House Committee on Public Education

Honorable Dan Huberty, Chairman

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Testimony on the Report of the Texas Commission on Public School Finance

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Dale Craymer

President, Texas Taxpayers and Research Association

TEXAS TAXPAYERS
TTARA
AND RESEARCH ASSOCIATION

Mr. Chairman and members, thank you very much for the opportunity to be here this afternoon. Chairman Huberty, Vice Chairman Bernal, and Representative King, I particularly want to thank you for the hard work you put in during the interim serving on the Texas Commission on Public School Finance.

My name is Dale Craymer. I'm the President of the Texas Taxpayers and Research Association. For those of you not familiar with us, TTARA is a nonprofit membership organization that focuses on state fiscal policy, and particularly taxes and school finance. Our members include many of the state's largest employers, hiring graduates of our public school system. Obviously we want a public school system that produces educated students on a path to participating in our modern economy. At the same time we are the primary funders of Texas public schools. Business pays approximately 3/5 of the local property tax that schools levy and 62% of all state taxes used to finance the state's share of formula costs.

Leadership has identified two priorities for public school finance the session: enhancing our public schools and easing the burden of local school taxes. It is a daunting task for the legislature as these priorities can be in conflict and the task of balancing them is a delicate one.

For example, one could provide public schools much greater flexibility in generating local enrichment dollars by lifting the election requirement for tax rates above $1.04; however, that also

<u>Summary</u>

TTARA supports 3 options for achieving lower school tax rates <u>uniformly across the state</u>:

- Compressing school tax rates for maintenance and operations as property values grow;
- Compressing school M&O tax rates using growth above 2.5%; or
- Using additional recapture revenue gains to the state to compress school M&O rates.

TTARA supports the recommendations of the school finance commission:

- For high school graduates to be ready to go to college, enter the workforce, or join the military,
- Repealing outdated formula components to implement new allotments and weights in order to improve student achievement; and
- Increasing the basic allotment and recapture threshold to provide discretionary spending for all school districts.

TTARA supports retaining a mandatory election for school district M&O taxes to increase above a set tax rate.

TTARA supports including more detailed analysis in the LBB's fiscal notes that shows baseline costs for current Foundation School Program formulas:

- State aid from general revenue sources
- Recaptured property taxes
- Non-recaptured property taxes

TTARA opposes local option sales taxes for schools.

makes it easier to raise local property taxes which eventually will cost taxpayers more.

As a taxpayer group we think the school system should be constitutionally efficient so that districts can generate similar revenue at similar tax effort. But we also believe it should be financially efficient—producing qualified graduates at the lowest possible cost.

TTARA has supported many of the school finance changes over the last several decades that have resulted in a largely equalized system of finance. We have done that in spite of the fact that equalization, particularly as it relates to recapture, has led to dramatic tax increases in school districts in which our members comprise the largest portion of the tax base.

While politically unpopular and expensive for taxpayers, recapture is constitutionally-required as long as we rely on the property tax to finance a substantial portion of our school finance program. In truth, though, the alternative could be even more expensive. Without recapture if the state were to equalize school funding at the level of our property wealthiest district it would require an increase in annual funding of roughly $600 billion at current tax rates-roughly a fourfold increase in the entire state budget.

We strongly support maintaining the current level of equity in our system, though we must note that equity does have a dark side. Property wealthier districts receive less state aid than property poor districts, and many of those “wealthy” districts are subject to recapture. That system works well as a snapshot at any given point in time. The problem arises when that snapshot becomes a moving picture. Through normal economic growth, property values rise—even in many of our poorest districts. State formulas see those districts as wealthier than the previous year, allowing the state to reduce its share of funding to the district. Such a system over time places a greater and greater reliance on the property tax to finance our schools.

If current trends were to continue, within 12 or so years, the state may be able to fully fund its portion of the Foundation School Program solely through recapture payments of local school property taxes, and without any draw on general revenue funds.

School Finance and Fiscal Notes. We have three suggestions as to how the state can address this problem. All of these will show a substantial fiscal note. But it is important to remember school finance fiscal notes are NOT an estimate of how much money you have to “come up with.” As we just stated, as property values rise the school finance system reduces what the state has to spend. For example, had the House not added additional funds in the proposed budget, the legislature could appropriate $1.7 billion less for public education and fully meet the state’s formula obligation.

If a bill were introduced that simply froze state school M&O spending at current levels, the fiscal note would show an additional cost to the state of $1.7 billion. That doesn’t mean the state has to come up with an extra $1.7 million; it simply has to forego an additional $1.7 billion revenue gain it could spend elsewhere.

If we could make one administrative suggestion to the committee, it would be to improve the quality of information on fiscal notes making changes to current formulas. In addition to the change in amounts that are shown today, a fiscal note should also include the baseline numbers to which those changes apply—specifically the three component sources of revenue for the current formulas—1) state general revenue, 2) non-recaptured property tax, and 3) recaptured property tax. This would allow legislators and the public to better assess the bill's direct impact on the state's share and on current spending.

Additional School Funding. While as a taxpayer group, my comments will predominately address property taxes, I want to make it clear that TTARA supports providing additional net funds from state sources to increase spending on public schools. Texas businesses require a well-educated workforce in order to remain competitive.

- We support the recommendations of the school finance commission to help school districts increase the number of students that graduate from high school ready to go to college, enter the workforce, or join the military.
- We support repealing outdated components of the school finance formulas and using that revenue to implement new allotments and weights that will ultimately improve student achievement.
- We support an increase in the basic allotment and recapture threshold coupled with the targeted allotments to provide discretionary spending for school districts and to reduce recapture.

We do, however, believe that any change in funding should also show an impact on performance measures so it is understood that the additional funding is intended to improve outcomes.

Compressing Tax Rates. We also believe that some portion of additional state funds set aside for schools be used to address rising property taxes. Based on the value estimates used in the appropriations bill, school property taxes for maintenance and operations in 2020 and 2021 are assumed to increase by a combined $4.5 billion over 2019 collections. we caution you to be careful in the terminology used to describe any property tax relief measure. Unless you devote more than $4.5 billion, school M&O tax increases will only be slowed. Tax "relief" would be relief against future tax bills, not relief from the ones we currently pay. That would be a tremendous legislative achievement, which we in no way discount, but it would not be a tax cut.

The compression percentage was put into law as a part of the 2006 school finance reforms. School tax rates for maintenance and operations—then near $1.50, were reduced by one-third by multiplying a district's tax rate by a compression percentage of 66.67 percent, a calculation that is still in current law.

The most appropriate way we would suggest to provide tax relief is to reduce M&O tax rates statewide through the compression percentage. This would lower tax rates while preserving equity in the system. This approach would not benefit one set of districts at the expense of another. Such an approach would also reduce recapture by reducing the tax rates by which recapture is calculated. We have three proposals as to how this could be accomplished, ranked from the highest cost to the state to the lowest.

1. Use increases in property values to proportionately reduce the compression percentage. For example, in 2020, the budget assumes 6.19 percent growth in property values. We would suggest the compression percentage be reduced by that 6.19 percent—a change that would reduce average school M&O tax rates by 6 cents. Additional state aid would offset the foregone property tax revenue so that school districts are held harmless. School M&O taxes would effectively be held stable.
2. Use the increases in property values above the Governor's proposed 2.5% to reduce the compression percentage. Again, additional state aid would be used to hold districts harmless from the loss of revenue. In 2020, this would reduce school tax rates by about 3.5 cents.
3. Use the dollar increases in recapture to reduce the compression percentage. For example, in 2020, the state is expected to benefit from $3.1 billion in recapture payments—an increase of $1.4 billion from 2019. This $1.4 billion could be used to reduce the compression percentage and provide an across-the-board tax rate cut of 1.4 cents. The rate cut would increase over time as recapture increased. This would not eliminate recapture, but it would shift the beneficiary of recapture from the state to local taxpayers. Districts could not complain that the state was using recapture to fund non-education programs; instead the benefits of recapture would accrue to local taxpayers.

Rollback Tax Elections. In closing we would state that TTARA believes the current rollback structure should be preserved. This requires mandatory elections for districts to exceed a specified tax rate (currently $1.04 for most districts). This threshold has achieved substantial fiscal restraint since it was implemented in the 2007 tax year. In 2007, the average tax rate for maintenance and operations was $1.00. Ten years later that average rate is now $1.10—an average annual increase statewide in the rate of less than 1% per year. If the rollback system was changed, and school boards were allowed to increase rates by 2.5% per year without voter approval, tax rates would increase rapidly—even if the $1.17 hard rate cap was preserved. If every school district that is currently below the $1.17 maximum took advantage of such a provision, all school districts could be at a $1.17 tax rate by 2024.

Local Option Sales Tax for Schools. We do not believe that a local option sales tax is an appropriate method for financing public schools. Sales tax bases are as diverse across the state as is the property tax base. Creating a local option sales tax could require substantial infusion of equalization aid from the state to alleviate revenue disparities. Plus, the allowance of additional local option sales taxes adds to an already complex system of disparate local sales tax rates across the state under which Texas businesses and consumers already live. Further, Texas already has the 12th highest sales tax rate of any state. Additional local option taxes will only increase that burden, and make it more difficult for the state should a statewide increase be considered to balance the budget during some future time of fiscal duress.