

HB 3 / School Funding Update

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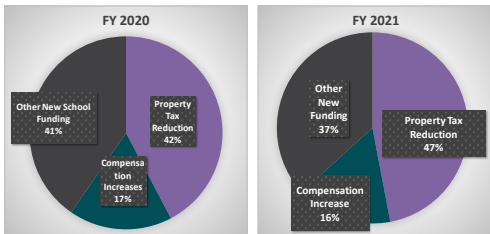
Foundation School Program M&O Funding

	State Aid (All Funds)	Local M&O Property Taxes	Recapture	Total Available for Schools
FY 20 Old Law	\$20.31	\$28.87	(\$3.57)	\$45.61
FY 20 New Law	\$24.13	\$26.67	(\$1.99)	\$48.81
Difference	\$3.82	(\$2.20)	\$1.58	\$3.20
FY 21 Old Law	\$20.56	\$30.03	(\$4.13)	\$46.46
FY 21 New Law	\$24.58	\$27.37	(\$2.21)	\$49.74
Difference	\$4.02	(\$2.66)	\$1.92	\$3.28

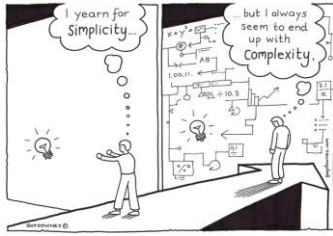
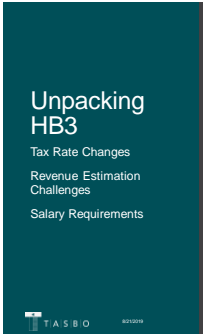
The state cost of HB 3 was just over \$11.3 billion for the biennium, once property tax relief is netted out, increases for schools are just over \$3 billion per year.

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Rough Break-out of New FSP Revenue (HB 3)



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FSP Quick Reference: 84th Session Changes



It's Gone

- Cost of Education Index
- Gifted and Talented Allotment
- High School Allotment
- Support Staff Allotment
- ASAHE for M&O



It's Changed

- Small / Mid-Size Adjustment
- Comp Ed Allotment
- Mainstream Weight
- Bilingual Education Allotment
- CTE Allotment
- Transportation Allotment
- NIFA
- Basic Allotment
- Prior Year Property Value
- Tier 1 tax rate
- Recapture Calculation
- Guaranteed Yields in Tier 2



It's New

- Dyslexia Allotment
- Early Education Allotment
- Fast Growth Allotment
- CCMR Bonus
- Mentor Teacher Allotment
- School Safety Allotment
- Dropout Recovery Schools Allotment
- Teacher Incentive Allotment
- Fee Reimbursement Allotments
- Extended Year Funding
- Formula Transition Grants

Tax Rate Calculation Issues

For tax year 2019 the Voter Approved Tax Rate (VATR) is:

- \$0.93 plus the lesser of
- \$.04 or
- Previously adopted **enrichment pennies**, less required **copper penny compression**



Required Copper Penny Compression

- What are **enrichment** pennies?
 - Any M&O tax effort over and above that required for the foundation portion of the FSP (called Tier 1)
 - These Tier 2 pennies are split between what we call "**golden**" and "**copper**" pennies
- Statute requires districts to reduce copper penny tax effort in proportion to legislative increases in the guaranteed state match on that tax effort
- Applies to districts that had prior TREs
- The legislature increased that yield from \$31.95 to \$49.28, so for a district that had 9 pennies of tax effort in that zone, those 9 pennies are multiplied by the fraction (31.95 / 49.28) and become 5.83 pennies

Tax Rate Changes for TY 2019

2018-2019 M&O Tax Rate	2019-2020 VATR
< \$1.04	\$0.97
\$1.04	\$0.97
\$1.06	\$0.99
\$1.17	\$1.0683

- ✓Base rates in Tier 1 were reduced from \$1.00 for most districts to \$0.93 for all districts.
- ✓Tier 2 floats down to begin after \$0.93.
 - ✓First \$0.08 are "golden"
 - ✓Remaining pennies are copper
- ✓Copper penny compression for districts that have them based on increase in the yield
- ✓Disaster pennies excluded
- ✓See TEA correspondence

Tax Rate Changes TY 2020

For tax year 2020, the VATR will be:

- The **lesser of the state compression percentage** or the **variable district compressed rate** plus the greater of:
 - 2019 enrichment pennies, or
 - \$0.05 with unanimous consent of board or \$0.04 without it
- State compression % right now is estimated at = **\$0.9165**

How will 2.5% Compression Work?

Effective September 1, 2020

If values grow by > 2.5%,

$$MCR = (1.025((PYDPV+E) \times PYMCR))/DPV$$

This formula is designed to restrict the Tier 1 tax levy to no more than 2.5% more than the prior year

E= value of 313 projects that are ending the limitation period and captured value for 311 TIRZ (TIF) refinanced or renewed after 9/1/2019



How will 2.5% Compression Work?

TEA will calculate each district's Tier 1 tax rate

No district can have an MCR < 90% of the highest MCR

TEA will need a statewide source of data to make this calculation, working through details of timing, data-sources

It appears that PYMCR will be the prior year's compressed rate (\$0.93), not \$1.00



So, what will my tax rate be for 2020-21?

The state Tier 1 rate is estimated to be roughly \$0.9165 or potentially a lower amount if your property values grow significantly faster than the state average

Districts will have access to the same number of golden & copper pennies on top of that Tier 1 rate as in 2019-2020 without a TRE

Districts with 4 golden pennies (or fewer), **have the opportunity to get a 5th with unanimous vote of the board**

Up to 17 pennies on top of whatever **district** Tier 1 rate is **with an election**



Tax Ratification Elections

November uniform election date seem almost certain

Require an efficiency study prior to the TRE

- ✓ At district cost;
- ✓ District selects vendor (may use your auditor if they offer this service)
- ✓ Vendors must follow LBB guidelines
- ✓ Results must be posted not later than 30 days before the TRE

Revenue Estimation Challenges

- Rules for new allotments are not yet written. We have initial guidance from TEA, but many decisions impacting funding could change in conjunction with the rule-making process.
 - Which **CTE courses** that will draw funding in grades 7 and 8
 - Which districts qualify for the **fast-growth allotment**
 - Which **census blocks** draw which funding weights
- **Student information systems** not yet modified to produce the reports needed to estimate revenue
- **Templates** continue to change as template creators adapt to the new funding formulas

Revenue Estimation Challenges

- Shift to **current-year values** means districts need to understand the relationship between local CAD values and the comptroller's property tax division state funding value to correctly estimate revenue

Current Year Values

- In the past, districts would collect local property taxes using the current-year certified property tax values, but Texas would determine how much state assistance each district needed based on the T2 property value certified by the comptroller's property tax division.
- This meant school districts and the state knew the property value to be used in state funding calculations prior to the start of the fiscal year
- Prior system provided districts with growing values a bump, for districts with declining values, the reverse

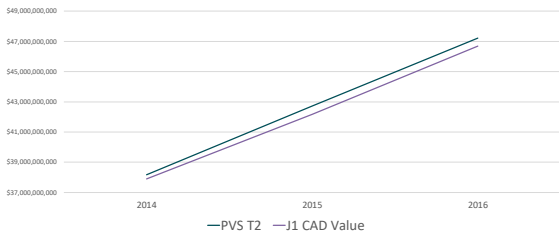
Current Year Values

- Now, the state will true up state aid with the comptroller's certified property value once it is available (preliminary in February, final in August)
- Districts need to estimate the comptroller's value to estimate state aid
- Many questions about how to make that calculation. Common **errors** seem to be:
 - Estimating **low**, thinking you are being **conservative**
 - Using the **ceiling adjusted value**
 - Just using **last year's value** since this year's isn't available

Current Year Values

Under the state aid system, the lower the value, the higher the state aid and lower the recapture.
 Estimating a low property value may lead to overestimates of state aid

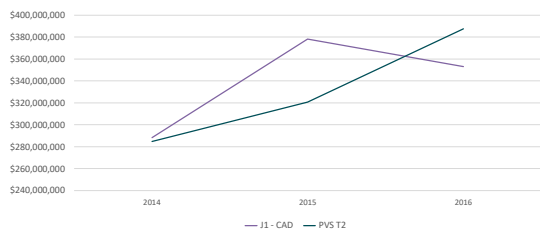
Example 1: CAFR J1 CAD Value vs PVS T2



How much does the difference in value matter?

Year	PVS T2 Value	CAFR J1 Value	Difference	Tier 1 Local Share Difference	Local Share Differences as % of GF Revenue
2015	\$38,169,341,275	\$37,907,088,332	\$262,252,943	\$2,438,952	0.61%
2016	\$42,731,947,696	\$42,170,631,479	\$561,316,217	\$5,220,241	0.56%
2017	\$47,215,842,437	\$46,693,065,285	\$522,777,152	\$4,861,828	0.30%

Example 2: CAFR J1 CAD Value vs PVS T2



How much does the difference in value matter?

Year	PVS T2 Value	CAFR J1 Value	Difference	Tier 1 Local Share Difference	Local Share Differences as % of GF Revenue
2014	\$288,315,449	\$284,817,665	\$3,497,784	\$32,529	0.64%
2015	\$378,247,393	\$320,771,663	\$57,475,730	\$534,524	9.03%
2016	\$353,139,819	\$387,640,371	-\$34,500,552	-\$320,855	-6.88%

Salary Requirements

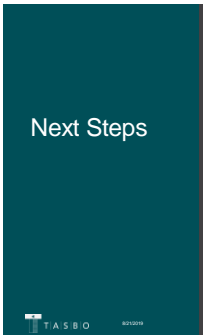


a school district must use at least 30% of the amount, if the amount is greater than zero, that equals the product of the ADA of the district multiplied by the amount of the difference between the district's funding under this chapter per student in ADA for the current school year and the preceding school year to provide compensation increases to full-time district employees other than administrators as follows:

- (1) 75 percent must be used to increase the compensation paid to classroom teachers, full-time librarians, full-time school counselors certified under Subchapter B, Chapter 21, and full-time school nurses, prioritizing differentiated compensation for classroom teachers with more than five years of experience; and
- (2) 25 percent may be used as determined by the district to increase compensation paid to full-time district employees

Salary Requirement Challenges

- Revenue estimation challenges reduce certainty in the 30% calculation
- Uneven gains from district-to-district may drive competition for teachers
- Some temporary revenue (transition grants, NIFA, etc.) may yield long-term budget challenges for some districts
- Expectations of teachers make traditional "conservative" approach to revenue estimation problematic



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Next Steps

- Conduct historical analyses to understand the relationship between the CAD value and PTAD T2 value
- Begin tax rate planning early if you are considering TRE
- Additional future year tax rate information due from TEA October 24



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