. Selected service providers or vendors would be required to meet with the student's parents and ARD committee at least once each semester to discuss the student's progress and to evaluate the continued use of the provider or vendor. Each district or charter school in which a participating student was enrolled would be required to submit an annual report to TEA on the use of the grant funds. TEA would report its conclusions about the grant program to the Legislature by December 30, 2020.

Other provisions

College preparatory assessment reimbursement. Districts would be entitled to reimbursement for fees paid by the district for the administration of a nationally norm-referenced test used by colleges and universities as part of their undergraduate admissions process for high school students who took the exam in the spring of grade 11 or during grade 12. The Texas Success Initiative Assessment would be added to the list of college readiness exams that students could take once at state cost.

Districts also would be entitled to reimbursement for certain industry certification exams.

Blended learning grant program. The bill would require the commissioner to establish from appropriated or available funds a grant program to help districts and charter schools develop and implement effective models for blended learning, defined as an instructional delivery method that combines classroom and online instruction. The commissioner would give funding priority to districts and charter schools with the highest enrollment of students who were educationally disadvantaged. The bill contains requirements for districts or charter schools that received a grant. A district or charter school could receive a grant for no more than four consecutive school years.

Funding for additional instructional days. The bill would provide increased funding for districts or charter schools that offered an additional 30 days of half-day instruction for students enrolled in prekindergarten through grade 5. A student would not be required to attend school for any additional instructional days.

Formula transition grants. A school district would be entitled to receive an annual allotment in the amount equal to the difference that resulted from subtracting the total M&O revenue per student in average daily attendance for the current school year from the lesser of the district's total M&O revenue per student for the 2018-2019 school year or 125 percent of the statewide average M&O revenue per student for the 2018-2019 school year. In calculating the revenue, the commissioner of education would not include certain funding, such as reimbursement for disaster remediation, adjustment for rapid decline in taxable property value, and property value affected by a state of disaster. Transition grant funding would be reduced by 10 percent for the 2020-2021 school year and 20 percent for the 2021-2022 school year. Districts would not be entitled to the funding allotment beginning with the 2022-2023 school year.

Facilities funding. The bill would raise from \$25 million to \$100 million the cap on the amount per school year that could be appropriated for the

new instructional facilities allotment. "New instructional facility" would include facilities newly constructed, repurposed, or leased for the first time as an instructional facility with a minimum lease term of at least 10 years. The bill would remove provisions from the Education Code relating to certain discretionary supplemental appropriations and entitling a district subject to recapture to a credit under the allotment.

TRS contributions. The bill would require charter schools and districts of innovation to pay the state's contribution to the Teacher Retirement System on payroll amounts that would exceed the statutory minimum salary schedule if the staff were employed by school districts.

FSP budget reporting. Before the Legislative Budget Board submitted a biennial budget, it would be required to provide the following additional information:

- the estimated state share of the FSP for the next biennium, including any anticipated federal funding;
- the estimated reduction in the state share of the FSP from the current biennium to the next biennium that was attributable to the rate of growth of the taxable value of property in the state for the next biennium;
- the cost per cent of reducing the state compression percentage for the next biennium; and
- a recommended state compression percentage for the next biennium.

Special-purpose districts. The bill would create an allotment for certain special-purpose districts operated by a general academic teaching institution. The special-purpose district would be entitled to an allotment for each full-time equivalent student who resided in Texas equal to the maximum amount of the basic allotment. A district that received funding for a school year could not charge tuition or fees to enrolled students who are residents of Texas.

Effective dates. The bill would take effect September 1, 2019. Certain

provisions, including the efficiency audit, compensatory education allotment advisory committee, early childhood literacy and mathematics proficiency plans, prekindergarten requirements, blended learning grant program, and academic services grant program, would take effect immediately if the bill was finally passed by a two-thirds record vote of the membership of each house. Otherwise, those provisions would take effect September 1, 2019.

**SUPPORTERS
SAY:**

CSHB 3 would transform the Texas school finance system by increasing the basic allotment for all districts and targeting much-needed additional resources to programs proven by research to advance student achievement. These programs would focus on students who were most at risk of not advancing academically by mandating that districts offer full-day prekindergarten for students from low-income families, providing additional funding for students in dual-language immersion classes, and funding academic assistance for students with learning disorders such as dyslexia.

The bill would streamline the funding formulas and repeal outdated elements such as the cost-of-education index, which has not been updated in 30 years.

The bill also would provide property tax relief and increase the state's share of school funding by "buying down" local school property taxes by 4 cents per \$100 of property valuation for most school districts. The bill would reduce recapture payments made by property-wealthy school districts by an estimated 38 percent over the next biennium. The result of these changes would be a more equitable finance system that gave districts the ability to earn and keep more money from local property taxes.

M&O taxes. The bill would move school districts to a more unified tax rate by requiring most districts to tax at a similar Tier 1 rate of 96 cents per \$100 of property valuation. This would lower school maintenance and operations (M&O) taxes by 4 percent for Tier 1. The Legislative Budget Board would be required to recommend a percentage for tax rate compression before each legislative session, providing a mechanism that could provide continued statewide tax rate compression.

The bill would provide additional tax compression by requiring districts to lower their Tier 2 "copper penny" tax rate to the level that raised the same amount of revenue as the previous year. This could provide an additional 17 percent tax reduction for some taxpayers. CSHB 3 would increase the guaranteed state and local revenue yield of "copper pennies" by 51 percent, providing a funding boost to districts.

The tax compression also would provide the 41 percent of districts currently taxing at the \$1.17 per \$100 valuation cap with "meaningful discretion" on setting future tax rates, which could prevent the school finance system from becoming an unconstitutional statewide property tax in the eyes of the Texas Supreme Court.

The bill also would give districts the ability to raise two additional cents in enrichment taxes known as "golden pennies" because they are not subject to recapture. Although some have criticized the provision de-linking the guaranteed yield for these golden pennies from the Austin ISD, the bill would provide a "safety net" guarantee that any district's revenue could not be less than what would be generated by a district at the 96th percentile of property wealth per student.

The bill would require school boards to conduct an efficiency audit to show they were using their existing funds wisely before holding elections to increase taxes.

Basic allotment. CSHB 3 would increase the basic allotment from \$5,140 to \$6,030. This would be the first increase since fiscal 2016. Raising the basic allotment is an equitable method of increasing school spending for districts statewide and helps to reduce the amount of local revenue that property-wealthy districts are required to share with less wealthy districts.

Early childhood education. The bill would help ensure that third-grade students were able to read at grade level by providing a new funding allotment for students in kindergarten through grade 3. Districts and charter schools with higher concentrations of underserved students would get additional funds to improve their foundational reading and math skills.

The bill would require that districts offer full-day, high-quality prekindergarten for students who were economically disadvantaged or

English learners to prepare them for success in kindergarten. Research has shown that students who attend high-quality prekindergarten programs are better prepared for kindergarten than children who did not attend such a program.

The early education allotment would provide sufficient funding for districts to offer full-day pre-K. Districts that lack classroom space could seek a waiver for up to three years and use that time to build capacity. In addition, the bill promotes district partnerships with private day care providers by requiring them to consider such partnerships in a public meeting before seeking a waiver.

Compensatory education. CSHB 3 would increase the compensatory education weight for all eligible children while targeting additional funding to students living in neighborhoods of concentrated poverty by using data on census blocks to measuring the severity of economic disadvantage. The current method based on enrollment in the federal free and reduced lunch program fails to account for differences in neighborhoods that are lower wealth but stable and those where generational poverty is more likely to impair a student's ability to learn.

Bilingual education programs. The bill would help districts provide dual-language programs, considered the most effective type of bilingual education programs, by increasing the funding weight for English learner students in those programs. The bill also would provide a new weight for English speaker students in dual-language classes. A national research study involving 8 million students found that those in dual-language programs significantly outperformed their peers in transitional bilingual and ESL programs on standardized tests in English reading taken over the course of their school years.

The bill would give districts flexibility to spend revenue from the compensatory education and bilingual education allotments on programs that work best for their students. The use of these funds should be driven by student needs rather than by reporting and auditing requirements.

Special education grant program. The bill would help students with learning disabilities access state funding to pay for additional academic

services outside of the school day.

Gifted and talented programs. The removal of dedicated funding for students served in gifted and talented programs would simplify the school finance system while safeguarding those programs. Districts still would be required to certify annually that they have such programs and stand to lose money if the commissioner of education determined that they had failed to comply.

Teacher pay. The bill would provide a new educator effectiveness allotment that would help districts attract teachers to work at high-need campuses and in rural districts. Programs would be designed at the district level with input from educators, parents, and community members. The extra state revenue would give districts flexibility to provide pay raises or hire new educators to meet their local needs.

The Senate's plan for a \$5,000 across-the-board pay hike for teachers and librarians would leave out other school personnel such as nurses, counselors, paraprofessionals, and support staff, many of whom are among the lowest-paid school employees. The Texas School Finance Commission did not recommend across-the-board pay raises.

While others have called for merit pay programs to keep the most effective teachers in the classroom, there are problems with identifying which teachers would get a merit pay increase, particularly if student STAAR scores were a factor in teacher evaluations.

Small and mid-size districts. Although small and mid-size districts would no longer receive certain funding adjustments, CSHB 3 would create other funding benefits to help these districts recruit teachers and serve students with special education needs. Overall, small and mid-size districts would receive more revenue than under the current system.

Cost of education adjustment. The bill would simplify school funding laws by eliminating outdated adjustments such as the cost of education index. The index was initially designed to help districts adjust for varying economic conditions across the state. It has not been updated since 1990 so it does little to help districts that have changed dramatically in the past 25 years. Eliminating the index would free up funding to increase the

basic allotment.

Funding incentives. Some have sought outcomes-based funding to reward schools for students who are reading on grade level in third grade. Tying funding to student test scores would raise the already high stakes of the STAAR exam.

Other provisions. The bill would focus school boards on setting goals for student achievement by requiring them to publicly adopt and monitor early literacy and math student outcome goals. Having a coordinated plan would help parents and taxpayers hold school boards accountable for needed improvements in early reading skills.

Including the middle-school grade levels for career and technology education fund would allow districts to incorporate these important courses in middle school. This would better prepare students for high school CTE courses and postsecondary success.

The incentive aid for year-round schools would allow districts to provide extra instructional days and combat summer learning lags that contribute to learning gaps for economically disadvantaged students.

The blended learning grants would help some schools transition to 21st-century, student-centered classrooms by combining classroom teaching and online learning to personalize instruction for students. The funding would help prepare teachers to deliver instruction in the blended learning model and speed up the shift to this type of technology-based learning.

The bill would help districts and charter schools equip new classrooms by increasing the cap on the amount per school year for the new instructional facilities allotment from \$25 million to \$100 million.

OPPONENTS
SAY:

CSHB 3 would increase school spending while providing only limited tax relief at a time when rising school property taxes are making homeownership less affordable and limiting the ability of Texans on fixed incomes to remain in their homes. The bill should contain provisions requiring voter approval if the revenue raised by school property taxes

exceeds a certain percentage.

The wealth equalization provisions could create tax and funding inequities as already wealthy districts are allowed to keep more of their revenue. Changes to the way small and mid-size school districts are funded could make it more difficult for those districts to address cost disadvantages related to their size.

Texas should not expand its half-day prekindergarten program. The requirement that districts provide full-day prekindergarten for eligible students would have a negative impact on private day care providers that serve the same population.

M&O taxes. Although CSHB 3 would provide some initial tax relief as the state "buys down" local school taxes by 4 percent, there is little in the bill to prevent districts from raising taxes to the current levels in the future.

CSHB 3 would increase the inequity of enrichment funding that districts with higher property wealth were able to collect from taxpayers and keep. In addition, it would decrease the amount of money the state guarantees that it will distribute to property-poor districts unable to collect enough money through local taxes.

Districts would lose an automatic funding driver by the provision de-linking the guaranteed yield for "golden pennies" from Austin ISD's tax revenue level. As the Austin school district has experienced exponentially growing property wealth in recent years, districts across the state have benefited from increased state revenue on their golden pennies.

Full day prekindergarten. Requiring school districts to provide full-day prekindergarten for eligible 4-year-olds would hurt private day care providers that receive federal subsidies to serve eligible families. These families must pay a small monthly fee for day care but likely would switch to free pre-K at their local school. Day care centers often rely on the revenue from the programs for 4-year-old children to cover their expenses for the higher costs of programs for infants and toddlers.

If the state is going to require districts to provide high-quality, full-day

pre-K, it should provide the same level of funding that it provides for students in grades K-12. The bill would provide a limited early education funding allotment that might be insufficient to cover district costs.

Teacher pay. The bill should provide greater focus on teacher pay.

Programs in the bill as initially filed would have provided a needed merit pay system to reward teachers who agree to work in schools where students are struggling to meet state standards. Several school districts, including Dallas ISD, have shown that such merit pay programs are an effective factor in boosting student achievement.

Texas teachers are paid less than the national average, and the Senate's plan would increase salaries for teachers and librarians by \$5,000. Educators work hard and deserve a significant, across-the-board pay raise.

Gifted and talented programs. CSHB 3 would hurt school programs that served gifted and talented students by ending the funding allotment for those students. Although districts would be required to certify that they were serving gifted students, the lack of dedicated funding could result in less effective programs for these students.

Compensatory education. The use of a spectrum of poverty weight in determining the compensatory education allotment could result in inaccurate counts of low-income students. Census tract data could undercount certain populations. The data also might not be useful in districts where children often transfer from neighborhood schools for specific programs at other schools or family convenience. A better path would be to increase the compensatory education allotment by the same amount for all eligible students.

Bilingual education. The bill should raise the funding weight for students in all types of bilingual education programs instead of just for students in dual-language programs. While dual-language programs are beneficial, they serve fewer students than other programs, such as English as a Second Language and transitional bilingual education. The state has long underfunded programs for students learning English, who represent a growing percentage of public school students.

The bill should not remove rules governing how schools may spend compensatory and bilingual education allotments, which were designed to ensure the funds were spent on beneficial programs.

Cost of education adjustment. The repeal of the cost of education adjustment eliminates a school funding factor that attempts to recognize differences among districts in teacher pay and other resource costs. It would be better for the state to conduct a cost study and update the cost of education index to reflect current costs.

Small and mid-size districts. Changes in the way funding formulas would be calculated for small and to mid-size districts could leave these districts with insufficient revenue to meet their needs. Certain smaller school districts taxing below \$1.00 per \$100 valuation would be hurt more by the tax compression than districts taxing at higher rates.

Funding incentives. An earlier version of the bill would have included outcomes-based funding for third-grade reading. This would have positively reinforced the importance of this critical benchmark for future learning success by rewarding schools that improved the performance of the state's young learners.

OTHER
OPPONENTS
SAY:

CSHB 3 would move the school finance system in a positive direction but would not go far enough in creating the high-quality schools that are needed to ensure the state's future prosperity. Texas should conduct a thorough study of how much it would cost to close student achievement gaps and make funding decisions based on such a study.

NOTES:

According to the Legislative Budget Board (LBB) fiscal note, CSHB 3 would have a negative impact of \$9.5 billion to general revenue related funds through the biennium ending August 31, 2021. The fiscal note states that the bill would result in an estimated state cost for the Foundation School Program of \$4.6 billion in fiscal 2020 and \$4.8 billion in fiscal 2021, and would reduce recapture paid by certain school districts by about \$1.5 billion in fiscal 2020 and \$1.7 billion in fiscal 2021.

In its equalized education funding impact statement, the LBB concluded

that the bill contained a number of elements that would be anticipated to improve equity among Texas school districts relative to current law.