Equalizing Public School Resources

ANALYSIS

By the end of World War II, industrialization and urbanization in Texas had created significant disparities between rural and urban districts in local school funding; some means of equalizing educational resources was needed. The legislature created a method for determining how much the local tax base could support in each district; state aid would provide the remainder.

The "remainder of **what**" was the question. Formulas were used to determine educational program costs in each district, so that state aid was the difference between the foundation program allotment and the amount the local tax base could contribute.

There were two loopholes: (1) Because there were 5,000 school districts in the state, most of which were dormant, inclusion of building costs in the foundation program was postponed for two years; the two years has turned into four decades. (2) School districts were permitted to levy taxes beyond that needed for the local share to "enrich" the foundation program expenditure level; unequalized enrichment levels grew rapidly.

Past school finance reform efforts have increased the foundation program level **(EQUALIZED FUNDS)** to include a portion of local enrichment (while, of course, adding more state funding). As soon as the legislature went home, local school trustees adopted next year's budget, property taxes were increased, and enrichment **(UNEQUALIZED FUNDS)** was soon back to previous levels.

Legislative "reform" attempts focused on the dozens of formulas used to construct the foundation program. Those formulas, while important in determining which districts are favored and which are not, were unchallenged by the plaintiffs in the *Edgewood v. Kirby* lawsuit. The **system,** which relies upon each district's taxable wealth, is the essential issue.

**Spring Board of
Directors' Meeting
May 4, Dallas**

Equalize Now!

The federal and state courts have said it; major legislative study groups have said it; the League staff has said it: **Texas' public school finance system, which favors property-rich districts over the property-poor, is not fair!** So what if the system is not fair? The so-what is that thousands of children are not afforded an equal educational opportunity. This is not simply a local problem; in a few years those possibly ill-prepared students will graduate (or leave school) looking for jobs all over the state.

Equalizing resources among the states 1,057 school districts is a most difficult issue -- not because of its inherent technical complexity -- but because any solution requires shifting millions of dollars in state aid from some districts to others, and adjusting local property tax rates so that all Texas citizens put forth similar levels of tax effort. Thus, the issue runs headlong into the entrenched interests that benefit from the status quo. Past efforts to achieve equity have failed simply because it has not been possible to muster the political will required to make the hard choices necessary to reach an effective solution.

This month's ANALYSIS describes an alternative public school finance system that, while not perfect, would go a long way toward equalizing educational resources among all of the children in the state. **Moreover, this plan would not require any increase in state spending, nor would it require, in the aggregate, any new local tax dollars;** it simply spreads more evenly what is now spent.

Four decades is long enough to debate school finance equalization; that issue should be settled once and for all with as little additional state or local spending as possible. New tax dollars should be used to finance the next steps in educational reform so that Texas can get on with the job of preparing **all** of today's children for tomorrow's world.

THE FOUNDATION SCHOOL PROGRAM

The school finance scheme adopted in 1949 established a school expenditure **foundation** that would be guaranteed to each school district.

- For each 25 students, a teacher was allotted, and a state salary schedule was developed providing a salary amount that varied with the experience and degree held by the teacher employed.
- A certain number of teaching units required support personnel (librarians, counselors, etc.) and administrators (principals and superintendents).
- An allowance for other operating expenses was established together with an amount for transportation.

This method for determining the foundation program level was abandoned in 1985 after the adoption of a different formula system in HB 72. Still, the basic foundation school program concept prevails.

State-Local Sharing. The local share of the **foundation** program cost (called local fund assignment -- LFA) is determined by the amount of property value that a district can tax. The state pays the difference.

Some school districts have meager amounts of taxable property, but many children. At the other extreme, a few school districts have more oil wells than students, and thus very large amounts of taxable wealth per student.

To overcome the variations among districts, state aid is distributed in unequal amounts so that the combination of state-local resources is equal. In one district, for example, the local share (based on property wealth) is $100 per student. In a second district the local share is set at $1,000 per student. If the state grants the first district $900 more state aid per student than is given to the second, the combined state-aid and property tax revenue per student would be the same. This "equalizing" concept is illustrated in the box on the right.

While there are a number of **equity** issues within the foundation program (see Majority of Exceptions in box on page 7), if school expenditures were limited to the foundation program, the "equalization" debate would be largely moot.

THE UNEQUAL PART OF SCHOOL FINANCE

Buildings and Equipment. Under the initial concept, funds to provide buildings and equipment

Equalization with a Foundation Program

Through a variety of formulas, an amount is calculated for the basic educational program in each of the 1,057 school districts, here shown for 1987-88 as an amount per student.

Foundation Program Per Student
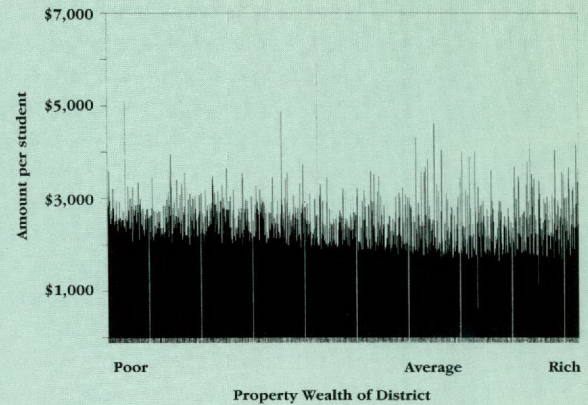
The local share of the foundation program cost is determined by the taxable property value in each district.

Local Share Foundation Program
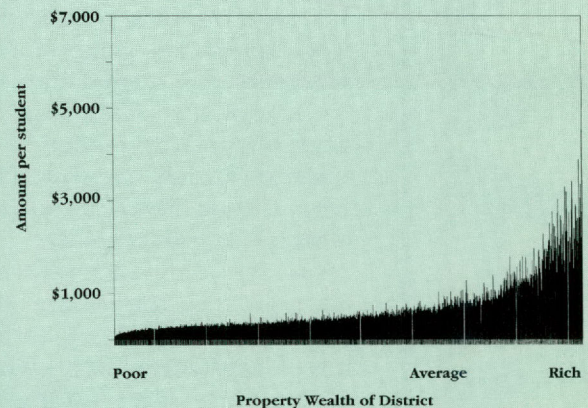
State aid is determined by the difference between the foundation program total and the local share, which generally is larger for the property-poor districts than the property-rich.

State School Aid Per Student
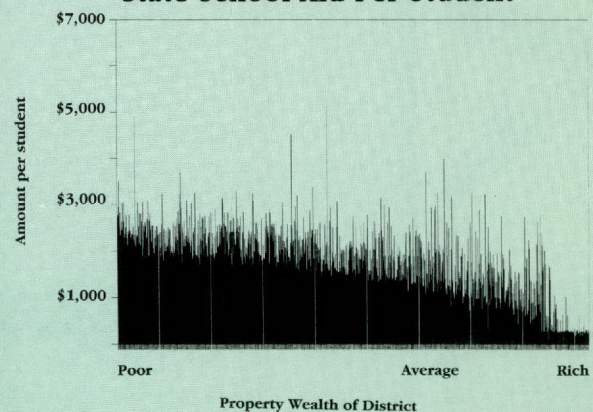
were to be included in the foundation program. Inclusion was deferred for two years pending a reorganization of the state's school districts into a more rational pattern; that two years has turned into four decades.

Capital costs continue to be totally financed by local school districts from the property tax or by the diversion of state aid from operations. This means that property-rich districts have a clear edge over their less wealthy counterparts in the ability to provide physical plant and equipment.

Indeed, for many poor school districts this is the most frustrating part of the present school finance system. To support bonds for building facilities, these districts have had to take on a long-term obligation of high tax rates that, because of low property values, yield only meager revenue. Burdened by past debt, some districts divert operating funds to new building needs and to the purchase of other capital items such as library books or com-

puters. (School officials from poor districts testified in the *Edgewood* case that the additional state aid gained under HB 72 was used for facilities rather than for programs designated by the legislature.)
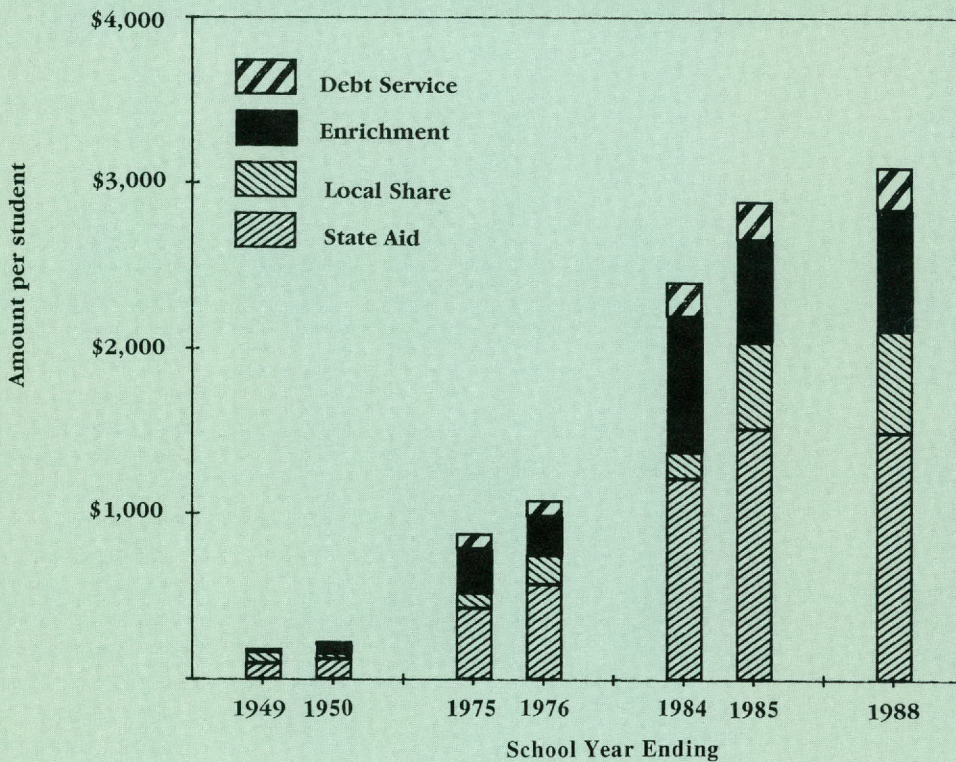
Some property-poor districts do not use any debt financing, apparently feeling that the existing tax base is too meager to support a bond issue at acceptable interest rates.

Enrichment. Even excluding capital costs, the foundation program was never expected to encompass all school spending. Local districts have always retained the right to levy additional property taxes to "enrich" (e.g., pay higher teacher salaries or reduce class size) the foundation level of spending. Enrichment was used only in a few "lighthouse" districts 40 years ago; today, all but 11 districts enrich the foundation program. The rub comes from the fact that property-rich districts (even with a minimal tax effort) have the wherewithal to "enrich" their school programs far beyond the ability of the property-poor districts.

Local taxes for enrichment started out at a $46 per student average in 1949-50, and rapidly increased to $264 by 1974-75 (see Chart 1). In 1975, the legislature enacted HB 1126 to reform the finance system; the foundation level was raised and local enrichment dropped to $229 per student. Enrichment once again spiraled upward, reaching $814 per student in 1983-84, whereupon the legislature reformed the system once more with HB 72; enrichment was cut back to $608 per student the next year. The enrichment level was back to

Chart 1
Growth of Unequalized Enrichment
Texas School Districts

Debt Service
Enrichment
Local Share
State Aid

Amount per student

$4,000
$3,000
$2,000
$1,000

1949 1950   1975 1976   1984 1985   1988

School Year Ending

$722 per student average in 1987-88 with wide disparity among the districts.

EQUALIZED VS. UNEQUALIZED

The school finance system really consists of two parts:
- a largely EQUALIZED system within the foundation program; and
- an UNEQUALIZED system of property taxation beyond the local share of the foundation program to provide enrichment and to repay bonds issued for facilities and equipment.

This duality is shown in Chart 2. In 1987-88, the foundation program provided an average of $2,115 per student of equalized funds, consisting of $1,494 of state aid and $621 of local property taxes. Local school officials levied additional property taxes that provided an average of $722 per student of unequalized funds for enrichment, plus $259 per student for debt service (also unequalized). Thus, only 68% of total school funds is equalized among districts; 32% of the total is not.

It is this aspect of the finance system that produces the wide disparity in school spending between the "rich" and the "poor." Unequalized funds (enrichment and debt service) in 1987-88 were almost 10 times as much ($3,039 vs. $337) in the 95 wealthiest districts compared to the 212 poorest.
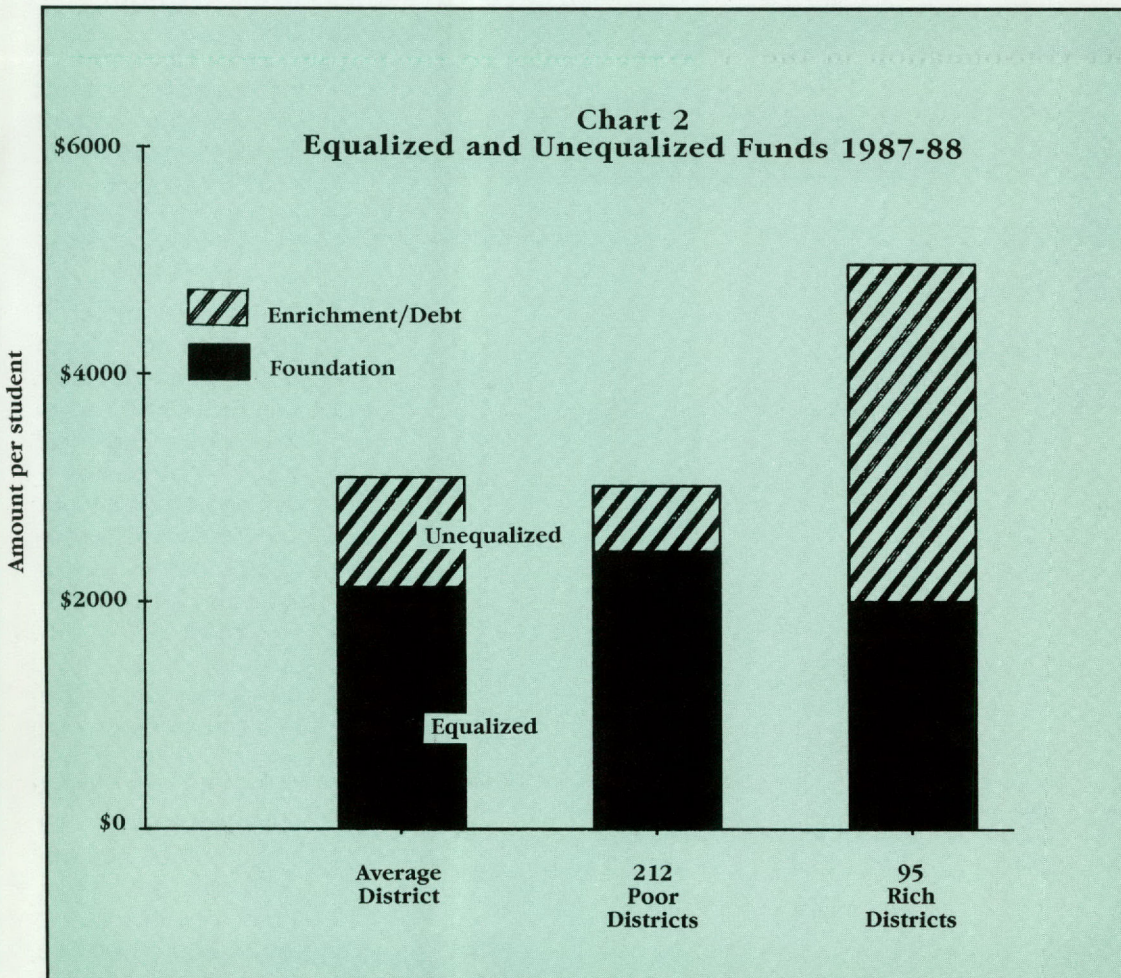
EQUALIZATION ATTEMPTS

For forty years a battle has been fought over equalized vs. unequalized funds for public schools with various attempts made (or suggested) to bridge the gap between the property rich and the property poor.

Money Alone Has Not Worked. Efforts to equalize public school financial resources in Texas most often have been combined with proposals for substantial additional state aid.

- HB 72, for example, called for adding $1 billion a year in state aid. Whatever equalization was accomplished was negated by an unequalized $1 billion increase in local property taxes.

The shift of unequalized enrichment funds to the equalized foundation program was lost as local districts increased local property taxes to restore enrichment levels.

Affluent districts result from high property values or few students, or both. People do not wish to live in the middle of an oil field or next to a chemical

Chart 2
Equalized and Unequalized Funds 1987-88

Amount per student

Legend:
- Enrichment/Debt
- Foundation

Bars:
- Average District: Equalized, Unequalized
- 212 Poor Districts
- 95 Rich Districts

Y-axis: $0, $2000, $4000, $6000

plant, and there tend to be high values and few students in such places. The beaches in coastal communities are filled with young people in the summer, and resort areas tend to have high taxable values from hotels, condominiums, etc., but few permanent students. Similarly, retirement communities tend to have high values compared to the number of students.

Strengthen the Local Tax Base. A sometimes suggested approach to reduce the variation in per-student wealth among school districts is to remove some types of property from the local tax base. Substituting a state administered tax for the local property tax on mineral values, for example, would reduce values in some oil-rich districts. That substitution, however, would do nothing to cut down the values in industrial enclaves, resort areas, or retirement communities.

A second method that has been successfully used in a few instances is to expand the geographical area of the school district so that tax resources are more closely aligned with the student population. For example, school district consolidation in the Beaumont area and in the Orange area brought together the industrial tax base and the workers' homes. However, a similar effort in Borger was not successful.

Some other approaches to strengthen the fiscal base of local school districts have been used.

- To provide special education and gifted programs in the Rio Grande Valley, an overlapping school district was created that levies a property tax on all property in Cameron, Hidalgo and part of Willacy Counties. (All but one of the 24 school districts in Cameron and Hidalgo Counties have below average wealth -- 15 have less than 1/4 of the state average.)

- Legislation providing state aid for special education requires a service area that includes at least 3,000 students, forcing most local school districts to form cooperative ventures with nearby districts.

- Dallas, Harris and a half-dozen other counties levy small countywide taxes to provide certain educational services or to directly provide equalization payments to districts within the county.

ALTERNATIVES TO THE FOUNDATION CONCEPT

Obviously, one way to equalize financial resources is to make a flat dollar allocation per student to each district. This approach would be in line with the original constitutional provision allocating per capita payments from the state Available School Fund and from county available funds. (In 1987-88, state-local resources averaged $3,117 per student -- 683 districts had more, and 374 districts had less.)

RICH AND POOR DISTRICTS

Referring to a school district as rich or poor has nothing to do with the economic status of the people living there. It is the relationship of taxable property values to the number of students, which is measured by "market value per student."

In 1987-88, the value of all taxable property in the state totaled $673 billion. Dividing that total by 3,221,314 students gives an average market value per student of $208,914. In the average district, a penny tax rate (per $100 of value) would provide tax revenue of $20.89 per student.

- Per student market values ranged from $21,596 in Edcouch-Elsa ISD (Hidalgo County) to $5,756,167 in Laureless ISD (Kleberg County).

- A one cent tax rate would yield $2.16 per student in Edcouch-Elsa compared to $575.62 in Laureless.

RESOURCES STILL NOT EQUAL

In 1987-88, state aid averaged $1,494 per student and local property taxes averaged $1,623, for a total of $3,117 per student.

- The Laureless ISD (Kleberg County), with only 27 children, had resources more than six times that average, or $19,875 per student.

- At the other extreme, Killeen ISD (Bell County) had state-local tax resources of only $2,177 per student -- almost $1,000 less than the state average. Killeen ISD received $398 per student from the federal government for impact aid **in lieu** of property taxes. The $2,575 total still fell significantly below average.

Since school districts have been granted the power to levy property taxes, that method would be unfair unless all districts imposed taxes at the same rate. Tax rates adjusted for appraisal levels averaged 79.9 cents per $100 of market value in 1987-88, but 8 districts levied a rate of less than 30 cents, while 11 districts imposed rates of more than $1.50.

Fiscal Neutrality. Another alternative to a foundation program as a method of equalizing resources is fiscal neutrality -- sometimes called power equalization. Under this approach, each school district would receive the same revenue per student for each penny of the property tax rate. For districts with below-average property tax bases, state aid would be used to meet guaranteed resource levels. For districts with very high tax values per student, the concept calls for the recapture of excess funds for redistribution to poorer districts, a practice that has not been successful in some other states.

In short, equalization under a foundation program is achieved by the state determining some financial level of the public school program and equalizing resources within those bounds. Under fiscal neutrality, local school officials determine the local tax rate, and an equal amount of revenue per student for that tax rate is received by property-poor districts through a combination of local taxes and state aid. State accreditation standards could be used to assure some minimum local taxation level.

COMBINING THE BEST OF BOTH --
AN EQUALIZATION APPROACH WITHIN EXISTING RESOURCES

The remainder of this article describes a zero-sum school finance model that would go a long way toward equalization within existing tax resources. The essential elements of this model are outlined below.

1. Enrichment funds would be incorporated into the foundation program for equalization.

This expenditure would continue to be locally funded by increasing the statewide local fund assignment.

2. Better equalization and an improved tax base for most school districts would be achieved by assigning the LFA to the county rather than to each school district. (The tax administration machinery to implement this concept already exists.) Using this approach, as much equalization as possible would be achieved at the local level.

3. Local districts, with voter approval, could levy limited additional taxes for enrichment and debt service. For districts with less than the average statewide tax base, state funds would be used to increase local revenues to a guaranteed amount for each penny of the tax rate imposed.

History adequately demonstrates that equalization can not be maintained unless some limit is imposed on the amount of enrichment funds local districts can raise. This plan would allow district voters to authorize an enrichment tax up to 10 cents that would be guaranteed by the state to produce the statewide average amount of revenue per student. This revenue source would increase as the statewide market value of taxable property grows.

Local school districts would continue to levy **debt service** taxes. Districts with below-average statewide property values would be guaranteed to receive the state average tax levy per student up to 12.9 cents - the current state average debt service rate. Poor districts now levying less than 12.9 cents (or no debt tax) could increase rates to that level for capital outlay. (This is similar to the tax now levied by Houston ISD under special legislation.)

Taxpayers in each school district would have a three-part tax:

(1) a countywide tax for the local share of the foundation program,

(2) a voter-approved enrichment tax NTE 10 cents per $100 of taxable value, and

(3) a debt service or capital outlay tax with a levy per student guaranteed for "poor" districts up to 12.9 cents.

Up front voter authorization for an enrichment or capital outlay tax could substitute for the tax rollback system now used. Debt-service taxes already are authorized by bond issue votes.

Countywide Tax. Under this model, TEA would certify the amount of the local share of the foundation school program to each county. (This procedure would be similar to that which prevailed prior to 1976 when the LFA was computed for each county and then distributed to individual districts.) The board presidents of the school districts in the county would meet once each year to receive the ag-

Majority of Exceptions

The formulas for determining the foundation program level in each school district were completely revised by HB 72. The Texas Education Agency has prepared a five page worksheet for the calculation that is so complex that it makes the federal income tax forms appear simple. Built into the formulas are a number of irrational quirks.

While students are counted every day, and in every class, to enforce the 22:1 pupil-teacher ratio in grades K through 4, they are counted in only the second class period for four weeks to allocate $5 billion of state aid. Students in special programs are counted more than once (1.45 times for vocational, 2 to 10 times for special education, 1.043 for gifted, 1.2 for compensatory, and 1.1 for bilingual students).

Additionally, a basic allotment is determined by the Accountable Cost Committee using expenditures for **both** the foundation program and local enrichment, but it is applied only to the foundation program. A price differential index (PDI) is applied to 76% of the basic allotment. This is not so much a price **index** as it is a save-harmless provision which allocates more to districts with high costs (i.e.,high salaries).

While 8 or 10 sparse districts have vast areas with few students and need special aid, the formulas used for this purpose are also extended to other small-enrollment districts. School districts with 12 grades, but with less than 130 students, are funded as though they had 130 students.

These formulas make the foundation program level highly dependent on school size (see chart below). When plotted by district wealth, the foundation program per student exhibits little uniformity. The funding model outlined in this article deals only with equity among rich and poor districts. **Greater uniformity between large and small districts would require changing the foundation formulas.**

Foundation Program per Student By Size of District
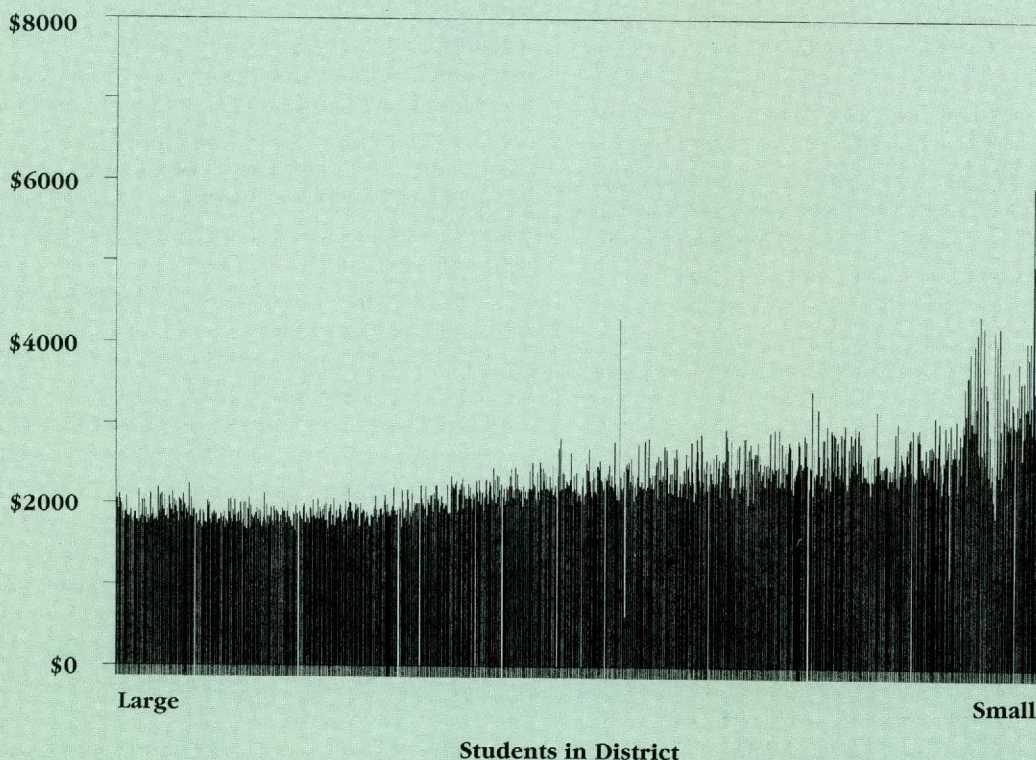
gregate taxable value from the central appraisal district and to make the calculations necessary to certify a countywide tax rate necessary to raise the LFA. Tax funds would be distributed per capita to each district. (Districts in two or more counties would receive per capita funds for the students residing in each county.)

State aid to each school district would be the difference between the enlarged foundation program level for that district and the countywide tax levy. In addition, state aid would be used to fund the guaranteed yield for the optional enrichment tax and for the debt service or capital outlay levy.

As much equalization as possible would be achieved at the local level using this approach. In counties with both rich and poor districts, somewhat higher local school taxes than now could be imposed on property in the rich districts to help equalize educational resources in the poor districts.

Many people live in one district, but work, or own property, or shop in another. The school tax is levied not only on their residences, but also upon the workplace and the shopping centers they use. Retention of neighborhood schools in many areas depends upon strengthening the local tax base, and moving to a countywide level for school taxes is one approach to accomplish that result.

Enrichment. The right of local citizens to pay extra taxes, if they choose, to have higher quality school programs ("enrichment") is an ingrained concept in the Texas school finance system. The poor districts did not oppose the idea in the *Edgewood* case; instead they wanted the ability to participate. They contended that their low tax base precludes the levy of additional taxes for enrichment comparable to that achieved in more affluent districts.

This model would permit enrichment of about 10% (a 10 cent tax rate), and the state would guarantee that the revenue yield would be as much per student as the statewide average (currently, $20.90, but the amount would grow as the state average increases). This model assumes that the enrichment tax levy by individual districts would be presented periodically to the voters for approval.

Debt Service/Capital Outlay. The major problem in most "poor" districts is the high tax rate that must be levied on a small tax base to pay bond interest and principal. Debt service rates are as high as $1.00 per $100 of taxable values, leaving little, if any, room for additional taxes for enrichment.

The guarantee of the per student yield for debt service would provide the relief perhaps most needed by poor districts. For example,

- Progresso ISD (Hidalgo County) could fund the $187 per student spent for debt service with an 8.9 cent tax rate rather than the 68.8 cent rate now levied;
- Edcouch-Elsa (Hidalgo County) ISD's 58.1 cent debt service rate would drop to 6 cents; and
- Fabens ISD (El Paso County) would have an 8.8 cent rate, down from 51.2 cents.

Some of the most difficult decisions faced by local school boards are those involving new facility location, closing existing buildings, portable classroom use, and student busing. While state help is needed in financing facilities in poor districts, it would be a mistake for a state agency to replace the local school board in making these decisions. Legislators, among others, might question whether or not public funds were expended wisely; but, if local voters approve a property tax levy on themselves, the state could guarantee the levy yield without approving each nut and bolt in the proposed expenditure.

IMPACT ON LOCAL SCHOOL DISTRICTS

This zero-sum plan moves toward equalization by redistributing the current $4.8 billion of state aid and the $5.2 billion of local school property taxes; **neither revenue source would have to be increased.** The present $700 average per student for enrichment (funded by property taxes) would be added to, and equalized through, the foundation program. The present equalization aid program would no longer be needed, and those state funds would help fund the enrichment and debt-service guaranteed yields.
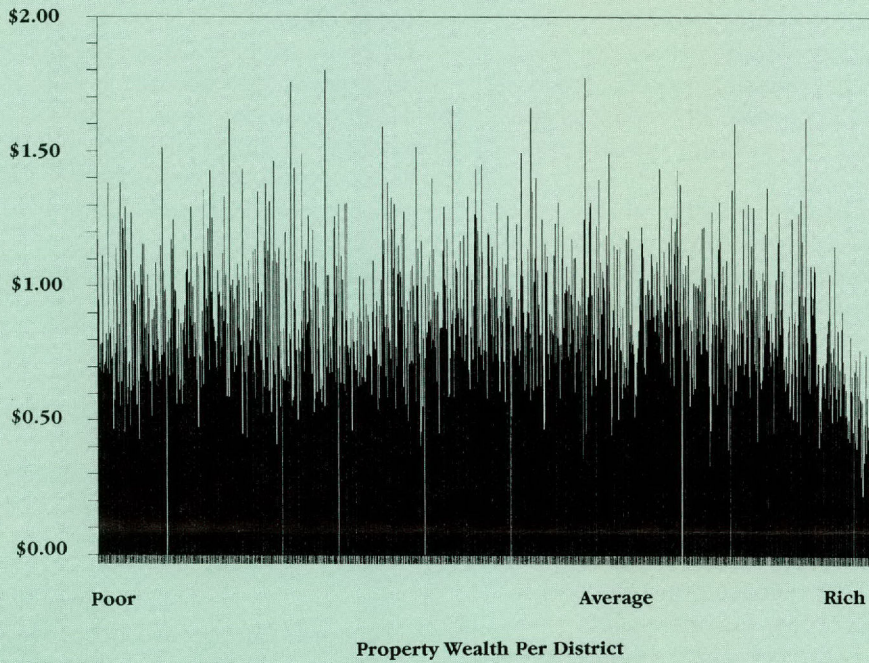
Some districts with low rates would be forced to increase school taxes.

- In Pecos County, for example, the 18.2 cent rate in Iraan-Shieffield ISD would increase to 26.8 cents with the tax on countywide values; the increased revenue would be used to cut the rate in Fort Stockton ISD from 88 to 35.8 cents.
- In Dallas County, the 50.3 cent rate in Highland Park ISD would increase to 69.1 cents. The additional funds would be redistributed to Lancaster or Wilmer Hutchins ISDs. Not only would those latter two districts receive additional money, but the current tax rates which exceed $1 would be cut to 87.7 cents.
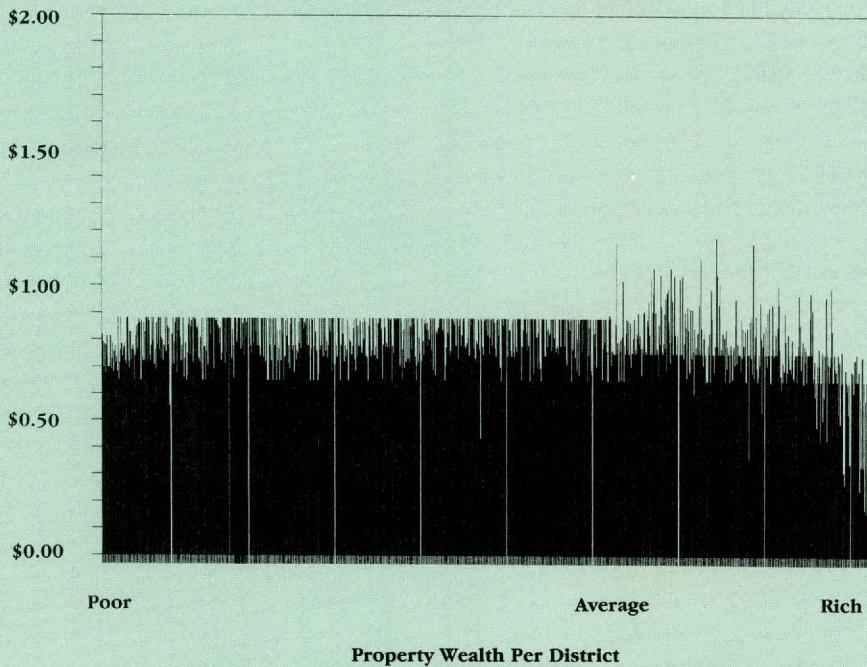
Chart 3 **(before)** plots the widely varying 1987-88

Chart 3
School Tax Rates -- Before

Poor · Average · Rich

Property Wealth Per District

School Tax Rates -- After

Poor · Average · Rich

Property Wealth Per District

tax rates for all 1,057 school districts, from the poorest to the richest, and the changed tax rates (after) under the proposed plan. The leveling effect on tax burdens is readily apparent.

The countywide tax rate would be set at an amount necessary to raise the local share of the foundation program established by the legislature. For districts already levying rates higher than the level required (64.8 cents was used in this model), it is assumed that voters would authorize all or part of the optional 10 cent enrichment tax if needed to retain present revenue levels.

The peaks on the right side of the after chart reflect high **debt service** tax rates currently levied by some districts with above-average wealth, obligations that must be honored under any plan. The low rates for some of the wealthiest districts indicate a countywide tax base greater than that needed to match their LFA with a 64.8 cent tax rate; recapture of the excess is not proposed.

Chart 4 shows state and local revenue per student in 1987-88 (before) and the leveling effect achieved under the proposed plan (after). Any plan designed to equalize educational fiscal resources will reduce tax funds for the wealthiest districts, and give additional resources to the property-poor districts.

- The 247 districts with per-student wealth less than half the state average would have additional state-local tax resources.
- Three-fifths of the districts with two-thirds of the students (636 districts, 2.1 million students) would receive additional state-local resources, **and almost all of these would have lower property tax rates.**
- With voter approval, more than 100 other districts would have leeway to maintain their current level of fiscal resources.

Among the 50 largest districts, 29 would have more state-local tax resources under this plan. Among the other 21, six would be eligible for additional funds with voter approval, while 15 districts would get less.

Kleberg County, with two of the wealthiest districts in the state (Laureless and Santa Gertrudis) has below average wealth when measured on a countywide basis. Within that county:

- Kingsville ISD would have additional funds at a lower tax rate under this plan.
- The $1.31 tax rate in Ricardo ISD would be cut to 87.7 cents.
- The present $19,891 revenue per student in

Laureless ISD would be reduced to $5,737 -- an amount still far above average. Their 33.8 cent tax rate would be increased to 64.8 cents. Even with the limits imposed, Laureless taxpayers could vote to add $13,000 more revenue per student with still higher taxes based on the 10 cent enrichment limit.

Of 24 districts in Cameron and Hidalgo Counties, all but two would get more state-local school funds; in 16 of these districts, tax rates would be lowered. Taxpayers in all 24 districts still would have leeway to increase school resources if they were willing to impose the full 10 cent enrichment tax or the full 12.9 cent facilities tax.

PROPERTY TAX RELIEF

Over the years, the Texas legislature has tried numerous ways to reduce school districts' dependence on property taxes, all without success. Even reductions in the LFA have had just the opposite effect as local school officials raised taxes to sustain or increase enrichment levels.

Limiting enrichment would enable the legislature to reduce property taxes by appropriating additional state aid. By the same token, legislative action to increase the foundation program without commensurate state aid would automatically force districts to raise property taxes.

Chart 4
State-Local Tax Revenue per Student 1987-88 -- Before

Property Wealth Per District
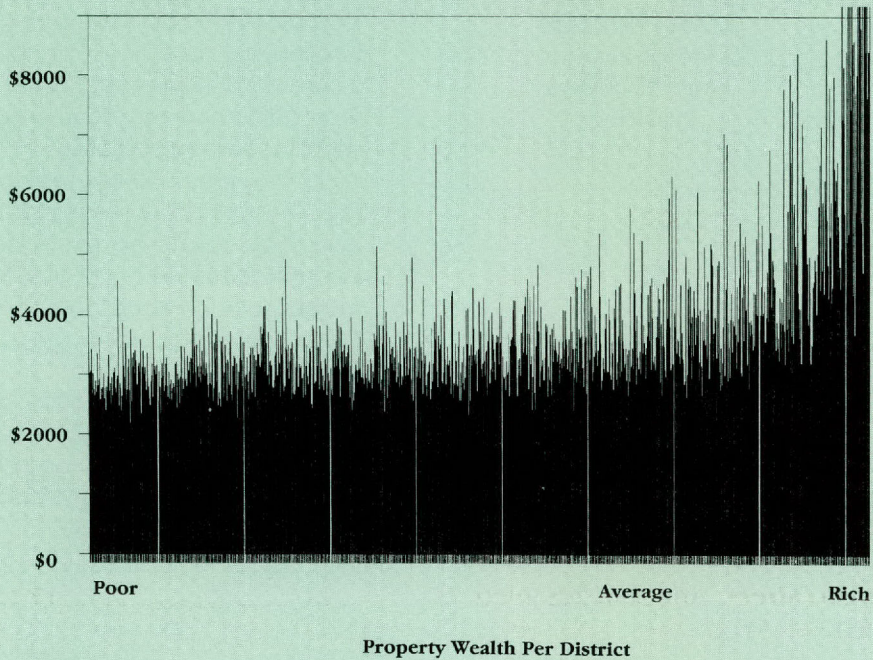
State-Local Tax Revenue per Student -- After
Countywide Local Share, Optional Enrichment, Debt Service
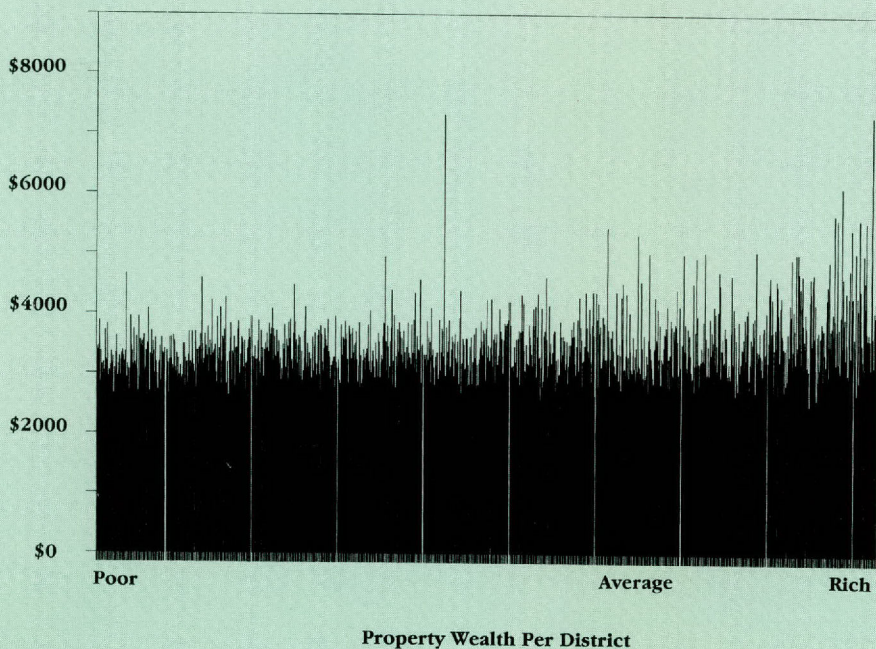
Property Wealth Per District

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