

SCHOOL FINANCE, COURTS, AND THE LEGISLATURE



CONTEXT LEADING UP TO THE 83RD LEGISLATURE

The Legacy of 2011

- **Cut spending by \$15.2 billion (All Funds)**
 - Cut public education by \$5.4 billion
 - \$4.0 billion cut to FSP
 - \$1.4 billion cut to other educational programs
 - Cut Health and Human Services by \$3.1 billion
 - Underfunded Medicaid by another \$4+ billion
 - Cut Higher Education by \$1.3 billion

Texas Taxpayer and Student Fairness

- Trial began October 23, 2012
- Decision handed down on February 4, 2013
 - Four primary parties won on most of their points
 - Charter schools and efficiency interveners were turned away

Elections

- General election was November 6, 2012
- Resulted in no changes to major executive branch officeholders or legislative leadership

As The Legislature Convened

- January 8, 2013
 - **Governor Perry:** I think under any scenario over the last decade, the funding that we have seen in the state of Texas for public education has been pretty phenomenal.
 - **Commissioner Williams:** It would be a prudent course of action to wait on the determination of the court.
 - **Senator Williams:** Wait until court decision. Districts are to blame because a small group of lawyers and consultants run to courts to sue state.

2013: The Surplus Emerges

- 2012-2013 biennial revenue exceeded Comptroller's projection by at least \$9 billion
- The state expected to close the 2012-13 biennium with a balance of \$8.8 billion if it had not made supplemental appropriations

HOW THE LEGISLATURE RESPONDED

The Results

- Public education increase of \$6.2 billion over 2011, but that includes student growth
 - Much, but not all, of the cuts were restored – not necessarily to those that lost funding
 - Property value growth reduced current law public ed funding requirements by \$3.6 billion
- Still left deficits in health and human services for the next two years
- Road and water issues only partially addressed

SB 1, Public Education Funding

- SB 1 and HB 1025 contain the changes to the funding elements for the FSP in 2014-15 biennium
- FSP formulas increase by **\$3.4 billion** (**\$4.0 billion** reduction last biennium from FSP).
- SB 1 also increased grant programs by about **\$292 million** (**\$1.4 billion** reduction last biennium to these programs)
- General revenue fund cost approximately **\$2 billion**.

Amounts in \$billions	Legislative View of Increases	What it cost General Revenue	Funded from Other Sources	
FSP Formula Increase	\$3.40	\$1.50	Value Growth Property Tax	\$3.60
Enrollment Growth	\$2.20		Relief Fund	\$0.20
			Recapture	\$0.30
Other Programs (IMA, SSI, pre-k, etc.)	\$0.29	\$0.09	PSF Payment	\$0.20
1.5% TRS District Contribution (FY 15)	\$0.33	\$0.33*		
Total	\$6.22	\$1.92		\$4.30

*The \$330 million is a one-time cost to the state and is a school district pass through to TRS

**The state also used \$1.75 billion from the RDF for the reversal of the FSP payment delay

New Formula Elements

	2012-13	2013-14	2014-15
Basic Allotment	\$4,765	\$4,950	\$5,040
Reg. Program Reduction	2%	0	0
Target Reduction %	92.35%	92.63%	92.63%
Austin Yield	\$59.97	\$59.97	\$61.86
Recapture Base for Tier I	\$476,500	\$495,000	\$504,000

Moving Away from Target Revenue

	2011-12	2012-13	2013-14	2014-15
Formula Districts	243	689	724	751
% WADA on Formula	23.4%	67.2%	79.1%	83.9%
Target Districts	781	335	300	273
% WADA on Target	76.6%	32.8%	22.9%	16.1%
ASATR	\$2.115 B	\$0.656 B	\$0.486 B	\$0.423 B

Teacher Retirement System

- TRS Pension Fund Net Assets:
 - \$111.4 billion, an increase of 7.4% over last year
 - Unfunded Liability: \$26.1 billion, 83% funded
- Rate needed for actuarial soundness: most likely above 8% (TRS forecast in February)
- No cost of living adjustment in 12 years
- Last and only 13th check provided 5 years ago
- Defined Benefit vs. Defined Contribution discussion no longer prominent
- TRS-CARE state contribution to remain at 1%
- District TRS-Care Contribution unchanged at 0.55%

SB 1458, Duncan (TRS)

- Beginning in 2014-15 school year school districts not contributing to Social Security will contribute 1.5% to the TRS pension fund
 - Those employees on the statutory minimum salary schedule are charged 1.5% but only for the portion up to the minimum, not above
 - Any employee not on the minimum salary schedule is charged 1.5% for full salary
 - Those employees that would have been on the minimum salary schedule in 1995 are only charged 1.5% up to the minimum salary schedule (calculated with new salary schedule multiplied by CEI adjustment)

SB 1458, cont'd.

- SB 1 provides \$330 million in the 2014-15 school year for the purpose of making allocations to school districts and charter schools in equal amounts per ADA
- It is the intent of the Legislature to provide temporary one-time transition aid to public schools to assist with the newly created TRS employer contribution rate of 1.5%
- MCA estimates this to be \$67.87 per ADA in 2014-15.
- This is a one-time payment and district will be responsible for this contribution after the 2014-15 school year

SB 1458, cont'd.

- The bill increases the active member contribution rate over a four-year period. The estimated contribution increase from 6.4% to 6.7% is \$189.8 million :
 - 6.4% (2014)
 - 6.7% (2015)
 - 7.2% (2016)
 - 7.7% (2017)
- The bill ties any state contribution rate decrease to an equivalent decrease in the active and school district contribution rates
- The appropriations act sets the 2014 state contribution at 6.4% and the 2015 state contribution rate at 6.8%

Other Funding Changes:

- \$15 million supplemental funding for Prekindergarten per year
- Instructional Materials Allotment received additional \$230 million
- Student Success Initiative received \$4.75 million more per year

What Didn't Make the Cut

- \$500 million (per WADA amount) for current school year
- New Round of IFA
- Restoration of New IFA
- Language to prohibit state funding for vouchers
- Study on weights, allotments, and adjustments
- Study cost of education index
- Report on public school debt

LITIGATION RETURNS

The Courts – Timetables

- Dietz Discussion on September 12, 2013
 - July update on legislation affecting the case
 - Re-hearing (January 21, 2014)
 - Depos, Prep, etc. (September – December)
 - Research (July - October)
- District Court Decision (March 2014?)
- Loser Options (SC vs Appeals Court)
- Supreme Court Appeal Decision (Late 2014?)
- Legislative Consideration (2015)

Resetting the Court Case

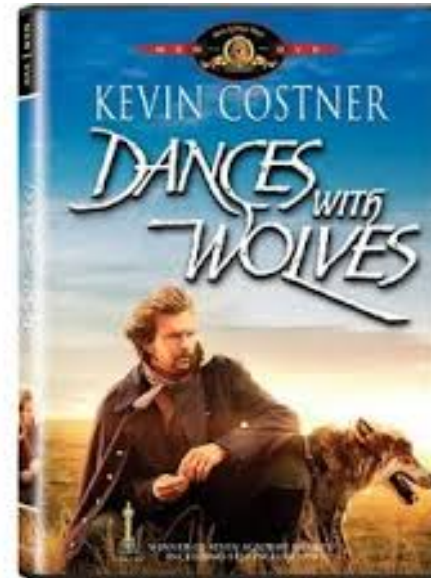
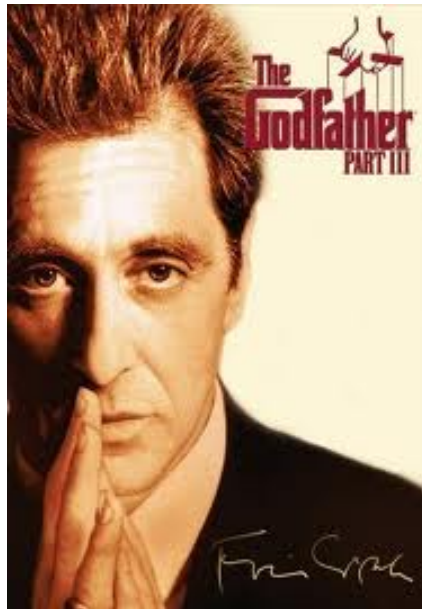
- Adequacy – Does reducing the number of tests change the standards?
- Equity – Does increased equalized funding reduce the problem?
- Meaningful discretion – Do districts have discretion?
- Suitability – Does any of this make sense as a funding system?

Court Issues Remaining from Last Session

- Restoration of funding did not re-examine basic formula structure
 - Many formulas have remained intact since the 1980's
 - Question of suitability and rationality remain
- Looming transition to pure formula system
 - ASATR goes away at the end of 2016-17

Neglect of the Formula System

- The last time the cost of education index was revised.....



Neglect of the Formula System

- The last time most of the weights were changed

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Neglect of the Formula System

- The last time the transportation allotment was updated, the most popular car in the USA was

.....



1982 Ford Escort

Neglect of the Formula System

- But many of us probably prefer to remember....



UPCOMING 2015 LEGISLATIVE SESSION

Who Won't Return Next Session

- Governor
- Attorney General (at least not as AG)
- Comptroller (possibly)
- Land Commissioner (at least not as LC)
- Agriculture Commissioner (at least not as AC)
- Chief Justice of Supreme Court (Jefferson replaced by Hecht)
- Chair of Senate Ed (at least not as a Senator)
- At least 9 House members retiring or running for other offices

Early State Budget Picture

- FY 2013 ended better than Comptroller expected
 - Budget surplus in the range of \$1.3 billion
 - Experts indicate expectation of continued healthy revenue growth somewhat exceeding Comptroller's last forecast
 - Concerns for possible slowdowns
- Rainy day fund balances continue to exceed expectations
- Summary – probably not as much of an increase as last session, but anticipated budget holes not as big either

What is left in the Rainy Day Fund?

- Estimated **\$11.8 billion** by end of 2015. If constitutional amendments pass (water and roads) **\$8.2 billion.**
- Gov. Perry on credit ratings: “I believe maintaining a balance of no less than 7.5 percent of GR appropriations, or just over \$6.9 billion ... achieves the goal of a strong RDF and protects its strength for future generations.”

Potential Rainy Day Fund Balance

Figure 9

The Outlook for Severance Taxes and the Rainy Day Fund,
Both Constitutional Amendments Pass (\$ billions)

Year	Severance Taxes	Highway Share	Rainy Day Share	Year End Balance	Fund Cap
2014	\$5.1	\$0.0	\$2.5	\$6.7	\$14.4
2015	\$5.3	\$1.5	\$1.5	\$8.2	\$14.4
2016	\$5.5	\$1.6	\$1.6	\$9.9	\$16.1
2017	\$5.7	\$1.6	\$1.6	\$11.6	\$16.1
2018	\$5.9	\$1.7	\$1.7	\$13.4	\$18.0
2019	\$6.1	\$1.8	\$1.8	\$15.3	\$18.0
2020	\$6.2	\$1.9	\$1.9	\$17.3	\$20.2

Source: Rainy Day Flood (TTARA)

Choice Issues to Return

- Recovery/Achievement Districts
- Opportunity Scholarships
- Taxpayer Savings Grants
- Special Education Transfers
- Unrestricted PEG Expansion

Other Issues

- TEA Sunset (again)
 - Sen. Jane Nelson, Chair
- Transparency
 - School District Debt, Dan Flynn letter
- The simplification of school finance
 - Comptroller's value study

Transparency: HB 14 & SB 14

- Facilities reporting
- “Taxpayer Value and School Facilities Usage Advisory Committee” co-chaired by the Commissioner and Comptroller
 - To recommend data elements for reporting system
- Ballot language or voter information sheet

HB 14 Notice Example

SAMPLE VOTER INFORMATION SHEET

SAMPLE CITY

2013 Bond Election • Voter Information Sheet

Election Day: May 11, 2013

Early Voting Period: April 29, 2013 through May 7, 2013

Amount and Proposed Use of Bond Proceeds

Sample City has called an election for "the issuance of \$143,299,000 transportation and mobility improvement bonds and notes and the levy of a tax sufficient to pay for the bonds and notes."

Estimated Tax Rate Impact of the Bond Election

Current Annual Debt Tax Rate	\$0.12 per \$100	Current Average Residential Debt Service Tax Levy ¹	\$231.72
New Rate if Bond Passes ^{1,2}	\$0.12 per \$100	New Average Residential Debt Service Tax Levy if Bond Passes ^{1,2}	\$231.72
Change	0%	Change	0%
Maximum Rate of Interest on New Bonds: 15% ²			

Property Tax-Supported Debt

	Outstanding Principal	Estimated Remaining Interest ³	Total Debt Service Payment ³
Current City Total Ad Valorem Debt (as of Feb. 15, 2013)	\$1,214,904,994	\$667,149,539	\$1,882,054,533
Per Capita	\$1,474	\$809	\$2,283
Proposed Additional Ad Valorem Debt	\$143,299,000	\$90,482,416	\$233,781,416
Per Capita	\$174	\$110	\$284

Sample City intends to issue authorized bonds over multiple years, with maturity dates not to exceed 40 years.

Total City Debt, All Sources

	Outstanding Principal	Estimated Remaining Interest ³	Total Debt Service Payment ³
Current City Total Debt (as of Feb. 15, 2013)	\$5,380,452,969 ⁴	\$2,954,606,933 ⁴	\$8,335,059,903 ⁴

Optional Information Provided by City

¹ Average debt service tax is calculated on the average 2013 residential property value in the city of \$193,000.

² State law prescribes a maximum interest rate of 15%. For purposes of estimating total debt service and tax levies, Sample City has assumed an interest rate of 5%. Sample City recently issued 20-year bonds with an interest rate of 2.4%.

³ For purposes of estimating remaining interest to be paid and total debt service payments, Sample City has used interest rates and maturity dates on currently outstanding bonds, where applicable. In cases for which there is not an available interest rate, such as for debt yet to be issued, Sample City has assumed an interest rate of 5% with a maturity of 20 years.

⁴ This amount includes all debt held by Sample City. Only 22%, or about \$1.2 billion, of this total is debt paid from taxes. The remaining 78% is paid from revenues generated by the projects financed with that debt.

Comptroller Reports and House Study

- Tell the Truth Texas:
 - <http://www.tellthetruthtexas.org/>
 - “Your Money and Local Debt”
- House Committee on Investments and Financial Services
 - Examining cost of public school bond issues
 - Survey sent to certain districts for all costs associated with: bond rating, counsel, advisor, paying agent, printing, attorney general approval, remarketing fees, escrow verification, cost of marketing and selling, and any other expenses



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