

Improving Student Outcomes and Maintaining Affordability through Comprehensive Education and Tax Reforms



October 29, 2018

Goals For Education and Property Tax Reform

- Focus state resources on data-proven strategies to improve student outcomes
 - **Pay the best teachers more**, especially when teaching in more difficult classrooms
 - Focus on **early childhood** education
 - Reward the districts that achieve targeted **student outcomes**
- Slow the growth of skyrocketing tax bills
 - **Compress tax rates** as property values rise
 - **Promote housing affordability** and economic development by capping annual property tax revenue increases
 - **Reduce recapture's** projected growth, keeping tax dollars local

Improving **Student Outcomes** through Comprehensive School Finance Reforms



October 29, 2018



The future of Texas is in our classrooms today. That future depends on paying our best teachers more, rewarding districts for student achievement and growth, prioritizing spending in the classroom and reducing the burden of ever-increasing property taxes. We must seize this moment to build a better future for Texas.

-Governor Abbott

What is the goal of our education system?



The Texas Constitution requires the Legislature to maintain an efficient system of free public schools in order to preserve liberty and fundamental rights.

College



Career



Military



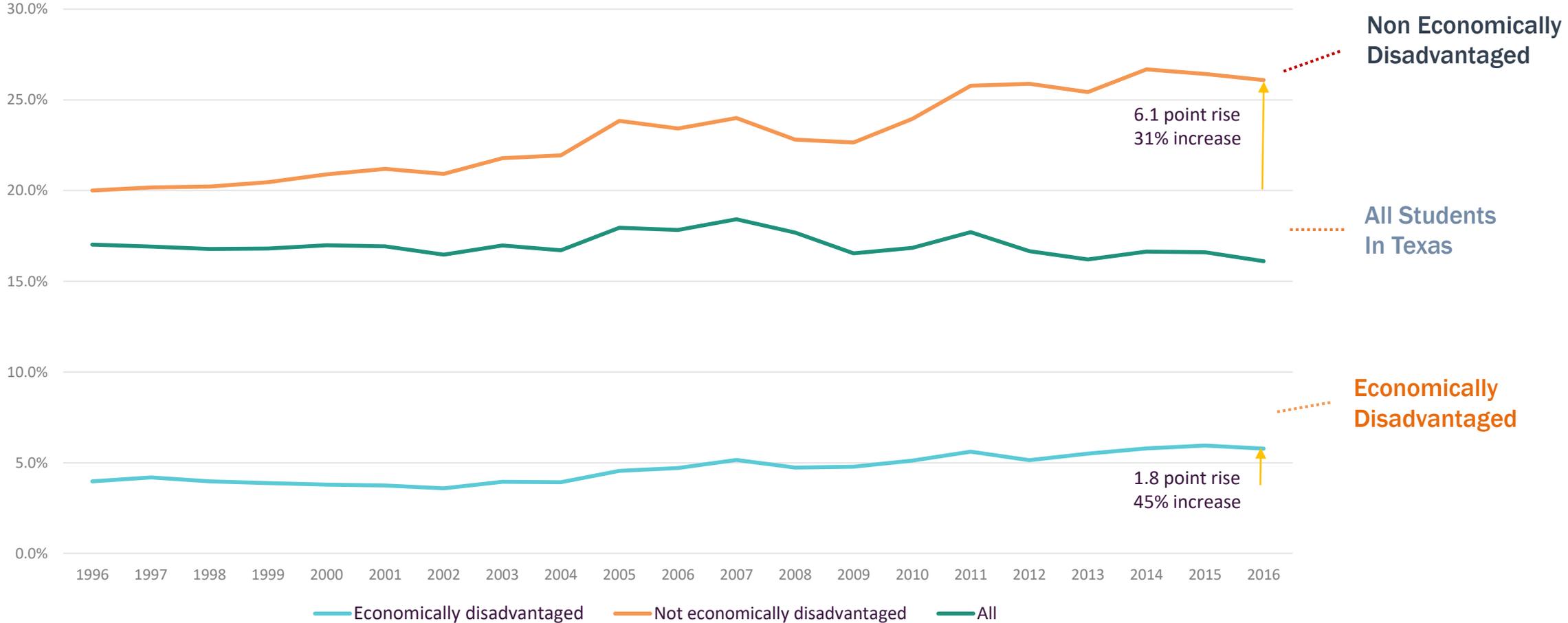
Are we meeting our goals?



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Too few Texas students are prepared for college

% Above "Passing" on SAT/ACT

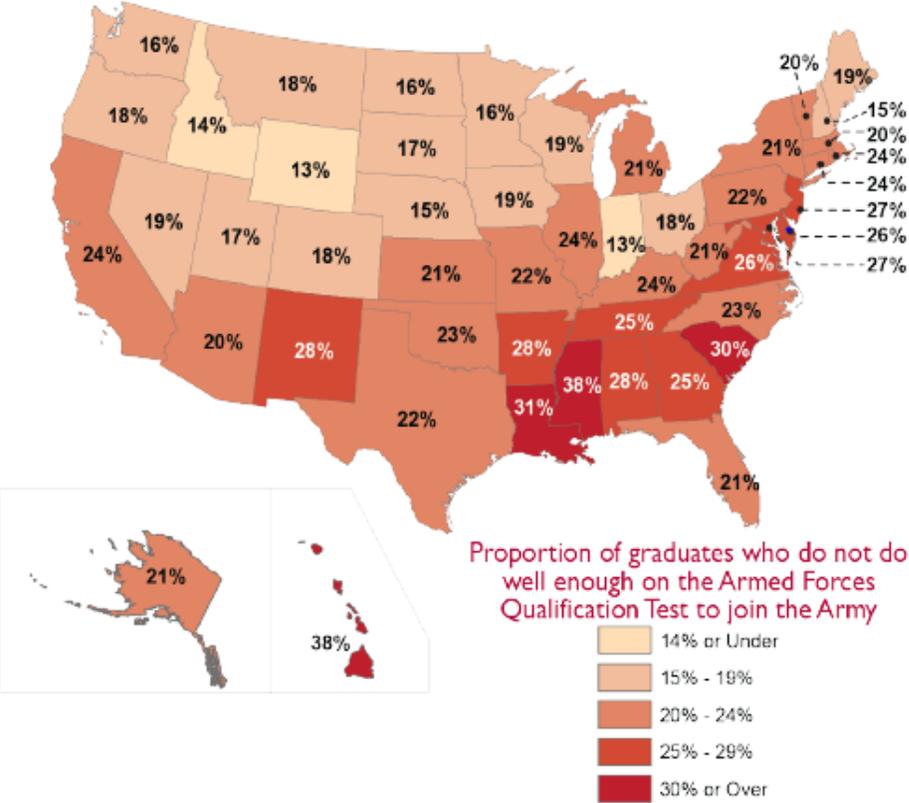


Too few Texas students are prepared for the military

Inadequate Education Prevents Young Americans From Serving

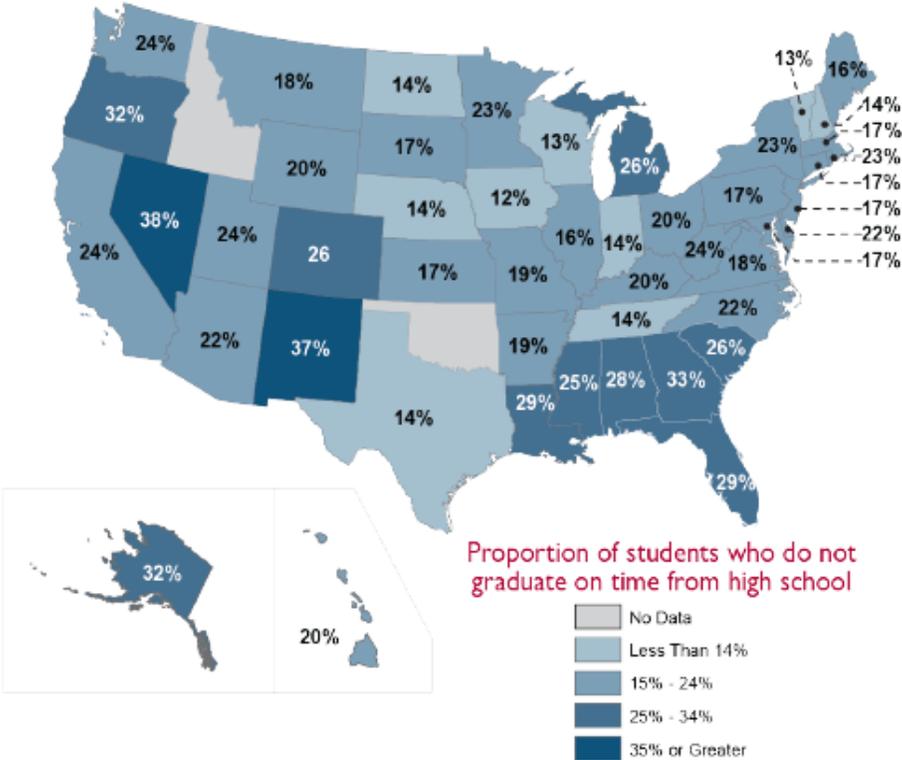
Proportion Who Score Too Low

Out of those who do graduate and try to join the Army, **over one in five** cannot join because they score too low on the military's entrance exam.



Proportion Who Do Not Graduate

Nationwide, more than **one in five** young Americans does not graduate on time. In some states it is even worse:



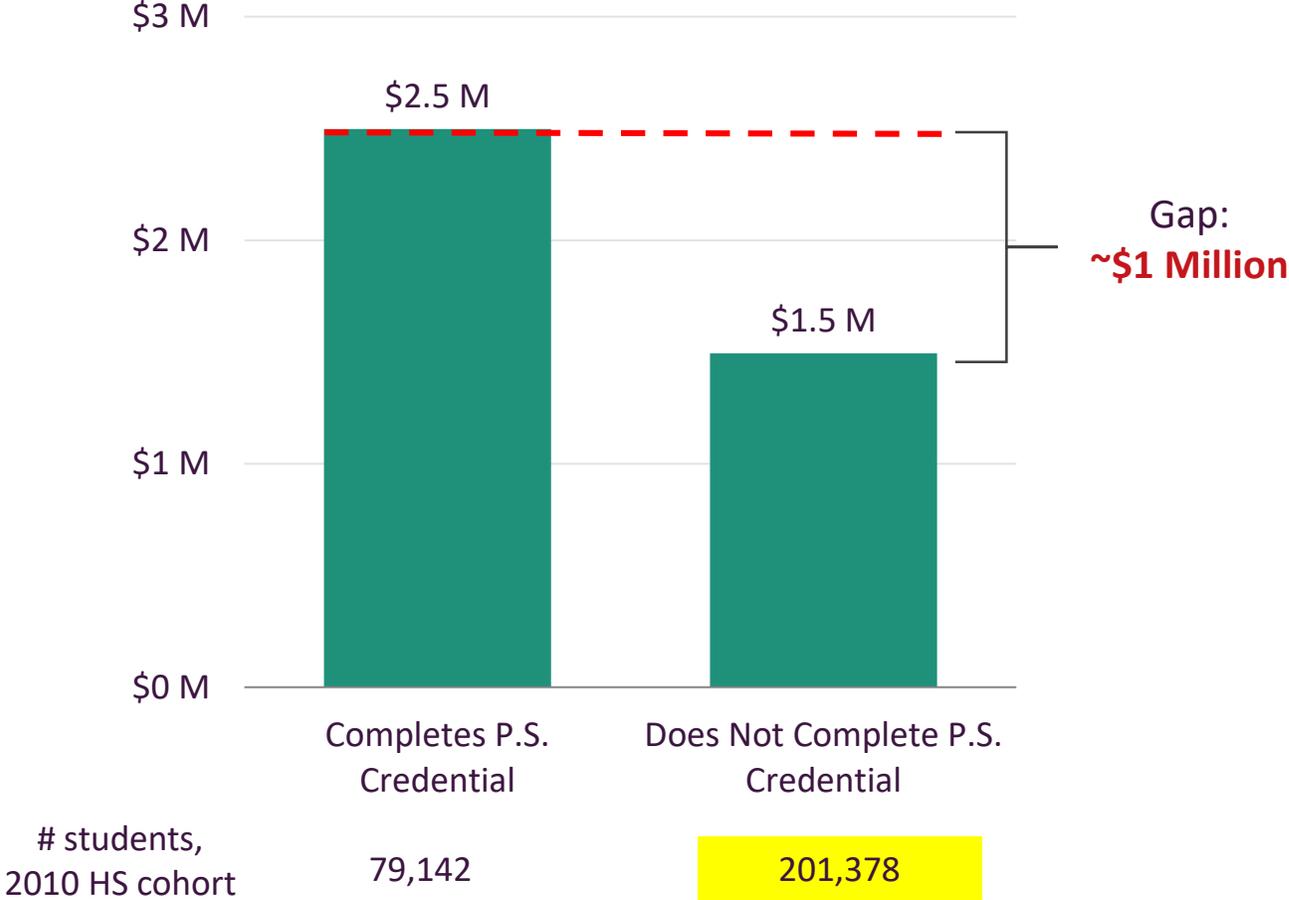
Sources: The Education Trust, 2010; US Department of Education, 2013 (2010-11 school year). Note: Due to reporting issues another Department of Education data source for the 2009-10 school year was used for Kentucky.

Will we reach our 60x30 goal?

		Six Yr. Completion Rate for Low Income Students (~60% of Texas' K-12 Population Today)																			
		5%	10%	15%	20%	25%	30%	35%	40%	45%	50%	55%	60%	65%	70%	75%	80%	85%	90%	95%	100%
Six Yr. Completion Rate for NON Low Income (~40% of Texas' K-12 Population Today)	5%	5%	8%	11%	14%	17%	20%	23%	26%	29%	32%	35%	38%	41%	44%	47%	50%	53%	56%	59%	62%
	10%	7%	10%	13%	16%	19%	22%	25%	28%	31%	34%	37%	40%	43%	46%	49%	52%	55%	58%	61%	64%
	15%	9%	12%	15%	18%	21%	24%	27%	30%	33%	36%	39%	42%	45%	48%	51%	54%	57%	60%	63%	66%
	20%	11%	14%	17%	20%	23%	26%	29%	32%	35%	38%	41%	44%	47%	50%	53%	56%	59%	62%	65%	68%
	25%	13%	16%	19%	22%	25%	28%	31%	34%	37%	40%	43%	46%	49%	52%	55%	58%	61%	64%	67%	70%
	30%	15%	18%	21%	24%	27%	30%	33%	36%	39%	42%	45%	48%	51%	54%	57%	60%	63%	66%	69%	72%
	35%	17%	20%	23%	26%	29%	32%	35%	38%	41%	44%	47%	50%	53%	56%	59%	62%	65%	68%	71%	74%
	40%	19%	22%	25%	28%	31%	34%	37%	40%	43%	46%	49%	52%	55%	58%	61%	64%	67%	70%	73%	76%
	45%	21%	24%	27%	30%	33%	36%	39%	42%	45%	48%	51%	54%	57%	60%	63%	66%	69%	72%	75%	78%
	50%	23%	26%	29%	32%	35%	38%	41%	44%	47%	50%	53%	56%	59%	62%	65%	68%	71%	74%	77%	80%
	55%	25%	28%	31%	34%	37%	40%	43%	46%	49%	52%	55%	58%	61%	64%	67%	70%	73%	76%	79%	82%
	60%	27%	30%	33%	36%	39%	42%	45%	48%	51%	54%	57%	60%	63%	66%	69%	72%	75%	78%	81%	84%
	65%	29%	32%	35%	38%	41%	44%	47%	50%	53%	56%	59%	62%	65%	68%	71%	74%	77%	80%	83%	86%
	70%	31%	34%	37%	40%	43%	46%	49%	52%	55%	58%	61%	64%	67%	70%	73%	76%	79%	82%	85%	88%
	75%	33%	36%	39%	42%	45%	48%	51%	54%	57%	60%	63%	66%	69%	72%	75%	78%	81%	84%	87%	90%
	80%	35%	38%	41%	44%	47%	50%	53%	56%	59%	62%	65%	68%	71%	74%	77%	80%	83%	86%	89%	92%
	85%	37%	40%	43%	46%	49%	52%	55%	58%	61%	64%	67%	70%	73%	76%	79%	82%	85%	88%	91%	94%
90%	39%	42%	45%	48%	51%	54%	57%	60%	63%	66%	69%	72%	75%	78%	81%	84%	87%	90%	93%	96%	
95%	41%	44%	47%	50%	53%	56%	59%	62%	65%	68%	71%	74%	77%	80%	83%	86%	89%	92%	95%	98%	
100%	43%	46%	49%	52%	55%	58%	61%	64%	67%	70%	73%	76%	79%	82%	85%	88%	91%	94%	97%	100%	

Lack of post-secondary credentials is costing Texas

Estimated Lifetime Earnings by Education Level, H.S. class of 2010



There are state budgetary consequences when students graduate unprepared.

Skills Mismatch:

~300,000

unfilled jobs per Texas
Workforce Commission vs.

~544,000

unemployed Texans

Uninsured Medical:

~\$6.0B

annual cost to Texas
for people without the health
benefits typically associated
with living wage jobs

Incarceration:

~147,000

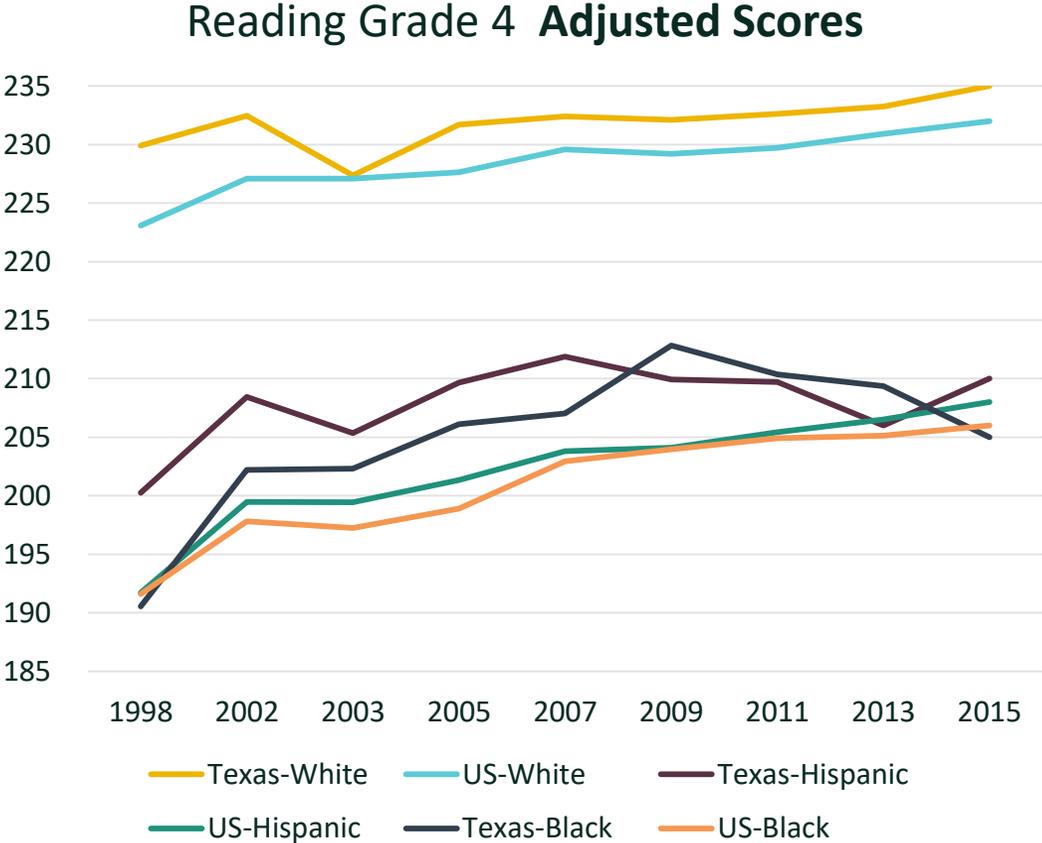
inmates costing

~\$3.3B

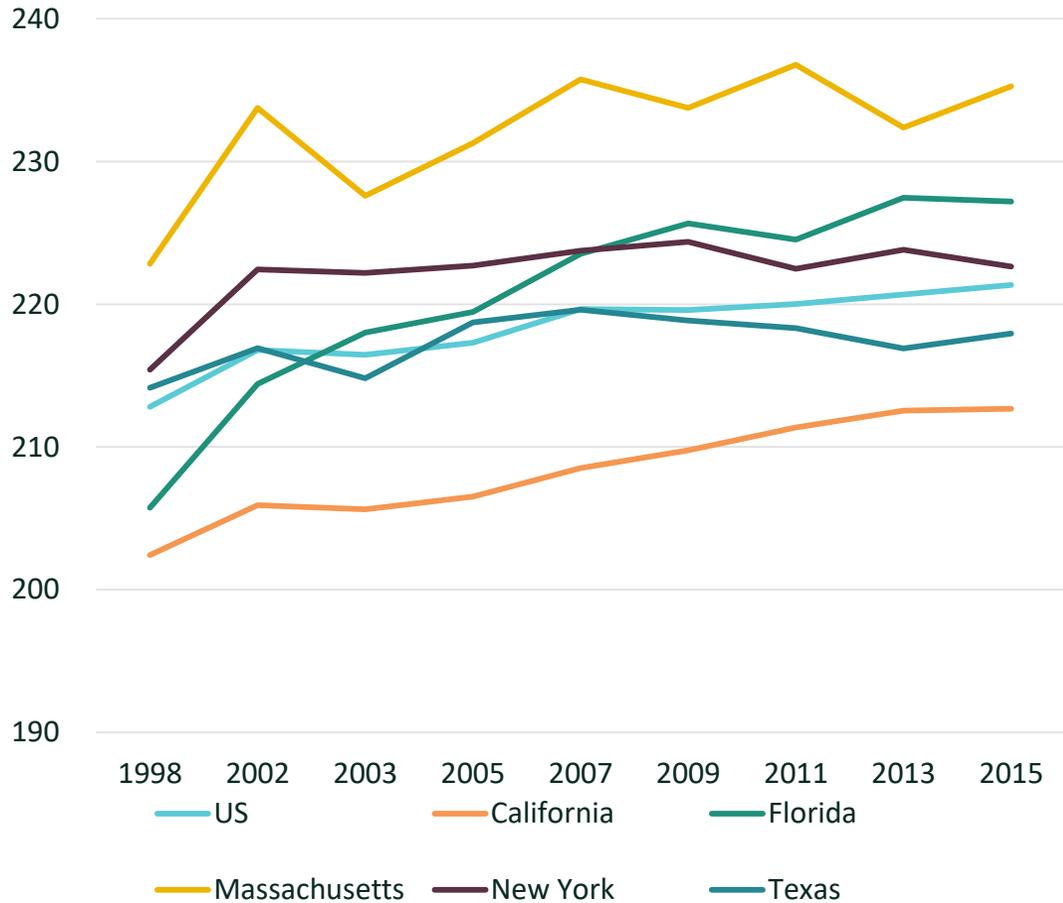
annually (\$22k per inmate), or
2x what we spend on K-12
student

Within each Texas H.S. graduating class, students subsequently not earning a postsecondary credential lose a combined **\$201 billion** in future lifetime earnings (equal to 1/8th of Texas \$1.6 trillion GDP).

Texas does well in demographically-adjusted assessments. Meaning, all Texas student groups do relatively well compared to national figures.



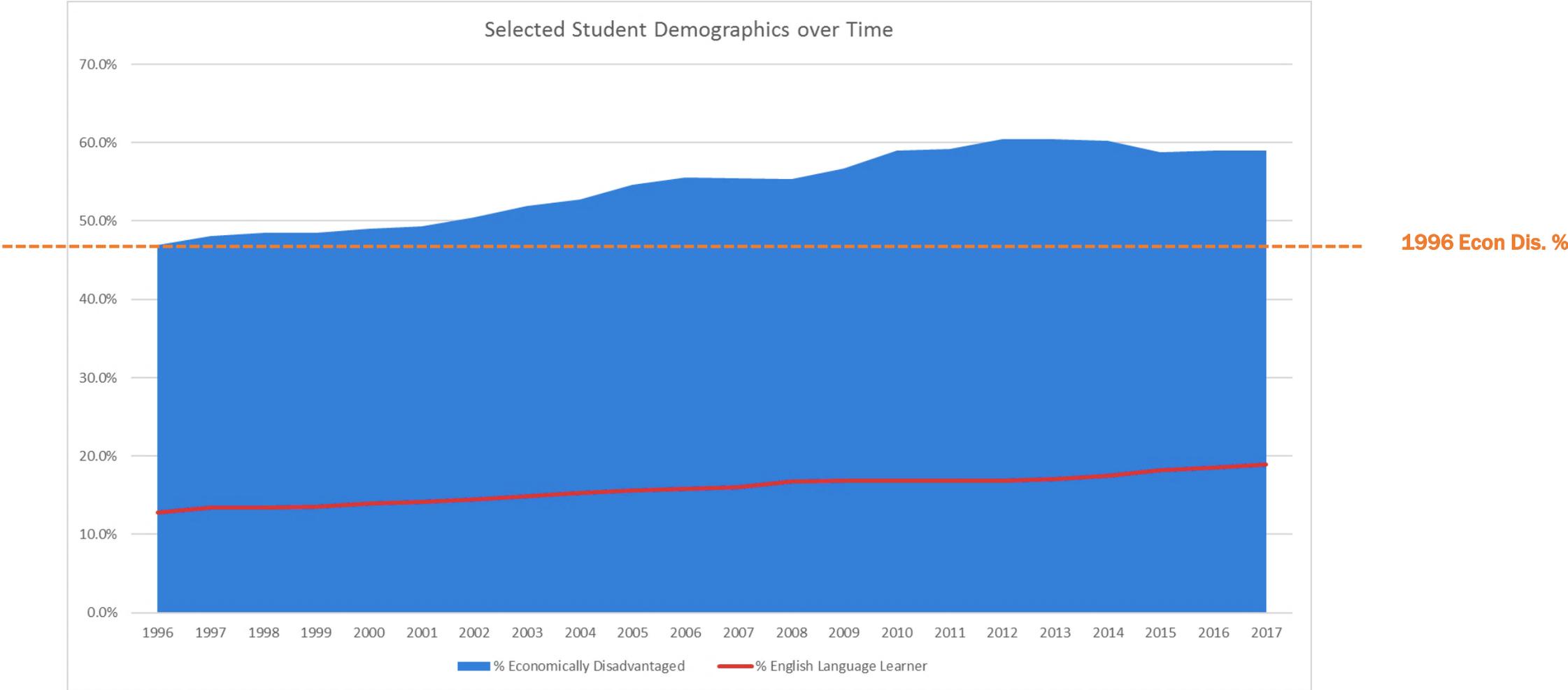
Reading Grade 4 Non-adjusted Score



BUT, site selectors and employers do not adjust for demographics in their business or hiring decisions.

Our future economic success as a state will require that all children have a chance to learn and achieve.

The college, career, and military readiness challenges will only increase in the coming years.



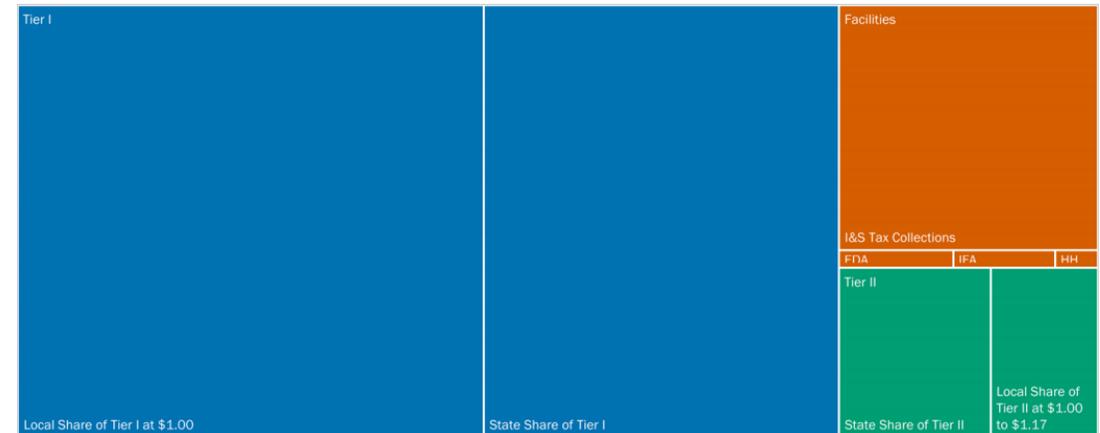
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*Our School Finance Problems Don't Stop With a Need
To Improve Student Outcomes – We Must Also Address
The Recurring Growth in School Property Taxes*

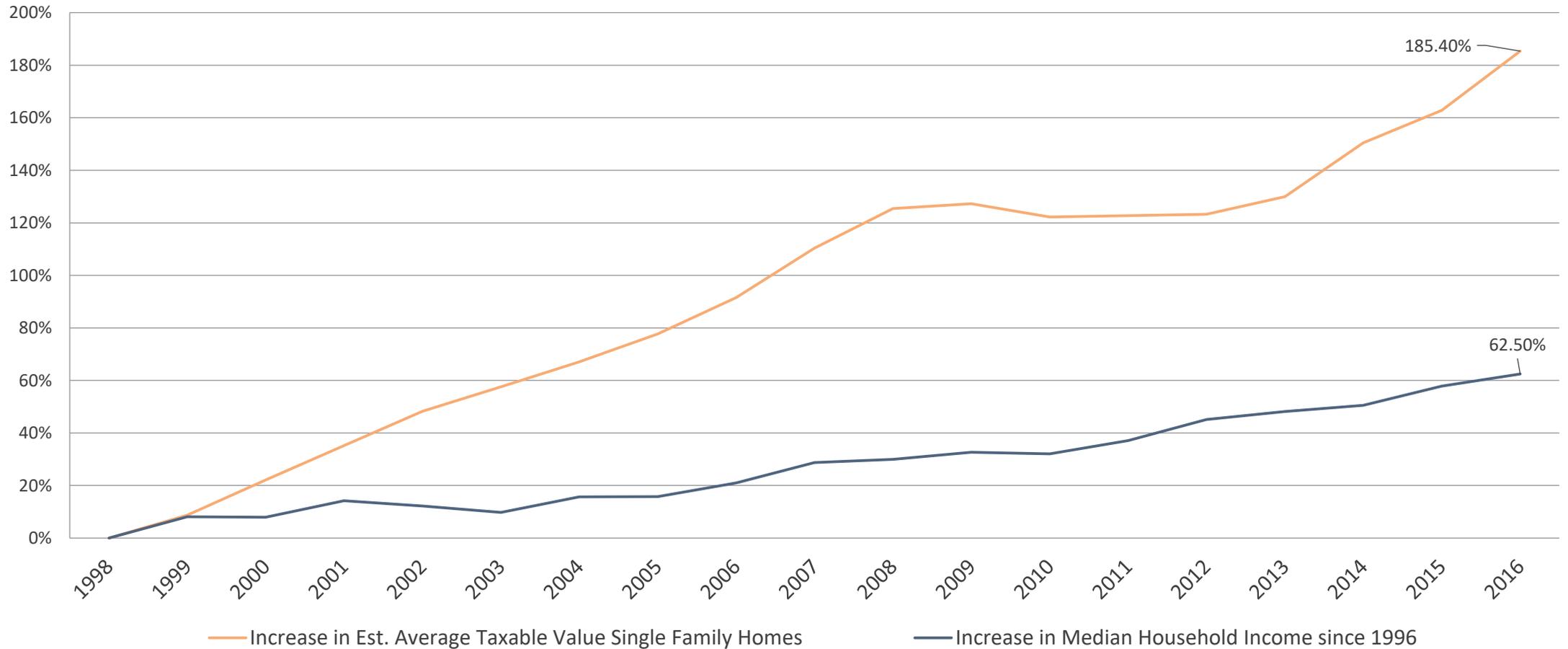
School Property Taxes are the Largest Part of a Texan's Tax Bill – And Rates Don't Decline

- Tier 1 M&O Property Taxes – the largest portion of the largest portion of a Texan's property tax bill – do not decrease when property values increase.
- The current school finance system functionally requires most districts to tax at a \$1.00 tax rate, with significant negative financial consequences for dropping the local tax rate.



■ Tier I ■ Tier II ■ Facilities

Fixed Tax Rates – Coupled with Property Value Growth – Cause Property Tax Bills to Grow Faster than Ability to Pay



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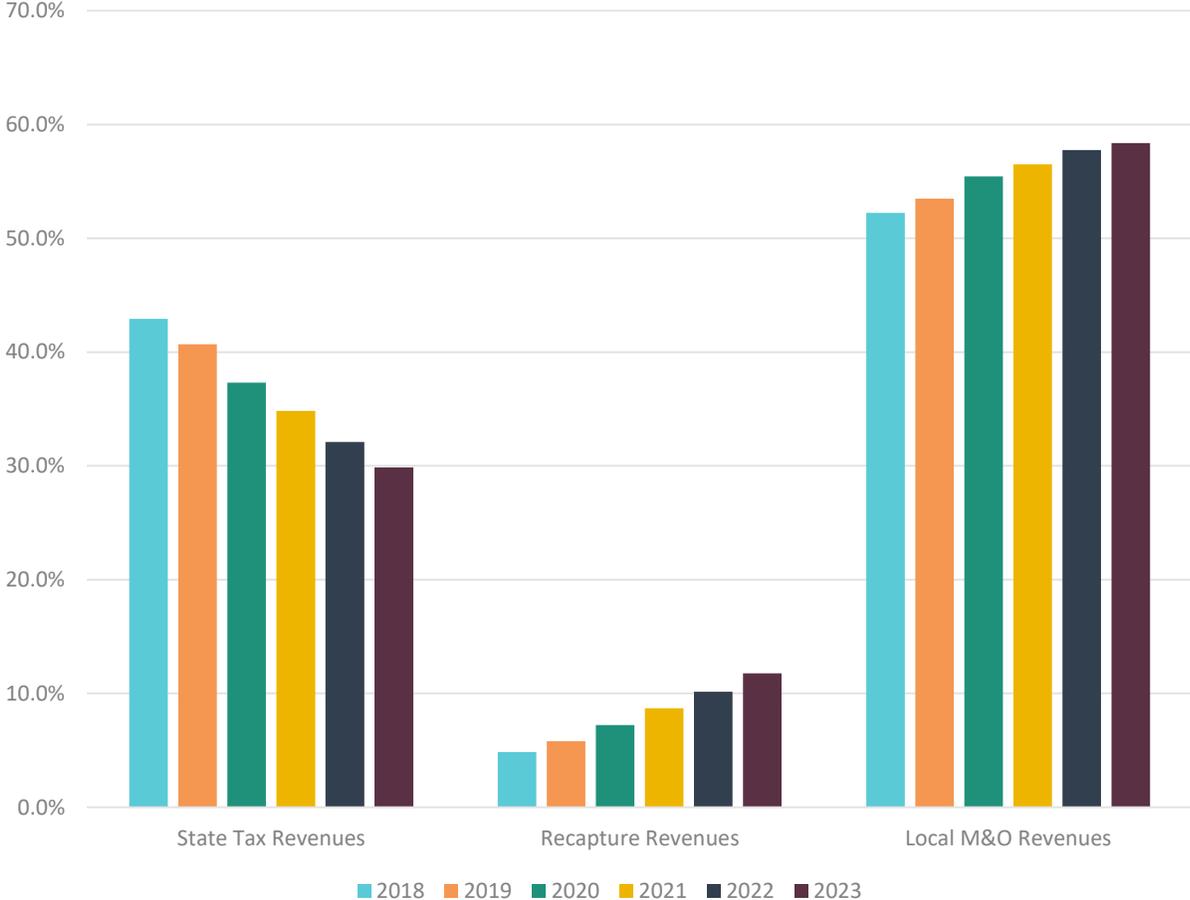
Despite past efforts, taxes continue to increase

	2008	2017	2027
Average Taxable Value Single Family Home (Statewide)	\$ 118,181.53	\$ 159,828.10	\$ 281,658.13
Tier 1 Tax Rate	\$ 1.0000	\$ 1.0000	\$ 1.0000
Tier 1 portion of Tax Bill	\$ 1,181.82	\$ 1,598.28	\$ 2,816.58

Without tax reform, the state share of education will continue to decline

The state's share will plummet to below 30% by 2023.

Current Law Projections:
State vs. Local Share of M&O Funding



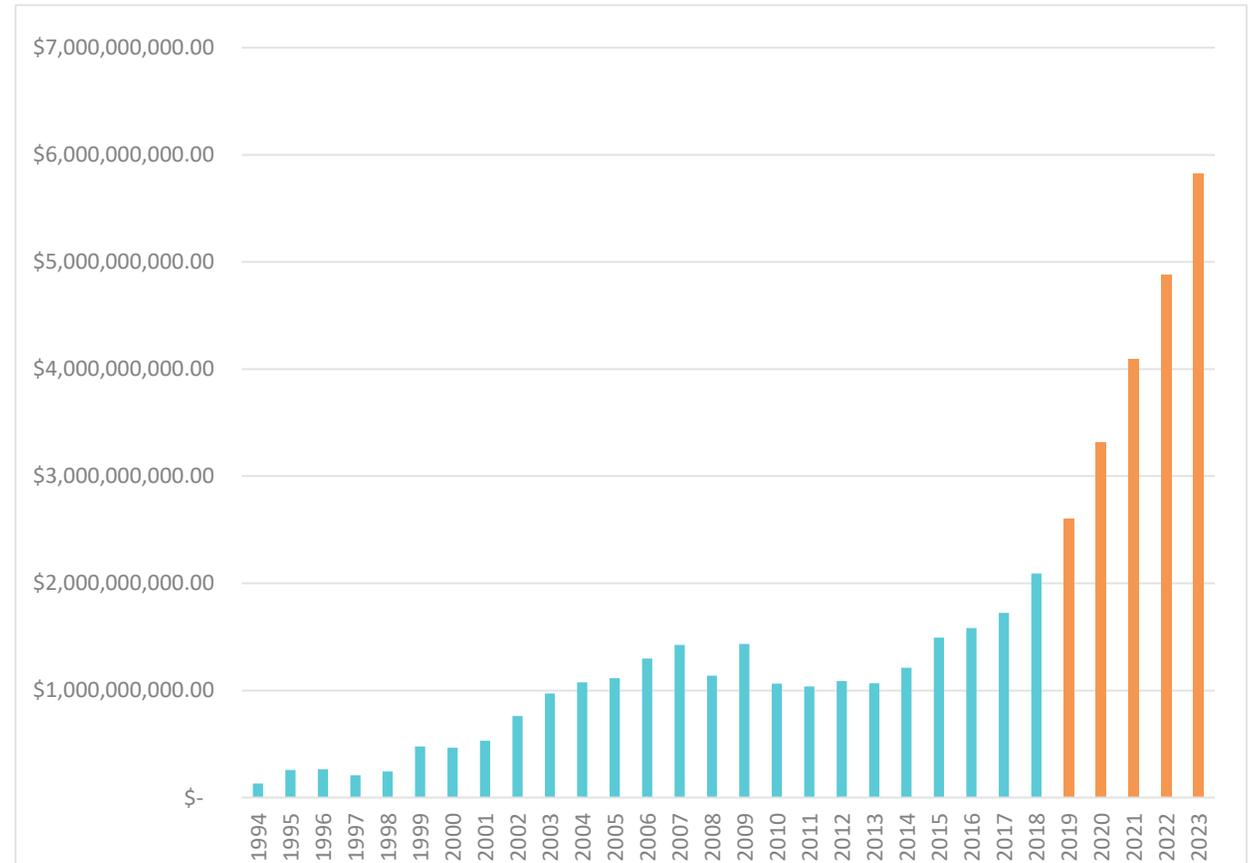
Texas projects state funding for schools to drop as local revenue grows

In a preliminary budget request, the Texas Education Agency revealed it expects the state to put less money into public education next year because of fast-increasing local property values.

BY **ALIYYA SWABY** SEPT. 12, 2018 1 PM

Without Tax Reform, Recapture Will Also Skyrocket

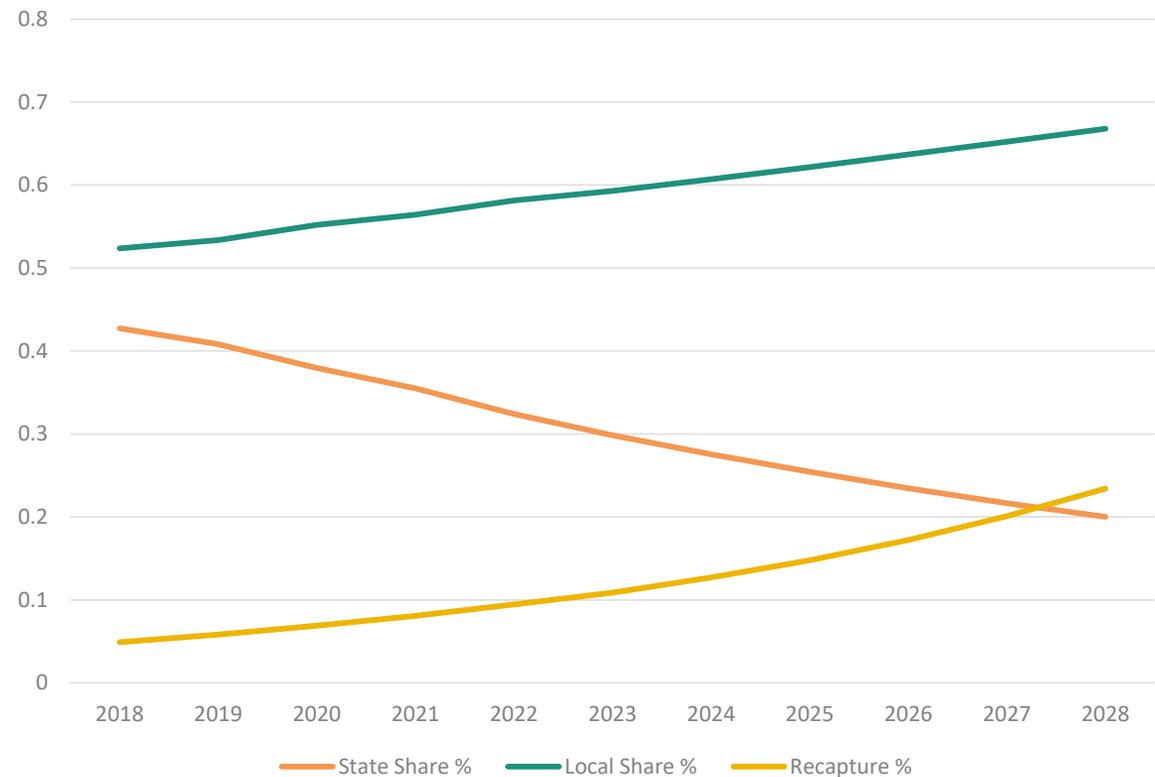
- As property values have increased, more districts have entered recapture and those districts in recapture have seen their payments continue to increase.
- Without reform, the total amount of recapture and the size of district recapture payments will continue to grow rapidly.



Recapture Actuals (1994-2018) and Projections (2019-2023)

If Current Trends Hold, What Will Texas Look Like in 2028?

- If current trends hold for the next decade, and the state does not compress local property taxes, “Robin Hood” payments may form a larger percentage of school funding than state tax dollars by 2028.



A comprehensive redesign of the entire school finance system is needed



Incentives in our system must be aligned

- Prioritizing money to **teachers**
- Incentivizing improvement in **student outcomes**, especially for low-income students
- Removing **outdated** elements
- Easing the over-reliance on school **property taxes**



Improve Student Outcomes by Paying Our Best Teachers More, Especially If They Teach in the Most Difficult Classrooms

October 29, 2018

Teacher Quality Allotment

Accomplished

The logo for the National Board Certified Teacher is circular with a blue border. Inside the border, the words "NATIONAL BOARD" are at the top and "CERTIFIED TEACHER" are at the bottom, both in white capital letters. The center of the logo features a white silhouette of a person with arms raised, set against a blue background.

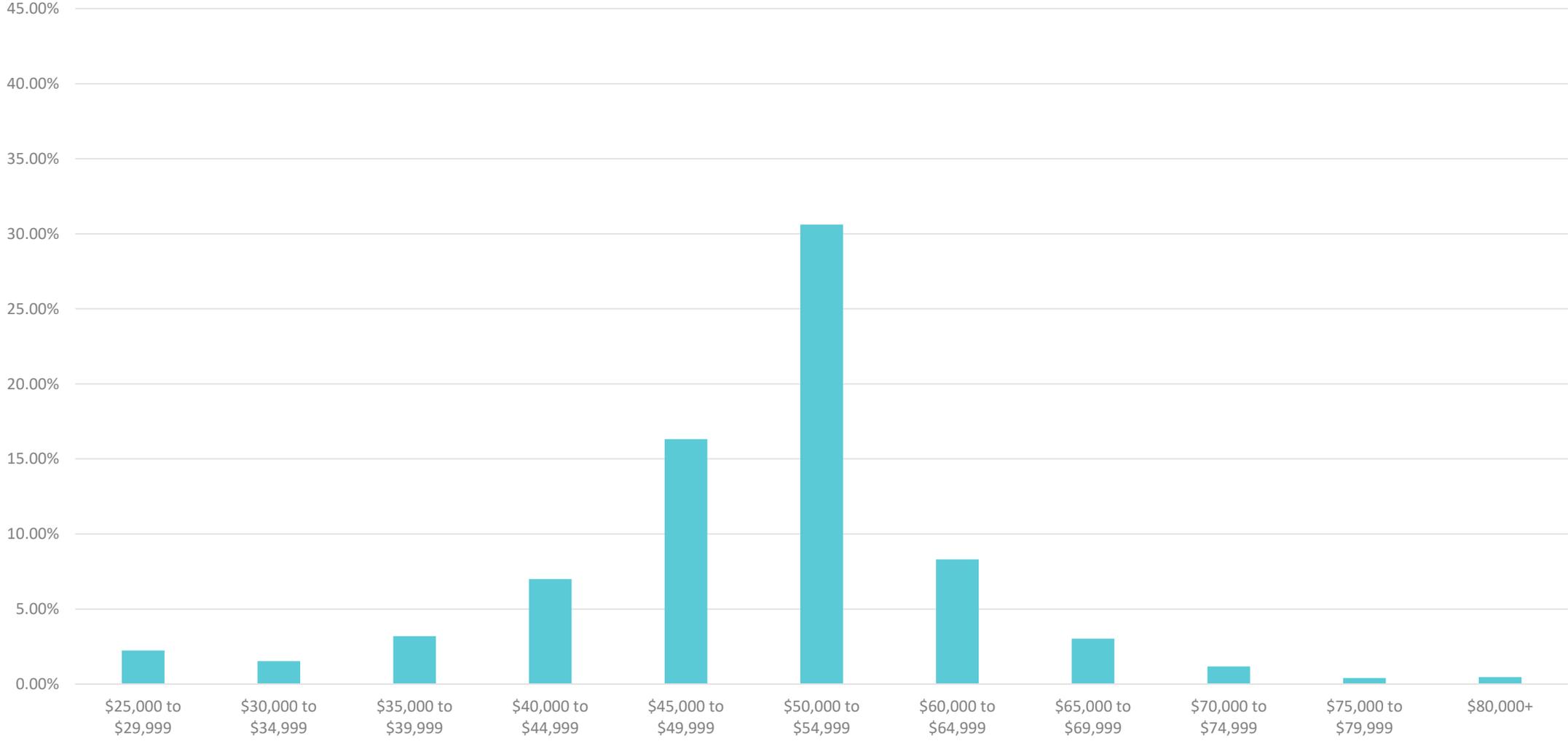
Distinguished

A silver medal icon with a grey circular face and two blue ribbons extending upwards and outwards from the top of the medal.

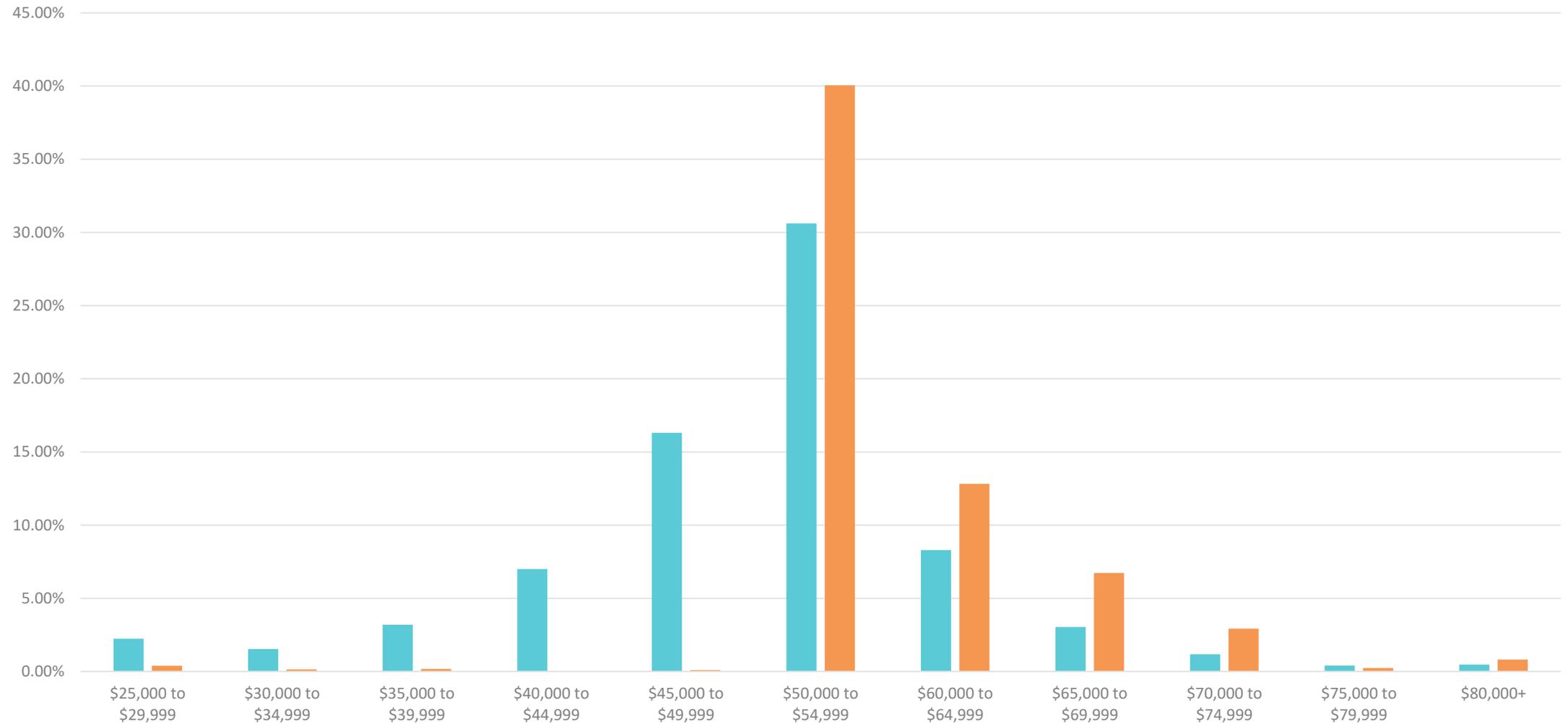
Masters

A gold medal icon with a yellow circular face and two blue ribbons extending upwards and outwards from the top of the medal.

Statewide Teacher Salary Distribution (2017-18 School Year)



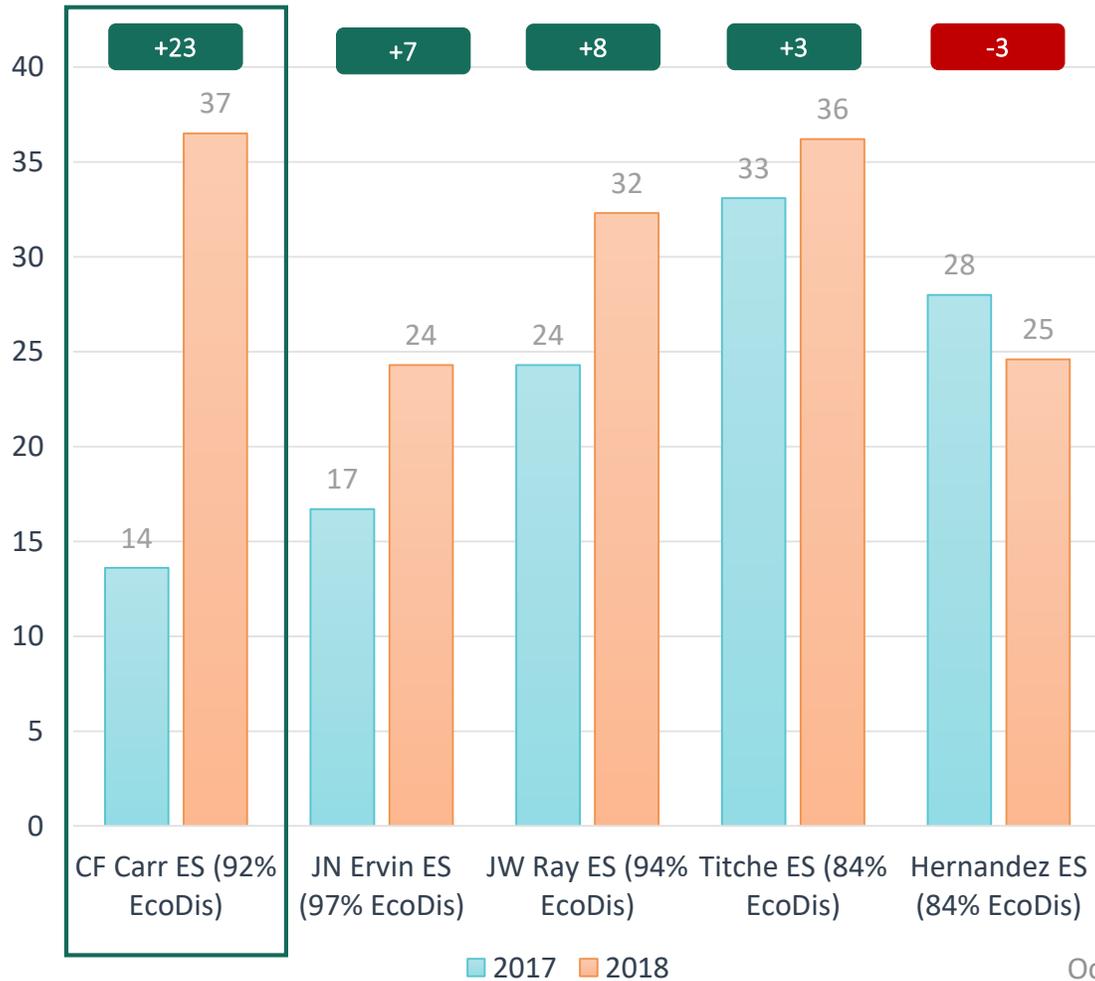
Statewide vs. Dallas Teacher Pay (2017-18 School Year)



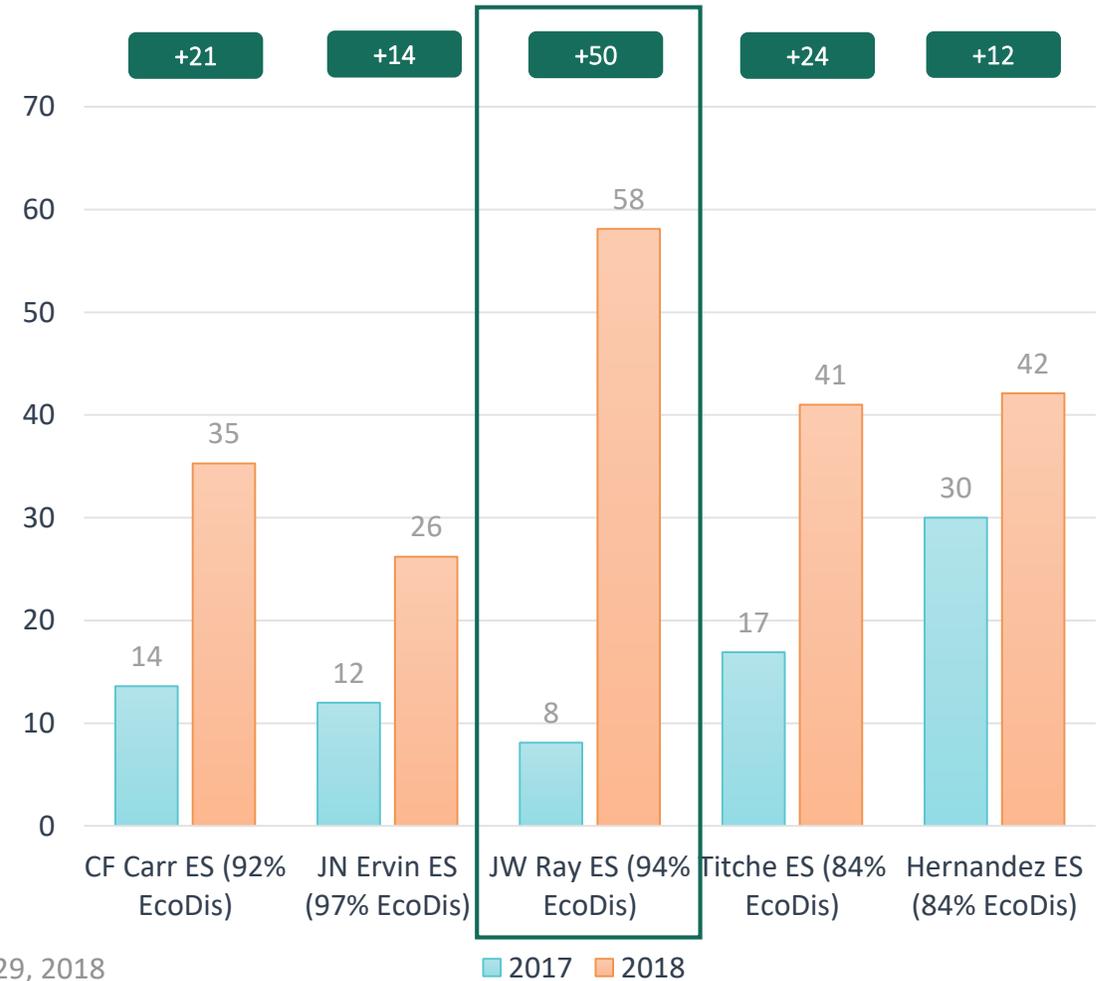
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Dallas ISD has focused on placing its best teachers in the toughest classrooms in the lowest grades. **This has resulted in dramatic academic improvements in just one year.**

5th Grade Reading at Meets



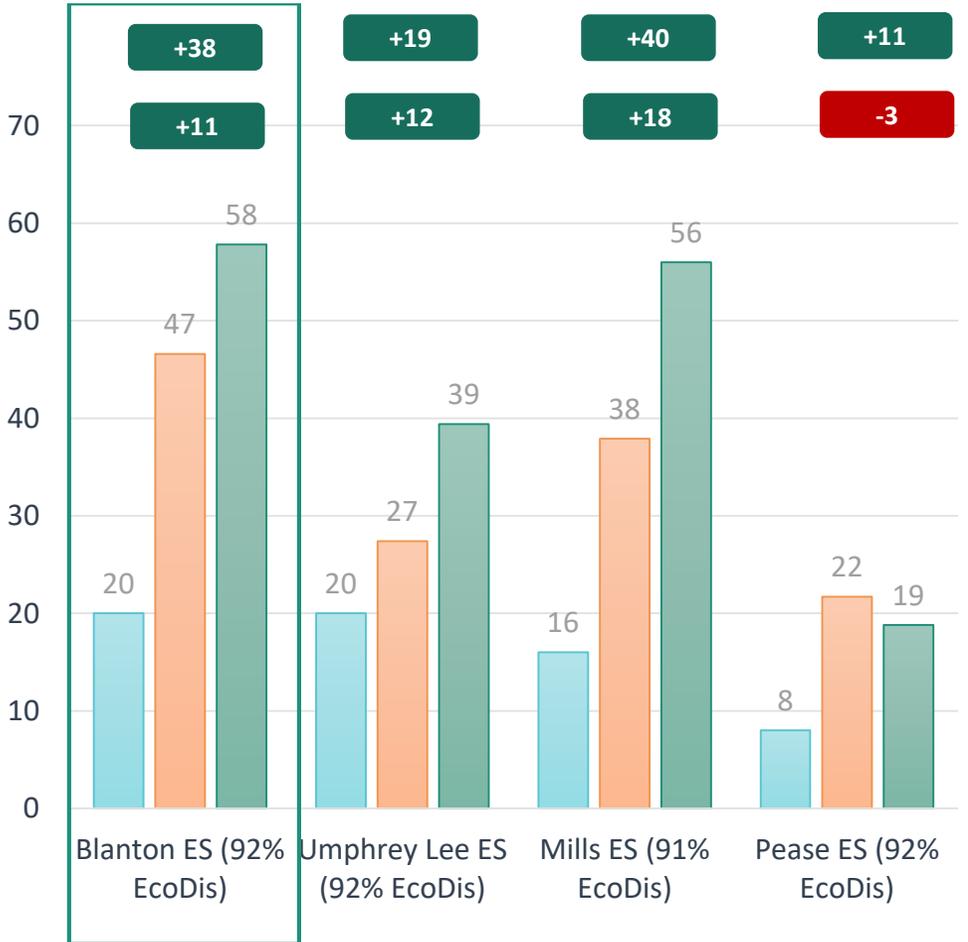
5th Grade Math at Meets



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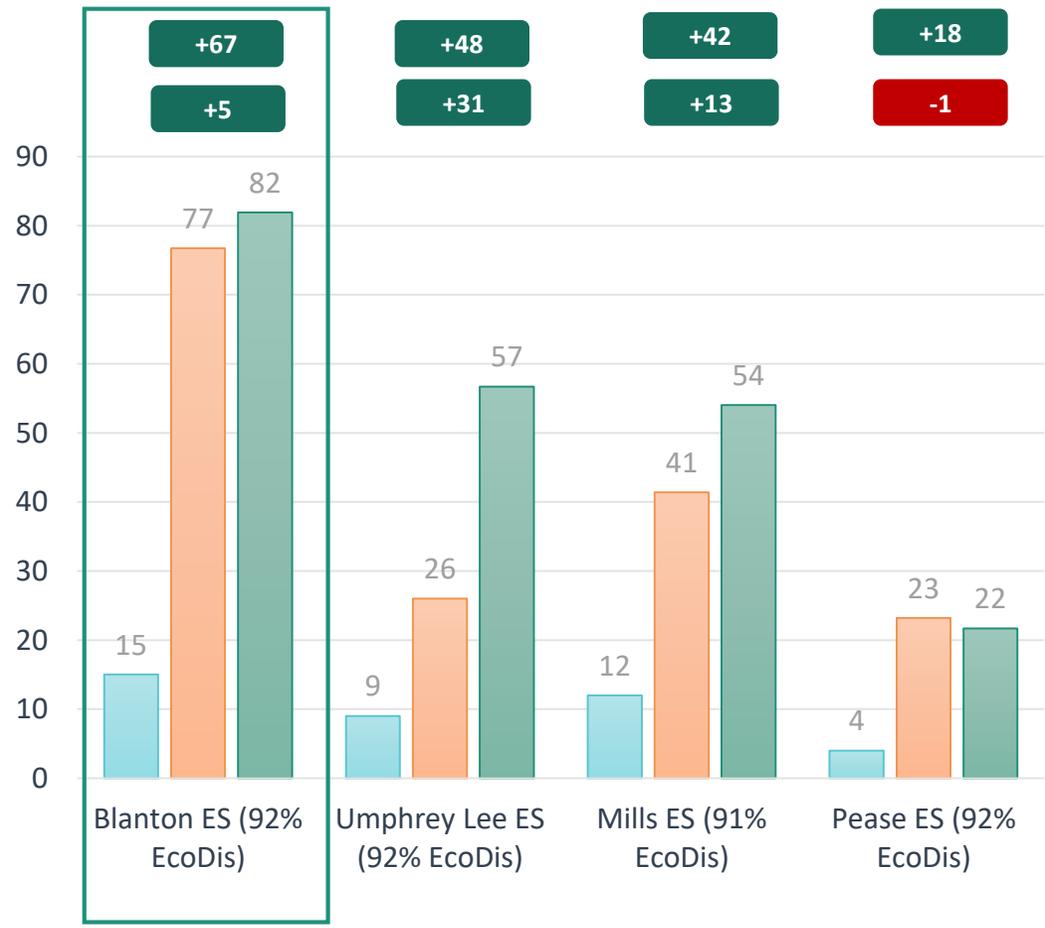
After Three Years, ACE Schools Continue to Show Good Results.

% Proficient for 5th Grade Reading at Meets



2015 2017 2018

% Proficient for 5th Grade Math at Meets



2015 2017 2018

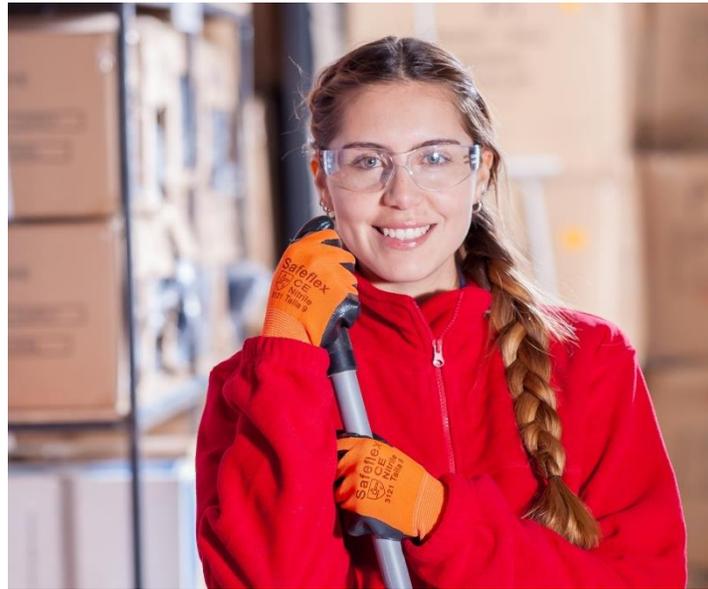


*Financially Incentivize Districts to Improve
Student Outcomes – Especially When
Achieved Among Low-Income Students*

College



Career



Military



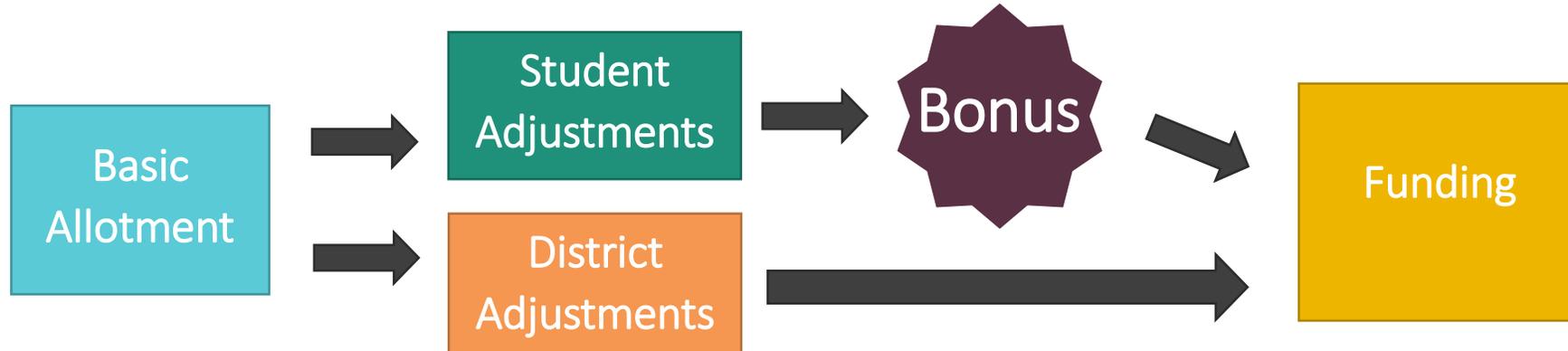


3rd Grade

High School

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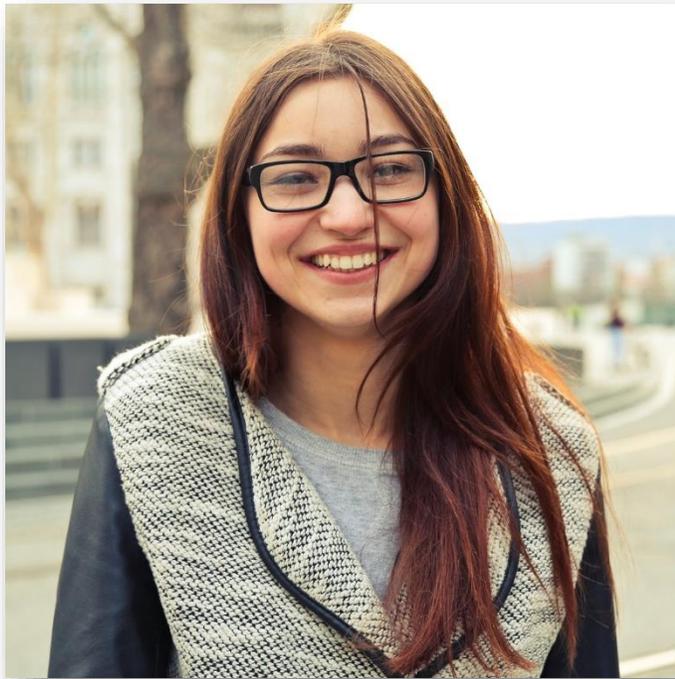
The concept is that bonus levels are driven by student adjustments





*The goal of a school finance system should be to ensure that **similar children** receive **similar funding**, regardless of where they live.*

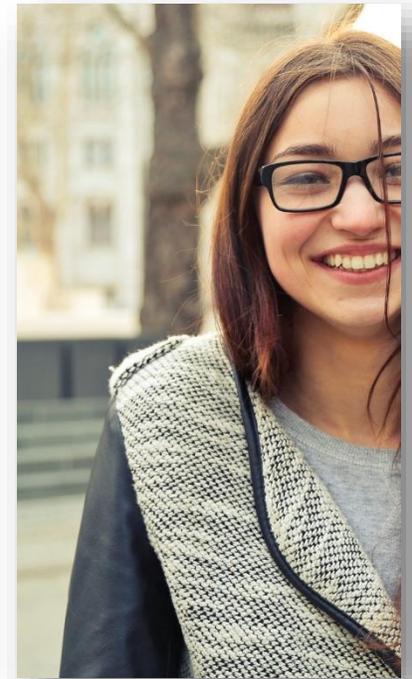
District A



District B



District C



Fold the CEI into the basic allotment

Alamo Heights: 1.08

East Central: 1.10

Edgewood: 1.15

Floresville: 1.08

Ft. Sam Houston: 1.06

Harlandale: 1.12

Judson: 1.11

Lackland: 1.05

North East: 1.11

Northside: 1.11

Randolph: 1.06

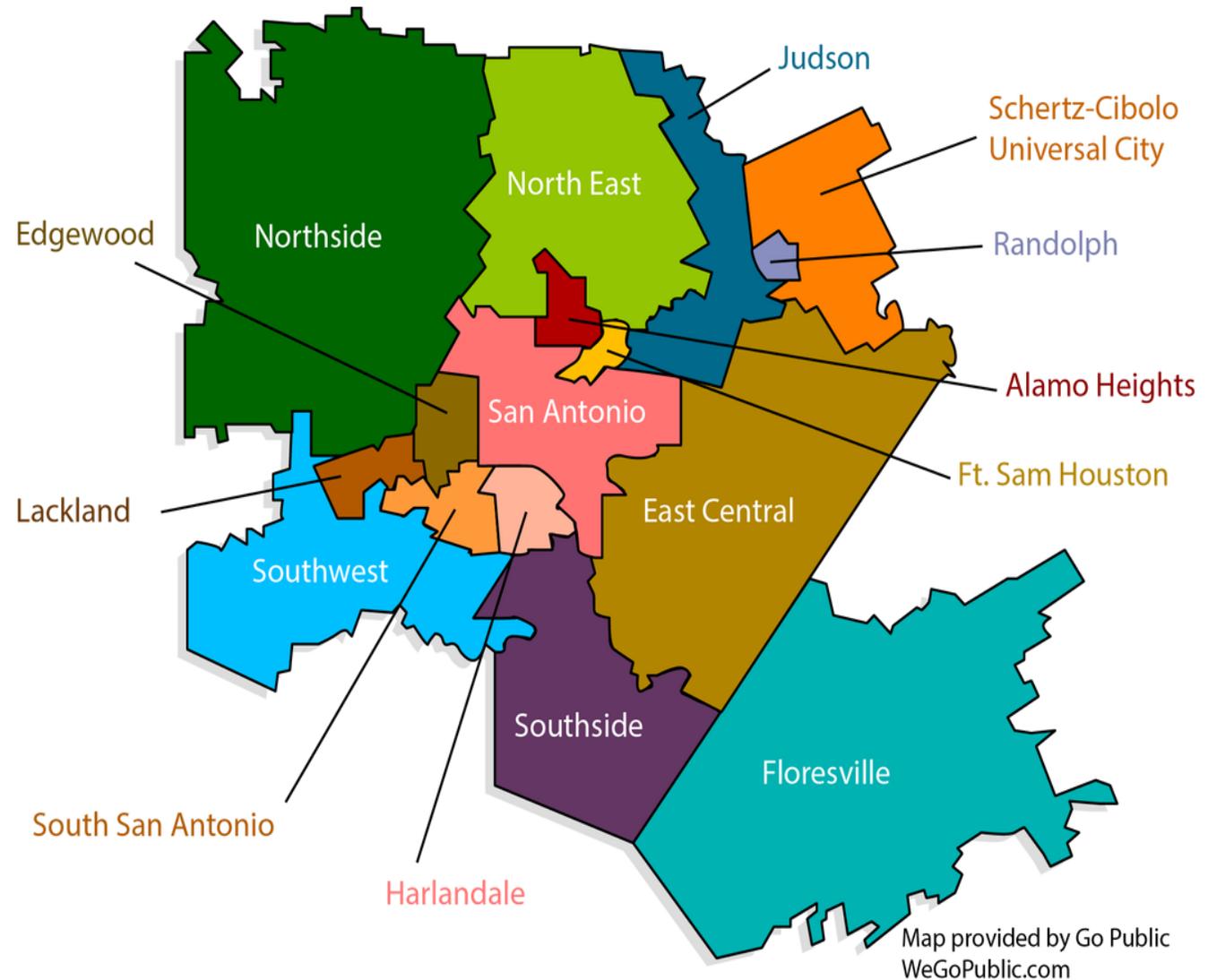
San Antonio: 1.14

Schertz-Cibolo Univ. City: 1.09

South San Antonio: 1.14

Southside: 1.10

Southwest: 1.11



District with CEI of 1.08

ABC ISD (CEI = 1.08)

$$ABA = BA \times (((CEI - 1) \times 0.71) + 1)$$

$$ABA = \$5,140 \times (((1.08 - 1) \times 0.71) + 1)$$

\$5,432 per student in average daily attendance

District with CEI of 1.17

XYZ ISD (CEI = 1.17)

$$ABA = BA \times (((CEI - 1) \times 0.71) + 1)$$

$$ABA = \$5,140 \times (((1.17 - 1) \times 0.71) + 1)$$

\$5,760 per student in average daily attendance

Put student weights on a spectrum



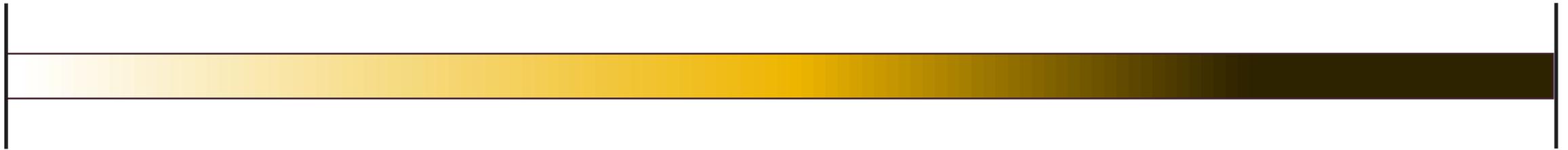
Compensatory Education



Poor

Poorer

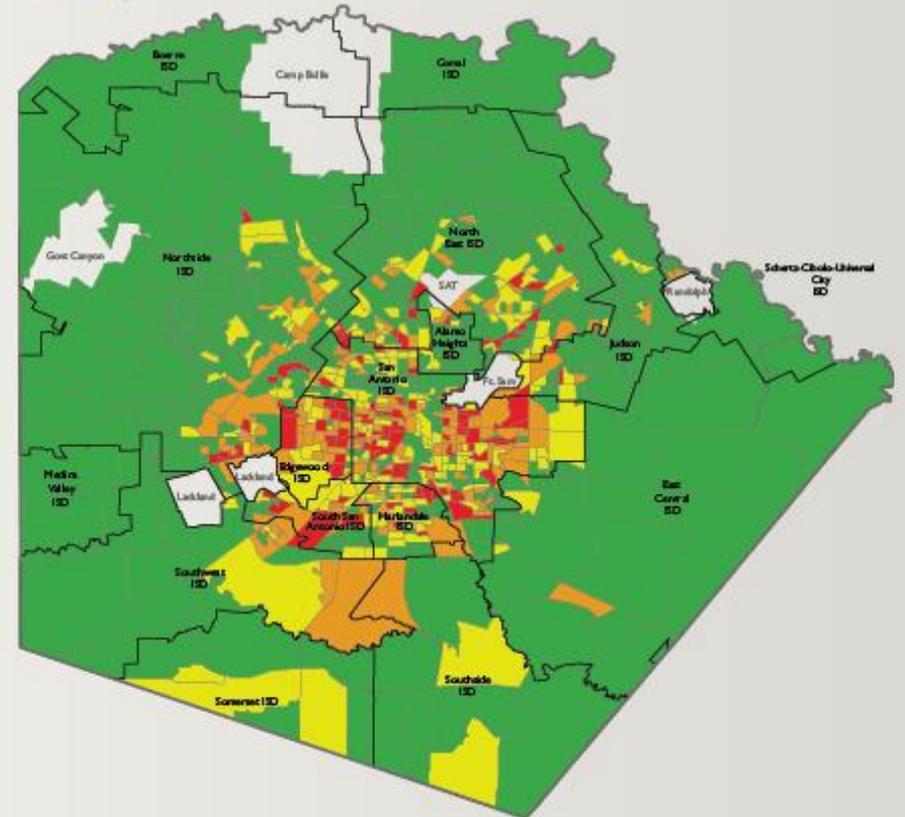
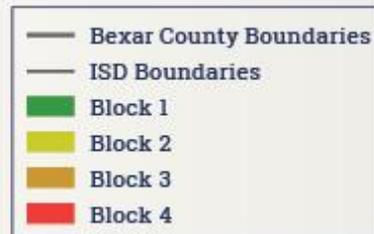
Poorest



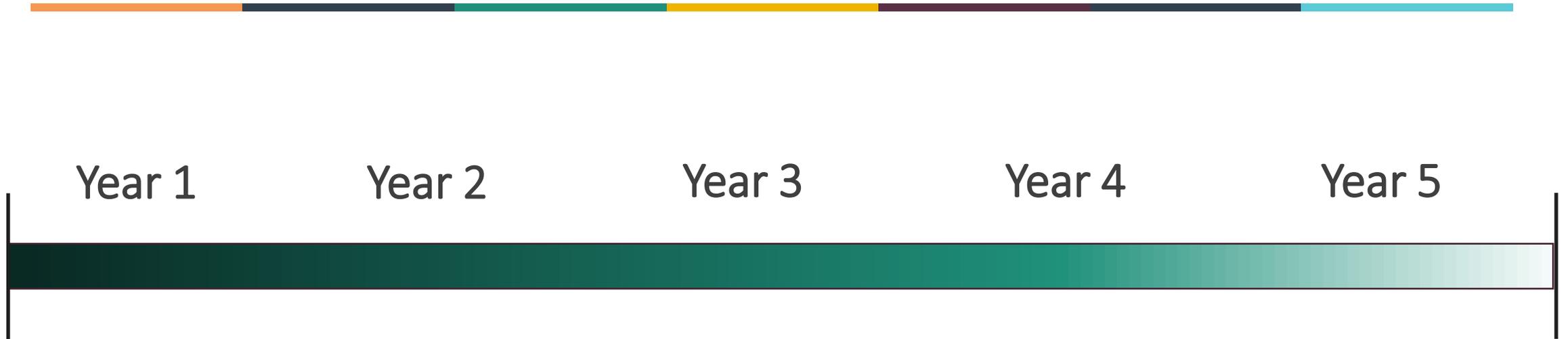
School districts are pioneering new ways to calculate compensatory education

THE CHALLENGES

82% of red is SAISD,
Harlandale,
Edgewood
and South San



English Language Learners



ELs Long-Term K-12 Achievement

Normal Curve Equivalents on standardized tests in English Reading

Two Way Dual Language Ed

One Way Dual Language Ed

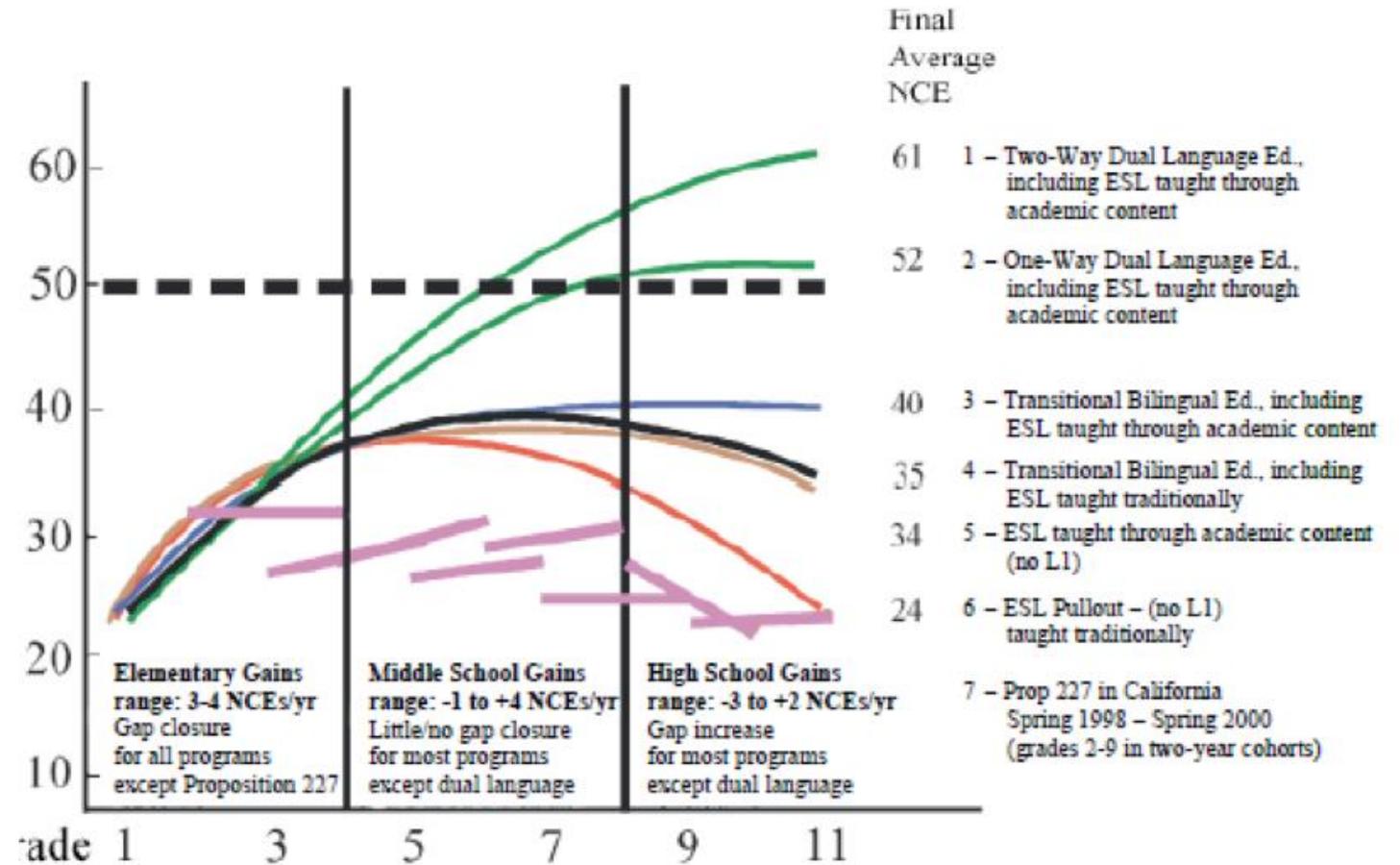
Transitional Bilingual Ed (Academic content)

Transitional Bilingual Ed (Taught Traditionally)

ESL taught with academic content

ESL pullout from mainstream

Proposition 227 in California

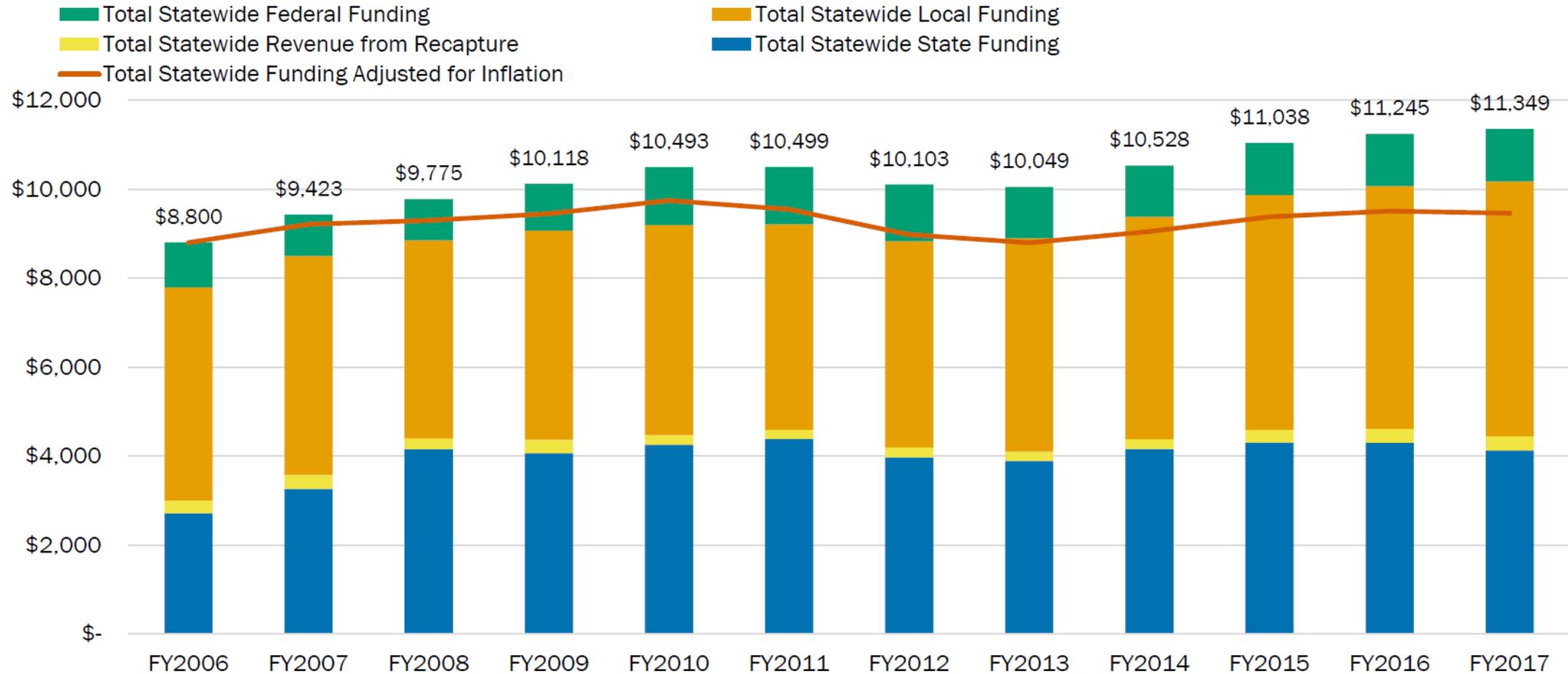


Thomas, W.P., & Collier, V.P. (2012). *Dual language education for a transformed world*. Fuente Press: Albuquerque, NM.

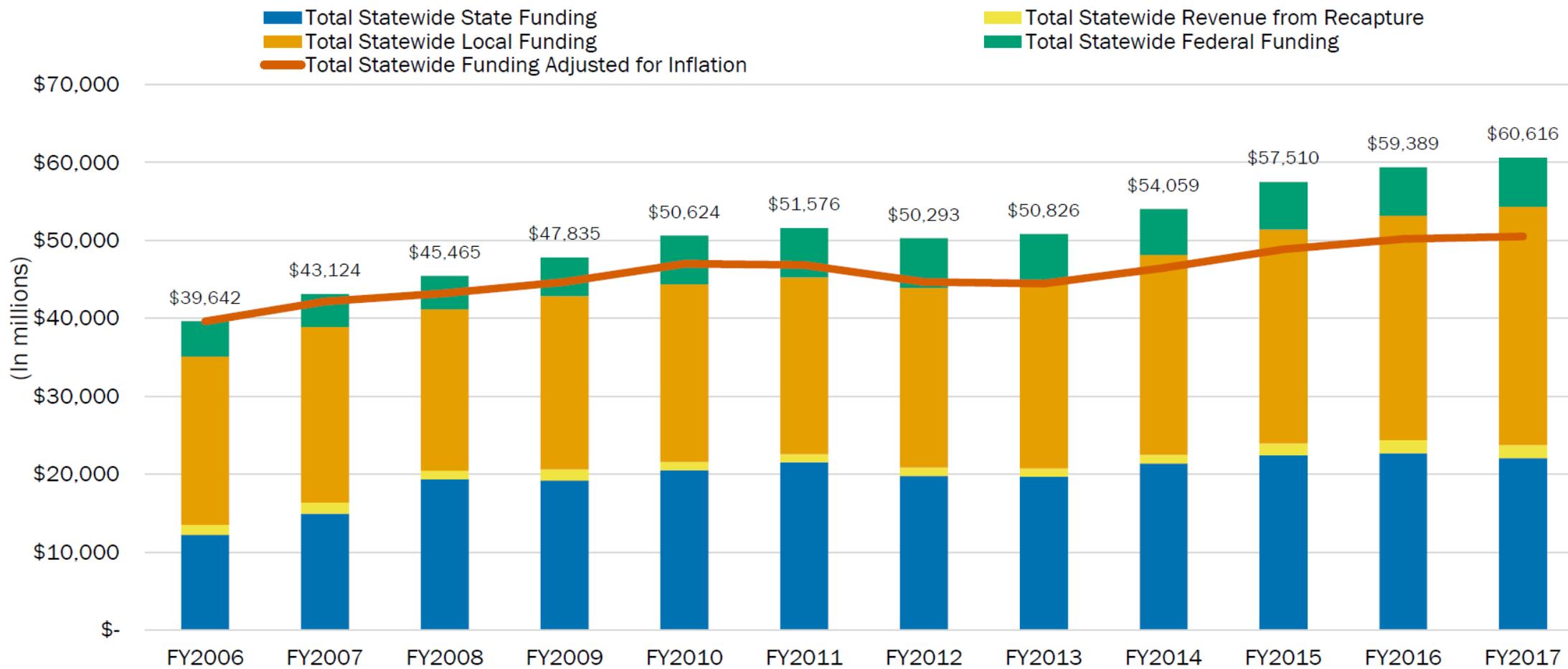


Merely increasing spending will not solve our education problem, but more money spent in a better way can improve student outcomes.

Total funding per enrolled student has increased 29% (from \$8,800 in FY2006 to \$11,349 in FY2017)



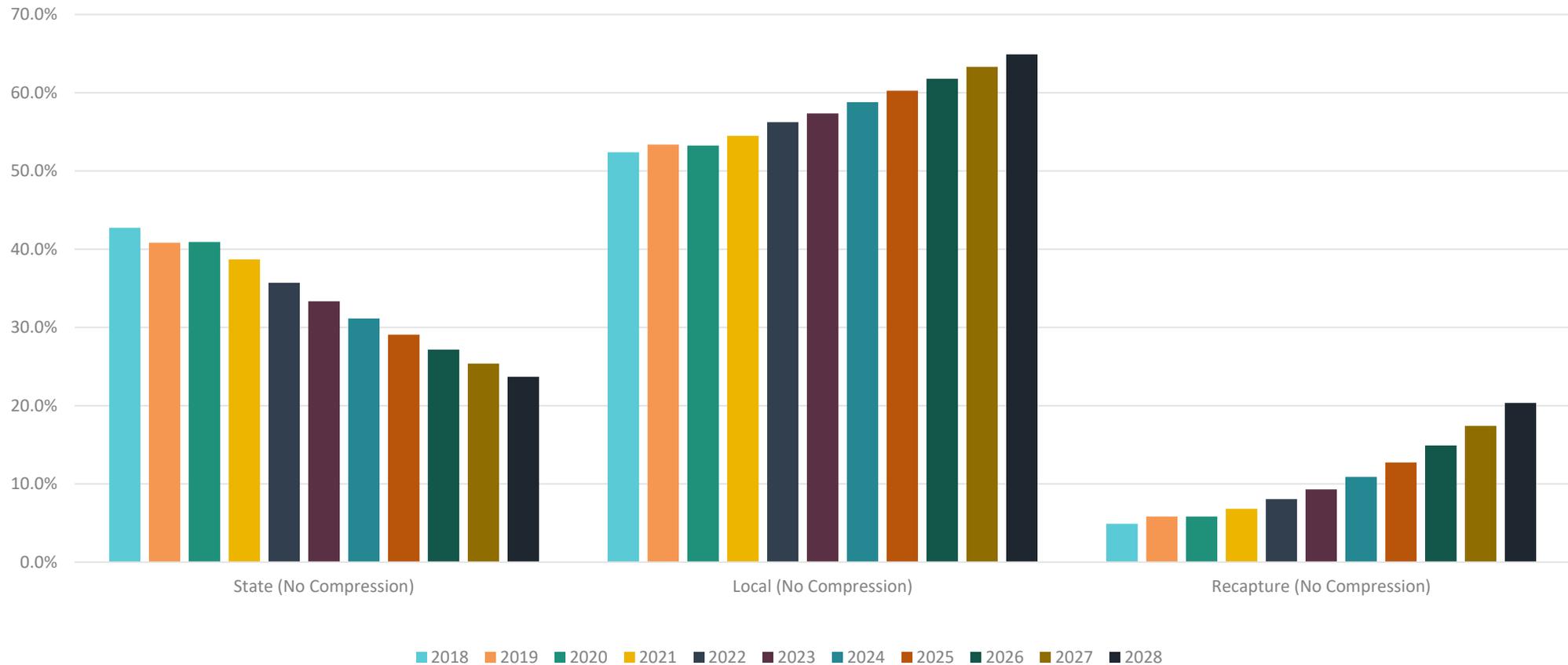
Total annual funding has increased 53% (from \$39.6 billion in FY2006 to \$60.6 billion in FY2017)



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New State Spending, Without Local Tax Reform, Will Not Stop The State Share Decline

Without Compression, The State Share Always Falls -
Even With Massive Infusions of State Revenue



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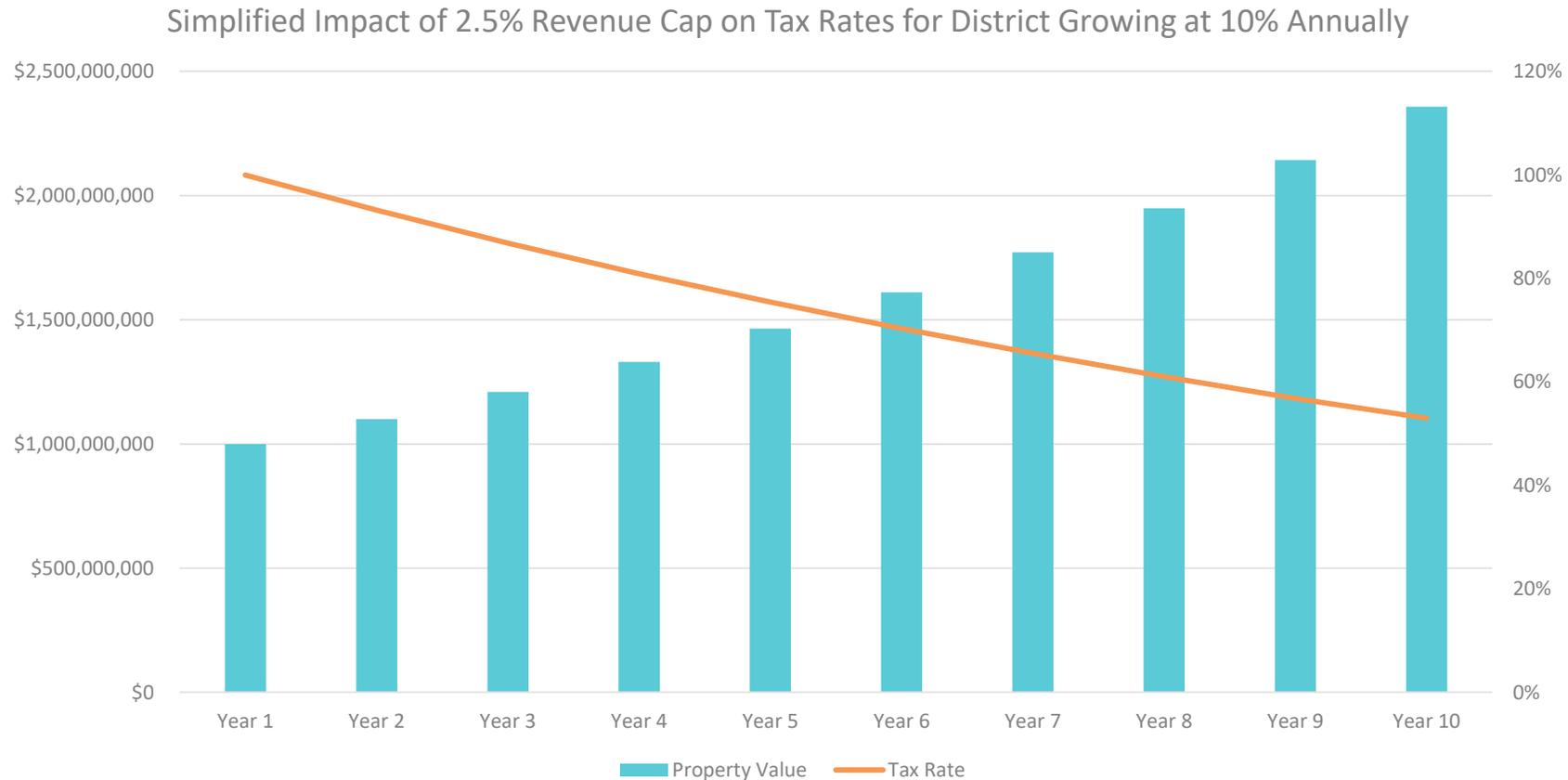
You can't fix school finance without
fixing how you pay for schools

Our Proposal:

The 2.5% Tier 1 M&O Revenue Cap

- This caps the increase in additional local property tax revenue a school district can collect for Tier 1 M&O at 2.5% per year, plus new property value.
- As property values rise on a district level, this cap would cause the tax rate to decline. So long as districts tax at this new individual district compression ratio, they would still be entitled to their full Tier 1 M&O allocation.
- **State revenues will be utilized to ensure districts do not lose money as a result of this compression of tax collections.**

Our Proposal: The 2.5% Tier 1 M&O Revenue Cap

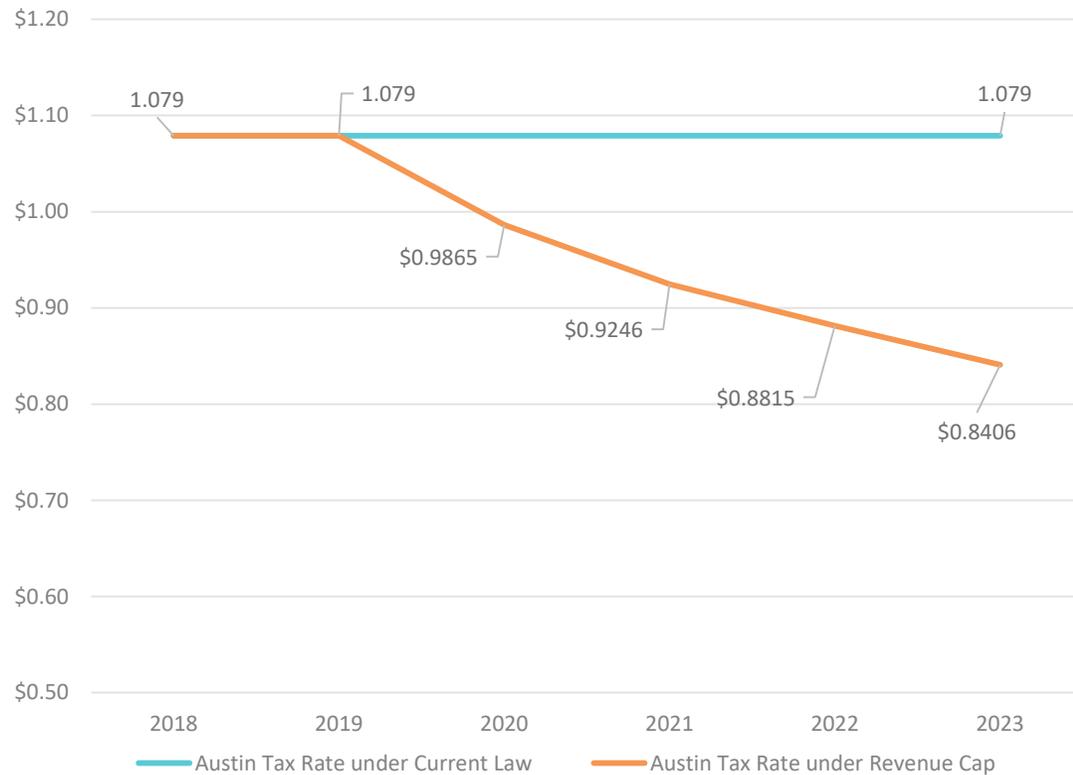


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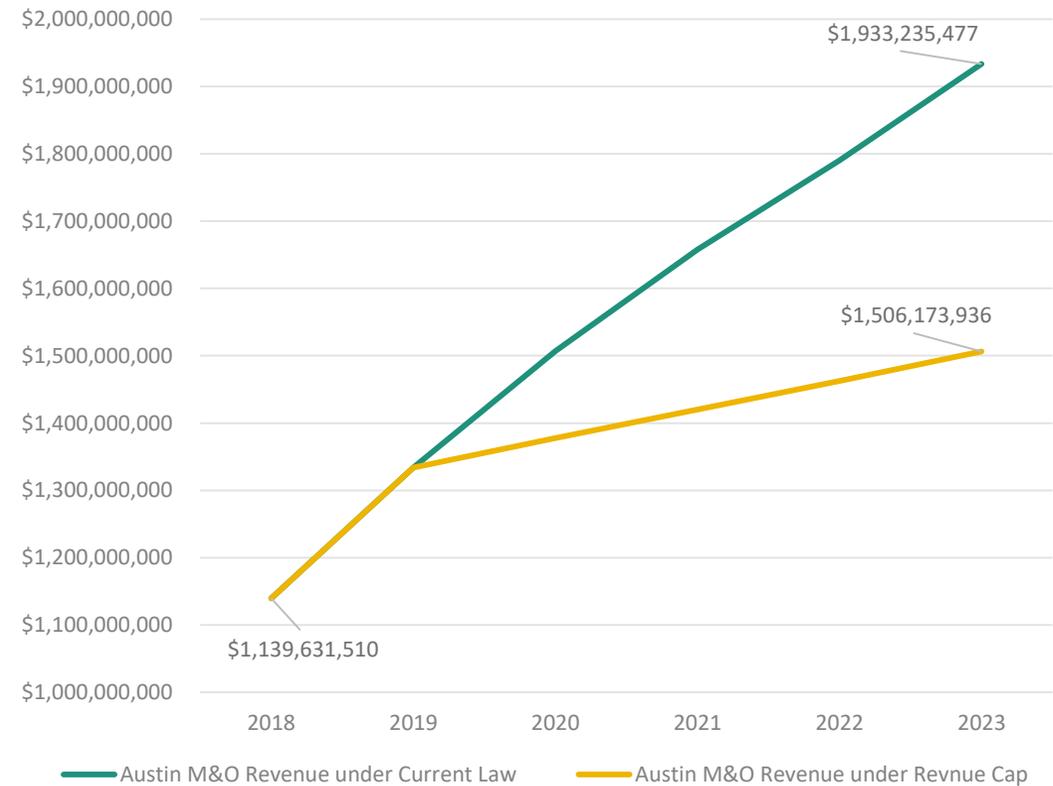
Projected Tax Effects - Austin ISD

Note: All projections are in draft form and are subject to change.

Total M&O tax rate projection



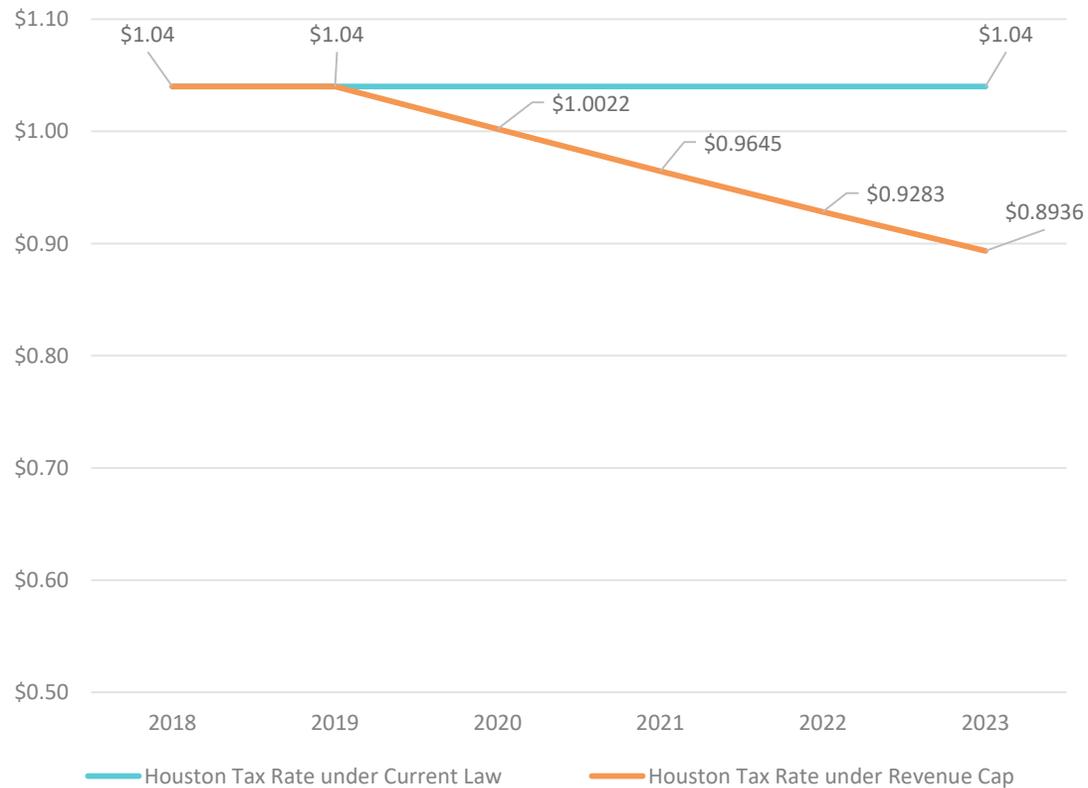
M&O Property Tax revenue projection



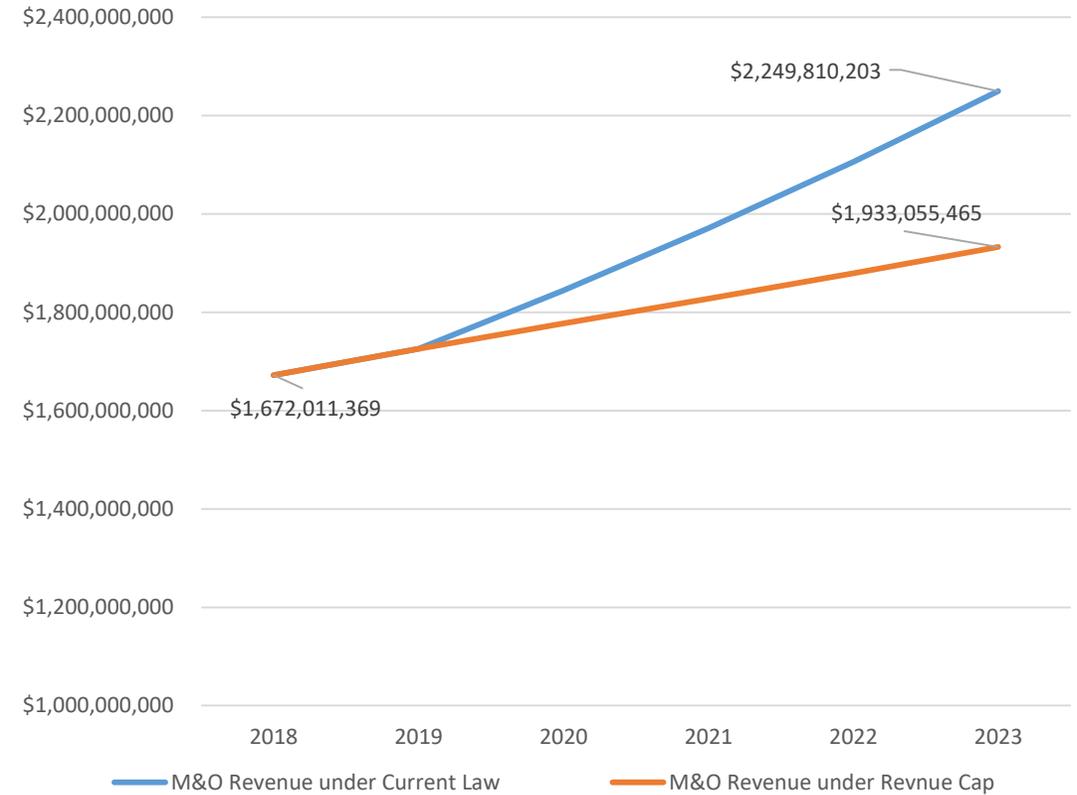
Projected Tax Effects - Houston ISD

Note: All projections are in draft form and are subject to change.

Total M&O tax rate projection



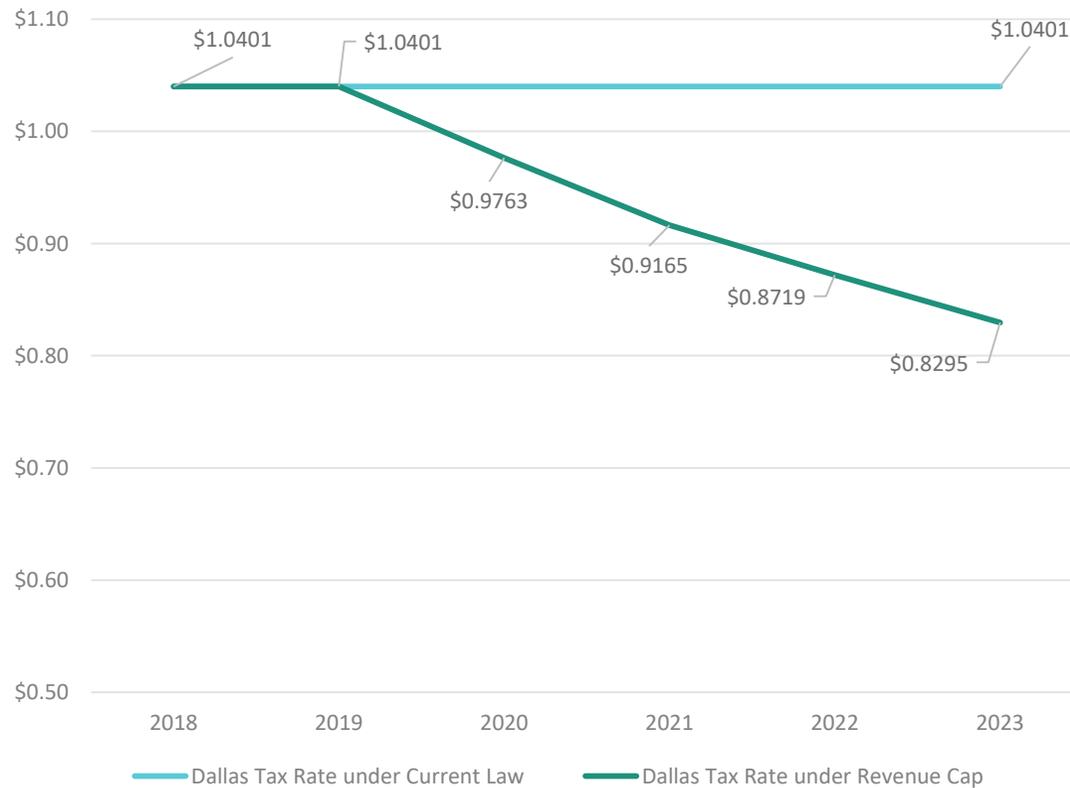
M&O Property Tax revenue projection



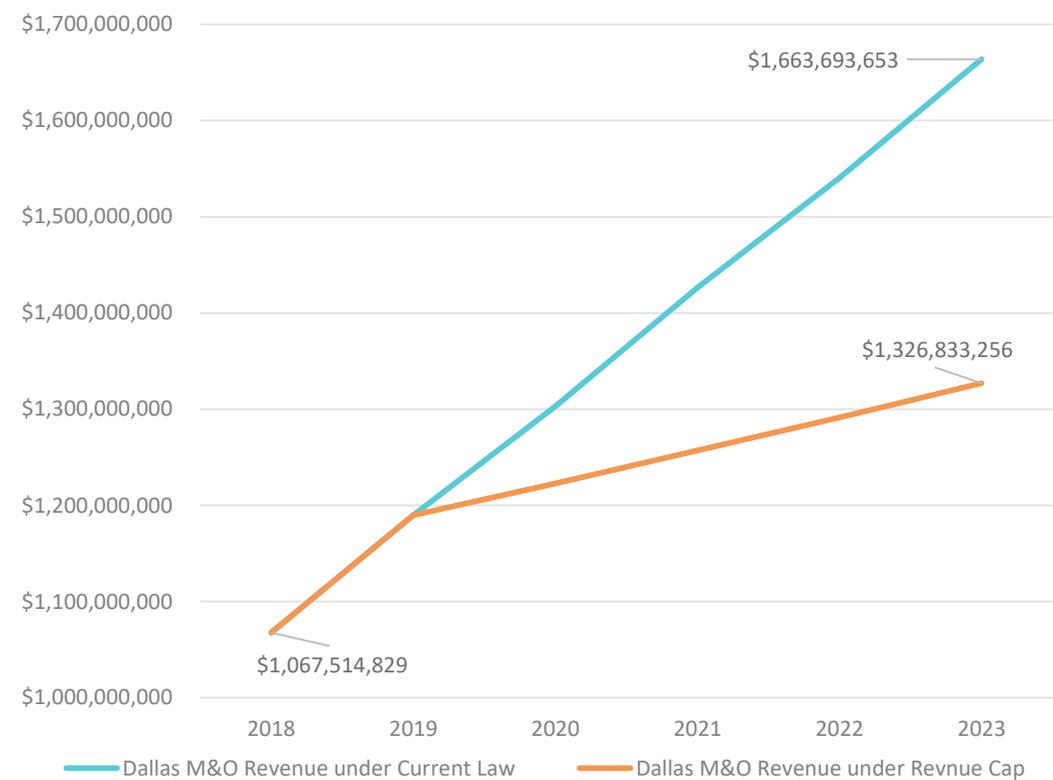
Projected Tax Effects - Dallas ISD

Note: All projections are in draft form and are subject to change.

Total M&O tax rate projection



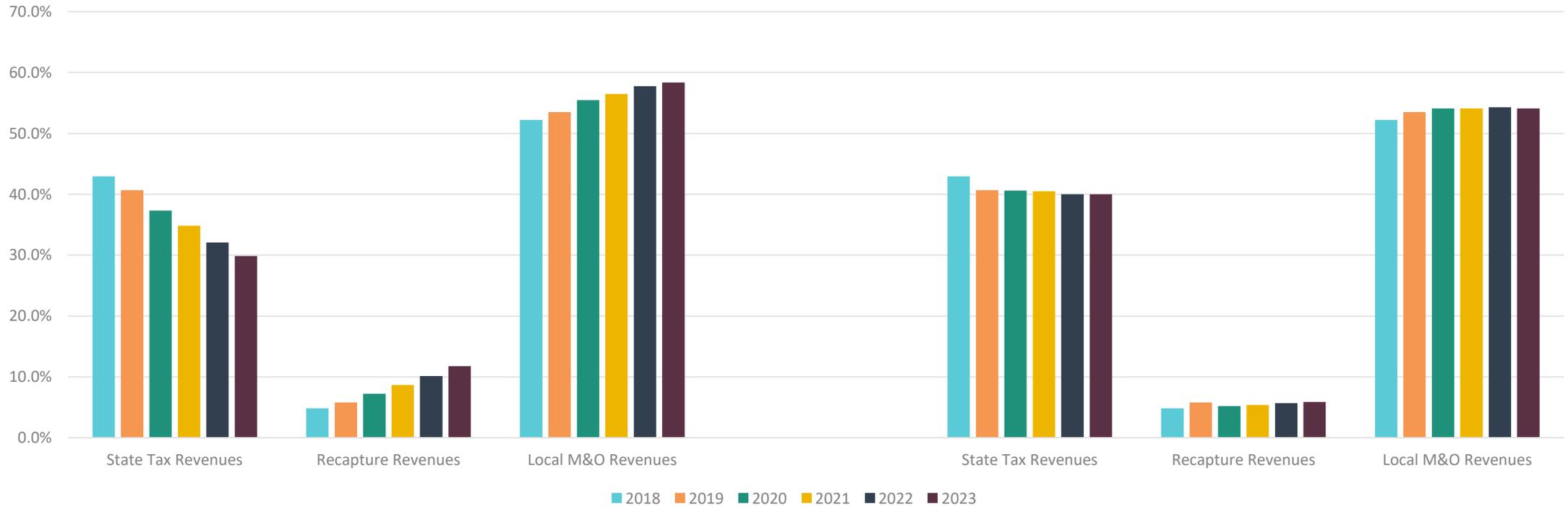
M&O Property Tax revenue projection



Projected State vs. Local Share Effects

Impact of 2.5% Revenue Cap on State vs. Local Share of M&O Funding

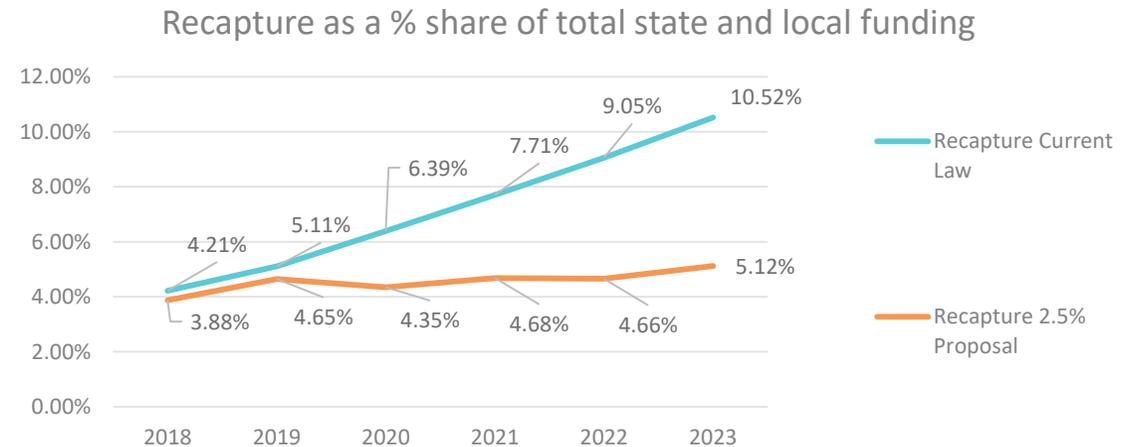
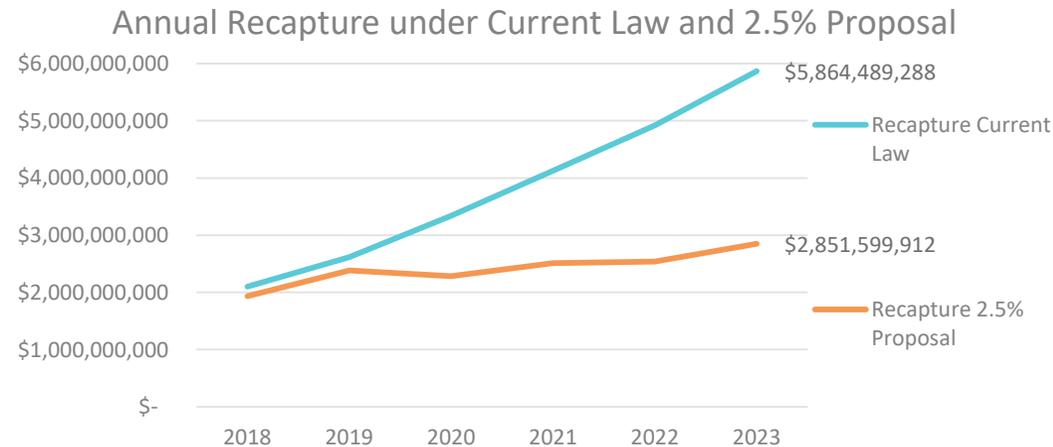
(Left: Current Law FY 18-23; Right: Current Law FY 18-19 and Proposed FY 20-23)



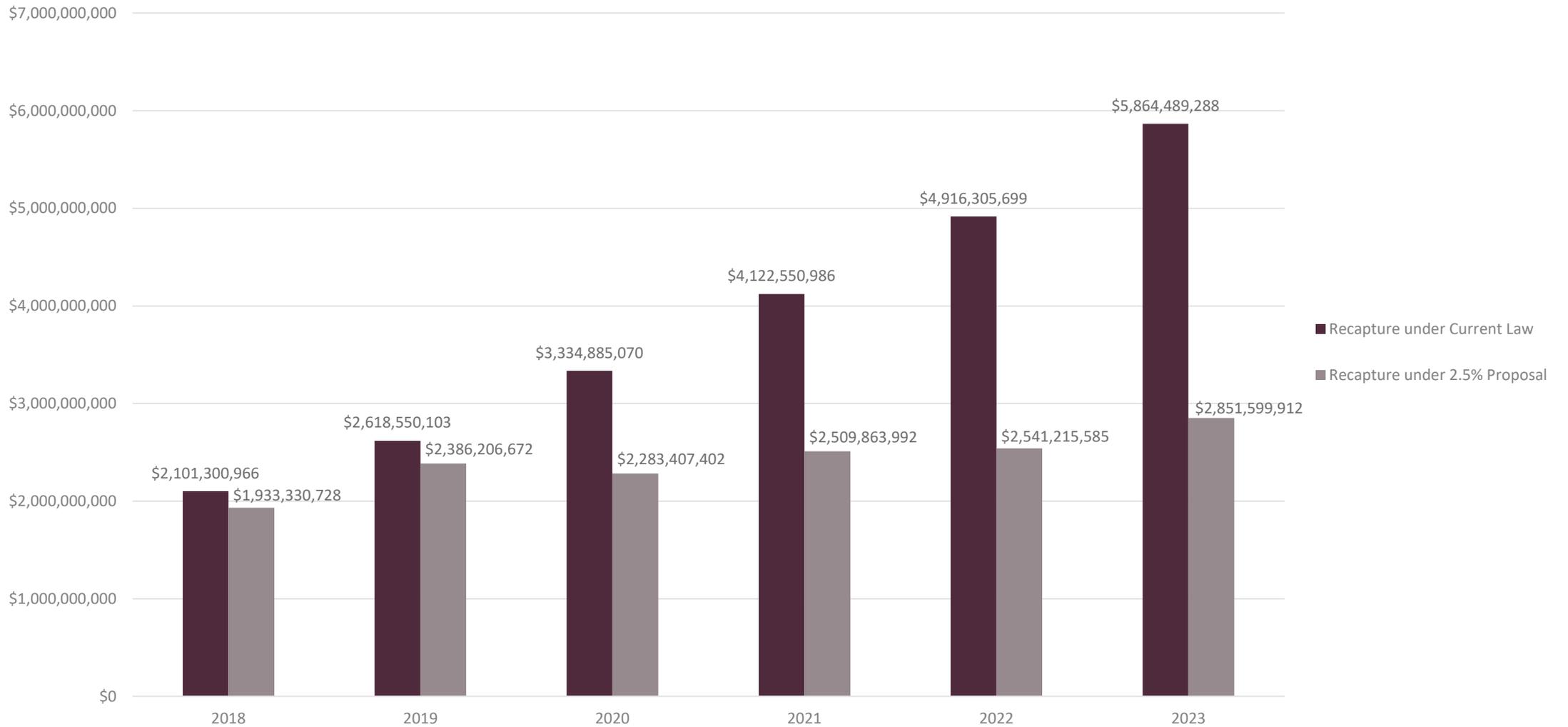
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Projected Effects - Recapture

- As property values continue to grow, the amount of recapture paid and the rate at which it increases will continue to grow.
- Adopting the 2.5% proposal will reduce future recapture payments districts would limit the state's reliance on recapture as a method of finance for public schools.

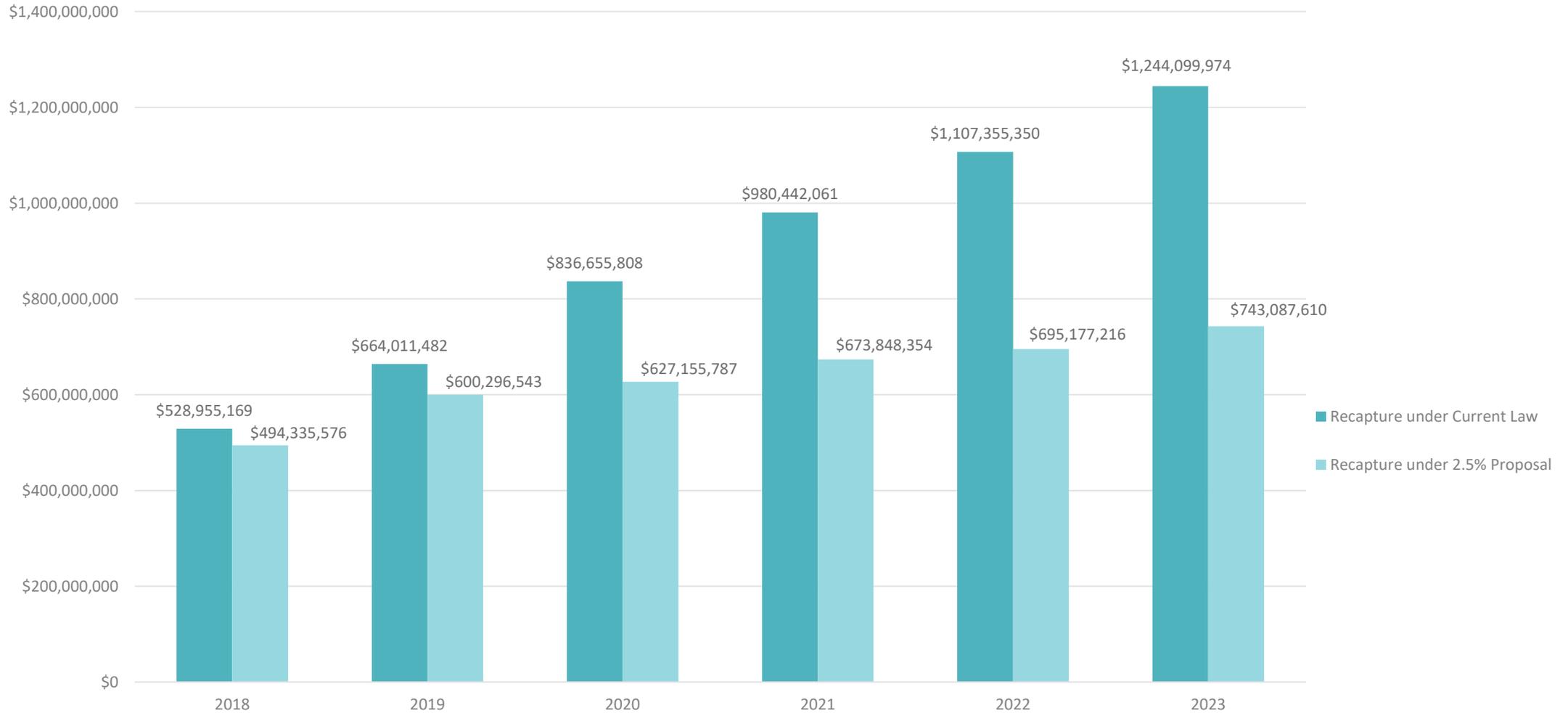


Projected Recapture Effects - Statewide



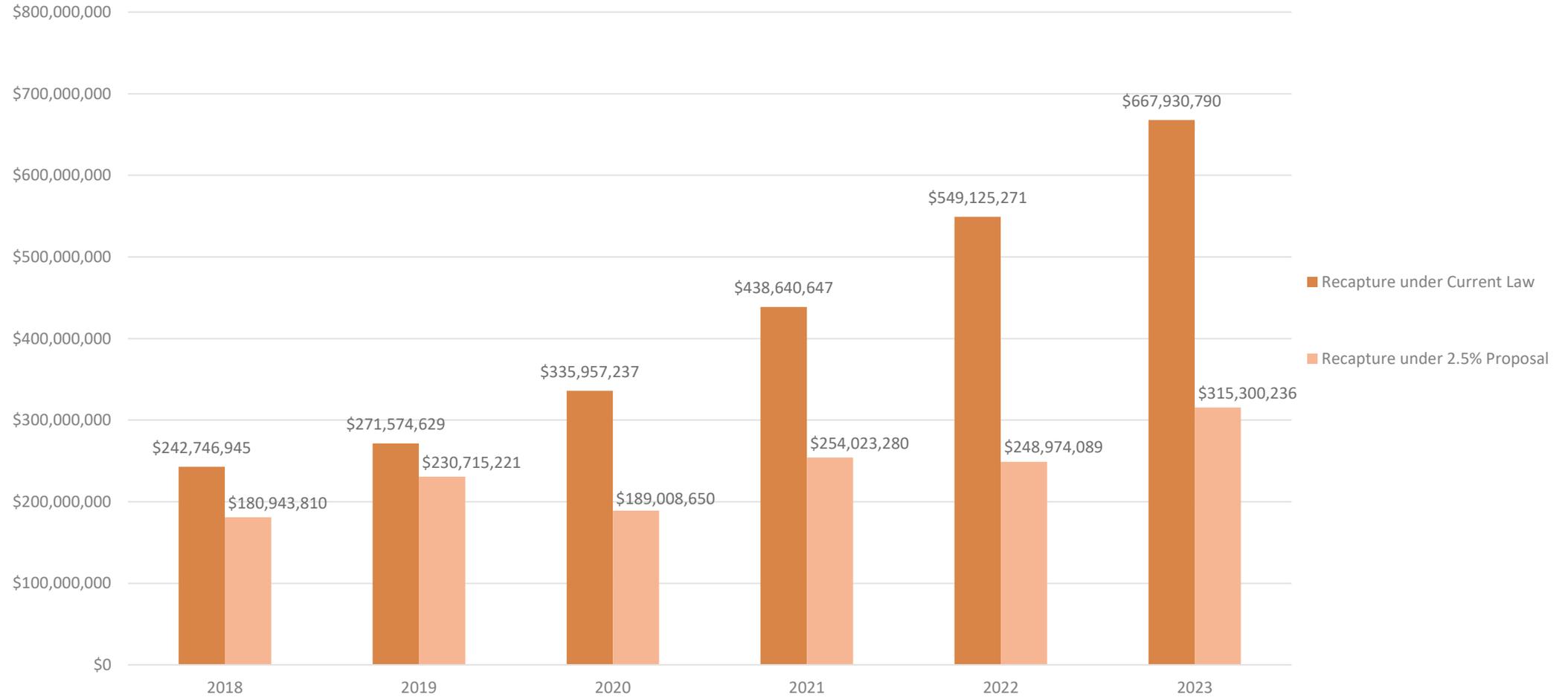
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Projected Recapture Effects (Austin ISD)



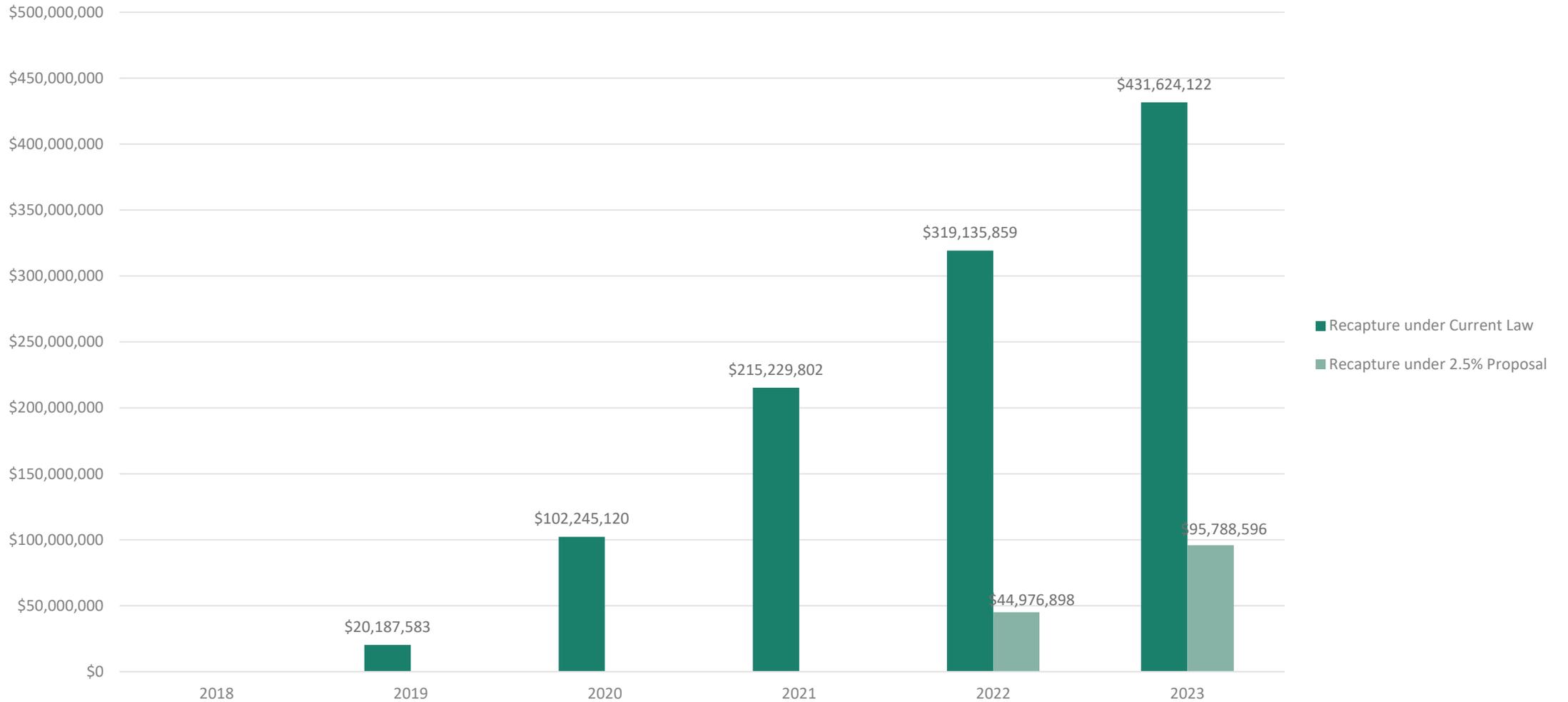
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Projected Recapture Effects (Houston ISD)



October 29, 2018

Projected Recapture Effects (Dallas ISD)

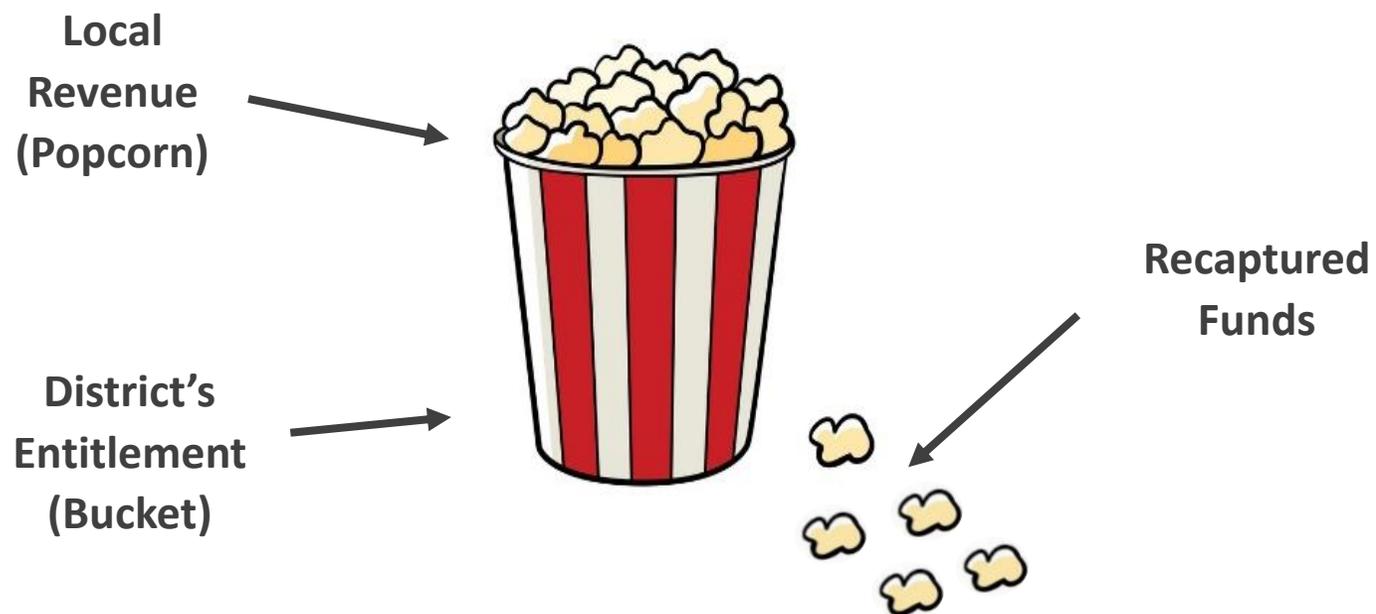


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The system is more unfair
than people realize

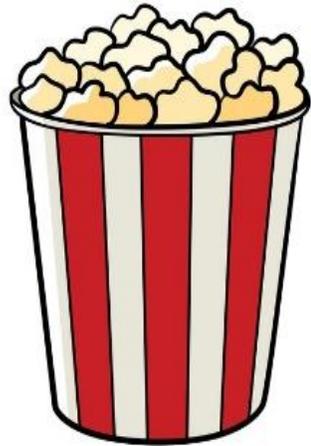


How people believe “Robin Hood” works



How it actually works

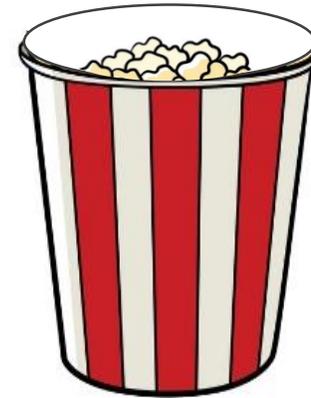
It doesn't matter how much money the formulas say you should receive.



Recapture always happens at a designated equalized wealth level.



You can start paying recapture before your bucket has been filled.



91

Number of districts who made recapture payments in 2017 so large they didn't have enough Tier 1 money to meet formula needs.

4

Number of ISDs that paid more than 100% of Tier 1 collection in recapture in 2017.

\$49m

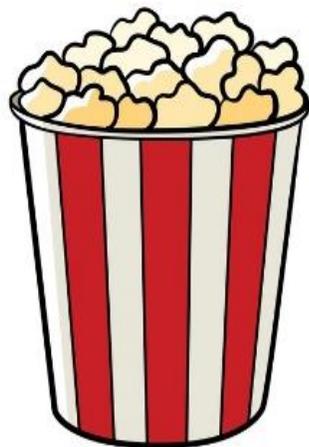
Amount of Houston ISD's Tier 1 deficit because of recapture in 2018.

With the changes in the
Governor's plan, these
problems are finally fixed.

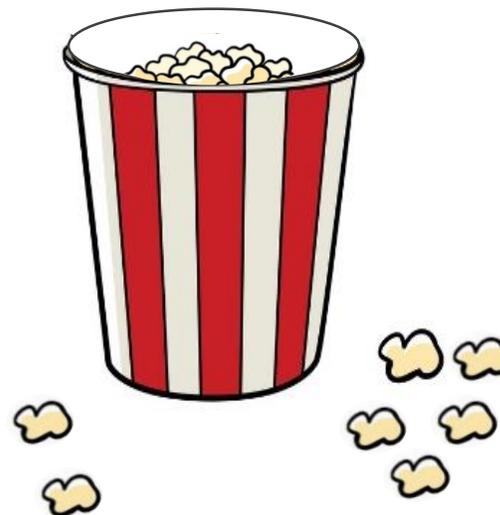


Instead of this...

**Non-recapture
District**

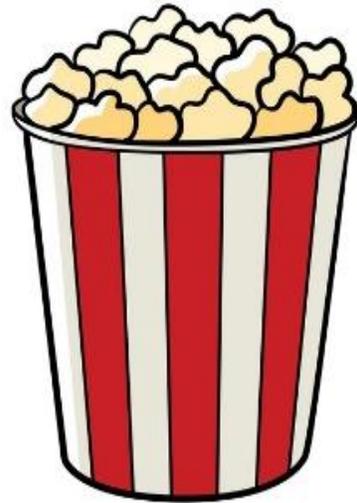


**Some Recapture
Districts**



The system will treat all districts the same.

All Districts

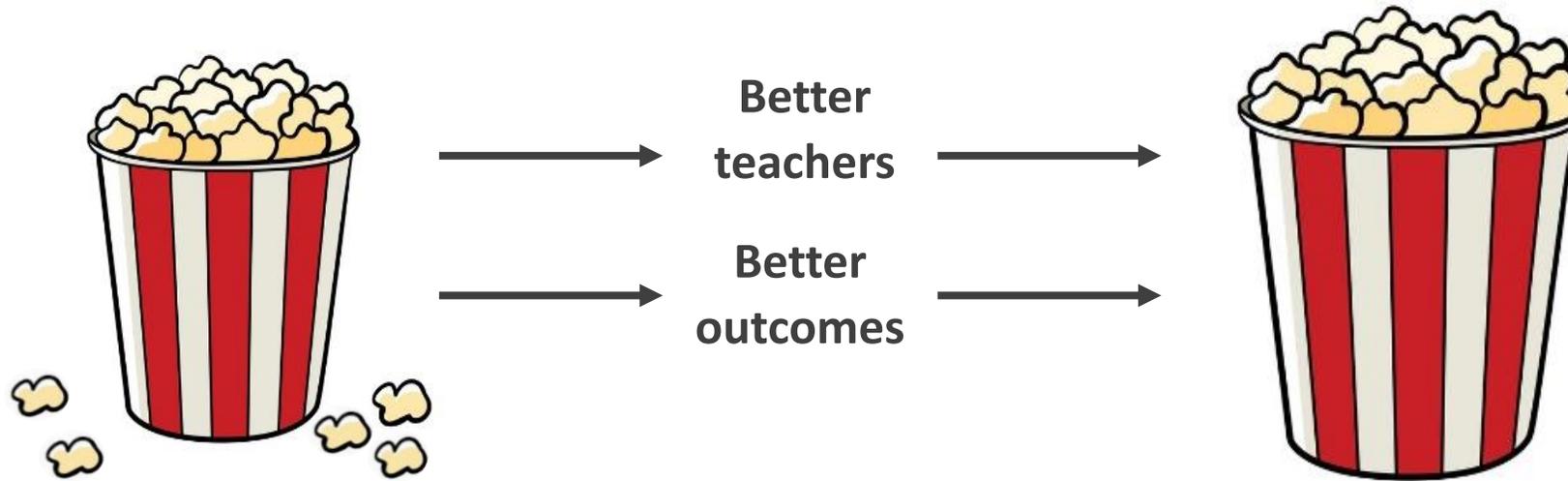


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But it gets even better...



As a district collects more outcomes bonuses and hires better teachers, their entitlement grows and their recapture shrinks.





*What does this all mean for the
future of Texas education?*

Maintaining Affordability Through Comprehensive Local Tax Reform



October 29, 2018

Overview of Proposal

- Cap annual property tax revenue growth at 2.5% for cities, counties, and school districts, with a requirement that the impacted taxpayers have a right to vote if a governing body seeks to exceed this allowable rate
- Three Parts
 - School M&O Taxes
 - City/County M&O Taxes
 - Transparency and Harmonization

Why do we need revenue caps?

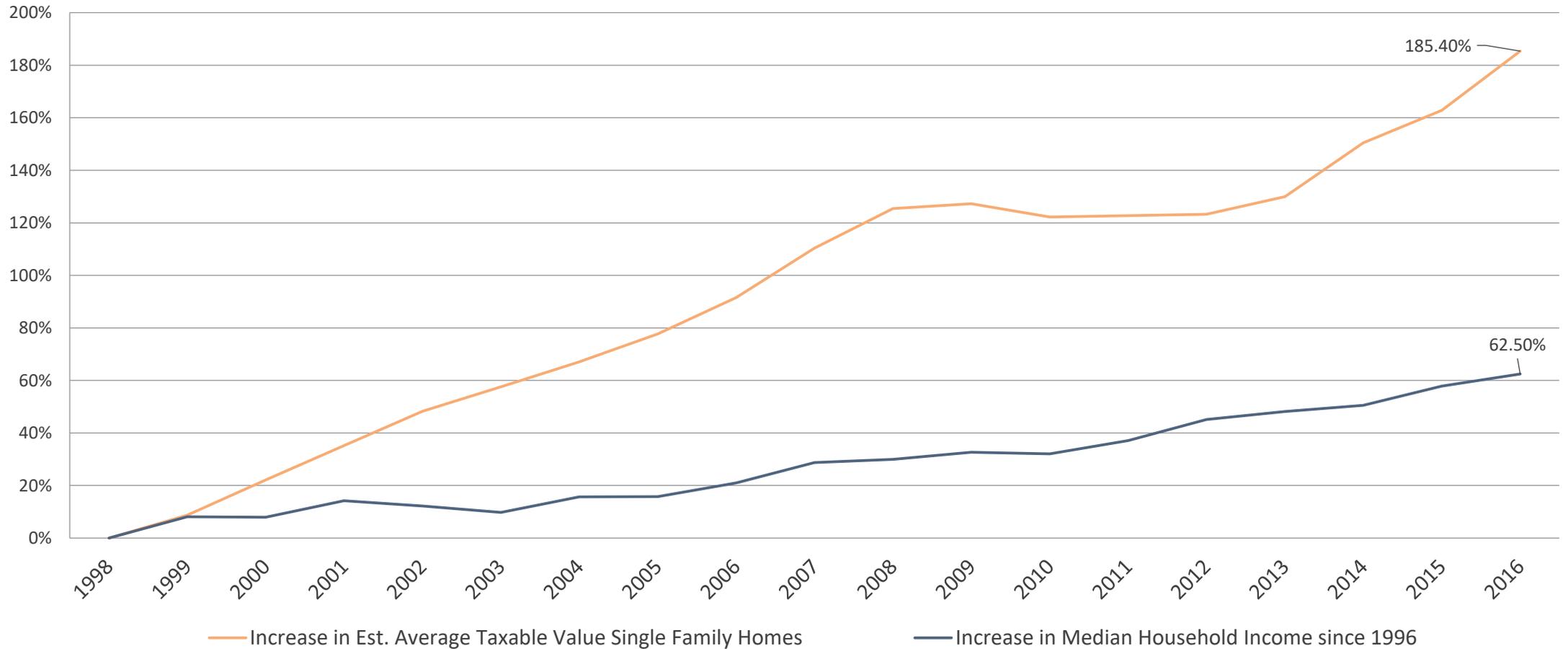


Property taxes are increasing at an unsustainable rate

- From 2005 to 2015 (11 years)
 - The County total property tax levy increased by 82.2%
 - The City total property tax levy increased by 70.9%
 - The School total property tax levy increased by 39.5%
 - The Special District property tax levy increased by 92.6%
 - Median Household Income increased by 36.34%
- Taxable home values have increased faster than incomes as well, as shown on the next slide
- Property taxes rising faster than the economy is growing is not a sustainable policy and threatens the Texas economic growth model
 - People are being taxed out of their homes. Gentrification and an overall housing affordability crisis are significant problems across the state.

Background- Home values vs Median Income

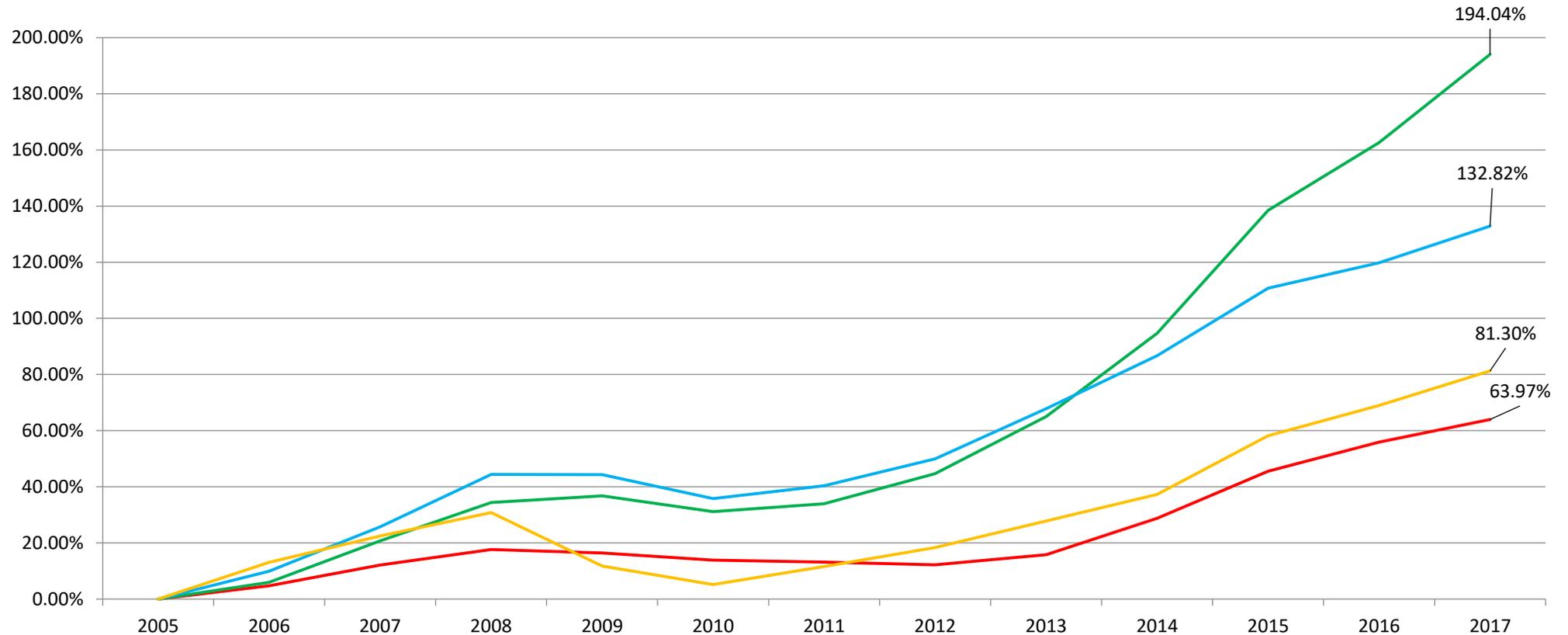
Statewide Single Family Home Values 1998-2016



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Background- Values by Property Category

Harris County values by category 2005-2015



— Ave Taxable Value- Single Family Home

— Avg Taxable Value- Multifamily

— Avg Taxable Value- Commercial Real

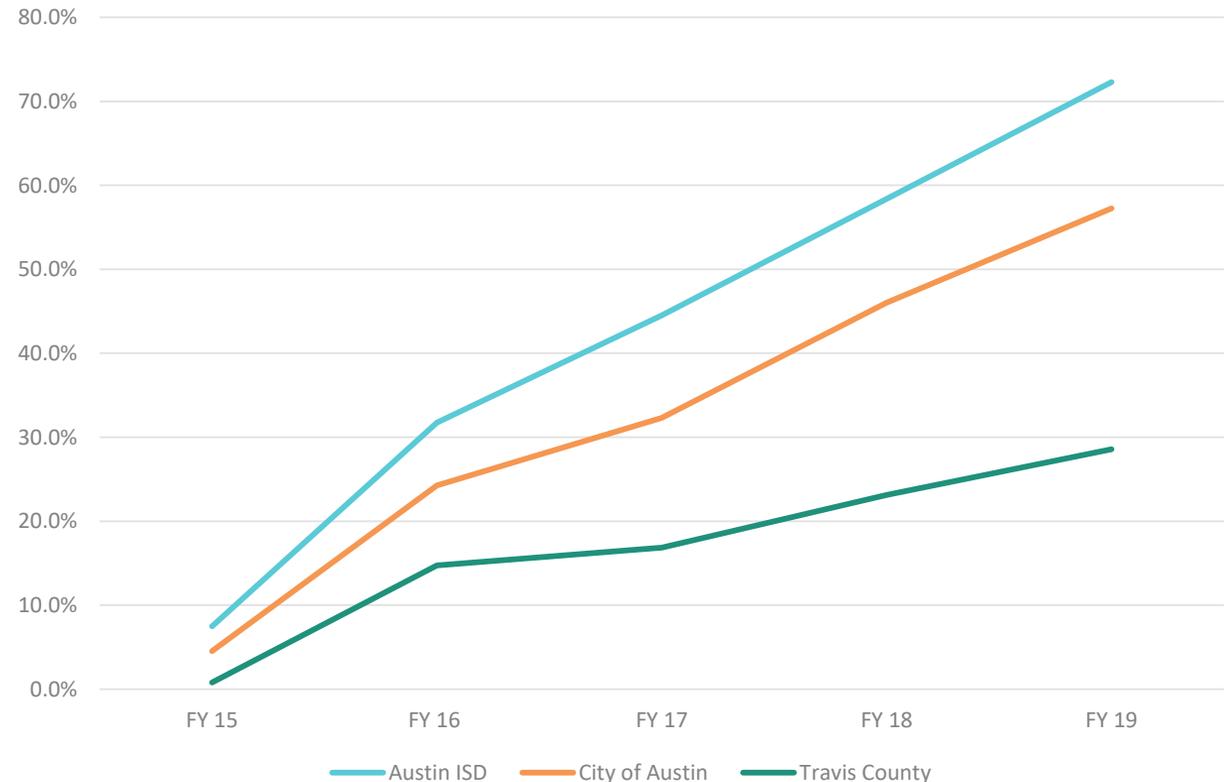
— Avg Taxable Value- Industrial Real

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Why is there a need for a cap?

Local Tax Trends - Austin

- Since 2014, the total tax bill on a median Austin home has **increased 79.5%**
 - Austin ISD: 72.3%
 - \$1,662 median increase
 - City of Austin: 57.2%
 - \$533 median increase
 - Travis County: 28.6%
 - \$262 median increase



Recapture Actuals (1994-2018) and Projections (2019-2023)

Why is there a need for a cap?

Tax Rates do not Sufficiently Adjust Downward with Value Growth

Star-Telegram

Priced out of their home? North Texans see tax bill rise \$1,200 in five years

BY GORDON DICKSON AND NICHOLAS SAKELARIS
gdickson@star-telegram.com

July 06, 2018 06:00 AM

Robbin and Andy Hallford's annual tax bill has gone up nearly \$1,200 since they bought their home in [Mansfield](#) five years ago.

"We're starting to get priced out of this house," Robbin Hallford, a high school science teacher, said.

Their four-bedroom home with a swimming pool in the [Arbors of Creekwood](#) neighborhood was valued at \$295,106 in 2017, up from \$226,000 in 2013. And, the value is expected to be even higher when Tarrant County tax rolls are certified later this year.

* * *

Where the money goes locally

At the local level, school districts, cities and other local governments soon will receive estimates from the Tarrant Appraisal District projecting how much money can be expected during the next fiscal year, which starts in the fall. The July estimate is usually considered an accurate predictor of how much revenue local governments can expect after final tax rolls are certified each September.

Budget directors from those entities will use those estimates to determine a tax rate for property owners beginning in the fall — and, in many cases, **property values are escalating so quickly in the Dallas-Fort Worth area that even in areas where governments drop the tax rate most home owners will pay a substantially higher bill.**

In Fort Worth, for example, the population has increased 17.9 percent since 2010. [The population in 2017 was 874,168, compared to 741,206 in 2010.](#)

But during that same time, the city's net taxable value has increased more dramatically — 43.4 percent. The city's net taxable value was [\\$57.1 billion in 2017](#), compared to [\\$39.8 billion seven years earlier](#), according to the Tarrant Appraisal District. The net taxable value is used by cities, school districts and other local governments to set property tax rates.

Based on that net taxable value, [Fort Worth's property tax revenue](#) increased 30 percent from 2010-18. The city is expected to receive \$465.5 million in property tax revenue by the end of the current fiscal year, compared to \$356.8 million in 2010 — including property taxes for general fund and debt service.

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Why is there a need for a cap?

Tax Rates do not Sufficiently Adjust Downward with Value Growth



Why is there a need for a cap?

Tax Rates do not Sufficiently Adjust Downward with Value Growth



After another year of soaring tax revenue, Dallas County commissioners approved a 3 percent raise for themselves this week.

That bump brings commissioners' individual salaries to \$163,500, and the county judge's to \$176,500, not counting the yearly \$9,300 car allowance. But County Judge Clay Jenkins and Commissioner Elba Garcia — the two votes against the raise — said they wouldn't accept the pay increase.

The raise applies to the commissioners and other county elected officials: the sheriff, constables, justices of the peace, county clerk, county treasurer, district clerk and tax assessor-collector. It does not cover courthouse judges or the district attorney, whose pay is set by the state.

Despite a 9 percent increase in property values, county commissioners will consider a \$1 billion budget this month that keeps the tax rate the same as last year: 24.31 cents per \$100 valuation.

Members of the Dallas County Commissioners Court have some of the highest salaries in the immediate area compared with their counterparts. In surrounding counties, the pay ranges from \$75,500 and \$94,300 for commissioners and the county judge in Rockwall County to \$172,400 and \$182,400, respectively, in Tarrant County.

Why is there a need for a cap?

Tax Rates do not Sufficiently Adjust Downward with Value Growth

San Antonio Express-News

City unveils legislative plan for property tax relief

By Gilbert Garcia | August 8, 2018 | Updated: August 8, 2018 9:27am

For example, while cities bear the brunt of taxpayer wrath, the city's share of the property taxes you pay is small. In San Antonio, for example, school districts take 48 percent of your property taxes, while the city collects only 22 percent.

There's also the fact that appraisal districts, not cities, set valuation rates. So those skyrocketing tax bills you're paying don't have much to do with the city, which hasn't raised its property tax rates in 25 years (and has lowered rates seven times during that period).

Our property tax problem is really a state school-funding problem. And that's the issue addressed by the city's State Legislative Program.

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Why is there a need for a cap?

Tax Rates do not Sufficiently Adjust Downward with Value Growth



NEWS4SA.com

Proposed 2019 city budget is more than 5 percent higher than last year's

by SBG San Antonio | Thursday, August 9th 2018

SAN ANTONIO – City Manager Sheryl Sculley says there is no city property tax rate increase in the \$2.8 billion proposed city budget for the 2019 fiscal year.

“Creating a balanced budget that provides residents with increased access to essential services without increasing the City’s property tax rate is one of my highest priorities,” City Manager Sculley said. “This year, we’re presenting a budget that takes a big step forward in addressing the basic needs of affordable housing, streets and sidewalks for our community.”

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Why is there a need for a cap?

Tax Rates do not Sufficiently Adjust Downward with Value Growth

KUT **90.5**

Austin's NPR Station

Mayor Says City Council Must Be 'Judicious' With Property Tax Hikes, But Investments Are Needed

By JENNIFER STAYTON • JUL 8, 2018

Austin Mayor Steve Adler said he is aware of worries about ever-increasing property taxes for Austin homeowners.

"I understand not wanting to have higher taxes," he said. "I don't want to have higher taxes."

But he said Austin needs the investment in affordable housing and transportation that the bond would bring. Those two areas are consistently cited by the community as desperately needing improvement, he said.

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Why is there a need for a cap?

Property Tax Increases are Driving Gentrification



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Quick Overview of Proposal

- By limiting allowable property tax revenue growth, cities and counties will reduce tax rates as property values decline.
- Voters will have an automatic say when a local government tries to raise property tax revenues by more than 2.5%.
- Local Governments can exceed 2.5% only for limited causes
 - Law enforcement
 - Critical infrastructure
- Fiscal restraint will be rewarded, as local governments can “bank” capacity for future years



*What does this mean for the future
of Texas?*