

THE BASICS OF TEXAS SCHOOL FINANCE

Everything you wanted to know about school
finance but were afraid to ask

May 1, 2019

■ History From 2006-07

HB 1 began in 2006-07

Was in response to Texas Supreme Court ruling in *West Orange-Cove* case

Majority of districts were at \$1.50 M&O tax rate...deemed a statewide property tax because districts **no longer had “meaningful discretion”** in setting tax rate

■ History From 2006-07

Legislature's task – give districts back discretion

Over a 2-year period, school districts' M&O tax rates were reduced
(compressed) by 1/3

Maximum M&O rate set at \$1.17

From \$1.00 to \$1.17 provided what the Legislature perceived to be “meaningful discretion”

HB 1 ended up being primarily a tax relief bill

History From 2006-07

Examples of Compression:

2005-06 M&O Rate = \$1.50

2006-07 Compressed Rate = \$1.50 – (\$1.50
x .1133) = \$1.33

2007-08 Compressed Rate = \$1.50 – (\$1.50
x .3333) = \$1.00

2005-06 M&O Rate = \$1.40

2006-07 Compressed Rate = \$1.40 – (\$1.40
x .1133) = \$1.24

2007-08 Compressed Rate = \$1.40 – (\$1.40
x .3333) = \$0.93

■ History From 2006-07

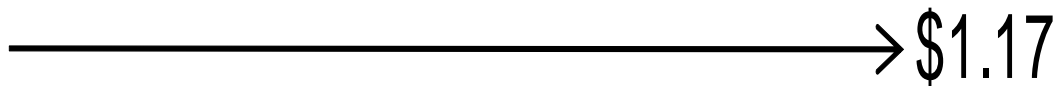
\$1.50 M&O Tax Rate



\$1.00

Compressed Rate

Meaningful Discretion



Max Rate

\$1.17

History From 2006-07

\$1.40 M&O Tax Rate



\$0.93

Compressed Rate

Meaningful Discretion



Max Rate

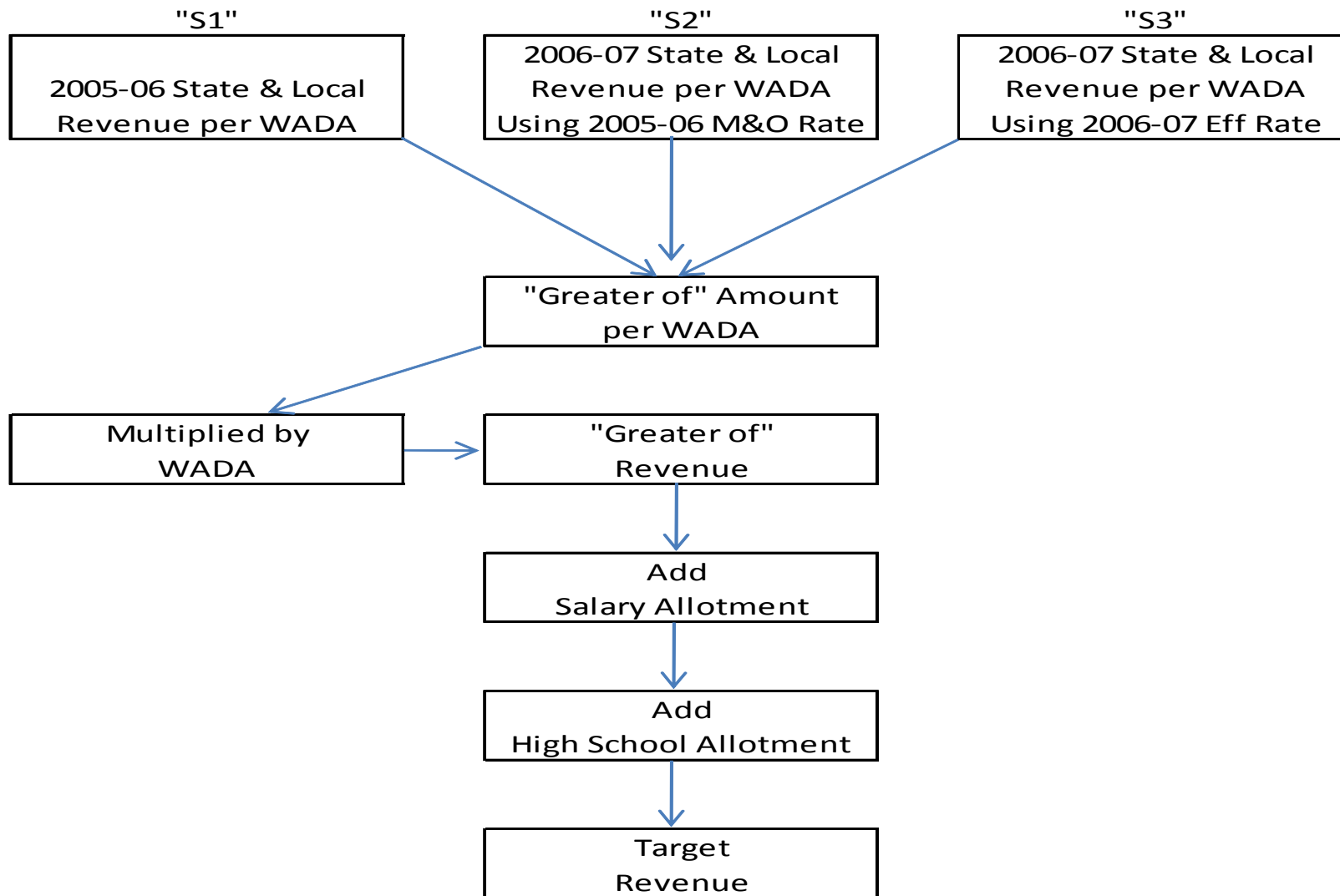
\$1.17

■ History From 2006-07

HB 1 established a “hold harmless” amount of revenue that ultimately became known as the “Target Revenue” system

- It was **THE “GUARANTEE”**
- Guaranteed that district would get its **Target** amount of revenue as long as the district set an M&O tax rate that was equal to its lower, compressed rate

History From 2006-07

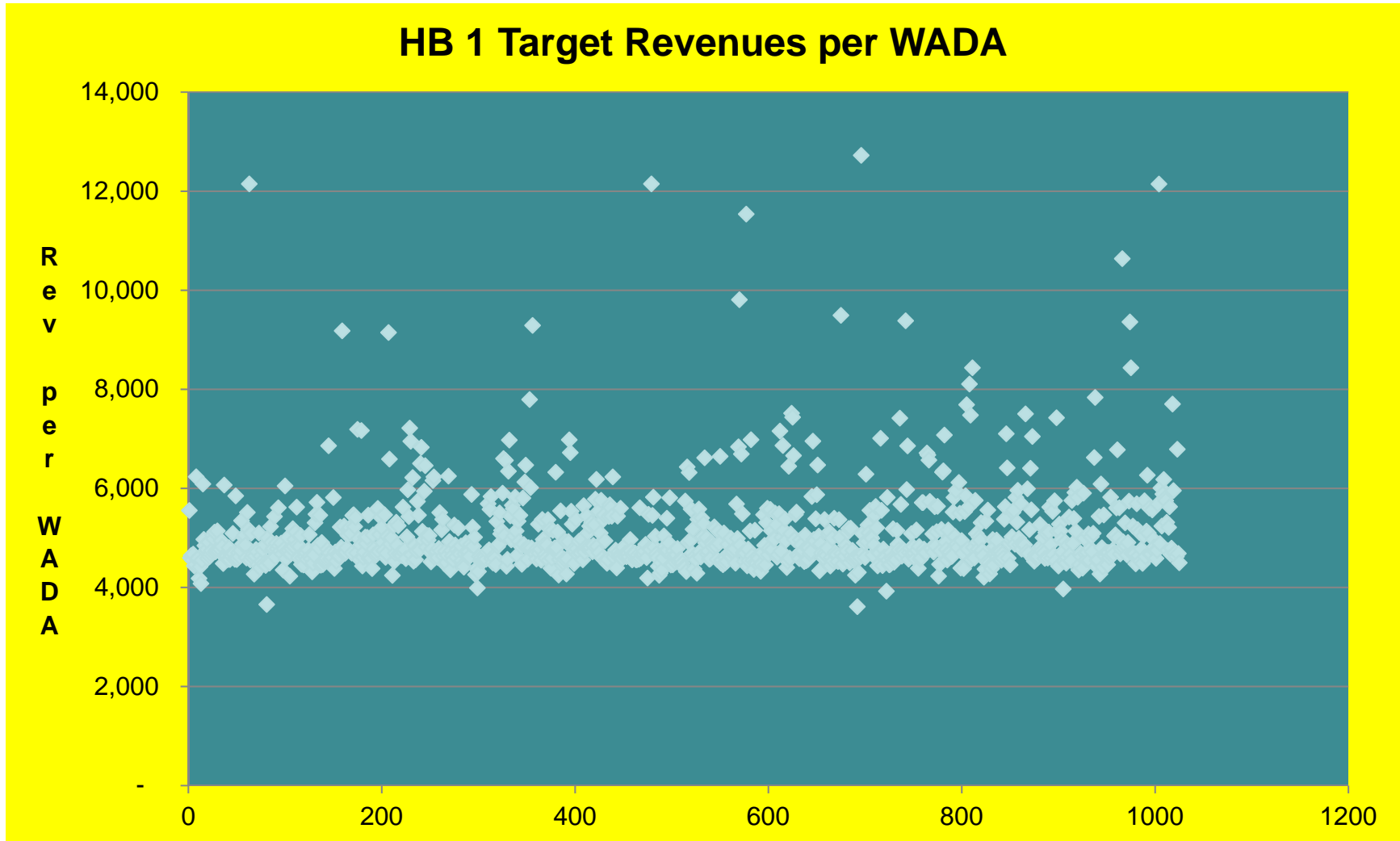


■ History From 2006-07

Once target was known, next step was to compare HB 1 revenues to target

- If HB1 state/local revenue at the district's compressed rate fell short of the target, **Additional State Aid for Tax Reduction** made up the difference
- If HB1 state/local revenue at the district's compressed rate was more than the target, the district was **brought down** to the target (was referred to as “**drag back**”)

History From 2006-07



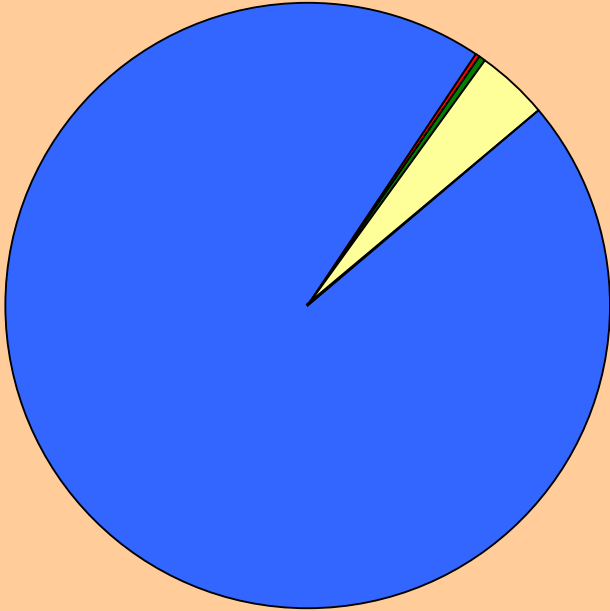
■ History From 2006-07

There were only **4 sources** of General Revenue that were **in addition to the HB 1 Target Revenue system**

- 1) State/local revenue generated for the first \$.04 (06-08) or \$.06 (08-09+) above the district's compressed rate (Level 2 of Tier II – “**Golden**”)
- 2) State/local revenue generated between compressed + \$.04 or \$.06, and \$1.17 (Level 3 of Tier II – “**Copper**”)
- 3) Staff Allotment (\$500 for Full-time; \$250 for part-time)
- 4) \$23.63 per WADA Allotment

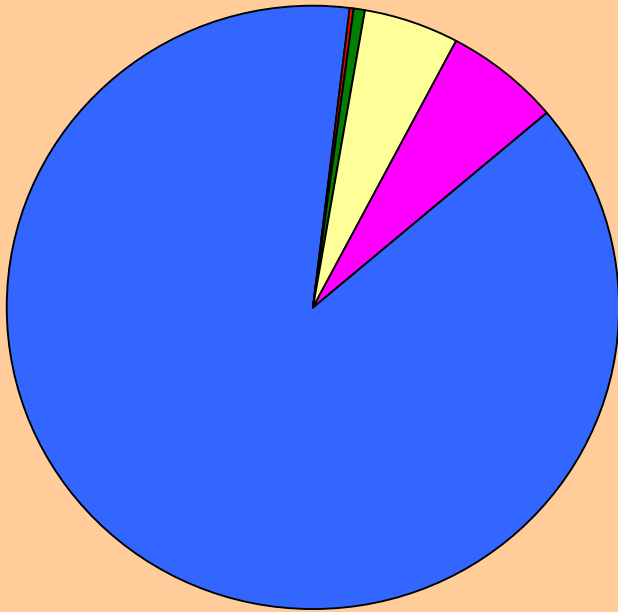
History From 2006-07

**General Fund Revenue:
Compressed Rate = \$1.00; Adopted Rate = \$1.04
(estimated for 2008-09)**



History From 2006-07

**General Fund Revenue:
Compressed Rate = \$1.00; Adopted Rate = \$1.17
(estimated for 2008-09)**



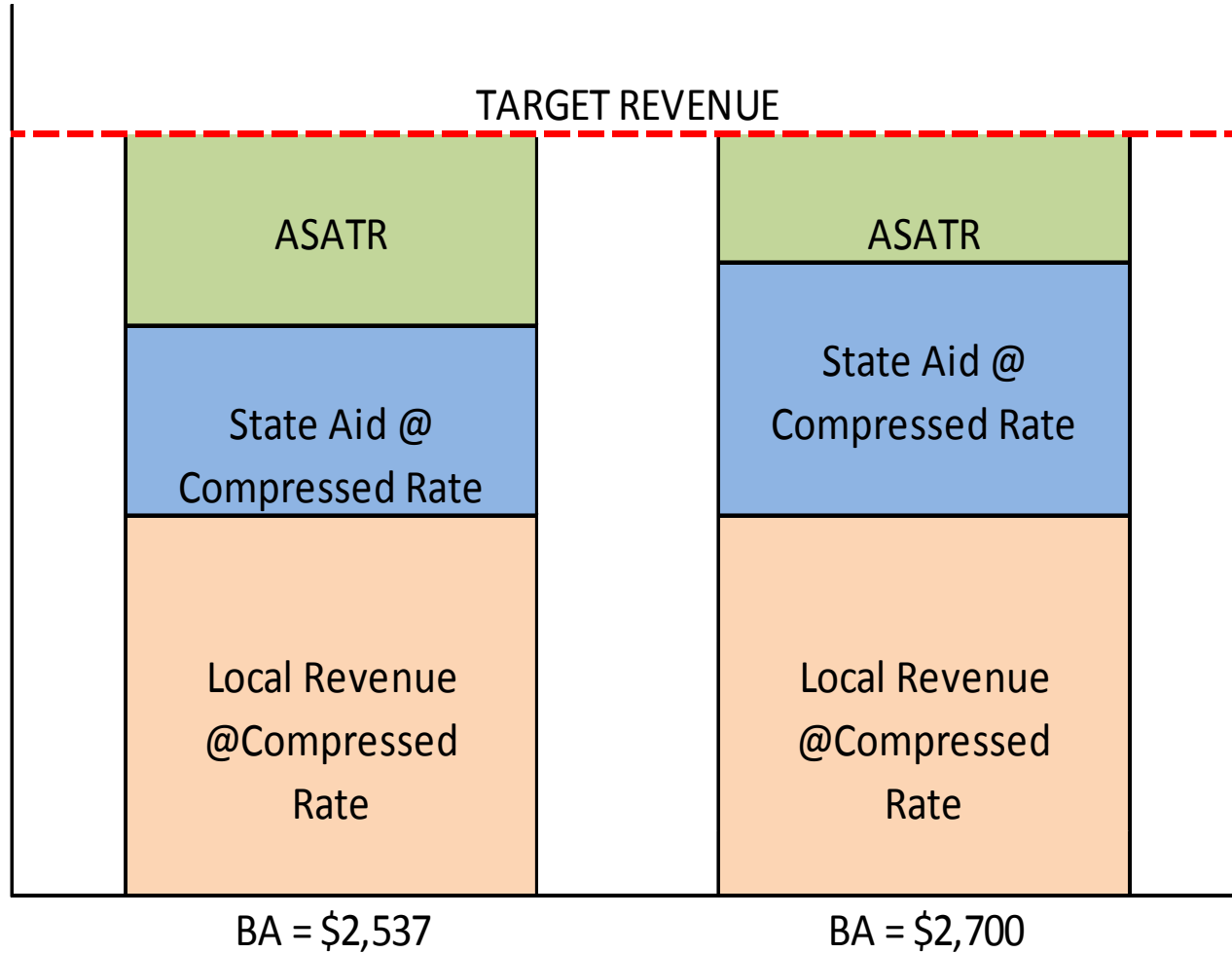
Revenue Target	Staff Allotment	Rider 86 Allotment
Golden Pennies	Rollback-like Pennies	

■ History From 2006-07

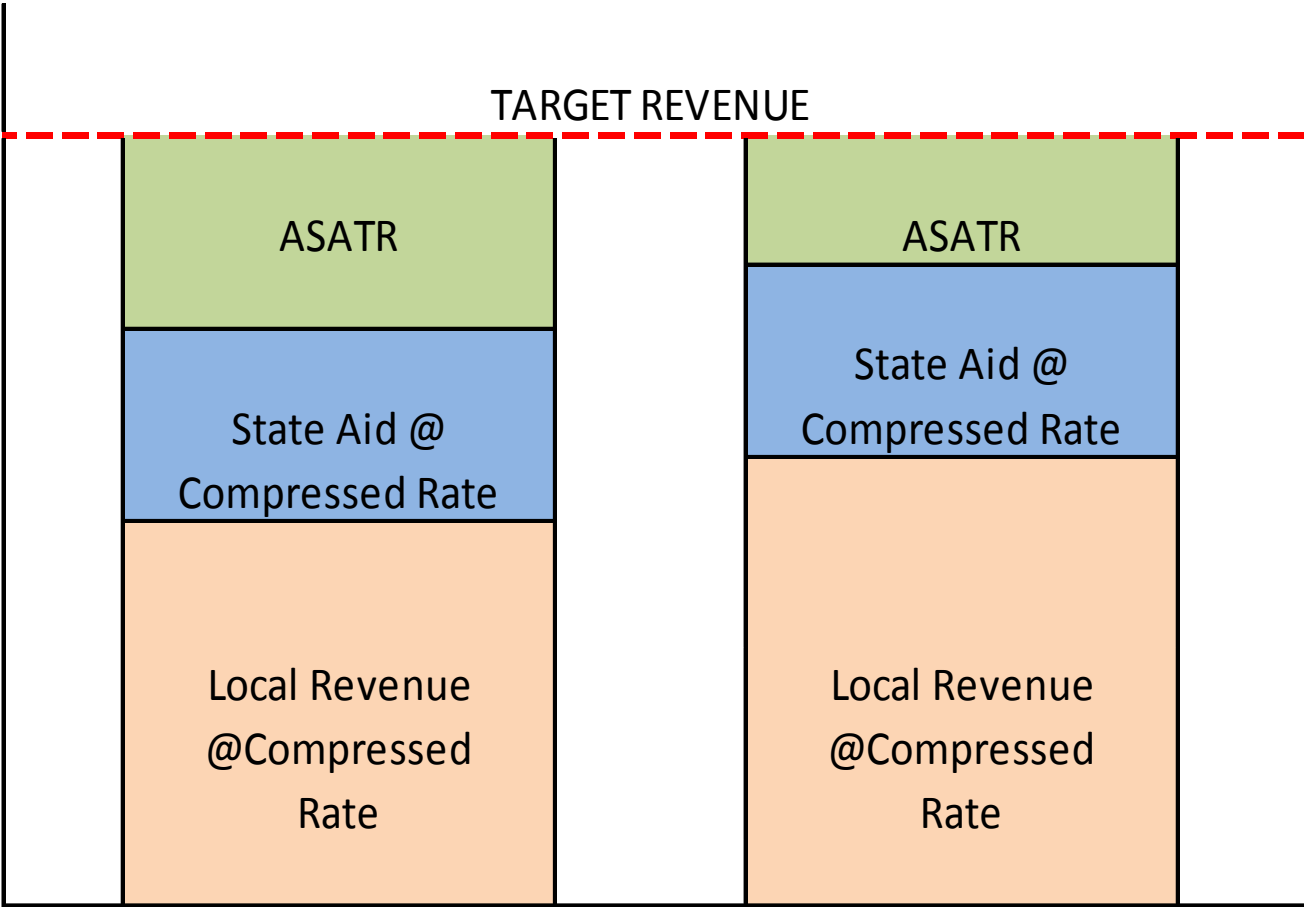
What used to matter in school finance no longer mattered under the Target Revenue system

- Basic Allotment
- Tier I Level 1 Guaranteed Yield
- Equalized Wealth Level (Level 1)
- Property Value Changes

History From 2006-07

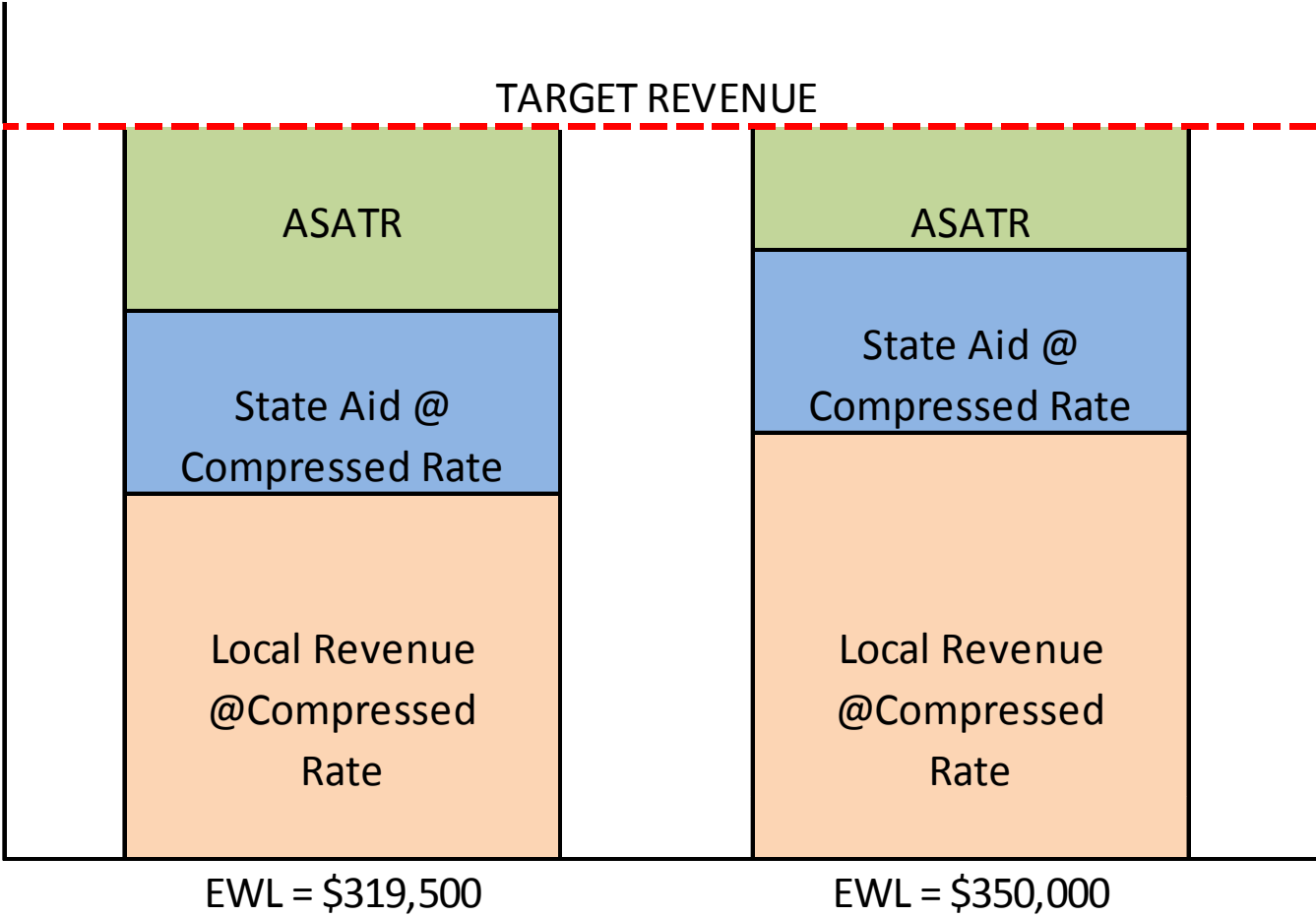


History From 2006-07



Increase in M&O taxes due to property value increase

History From 2006-07

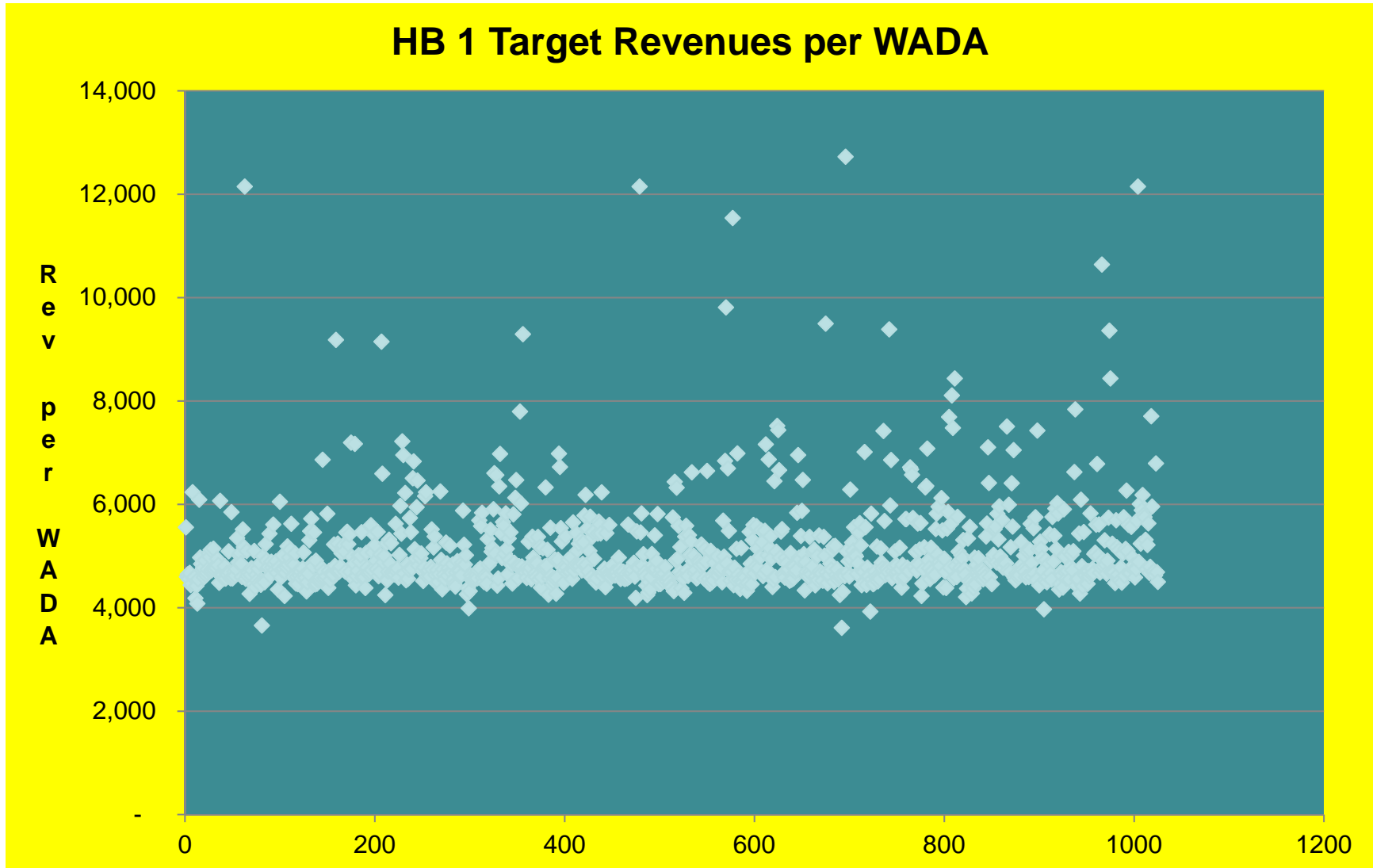


■ History From 2006-07

The Equity Problem:

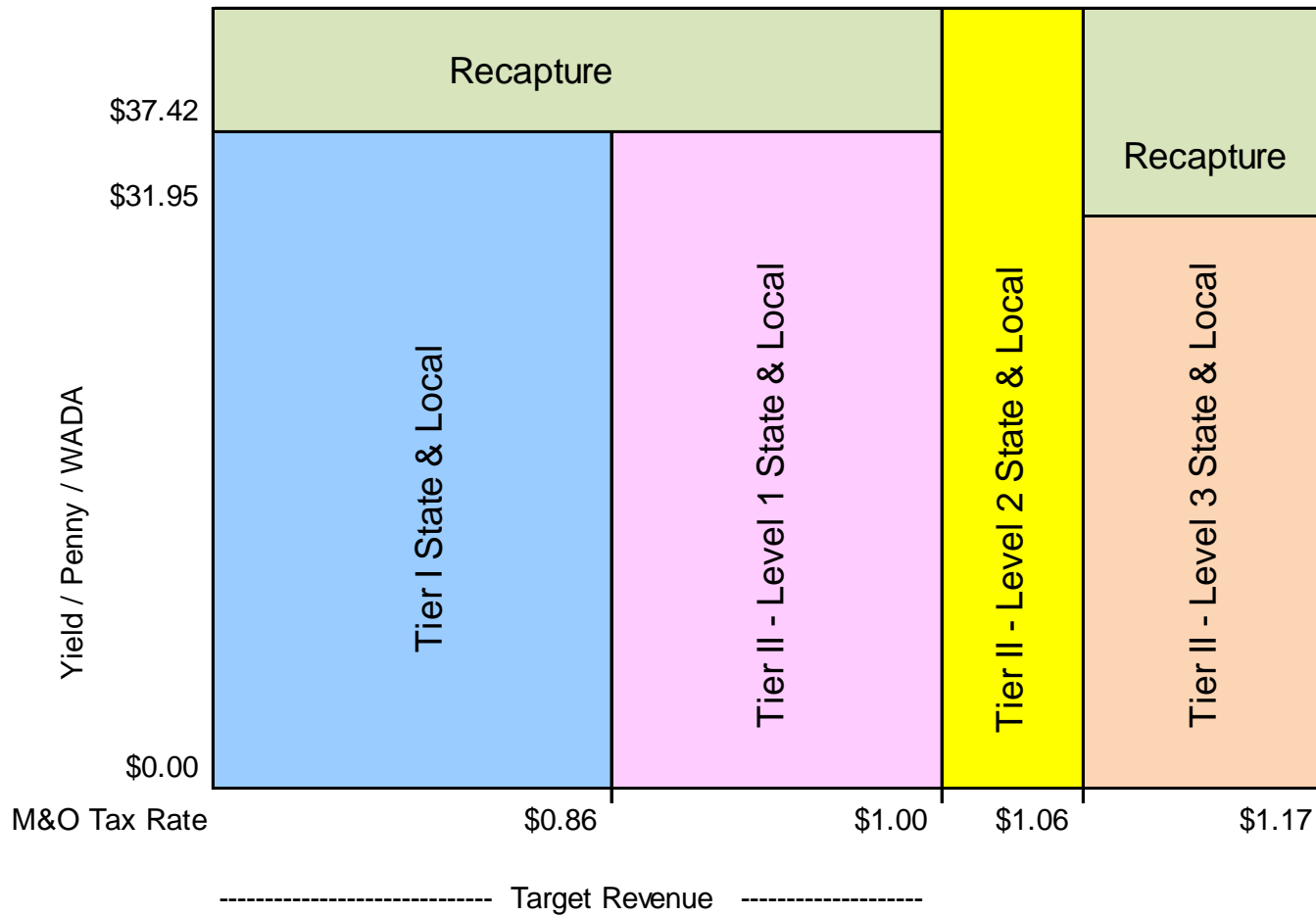
“...substantially equal access to similar revenue per student at similar tax effort...”
[TEC 42.001(b)]

History From 2006-07



History From 2006-07

2008-09 Last Year of HB 1
 Compression From \$1.50 to \$1.00



■ History From 2009-10 to 2010-11



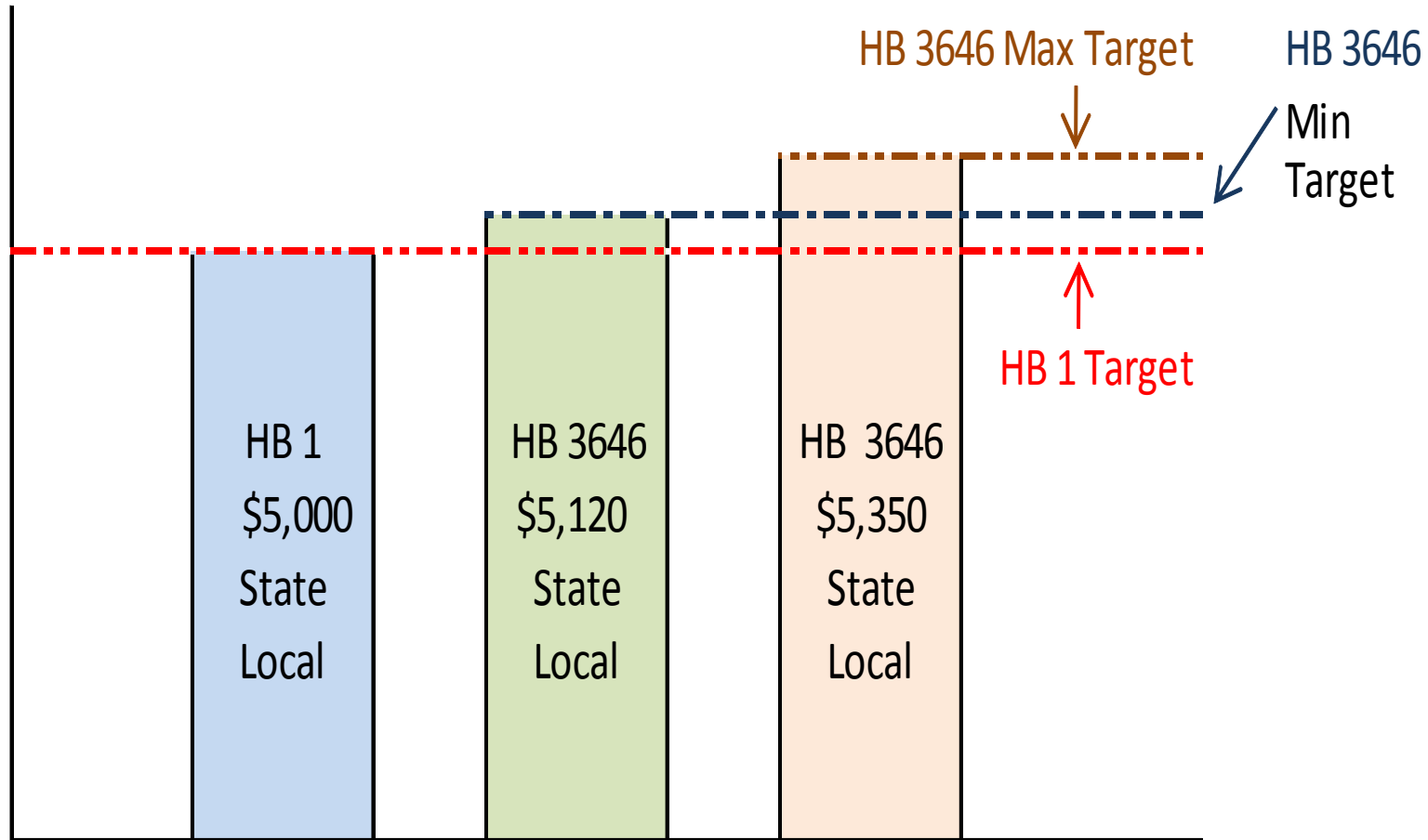
■ History From 2009-10 to 2010-11

HB 3646 amended HB 1 system

Same Target Revenue concept, only **increased target levels**

- Established minimum gain of **\$120 per WADA** over where the district would have been in 2009-10 under HB 1
- Established maximum gain of **\$350 per WADA** over where the district would have been in 2009-10 under HB 1

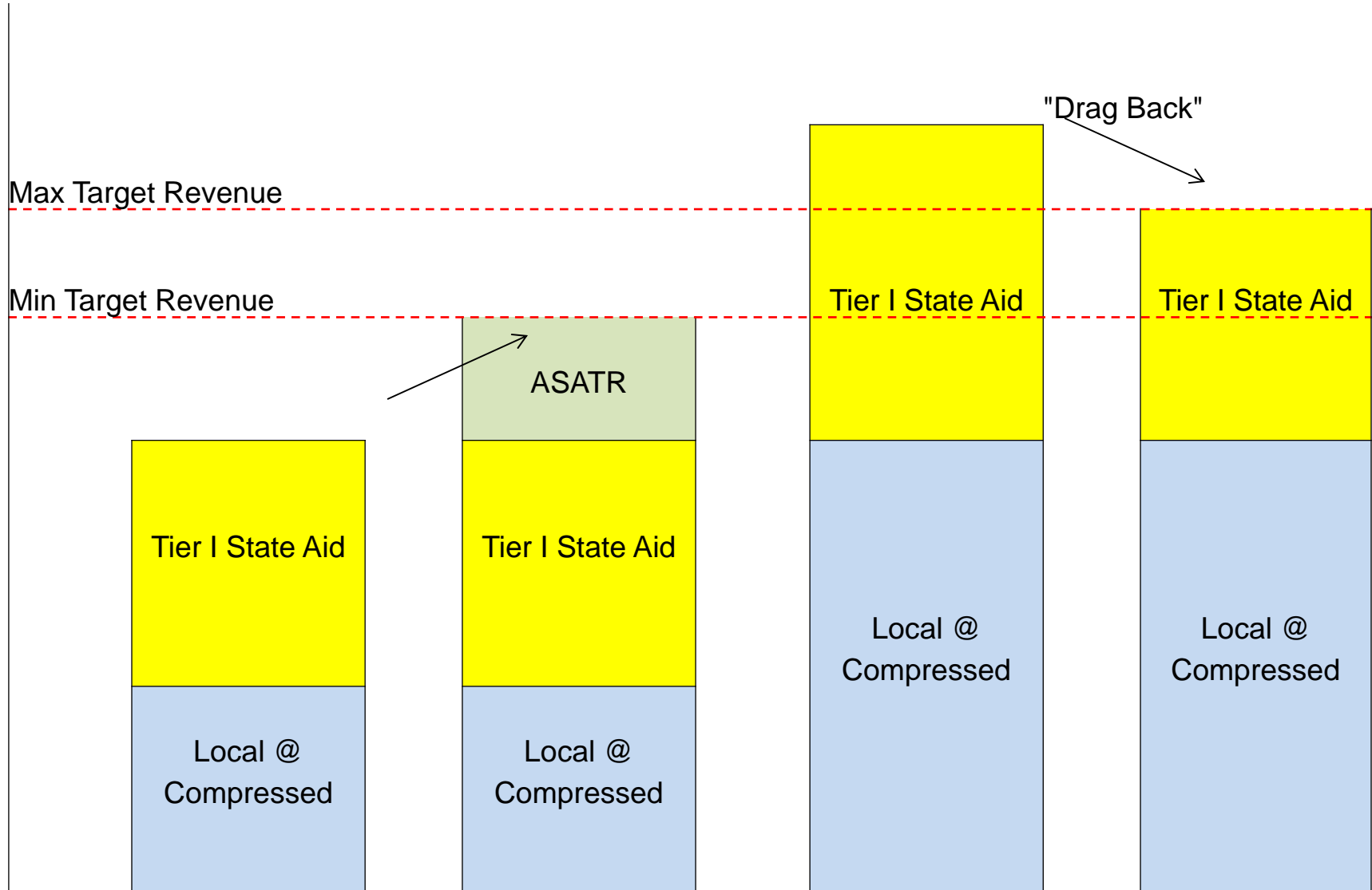
History From 2009-10 to 2010-11



■ History From 2009-10 to 2010-11

Other changes from HB 1

- Basic Allotment increased from \$3,737 (what it would have been in 09-10 under HB 1) to \$4,675
- High School Allotment moved into Tier I (no separate fund code anymore)
- Local share rate for Tier I goes from \$.86 to district's compressed rate
 - Had the effect of moving HB 1 Level 1 of Tier II into HB 3646 Tier 1



History From 2009-10 to 2010-11

HB 3646 district results:

“Hold Harmless Districts”:

Min \$120	755	73.37%
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“Formula Districts”:

\$121 to \$159	67	6.51%
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\$160 to \$199	55	5.35%
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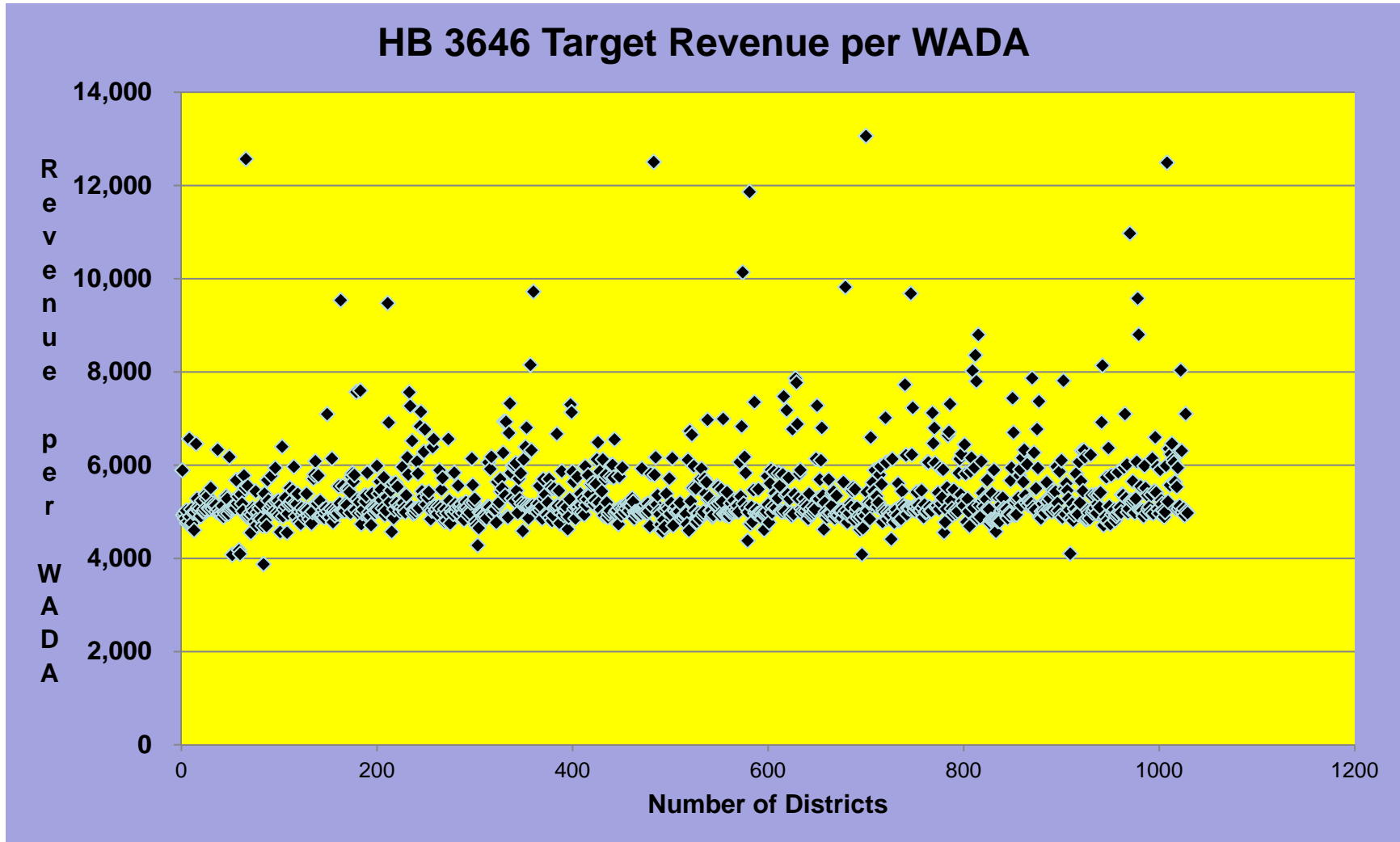
\$200 to \$249	65	6.32%
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\$250 to \$349	60	5.83%
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Max \$350	<u>27</u>	<u>2.62%</u>
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	1,029	100%
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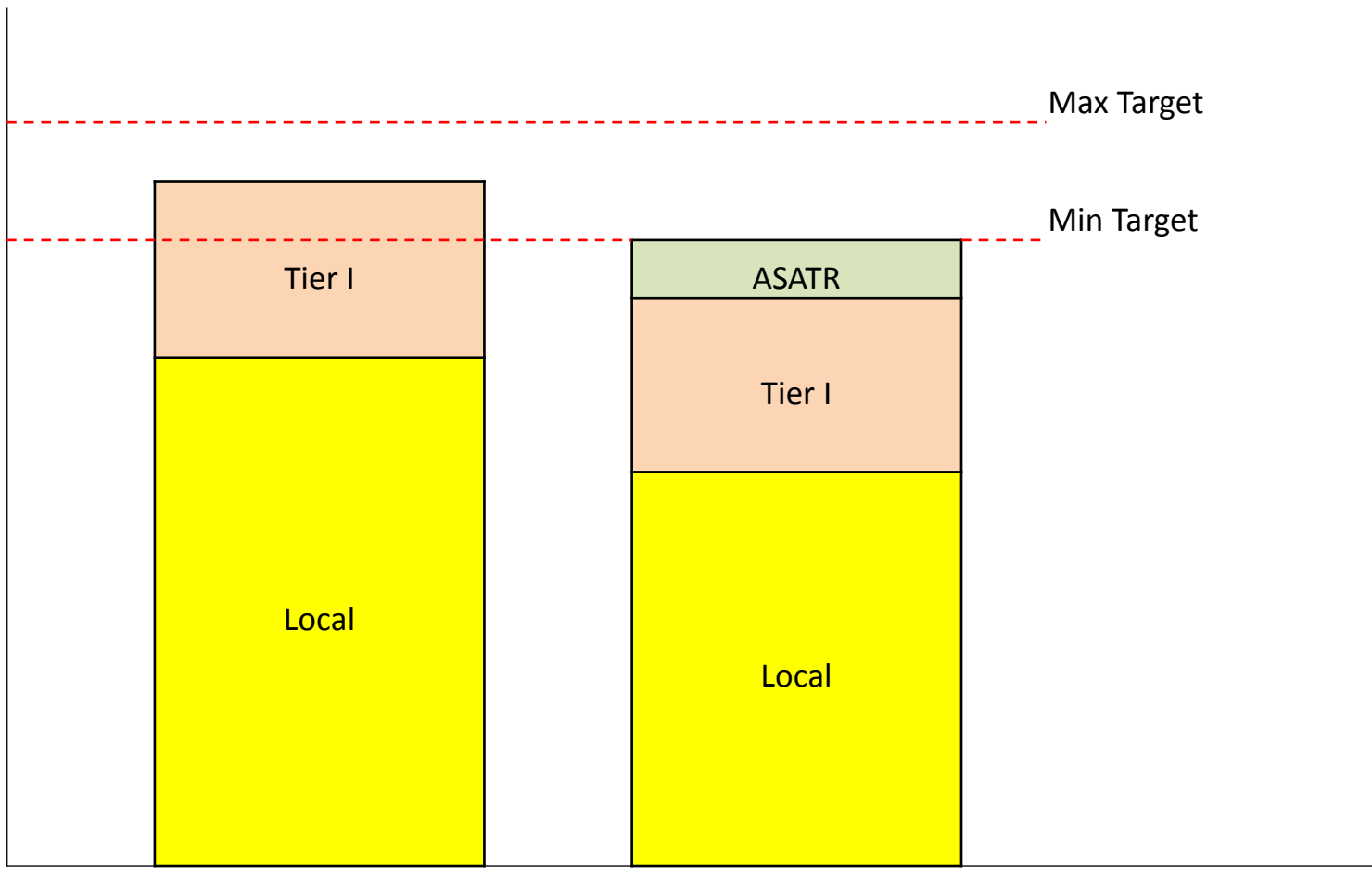
History From 2009-10 to 2010-11



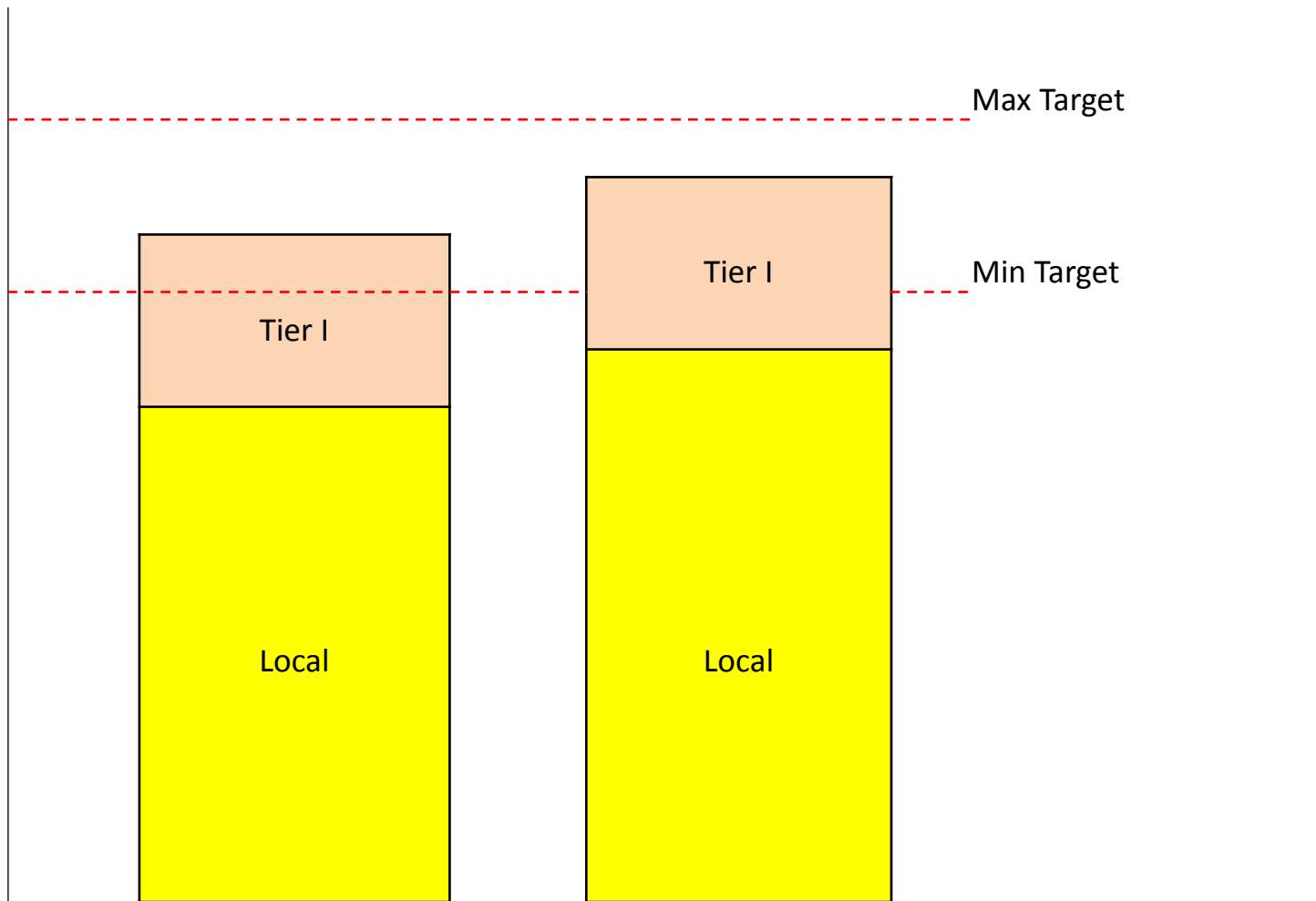
■ History From 2009-10 to 2010-11

What caused the districts at the upper end of the previous graph to be “on formula”?

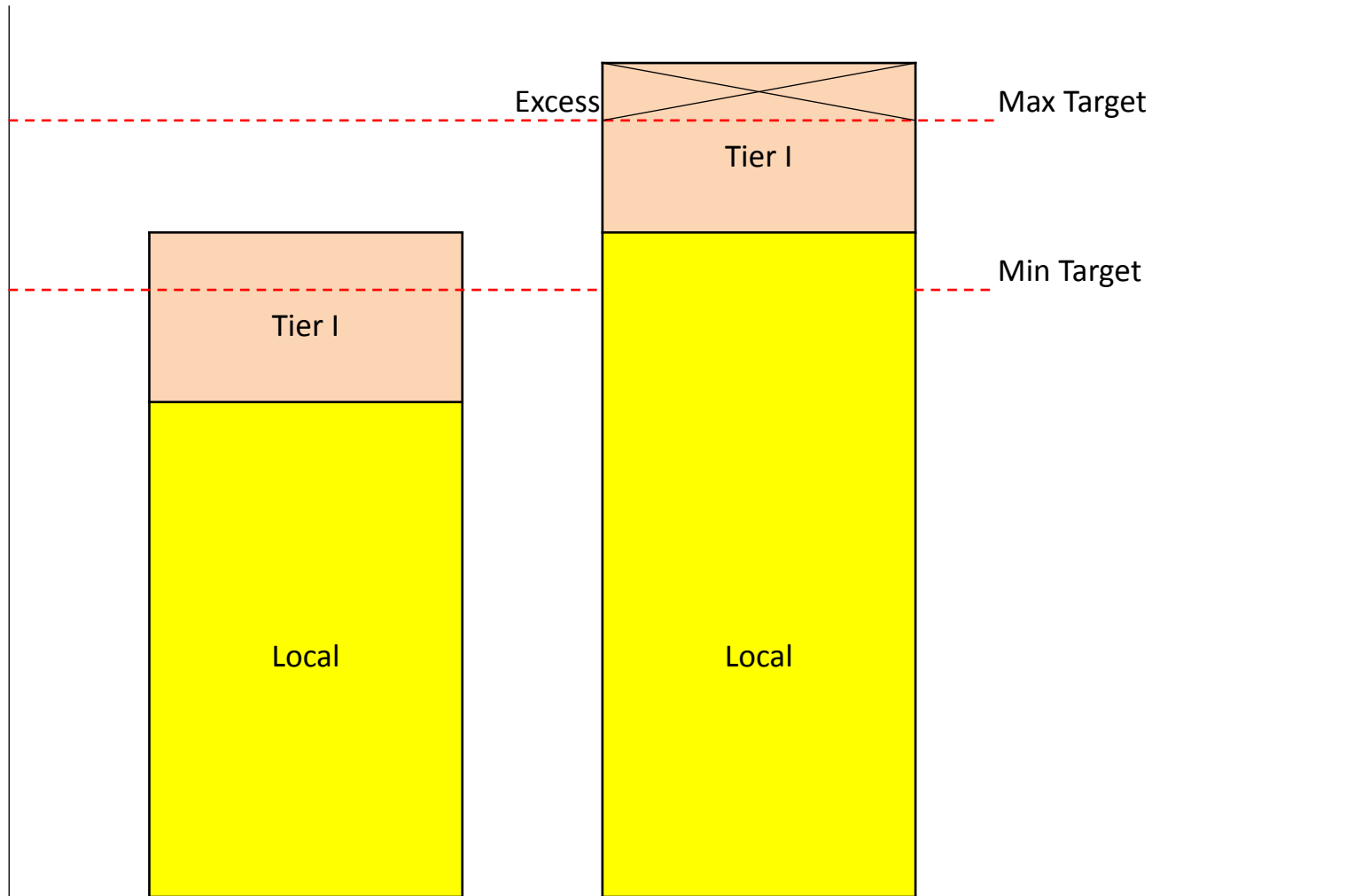
- **Property Value Increases**
 - Highest district had a 23% increase in value from 2008 to 2009
 - This at a time when most values were staying about the same or decreasing



Decrease in Current-Year Taxable Value



Modest Increase in Current-Year Taxable Value



Significant Increase in Current-Year Taxable Value

■ History From 2009-10 to 2010-11

Now there are only **3 sources** of General Revenue that are **in additional to the HB 3646 Target Revenue**

- 1) State/local revenue generated for the first \$.06 above the district's compressed rate (**“golden” pennies**)
- 2) State/local revenue generated between compressed + \$.06, and \$1.17 (**“copper” pennies**)
- 3) Staff Allotment (\$500 for full-time; \$250 for part-time)

■ History From 2009-10 to 2010-11

1st source: “Golden” pennies

- 2009-10 yield = \$59.02
- 2010-11 yield = \$59.97
 - \$.95 per penny per WADA is only source of new money for 2010-11 for most districts (other than more WADA)

Voter approval required to get the 2 additional pennies for most districts

■ History From 2009-10 to 2010-11

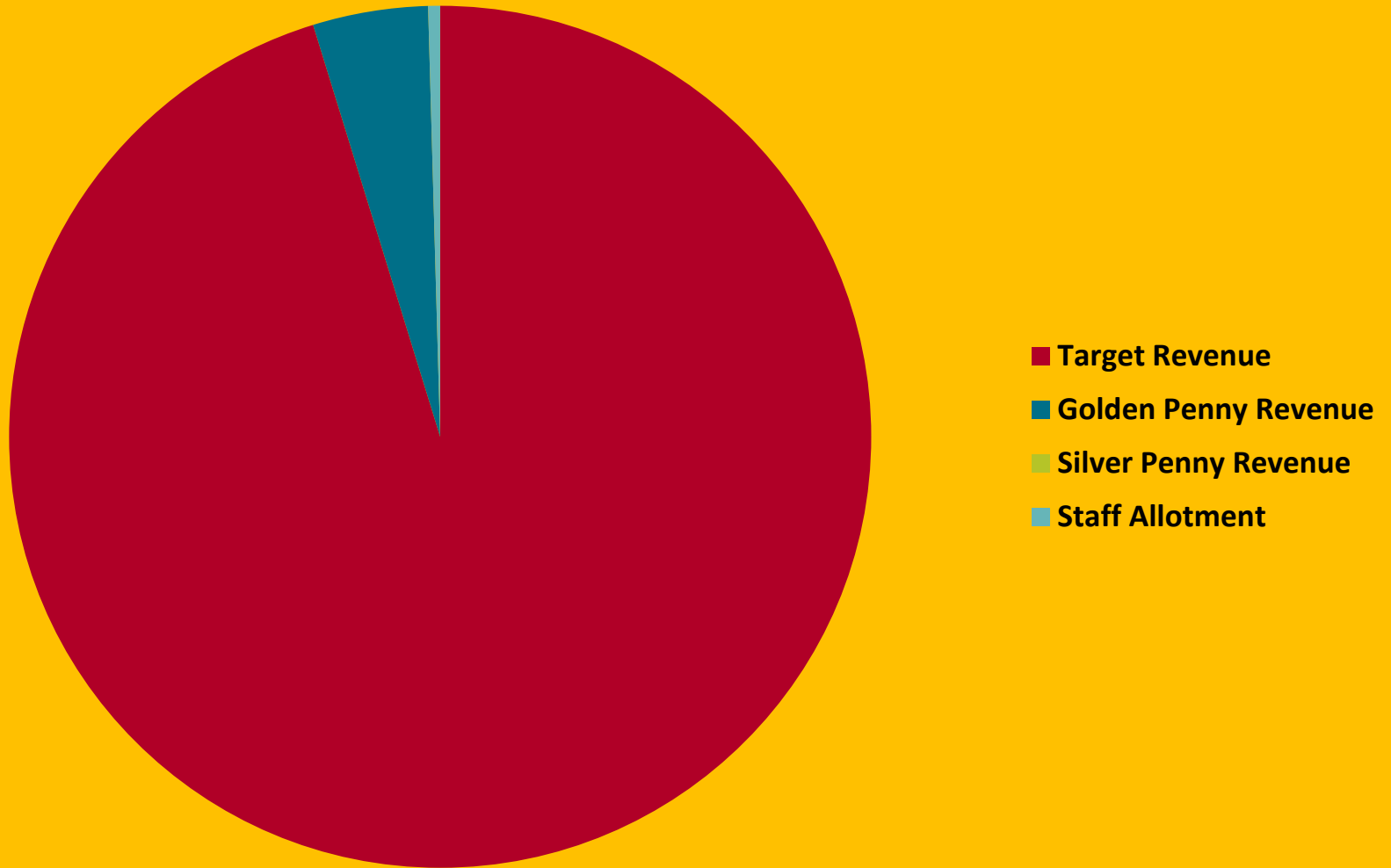
2nd source: “Silver/Copper” pennies:

- \$31.95 yield is fixed

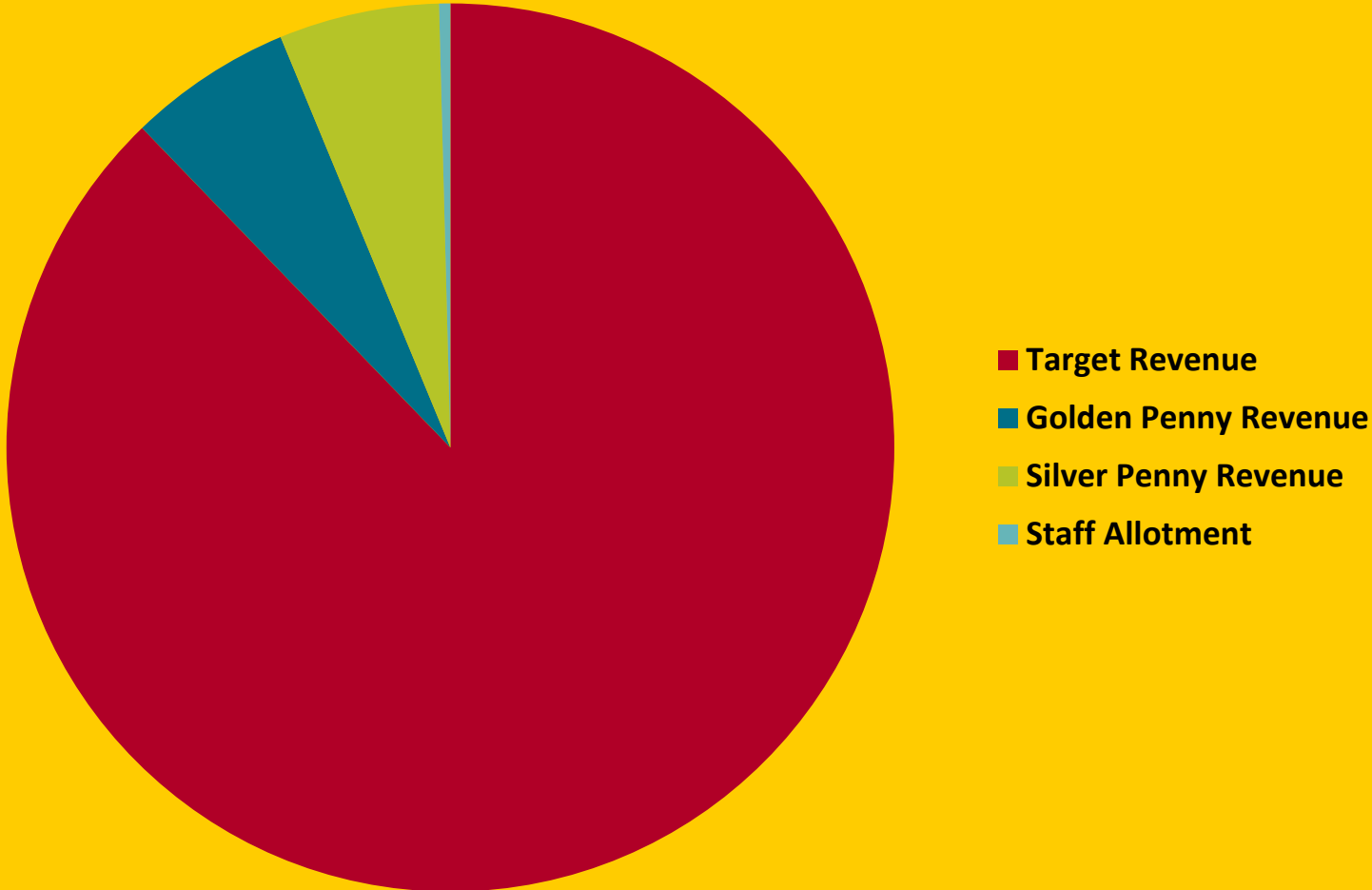
3rd source: Staff Allotment

- Minimal (\$500 for F-T & \$250 for P-T)

**HB 3646 Sources of M&O Revenue @ \$1.04
2010-11 School Year**



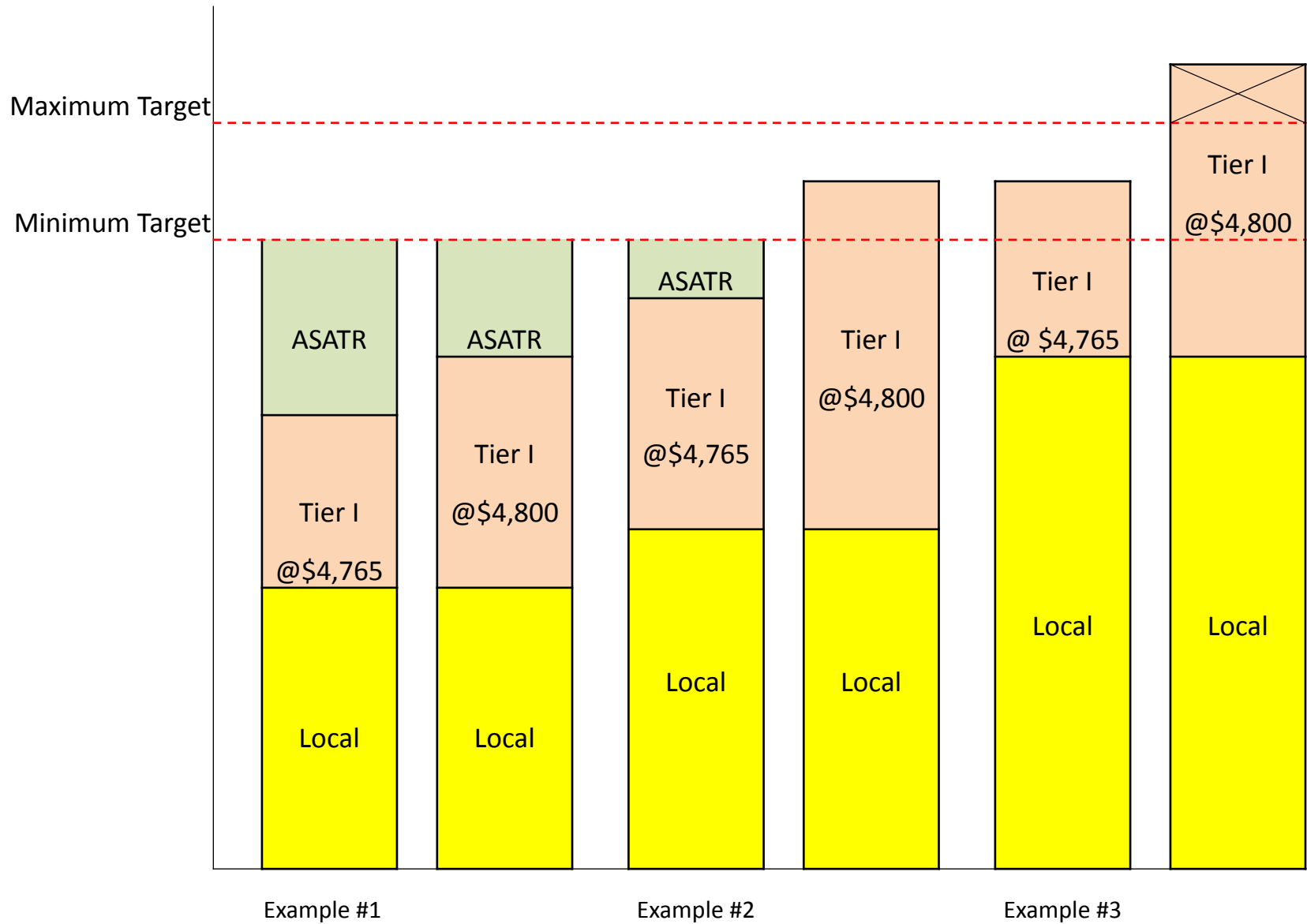
**HB 3646 Sources of M&O Revenue @ \$1.17
2010-11 School Year**



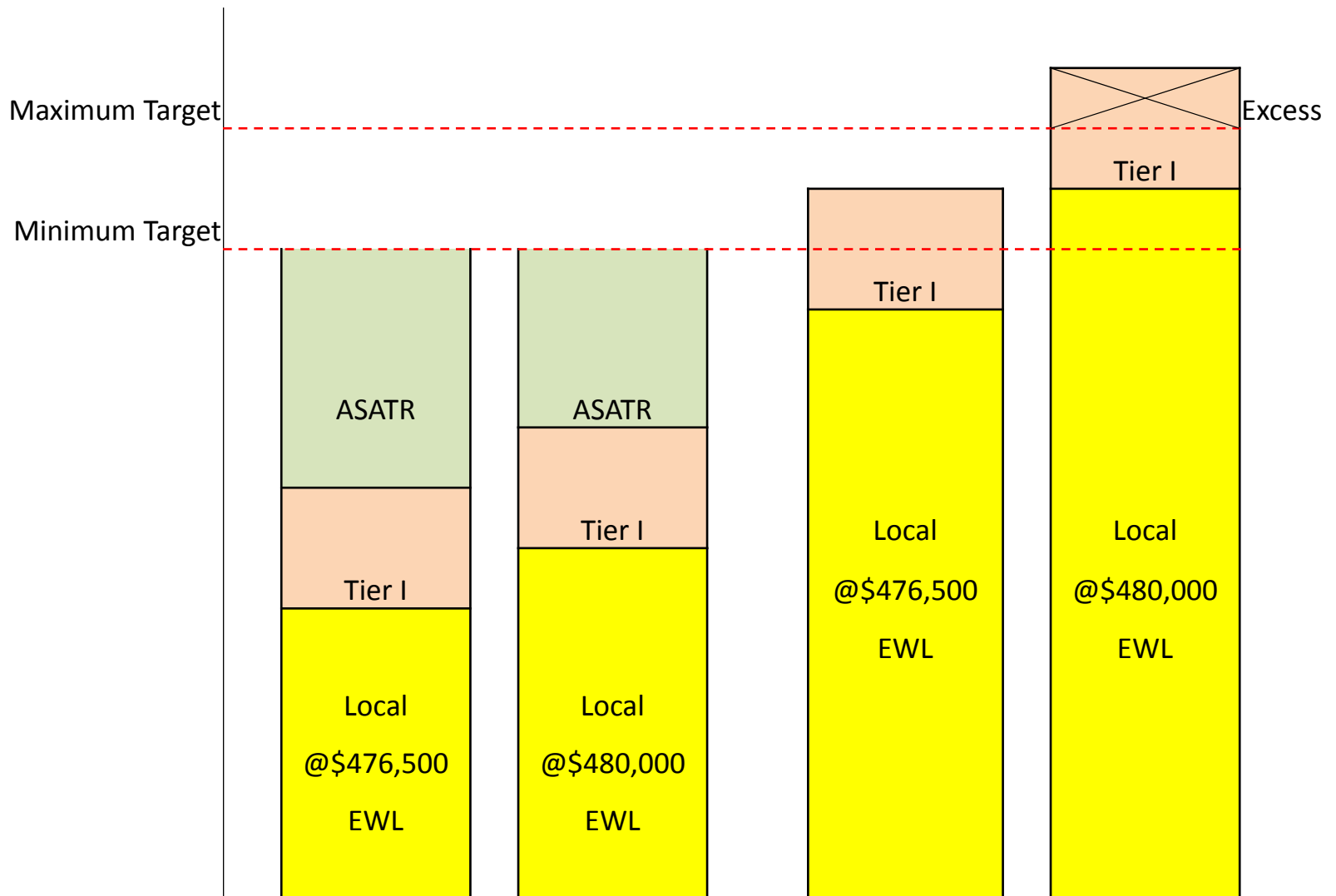
■ History From 2009-10 to 2010-11

The following funding elements don't matter to most districts – they only matter to “formula districts”

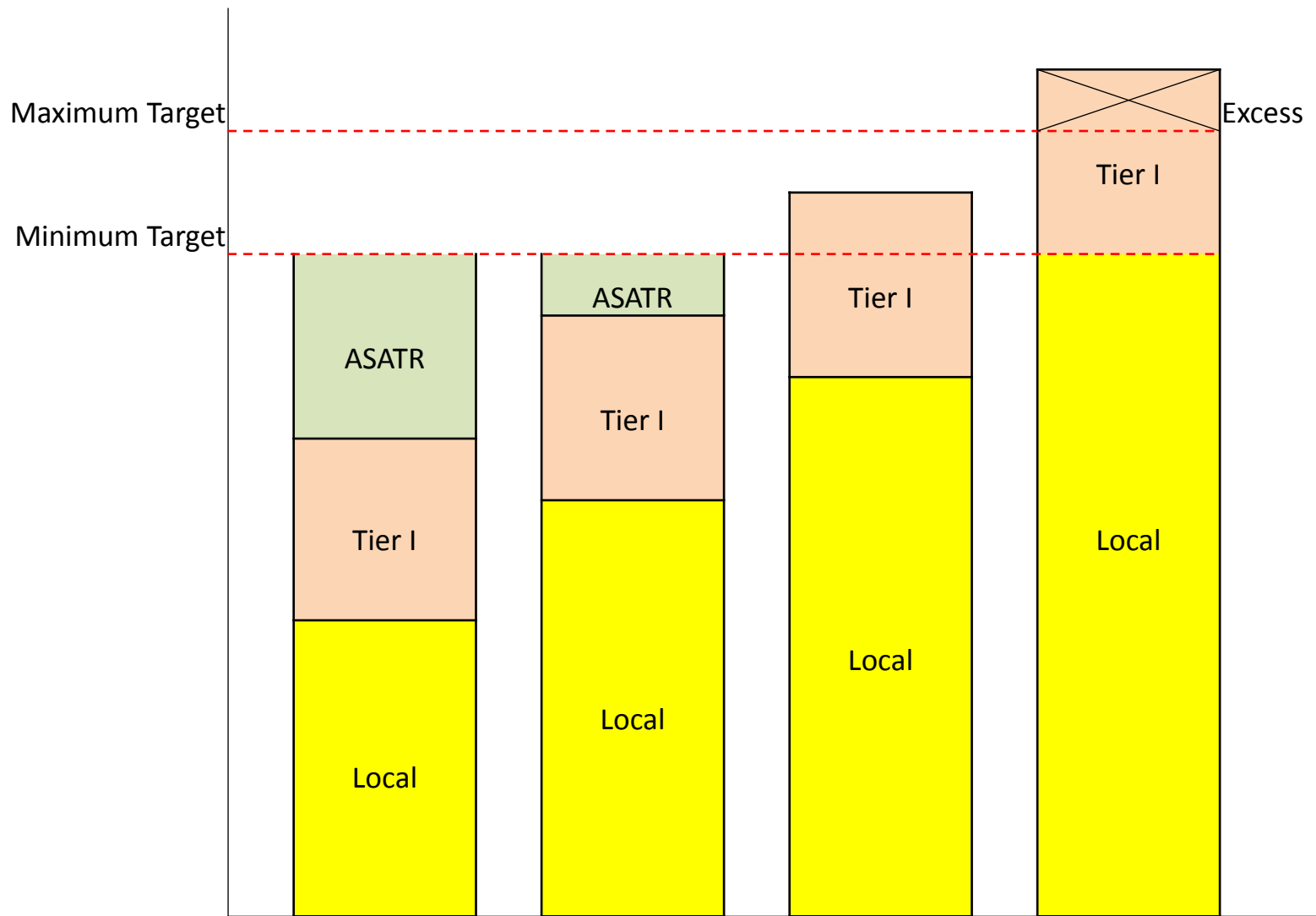
- Basic Allotment
- Equalized Wealth Level
- Property Values



Increases in the Basic Allotment



Increases in the Equalized Wealth Level



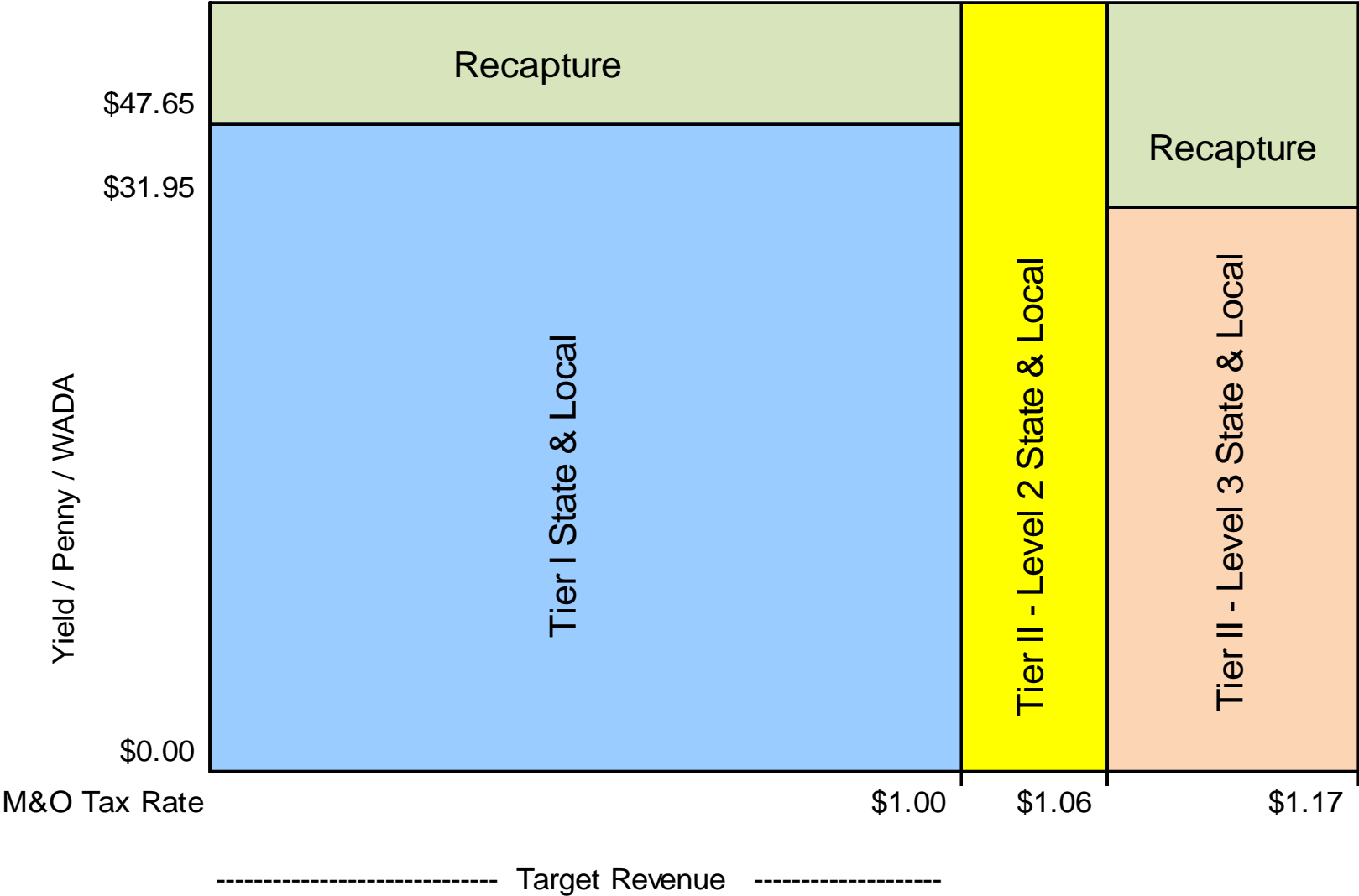
Increases in Property Value

■ History From 2009-10 and 2010-11

The HB 3646 Equity Problem

- HB 1 - 98% of total WADA is in districts that are “stuck” between \$4,000 and \$6,000 per WADA
- HB 3646 – only 94% of total WADA are between \$4,000 and \$6,000

2009-10 First Year of HB 3646
 Compressed Rate = \$1.00



■ A Storm is Brewing in 2011



■ History From 2011-12 to 2012-13

- “D” (deficit) Day – State facing multi-billion \$\$ shortfall
 - \$5.4B cut from public education
- Regular Program Allotment cut by 7.61% in 2011-12 and 2% in 2012-13
- 2009-10 Target Revenue per WADA not cut in 2011-12 by cut by 7.65% in 2012-13

■ History From 2013-14 to 2014-15



■ History From 2013-14 to 2014-15

- Regular Program Allotment restored to 100%
- Cut to Target Revenue per WADA restored slightly but not to 100% (7.65% down to 7.37%)
 - ASATR phased out beginning 2017-18
- Basic Allotment increased from \$4,765 to \$4,950 in 13-14, then to \$5,040 in 14-15 (recapture increases from \$476,500 to \$504,000 during these 2 years)

■ History From 2015-16 to 2016-17

- More tax relief – homestead exemption raised from \$15,000 to \$25,000
 - Created hold-harmless allotment to make up for loss of local M&O and I&S revenue
- Basic Allotment increased from \$5,040 to \$5,140 (recapture level increases from \$504,000 to \$514,000)
- 2016 - system declared constitutional – awful, out-dated, but still constitutional

■ History From 2015-16 to 2016-17

- For districts that were not at \$1.50 back in 2005-06 (and therefore were getting penalized because their compressed rate was less than \$1.00), an adjustment was put in to reduce or eliminate the penalty altogether – the so-called **'fractional-funding' adjustment**
 - Catch – district had to have the so-called “copper” pennies available to get the adjustment
 - District had to tell TEA they wanted the adjustment (it was not beneficial for all that had those copper pennies available)
 - Became automatic beginning in 2017-18

■ History From 2017-18 to 2018-19

- Not much change from previous biennium, since system is constitutional according to the Texas Supreme Court
- ASATR (Target Revenue System) goes away.....however, “Hardship Grant” put in place to soften the blow
- \$\$ appropriated for property value decline for the 1st time in a long time

■ History From 2019-20 to 2020-21

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- HB 3 vs CSSB 4
- Some combination of the two is likely to emerge.....hopefully, or else it is going to be a long summer