






An Update on the 86th Legislature:

A Presentation to Region One Financial Advisory
Council
May 24, 2019



Key Remaining Dates

Sun.	Mon.	Tue.	Wed.	Thurs.	Fri.	Sat.
19 th 	20 th 	21 st 	22 nd 	23 rd 	24 th Last day for House to act on Senate Amendments	25 th
26 th Last day to adopt CCRs or concur with other chamber's amendments	27 th Sine Die (Reserved for technical matters)	28 th	29 th	30 th	31 st	

Recent History of School Finance Bill

- **5/6:** Senate amends CSHB 3, approves it **26-2**, with 3 PNVs.
- **5/7:** Rep. Huberty postpones sales tax swap until Jan. 2021.
House names conferees: Huberty, Ashby, Bernal, Gonzalez, King
- **5/8:** Senate names conferees: Taylor, Nelson, Campbell, Watson, West.
- **5/10:** Conference committee holds first meeting.
- **5/23:** Governor, Lt. Governor and Speaker hold joint press conference.

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“We will do what no one thought possible: **We will finally fix school finance in Texas.** I'm proud to tell you today we are announcing that we have done exactly that.”

- Gov. Greg Abbott



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Biennial Fiscal Impacts of HB 3

	HB 3
Tax Compression	\$5.0 B
New Revenues to School Districts	\$4.5 B
Teacher Compensation Increases	\$2.0 B

Source: Press conference briefing materials

What we know so far about HB 3

New Revenues to School Districts:

- Increases the basic allotment. Possibly up to **\$6,160**.
- Includes increased weights for the compensatory education allotment.
- Includes increased weights for dual-language programs.
- Includes an early education allotment to fund full-day pre-k.
- Creates a new allotment for students with dyslexia.
- Increases funding for special education.

What we know so far about HB 3

New Revenues to School Districts:

- Outcomes-based funding for CCMR remains in the bill.
- Outcomes-based funding for 3rd grade reading has become incentive for districts to adopt certain “high-quality reading standards.”
- Transportation allotment is now based on a uniform rate per mile set at \$1.00.
- Cap on NIFA appropriations increases to \$100 million.

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What we know so far about HB 3

Staff Pay Raises:

- Includes counselors and nurses along with teachers and librarians in getting raises.
- Lt. Gov. Patrick described HB 3 as providing a “dynamic” compensation package that will come out to a **\$4,000** increase (inclusive of increased retirement funding) per veteran teacher on average. Requirement may be to spend X% of excess money on teachers with more than five years experience.
- Creates merit/incentive pay program for high-quality educators. Rep. Huberty clarified that none of these funds will be based on student STAAR performance.
- Several vague references to higher raises for veteran teachers (5 years?)

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What we know so far about HB 3

Staff Pay Raises:

- **\$510** per educator in average retirement benefits (contributions?) in HB 3.
- **\$412** per employee in average new retirement benefits (contributions?) in SB 12.
- **\$30 million** annually for an extended year program that rewards teachers who work an additional 30 days in the summer.

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What we know so far about HB 3

Property Tax Relief

- Provides for an average reduction of property tax rates of 8 cents in 2020 and 13 cents in 2021. Reduces recapture by **\$3.6 billion** over the biennium.
- Includes statewide property tax rate compression.
- Includes individualized district property tax rate compression. Cap remains at **2.5 percent** and begins in 2021. Lt. Gov. Patrick added that this mechanism for compression will rely on a **“hybrid” of state and local property values**.
- Retains requirement to conduct an efficiency audit prior to a TRE.

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How is the state going to pay for all of this?

- **\$9 billion** in appropriations already included in HB 1
- **\$3 billion** per year in new money from:
 - \$2.3 billion from severance taxes that would have gone to ESF
 - \$300 million in sales tax collections from online marketplaces (Wayfair).
 - Additional funds distributed to the Available School Fund.



Property Tax Reform

SB 2 by Bettencourt makes many changes to the administration of the property tax system, including how the rollback rate is calculated for school districts:

- Senate version calculates ISD rollback rate as **Effective Rate X 1.025**
- House version calculates ISD rollback rate as **Effective Rate X 1.020**

Status: In conference committee.

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Bonds and Ballots

SB 30 by Birdwell requires bonds for each of the following purposes to be stated in a separate proposition:

- Stadium
- Natatorium
- Performing arts facility
- Recreational facility other than a gym
- Teacher housing
- Technology equipment, other than for school safety

Status: Passed House 5/22, awaiting Senate response to House amendments.

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Bonds and Ballots

HB 440 by Murphy limits a district's use of the unspent proceeds of issued general obligation bonds to:

- The specific purposes for which the bonds were authorized;
- Retiring the bonds, or
- Another purpose if the original purposes are accomplished and the board votes to approve the use in at a public meeting

Prohibits a political subdivision from issuing general obligation bonds if the weighted average maturity of the issue of bonds **exceeds 120 percent** of the reasonably expected weighted average economic life project.

Status: Passed Senate 5/14, House concurred with Senate amendments on 5/22.

Bonds and Ballots

HB 477 by Murphy requires the ballot to specifically state:

- A general description of the purposes for which the bonds are to be authorized;
- The total principal amount of the bonds to be authorized;
- The taxes sufficient to pay the principal of and interest on the bonds will be imposed;
- Maximum annual increase that would be imposed on a residence homestead with an appraised value of \$100,000

Requires specific information to be included in a voter information document, on the district's website, and published in a newspaper.

Status: Passed Senate 5/15, House concurred with Senate amendments on 5/22.

Teacher Retirement System

- **SB 12 by Huffman** makes reforms to TRS contributions:
 - Increases state contributions to **8.25 percent**,
 - Increase employee contributions to **8.25 percent**,
 - Increase contributions from districts not participating in social security to **2.0 percent**.
 - Includes 13th check of **\$500** maximum
- House version increases state contributions to **8.80 percent**. No changes to district or employee contributions, includes 13th check of **\$2,400** maximum.
- Senate conferees appointed on 5/10 include Huffman; Kolkhorst; Nelson; Taylor; West.
House conferees appointed on 5/15 include Bonnen, G.; Gervin-Hawkins; Murphy; Walle; Zerwas.
- Lt. Gov. Patrick committed to a 13th check of **\$2,000** at press conference on 5/23.

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School Safety & Mental Health

SB 11 by Taylor is an omnibus safety and security bill that includes:

- School safety allotment (\$50 per ADA, set in GAA),
- Facilities standards,
- Mental health resources for district personnel,
- Charter school provisions, and
- Requirements for school safety plans

SB 11 also now includes provisions that were in **SB 10** due to that bill being killed on a technicality. **SB 10** created a Texas Mental Health Consortium aimed at connecting children to mental health services.

Status: Passed House 5/22. Conference committee members named 5/23.

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School Safety & Mental Health

HB 18 by Price creates new requirements for schools pertaining to the training of principals, teachers and counselors on student mental health and substance abuse issues, among other items.

Status: Sent to Governor 5/17.

HB 19 by Price requires local mental health authorities to employ a non-physician mental health professional to serve as a resource for school districts in the region

Status: House concurred with Senate amendments on 5/23.

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Buck Gilcrease, Ed. D.
Joe Wisnoski
Terry Faucheux
Catherine Knepp
John Grey
Gretchen Hoffman
Monica Zdrojewski
Josh Haney

Lynn M. Moak
Daniel T. Casey
Partners

Susan Moak
Kari Ruehman
Administrative Staff

Kathy Mathias
Larry Groppe, Ed. D.
Thomas V. Alvis, Ph. D.
Alicia Thomas, Ph. D.
Mary McKeown-Moak, Ph. D.
Consultants

901 S. MoPac Expressway, Bldg. III, Ste 310, Austin, TX 78746
 Phone (512) 485-7878 | Fax (512) 485-7888
www.moakcasey.com

	House	Senate
FSP Entitlement		
Basic Allotment	\$6,030	\$5,880
Cost-of-Education Index	Both bills repeal the CEI.	
Small and Mid-Sized Adjustment	Moves adjustment into a stand-alone allotment . Includes allotment into special education allotment calculation.	Adopted an amendment by Sen. Nichols that restored the small and mid-sized adjustment .

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	House	Senate
FSP Entitlement		
Teacher Pay Allotment	<p>25 percent of district gain related to basic allotment increases are dedicated to non-administrative pay raises.</p> <p>75 percent of that amount must be for across-the-board raises.</p> <p>Press reports put this at “about \$1,388” though bill language is very vague.</p>	<p>Classroom Teacher and Librarian Allotment of \$5,000 for each full-time teacher and librarian.</p> <p>The allotment will decrease if a district’s ADA falls below 2018-19 levels. An additional adjustment related to benefits is included.</p>
Teacher Incentive Pay	Creates a new Educator Effectiveness Allotment with a weight of 0.012 for campuses in high-needs census tracts or in rural areas.	<p>Creates a Teacher Incentive Allotment that requires TEA to rank teachers across the state.</p> <p>Maxes out at \$32,000 for “master” teachers (i.e. top 5th percentile in teacher performance at school with neediest possible student population).</p> <p>Floor amendment restricted reliance on STAAR scores to not exceed 35 percent.</p>

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	House	Senate
FSP Entitlement		
Performance-Based Bonuses	No similar provision.	<ul style="list-style-type: none"> • 3rd Grade Reading Outcomes Bonus based on performance on STAAR. Possible compromise coming? • CCMR Outcomes Bonus
Compensatory Education	Both bills create a new comp. ed. allotment based on the census area in which the student resides, with weights ranging from 0.225 to 0.275 . Senate version is based on block groups , while House version is based on blocks .	
Bilingual Education	Both bills create additional dual language weights of 0.15 for ELLs and 0.05 for non ELLs.	

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	House	Senate
FSP Entitlement		
Special Education	Both bills increase mainstream special education weight to 1.15 .	
Dyslexia	0.10	0.12
Gifted and Talented	Repeals GT allotment.	Adopted an amendment from Sen. Nelson that maintains current law, but adds two set-asides: <ul style="list-style-type: none"> • \$8 million for P-TECH • \$6 million for blended learning grants.
Career and Technical	Expands eligibility for CTE funding to 6 th grade. Creates additional advanced CTE allotment for P-TECH and New Tech Network.	Does not expand eligibility for CTE funding to additional grades. No changes to advanced CTE allotment.

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	House	Senate
FSP Entitlement		
Indirect Cost Allotments/ Spending Requirements	<ul style="list-style-type: none"> At least 52 percent of compensatory education allotment must be spent on eligible programs At least 52 percent of bilingual education allotment must be spent on eligible programs At least 58 percent of career and tech allotment must be spent on eligible programs 	<p>Repeals existing indirect spending requirements for compensatory education allotment, bilingual education allotment and CTE allotment.</p> <p>Adopted several amendments that create new requirements:</p> <ul style="list-style-type: none"> 90 percent of the Teacher Incentive Allotment and the Compensatory Education Allotment must go to the applicable campus. 3rd grade reading performance bonus must be spent on programs designed to improve Pre-K-3rd Grade reading performance.

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	House	Senate
FSP Entitlement		
Pre-K	<p>Both bills require free full-day pre-k for eligible 4-year-olds.</p> <p>Both bills create a new early reading allotment with a weight of 0.1 that is commonly cited as providing the remaining funding needed for full-day pre-k.</p> <p>Both bills also provide waivers for districts to meet these requirements.</p> <p>Senate version extends eligibility for free pre-k to the children of public school educators.</p> <p>Senate adopted West amendment requiring districts to solicit proposals for partnering with certain private daycare providers before building or leasing pre-K facilities.</p>	

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	House	Senate
FSP Entitlement		
Other New Allotments	No similar provisions.	<ul style="list-style-type: none"> Creates a new allotment related to the Accelerated Campus Excellence plans. Creates a new allotment for fast growth school districts (based on ADA). Creates Dropout Recovery School Allotment. Creates School Safety Allotment.
Transportation Allotment	Uniform rate per mile as set by appropriation.	
NIFA	Increases appropriation limit to \$100 million .	Makes no change to appropriation limit, keeping it at \$25 million .
High School Allotment	Both bills repeal the High School Allotment.	

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	House	Senate
FSP Entitlement		
Formula Transition Grant	<p>Establishes two targets for revenue and the district gets to use the lesser:</p> <ul style="list-style-type: none"> 103% of prior law revenue per ADA in the same year, or 128% of the state average of prior law revenue per ADA in the same year. <p>Districts cannot get a grant beginning with the 2024-25 school year.</p>	<p>Establishes two targets for revenue, and the district gets to use the lesser:</p> <ul style="list-style-type: none"> 100% of prior law revenue per ADA, or 128% of the statewide average of revenue per ADA. <p>In even numbered years, use the 2019-20 prior law revenue as the target, and in odd numbered years, use the 2020-21 prior law revenue.</p> <p>Districts cannot get a grant beginning with the 2024-25 school year.</p>

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	House	Senate
FSP Entitlement		
Local Share Determination	Maintains use of prior year values to calculate local share of FSP.	Moves to current year values to calculate local share of FSP.
Number of Golden Pennies	8	6
Golden/Copper Penny Yields	Golden penny yield = Greater of: <ul style="list-style-type: none"> Per WADA per cent tax revenue of district at the 96th percentile of wealth per WADA, or \$96.48 Copper penny yield = \$48.24	Golden penny yield = \$94.08 Copper penny yield = \$47.04
Recapture	Both bills redefine recapture to be local share in excess of entitlement. Both bills permit lump sum recapture payment in August.	

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	House	Senate
Property Tax Relief		
Statewide Tax Compression	Sets State Compression Percentage at 96% .	Sets the State Compression Percentage at 90% .
Individualized District Compression	No similar provision.	Creates mechanism for individualized district compression based on inflation and district property value growth. Difference from highest compressed rate to lowest is limited to 15%.
Copper Penny Compression	Both bills tie the compression of copper pennies to increases in the guaranteed yield (i.e. basic allotment).	
M&O Tax Rate Cap	\$1.17	District's maximum compressed rate + \$0.17 Amendment from Sen. West allows school districts to adopt, with TEA approval, M&O rate up to \$1.17 if legislature cuts basic allotment amount from 2020-21 level.

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	House	Senate
Property Tax Relief		
Rollback Rate	Both bills include similar formula for calculating for the rollback tax rate (i.e. not based on effective tax rate, but on the state compression percentage * \$1.00 plus compressed enrichment pennies). With a lower initial state compression percentage, the Senate version will result in lower rollback rates.	
TRE Restrictions	Districts cannot have a TRE in 2019-20 if their 2018-19 rate was \geq \$1.0902 , unless it is already included in an adopted strategic plan.	Districts cannot have a TRE in 2019-20. Also includes provisions for districts that have adopted a strategic plan with a higher rate included.
Tax Rate Swaps	No similar provision.	Prohibits districts from increasing its M&O rate to create a surplus to pay debt service. Creates a basis for injunction against collection of taxes if district found in violation.

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	House	Senate
Property Tax Relief		
Bonds	No similar provision.	Requires ballot propositions for bonds to include language: "THIS IS A PROPERTY TAX INCREASE"
Efficiency Audit	Requires districts to publish the results form an efficiency audit prior to holding a TRE beginning in the 2020-21 school year. Includes comparable requirements for charters (i.e. before revising its charter or adding new campus)	Amendment from Sen. Campbell added similar requirements for school districts. Did not include comparable requirements for charters.

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