

SUBJECT: Modifying the public school finance system

COMMITTEE: Public Education — committee substitute recommended

VOTE: 10 ayes — Huberty, Bernal, Allen, Bohac, Deshotel, Dutton, Gooden,
K. King, Koop, VanDeaver

1 nay — Meyer

WITNESSES: *(at March 7 hearing)*

For — Shay Adams, Lovejoy ISD; Amy Beneski, Texas Association of School Administrators; Grover Campbell, Texas Association of School Boards; David Dunn, Texas Charter Schools Association; Monty Exter, The Association of Texas Professional Educators; Ray Freeman, Equity Center; Bill Grusendorf, Texas Association of Rural Schools; Courtney Hoffman, Texas ALTA; Mike Lunceford, Houston ISD; Cynthia Lusignolo, Texas City ISD; Lynn Moak, Texas School Alliance, Moak, Casey and Associates; Christy Rome, Texas School Coalition; Arati Singh, Texas PTA; Paul Colbert; Julie Cowan; Rich DePalma; Dusty Harshman; *(Registered, but did not testify):* David D. Anderson, Arlington ISD; Karen Belknap, A+ Academy, Inspired Vision Church; Randy Burks, Texas Schools Coalition, Snyder ISD; Sally Cain, North Texas Region Texas ALTA; Priscilla Camacho, San Antonio Chamber of Commerce; Cody Carroll, Krum ISD; Jodi Duron, Texas Association of Mid-Size Schools; Linda Gladden, Academic Language Therapy Association; Bryan Hebert, School Taxpayers Relief Coalition; Janna Lilly, Texas Council of Administrators of Special Education; Alice Marsel, Dyslexia Center of Austin; Louann Martinez, Dallas ISD, Fort Worth ISD, Texas Urban Council; Mike Meroney and Heather Sheffield, Decoding Dyslexia; Sheryl Pace, Texas Taxpayers and Research Association (TTARA); Mark Terry, Texas Elementary Principals and Supervisors Association; R. Todd Webster, Spring Branch ISD; Shala White Flowers, A+ Charter Schools; Paige Williams, Texas Classroom Teachers Association; Bruce Yeager, Ponder ISD; Kathleen Zimmermann, NYOS Charter School; Barbara Frandsen; Robert Rogers)

Against —Melanie Bush, Conroe ISD; Michael Openshaw; (*Registered, but did not testify*: C. LeRoy Cavazos-Reyna, San Antonio Hispanic Chamber of Commerce; Adam Cahn)

On — Yannis Banks, Texas NAACP; Michael Barba, Texas Catholic Conference of Bishops; Bret Begert and Richard Meadows, Fort Elliott CISD; Portia Bosse, Texas State Teachers Association; Von Byer and Leonardo Lopez, Texas Education Agency; Aaron Henricksen and Janet Spurgin, Legislative Budget Board; Celina Moreno, Texas Latino Education Coalition; Mike Motheral, Small Rural School Finance Coalition; Chandra Villanueva, Center for Public Policy Priorities; (*Registered, but did not testify*: Joe Waldron, Lefors ISD, Texas School Coalition; Jay Waller, Ira ISD)

(*at March 14 hearing*)

For — Ted Melina Raab, Texas AFT (American Federation of Teachers); Jesse Romero, Texas Association for Bilingual Education; David Velky, Rocksprings ISD; Paul Colbert; (*Registered, but did not testify*: Terry Abbott, Leander Independent School District; Ellen Arnold, Texas PTA; Barry Haenisch, Texas Association of Community Schools; Joshua Houston, Texas Impact; Max Jones, The Greater Houston Partnership; Janna Lilly, Texas Council of Administrators of Special Education; Colby Nichols, Texas Rural Education Association; Seth Rau, San Antonio ISD; Michelle Smith, Texas Association of School Business Officials; Chad Sparks, Parents for Full and Fair Funding in Texas Public Schools; Mark Terry, Texas Elementary Principals and Supervisors Association; Velma Ybarra, Texas Hispanics Organized for Political Education, Texas State LLULAC; Dwain York, Wimberley ISD; David Anthony)

Against — Sophie Torres, San Antonio Hispanic Chamber of Commerce

On — Von Byer and Leonardo Lopez, Texas Education Agency; (*Registered, but did not testify*: Steven Aleman, Disability Rights Texas; Ray Deason, Ore City ISD)

(at March 21 hearing)

For — Priscilla Camacho, San Antonio Chamber of Commerce; *(Registered, but did not testify)*: Deborah Caldwell, North East Independent School District; Grover Campbell and Vernagene Mott, Texas Association of School Boards; William Chapman, Jarrell ISD; Julie Cowan and Amber Elenz, AISD Board of Trustees; Jennifer Espey, Parents for Full and Fair Funding of Texas Public Schools; James Garrett, Jarrell ISD; Lanet Greenhaw, Dallas Regional Chamber and Angela Farley, Sr. VP Education and Workforce; Barry Haenisch, Texas Association of Community Schools; Tami Keeling, Victoria ISD, TASB; Janna Lilly, Texas Council of Administrators of Special Education; Amanda List, Texas League of Community Charter Schools; Colby Nichols, Texas Rural Education Association; Seth Rau, San Antonio ISD; Heather Sheffield, Texans Advocating for Meaningful Student Assessment; Mark Terry, Texas Elementary Principals and Supervisors Association; Mary Ann Whiteker, Texas Association of School Administrators; Audrey Young, Apple Springs ISD Board of Trustees; Allison Gower; Laura Yeager)

Against — None

On — Leonardo Lopez, Texas Education Agency; Randy Willis, Granger ISD, Texas Association of Rural Schools; *(Registered, but did not testify)*: Kara Belew and Von Byer, Texas Education Agency; C. LeRoy Cavazos-Reyna, San Antonio Hispanic Chamber of Commerce)

(at March 28 hearing)

For — *(Registered, but did not testify)*: Daniel Gonzalez and Julia Parenteau, Texas Association of REALTORS; Barry Haenisch, Texas Association of Community Schools; Colby Nichols, Texas Rural Education Association; Seth Rau, San Antonio ISD; Kathleen Zimmermann, NYOS Charter School)

Against — *(Registered, but did not testify)*: Jamie Haynes)

On — Leonardo Lopez, Texas Education Agency; (*Registered, but did not testify*: Von Byer, Texas Education Agency)

BACKGROUND: Education Code, chapters 41 and 42 govern the distribution of state aid under the Foundation School Program to school districts and public charter schools. Chapter 41 contains wealth equalization provisions that require some property-wealthy districts to share a portion of their local school property taxes with less-wealthy districts.

DIGEST: CSHB 21 would revise certain aspects of the formulas used to determine school district and charter school entitlements under the Foundation School Program.

The bill would repeal dedicated funding streams for transportation, high school students, and support staff salaries. It also would repeal a hold harmless provision that has provided extra funding to certain districts since 1993.

The bill would create new weighted funding for students with dyslexia. It would increase weighted funding for students in bilingual education programs and expand weighted funding for 8th graders and high school students in career and technology education programs.

CSHB 21 would create a financial hardship transition grant program for districts that lost funding under provisions of the bill.

Beginning with fiscal 2019, the bill would defer the August payment from the Foundation School Fund to school districts until early September.

Transportation funding. The bill would repeal the allotment for districts providing transportation to students who reside two or more miles from their regular campus.

The Texas School for the Deaf would continue to be entitled to a transportation allotment in an amount determined by the Commissioner of Education. School districts also could continue to receive an allotment determined by the commissioner for transporting deaf students participating in a regional day school program.

The bill would prohibit a county transportation system from receiving transportation funding directly from the state. Funding would come from the individual school districts participating in the county transportation system.

High school allotment. The bill would repeal districts' entitlement to an annual allotment of \$275 for each student in average daily attendance in grades 9-12.

Additional state aid for staff salary increases. CSHB 21 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.

1993 hold harmless provision. The bill would repeal language in Education Code, ch. 41 that allows higher equalized wealth levels for certain districts based on a formula that takes into account the district's 1992-93 revenue per student.

Weight for students with dyslexia. CSHB 21 would include a multiplier of 0.1 by which the basic allotment would be increased for students with dyslexia or a related disorder. Funding would be limited to no more than 5 percent of a district's students in average daily attendance.

Funding would be available only for students who were receiving instruction that meets applicable dyslexia program criteria established by the Texas Education Agency and was provided by an instructor specifically trained for this purpose. Funding also would be available to students who have received the required instruction and are 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.

Weight for students in bilingual education programs. The bill would increase the multiplier in the basic allotment from 0.1 to 0.11 for students

in bilingual education programs or special language programs.

Career and technology programs. The bill would expand the allotment for career and technology programs offered at the high school level to include 8th grade and would include technology applications courses approved for high school credit.

Financial hardship transition program. If state appropriations were available, CSHB 21 would authorize the Commissioner of Education to create a two-year grant program to defray financial hardships resulting from the bill's school funding changes. Grants would be distributed through a formula based on funding the district would have received under current law, funding available under changes that would apply after the 2016-17 school year, and the district's maintenance and operations tax rate as specified by the comptroller's most recent report.

A district or charter school's grant could not exceed the lesser of 10 percent of the total amount available or the amount by which "previous law" exceeds "current law" for the district that school year. If funds remained available for a school year after determining initial grant amounts the commissioner would reapply the formula to award all available funds.

Regional education service centers and county departments of education would not be eligible for the grants. The grant amounts could not exceed \$125 million for the 2017-18 school year or \$75 million for the 2018-19 school year, unless greater amounts were appropriated. The grant program would expire on September 1, 2019.

Payment deferral. Beginning with fiscal 2019, CSHB 21 would defer the August payment from the Foundation School Fund to districts until early September.

Effective date. This bill would take effect September 1, 2017 and would apply only to a payment from the Foundation School Fund made on or after September 1, 2018.

SUPPORTERS
SAY:

CSHB 21, in conjunction with the House-passed version of the general appropriations act, would provide more resources for schools and

distribute them more appropriately. The bill would simplify school finance formulas and be an important first step toward modernizing a system that has been criticized as a patchwork of fixes in response to a series of school finance court rulings.

Nearly every school district and charter school would receive more funding. The Legislative Budget Board (LBB) estimates that beginning in fiscal 2018 the bill and assumed appropriations would provide increased Foundation School Program (FSP) funding of \$1.64 billion to about 96 percent of school districts and more than 98 percent of students.

Equity. By repealing several funding streams that are distributed to districts outside the FSP's equalized system, the bill is expected to improve equity among districts, according to the LBB. In addition, it would repeal a "hold harmless" mechanism dating to 1993 that has allowed certain districts to keep more revenue per student than other equally wealthy districts.

The increase in the basic per-student allotment from \$5,140 to \$5,350 proposed in the House-passed general appropriations act would improve funding equity. It also would give districts greater flexibility to determine how to spend their money to best meet their students' needs; for example, by providing more discretion on transportation funding and other programs.

Recapture. CSHB 21 and the increased appropriations could reduce the need for higher property taxes by increasing the state share of school funding and reducing the amount of local property taxes recaptured from certain property-wealthy districts. The LBB estimates the bill would reduce recapture by about \$173.6 million in fiscal 2018, \$205.3 million in fiscal 2019, and \$318.9 million by fiscal 2022.

High school allotment. The bill would end a \$275 per-student high school allotment that initially was intended to supplement academic offerings and provide services to students at risk of dropping out. However, because funding is generated for every high school student, it is not linked to the actual costs of serving those at risk. Replacing the allotment with extra funding for all students could allow districts to target

spending toward students in earlier grades to provide them with a stronger educational foundation before they reach high school.

Career and technology. Funding career and technology education beginning at the 8th-grade level would help middle and junior high schools enhance career and technology programs and better prepare students for high school courses. The bill would provide schools with new resources to offer quality courses to prepare students for occupations in high demand.

Transportation funding. By increasing the basic allotment, CSHB 21 would provide transportation funding for all schools, including charter schools and certain property-wealthy districts that do not receive the current transportation allotment. The bill, in conjunction with assumed appropriations, is estimated to provide schools with \$125 per student to spend on transportation costs.

The bill would simplify and modernize transportation funding by removing annual calculations of factors such as mileage, gas prices, and student population. These factors can be manipulated under the current system to provide some districts with transportation funding in excess of actual costs.

Weighted student funding. The bill would benefit the approximately 141,000 students with dyslexia identified by districts in the 2015-16 school year. It would provide new funding to help schools meet the additional education needs of these students.

Under current law, districts are required to identify and serve students with dyslexia but do not receive any extra funds to comply with this mandate. The new funding stream in the bill could incentivize schools to ensure students with dyslexia and related disorders were identified and supported. Funds could be used to provide students with specially trained educators, to pay for parent education programs, and for other valuable resources that many districts have struggled to provide. Making this funding available to 5 percent of a district's students would be an appropriate limit and likely sufficient to cover the population it is intended to help.

CSHB 21 also would provide extra funding for bilingual education programs that have been shown to significantly close the achievement gap between English language learners and native English speakers. The bilingual education weight was established in 1984 and has not been updated since, despite the fact that the number of students struggling to learn English has grown dramatically in the past few decades.

Some have said the bill should provide a larger increase in the weight for bilingual students and should increase the weight for students in compensatory education programs. Such funding increases would be too expensive in the current fiscal environment.

Others have said the Legislature should study the costs of educating these and other student populations during the interim and use the results to determine the actual costs of providing a constitutionally adequate education. Such a cost study would not guarantee legislative funding and could become an issue in future school finance litigation. It would be better for the Legislature to enact the reforms included in CSHB 21 and improve funding for Texas students this year.

Hardship grants. The \$200 million hardship grant program would be a reasonable way to help offset funding reductions that some districts would experience under the bill. It would be appropriate to compensate those districts that lost money under changes made by the bill even though many are considered property wealthy. Unlike previous legislative efforts to hold districts harmless for funding revisions, the bill would end the grants after two school years.

OPPONENTS
SAY:

CSHB 21 would result in less funding for some school districts at a time when all districts are facing financial pressures and rising expectations for students. Even with the changes to funding formulas, the state's school finance system still would rely too heavily on local property value increases to make up for state funding inadequacies.

Instead of moving forward with this bill, the Legislature should take time during the interim to study the actual costs of providing an adequate education to different student populations and then make funding

decisions based on the results of those studies.

Transportation funding. The bill would change how the state funds transportation by eliminating the transportation allotment tied to costs such as miles traveled and ridership. Instead of funding transportation based on actual costs, transportation funding would be included in a district's base funding with no requirement that the money go toward transporting students. The lack of dedicated transportation funding might lead districts to use the money for other purposes.

Under the bill, some districts and charter schools that provide little or no transportation services would receive funding for an expense they do not incur. At the same time, some geographically large districts could experience a steep decline in transportation funding under the new plan. Even districts who have been rated as highly efficient in their use of transportation dollars could see a dramatic decrease in funding through no fault of their own.

Basic allotment. Rather than provide an increase in the per-student allotment through the general appropriations act, CSHB 21 should include a statutory basic allotment increase to reflect the elimination of the transportation allotment, the high school allotment, and state aid for staff salary increases.

Hardship grants. The hardship grant program under the bill would largely benefit the wealthiest school districts. Awards under the bill's \$200 million hardship grant program primarily would go to school districts in the two highest quintiles of wealth per student, according to an analysis by the LBB.

OTHER
OPPONENTS
SAY:

CSHB 21 would not go far enough in helping districts and charter schools keep up with inflation. One group estimates that a minimum investment of \$2.7 billion would be required to keep schools from losing ground during the next two years. The House budget would set aside only an additional \$1.5 billion contingent on the enactment of CSHB 21.

Weighted student funding. Increasing the weight for bilingual students from 0.1 to 0.11 would not be sufficient to provide funding to the roughly

1 million Texas students in bilingual education programs. In addition, the bill would not increase the compensatory education weight for economically disadvantaged students, a group that represents a growing portion of Texas students. It costs districts more to educate students from low-income families and those who do not speak English, and Texas should provide districts with additional resources for these populations.

Limiting funding for students with dyslexia or a related disorder to 5 percent of a district's students would be too low and could leave many students without resources.

Hardship grants. CSHB 21 should do more to compensate districts for the loss of funding under the bill as well as the scheduled September 1, 2017, expiration of a 2006 hold harmless provision known as Additional State Aid for Tax Reduction (ASATR). About 160 mostly smaller districts are slated to lose \$402 million in ASATR funding during fiscal 2018-19, and would have to share the \$200 million in the hardship grant program with districts losing money due to funding changes made by CSHB 21.

NOTES:

Fiscal note. The Legislative Budget Board (LBB) analyzed CSHB 21 with the assumption of a \$210 increase in the basic per-student allotment from \$5,140 to \$5,350. According to the LBB, the bill would:

- save the Foundation School Program \$35.9 million in general revenue related funds in fiscal 2018-19;
- offset a biennial cost of \$1.8 billion by one-time savings of \$1.9 billion due to deferring the final Foundation School Fund payment for fiscal 2019 to fiscal 2020; and
- result in an average gain in revenue of \$120 per weighted student to 96 percent of districts and charter schools and 98.8 percent of students.

Comparison of original to substitute. CSHB 21 differs from the bill as introduced in several ways, including that it would:

- expand career and technology funding to include 8th grade and technology applications courses approved for high school credit;

- increase the weight for bilingual education;
- restructure the hardship grant program; and
- defer the final Foundation School Fund payment for fiscal 2019 to fiscal 2020