

**FINAL REPORT
(DRAFT) !**

**Texas Commission on Public !
School Finance !**

December 31, 2018 !



**TEXAS COMMISSION ON
PUBLIC SCHOOL FINANCE**

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EXECUTIVE SUMMARY !

H.B. 21 (85th Legislature, 1st Called Session) created the bipartisan **Texas Commission on Public School Finance** (the “Commission”) which met for twelve months during calendar year 2018. It heard over 100 hours of testimony from over 90 different stakeholders, including the Texas Education Agency (“TEA”), the Texas Higher Education Coordinating Board (“THECB”), classroom educators, school district and campus leaders, parents, researchers, policy groups, government entities, non-profits, foundations and business interests¹.

After thoughtful deliberation, the Commission is pleased to submit the following report to the 86th Legislature for its consideration as required by statute. This report includes both the Commission’s findings as well as 29 separate recommendations to significantly improve the state of Texas’ school finance system and, more importantly, its resulting educational outcomes for our 5.4 million students.

These recommendations were made in the belief that Texas’ school finance system to date has not systemically focused its attention on outcomes, a critical component of ensuring that the state’s workforce can sustain our current and future economy and quality of life. Only 22% of Texas 8th graders today achieve a post-secondary credential six years following their scheduled high school graduation², and **post-secondary completion rates for our low-income Texas students now only equal 12%...an especially troubling outcome given that this student population now represents a significant six out of every ten PK-12 students in Texas.** We believe strongly that the need for equitable reform of our school finance system is both important and urgent if we want Texas’ current economic growth to continue and for all of our students to equally participate in its prosperity.

Summary of Major Recommendations

The Commission has made a series of recommendations to fundamentally restructure the Texas school finance system. The recommendations are both extensive and build upon one another. When taken in their totality, we believe that they will:

- Create a long-term systemic balance between the state and local share of district foundation funding for public education
- Substantially increase the level of equity in the system with significantly greater investment in low income and other historically underperforming student groups to markedly grow their educational outcomes by the year 2030
- Significantly reduce the growth rate of property taxes and reliance on recapture as a method of finance for the state
- Encourage widespread adoption of data-informed best practices that deliver improved results for students
- Immediately infuse, net of property tax relief and new funding needed for student growth, significant additional state resources to fund the data-informed strategies that will improve student outcomes
- Formulaically increase per pupil funding in the future (relative to current law) as outcomes-based funding grows from the successful investments in early learning, teacher quality, and high school supports made possible by the implementation of these recommendations

The school finance reforms recommended in this document reflect a comprehensive effort to redesign the entirety of our state’s funding system to reflect the needs of the 21st century. These recommendations should be viewed as a package that relies on each component tying together to (i) ensure that every child in Texas has an equal opportunity to participate in the prosperity of Texas through access to an equitably funded, quality education; (ii) to ensure that tax dollars are spent most efficiently; and (iii) to solve the underlying structural flaws of our current finance and revenue systems.

¹ Archive of presentations and testimony to Commission can be found at https://tea.texas.gov/Finance_and_Grants/State_Funding/Additional_Finance_Resources/Texas_Commission_on_Public_School_Finance/

² THECB 8th Grade Cohort Study, 2016 report

The Commission’s major recommendations, detailed later under referenced Sections of this report, are as follows:

1. " **Establish a Goal of 60% or Higher Proficiency for PK-12 Outcomes by the Year 2030, Consistent with the Texas’ Higher Education Goal of “60x30”** – Student outcomes in our public PK-12 school system should align with our current post-secondary achievement goals based on a desire for **all Texas students** to participate equally in the prosperity of our economy while concurrently reducing the burden of social safety net and incarceration costs attributable to our failure to adequately educate all of our children. Ensuring that all Texas students have the opportunity to graduate from high school ready for college, a future career, or military service – and that they are supported in making that transition - should be the guiding principle around which a new school finance system is designed. (*see Section A: Establishing a Statewide PK-12 Goal*).

2. ! **Inject Significant Additional Annual State Revenue Beyond That Needed for Enrollment Growth to Fund New Strategic Allotments and Weights Outlined Below to Improve Adequacy and Equity in Funding** – We believe that the State’s current contribution percentage must cease its decline and that an important first step is to ensure that the proposed new allotments outlined below for early literacy (\$780 million), Outcomes Funding (\$800 million), High Quality Teacher Allotment (\$100 million), Extended School Year Allotment (\$50 million) and increases to Tier II yields represent new funding for districts. As a result, it is recommended that the state find resources to invest using revenues from diversified, non-volatile funding streams into the school finance system for the 2020-21 biennium (a list of potential sources can be found in Section L). In evaluating the cost of any recommendation, it’s worth noting (given the scale of Texas, which educates 10% of the nation) that the investment of each \$500 million increment represents a 0.9% increase in total educational spending from current 2018-19 school year levels of ~\$60 billion per the Legislative Budget Board.

It is also recommended that monies be sufficient to minimize the number of students educated at districts potentially impacted by declines in per pupil funding. Such declines may result due to suggested reforms herein that improve student equity statewide, including the elimination of hold harmless provisions established in 1993. Interim grants should be established for the 2019-2021 biennium to help such districts until such time as local taxing actions can be taken to address these circumstances.

3. " **Unless Otherwise Noted, All Funding Recommendations in This Report Should Be Formula Funded and Significantly Directed Toward Student Populations with the Greatest Needs** – All dollars should be formula-funded to ensure transparency so that school leaders and boards have sufficient confidence that the funding will exist in subsequent years. Any recommendations for reallocations of existing funding or new investments should be prioritized toward low-income and English language learner students given that they are achieving only one-third to one-half of our recommended 60% statewide proficiency goal (*see Overview of Current PK-12 Educational Outcomes in Texas*).

4. " **Reallocate \$5.34 Billion in Existing Revenues Toward More Impactful Spending and Greater System-wide Equity** – The Commission recommends that \$3.5 billion in select allotments and outdated hold harmless provisions, detailed later in this report, be eliminated to free up monies to fund recommended strategies contained in this report. In addition, the Commission recommends using current year district property values in the FSP formulas as opposed to prior year property values, creating a one-time \$1.8 billion cost savings for the State and eliminating what is known as the formula lag, which can cause a misalignment of state and local revenues if/when local district property value growth slows/falls in the future. (*see Section F: Proposed Reallocation of Existing Revenues*).

5. (**Significant Investment to Substantially Increase 3rd Grade Reading Levels** – The Commission recommends that every low-income or English language learner (ELL) student in grades K-3 receive an additional 0.1 weight (students who are both low-income and ELL would therefore receive a combined weight of 0.2 weight) to provide campuses statewide with an **additional \$780 million of collective funding to improve critical early literacy levels**. Districts would be free to invest the dollars at their discretion across a variety of strategies, including but not limited to teacher literacy training, student literacy interventions, increased dual language strategies, longer

school day/year, and the offering of full-day PreK. In return for this funding, all districts offering Pre-K (93% of districts currently do so) will be required to offer it in a quality manner, defined as (i) a full day offering and (ii) a classroom adhering to quality standards governing desired student-teacher ratios, etc. Should public schools currently have an insufficient number of seats such that the requirement to offer full-day Pre-K would result in less students being served, TEA waivers may be obtained by public schools until additional Pre-K seats can be constructed or located (*see Section B: Proposed 3rd Grade Reading Allotment*).

6. ! The School Funding System Should Shift Towards Outcomes-Based Funding Targeting Two Critical PK-12 “Gates” Reflecting Current High Levels of Academic “Melt” – The Commission is recommending providing \$800 million of outcomes-based funding (allocated and paid in the 2019-20 school year based on current proficiency levels) to public schools to provide key resources and help ensure ongoing, strategic focus by public school leaders on substantially increasing outcomes in the critical areas of **early literacy (\$400 million)** and **post-secondary access of career, military or higher education without the need for remediation (\$400 million)**. As detailed later in this report, all outcomes-based funding **would be equitably distributed** to provide campuses with **much higher per student funding for their low-income students** facing greater needs such that high poverty campuses receive total funding that is ~28% higher than campuses with no poverty. Equally important, as these initial resources are wisely invested in key strategies to improve outcomes, campuses will be able to see their outcomes-based funding increase meaningfully as part of formula funding (*see Section C: Proposed Key Outcomes Funding*).

7. " Creation of a High-Quality Teacher Allotment for Districts Wishing to Differentiate Compensation to Pay Their Effective Educators Higher Salaries Sooner in their Career – The Commission is recommending creating an optional, high-quality teacher allotment in formula funding for participating districts. Funding of this allotment **would commence in the 2019-20 school year at \$200 million per biennium (growing an additional \$200 million each subsequent biennium until it reaches \$1.0 billion in the 2029-2030 biennium)** to provide discretionary funding to districts wishing to implement **locally-developed multi-measure evaluation and compensation systems** to enhance the retention and strategic staffing of their more effective educators across their districts. We would encourage educators to be a critical part in the development of each local evaluation system, and we would encourage the Legislature to define what an acceptable evaluation system would contain, including the variety of components and multiple types of assessments that could be used to determine educator proficiency.

The state should set a goal to ensure that its top teachers have a realistic path to a \$100,000 annual salary. In addition to helping attract and keep their effective educators in the classroom, public schools implementing these systems would be able to identify their more effective educators and then incentivize them to teach at their most challenged campuses, increasing the equitable distribution of effective educators. This evaluation system will also enable districts to target professional development to individual teachers’ needs and provide critical, much-needed feedback to teacher preparation programs to help them continuously improve their own training. (*see Section D: Proposed High Quality Teacher Allotment*).

8. ! Create Optional Program for Districts to Offer Up to an Additional 30 Instructional Days by Providing Half Day Funding (Up to \$50 Million in Year 1) for Each Instructional Day Above 180 Days (181-210) for Students in Grades PK-5 - Analysis indicates that more time on task for our younger learners from disadvantaged backgrounds will notably increase the percentage of students who achieve the state’s Meet standard in 6th grade by up to 12-14% while increasing annual pay for participating teachers by up to \$6,000 annually. Should this initial program prove effective, we would encourage the funding of its scaling in subsequent years given the critical importance of ensuring a solid early foundation and eliminating the impact of “summer slide” for our disadvantaged populations (*see Section E: Proposed Additional Allotments/Programs to Improve Early Literacy*).

9. " Creation of Additional Allotments/Programs Targeting Early Learning – The Commission is recommending the expenditure of up to \$150 million toward incentivizing the use of dual language (vs. bilingual) strategies (these funds would be delivered through a funding weight of 0.15, above the current bilingual weight of .10) and supporting greater dyslexia identification and student supports (*see Section E: Proposed Additional Allotments/Programs to Improve Early Learning*).

10. **Change Existing Allotments and Formula Weights**, the large majority of which are recommended to be equitably adjusted, including compensatory education funding, to invest more dollars in supporting students with the largest needs. *(see Section G: Proposed Changes in Existing Allotments and Formula Weights)*
11. **Statutorily Increase the Current Basic Allotment of \$5,140/student in the 2020-2021 Biennium with all remaining funds freed from the streamlining of outdated formula elements** – preliminary estimates indicate that this number will approximate _____ - *(see Section H: Proposed Change in Basic Allotment)*
12. **Increase the Current Yields on Tier II Tax Rates to Equal the 75th Percentile of Equalized Wealth While Concurrently Considering Compressing the Rate to Provide Future Taxing Flexibility** - Many school districts have provided local enrichment through tax ratification elections and have reached the statutory maximum \$0.17 Tier 2 tax rate. Increasing the yield of the last eleven pennies (“copper pennies”) and compressing the rate would provide taxpayers with immediate tax relief and would provide districts with future capacity to seek voter-approved increases in funding. Compressing the tax rates as values rise is essential to ensuring that districts maintain meaningful discretion over their enrichment tier tax rates. *(see Section I: Proposed Change in Yields on Tier II Tax Rate)*
13. **Substantially Reduce the Growth in Recapture** – the Commission recommends that recapture growth should be substantially reduced by a variety of methods, including (i) changes in the Basic Allotment; (ii) potentially compressing Tier 1 tax rates annually in the future such that increases in property taxes are capped at a specific growth rate; or (iii) other strategies to be determined. In considering the compressing of local Tier 1 tax rates annually, **local district entitlement must be unaffected and compression can only affect the local share of required funding, with the state required to contribute the balance needed to fund the district’s full entitlement.** *(see Section J: Proposed Strategies to Reduce Recapture Growth).*
14. **An Important Note Regarding Special Education** - All students in the State of Texas deserve to have their educational needs met. As the Commission examined the special education weight, it became clear that the Texas special education system is undergoing significant reform. Given this rapid change, the Commission deemed it prudent to wait to implement special education formula changes until the Corrective Action Plan, having been approved by the Department of Education, can be fully implemented. Focusing on improving student outcomes for all students is the aim of this Commission and conversations about outcomes for students with severe disabilities should be ongoing and prioritized.

Conclusion

Currently, Texas’ Article III spending represents over 50% of the state’s budget³, with total K-12 funding from local, state and federal sources totaling roughly \$60 billion during the 2018-2019 academic year⁴. Upon extensive review of data and informed testimony from multiple experts, we have concluded that those monies are currently being allocated in part by funding formulas and allotments that are not only complex, but are also outdated, inefficient and unaligned with the substantially evolving needs of Texas’ K-12 population. **As a result, too few of our own students are participating in the prosperity of Texas, and our future workforce and economic health are at real risk if substantive changes are not enacted in the near term.**

It is clear from numerous testimonies that the vast majority of the Commission believes that:

- the purpose of any school finance system should be realigned to adequately resource specific outcomes and goals while incentivizing desired actions and outcomes at specific points, backed by research, that are critical to a student’s educational journey;
- simply investing significantly more dollars per student represents some risk of “more of the same” without a high degree of confidence regarding an appropriate return on our significant annual investment in PK-12 education;

³ Legislative Budget Board, Fiscal Size Up 2018-19 !

⁴ TEA Presentation to Texas Public School Finance Commission, May 3, 2018. !

- however, investing more dollars in **specific, data-driven strategies** that are currently showing strong results within our state represents the potential to **substantially accelerate Texas educational outcomes** and provide a real, substantive chance to reach our state's 60x30 Goal.

In summary, to help ensure the future of Texas, Commission members believe in the following core principles:

1. " Every child should be able to read sufficiently by 3rd grade;
2. " Every student should be taught by a well-prepared, effective and appropriately compensated educator;
3. " Every student should graduate our PK-12 system without needing remediation and should be supported in accessing a post-secondary education, a career certification or enlistment in the military that will enable them to obtain a living-wage career beyond high school;
4. " Every student with greater needs should receive additional, equitable resources to allow all students, regardless of background, the chance to achieve and live a productive life. These include higher needs attributable to poverty, language fluency, special education needs or mental health.

The Commission drafted these recommendations with the 5.4 million Texas public school students in mind (versus the interests of any one particular school district or any one region of the state), and this group of recommendations should be considered in their entirety rather than as a set of pieces to be divided. Given our charge, these recommendations seek to increase the efficiency, efficacy and equity of the current system while removing outdated allotments and reducing the system's complexity. Proposed new allotments, weights and incentives will address the evolving needs of a state reflecting an increasingly higher proportion of economically disadvantaged and ELL students, all aligned to better prepare our students for what lies beyond public school, whether it be a post-secondary education, a living wage career, or the military. **In considering the reforms recommended by this report, we encourage the Legislature to take a fresh look at every aspect of our school finance system and not be bound to the compromises of the past when the needs of the future are so clear.**

Given the increasing levels of both economic disadvantaged and English language learners within Texas' PK-12 public school system, and our economy's continued technological displacement of historical living wage jobs, **it is a critical that our state begin now to make the additional needed investments that strategically address key areas of weakness within our public educational/workforce pipeline.** While we acknowledge the known and competing sizable budgetary challenges currently faced by the Legislature. including growing costs associated with Hurricane Harvey, Medicaid, pension costs, etc., successful execution of these recommendations will help ensure that all Texas students (93% of which attend a public school) have a realistic chance at a quality educational outcome, culminating in a postsecondary credential that prepares them for success in a rapidly evolving 21st century economy.

Ultimately, what becomes of our students will dictate what becomes of our state. We greatly appreciate the opportunity to share these thoughtful recommendations addressing one of the most critical issues and opportunities facing the state of Texas.

Respectfully submitted,

Justice Scott Brister
*Chairman,
Texas Commission on
Public School Finance*

Sen. Paul Bettencourt
*Chair, Revenues
Working Group
Member, Senate Public
Education and Higher
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Rep. Dan Huberty
*Chair, Expenditures !
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Sen. Larry Taylor
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Member, Senate Higher
Education Committee*

Sen. Royce West
*Member, Senate
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Rep. Diego Bernal
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*Educator !
Galena Park ISD*

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*CEO, Commit Partnership
Chair, Outcomes Working Group*

Major Commission Findings

In summary, the Commission’s major findings were as follows:

1. " **Our School Finance System Needs a Clear, “True North” Goal to Target and Measure its Progress** – A critical component for any budget (especially one that comprises such a sizeable spending item within Texas government) should be a **clear, widely understood goal for educational outcomes** against which annual progress can be measured (with strategies and state investments altered as needed in subsequent years by the Legislature to build upon success). While statute provides some select, overarching goals for education, the culmination of those goals should be ensuring that all students graduate college, career, or military ready and should be supported in the access of those pathways. **We currently lack a specific, top-line goal to measure our progress against.**
2. " **Our School Finance System Hasn’t Kept Pace with the State’s Changing Demographics** – The current school finance system was designed and implemented in the early 1980s and has been patched over time without a holistic reform since its implementation. During this time, our student population has changed significantly. Over the last decade the state has added ~770,000 students, with roughly 8 in 10 of those students added classified as low-income and nearly 4 in 10 of those new students considered an English language learner⁵. As a result, **Texas now currently ranks 2nd in the nation in the percent of English learners and 9th nationally in the percent of students qualifying for free or reduced lunch**⁶ (*see Exhibits A & B*).

Our failure to adequately fund and align investment with the changing student needs associated with these rapidly growing populations can be seen in annual state academic achievement measurements. Proficiency rates on STAAR assessments for low-income and English language learner students across all grades and subjects now only equal 36% and 24%, respectively - achievement that is roughly **just one-third to one-half** of their non-low-income English speaking peers⁷. Despite their best efforts, **even the highest performing districts⁸ in the state for low-income student achievement reflect only ~50% proficiency levels, reflecting a need for the wise investment of additional resources.** (*see Exhibits C-1, C-2 & D*).

The school finance system currently in place is substantially more equitable than the one enacted in the 1980s, but more work can be done to more appropriately allocate resources. Because the Commission believes that all children in Texas deserve an equal opportunity to thrive regardless of their background or where they live, it is clear that our funding system needs substantially greater equity than exists within our current approach.

3. ! **Current Student Outcome Shortfalls Are Evidenced Very Early Within our PK-12 System** – While Texas students outperform national peers in demographically-adjusted student outcomes, our scores lag when analyzed on unadjusted performance. Only 58% of Texas students currently come to school assessed as Kindergarten ready⁹, and in 2018 **only 4 in 10 students met the state’s 3rd grade reading standard**¹⁰. Per STAAR, subsequent achievement in later grades and subjects fails to materially exceed 3rd grade reading proficiencies, highlighting the importance of being able to “read to learn” by the end of 3rd grade (*see Exhibits E & F*). Per the 2017 National Assessment of Education Progress (“NAEP”), also known as the Nation’s Report Card, **Texas children rank 46th in the country** in 4th grade reading proficiency, a decline of five spots since their 2015 ranking. Improving early literacy is **critical to the future of Texas students**. Results from across the state show that the most effective and financially-efficient way to **close educational attainment gaps and reduce the expense of costly remediation**

⁵ Texas Education Agency, TAPR 2007- 2017 Reports. !

⁶ National Center for Education Statistics, 2017. !

⁷ 2018 TEA STAAR report at “Meets” Standard. !

⁸ Highest Performing District is Southlake Carroll ISD (1% economically disadvantaged) !

⁹ Commit Partnership 3/19/18 testimony to Outcomes working group. Kindergarten Readiness: The percent of students deemed Kindergarten Ready based on ! assessments given by districts at the beginning of the year to Kindergarteners; !

¹⁰ Texas Education Agency, STAAR indicators: Achievement levels represent percentage of students achieving “meets grade level” standard on 2018 STAAR exams. !

is through focus investment on improving student outcomes in early childhood education, before the gaps compound over subsequent years.

4. ! Texas Low-income Students are Failing to Capitalize on Substantial Federal Dollars Available for Their Post-Secondary Education – Annual community college tuition rates across Texas are highly subsidized by local and state dollars such that all are below the average annual U.S. Pell grant of ~\$4,010 per student¹¹, **making post-secondary tuition in 13th and 14th grade effectively free for every low-income student who is a U.S. citizen in Texas** if they fill out a Free Application for Federal Student Aid Form (“FAFSA”). However, due in part to inadequate advising ratios that approximate 450 students for every high school counselor¹², **Texas FAFSA completion rates trail leading states (Tennessee and Louisiana) by almost 30%**, and currently only 62% of our low-income high school graduates (and only 43% of our low-income eighth graders) ultimately annually enroll in Texas public higher education institutions in the Fall following their actual/scheduled high school graduation¹³ (*see Exhibits G, H, I & J*). The net result is that **well over \$300 million of Pell grants available per year for the post-secondary education of low-income Texas students are unclaimed with each and every graduating class**¹⁴, representing a tremendous opportunity if additional investment in student counseling supports can be funded and a post-secondary education expectation can be created culturally on every campus.

5. ! “Summer Slide” Reduces Outcomes for Low-Income Students in All Subjects and for Upper Income Students in Math and Science - Data shows a significant amount of educational gains achieved by low-income students during the school year are subsequently lost during summer months, with our school calendars likely contributing to the underperformance of certain student groups. Time on task is important to maintain educational gains, yet the average Texas school teaches 177 days vs 210 for most higher-performing Asian nations. RAND has studied effective summer instruction programs and has found that if academic instruction is offered three-to-four hours a day for five-to-six weeks, the impact of the summer slide is eliminated¹⁵. Were this to be funded in Texas, it is estimated that the percentage of students achieving the state’s Meet standard on STAAR in 6th Grade Reading and Math would rise by 12% and 14%, respectively, absent any other instructional improvements that might occur over the that time period.

6. " Texas Post-Secondary Completion Rates Fall Far Short in Ensuring Students are Being Prepared to Contribute to our State’s Economy and Participate in its Prosperity – While Texas graduates 90% of its public high school students¹⁶, **only 28% of our state’s graduates** are subsequently achieving a post-secondary credential within six years of their high school graduation¹⁷. This percentage is **less than half of the state’s higher education goal** (established in 2015) of 60% of all adults ages 25-34 having a post-secondary credential by the year 2030 (“60x30 Goal”), with our workforce historically relying heavily on educated talent imported from outside the state to meet its needs.

Per TEA, **only one in six Texas high school graduates** are currently deemed to have a college ready SAT or ACT assessment¹⁸, and roughly **40% of Texas high school graduates** who enroll in Texas public higher education are required to take remedial education courses at their own cost while receiving no college credit¹⁹. For Texas students to prosper, we must additionally invest in high schools (including remediation efforts where needed) so that their diploma truly reflects readiness for college, career or the military (*see Exhibits E & K*).

¹¹ <https://trends.collegeboard.org/student-aid/figures-tables/maximum-and-average-pell-grants-over-time>

¹² Texas Education Agency, PEIMS Standard Reports, 2017-18.

¹³ Texas Higher Education Coordinating Board, 8th Grade Cohort Longitudinal Study, Class of 2011

¹⁴ 12th graders and completers in 17-18 - National FAFSA Tracker: <https://national.fafsatracker.com/currentRates>; FAFSA Eligible (59% in 16-17) - 2017 Texas Academic Performance Report; Average Pell Grant (\$3,740 in 16-17).

¹⁵ RAND, *Getting to Work on Summer Learning*, November 2018

¹⁶ Texas Education Agency: – 2016-2017 Accountability System – 4 year Federal Graduation Rate

¹⁷ THECB 8th Grade Cohort Study, 2016 report.

¹⁸ As defined as having scored at least a 24 on the ACT or 1110 on the SAT (reading and math) – TEA TAPR 2017.

¹⁹ THECB Remediation and enrollment data, Percentage of Students needing remediation in any subject.

7. " **Too Few Texas Students Are Prepared for Military Service** – While the Constitution states that our education system is “essential to the preservation of the liberties and rights of the people,” too many Texas high school graduates cannot enlist in the armed forces due to insufficient scores on the Armed Services Vocational Aptitude Battery (ASVAB). Twenty-two percent of Texas graduates failed to meet the minimum test scores to allow for enlistment in the Army. A larger percentage are ineligible when health and criminal justice issues are also incorporated.
8. " **Maximizing Post-Secondary Completion Rates Represents Substantial Opportunity for Texas’ Economy** – Each year over 200,000 students graduate a Texas public high school, **but six years later still do not have a post-secondary education**, a critical credential in today’s economy²⁰. With holders of post-secondary degrees (2- or 4-year degree or industry certificate) earning roughly \$1.0 million more in their lifetime than a high school graduate, this represents **a significant foregone opportunity cost approximating \$200 billion in lifetime earnings with each and every graduating class** – an amount equal to roughly 1/8th of the Texas’ annual \$1.6 trillion economy (see Exhibit L).
9. " **Texas’ Future Prosperity and Sources of State Revenue are Threatened by Current Trends in Educational Outcomes** – Per analysis by Texas 2036 (a non-profit recently organized to create a broad, strategic plan for the state), the state must add between **4.5 million and 7.8 million jobs** by the state’s bicentennial year of 2036 – an amount roughly equivalent to the **current number of total jobs in the Dallas/Ft. Worth and Houston metro areas combined** - for Texas unemployment rates to remain at current levels given our projected population. However, current educational outcomes for our demographic mix will likely make that task impossible without substantial improvement. If trends do not change, **Texas 2036 predicts that per capita income and sales tax revenue will begin to decline by the year 2030**, indicating that Texas must resolve to successfully educate “many more of our own” in order to maintain both its financial prosperity as well as its state revenues to fund investments in education, transportation, water, and other state government services.
10. **High Variation in School Outcomes Reflecting Similar Demographics** – Our prior accountability system did not produce enough substantive change in district strategies to produce comparable student outcomes for campuses featuring similar demographics. As a result, substantial differences in outcomes for similar campuses remain, often due to the varying importance placed by districts and school boards on data-proven strategies such as ensuring quality early learning, creating sufficient Pre-K classrooms, ensuring the equitable placement of effective teachers, placing high importance placed on principal selection and training, the use of dual language vs. bilingual education, the provision of appropriate college access counselors and the creation of early college offerings just to name a few. As a result, districts and campuses reflecting similar levels of economic disadvantage can reflect vastly different proficiency levels on state STAAR assessments and college readiness/enrollment success rates **that can vary by up to 30% to 60% across the state** (see Exhibit N).
11. **Texas is Facing a Growing Teacher Crisis, Reflecting High Turnover with Insufficient Numbers of Effective, Experienced Teachers Working in Schools That Need Them the Most** – Educator compensation based on traditional seniority-based pay (i) does not financially incent experienced teachers to work in schools reflecting greater needs/challenges and (ii) does not pay meaningful raises to better retain experienced teachers who quickly demonstrate strong effectiveness in their craft. As a result, a large percentage of effective teachers tend to (i) gravitate away from high poverty, low performing campuses that need them the most²¹ and (ii) often seek additional compensation by deciding to leave the classroom, either going into school administration or leaving the education profession altogether.

²⁰ The Commit Partnership, Median earnings found and adjusted for inflation (2017 Dollars) in U.S. Census, American Community Survey Briefs, “Work-life Earnings by Field of Degree and Occupation for People with a bachelor’s degree: 2011”; PS attainment numbers estimated using the THECB Higher Education Attainment report, HS grad classes ‘08-‘10.

²¹ Texas Education Agency, TAPR and STAAR, 2018

Despite the fact that national research consistently shows that teacher quality is the most important in-school factor in student achievement²², the number of Texas university graduates majoring in education has **declined 22% since 2010** while our student population has grown approximately 11% - or 500,000 students – during that same time frame²³ (*see Exhibits O-1 and O-2*). Currently **one in six** Texas teachers leaves their district each year²⁴, with high poverty, challenged campuses often seeing teacher turnover 2x to 3x those already high levels due to significantly higher percentages of inexperienced teachers, impairing campus culture and exacerbating already large achievement gaps. **There is not a more important source of equity for a low-income or English language learner in Texas than receiving their fair share of effective teachers.**

12. **School Funding Formulas are Complicated, Outdated, and Haven't Kept Pace with Educational Costs** – Current formulas contain allotments and adjustments that have not been updated in decades, resulting in school funding that has not kept pace with changing costs or demographics while producing growing inequities for students that should be rectified. For example, the basic per student allotment has only increased 8% in ten years; the career and technology education allotment has not been updated since 2003 (15 years); the Cost of Education Index (“CEI”) has not been updated since 1991 (27 years); and the transportation allotment has not been updated since 1984 (34 years).
13. **The Reliance on Property Taxes in Texas to Fund Public Education Has Resulted in High Tax Rates** – Robust property value growth, combined with government entities failing to lower corresponding tax rates in the face of this growth, has resulted in total property taxes that now rank well above the national average. This problem has been exacerbated by school districts being functionally forced to maintain fixed Tier 1 tax rates despite rising property values and increased total collections. In addition, school districts often feel compelled to seek additional tax rate increases through tax ratification elections to grow per pupil revenues in the face of basic allotment increases which have not kept pace with inflation. Instead, current statutory formulas, which only require the state to fund the balance after local property taxes are collected, have led to reductions in state funding as local property tax revenues have increased. If no changes are made to the current system and this trend continues, the **portion of Texas public education funded by property taxes are projected to reach 68% by 2023.**
14. **Overall Taxes in Texas Are Relatively Low Nationally** – Texas’ historical policy decision to be one of six U.S. states that does not tax personal income and one of seven U.S. states that does not tax corporate income in order to enhance its attractiveness as a place to work and live has resulted in overall taxes in Texas as a percent of income ranking the 5th lowest in the nation despite the state’s relatively high property taxes (6th highest) and sales tax rate (12th highest)²⁵ (*see Exhibits Q & R*).
15. **Current Revenues May Be Sufficient to Meet Projected Needs, But Further Options Should Be on The Table If Necessary** – The Commission received reports suggesting a high likelihood that the state would receive a significant influx of additional revenues from existing revenue streams (including the sales tax and severance tax) for the upcoming biennium. To ensure long-term funding stability for the education and tax reforms contemplated herein, the Legislature should ensure that any revenue streams dedicated toward these goals are sufficiently stable to meet the anticipated cost growth in future biennia. If necessary to achieve the desired student outcomes or to slow growth in property taxes, the Legislature may want to consider additional new revenue sources should current sources prove inadequate.
16. **Recapture as Currently Structured is Growing Rapidly and Becoming Increasingly Unsustainable** – Recapture payments paid by districts to the state under “Robin Hood” provisions are expected to reach nearly \$2.7

²² Rand Education. *Teachers Matter: Understanding Teacher Impact on Student Achievement.* ’

²³ State Board of Educator Certification !

²⁴ Texas Education Agency, TAPR 2017 Report. !

²⁵ Tax Foundation, 2018.

billion during the 2018-2019 school year and are projected to nearly double to over \$5.0 billion by 2023 based on current property growth estimates and equalized wealth levels²⁶. Today over 200 “Chapter 41” school districts across the state now make recapture payments (vs. 34 districts when the innovative concept of recapture was first introduced in 1993 to equalize value differences between “property rich” and “property poor” districts)²⁷. Because growth in the basic allotment and equalized wealth levels have not kept pace with underlying property valuation increases, recapture is now causing large urban districts with high levels of poverty (Austin ISD, Houston ISD and Dallas ISD) to send hundreds of millions of local tax dollars annually to the state, joining affluent districts such as Plano, Highland Park, and Eanes ISD. If not significantly addressed, recapture paid by local school districts is projected to exceed state funding levels in less than a decade, bringing state contributions down to just 20% of education funding (see Exhibits S1 and S2).



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²⁶ Texas Education Agency. !

²⁷ Texas Education Agency, 1994-2019 Chapter 41 Recapture Districts. !

Overview of the Commission !

The 85th Texas Legislature (1st Called Session), through House Bill 21, established a Commission to develop and make recommendations for improvements to the state's current public school finance system. The Commission was charged with developing recommendations to address several issues including:

1. ! *the purpose of the public school finance system and the relationship between state and local funding in that system;*
2. ! *the appropriate levels of local maintenance and operations and interest and sinking fund tax effort necessary to implement a public school finance system that complies with the requirements under the Texas Constitution; and*
3. ! *policy changes to the public school finance system necessary to adjust for student demographics and the geographic diversity in the state.*

The 13-member Commission was appointed by Governor Greg Abbott, Lt. Governor Dan Patrick, and House of Representatives Speaker Joe Straus and chair of the State Board of Education Donna Bahorich and chaired by Former Texas Supreme Court Justice Scott Brister. Six Commission members were appointed from the Texas Legislature, all of whom serve on the education committees in their respective chambers (including both chairs) and include both Republican and Democratic members. The Commission also included an elected representative from the State Board of Education, a current district superintendent, a school district chief financial officer, a classroom teacher, and community leaders.

Members created three working groups: one focused on determining current student outcomes and recommendations to improve them, chaired by Todd Williams; a second focused on examining and recommending changes in current school finance system expenditures, chaired by Representative Dan Huberty; and a third focused on current revenue streams which fund public education today and recommendations for options to improve them given our desired outcomes, chaired by Senator Paul Bettencourt.

Members first convened in January 2018 and continued meeting monthly throughout the year. At its essence, the 2018 Commission served as a year-long interim study on public school finance, current educational outcomes, and best practices occurring around the state. All totaled, Commission members heard testimony from more than 90 individuals, including representatives from 19 school districts, four institutions of higher education and more than 24 advocates, policy experts and stakeholders.

This final report is the result of numerous hours of study, deliberation and discussion among Commission members. It is the Commission's humble intent that this set of comprehensive recommendations be used as the foundation of legislation that could materially change the way Texas commits to resourcing the education of our students and equipping them for life and career success. In pursuing such legislation, the Commission believes that a comprehensive redesign of the school finance system may be necessary to implement the principles and to achieve the goals outlined herein. The Commission has taken the guidance of the Texas Supreme Court to heart: Texas students "deserve transformational, top-to-bottom reforms that amount to more than Band-Aid on top of Band-Aid." This report seeks to start the dialogue about how to create a fully-aligned education and property tax system that will meet the needs Texas students to ensure that our state's future remains bright for all Texans.

Overview of Current PK-12 Educational Outcomes in Texas !

Today, the state of Texas educates 5.4 million students within its public schools, representing 93% of all children statewide. The majority (59%) of Texas public school enrollment (more than 3 million students) are considered economically disadvantaged, an increase from 44 percent two decades ago. Another 1.0 million students (19% of our PK-12 system) are considered English Language Learners²⁸

While Texas students perform well in demographically-adjusted comparisons against other states and the nation as a whole, there is room for significant improvement in unadjusted proficiency levels. In reviewing the data, it is clear to the Commission that our collective efforts and investments in PK-12 should be primarily focused on these two growing at-risk populations. Across all grades and subjects assessed by STAAR, students who are not considered low-income are already collectively exceeding our suggested 60% proficiency goal statewide at TEA's "Meets" standard (with some districts as high as 80%+ proficiency for their non-low-income students)²⁹. However, low-income and English language learner populations reflect proficiency rates that are roughly one-third to one-half of their non-economically disadvantaged and English-speaking peers. Significant gaps also exist by race. White students reflect 5x higher college readiness levels on the SAT and ACT as well as higher high school graduation and post-secondary completion levels. *(see Exhibits C-1 and C-2).*

Achievement for each of these groups is not only materially lower, but it also reflects broad disparities among districts and within districts. This indicates both a high need for focused investment on this subset of students and the potential for great progress once resources are increased, outcomes funding mechanisms are put in place to reward strategic focus, and strategies are altered to reflect best practices already occurring in select campuses and districts across the state.

Today roughly 42% of all Texas adults ages 25-34 reflect a post-secondary credential vs. our state's 60%³⁰ Goal. This attainment is a blend of (i) educated talent that migrates to the state from outside its boundaries and (ii) what we produce with our own education/workforce pipeline. While Texas has been very successful in importing educated talent given our broad and robust job growth (per testimony, roughly half of our annual population growth comes from immigration²), over the last several years our state's own education pipeline has been reflecting stagnant, dilutive results toward this goal, with **only 21%** of our most recent 8th grade cohort graduating with any type of post-secondary education ten years later (i.e. six years following their scheduled high school graduation)³¹. This troubling completion rate **falls to just 12% when looking solely at economically disadvantaged students...**a population which represented 79% of the state's PreK-12 enrollment growth over the last decade. Low-income students today now **currently comprise a substantial 6 in 10 public school students in Texas**³².

Based on these current outcomes, the Commission believes we cannot rely on importing talent to meet our state's 60%³⁰ Goal. Per a recent report issued by the Dallas Federal Reserve Bank, today's unemployment rates of sub-4% are at historic lows, **yet labor participation rates are not increasing** because skills needed by unfilled jobs do not match the skillsets reflected within our current unemployed adult population. Recent Federal Reserve surveys indicate that tight labor markets are now the No. 1 concern of business, with **70% of business executives reporting difficulty finding and hiring qualified workers**. This shortage is increasing overall labor costs, with **62% of firms surveyed reporting having to increase wages and benefits** in order to recruit and retain employees, up from 53% in early 2018.³³

The roughly 4 in 5 Texas students that we are annually failing to sufficiently educate to achieve a living wage credential represents both a poor return on the ~\$125,000+ we invest in each student's PK-12 education AND a substantial missed

²⁸ Texas Education Agency, Texas Academic Performance Report, 2016-2017 State Performance !

²⁹ Texas Education Agency, 2018 STAAR report at "Meets" Standard !

³⁰ THEBC Accountability System, 2016. !

³¹ THECB 8th Grade Cohort Study, 2016 Report. !

³² Texas Education Agency, Enrollment in Texas Public Schools, 2017-18. !

³³ "DFW's Continued Breakneck Growth Depends on a Cascade of New Workers," Dallas Fed, 6/16/18. !

opportunity to capture the tremendous unrealized potential of our Texas youth. The annual starting salary difference for post-secondary credential holders vs. high school graduates can now easily exceed \$20,000, and every year Texas high schools collectively graduate roughly 200,000 seniors who, six years later, have still not attained a post-secondary degree. If each high school graduate could instead obtain an industry certificate or a two/four-year degree in the same ratio as our current post-secondary graduates, they would collectively realize roughly **\$200 billion more** in future lifetime earnings **(an amount equal to roughly 1/8th of our current \$1.6 trillion Texas economy) with each and every graduating class³⁴.**

Not only is the current opportunity cost for our state's economy tremendous, **the resulting costs to our state of an undereducated workforce is also substantial and growing.** Our state's uninsured medical costs **now exceed \$6 billion annually** (primarily from patients in occupations without employer covered health insurance)³⁵. In addition, students who are not at grade level often face significant obstacles later in life and are more likely than their peers to end up incarcerated. National research indicates that 75% of state prison inmates did not complete high school or can be classified as low literate³⁶ and TDCJ reports that the average reading level for Texas inmates is below an 8th grade level. The costs of incarcerating young men and women in Texas now exceeds **\$3.2 billion annually³⁷**. Our state prisons house roughly **147,000 inmates at an annual cost of ~\$22,000/inmate, equal to more than twice what we spend annually per student on K-12 education³⁸.**



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³⁴ The Commit Partnership, Median earnings found and adjusted for inflation (2017 Dollars) in U.S. Census, American Community Survey Briefs, "Work-life Earnings ! by Field of Degree and Occupation for People with a bachelor's degree: 2011"; PS attainment numbers estimated using the THECB Higher Education Attainment ! report, HS grad classes '08-'10. !

³⁵ Anne Dunkelberg, CPPP Presentation, Outcomes Working Group 5/29/18, !

³⁶ *The Relationship Between Incarceration and Low Literacy*, March 2016. !

³⁷ State and Local Spending on Corrections and Education, U.S. Dept. of Education Brief, July 2016. !

³⁸ Texas Dept. of Criminal Justice, 2016. !

SECTION A ! Establishing a Statewide PK-12 Goal !

Establishing a Goal for Texas' PK-12 Education System

In 2015, Gov. Greg Abbott and the Texas Higher Education Coordinating Board established a statewide goal of having 60% of all adults ages 25-34 (regardless of where educated) reflect the attainment of a postsecondary degree or workforce credential by the year 2030 ("60x30 Goal"). This goal is in line with numerous studies showing at least 60% of jobs will require some kind of postsecondary education or career certification beyond high school by the year 2030. **Today, Texas' PK-12 educational system does not have a similar quantifiable statewide goal to measure its progress against.**

***Recommendation No. 1:** In keeping in alignment with the state's ultimate 60x30 Goal, the Commission recommends establishing a PK-12 goal of at least 60% proficiency at TEA's "Meets" standard at two key "checkpoints" along the state's public PK-12 educational continuum:*

- *60% of all students meeting the state's "Meets" standard at 3rd Grade Reading*
- *60% of all high school seniors graduating without the need for remediation and achieving (i) an industry-accepted certificate aligned with a living wage job; or (ii) enrolling in the military; or (iii) enrolling in post-secondary education.*

*Each year, the Commission recommends that TEA and THECB should collectively report to the Legislature on the state's combined progress in achieving both 60% PK-12 proficiency rates and 60% postsecondary completion rates solely for our own education pipeline (in addition to our progress for all adults, regardless of where educated) against our statewide 60x30 Goal. **Results should be disaggregated by various student groups, including by family income, by native language, and by ethnicity.***

SECTION B !

Proposed 3rd Grade Reading Allotment !

In 2018, 3rd grade reading achievement per STAAR assessments fell another 3%, with ~225,000 of Texas' 3rd grade students (or 59%) failing to reach the state's "Meets" standard³⁹. Because subsequent STAAR and college readiness achievement have historically not materially exceeded 3rd grade reading proficiency levels, it is clear that 3rd grade is clearly where our education pipeline is first so severely impacted that it can't sufficiently recover to help meet our 60x30 Goal.

Recommendation No. 2: *With only 6 in 10 children statewide currently coming to school assessed as Kindergarten ready⁴⁰ (and only 32% and 21% of low-income and ELL students, respectively, meeting the state's 3rd grade reading standard⁴¹), it is critical that the state invest now in our earliest years to materially improve current early reading proficiency. The Commission recommends that districts receive an additional 0.1 weight for every K-3rd grade student who is low-income or an English language learner (a student who is both would receive a 0.2 weight), producing total available funding of \$780 million annually starting in 2019-20. In return, public schools receiving this weight would agree to overall systemic changes (as outlined below) to meet the state's required goals.*

At each district's discretion, dollars from this 3rd grade reading investment could fund the following:

- *full day Pre-K (testimony reflected that students who were Kinder ready were more than 3x more likely to meet the state standard for 3rd grade reading vs. those students who weren't);*
- *tutoring interventions;*
- *specialized multi-year early childhood professional development;*
- *expanded dual language programming and personalized learning pilots;*
- *a longer school day (or a longer school year to reduce the negative impact of "summer slide")*

In return for this funding, all districts offering Pre-K (87% do so today, with over half of students attending today on a full-day basis) will be required to do so in a quality manner, defined as (i) a full day offering and (ii) a classroom adhering to quality standards governing desired student-teacher ratios, etc. Should campuses have an insufficient number of seats such that the requirement to offer full-day Pre-K would result in less students being served, TEA waivers may be obtained by public schools until additional Pre-K seats can be constructed/ located. Schools would also be encouraged to develop partnerships with private centers containing available Pre-K seats to accelerate their Pre-K offerings (see Exhibit M).

In addition, every district/network receiving this additional weight would commit to the following to enhance continuous improvement efforts in the early childhood education years:

1. *! Districts are already required to assess Kindergarten readiness within 60 days of enrollment for diagnostic purposes only; districts would now agree to use a common state-designated K-readiness indicator in order to benchmark the efficacy of their Pre-K efforts vs. similar districts in order to continuously improve.*
2. *! K-readiness assessments should be required to be shared with parents within 60 days following assessment to better inform future decisions, not only for their Kindergarten, but also for their student's younger siblings;*
3. *! Districts would annually report the number and % of students (both Pre-K eligible and non-PreK eligible) meeting the State's Meets standard in 3rd grade reading and math who also attended the district in Kindergarten and who:*
 - *were assessed as Kindergarten ready four years earlier vs. those who were not;*
 - *attended district Pre-K vs. those who did not*

³⁹ Texas Education Agency, 2018 STAAR report at "Meets" Standard. !

⁴⁰ Commit Partnership 3/19/18 testimony to Outcomes working group. Kindergarten Readiness: The percent of students deemed Kindergarten Ready based on ! assessments given by districts at the beginning of the year to Kindergarteners; !

⁴¹ Texas Education Agency, 2018 STAAR report at "Meets" Standard. !

SECTION C !

Proposed Key Outcomes Funding !

Commission testimony continually reinforced that our current educational system and its stakeholders respond to incentives. Certain aspects of our current accountability system unfortunately encourage actions to the detriment of student achievement and postsecondary success. Specific examples among many would include:

- Strong K-2nd grade educators being placed by principals in the later STAAR-tested elementary grades because that is where current state accountability focuses;
- Beginning teachers seeking to obtain a teaching certificate as quickly and as cheaply as possible because (i) they are not paid more in starting salary if they attend a higher quality preparation program that requires substantial pre-service training and (ii) better preparation (and resulting teaching effectiveness) are also not rewarded via higher salaries in subsequent years given the fixed annual pay steps found within traditional seniority-based salary systems;
- High school principals tend to focus more on STAAR End of Course testing (“EOC’s”) and high school graduation (due to current state accountability) vs. the more important factors of (i) college readiness/need for remediation and (ii) supporting a student’s successful access to either a living wage career certificate or a postsecondary education.
- Emphasis is placed on passage of the STAAR exam instead of demonstrating mastery of grade-level content. Students are advanced on to the next grade when they have “approached” grade level vs. “meets” or “masters”.

As a result, the Commission recommends that:

1. " State formula funding changes should contain financial incentives paid in 2019-20 and beyond that very consciously seek to intentionally alter systemic focus and actions toward the two critical gate points of **3rd grade reading and college, career, and military readiness and access**;
2. " Outcomes-based funding should be **equitably determined** in recognition that students with higher needs will need more resources. As a result, outcomes-based funding per student rewarding low-income student proficiency should be materially higher than outcomes-based funding per student rewarding non-low-income student achievement such that campuses with a 100% economically disadvantaged population would receive roughly 28% more than a campus with 0% economic disadvantage consistent with the recommended changes in compensatory education funding found in Recommendation No. 15;
3. " The following outcomes-based funding amounts recommended (i) were judged to be fiscally appropriate but also large enough that their potential receipt will alter district and campus principal behavior and (ii) should be calculated in such a way as to reduce the importance of any one assessment (possibly by rewarding proficiency on a multi-year trailing average of measured outcomes).

Recommendation No. 3: Proposed 3rd Grade Reading Outcomes Funding (\$400 Million)

Given the critical nature of being able to “read to learn” across all subjects after 3rd grade, the Commission recommends that each district or charter network annually receive incremental funding above the basic allotment for every 3rd grader achieving reading proficiency at the state’s “Meets” standard. TEA data indicates that 3rd grade students who met the state’s “Meets” reading standard in 2011-12 (vs. those who didn’t) were:

- ***2.8x more likely to achieve the state’s “Meets” standard in 8th grade reading five years later;***
- ***2.0x more likely to either achieve the state’s “Meets” standard in 8th grade math or, more importantly, take the more difficult Algebra 1 course in 8th grade;***

Based on a current desire to provide outcomes-based funding equitably based on current 2018 proficiency levels, districts would receive outcomes funding equivalent to an additional weight equating to \$3,400 for every low-income student achieving 3rd grade reading proficiency at the Meets standard and an additional weight that would equate to \$1,450 for every non-low-income student achieving proficiency at the Meets standard, producing a total outcomes funding pool of approximating \$400 million funded in 2019-20 assuming proficiency levels are similar to 2018. (Actual weights to be determined once the basic allotment determined). As proficiency increases in the future due to the investment of these resources provided beginning in Year 1, outcome funding amounts would grow (see Exhibit T-1).

Funds from this proposed 3rd grade outcomes-based funding could be used for:

- Full-day PreK
- Teacher literacy training, including hiring of instructional specialists
- Implementation of interim assessment tools such as CLASS to inform teacher professional development
- Student literacy interventions
- Increased dual language strategies
- Longer school day
- Personalized learning expansion

Recommendation No. 4: Proposed College, Career, and Military Readiness (“CCMR”) Outcomes Funding (\$400 Million)

Given the critical nature of achieving a post-secondary education beyond high school, the Commission recommends that each public school annually receive incremental funding above the basic allotment for every graduating senior that does not require post-secondary remediation (as determined by ACT, SAT or TSI score) and either:

- Enrolls in a post-secondary institution; or
- Graduates high school having achieved an industry-accepted certificate; or
- Enlists in the military; or
- Completes 12 hours or more of dual credit in high school

Based on a current desire to provide outcomes-based funding equitably based on current 2018 proficiency levels, districts would receive funding of (i) an additional weight that would equate to \$5,380 for every low-income senior graduating and meeting one of the three targeted achievements listed above and (ii) an additional weight that would equate to \$2,015 for every non-low-income senior meeting the target, producing a total outcome funding pool of approximately \$400 million funded in 2019-20 assuming proficiency levels are similar to 2018. As proficiency increases in the future due to the investment of these resources provided beginning in Year 1, outcome funding amounts would grow. TEA should purchase National Student Clearinghouse data annually and provide to each public school at no cost so that post-secondary access can be easily determined (see Exhibit T-2).

Although roughly 90% of Texas high school students currently graduate within four years, less than 40% of those students are assessed as post-secondary ready on either the SAT, ACT, or TSI assessment⁴². As a result, far too many students graduate believing they are ready for postsecondary education, only to spend valuable time and money on developmental education courses for no college credit. This further wastes both student loan and Pell grant funds on remediation that should have occurred prior to high school graduation. Additionally, students receive inadequate support on their FAFSA and college applications, causing our state to forego nearly \$300 million worth of annual federal Pell grants with every class of graduating seniors.

⁴² As defined as having scored at least a 24 on the ACT or 1110 on the SAT (reading and math) – TEA TAPR 2017.

By providing the resources and outcomes-based funding to increase a high school's focus on ensuring each and every student does not require remediation post high school and subsequently accesses a career, the military or enrolls in a postsecondary institution (vs. just high school graduation), the following systemic benefits should occur:

- **Significantly Better Alignment Between Graduation Rates and Readiness Rates** – By financially rewarding districts for reducing the need for remediation classes post high school, remediation efforts can instead be pushed into grades 9-12 where they belong and can preserve critical student loan and Pell grant dollars for credit-bearing classes toward a student's postsecondary degree or industry-certification.
- **Substantial Access of Federal Dollars to Benefit Texas Students and Economy** - Only 40% of Texas' 240,000 low-income 8th graders enroll in college four years later⁴³; the other 60% (at an average Pell grant award of \$4,010 per student/year) conservatively represents **over \$300 million per year per cohort of untapped federal resources available for their postsecondary education**⁴⁴. Through this proposed incentive, high schools will now have the counseling and student support resources to adequately assist FAFSA completion to access these untapped federal dollars.
- **Increased High School Graduation Rates and Alignment of Curriculum to Post- Secondary Pathways Meeting Workforce Needs** - Current workforce needs, associated salaries and required credentials/pathways are not adequately disseminated to middle school and high school students due to overloaded and often undertrained counselors/advisors, helping create significant mismatches between what students pursue and what the regional work force needs/requires. In addition, the lack of student flexibility to take a coherent sequence of CTE courses, coupled with the lack of transparency on the applicability of high school course work to a career, too often leads to low-income students failing to complete their high school degree (**33% of economically disadvantaged 8th graders don't graduate high school four years later**)⁴⁵ as courses too often feel irrelevant and without purpose.
- **Greater Knowledge and Ownership Within High School Staff of Each Student's Post- Secondary or Career Success** - Public high schools are currently neither held fully accountable nor financially incentivized to (i) maximize the number of students accessing and completing a postsecondary education or (ii) minimize the number of students requiring remediation in college. While the data is publicly available, high schools are typically not aware of the postsecondary outcomes of their graduates given the difficulty of collection and lack of incentive to do so. This creates a significant disconnect that precludes continuous improvement efforts.

Funds from this CCMR outcomes-based funding could be used to:

- Reduce high school counselor loads (which currently approach 1 per 450 students), perhaps by (i) hiring college access counselors with higher education admission experience to support FAFSA completion and postsecondary applications and (ii) training CTE teachers to assist with advising on high in-demand jobs and certifications required, provide FAFSA completion support, etc.;
- Support SAT/ACT/TSI preparation classes, which can enhance a student's ability to both access and receive scholarship support;
- Support funding critical remediation efforts in high school;
- Increased salaries to attract hard-to-recruit STEM and advanced placement teachers;
- Additional investment in career and technical education classes;
- Increase early college and P-Tech offerings which can substantially reduce the student cost of postsecondary attainment;
- Implement/expand JROTC programs, which allow those who ultimately enlist to receive paygrade advancement and also helps those enrolling in postsecondary to qualify for ROTC scholarships.

⁴³ THECB 8th Grade Cohort Study, 2016 Report. !

⁴⁴ 12th graders and completers in 17-18 - National FAFSA Tracker: <https://national.fafsatracker.com/currentRates>; FAFSA Eligible (59% in 16-17) - 2017 Texas ! Academic Performance Report; Average Pell Grant (\$4,010 in 17-18). !

⁴⁵ THECB 2008 Cohort Study, 2016 Report. !

SECTION D !

Proposed High Quality Teacher Allotment !

The Commission believes that meaningful efforts should be made to provide every child with a well-prepared and effective educator, including actions that ensure:

- Our top college graduates increasingly view teaching as an attractive and impactful profession;
- Every new teacher candidate is incented to seek high quality educator preparation programs;
- Effective teachers are paid well enough to stay in the profession and in the classroom if they desire;
- A sufficient number of our better teachers are placed in front of our students facing the most challenges and are in front of them as early as possible in their educational journey.

***Recommendation No. 5:** The Commission recommends providing optional funding via weights in the school finance formula to provide districts with the substantial and necessary funds to pay meaningfully higher salaries to their most effective teachers and campus leaders should they elect to implement a multiple measure evaluation system to determine who those effective educators are. Funding of this allotment would commence in the 2019-20 school year at \$200 million per biennium (growing an additional \$200 million each subsequent biennium until it reaches \$1.0 billion in 2029-2030) to provide discretionary funding to districts wishing to enhance the retention and strategic staffing of their more effective educators across their districts.*

Due to overall costs, we have suggested that this incentive be phased-in over 10 years by approving district evaluation systems (as they are constructed and approved by local districts) covering no more than 10% of the state's teachers on a cumulative basis per year (i.e. after three years no more than 30% of the state's teachers would be covered, after five years no more than 50% of the state's teachers would be covered, etc.). Should the number of districts submitting evaluation systems exceed this cap in any one year, preference should be given by TEA toward those districts serving greater percentages of low-income students and reflecting greater numbers of Improvement Required or "F" campuses.

In the spirit of using compensation to incent better preparation and ongoing coaching of new teachers, we would suggest (1) districts consider using a portion of dollars received to pay signing bonuses to the portion of their beginning teachers that choose to attend preparation programs featuring more rigorous clinical residency requirements and (2) that teachers receiving the highest salaries under each district's evaluation system would also be expected to serve as a mentor/coach to both student teachers and beginning teachers new to the district. Funds could also be used to pay for evaluation "backbone" costs needed to support a differentiated system

School districts who opt into this evaluation and pay incentive would individually (or in collaboration with surrounding other districts due to cost efficiencies) submit their own differentiated evaluation system to TEA for approval. Multiple evaluation measures, developed by local districts in partnership with all stakeholders including most importantly their educators, would include, but would not be limited to, campus leader observations, teacher peer review, student surveys, and student achievement growth. (See Exhibit U for suggested evaluation system requirements that would be approved by TEA to provide districts and charter networks both guidance and flexibility in implementation). The state may also consider having TEA create an optional version of a teacher quality program that districts can choose to opt into if they lack the resources to develop such a program on the local level.

All applying districts/charter networks would track and provide to TEA the number, percentage and annual retention of teachers reaching each of their respective distinction levels within the district and the certifying entity for each teacher at each distinction level so that (i) overall feedback statewide to each educator preparation program could be given on the specific teachers they trained and (ii) TEA and the legislature could evaluate the efficacy of this proposed statewide incentive.

We believe this step is an incredibly critical one for school finance reform in that it would:

1. " **Attract more of our best and brightest to the teaching profession** given that teachers are consistently cited as the most important in-school factor in student outcomes⁴⁶. Per a 2010 study by McKinsey⁴⁷, only 1 in 4 new U.S. teachers come from the top third of their college graduating class, and compensation was the primary differentiating factor cited by top-third graduates who declined a career in education in favor of their chosen industry. Per a 2017 report by ACT, only one in five students who declared their intention to major in education met ACT college ready benchmarks⁴⁸.
2. " **Incent prospective teachers to complete more rigorous (and more expensive) education preparation programs reflecting substantially higher levels of (i) clinical residency experience and/or (ii) ongoing coaching support.** Under current seniority-based pay systems (where starting salaries are not adjusted to reflect the rigor of each beginning teacher's preparation program, and subsequent raises are generally fixed lockstep increases not tied to a teacher's effectiveness), **there is little financial incentive for new teachers to seek preparation via more rigorous programs.**
3. " Inform districts **whether their more effective educators are being equitably distributed** across their campuses and allow districts to create financial incentives for their effective teachers to move to the district's higher need schools, increasing the equitable distribution of effective educators.
4. " Allow districts to: **(i) systemically assign student teachers to be trained by their better teachers, enhancing their preparation; (ii) target professional development to each teacher's development needs, to allow more effective coaching and development, and (iii) provide robust feedback to education preparation programs** on their preparation of new teachers, which today is woefully non-existent and would create a critical continuous improvement loop to help teaching programs get better.

The Commission was meaningfully influenced in making this recommendation based on the tremendous success seen in Dallas ISD since it implemented robust principal and teacher evaluations in the 2013-14 school year and eliminated seniority-based pay in lieu of salary adjustments based to educator effectiveness. Over the past four years, despite reflecting a student population that has 1.5x the state average in economic disadvantage and 2.3x the state average in English language learners, Dallas ISD has (i) grown student achievement across all grades and subjects by 13 percentile points (a rate roughly twice the growth rate of the state during that time frame) and **has reduced the percentage of students educated on a campus rated Improvement Required from 19% of all students enrolled to just 1%.** Improvement Required campuses were reduced by 90% during that same time frame, **declining from 43 IR campuses in 2013-14 to just 4 IR campuses in 2017-18.** Twelve of the district's 13 ACE campuses, **all rated multi-year IR, met standard the following year and collectively received the equivalent of a "B" grade in 2017-18.** The district received a "B" grade from TEA for the 2017-18 school year and had the highest percentage of campuses scoring 90 accountability points or above (the TEA equivalent of an "A" grade - 26% of their campuses in total) of any urban school district in Texas.

Analysis of teacher retention and compensation shows that Dallas ISD is now retaining over 90% of its more proficient teachers with teachers scoring at its highest levels of effectiveness receiving compensation in the \$80,000 to \$90,000 range. Teachers who agree to work on an "ACE" campus with higher challenges and needs can receive an additional \$8,000 to \$10,000 to their already-adjusted salary based on effectiveness **(see Exhibits P-1, P-2 and P-3).**

⁴⁶ Rand Education, *Teachers Matter: Understanding Teacher Impact on Student Achievement*

⁴⁷ Closing the Teaching Talent Gap, McKinsey & Co., 2010

⁴⁸ The Condition of College and Career Readiness 2017, National ACT

Section E !

Proposed Other New Allotments and Programs to Improve Early Literacy !

Recommendation No. 6: Create a New Dual Language Allotment (Up to \$50 Million in Year One)

English language learners (ELL) represent 1.0 million students, or roughly 1 out of every 5 public school students in the state of Texas⁴⁹. 90% of our ELL students speak Spanish. Compelling data reviewed by the Commission indicates that dual language strategies are highly effective vs. bilingual or pullout strategies. Currently, the school finance system reflects a single bilingual education weight of 0.1, which includes students in both bi-lingual and dual language programs. While the total annual cost to the state of this current weight is \$570 million, it does not incent (nor provide sufficient funding) for school districts to offer dual language programs despite evidence of greater effectiveness.

To better incentivize and resource school districts to offer these effective programs, the Commission recommends that the state create an additional allotment at an additional 0.05 weight (for a total 0.15 weight) for dual language programs. Depending on the amount of participation, it is estimated that this weight would reflect an initial annual incremental cost to the state of between \$15 and \$50 million, which could exceed \$100M by 2023.

Recommendation No. 7: Create a New Dyslexia Allotment (\$100 Million)

During the 2017-18 school year, less than 2.5% of students in Texas received services for dyslexia and other related disorders⁵⁰, yet national data indicates that dyslexia affects, on average, 5-10% of public school students. This under-identification is likely attributable to the fact that Texas school districts do not receive direct funding to support students with dyslexia or related disorders outside of the Individuals with Disabilities Education Act (“IDEA”). Given that undiagnosed dyslexia can often contribute to both academic challenges and behavioral issues associated with student frustrations, it is likely that the costs of appropriately identifying and treating dyslexia will be offset by decreased costs associated with additional remediation and counseling.

The Commission recommends that the state create a new allotment for students with dyslexia at a weight of 0.1. The additional funding will help school districts provide the early identification and intervention that can improve these students’ academic success. The estimated annual cost to the state is \$100 million (assuming the 0.1 weight is applied to only those students currently identified as dyslexic).

Recommendation No. 8: Create an Extended Year Incentive Program (\$50 Million)

Student achievement levels typically drop during the summer months, commonly referred to as the “summer slide.” Studies show that summer instruction programs that offer between 3 and 4 hours of daily instruction over 5 to 6 weeks are an effective method of reducing (or altogether eliminating) this decline and would occur absent any other instructional improvements over the that time period. The majority of funds used for this reform would also result in an increase in teacher salaries for the possible addition of 30 instructional days.

The Commission recommends that the state create an Extended Year Incentive Program to provide a half-day of funding to school districts opting to offer additional instructional days (181-210) after the school year ends for students in pre-K through 5th grade opting/needing to attend based on proficiency. In addition to improving student outcomes, an Extended Year program would provide additional compensation to teachers and assist families with childcare during the summer. The annual cost to the state for an Extended Year Incentive Program would be \$50 million.

⁴⁹ Texas Education Agency, Enrollment in Texas Public Schools, 2017-18.

⁵⁰ Texas Education Agency, PEIMS Special Education Report, 2018.

SECTION F !

Proposed Reallocation of Existing Revenues !

The Commission believes the following existing allocations within the school finance formula should be terminated and re-allocated either to other priorities or to the Basic Allotment due to either (i) their outdated nature or (ii) the fact that the goals of the allotments are no longer being met or are no longer as impactful as compared to other potential uses of the funding. These recommendations collectively identify \$3.55 billion in current annual funds and \$1.8 billion in a one-time adjustment for reallocation in Year 1 of the 2020- 2021 biennium.

Recommendation No. 9: Reallocate Funds Associated with the Cost of Education Index (“CEI”)

The CEI, created in 1984, provides an adjustment intended to account for variances in the cost of educating students in school districts across the state, ranging from a 1.02 to 1.20 multiple applied to the Basic Allotment. Although the CEI is statutorily required to be updated annually, the number has stayed the same since 1991 and the current numbers are based on 1989 data. The CEI does not reflect current variances in local education costs (for example, Rio Grande City ISD at 1.18 has a higher CEI than Austin ISD at 1.10), as the biennial political process has proven incapable of keeping it updated.

The Commission has also adopted comprehensive reform policies designed to target the issues that the CEI was designed to address. For example, the CEI was designed to adjust for differential district cost, 85% of those coming from the variations in teacher salary. As the Commission has adopted a teacher quality allotment in the formulas, funding is being provided to districts to target this issue. While cost-based adjustments might be presumed to help urban and suburban school districts recruit their fair share of effective teachers, these same districts can have an easier time recruiting and retaining teachers because they offer more amenities and activities for teachers and their families vs. rural districts who often have a much harder time recruiting and retaining educators.

Equally important, we believe allocating funding based on student need takes priority over allocating funding to regions based on variances in the cost of living, especially in light of the fact that school districts with the highest student needs in our state are also regions reflecting higher costs of living. As such, we recommend terminating the CEI adjustment and reallocating those funds to other, more impactful areas.

The Commission recommends that the CEI be reallocated, providing \$2.9 billion of annual funding available for reallocation.

Recommendation No. 10: Reallocate Chapter 41 Hold Harmless Recapture Reduction

To mitigate the impact on school districts after recapture was implemented in 1993, the state provided three years of hold-harmless, via a reduction in recapture for districts negatively impacted by recapture. Originally intended to be a temporary, this provision was extended twice and then made permanent in 1999. Today, the recapture reduction only affects 40 school districts across the state and is decades removed from the budget cuts it was designed to alleviate.

The Commission recommends that the Chapter 41 hold harmless funds be reallocated, providing \$30 million of annual available funding for reallocation.

Recommendation No. 11: Reallocate Chapter 41 Early Agreement Credit Funds

Beginning in 1995, school districts subject to recapture could earn a credit against their total recapture amounts by committing to purchase attendance credits from the state by September 1. Currently, nearly all school districts subject to recapture take advantage of the Chapter 41 Early Agreement Credit. However, this practice does not provide a benefit to the state, as it is not a discount for early payment of the recapture amounts.

The Commission recommends that the Chapter 41 Early Agreement credit be reallocated, providing \$50 million of annual available funding for reallocation.

Recommendation No. 12: Reallocate the Gifted and Talented Allotment Funds

By law, school districts must provide Gifted and Talented programs (“G/T”) for students. Created in 1984 and last updated in 1991, the purpose of the G/T allotment is to financially support districts in offsetting the costs associated with G/T programs. However, funding is currently limited to 5% of a district’s average daily attendance (“ADA”) and nearly all school districts currently receive the maximum funding allowed under this allotment. As such, the same result could be achieved by simply distributing these funds to all school districts through the Basic Allotment.

It’s important to note that this reallocation would not discontinue G/T programming in Texas, as there is a statutory requirement to provide it regardless of how it is funded. Instead, redistributing these funds into the Basic Allotment would more efficiently disperse the dollars to school districts and lift the arbitrary cap on the number of students that school districts currently identify as G/T in the expectation of receiving funding.

The Commission recommends that the G/T Allotment funds be reallocated, providing \$165 million of annual available funding for reallocation, and that TEA report annually to the legislature on G/T identification to help ensure that students identified at G/T do not decline as a result of this change and that inequities in identification are quickly addressed.

Recommendation No. 13: Reallocate High School Allotment Funds

Created in 2006 and amended in 2009, the High School allotment provides \$275 per student in average daily attendance (ADA) in grades 9-12 within a school district. The allotment was created to support programs aimed at decreasing high school dropouts and increasing college-readiness. However, since the allotment is distributed through ADA, these funds do not necessarily flow to the students who need the most support.

The state can better accomplish this goal by redistributing the high school allotment into other existing allotments that target high-needs students and college-readiness initiatives, such as compensatory education and career and technology education (“CTE”).

The Commission recommends that the High School Allotment funds be reallocated, providing \$400 million of annual available funding for reallocation.

Recommendation No. 14: Move from Prior Year District Property Values to Current Year Property Values

Currently, the state school finance system utilizes prior year district property values to calculate a school district’s wealth per student, local share of the FSP, and thus the state’s contribution towards a district’s education budget. This practice creates a lag in the funding system such that formulas do not accurately reflect actual revenues from local property tax collections.

Moving to current year district property values would more accurately reflect increases or declines in property values across the state, providing a clearer, more equitable picture of the needs of Texas schools. Moving to current year district property values would, in effect, fast-forward the reflection of property value growth by one years. For districts with rising property values, this acceleration would accurately capture their wealth per student and subsequently increase their projected recapture payments and local share of the FSP. However, by reinvesting the immediate savings to the state from this change into the Basic Allotment, the state would mitigate the resulting increased recapture payments or loss of state aid for school districts.

The Commission recommends that the state school finance system utilize current year district property values rather than the current practice of utilizing prior year property values, providing a one-time \$1.8 billion in available funding for reallocation.



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SECTION G !

Proposed Changes in Existing Allotments/Formula Weights !

This section identifies programs, weights, and allotments that could be altered and funded by the monies freed up in Section E. We believe that the following changes recommended herein to existing allotments will improve the equity, efficiency, fairness and transparency of the state school finance system.

Recommendation 15: Increase Compensatory Education Funding by \$1.1 Billion and Allocate on a Campus Specific Spectrum

The Compensatory Education weight, created in 1984, provides a 0.2 weight applied to the Basic Allotment for each student who is considered economically disadvantaged as determined by their eligibility in the federal National School Lunch Program. This weight is commonly referred to as “free and reduced lunch.” The purpose of the Compensatory Education weight is to provide additional resources that economically-disadvantaged students need vs. their peers.

While research shows that higher concentrations of poverty within a campus and district result in lower student achievement due to a host of factors (including the increased difficulty in recruiting experienced, effective teachers to those campuses), our state’s current system places an equal weight on all economically-disadvantaged students regardless of the district’s depth or concentration of poverty.

To increase the system’s equity and provide additional resources toward students with the highest needs, the Commission recommends an increase in Compensatory Education funding and allocation based on a spectrum approach to direct more funding to districts and campuses with higher concentrations of systemic poverty.

The Commission recommends that the state school finance system use a sliding scale of a 0.225 weight to a 0.275 weight depending on a school’s level and concentration of poverty (vs. the current baseline 0.2 weight) and consider the use of alternative measures of poverty for this allotment (vs. solely using a student’s simple eligibility for the National School Lunch Program). The total annual cost to the state to supplement the Compensatory Education weight with a campus specific spectrum, using these suggested weights, would be \$1.1 billion.

Recommendation 16: Base Transportation Funding on Mileage

The transportation allotment is currently based on a linear density formula, which has not been updated since 1984. At that time, the allotment covered between 70 and 80% of a school district’s transportation cost vs. only 25% of a district’s transportation costs today. Additionally, the current system excludes certain routes -- and therefore students -- that are not advantageous to a district’s linear density calculation.

The Commission recommends that the state adopt a mileage approach to transportation funding, with a mileage rate of at least 80 cents that is set in the General Appropriations Act. This approach is more straightforward and will reduce administrative costs associated with calculating linear density formulas. This recommendation is cost-neutral.

Recommendation 17: Provide Transportation Funding to Chapter 41 Districts

Currently, Chapter 41 school districts do not receive direct state support for transportation costs, effectively creating a disincentive to provide transportation services for their students. The Commission believes that school districts should not be sending recaptured dollars back to the state for costs associated with basic student transportation.

The Commission recommends that the state provide transportation funding for Chapter 41 school districts at an annual cost to the state of \$60 million.

Recommendation 18: Recreate Small/Mid-Size District Adjustments as a Stand-Alone Allotment

Currently, small- and mid-size districts each have their own independent adjustments in the funding formula. The small district adjustment was created in 1974 and amended in 2017 to phase in the full adjustment for districts under 300 square miles in size. The mid-size district adjustment was created in 1997 and then amended in 2009 to include eligible Chapter 41 districts based on size. These adjustments make no differentiation between those districts that are small by necessity and those that are small by choice, which results in funding inefficiencies and redundant administrative expenses. Texas is just one of three states (including Alaska and Arizona) to place these district adjustments at such an early point in the formula, where they have compounding effects on all subsequent weights.

The Commission recommends that the state create a stand-alone allotment for small- and mid- size school districts. The allotment would increase public transparency toward spending associated with districts electing to remain small- to mid-size while helping the state streamline formulas to focus more on the needs of the student, rather than the community where the student resides. The annual savings to the state of this stand-alone allotment is approximately \$600 million.

Recommendation No. 19: Increase New Instructional Facility Allotment Appropriation to \$100m/Year

The New Instructional Facility Allotment (“NIFA”) provides funding for operational expenses associated with opening a new instructional campus. The NIFA was originally created in 1999 at a rate of \$250 per ADA. Over time, this funding became insufficient for school districts, particularly fast- growth districts, to open new instructional facilities. The NIFA was subsequently updated in 2017 to a rate of \$1,000 per ADA; however, no additional funding was appropriated by the legislature for this allotment. Because numerous school districts requested funds through NIFA due to the increased rate with no increase in appropriation, an actual allotment of only \$235 per ADA was awarded for fiscal year 2018.

The Commission recommends that the state appropriate sufficient funds to fully satisfy the intended rate of \$1,000 per ADA at an annual cost to the state of \$76.3 million. However, based on trends in student growth, this estimate may be inadequate. The Commission also recommends that this allotment be studied further and that the appropriations request fully fund the intended rate.

Recommendation No. 20: Expand the Career and Technology Allotment to Include Courses in 6th to 8th Grade

The Career and Technology Allotment was created in 1984 and most recently updated in 2003. Currently, the allotment only applies to courses in 9th through 12th grades. Increases in career and technology programs are promising efforts to help build the college and career readiness of our students while concurrently reducing the substantial student cost for many of postsecondary enrollment. The state is investing more heavily in Pathways in Technology Early College High School (“P-TECH”) and other career and technology programs.

The Commission recommends greater K-12 alignment of career and technology education by expanding the Career and Technology Allotment to include CTE courses taught in 6th through 8th grades in order to better excite and prepare students to enter P-TECH and similar programs in high school. The annual cost to the state of expanding the Career and Technology Allotment to courses in 6th through 8th grades is \$20 million.

Section H !
(Proposed Change in Basic Allotment) !

The basic allotment is the fundamental and invariable level of per student funding that all school districts receive per student from the school finance formula. Following an increase of \$1,547 in FY2010, or 48% (from \$3,218 to \$4,765 per student), the basic allotment has remained the same in statute. In FY2018-19 (and in previous years), the Legislature has supplemented the basic allotment with additional funds, raising the effective basic allotment to \$5,140. This represents an increase of \$375, or 8%, over the last decade.

Increasing the basic allotment gives school districts the flexibility to spend the additional funds where most needed, can increase equity within the system, and can lessen the amount of any recapture owed to the state by reducing Chapter 41 school districts' equalized wealth levels per student in ADA.

Recommendation No. 21: The Commission recommends that the state statutorily increase the basic allotment with all remaining funds freed from the streamlining of outdated formula elements.



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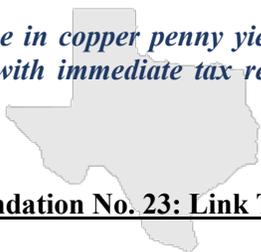
Section I ! (Proposed Changes in Tier II Yields) !

Recommendation No. 22: Link Tier II Copper Penny Yield to a Percentage of the Basic Allotment

In 2006, House Bill 1 established multiple equalized wealth levels in the school finance system. The yield from Tier II “copper pennies,” which are those pennies within a school district’s property tax rate from \$1.06 up to \$1.17, was equalized up to \$31.95 per penny – **the 88th percentile in terms of wealth per student at the time**. However, this yield has not been adjusted since 2006. Today, a yield of \$31.95 represents **only the 47th percentile of wealth per student**, a significant decrease from the originally set 88th percentile. Since 2006, many districts have maxed out their taxing capacity by utilizing tax ratification elections to access all \$0.17 of Tier 2 taxing authority. Without a mechanism to compress copper pennies, those districts are locked in at their current tax rates for perpetuity.

The Commission recommends that the Tier II Copper Penny yield be indexed to 75% of equalized wealth levels, resulting in an increase in the yield to approximately \$43.50 with an initial statewide cost of \$286 million dollars due to additional Tier II state aid and a reduced copper penny recapture. This estimate assumes that the Basic Allotment will equate to \$5,800 as a result of previously stated Recommendations No. 9 thru No. 13 governing all proposed reallocations. Subsequent increases in the Basic Allotment would also concurrently increase this Tier II Copper Penny yield. Any increase in the yield would benefit school districts taxing above \$1.06, with Chapter 42 districts seeing an increase in their Tier II aid while Chapter 41 districts would see a reduction in their recapture payments.

An increase in copper penny yields should be paired with automatic compression of a district’s tax rate to provide taxpayers with immediate tax relief and provide districts with future capacity to seek voter-approved increases in funding.



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Recommendation No. 23: Link Tier II Golden Penny Yield to a Set Percentage of Wealth per Student

In addition to the copper pennies, House Bill 1 in 2006 established the “golden pennies,” or the first six cents of a school district’s property tax rate above a dollar (from \$1.01 to \$1.06), which were equalized up to the Austin ISD wealth level. Golden pennies were called such because they were not subject to recapture and could be authorized by a school board vote, with the last two golden pennies (and any copper pennies) requiring a tax ratification election.

In 2006, the Austin ISD wealth level was the 95th percentile in terms of wealth per student at \$41.22. The yield on golden pennies has never been decoupled from Austin ISD, which given its dramatic property value growth now represents the 99th percentile in terms of wealth per student at \$106.28.

The Commission recommends that the Tier II golden penny yield be decoupled from Austin ISD and set at a certain percentile of wealth per student. In doing so, the state would provide more predictability in the system and remove a variable – Austin ISD’s wealth level – that is tied to neither district nor student needs. The annual cost to the state will be determined by the percentile of wealth per student at which the Tier II golden penny yield is set.

While this decoupling will prevent districts from receiving what was viewed as an additional source of revenues (caused by the continual rising value of Austin ISD’s wealth level), the Commission believes that statewide property growth will continue to benefit these pennies and that additional funds districts can receive from the two outcomes funding provisions found in Recommendations 3 and 4 will assist in this area as performance improves due to the resources made available from strategic investing. Additional revenues will also be more predictable and under greater district control (vs. fluctuating Austin property values), encouraging districts to align actions and invest extra funding in strategies that will yield even more incentive payments in subsequent years.

**Section J !
(Proposed Changes to Reduce Recapture) !**

**TO BE COMPLETED FOLLOWING COMMITTEE DISCUSSION OF REVENUE
AND PROPERTY TAX REDUCTION PROPOSALS ON DECEMBER 11TH !**



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Section K ! (Additional Recommendations) !

Beyond the above recommendations, we urge the Legislature to seriously take under consideration the following general recommendations related to Texas' K-12 education system:

Recommendation No. 24: Following evaluation of testimony in the 2019 legislative session from current Texas high school principals and from other states that have pursued this route, strongly consider eliminating the five end-of-course (“EOC”) STAAR assessments and replacing with either SAT, ACT, or TSI assessments that can measure growth based on a pre-SAT/ACT or TSI assessment given in 9th grade vs. a SAT/ACT or TSI assessment given in the 11th grade. This change would have no impact on a student’s ability to graduate; it is worth noting that a growing number of students who fail to pass EOC’s are already graduating via individual Graduation Committees, including ~5% of low-income students and ~25% of English language learners⁵¹ **(see Exhibit V).**

Growth on these assessments would be combined with other important metrics historically viewed as critical in achieving a postsecondary credential (such as dual credit attainment and FAFSA completion) to factor into overall high school accountability. Eliminating the cost of EOC’s (estimated by TEA at roughly \$27 million) would (i) provide the funding for a statewide SAT/ACT criterion-based assessment; (ii) would result in a metric (SAT/ACT) that is much more understood and used outside of the K-12 system by higher education and industry than EOC’s; and (iii) would, most importantly, narrow high school campus leadership’s focus to fewer metrics that matter. Replacing state end-of-course exams with universal SAT/ACT assessments has already occurred in several U.S. states, including Michigan and Indiana, for the reasons outlined above. Before the Commission makes a final recommendation on this point, we would suggest inviting additional testimony.

Recommendation No. 25: For districts providing a full day Pre-K program, consider crediting the appropriate full-day attendance for purposes of funding within the Foundation School Program. If school districts opt to provide full-day Pre-K for some or all of their students, their WADA calculation would reflect a full day allotment more reflective of their program expenditures. This consideration (for participating districts) would provide a certain level of additional funding for Chapter 42 school districts while simultaneously reducing potential recapture payments for Chapter 41 school districts.

Recommendation No. 26: Amend legislation to allow school reconstitution for public school elementary and middle school campuses receiving an “F” for two consecutive years with a school turnaround program comparable to the Accelerating Campus Excellence program (ACE) in Dallas ISD (where better educators have been purposely placed at the struggling campus) with the state providing matching funds to reduce district costs. Early learning is critical to a child’s success, and the negative impact to a student of being within a highly challenged school for five straight years will very likely never be overcome. The ACE program has shown tremendous success in allowing elementary and middle schools to get off the state’s Improvement Required list after being on it multiple straight years (for example, preliminary data indicates that all 13 ACE elementary campuses across Dallas ISD and Ft. Worth ISD met standard in their first year), and we believe that the state should act with much more urgency on behalf of our younger learners if districts are not taking the necessary steps quickly to reconstitute highly challenged schools with more effective experienced educators.

Recommendation No. 27: To reduce prison recidivism and its associated costs, TEA should amend the accountability system to not penalize districts that help formerly incarcerated individuals receive their high school diploma or GED.

⁵¹ <https://tea.texas.gov/acctres/dropcomp/years.html#igc>

Recommendation No. 28: State technical assistance funding should include targeting professional development training towards schools/districts willing to launch blended learning and personalized learning pilots that help students matriculate faster than their peers if they desire, providing net savings in the long run to the state due to paying for less seat time.

Recommendation No. 29: Allow 3 and 4-year old children of Texas public school educators to be eligible for free public full- day Pre-K funding to (i) increase the attraction and retention of working in public education in Texas and (ii) increase the diversity of public school Pre-K classrooms, which today are principally limited to economically disadvantaged and English language learner students. If a district is classroom seat constrained, preference would be given to eligible Pre-K children first.



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SECTION L !
OVERVIEW OF POTENTIAL REVENUE ITEMS FOR LEGISLATURE TO CONSIDER !

Without making a specific recommendation or endorsement of any of the items below, the Commission was presented with numerous ideas for the Legislature to consider as sources of revenue for the investments in public school finance recommended in this report. Those ideas included:

- 1. General revenue, especially in light of strong sales tax growth**
- 2. Redirecting a portion of severance taxes currently designated for the Economic Stability Fund (also known as the “Rainy Day Fund”) given the growing size of the ESF due to unprecedented energy activity in the state, particularly in the Permian Basin.**
- 3. Expand sales tax base and eliminate exclusions for certain Business and Professional Services ~\$4.8 billion per biennium**

(1) Background:

- Currently Texas does not tax a variety of business services, while implementing a tax does not assume compliance, the legislature should explore extending sales tax to certain business and professional services. Aggregate exemptions total \$59.8 billion. Of this amount, the exemptions related to state taxes accounts for \$45.6 billion with school property taxes accounting for the remaining \$14.2 billion.

(2) Potential Revenue (Dollar amounts in millions)

Service	2020 Revenue	2021 Revenue
Legal Services	\$589.6	\$619.9
Accounting and Auditing Services	\$381.7	\$401.3
Architectural and Engineering Services	\$551.4	\$579.7
Management Consulting and PR	\$213.7	\$224.7
Contract Computer Programming	\$251.8	\$264.7
Marketing Research and Public Opinion Polling	\$44.2	\$46.4
Outdoors Display Advertising	\$21.2	\$22.2
Financial Services Brokerages	\$183.5	\$192.9
Other Financial Services	\$112.3	\$118.1
Airplanes and Motor Boats	\$.06	
Reinstate Controlled Substance Tax	Estimate Unavailable	

4. **Expanding the sales tax base to include internet sales associated with vendors not having a physical presence in the state of Texas (as made possible by the recent Wayfair Supreme Court decision in 2018 allowing state taxation to occur)**

5. **Increase motor fuel tax to \$0.30, an increase of \$0.10, for gas and diesel fuel ~ \$900 million per biennium**
 (1) Background:

- National average for gas is 33.72 cents for gas and 35.51 cents for diesel

(2) Potential Revenue - With 25% of the fuel tax going to the Available School Fund Texas could expect an additional \$460 million dedicated to the ASF in 2020 and \$470 million dedicated to the ASF in 2021

6. **Dedicate interest income and \$1 billion from Economic Stabilization Fund to "hard costs" in Education (School Safety, EDA, NIFA, IFA) ~\$130 million in 2018**

Background:

- Texas has one of the highest levels of ESF in the country in both dollars and days of operation with nearly \$12 billion, over 20% GF revenue, in the fund (see PEW 2018 study).
- Based on requirements of a minimum balance for the ESF, the state is set to earn interest on the ESF fund each year. Earned dividends can be added to expected revenue from future investments depending on legislative decisions.

Potential revenue:

- Based on current cash reports from comptroller, expected interest income is \$135.9 million in 2018 and \$204.9 million in 2019

7. **Replace high cost gas tax rate with natural gas production rate ~\$600 million per biennium**

Background:

- The “high-cost” special treatment for natural gas production reduces the tax rate of costly gas wells (from 7.5% to 1.4% - 1.7%). Lawmakers created the exemption in 1989, when the natural gas industry was weak and needed incentives to expand drilling.

Potential Revenue:

- Estimates given in 2017 were around \$360 million per year. Comptroller estimates for subsequent years are as follows:

Fiscal Year	Estimated Tax Loss
18	383,300,774
19	284,094,634
20	266,581,239
21	260,677,850
22	282,190,414
23	289,369,121

8. Dedicate any additional revenue offset from a property tax value increase to state contribution to public education ~\$3 billion per biennium

Background:

- Current LAR from TEA has dropped by \$3.7 billion

Potential revenue:

- Not new money but ensure dedication by the state to not decrease support to public schools.
- According to TEA - \$3.7 billion dollars per biennium.

9. Increase the Increase alcoholic beverage tax by 50% ~\$100 million per biennium

Background:

- Texas has the 46th lowest tax on spirits at \$2.40 per gallon, well under neighbors NM (\$6.06), OK (\$5.56), and AR (\$6.88); *see <https://taxfoundation.org/states-spirits-taxes-2017/>*. Some states tax based on higher content (higher proof = higher taxes). Parent alcohol and substance abuse are some of the Adverse Childhood Experiences that, especially when combined with other toxic stressors such as witnessing domestic violence and sexual, physical and emotional abuse, cause great harm to kids, resulting in learning and behavioral difficulties and long-lasting impacts on adult health, employment, and society. Texas has the highest rate of child fatalities from maltreatment and high numbers of victims with parents/caregivers with alcohol and substance abuse problems.

Potential revenue:

- Estimates based on Comptroller 2018 Tax Exemptions & Tax incidence report

10. Provide a Local Option Sales Tax of 1% for School Districts to provide property tax relief

Background:

- The overreliance on property taxes to fund public education has increased taxpayer burden across the state. Several states authorize an optional 1% sales tax levied by any county/school district for the purpose of funding the local share of public education and debt. Further, many non-residents visit local cities and consume services with no investment in restoring the Human Capital infrastructure. In this way, local taxpayers can employ more options to offset the property tax burden.

Potential Revenue is dependent upon each locality

The following recommendations are offered without an estimated financial impact since the working group did not formally consider them:

11. Expand sales tax base to include additional other goods

Background: A number of goods and services are currently excluded from the sales tax base. Expansion options include:

- Expand sales tax base to include property sales. This could shift an apportionment of the tax burden to those currently benefitting from current market transaction.
- E-cigarettes, soda and candy

Potential Revenue was not able to be ascertained since the working group did not formally review the option.

12. Consider an annual registration fee for Hybrid Vehicles

Background: Several states have enacted legislation to assess fees for hybrid vehicles. The fees are often developed as a means to pay for transportation infrastructure, which has traditionally been supplied by a gas tax. Gasoline purchases alone serve as an imperfect proxy for wear and tear on the roads, considering the fact that new vehicles for hybrids are trending upwards as they are more fuel efficient.

Potential Revenue: Potential Revenue was not able to be ascertained since the working group did not formally review the option

13. Transfer a portion of the Rainy Day fund into the PSF and place into slightly higher yield investments to increase distributions

Background:

- The improving market conditions lends the opportunity to pool investment to realize more investment revenue. An apportionment of the ESF could be used to advance earnings in the market that could be reinvested into education.

Potential Revenue: Up to \$1 billion

14. Allow schools/appropriate personnel to be an "in-network provider" so that ISDs can provide and bill for health and mental health services

Background:

- Mental Health and counseling services are an emerging need to stabilize the safety of staff and students. State legislation to authorize local school districts or their implementing partners as a "provider" of such services could allow for local schools to serve as a point of service so students can receive services on site. Subsequently, healthcare plans could be billed for the services provided.

Potential Revenue: TBD

15. Consider a "Mobility Fee" for large employers to replace the 25% sales tax diversion to the State Highway Fund and reallocate dedicated sales tax to public education

Background:

- Several State implement as a strategy "Transportation concurrency" as a growth management strategy aimed at ensuring transportation, facilities and services are available "concurrent" with the impacts of development

Potential Revenue: Unknown

16. Reduce the State's use of Recapture as a method of finance for the State to reduce tax burden and the overreliance on property taxes by the State

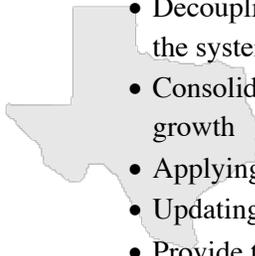
Background:

- The cost of housing remains one of the biggest financial burdens that households face. In Austin, many families are working harder to pay for modest homes. And because property is more expensive, despite earning marginally less income, 56 cents of the \$1.079 M&O tax rate goes to the state under recapture, which represents for the average homestead in AISD, nearly

\$2200, more than the school district will retain. As a result, Austin taxpayers experience a higher cost burden as some areas of the state see smaller fractions of income directed towards property taxes and maintain higher after-housing income.

Options include:

- Reducing assessment caps for Residential homeowners from 10% to 5% - 7%. In this way, current homeowners are not adversely affected by market appreciation. Due to escalating property values, many home owners couldn't qualify for mortgages today for the same homes they are living in.
- Replacing recapture as a method of finance for the State with a 1% increase in sales tax
- Limiting the Chapter 41 liability of a school district to not exceed 35% of total M&O tax collections. The current rate of recapture from some ISDs can exceed over 50% of the tax levy. If the State limited property tax collections to not exceed 35% of levy, school districts could lower property tax rates. Since the state largely benefits from increasing property values, local taxpayers are experiencing higher property tax bills, while conversely, facing possible reductions in programming and services due to tightening school budgets.
- Providing school districts with the flexibility to lower M&O tax rates after successful passage of a TRE to take advantage of changing market conditions
- Decoupling the Basic Allotment and Equalized Wealth Levels and update them to ensure that the system is equalized at the 85th percentile
- Consolidating the two equalized wealth levels and update/index to reflect new property value growth
- Applying the CEI weight at 100% when calculating WADA
- Updating the CEI and applying as a credit against recapture
- Provide transportation allotment to Chapter 41 districts as a credit against recapture
- Providing school districts with the authority to provide property tax exemption for teachers and other school staff (food service workers, bus drivers, etc.)
- Authorizing circuit breakers program to mitigate the property tax burden on middle and low-income households



TEXAS COMMISSION ON
PUBLIC SCHOOL FINANCE