



# News & Notes



*Advocating School Finance Equity and Adequacy in Texas*

## Let’s Revisit Formula Funding in the ‘09 Session

*By Ken McCraw – Executive Director, Texas Association of Community Schools (TACS) and Former Superintendent of Lamesa ISD*

TACS represents over 700 small and mid-size schools in our state that range from small rural districts to mid-size urban districts. The primary need of our member schools is a consistent revenue stream to pay for the ever increasing costs of operating an efficient public school, to



*Ken McCraw*

meet the academic needs of its students, comply with the expectations of the public and meet the accountability standards of the state. This continues to be a formidable challenge for our districts.

According to *Education Week’s* 12<sup>th</sup> annual Quality Counts report, Texas was ranked in the following areas:

- 12<sup>th</sup>: How well the state connects the K-12 education system with early learning, higher education and student preparation for employment.
- 13<sup>th</sup>: K-12 achievement. The state had the second highest gains in eighth grade math scores in the nation.
- 21<sup>st</sup>: On standards, assessments and accountability.
- 23<sup>rd</sup>: On efforts to improve teaching.
- 36<sup>th</sup>: In providing opportunities for success to students. The state ranked 48<sup>th</sup> last year.
- 40<sup>th</sup>: On school finance. Texas spends \$7,687 per student, *more than \$1,200 less than the national average.*

Texas public schools have done fairly well academically as indicated by the above rankings while receiving less funding per student than the national average—\$1,200/per student less. Based on this data, it is apparent that the primary issue with our current formula system is inadequate funding. The funding shortfall was recognized by school boards and communities throughout the state.

Ninety-five percent of the state’s school districts are taxing at \$1.04 and 120 districts held elections to ask permission

to increase their tax rates to as much as \$1.17. These increases were sought to allow school districts to maintain much needed programs and to pay for ever-increasing operating costs.

The *current formula* system allows the state to adjust for a variety of needs which are unique to individual districts. This method is critical for a state like ours that has schools with diversified resources and student needs. The formula system we have in place is not a bad distribution system if there are sufficient resources to fund it. Several components need to be retained in the current system or in an updated funding delivery system:

**Basic Allotment** - The basic allotment needs to be funded at a realistic level to reflect today’s educational costs.

**WADA** - Weighted ADA should be retained in order to recognize student differences. This is a critical factor in our formula system that recognizes student differences. As the number of economically disadvantaged and special needs students in our schools increase, the need for an adjustment to help districts meet the individual needs of those students is vital.

**Small and Mid-size District Adjustments** - These adjustments attempt to correct the “diseconomy of scale” for small and mid-size districts. When the small school adjustment was put in place, and later the mid-size adjustment, they were funded based upon available funds rather than reflecting the true additional cost incurred by these districts. As I recall, the formulas only compensate for about half of the additional cost. Attempts to update these adjustments have failed due to a lack of funding.

**Cost of Education Index** - The CEI has not been updated for many years and is in need of adjustment. The most current study was conducted by the Dana Center. The model recommended by the Dana Center staff to update the CEI is the Teacher Fixed Effects which looks heavily at salary data in and around school districts and bases the

*(continued on page 2)*

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(continued from FRONT)

new index on that data. This model does not adequately reflect the cost adjustment for many of our rural and remote school districts. Districts in west, east and south Texas have difficulty recruiting teachers to come to their districts because of the lack of amenities available in the area. Many young teachers want to be close to universities or the entertainment available in larger urban areas. While the salary data may show a lower wage to be competitive with other professionals in the area, many times a higher-than-expected salary is needed to attract teachers to these areas.

**Grant Funding** - Recently there has been a move toward providing funds to districts based on specific purposes or programs. Grants generally will not favor smaller school districts due to a limited staff being available to write, administer and evaluate the grants. Flowing state funds through grants rather than through the formula to limit district access to unrestricted funding has been another factor that has caused TACS districts to increase local taxes to obtain operating funds and funds for non-teacher salary increases.

**Transportation Allotment** - This allotment has not been updated since 1984. Districts do not receive sufficient funding to maintain and operate their transportation

system. *The lack of a realistic allotment causes funds to be diverted from academic programs to pay for the necessary transportation of students to and from school.*

**Technology Allotment** - With the rapid changes in technology and increased dependence on technology for testing, as a classroom resource and daily student assignments, the recognition of the costs incurred by districts needs to be recognized in the formula.

**Equity** - A funding formula must produce a high degree of equity to enable all of our districts access to the resources needed to educate our children. The goal of having 96% of the Texas school districts funded within the state funding system is a commendable goal.

The formula driven system does a pretty good job of flowing funds to schools but the following areas need improvement: increasing the basic allotment, improving equity and recognizing cost differences among districts by updating the CEI, the small and mid-size formulas, transportation allotment, compensatory education, bilingual and other allotments. *The current system is not broken; it just needs to be funded at an appropriate level.*

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# Testimony to the Texas House Select Committee on Higher and Public Education Finance

Presented by Richard Middleton, Ph.D., February 8, 2008



Richard Middleton

*Dr. Middleton has served as the Superintendent of the North East Independent School District since 1990. He began his career in education as a teacher of history and government at North East ISD's Roosevelt High School in 1972. Dr. Middleton is the Region 20 Director on the Equity Center Board and serves as president of the Texas School Alliance.*

Good morning. I am Richard Middleton, superintendent of North East Independent School District in San Antonio. I am here representing the Texas School Alliance (TSA), which is composed of 33 of Texas' largest school districts. We are a large and diverse group, with a mix of Chapter 41 and 42 school districts. Of the 4.5 million Texas school children, Texas School Alliance districts represent 1.5 million of these children. Together, these 33 districts serve 36 percent of the state's public school students, 42 percent of the state's economically disadvantaged students, and nearly half of the state's English Language Learners (ELL). TSA members recognize that creating a school finance system that works for all school districts is not an easy task.

Taking a broader look at public education in Texas, there are more than 1,000 public school districts that employ 615,000 staff to educate more than 4.5 million students each year, and the student body is growing by 70,000 to 80,000 per year. School districts range in size from fewer than 20 to more than 200,000 students, and property wealth varies from \$18,000 to \$2.8 million per student.

## Improvements to the Foundation School Program

- I have seen the State abandon a financial system that better reflected growth, tax effort, student need and equity. While our formula funding system was complex and needed updating, it distributed money according to the needs of children; it equalized funding and recognized tax effort.
- Now, we have a system where revenue is based on a frozen point in time—state funding is calculated on the district's value from 2005-2006 and is capped based on revenue per student in 2006-2007—and is not dynamic. It does not fully recognize growth, student need or equalization – even though the state is still in a period of dynamic growth.
- **1st recommendation: Establish a revenue adjustment that provides sufficient funding to meet inflationary cost pressures and student enrollment growth. The adjustment could be funded, in part, by distributing revenue from appraisal growth back into the public school system.**
  - o For NEISD, appraisal growth has allowed the district to develop programs for students that support our concept of a 360 degree education—meaning a well-rounded program of academic and extra-curricular programs. Over 70 percent of our property value is residential and our district continues to grow. Homeowners buy homes in North East because of our programs and academic successes, thus improving values. For the last three years, North East has had the most Exemplary schools in Bexar County. We know that our quality schools help drive appraisal growth and our schools should benefit from this growth.
  - o Although North East property values are likely to grow by 7 percent next year, this growth will have little to no impact on our overall revenue, serving mainly to reduce the state's hold-harmless obligation to us. The state's share of North East's revenue was 33 percent in 2000 and declined steadily to a low of 19 percent in 2006. This year it will spike up to 41 percent because of the drop in local property taxes. However, because target revenue per Weighted Average Daily Attendance (WADA) is capped, as property values grow, the state's share will steadily decline again. (North East's total revenue per WADA=\$6,195. Fifty-nine percent of the WADA figure is the local share, totaling \$3,648.)

- o In a couple of years, unless funding formulas change, inflation and other cost pressures will require that North East pursue a rollback election just to maintain the same level of service. We believe that our students and parents want North East to maintain the A/B schedule, a more costly scheduling method that provides high school students the opportunity to take more classes than the traditional 7-period day. North East is a booming district and since 1995, our voters have approved over \$1 billion in bonds, so we are confident about approaching our electorate.
- o I am trying to explain to my community that their higher property valuation and subsequent tax bill does not mean the district is getting more money. It is simply reducing the amount of state aid we receive – dollar for dollar – to fund the state property tax reduction. When taxpayers pay higher bills, they expect additional services. Reinvesting the additional revenue from value growth back into the system would allow us to provide those additional services.
- **2nd recommendation: Ensure that all new, well-intended state initiatives are fully funded. We are not disputing the need for these initiatives. However, in many cases, the funding is being covered by local taxpayers and not the state.**
  - o NEISD has spent over \$380,000 to date to place defibrillators at all of our facilities.
  - o We also expect to spend at least \$24,000 for implementing the physical education assessment, a cost we have minimized this first year by having existing teachers responsible for implementation. But we are not accounting for the teachers' lost time, and expect that we will need more personnel in future years. By way of comparison, a neighboring San Antonio district is spending ten times the amount we are spending this year.
  - o NEISD is also spending about \$140,000 annually to practice bus evacuations. Again, districts must cover the lost staff time, not to mention the instructional impact on students when we pull them out of class.
  - o All of these examples are important initiatives for the health and well being of students. We believe in them. But we are asking for a thorough examination of what it truly costs to implement new laws or initiatives.
- **3rd recommendation: Set a floor for target revenue to assist low-target districts.**
  - o TSA districts have great variance in funding amounts under this current system. The state either needs to fund all school districts at the same amount per WADA or at least set a floor on funding to low-target districts.
- **4th recommendation: Recognize specific cost drivers such as increased energy, transportation and insurance prices.**
  - o In NEISD, costs per student for utilities have increased by \$55 up to \$188 per student. This is an increase of over 241 percent.
  - o North East faced increased transportation costs of 10 percent over the past 5 years, even though the transportation formula has not changed to reflect these costs. In fact, funding (which is already reduced by local share) has actually declined by 6 percent. Fuel costs per student have gone up by over \$16 or 178 percent during the same time frame.
  - o During the past five years, the district's health insurance costs have gone up by \$1,100 per employee. This is an increase of 45 percent.

### **Ensure Adequate Funding for Educational Initiatives**

- Texas is embarking on a new program of requirements for high school students. Recent changes will require students to complete four credits in mathematics and science in order to graduate (known as the 4X4) under the recommended high school program. The high school curriculum is being reviewed and new proposed college-readiness standards are being discussed. High school students will soon transition to end-of-course assessments.

*(continued on page 6)*

# Testimony to the Texas House Select Committee on Higher

(continued from page 5)

- o Frankly, we are still working through all of the issues to determine the impact of things like the 4X4 and college readiness standards on services that must be offered by the district. In order to increase our capacity in science labs at our secondary schools, we will have spent over \$70M. Additionally, we expect to spend close to \$700,000 in math and science stipends because qualified teachers in these areas are hard to find and retain.
- TSA recommends the following to help ensure that these programs are adequately funded:
- **1st recommendation: Increase the high school allotment and distribute it on a per WADA, rather than per Average Daily Attendance (ADA) basis.**
  - o WADA recognizes the costs of educating students with different needs.
- **2nd recommendation: Roll fragmented high school-related grant programs into the high school allotment to allow greater flexibility over the use of funds.**

## Facilities and Technology

- Texas needs to recommit itself to the infrastructure needs of public schools. Three programs — the state technology allotment, the Instructional Facilities Allotment (IFA), and the Existing Debt Allotment (EDA) — provide state support to school districts for facilities and technology upgrades. However, these programs have not received legislative attention in many years and are in need of improvement.
- **1st recommendation: The yield on EDA and IFA should be increased so that more districts benefit from the program and so that districts can meet facilities needs at lower tax rates.**
- **2nd recommendation: The tax rate limitation in the EDA program should be increased so that the state's fastest growing districts can have access to continued state support.**
  - o Many districts with growing enrollments have little to no access to state assistance with facilities funding since the yield on IFA and EDA has not kept pace with property value growth. During the past five years, EDA state funding has provided 10 percent of our debt payments and IFA funding has covered a half percent of our construction costs.
  - o In fact, NEISD will not receive any IFA or EDA funding this year even though our construction needs are enormous.
- **3rd recommendation: The technology allotment should be improved so that districts can make use of recent technological innovations and can meet state goals related to online testing.**
  - o Since every classroom does not have computers or the necessary wiring, students who are being tested are moved into computer labs and other spaces where computers can be set up. This displaces other students who are not testing and who would be using those labs.

## Board Discretion

- **1st recommendation: Modify the current rollback requirements to allow for May authorization elections rather than November rollback elections so that districts can engage in effective planning related to the use of funds.**
  - o I regret that the school board has lost authority to raise revenues, but we are looking optimistically at asking our public to raise the Maintenance & Operations (M&O) tax rate. But for budget planning, it is more logical to have an "authorization to tax" vote rather than a rollback vote. With rollback elections, a district cannot adequately plan for the school year since its revenues are unknown until after the election. By the time that the election has occurred, major financial commitments have been made. The budget has

# and Public Education Finance – By Dr. Richard Middleton

been set, expenditures have been made, teachers have signed employment contracts, and the school year is underway.

- o Another option would be to provide school board’s discretion to levy 2 cents per budget cycle to meet inflation.

## Closing Remarks:

- Public school districts are the human capital piece of state programs.
- Our cost is not tied up in central office or administrative costs. At NEISD, those costs only represent 3 percent of our budget. The largest portion of our budget goes back into the classroom – at more than 65 percent.
- Our growth is a result of the excellent programs we offer. But providing only new funding through ADA growth is insufficient. It is not enough to maintain programs, like the A/B schedule and diverse course offerings, that allow more opportunities for students.
- If you talk about cutting funding for schools, you are really talking about minimizing the experience for our children.

*TO BE CONTINUED:  
Look for Dr. Middleton’s  
testimony on Ensuring  
Sufficient Funding  
for Adequate Employee Pay in  
the next issue of News & Notes*

**In education—in business—in our personal lives—change is the only constant in today’s world. As educators, we must prepare our students to experience success in a world and a time which we will never see. That means teaching our children to thrive in an atmosphere of change. —Richard A. Middleton**

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