

$4 \times 5 = 20$

SPRING BRANCH INDEPENDENT SCHOOL DISTRICT

SCHOOL FINANCE

ADVOCACY TEAM

Wednesday, Oct. 26 - MEETING 2

SCHOOL FINANCE

ADVOCACY TEAM

WELCOME

Jennifer Blaine, Ed.D.

SBISD Superintendent of Schools

SPRING BRANCH INDEPENDENT SCHOOL DISTRICT

**TURN AND
TALK**

SPRING BRANCH INDEPENDENT SCHOOL DISTRICT

School Finance Advocacy Team

October 26, 2022



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TEXAS CONSTITUTION

“A general diffusion of knowledge being essential to the preservation of the liberties and rights of the people, it shall be the duty of the Legislature of the State to establish and make suitable provision for the support and maintenance of an efficient system of public free schools.”

Article 7, Section 1

TEXAS CONSTITUTION

Sources of Funding for Public Schools

- Available School Fund
- General Revenue
- Legislature may authorize local ad valorem property tax “within all school districts for the further maintenance of public free schools, and for the erection and equipment of school buildings therein” if authorized by local voters

Article 7, Section 3

TEXAS CONSTITUTION

“No State ad valorem taxes shall be levied upon any property within this State.”

Article 8, Section 1-e

STATE POLICY FOR SCHOOL FINANCE

- “Substantially financed through state revenue sources”
- Student access to programs and services appropriate to student’s educational needs
- Student programs and services substantially equal to those available to similar students in other school districts

Texas Education Code, Section 48.001(a)

STATE POLICY FOR SCHOOL FINANCE

- “...substantially equal access to similar revenue per student at similar tax effort, considering all state and local revenues of districts...”
- Account for legitimate student and district cost differences

Texas Education Code, Section 48.001(b)

STATE SCHOOL FINANCE LITIGATION

The 1930s

- Love v. City of Dallas, 40 S.W.2d 20 (Tex. 1931)
A school district may not be required by the State to use local tax revenues to educate students who reside outside of its boundaries
- Mumme v. Marrs, 40 S.W.2d 31 (Tex. 1931)
Legislature may appropriate general revenue and distribute to districts on basis of factors such as district size and wealth; distribution doesn't have to be equal per student

STATE SCHOOL FINANCE LITIGATION

Federal Lawsuits Under 14th Amendment

San Antonio Independent School District v. Rodriguez, 411 U.S. 1, 93 S. Ct. 1278 (1973)

- Wealth of districts and individuals is not a suspect classification, education is not a fundamental right

STATE SCHOOL FINANCE LITIGATION

The Edgewood ISD Challenges

Edgewood Independent School District v. Kirby,
777 S.W.2d 391 (Tex. 1989) (Edgewood I)

- System is not “efficient” and does not cover cost of state-mandated requirements, nor facilities or debt
- Article 7, Section 1 requires substantially equal access to revenue at similar tax rates

STATE SCHOOL FINANCE LITIGATION

The Edgewood ISD Challenges

Edgewood Independent School District v. Kirby,
804 S.W.2d 491 (Tex. 1991) (Edgewood II)

- Wealthier districts may not be exempted from equalized system; even if State increases funding for poorer districts, it is not “efficient” to have excess property wealth in some districts
- Some amount of unequalized local enrichment is permissible

STATE SCHOOL FINANCE LITIGATION

The Edgewood ISD Challenges

Carrollton-Farmers Branch Independent School District, 826 S.W.2d 489 (Tex. 1992) (Edgewood III)

County education district system violated Article 7, Section 3 and Article 8, Section 1-e because the State set the county tax rate and voters did not authorize the tax

STATE SCHOOL FINANCE LITIGATION

The Edgewood ISD Challenges

Edgewood Independent School District v. Meno,
917 S.W.2d 717 (Tex. 1995) (Edgewood IV)

- System meets Texas Constitution requirements
- Recapture is permissible because local voters authorized it

STATE SCHOOL FINANCE LITIGATION

State Property Tax Challenge

Neeley v. West Orange-Cove Consolidated Independent School District, 176 S.W.3d 746
(Tex. 2005)

- System violates Article 8, Section 1-e because it has evolved into a State property tax
- Districts must have discretion to provide local supplementation beyond State requirements

STATE SCHOOL FINANCE LITIGATION

Adequacy, Equity, State Property Tax

Morath v. Texas Taxpayer and Student Fairness Coalition, 490 S.W.3d 826 (Tex. 2016)

- System meets Texas Constitution requirements
- System is “byzantine” and Legislative action is needed

**TURN AND
TALK**

TEXAS TAX REVENUE

2020	\$57.380B
Sales	\$34.084B
Motor Vehicle Sales/Rentals	\$4.820B
Franchise	\$4.418B
Motor Fuel	\$3.500B
Oil Production	\$3.213B
Insurance	\$2.754B
Recaptured Property Taxes	\$2.568B
Lottery (Net)	\$1.761B
Cigarette/Tobacco	\$1.320B
Alcohol	\$1.148B

Source: Texas Comptroller, January 2021

STATE FOUNDATION SCHOOL PROGRAM

Key Drivers of Funding

- Students
 - Average Daily Attendance
 - Weighted Average Daily Attendance
- District Characteristics
 - Small/Sparse
 - Fast Growth
- Property Values
- Tax Effort

STATE FOUNDATION SCHOOL PROGRAM

FSP Funding is Shared Support by State
and Local Taxpayers

BUT

Local Funding is Counted First

As Local Property Values and Local Share
Increase, State Share Automatically Decreases

TEXAS STATE FUNDING TRENDS

STATE/LOCAL SHARES

FSP (Both M&O and Facilities)

	<u>STATE</u>	<u>LOCAL</u>
2008	46.2%	53.8%
2018	39.8%	60.2%
2019	36.9%	63.1%
2020	40.8%	59.2%
2021	40.1%	59.9%

Increase In Recapture

AGENCIES OF EDUCATION

FIGURE 160
RECAPTURE REVENUE, FISCAL YEARS 2014 TO 2023

YEAR	TOTAL RECAPTURE PAID (IN MILLIONS)	RECAPTURE AS A PERCENTAGE OF TOTAL M&O REVENUE	DISTRICTS PAYING RECAPTURE	PERCENTAGE OF TOTAL ADA
2014	\$1,212.8	3.2%	226	12.3%
2015	\$1,492.6	3.8%	241	14.1%
2016	\$1,587.5	3.9%	231	14.7%
2017	\$1,721.9	4.1%	234	16.7%
2018	\$2,105.7	4.6%	185	18.3%
2019	\$2,848.1	6.0%	220	27.2%
2020	\$2,443.1	4.9%	149	20.2%
2021	\$2,560.1	5.4%	163	19.9%
2022	\$2,636.3	5.1%	217	23.0%
2023	\$3,015.5	5.7%	241	27.1%

NOTES:

- (1) Amounts shown for fiscal years 2021 to 2023 are estimated.
- (2) M&O=maintenance and operations; ADA=average daily attendance.
- (3) Data show Tier 1 and Tier 2 recapture. For fiscal year 2022, 143 districts are anticipated to pay recapture at the Tier 1 level, some of which also pay Tier 2 recapture; and 74 districts are anticipated to pay recapture **only** at the Tier 2 level. For fiscal year 2023, these amounts are projected to be 157 and 84, respectively.

SOURCES: Texas Education Agency; Legislative Budget Board.

STATE FOUNDATION SCHOOL PROGRAM

Role of Property Values

As a district's property values per WADA increase, local share of FSP increases and State share decreases

If a district's local share becomes larger than its FSP entitlement, the excess revenue is paid to the State – that's Recapture

STATE FOUNDATION SCHOOL PROGRAM

Local Option Homestead Exemption (LOHE)

A school district may exempt from taxation up to 20% of the value of a residence homestead

Texas Tax Code, Section 11.13(n)

STATE FOUNDATION SCHOOL PROGRAM

Local Option Homestead Exemption (LOHE)

- State does not directly recognize the LOHE; the State “sees” this property value as still being on the tax rolls; thus the State “sees” districts with LOHE as having higher property value per WADA than they actually have.
- From 2017-2019, TEA by rule recognized ½ of the LOHE, which saved Spring Branch ISD about \$45M

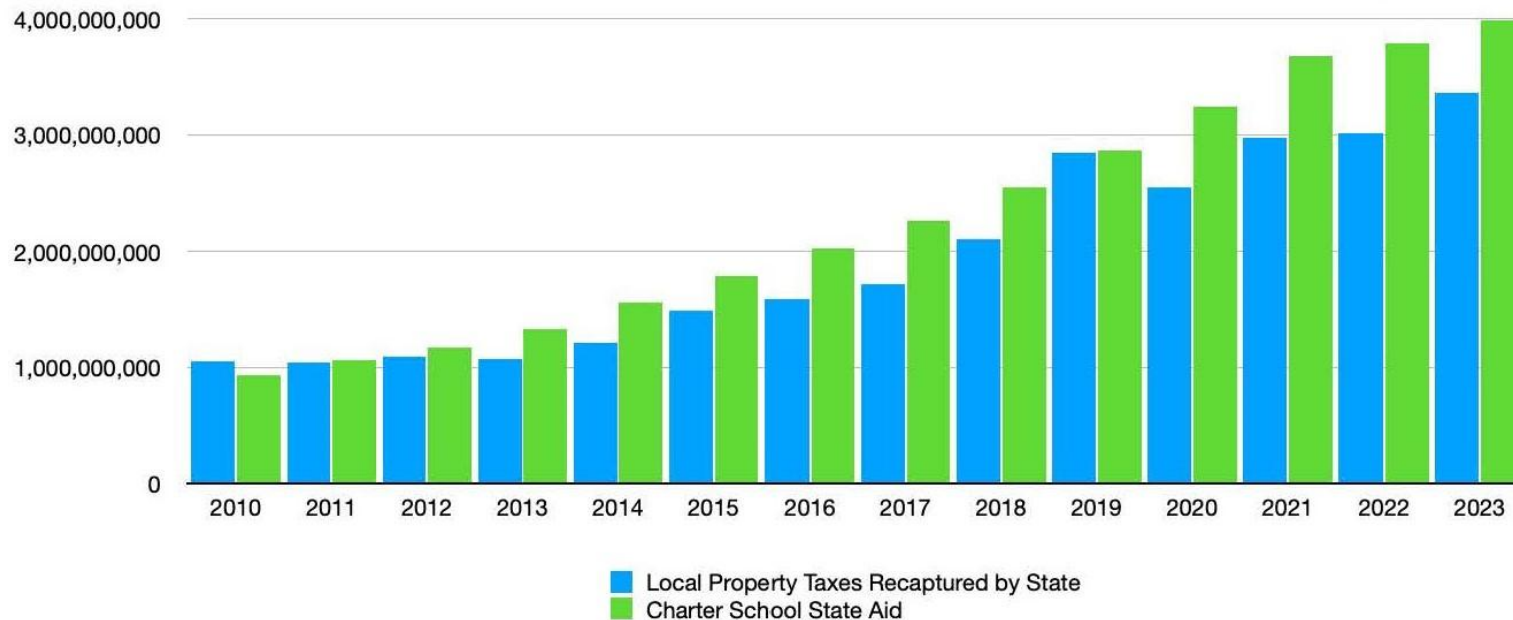
STATE FOUNDATION SCHOOL PROGRAM

Local Option Homestead Exemption (LOHE)

- Under HB3 hold harmless in 2019, SBISD is protected partially for granting homeowners a LOHE
- In FSP Tier II, LOHE still is costing SBISD about \$4M

Charter Funding and Recapture

Charter School State Aid has Risen at a Rate Similar to Increase in State Recapture of Local Property Taxes



Charter Funding and Recapture

Table 1

	Local Property Taxes Recaptured by State	Charter School State Aid
2010	1,051,200,000	937,190,104
2011	1,045,300,000	1,057,837,974
2012	1,089,800,000	1,172,111,592
2013	1,069,300,000	1,327,051,200
2014	1,212,800,000	1,561,309,645
2015	1,492,600,000	1,793,200,000
2016	1,587,500,000	2,030,900,000
2017	1,721,900,000	2,265,000,000
2018	2,105,700,000	2,553,600,000
2019	2,848,100,000	2,858,873,871
2020	2,557,802,934	3,236,594,340
2021	2,969,112,338	3,680,724,619
2022	3,011,842,812	3,786,299,761
2023	3,364,470,427	3,986,385,721

STATE FOUNDATION SCHOOL PROGRAM

Options for 88th Legislature to Increase Revenue and/or Reduce Recapture

- Increase Basic Allotment
 - Each \$100 increase saves SBISD \$4.1M in recapture and increases revenue by \$450,000 from State
- Fully recognize LOHE
- Credit on recapture for early payment
- Other.....

PUBLIC EDUCATION IN THE FUTURE

“Everything is going to be fine in the end.
If it’s not fine yet, its not the end.

Oscar Wilde

THANK YOU!

David Thompson, Partner

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ENGAGEMENT ACTIVITY

SCHOOL FINANCE

ADVOCACY TEAM

MEETING DATES


~~**Wednesday, October 19**~~
~~**Wednesday, October 26**~~
Wednesday, November 2
Wednesday, November 16

SPRING BRANCH INDEPENDENT SCHOOL DISTRICT

Meeting 3

Start Time Survey





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Wednesday, Oct. 26 - MEETING 2