



**Arlington**  
INDEPENDENT SCHOOL DISTRICT  
*More Than a Remarkable Education*

**Financial Futures Committee  
April 11, 2017  
6:00 pm, Mac Bernd Professional Development Center**

WELCOME .....David Wilbanks  
FFC Chairperson

TEXAS SCHOOL FINANCE SYSTEM.....Cindy Powell  
Chief Financial Officer

AISD PROPERTY VALUES & TAX RATES.....Cindy Powell

AISD LEGISLATIVE AGENDA .....Cindy Powell

MAY MEETING DATE.....David Wilbanks

CLOSING THOUGHTS.....David Wilbanks





## **Financial Futures Committee**

April 11, 2017



## **Agenda Topics**

- Texas School Finance System
- AISD Property Values & Tax Rates
- AISD Legislative Agenda



## FFC Charge

- Review external and internal data on issues relating to Texas public education, including the school finance and accountability systems and Texas bond election laws, to understand how those issues affect AISD's budget, tax rates and long-range financial planning.

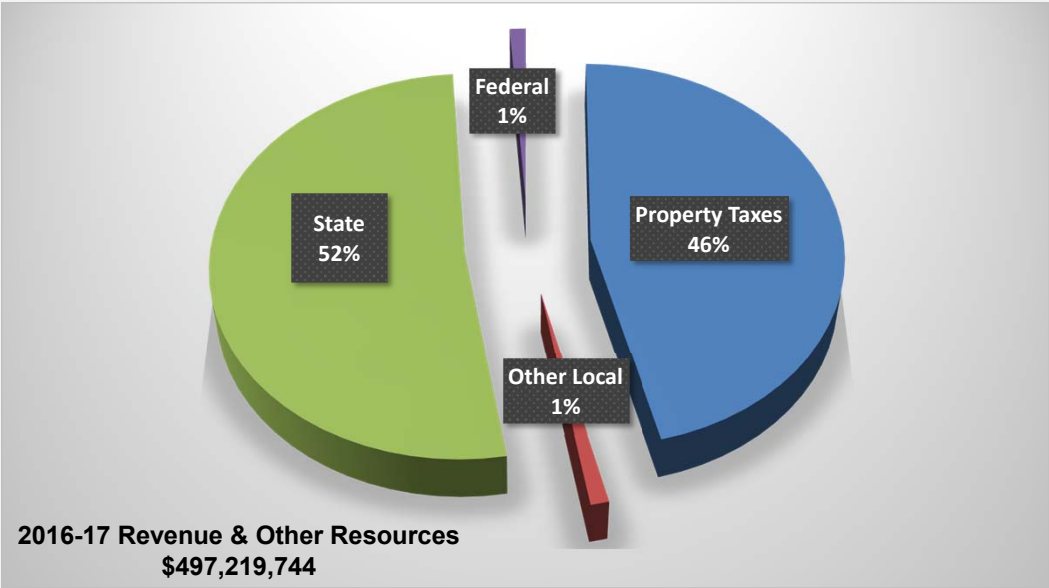


## FFC Charge

- Review data including, but not limited to, the following topics in order to assess the impact on AISD budgets and provide input, as appropriate:
  - Enrollment trends and projections
  - Property value trends and projections
  - Academic Services priorities and operational efficiency priorities presented to the Committee by the AISD administration
  - Current staffing methods in relation to state education law and current administration protocol
  - Compensation and benefits, including available salary market information, health insurance and wellness plan
  - Operating costs associated with bond projects



# Revenue & Other Resources Budget



# Texas School Finance System

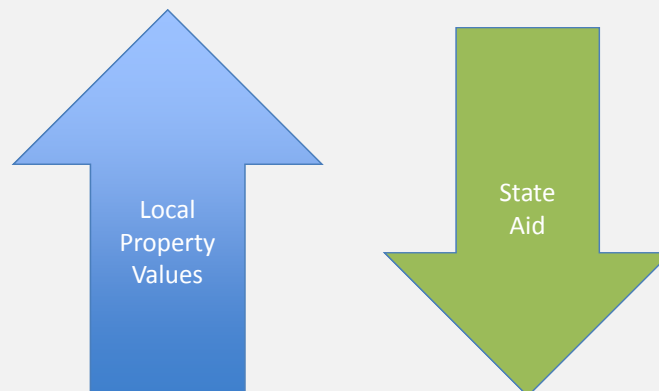


## Texas School Finance System

- Two sources of revenue for all Texas school districts
  - Property Taxes
  - State Aid
- “Shared” Funding System – in concept
- Property values help determine state aid
  - The higher your property values per student, the less state aid you receive and vice-versa
  - Inverse relationship



## Inverse Relationship





## Foundation School Program

- FSP formulas – series of formulas that use:
  - Cost of Education Index
  - Average Daily Attendance
  - Special program participation (e.g., special education, career & technology, bilingual/ESL, gifted/talented, high school allotment, state compensatory education)
  - Prior year property values
  - Current year tax rate & tax collections



## Foundation School Program

- Formulas are set in state law
- The dollars used in the formulas are determined through the state budget process
- There is no adjustment for inflation in the FSP formulas





## AISD FSP Revenue 2016-17

Tier/Allotment	Amount
<b>Tier I (program entitlements)</b>	
Regular Program Allotment	\$302,200,177
Special Ed Allotment	\$32,215,743
Career Tech Allotment	\$22,828,945
Gifted & Talented Allotment	\$1,958,590
Compensatory Education Allotment	\$50,815,151
Bilingual Education Allotment	\$8,311,605
Public Education Grant	\$0
New Instructional Facilities Allotment	\$360,646
High School Allotment	\$4,546,164
Transportation Allotment	\$3,039,335
<b>Total Tier I Allotment</b>	<b>\$426,276,356</b>
<b>Local Share (prior year prop values x \$1.00 tax rate)</b>	<b>\$(212,978,173)</b>
<b>Tier II (enrichment for tax rate &gt; \$1.00)</b>	<b>\$16,060,114</b>
<b>Other Programs</b>	<b>\$2,179,833</b>
<b>Total Foundation Program Aid</b>	<b>\$231,538,130</b>



## Tier I: Calculation of State Share

### “PROPERTY POOR” DISTRICT

Tier I Total Cost	\$426,276,356
Local Taxable Property Value	\$21,297,817,277
Local Share at \$1.00 M&O tax rate	(\$212,978,173)
State Share of Tier I	\$213,298,183

### “PROPERTY WEALTHY” DISTRICT

Tier I Total Cost	\$426,276,356
Local Taxable Property Value	\$45,000,000,000
Local Share at \$1.00 M&O tax rate	(\$450,000,000)
State Share of Tier I	\$0





## Texas School Finance System

- ***As local property values rise, the school district share of public education funding increases and the state share decreases***
  - Saves the state money
  - The burden of funding public education shifts more to local property owners as property values increase



## Tier I: Calculation of State Share

2016-17

<b>Tier I Total Cost</b>	<b>\$426,276,356</b>
Prior Year Local Taxable Property Value	\$21,297,817,277
Local Share at \$1.00 M&O tax rate	(\$212,978,173)
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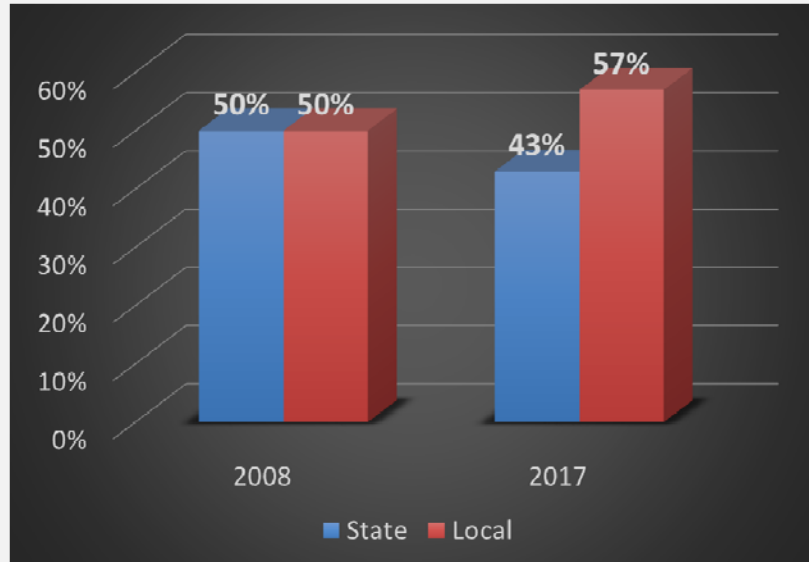
2017-18

<b>Tier I Total Cost</b>	<b>\$426,276,356</b>
Prior Year Local Taxable Property Value	\$22,043,240,882
Local Share at \$1.00 M&O tax rate	(\$220,432,409)
State Share of Tier I	\$205,843,947

As property values increase, more of the Tier 1 cost is being borne by local property owners



## State Funding Contributions



<http://www.taxparencytexas.org/>



## School Finance System

- Max M&O tax rate permitted by state law is \$1.17
- ***Any increase above \$1.04 must be approved by voters through a tax ratification election***
- 49% of districts have an M&O rate of \$1.04
- 45% of districts have an M&O rate above \$1.04

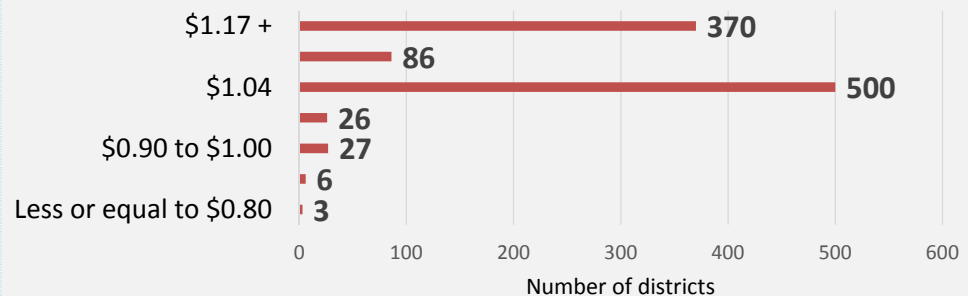
## 2016 M&O Adopted Tax Rates

M&O tax rates range from **\$0.70 cents to \$1.24** (certain Harris county districts are able to tax above \$1.17)

**500** districts have adopted a \$1.04 tax rate

**370** districts have adopted the maximum 1.17 or above

### Number of Districts at Varying M&O Tax Rates





## School Finance Lawsuit

- More than 600 school districts and one intervener sued the state over the school finance system
  - Five plaintiff groups
  - Lawsuits filed in fall 2011
- Final District Court Ruling on Aug. 28, 2014
  - School Funding System Unconstitutional:
    - Inadequate
    - Arbitrary
    - Unsuitable
    - Inequitable
    - Fails “meaningful discretion” test



## School Finance Lawsuit

- State appealed that ruling to the Texas Supreme Court
- It was widely expected that the Texas Supreme Court would rule in favor of the plaintiff school districts & require the legislature to modify the funding system.
- Texas Supreme Court ruled the school finance system ***constitutional*** on May 13, 2016



***What does all of this mean for Texas public schools?***



*Legislature has no mandate to change the funding system*



## 85<sup>th</sup> Legislative Session

- Session convened January 10, 2017
- Session ends May 29, 2017
- Length of regular session: 140 days



## State Revenues Estimate

- Revenue estimates for the 17-18 biennium are flat
  - Sales taxes
  - Oil & gas taxes
- Property values have been increasing across the state
  - As property values go up, state aid goes down
  - Results in a savings to the state
  - Shifts the funding burden to local property owners
  - State diverts the savings to fund other budget priorities



## 85<sup>th</sup> Texas Legislature

- The anticipated increase in property values over the upcoming biennium will save the state an estimated **\$3.5 billion** under the current school finance formulas.
- After covering the cost of enrollment growth, required increases in other parts of the finance system, and a new way of calculating recapture for wealthy districts, the state will have approximately **\$1.5 billion** more revenue due to rising property values and higher recapture.



## 85<sup>th</sup> Texas Legislature

- Absent legislative action to increase the basic allotment, it is likely that the legislature will use savings from rising property values to fund budget priorities outside of public education.
- Indications are that there is no appetite and no surplus new revenue to deal with school finance in this legislative session.
- Most people don't realize that as their property taxes go up, that money is being diverted by the legislature to other parts of the state budget.



## Advocacy Efforts

- Largest school advocacy groups (TASB, TASA, Equity Center & Texas School Alliance) are advocating for three basic principles:
  1. Any savings that the state recognizes from rising property values should remain in public education
    - *Public education funds should stay with public education*
  2. The savings should be applied to the basic allotment element of the school finance formulas
    - *Helps all school districts*
    - *Transparent*
  3. Appoint a committee to examine school finance in the interim & recommend a new school finance system



## Budget & School Finance Legislation

- House & Senate budgets take different approaches to school finance
  - **Senate Budget:** no new funding
  - **House Budget:** includes \$1.47 billion in new money for public education
    - Addtl. funds contingent upon passing school finance reform bill (HB 21)
- Budget bills have passed both chambers
  - Now go to conference committee to work out differences
- HB 21
  - School finance reform
  - AISD would recognize \$8 million additional revenue





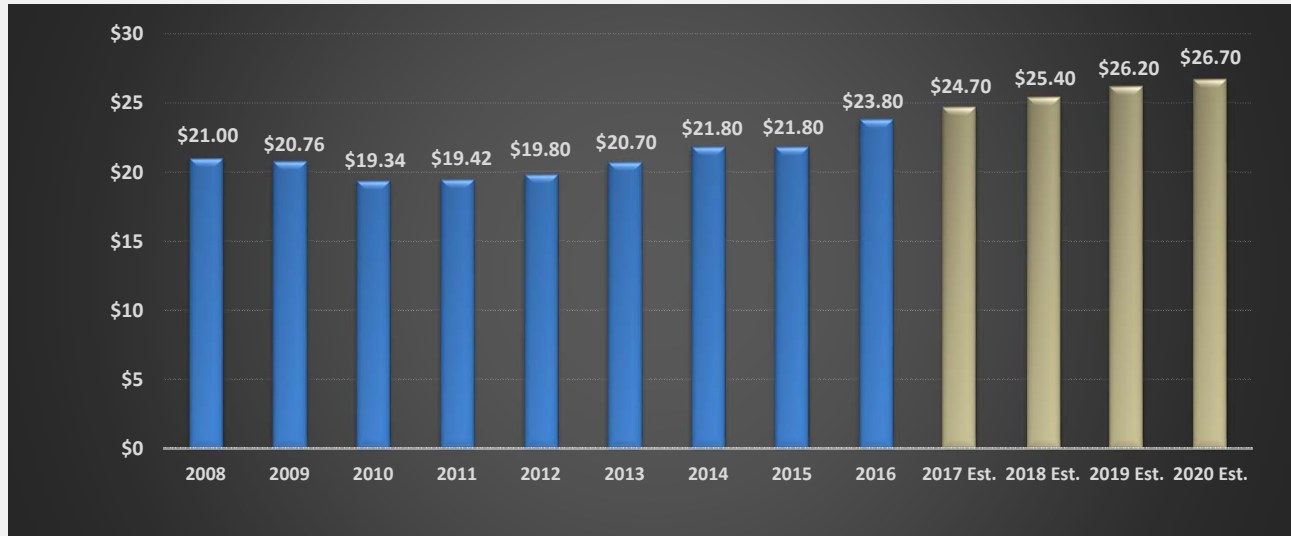
## **Budget & School Finance Legislation**

- SB 3
  - Voucher Bill
  - Would Create Two Programs:
    - Education Savings Account program for qualified educational expenses
    - Tax-credit scholarships
  - Both programs would divert state funds to private schools
  - SB 3 has passed the Senate & been sent to the House
  - House amended its budget bill to prohibit use of state funds for vouchers
- HB 21 and SB 3 will be major points of contention in the budget conference committee



## ***Property Values & Tax Rates***

## AISD Property Values (in billions)



Source: Tarrant Appraisal District  
Valuation Date: July 25

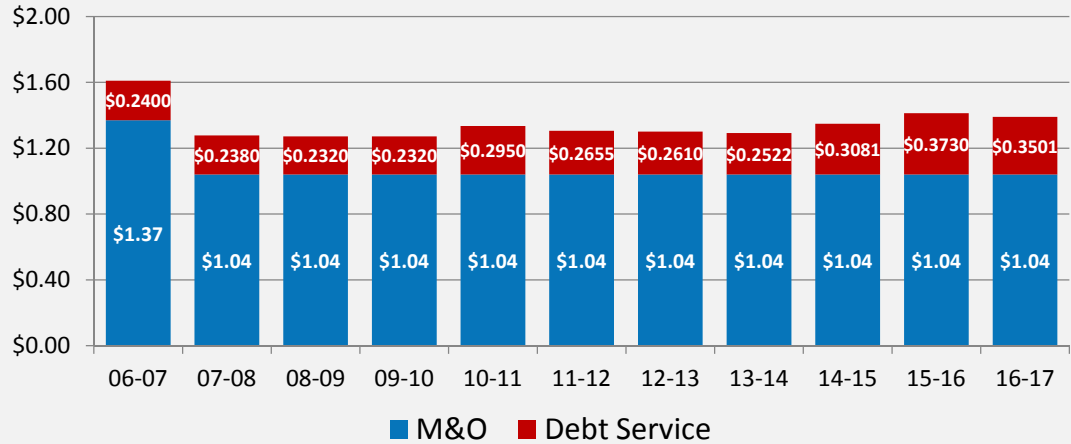


## 2016 Tax Rate

Tax	Rate
Maintenance & Operations	\$1.040000
Debt Service	<u>\$0.35008</u>
<b>Total Tax Rate</b>	<b>\$1.39008</b>



## Tax Rate History



Change since 2006-07: - 21.99 cents (or -13.7%)



## Key Points

### Property Values

- Modest growth anticipated over next four years

### M&O Tax Rate

- Constitutional limit is \$1.17
- Any increase above \$1.04 must be approved by voters
- AISD M&O tax rate is \$1.04

### State Aid

- As property values increase, state aid decreases
- Formulas include no provision for inflation
- Major overhaul of school finance system is unlikely



## ***AISD 2017 Legislative Agenda***



### **AISD Advocacy Efforts**

- Board approved a legislative agenda
- Memberships in Texas School Alliance, Equity Center, TASA and TASB
- Board Governance Committee actively engages in legislative process
  - 50 testimony letters filed to date
  - Met with AISD Senators individually early in session to explain AISD's Legislative Agenda
- Legislative consulting firms
- Tarrant County to Austin Trip



## 2017 Legislative Agenda Objectives

- Local Control
- Relevant Instructional Programs that Reflect and Complement the Provisions of HB 5 (83<sup>rd</sup> Legislative Session)
- Suitable Funding and Relief from Unfunded Mandates



## 2017 Legislative Agenda

1. Academic Accountability
2. School Finance
  - Student Achievement
  - Qualified Education Workforce
  - Local Control
3. School Choice
4. Prekindergarten



## Budget Implications

- Absent additional funding from the state, districts will be forced at some point to make difficult budget choices:
  - Raise the M&O tax rate
    - *For the vast majority of districts, raising the tax rate will require a tax ratification election (TRE)*
  - Spend fund balance
  - Make budget reductions
    - *May reduce opportunities for students*



**Questions?**



## 2017 Legislative Agenda

### Objectives:

- Local Control
- Relevant Instructional Programs that Reflect and Complement the Provisions of HB 5 (83<sup>rd</sup> Legislative Session)
- Suitable Funding and Relief from Unfunded Mandates

**Academic Accountability:** *An effective, efficient and equitable state academic accountability system is necessary to carry out the mission and objectives of the Texas public education system. Texas' current academic accountability system provides confusing information to parents about the performance of their child's school and is too complex for school districts to navigate effectively. The state accountability system should be a tool that helps local school boards and educators improve student performance. The 85<sup>th</sup> Texas Legislature should:*

1. Align all accountability systems so that duplication and inconsistency can be reduced or eliminated. Districts and campuses should obtain full results simultaneously. Integrate and simplify reporting requirements to address deficiencies. Align identification for the Public Education Grant (PEG) program with state accountability ratings and apply those provisions to ISDs and state charter schools.
2. Leave the authority to address low performing schools with the locally elected board of trustees. Local control still depends on state standard academic measures; however, it allows the local board of trustees to determine how to respond to the results of those state measures.
3. Implement index systems (with indexes ranging from 0 to 100) that are accessible to the public, rather than a rudimentary A-F letter grade system, for all Texas districts and campuses to allow local school trustees, parents and other stakeholders to fully interpret the performance of the district and campuses they represent and support.
4. Remove the high-stakes SSI retention provision for students assessed in grades 5 & 8.
5. Make permanent the provisions for individual graduation committees set forth in SB 149, 84<sup>th</sup> Legislative Session.

**School Finance:** *Legislation and an appropriation that provides funding for public education to meet the mission and objectives described in Texas Education Code, Section 4.001 is necessary to ensure that Texas produces a workforce that will sustain the state's economy. Appropriate funding legislation impacts three areas critical to*

**public education – student achievement, qualified education workforce and local control.  
The 85<sup>th</sup> Texas Legislature should:**

**Student Achievement:**

1. Increase the basic allotment used in the Foundation School Program formula to ensure that districts have adequate funding to provide a rigorous, relevant education for all students. Furthermore, add provisions to the state law to require that the basic allotment be adjusted for inflation each biennium.
2. Update the cost of education index (CEI) and recognize 100% of the CEI in the calculation of weighted average daily attendance to equitably recognize regional variations in operating costs.
3. Adjust Tier 1 funding weights for special programs to reflect current accountability requirements and program costs. In particular, funding weights should be increased for economically disadvantaged, bilingual/ESL, career and technical, special education and gifted and talented programs to appropriately account for the incremental costs to provide these programs.
4. Provide tax relief to property owners and assist school districts in providing relevant learning environments by increasing the guaranteed yield of \$35 per student for Existing Debt Allotment and Instructional Facilities Allotment to the yield generated by tax effort at the 88<sup>th</sup> percentile.
5. Provide flexibility to spend State Comp Ed funds on a school-wide basis to improve student performance, similar to school-wide provisions for Title 1 funding.
6. Provide weighted career and technical funding for career and higher education exploration courses for all eighth-grade students to prepare them to make informed choices for high school coursework and endorsement plans for their college and career choices.
7. Increase state funding for transportation and require that the funding be adjusted for inflation each biennium.

**Qualified Education Workforce:**

1. Increase access to affordable health insurance for public school employees. Solutions include providing equal state funding for ERS and TRS-Active Care, offering all healthcare plan options as consumer driven plans with fully-administered HRA or HSA designs, and requiring a wellness plan component and corresponding premium incentives for all TRS-Active Care plans.
2. Ensure the Teacher Retirement System (TRS) is funded to be actuarially sound and continue operating TRS as a defined benefit plan and increase the state's contribution to TRS as key strategies to recruit and retain qualified teachers and support staff.

**Local Control:**

1. Increase the Tier II equalized enrichment opportunity beyond the 6 pennies currently authorized, and permit districts to levy a Maintenance and Operations (M&O) tax rate up to the new maximum before requiring a tax election.



2. Permit districts to hold an authorization election rather than a tax ratification election to obtain voter approval for future assessment of the remaining M&O pennies authorized by law.
3. Provide relief from current unfunded state mandates and not add additional unfunded mandates (see sample list of unfunded mandates at Exhibit A).

**School Choice:** *The Arlington ISD is a district that offers choice for students and parents. While a school voucher program is perhaps the most polarizing issue in public education today, public school districts should be recognized for providing true choice to their constituents. The 85<sup>th</sup> Texas Legislature should:*

1. Oppose any legislation that diverts public funds to private institutions that are not accountable to the public for the use of those funds.
2. Incentivize school districts to provide program choices by fully funding transportation costs for choice programs.
3. Grant autonomies to districts that implement effective school choice including, but not limited to the following:
  - exempt districts from requirements of the PEG designation;
  - allow charter and ISD partnerships to voluntarily be created with approval by duly elected school boards and appointed charter school boards to ensure they are right for the community and that adequate resources exist to properly support the partnership; and
  - review and revise statutory requirements for in-district charters to create greater flexibility for boards of trustees to establish charters.
4. Prohibit charters from expanding absent the following accountability and transparency measures to ensure the equal treatment of all students who wish to attend a state charter school:
  - transparency on charter school applications and student admission into charter schools;
  - enrollment demographics reflective of local demographics;
  - procedures to ensure “wait lists” are accurately reported to TEA on an annual basis pursuant to a consistent uniform definition of a “wait list” student;
  - teacher certifications comparable to those required for public school teachers;
  - posting teacher certifications and years of experience;
  - posting the following financial data: expenditures per student for each campus, debt per student and the charter’s bond rating.

**Prekindergarten:** *Pre-K programs such as formula-funded public school pre-K, the High-Quality Pre-K Expansion Grant and the Pre-K Early Start Grant provide access for children who need pre-K most. Access to quality pre-K positively impacts academic readiness and performance. House Bill 4, enacted by the 84<sup>th</sup> Texas Legislature, established a high-quality pre-K grant program; however, only \$118 million was appropriated for the program for the 2016-2017 biennium. The 85<sup>th</sup> Texas Legislature should:*

1. Provide weighted funding for pre-K students through the Foundation School Program formulas to fund early childhood education as a local district option.
2. Permit districts to offer full-day pre-K programs at some or all campuses as a local district option and provide funding for the full-day program.

**ARLINGTON INDEPENDENT SCHOOL DISTRICT  
UNFUNDED MANDATES  
Sample List**

1	22:1 Student/Teacher Ratio Grades K-4 (assumes a campus-wide average K-4 staffing ratio of 24:1)	\$20,541,982
2	TRs - payment on salaries above state minimum	6,019,303
3	TRs - state contribution for 1st 90 days on new employees	400,000
4	TRs-Care Retiree Insurance Plan (.55% of total payroll)	2,076,119
5	TRs-Supplemental 1.5% Contribution	4,389,145
6	Bilingual/ESL Program - program mandates exceed state funding	15,793,852
7	Special Education Program - program mandates exceed state funding	16,892,659
8	Gifted and Talented Program - program mandates exceed state funding	14,945,135
9	End-of-Course Exams and STAAR Retesting	668,528
10	Locally Developed or Adopted Assessments	50,000
11	PEIMS Data Reporting	3,544,851
12	Budget & Tax Rate Hearing Notice	4,400
13	Schools FIRST Hearing Notice	4,297
14	Public Information Act Requests	27,278
15	Payment to county appraisal district to fund its operations	1,835,685
16	Elections	78,000
17	Criminal Records Checks	18,244
18	Cameras in Self-Contained Special Education Classrooms	1,105,845
	<b>Sum of Sample Unfunded Mandates</b>	<b>\$88,395,323</b>
	2016-17 Operating Budget (net of Capital Outlay)	511,854,280
	Percent of 2016-17 Operating Budget	17.27%