



TEXAS COMMISSION ON
PUBLIC SCHOOL FINANCE

Texas Commission on Public School Finance
Revenues Workgroup Recommendations
November 27, 2018

Revenue Workgroup Members

Sen. Paul Bettencourt
Houston

Justice Scott Brister
Georgetown

Nicole Conley-Johnson
Austin

Rep. Ken King
Canadian

Elvira Reyna
Denton County



RECOMMENDATIONS



Use Increase in General Revenue

- **Background:**
 - Since January 2017, the Comptroller has increased the revenue estimate from \$104.9 billion to \$110.2 billion in July 2018, a \$5.3 billion increase
 - Sales tax revenue represents 58% of all state tax collections
 - During the first two months of FY 2019, sales tax revenues are over 10% higher compared to first two months of FY 2018
- **Rationale:**
 - Current trends indicate an increase of General Revenue available for budgeting for the next biennium
 - Historically state general revenue has grown an average of 10% every biennium since 2004-05
 - Comptroller will provide Legislature with the Biennial Revenue Estimate (BRE) in January 2019
- **Biennial Revenue Increase: TBD**



Governor's Comprehensive School Finance Reform

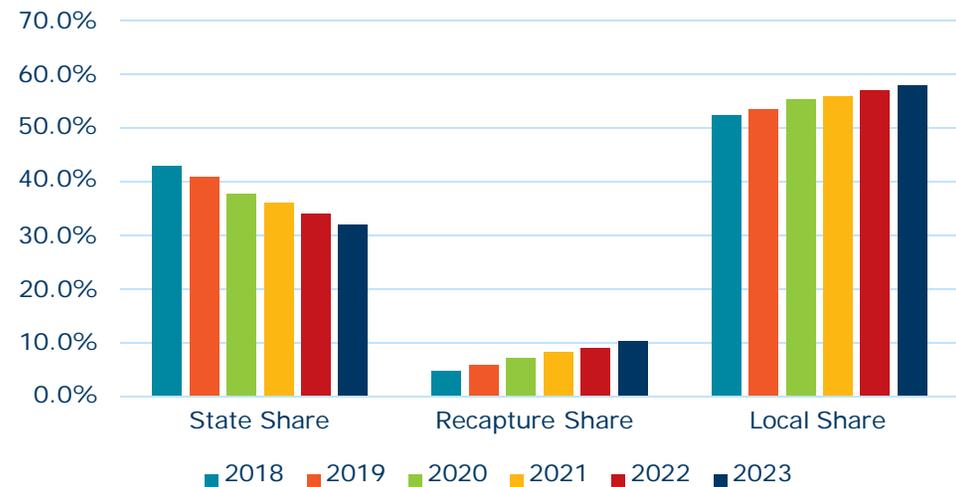
- Background:
 - The state only pays the amount that a school district does not collect through local property taxes.
 - As property values rise – and property tax revenues rise – more local revenues mean a reduced need for state funding.
 - Fixed M&O tax rates ensure the state share will always decline as property values rise.
- Rationale:
 - Utilizing a 2.5% M&O Tax Compression To:
 - Prevent the imminent collapse in the state's share of public education funding
 - Reduce recapture's projected growth, keeping tax dollars local
 - Slow the growth of skyrocketing tax bills



Without Tax Reform, the State Share Will Fall to 32% by 2023

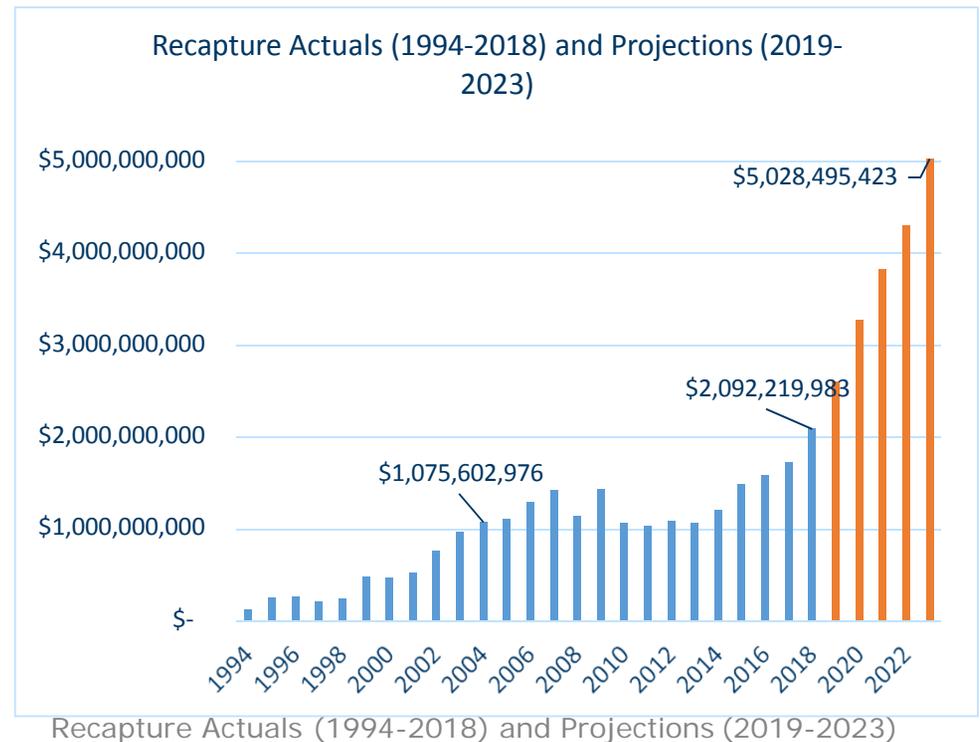
- Current law projections have the state share of public education M&O funding falling to 32% in 2023
- Recapture will double its share of public education funding
- Local property taxes (including recapture) will finance 68% of education in 2023

Current Law State Share Projections
(2018-2023)



Without Tax Reform, Recapture Will Also Skyrocket

- As property values have increased, more districts have entered recapture and those districts in recapture have seen their payments continue to increase.
- Without reform, the total amount of recapture and the size of district recapture payments will continue to grow rapidly.



Merging Recapture Reform with Outcomes Reform

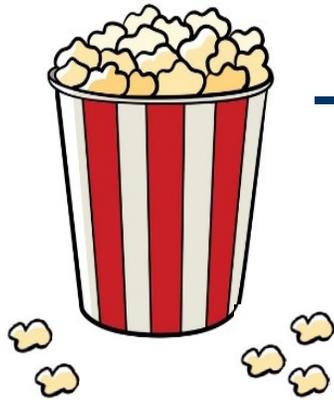
The state will fully fund all districts' entitlements.



As a district increases teacher pay and improves its outcomes, the state owes the district more money.



As a district's bucket get bigger, the district owes less money in recapture.



Better teacher pay **Better outcomes**



Recapture from the Taxpayer's Perspective

- **Background:**
 - Public school finance is a shared responsibility of the state and local school districts.
 - Any period in which property values rise at a rate greater than enrollment growth, the local share (and property taxes) will increase, while the state share will decrease.
- **Rationale:**
 - Changes in values should be used to adjust the compression percentage so that as values per student rise, the compression percentage declines by a corresponding amount.
 - Use some or all revenue from recapture to reduce the compression percentage, providing relief against rising property tax bills to all property owners by reducing tax rates uniformly statewide.
 - A rider should be included in the appropriations bill that clearly shows the sources of revenue to the Foundation School Fund separately for both maintenance and operations and facilities/debt service.



Eliminating School M&O Property Tax

- **Background:**
 - School district M&O property tax collects about \$25 billion in 2018 or \$51.3 billion in 2018-19, making up nearly one half of the heavy property tax burden Texans face.
 - Historical state general revenue-related revenue (GRR) growth has averaged 10.08 percent every biennium since 2004-05.
- **Rationale:**
 - Future state spending increases will be limited to 4 percent per biennium. Ninety percent of the surplus between future GRR growth and the spending growth limit will be used to eliminate the school M&O property tax, with the state increasing state education funding each year to gradually replace the M&O portion of each local school district's property tax revenue.
 - School districts will set their tax rate each year to reduce property tax revenue by the amount of the state's replacement funding.
 - If the historical rate of GRR growth holds, Texas should be able to eliminate the property tax in 11 years. If GRR growth is lower, then it will take longer.



Share Recapture Plan

- Background:
 - Let everyone benefit from rising property values
 - Property value growth would be divided by thirds
- Rationale:
 - Improving funding, improving equity and reducing recapture
 - Reduce M&O tax rate for homeowners and businesses
 - Do what the state is already doing – plug it in where it's needed within the state budget



Severance Tax Revenue

- Background:
 - Permian Basin production continues to expand
 - New pipeline capacity in 2019 of 2 million barrels per day
 - Additional 2 plus million barrels per day pipeline capacity in 2020
- Rationale:
 - Use this increase in production severance taxes as a source to fund public education
- Next Biennium Revenue Range Estimate:
 - Projected Maximum of \$3.2 billion
 - Minimum Targeted Amount of \$1.3 to \$2.5 billion

