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#### THE ALTERNATIVES: METHODS OF ACQUISITION OF FUNDS

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THE PERSONAL INCOME TAX is the largest single source of revenue of the federal government. Forty-one states used some kind of personal income tax in 1970, although local income taxes are not widely used. The personal income tax is generally the most acceptable tool to measure tax-paying capacity, in that it is related to the income of the taxpayer. Furthermore, it can be adjusted to take into account circumstances which affect tax-paying capacity. Administration, although complicated, can be aided by payroll deductions. In order for the personal income tax to replace the revenue obtained through the use of the property tax, the personal income tax would have to be at least 5%.

THE CORPORATE INCOME TAX is levied by the federal government and 43 states. During 1969, state taxes on corporate income yielded \$3.18 billion, which was 7.6% of all state collections during that year. The corporate tax will not cause serious economic distortions if it is relatively uniform from state to state. Texas presently does not have a corporate income tax.

OTHER TAXES include excise taxes, such as those levied on motor fuel, liquor and tobacco. Their use by local governments is quite limited, but for the state they produced \$8.9 billion in 1969. Estate and inheritance taxes are levied at the state level, but they do not produce a great deal of revenue.

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1. Retain the current Foundation School Program without modification.
2. Revise the current Foundation School Program procedure for assigning local district cost shares (local fund assignment) while retaining other facets of the program.
3. Retain the concept of the Minimum Foundation Program but rework specific components or categories of expenditure.
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5. Equalize "per student expenditures" in some manner other than use of the Foundation School Program concept or full state funding.

YOU SHOULD TAKE INTO CONSIDERATION: whether the state should set a ceiling (10% in other states has been arbitrary line) on enrichment programs if an equal amount per student is distributed; whether a weighted system of spending per pupil could be created; whether local enrichment programs are necessary; whether a voucher system which allows each student to choose the type of education he feels (with his family) best fits his needs could function on a state-wide basis.



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Within this ad valorem taxation system lies the defect which the plaintiffs challenge. This system assumes that the value of property within the various districts will be sufficiently equal to sustain comparable expenditures from one district to another. It makes education a function of the local property base. Obviously, the individual districts' property bases are not equal. Those districts rich in property, frequently housing the most affluent, can tax themselves at a lower rate than districts less rich in order to generate the same amount of revenue. Conversely, the poor districts must make a greater tax effort to generate the same amount.

The ad valorem tax is also a regressive tax, as can be shown in the following example:

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It is notable that, in the Rodriguez decision, the courts did not strike out the property tax. For one thing, it involves an immense amount of revenue which would be difficult to obtain from other sources (such as personal income or corporate income tax). Those who favor property taxes argue that society creates the increased value in land and it is a valuable source in Texas. Also, it is realistic to assume that the Texas Legislature, which faces the situation of what to do about the financing of our education system, will not scrap the property tax.

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The Available School Fund comes from a combination of 3/4 of the state property tax, 1/4 of the taxes on motor fuels and natural resources, and the interest from the Permanent School Fund, a fund initiated with the sale of territorial claims and lands when Texas became a state.

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The state provides 80% of the funds needed for the MFP program. The other 20% is provided collectively by the local school districts. However, each district does not pay 20%; some pay more and others pay less, depending supposedly on their ability to pay.

To compute their ability to pay the 20%, a complicated Economic Index is used in order to evaluate the wealth of each county and translate it into a single quantitative measure. This computation, called the LOCAL FUND ASSIGNMENT, is composed of a formula involving the assessed valuation of the county (refer to Chart on pages 1-2), scholastic population, value of minerals produced, value added by manufacture, value of agricultural products, payrolls for retail establishments, payrolls for wholesale and service establishments. According to the formula, the wealthier districts are supposed to contribute more to the schools and the poorer districts are supposed to contribute less.

What happens though? First, the means of assessing the district's ability to pay, the Local Fund Assignment, is considered "a little better measure than sheer chance, but not much," according to the Governor's Committee on Public School Education (1968). Furthermore, it is based on total assessed valuation of county property rather than market valuation, which means, basically, that it is inconsistent and inequitable. Evidence is plain when you evaluate the composition of most county governments, which are still rurally oriented. Property outside city limits is more likely to be valued as the owner designates the value, without question, or is rendered an undeveloped land, therefore placing a lower value on the land. Property inside cities frequently is assessed at much higher rates. Many county assessors are inexperienced in the assessment of diverse properties.

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The product of all the calculations and inequities in the Minimum Foundation Fund is distributed in the following manner: 89% salaries; 8% maintenance; 3% transportation. The effectiveness of the MFP might be viewed in that practically no districts in Texas raise simply the Local Fund Assignment and depend solely upon the MFP; rather, the bulk of the educational funds are raised (via ad valorem tax) to provide a subsistence educational program. Therefore, those districts that can "enrich" more because of their tax base obviously provide a higher quality education. Thus, the



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PUBLIC SCHOOL FINANCING IN TEXAS CONSENSUS QUESTIONS

1. (a) If the state were to assume full funding of public school education, what methods would you consider to be essential in equalizing the revenue available to the local school districts? That is, what methods essential to fairly collecting the revenue.
- (b) What methods would you consider to be essential in allocating the funds to the local school districts?
2. (a) If the present joint state-local system of financing Texas public school education were to be retained, what changes would you consider to be essential in equalizing the revenue available to the local school districts?
- (b) What changes would you consider to be essential in allocating the funds to the local school districts?
3. Would you prefer one of the above mentioned systems? If so, please indicate which one. If not, do you have alternative suggestions? Please explain.



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PUBLIC SCHOOL FINANCING  
Unit Meeting Plan, Nov. 29, 30

I. Introduction: Summarize statements made at general meeting Nov. 21 5 min.  
by Harold Howe, Ben Howell, Dr. Ivy, Sen. Mauzy, Dr. Estes (it would be helpful if  
taped). Give reason for study. Mention the two main divisions of the study: (1) how  
to raise the revenue equitably (2) how to allocate the money equitably. The primary  
problem of discussion leaders will be to keep discussion from wandering to "quality  
of offering". The leader must be firm and redirect discussion to the two main issues

II. What did the Rodriguez decisions really say? See every member material 5 min.  
in Nov. VOTER.

If by some remote chance the Supreme Court has ruled by Nov. 29 or Dec. 13, the  
dates of unit meetings, be sure you know what it said.

III. General aspects of School Financing 5 min.

School costs keep rising every year. Why?

Expenditures have increased due to efforts to attract and keep quality teachers,  
to enrich instruction with technical aids, to extend the school year, and to improve  
quality generally. Fast growth of intensive programs for special classes of pupils  
such as gifted, handicapped and disadvantaged.

IV. How does the Texas system work? 45 min.

Explain the Permanent School Fund and the Available School Fund. Outline where  
the money comes from to finance them. Explain how the Foundation School Program is  
financed. Include the economic index, the various credits, how the property tax is  
administered. (See Facts and Issues).

V. How might resources be equalized? 30 min.

Discuss pros and cons of various taxes (Facts & Issues, every member material).  
Explain that ad valorem tax means real property, tangible personal property (things  
movable, autos, etc.), intangible personal property (stocks, bonds, bank deposits).  
The law applies equally to all three classes; however in practice the law is not  
followed.

Possible Discussion Questions

II. What causes substantial differences in educational offerings?

III. Has the American public reached the saturation point in regard to the amount of  
money spent on public education?

IV. Why do you think the court ordered Texas to change its system of financing in  
public schools?

Unit Meeting Plan, Dec. 13, 14

I. Introduction 5 min.

Give reason for study. Summarize first unit meeting, which was based primarily  
on how funds are raised.

How are funds apportioned in the Foundation School Program?

II. Discuss per capita apportionment and how teacher salary schedules 20 min.  
affect apportionment. What factors affect educational needs and costs?

(over)



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- III. What are some modes for financing public schools? 30 min.  
Discuss pros and cons of the modes. (See "Review of Educational Finance" by Linus Wright; Future Directions for School Financing, NEFP.) Discuss recommendations of Governor's Committee on Public School Education, the Committee of Eighteen and Senator Wayne Connally. (See "Facts and Issues"; "National Developments in Education Finance" by Will Davis; "A primer on Texas School Finance" by Robert Rothwell and Ann Rosswater.)

IV. General discussion and Consensus Questions 35 min.

Possible Discussion Questions

- Section II: Should we spend an equal number of dollars on each child?  
Section III: How much local leeway, if any, should wealthier school districts be allowed in supplementing the State Foundation Program?



April 12, 1977

Editor  
Dallas Times Herald  
Herald Square  
Dallas, Texas 75201

To the Dallas Times Herald:

The school finance bill to be presented to the Texas House for debate establishes full state funding for the Foundation School Program (FSP), the state-prescribed minimum operational expenditures of school districts.

At the present time the local school districts pay at an effective rate of 23¢ per \$100 of property value for their share of the FSP. If a local district is wealthy enough to raise about \$700 per student at the taxing rate of 23¢ per \$100 valuation, then the local school district receives no FSP aid from the State. Those districts which can't raise the approximately \$700 per student needed for the FSP receive enough State aid to make up the difference.

Full state funding means the State will take over the costs of the Foundation School Program which the wealthy districts now pay. Full state funding will use surplus State Treasury funds to pay for the FSP costs which wealthy districts now pay, thus giving a tax break to the wealthy districts.

Full state funding means that the wealthy districts will benefit more from the proposed school finance bill than the poor districts. (Wealthy districts have property value per student of \$300,000 or more; the average district has \$90,000 per student with DISD having \$100,000 per student; the poor districts have \$40,000 or less per student.) The equalization funds proposed for the poor districts are too few to equalize educational spending in Texas. Also poor districts' tax values per student are so low that these districts can't afford local tax cuts; these school districts can't pay even now for adequate capital outlays and other extra costs.

The 1949 Gilmer-Aiken Minimum Foundation School Program and all public school Legislative action since then have provided for both local as well as state funding of basic operational costs and have provided for some measure of equalization. The present proposal in reality moves away from this tradition. Is this wise? And what happens in the future when there are no more surplus funds to pay for full state funding?

Sincerely,

Kei:am

League of Women Voters of Dallas  
Eleanor W. Sutherland, President



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Dallas, Texas 75202

To the Dallas Morning News:

The school finance bill to be presented to the Texas House for debate establishes full state funding for the Foundation School Program (FSP), the state-prescribed minimum operational expenditures of school districts.

At the present time the local school districts pay at an effective rate of 23¢ per \$100 of property value for their share of the FSP. If a local district is wealthy enough to raise about \$700 per student at the taxing rate of 23¢ per \$100 valuation, then the local school district receives no FSP aid from the State. Those districts which can't raise the approximately \$700 per student needed for the FSP receive enough State aid to make up the difference.

Full state funding means the State will take over the costs of the Foundation School Program which the wealthy districts now pay. Full state funding will use surplus State Treasury funds to pay for the FSP costs which wealthy districts now pay, thus giving a tax break to the wealthy districts.

Full state funding means that the wealthy districts will benefit more from the proposed school finance bill than the poor districts. (Wealthy districts have property value per student of \$300,000 or more; the average district has \$90,000 per student with DISD having \$100,000 per student; the poor districts have \$40,000 or less per student.) The equalization funds proposed for the poor districts are too few to equalize educational spending in Texas. Also poor districts' tax values per student are so low that these districts can't afford local tax cuts; these school districts can't pay even now for adequate capital outlays and other extra costs.

The 1949 Gilmer-Aiken Minimum Foundation School Program and all public school Legislative action since then have provided for both local as well as state funding of basic operational costs and have provided for some measure of equalization. The present proposal in reality moves away from this tradition. Is this wise? And what happens in the future when there are no more surplus funds to pay for full state funding?

Sincerely,

Kei:am  
cc: Rita Aldana

League of Women Voters of Dallas  
Eleanor W. Sutherland, President



III. What are some modes for financing public schools? 30 min.

Discuss pros and cons of the modes. (See "Review of Educational Finance" by Linus Wright; Future Directions for School Financing, NEFP.) Discuss recommendations of Governor's Committee on Public School Education, the Committee of Eighteen and Senator Wayne Connally. (See "Facts and Issues"; "National Developments in Education Finance" by Will Davis; "A primer on Texas School Finance" by Robert Rothwell and Ann Rosswater.)

IV. General discussion and Consensus Questions 35 min.

Possible Discussion Questions

Section II: Should we spend an equal number of dollars on each child?

Section III: How much local leeway, if any, should wealthier school districts be allowed in supplementing the State Foundation Program?



TO: LL Presidents, please forward 2nd  
copy to Action Chairman

LWV-Texas  
July, 1980  
LL Pres. Mailing (2); DPM  
II. C. 7.  
Property Tax Reform

FROM: Jan Wilbur, Property Tax Reform Assoc. Dir.  
[REDACTED]

CONSTITUTIONAL AMENDMENT #3  
HJR 98 -- Property Tax Appraisal

WORDING ON THE BALLOT: "The constitutional amendment requiring a single appraisal and a single board of equalization within each county for *ad valorem* tax purposes."

WHAT IT WOULD DO: Voters this fall will have an opportunity to take care of some unfinished business left over when the comprehensive Property Tax Code reform (SB 621) passed last session of the legislature. Amendment 3 on the November ballot removes constitutional restrictions which prevented the legislature from requiring all property in a given county to be appraised by a single, county-wide appraisal office. The League supported SB 621; we support amendment #3.

The proposition amends Article 8, Sec. 18, by removing the authority of a county commissioners court to act as a board of equalization, and by requiring that the legislature provide for a single appraisal of all property within each county and for a single board of equalization.

BACKGROUND: The Property Tax Code passed last session greatly simplified the property tax system in the state. It created appraisal districts to appraise property for cities, school districts, and special districts. However, the Code was unable, because of the constitutional language, to cover county tax appraisals. As a result, there will still be two appraisals in some counties: one by the county and one by the appraisal district. This is a duplication of effort and unnecessarily complicates tax administration.

As of January 1980, 213 of the state's 254 counties had decided to join their appraisal districts. Passage of this amendment will allow the legislature to finish the job by requiring the remaining 41 counties to use the single appraised value for taxation purposes.

THE LEAGUE POSITION: League support of amendment 3 arises out of positions taken in the 1972-73 study of Financing Public Schools in Texas. That study revealed the chaotic state of property tax administration in Texas and the inequities that this led to in financing public schools. Since then, the League has fought for more uniformity in appraisal procedures and elimination of duplication in appraising. Passage of the Property Tax Code in 1979 moved a giant step toward League goals. Passage of amendment 3 is the next step.

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