

Talk

about Today's Public Schools

Editor's Note:

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“Hold Harmless and Drag Back” Provisions need explaining

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It ain't over yet

The awkward fact about the school finance changes enacted by the Texas Legislature last spring, after years of anguish and after devoting a good part of one regular session and all of four special sessions to the issue, is that the state is spending \$2.1 billion this year and will spend another \$6.6 billion next year so that its public schools can stand still.

Texas is devoting another \$802 million this year for teacher pay raises and \$319 million for efforts to improve high schools and reduce the dropout rate, but by far the bulk of new state spending for schools is devoted not to providing a better education system but to reducing property taxes. It was a dollar-for-dollar swap -- state money sent to school districts to replace local property tax money.

The more awkward fact is that, under the new system, the only way local school districts can get more money to cover the costs of inflation, recover from years of budget cuts or perhaps to improve their programs is to raise taxes -- exactly what lawmakers sought to avoid. The new system was supposed to cover all of the costs of the basic educational program, with any new local taxes aimed at providing additional “enrichment” programs.

School district financial officers knew all of that when the Legislature finished its work in May. But now that they've put together one budget under the new rules and have begun preparing another one, the difficulties in working with the new system are becoming apparent.

After working so hard on school finance, most legislators probably shoved the issue as far into the back reaches of their minds as possible after they declared the job done. But as they head back to Austin for a new session, it's clear that some changes to the new system will be needed.

Here are some areas of concern.

continued

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The “hold harmless” provision

Any time that the Legislature changes the state’s school finance system, its members face pressure to make sure no school districts are hurt by the change. No superintendent or school board wants to face a new school year with less money to spend than they had the previous year, and they’re adept at making that point very strongly to their local senators and representatives. So new school finance laws typically include “hold harmless” provisions to make sure no one loses money.

The measure adopted by legislators last spring can be described as one huge “hold harmless” law. Its purpose for the most part was to take away local tax money and replace it with state money, with no district left behind and none coming out ahead in terms of money to spend on its basic, state-required educational program.

Districts were guaranteed a certain amount of money to spend per student, an amount based primarily on what they raised per student under their tax rate for the 2005-06 school year. Most of the school districts in the state are receiving “hold harmless” money to bring them up to the guaranteed level.

The “drag back” provision

The new law penalizes school districts that raise more money per student than the “hold harmless” amount, again based primarily on what they raised per student under their 2005-06 tax rate. The law instructs the state’s commissioner of education to withhold state aid from those districts in an amount equal to the excess local revenue. People who follow school finance issues have come to refer to this as “dragging back” money to the state.

The combination of the “hold harmless” provision and the “drag back” provision creates a cap on school district revenue. Even if local property values go up and district tax rates bring in more money than expected, the state will reduce the amount of money it sends to them, keeping them at the “hold harmless” level.

That pushes districts to raise taxes to pay for any increased costs of the basic educational program. The new law allows only limited tax increases, so the state is in danger of running up against the same constitutional violation that the Texas Supreme Court cited in late 2005, giving school districts too little “meaningful discretion” over local taxes.

Further tax cuts

For the roughly half of Texas school districts that were at the \$1.50 property tax cap, the law enacted in May reduced 2006 tax rates to \$1.33 for each \$100 in assessed value. The law promised a further reduction to a rate of \$1 for the 2007.

Lawmakers will have to decide how to deliver additional funds to districts to make up for that loss, whether through an increase in the amount of “hold harmless” money due per student or through some other mechanism. Every choice about how to do that has implications for future state spending and for the delicate legal balance of the school finance system.

Other spending

Some legislators would like to increase funds for even more emphasis on improving high schools. Some want to deliver another pay raise for teachers. There are issues left over from previous debates, like possible increases in transportation funding and rebalancing spending between different areas of the state according to a “cost-of-education index.”

No doubt many members of the Texas Legislature thought they had settled the bulk of their school finance problems in May.

They wish.

