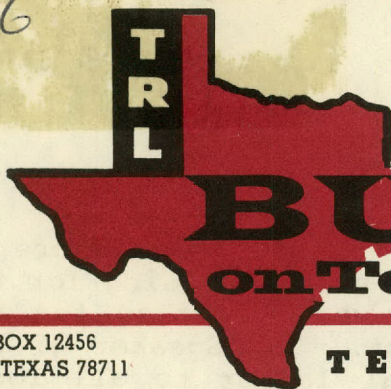


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on Texas State Finance

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TEXAS RESEARCH LEAGUE

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-James W. McGrew, Executive Director

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REDUCING FOUNDATION PROGRAM COSTS FOR LOCAL SCHOOL DISTRICTS DOES NOT IMPROVE EQUALIZATION OR REDUCE PROPERTY TAXES

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The Legislative Budget Board has proposed that the local share of the Foundation School Program be "frozen" at its current level for the next two years at a cost to the State of \$269 million in the 1980-1981 biennium. This Bulletin examines this proposal and concludes that it would neither promote equalization nor provide tax relief. It also compares Foundation Program spending proposals by the LBB and by former Governor Briscoe.

THE RATIONALE IS FALSE

An article in the Houston Chronicle ("School Finance and Tax Relief Issues...")¹ last week noted:

"The trend in recent years has been for the Legislature to require the state to pick up a larger share of the educational burden, both to reduce the inequities in the abilities of wealthy and poor districts to provide good education as well as to reduce the growing tax burden on local property owners."

The fact is, despite a \$1.7 billion increase in state aid since 1970 (210%), the State's share of the total state-local cost of public education has grown only about 3.4%. Increased state aid has not slowed down local property tax increases, nor has it made a significant contribution to equalizing education expenditures between poor and wealthy districts.

¹February 11, 1979.

A CASE STUDY: 1977

The first Called Session of the 65th Texas Legislature in 1977 committed \$945 million of additional state spending for the current biennium, of which \$341 million was earmarked for reducing the local share of the program cost. The Speaker of the House of Representatives wrote a personal letter to all local school districts explaining that the additional state aid was designed to permit reductions in local property taxes.

Together, the local school districts responded by increasing their operating tax revenues from \$1.30 billion in 1976-77 to \$1.41 billion in 1977-78 and again to an estimated \$1.57 billion in 1978-79 - a combined levy about \$380 million over what would have been raised had local taxes remained at the level that prevailed when the Speaker sent out his letter.

Reducing the Local Fund Assignment is anti-equalizing because, when local shares of the Foundation Program cost are reduced, the additional state aid goes in larger proportions to the more wealthy districts. The reason is simple; local shares are calculated in relation to state estimates of local taxpaying ability. The larger the local resources are estimated to be, the higher the local share of the cost and the lower the amount of state aid. When local shares are reduced, the equalization process is reversed.

Table 1 shows what happened when local shares were cut approximately 50% in 1977-78. On the average, local shares were reduced by more than \$51 per student, but the cut was less than \$27 in the poorest districts, and ranged up to \$108 for districts more than twice as wealthy. Despite the lower local share (and the corresponding increase in state aid), each district-wealth group raised maintenance taxes per student, with the largest increases in the wealthiest districts. Each group (except the super wealthy with values of more than \$350,000 per student) used their increased state aid and increased local maintenance taxes to raise the level of enrichment above the Foundation Program.

Table 1
Change in Amounts Per Student Between
1976-77 and 1977-78

<u>Dists.</u>	<u>Market Value Per Student</u>	<u>Maint. Tax</u>	<u>Local Share</u>	<u>Enrich- ment</u>	<u>Cur.Op. Expense</u>
-(Change per student, 1976-77 and 1977-78)-					
136	UNDER \$60000MV/ADA	\$ 17.99	\$ -26.66	\$ 43.87	\$162.07
146	\$ 60-79999MV/ADA	30.07	-49.97	77.40	186.14
137	80-99999MV/ADA	51.73	-57.54	110.48	182.10
204	100-139999MV/ADA	47.64	-83.79	130.69	207.88
151	140-199999MV/ADA	89.23	-108.24	184.85	196.86
169	200-349999MV/ADA	153.49	-96.64	278.48	237.67
136	OVER \$350000MV/ADA	266.97	78.25	172.63	273.56
1079	T O T A L	\$ 43.74	\$ -51.51	\$ 94.55	\$184.29

The increased level of enrichment was larger for each higher wealth bracket up to the very top. The "rich" certainly "got richer," and even though the poor got a little richer too, the enrichment gap was appreciably widened.

AND IN THE FUTURE...

The local share of the Foundation School Program cost for the current school year is \$356.5 million, or less than 23% of the total local maintenance tax levy of \$1,574.3 million for school purposes. It has been estimated that total local school property taxes will grow by at least another \$400 million in the next two years - or more than 20%.¹ It can be predicted with some certainty that reducing the local share of the Foundation Program cost in 1980-81 would have virtually no impact on the projected total local school tax levy of - about \$2 billion for that year. It would, almost certainly, further widen the spending gap between property-rich and property-poor school districts.

LBB SPENDING RECOMMENDATIONS

For the first time, the Legislative Budget Board has included anticipated policy changes in the Foundation School Program in its proposed budget for the next biennium. In addition to freezing the local share of the Program cost, these include a 5.1% salary increase for each of the next two years. Those anticipated program policy changes, together with "normal expansion" of the Program, would cost the State \$594 million for the biennium.

"Normal expansion" of the Foundation Program includes an annual 4% longevity pay increase for all current school personnel (except those at the top of the schedule). With an additional 5.1% increase, a teacher earning \$10,000 this year would be earning \$11,903 in 1980-81 (a 19% percent increase in two years), plus any local enrichment increments. In addition, "full implementation" of the special education program would cost an estimated \$140 million (including salary increases), and another \$63 million (with salary increases) would go for vocational program expansion. All told, it is estimated that approximately 9,000 more professional personnel will be added to the state school system, even though total average daily attendance will be up only about 1,000 students.²

THE BRISCOE RECOMMENDATIONS

Outgoing Governor Dolph Briscoe, in his budget recommendations to the Legislature for 1980-1981, assumed less rapid expansion of special and vocational education programs at a savings of

¹Source: Texas Education Agency and Legislative Budget Board.

²Ibid.

\$115 million for the biennium, compared with LBB estimates. Briscoe's budget contained no funds for school salary increases, but it allowed \$12 million more for enrichment equalization than the LBB proposed.

The Executive Budget assumes that the local share of the Foundation Program cost would be allowed to rise in keeping with the increased state estimates of taxable local property values - minus the value of intangibles. Although the 1977 legislation directed that intangible personal property (such as stocks and bonds) be included in the state estimates, it never has been taxed locally, and the Constitutional Amendment adopted last November allows the Legislature to exempt it from the tax base. Even without intangibles, the local tax base would increase enough to produce a total local share about \$200 million higher for the next biennium - with a corresponding reduction in required state aid as compared with the LBB proposal.

Table 2
Current Biennial Foundation Program Costs Compared
With Projected Biennial Costs and Proposed Changes

FOUNDATION SCHOOL PROGRAM ALLOC. TO LOCAL DISTRS.	1978-1979	PROJECTED 1980-1981 COSTS		
	Costs	Cur.Law	Exec.	Leg.Bd.
	----- (in millions) -----			
Regular Program	\$3,748	\$3,931	\$3,933	\$4,180
Vocational Education	263	303	282	326
Special Education	495	560	529	600
Equalization Aid	266	264	264	252
Compensatory Education	50	51	51	51
All Other Programs ¹	106	113	105	113
Total	\$4,928	\$5,222	\$5,164	\$5,522
Less Local Funds:	713	982	902	713
State's Share	\$4,215	\$4,240	\$4,262	\$4,809
State Increase	-	25	47	594
Local Increase	-	269	189	-

¹"All Other Programs" include programs for specific handicaps such as blind and deaf students, funds for regional service centers, educational TV and computer services, reimbursement for sick leave and student teacher training costs, Driver Education, Bilingual Education and several other minor programs.

SOME OTHER OPTIONS

In his budget proposal, Governor Briscoe recommended earmarking a portion of the State's sales tax revenues to replace local school tax receipts and several bills to do this have been introduced. A future Texas Research League Bulletin will examine other proposals aimed at providing effective property tax relief and their potential impact on both state finances and the school finance system.