



Implementing House Bill 3

20th Annual School Finance & Legislative Workshop
January 26, 2020

Implementing House Bill (HB) 3 - Agenda

- HB 3 Overview
- Foundation School Program
 - Key changes to existing formulas
 - Key new allotments / programs
- Tax Rate Compression for TY2020

HB 3 Overview

House Bill 3: Highlights



Funding Increases On Average - \$635 per ADA



Supports Teachers and Rewards Teacher Excellence

- Teacher Incentive funding
- Increased Minimum Salary Schedule
- Teacher Mentor Allotment program
- Do Not Hire registry



Increases Funding and Equity

- Compensatory Education increased to 0.225 - 0.275 based on density of neighborhood poverty
- Current year values equalizing Tier One
- Equal treatment of ASF funding



Focuses on Learning and Improving Student Outcomes

- Full day Pre-K, K-3 reading support
- Dual Language
- Increased SPED mainstream funding
- Dyslexia funding
- CCMR Outcomes Bonus
- CTE, P-TECH, New Tech
- Extended elementary school year
- Blended Learning



Reduces and Reforms Property Taxes and Recapture

- Tax rates drop an average of 8 cents in year one
- Tax rates continue to decline as property values grow more than 2.5%
- Additional board local discretion
- Recapture cut from \$3.5B to \$2.0B in year one

Key Formula Changes Under HB 3

The change to current year values

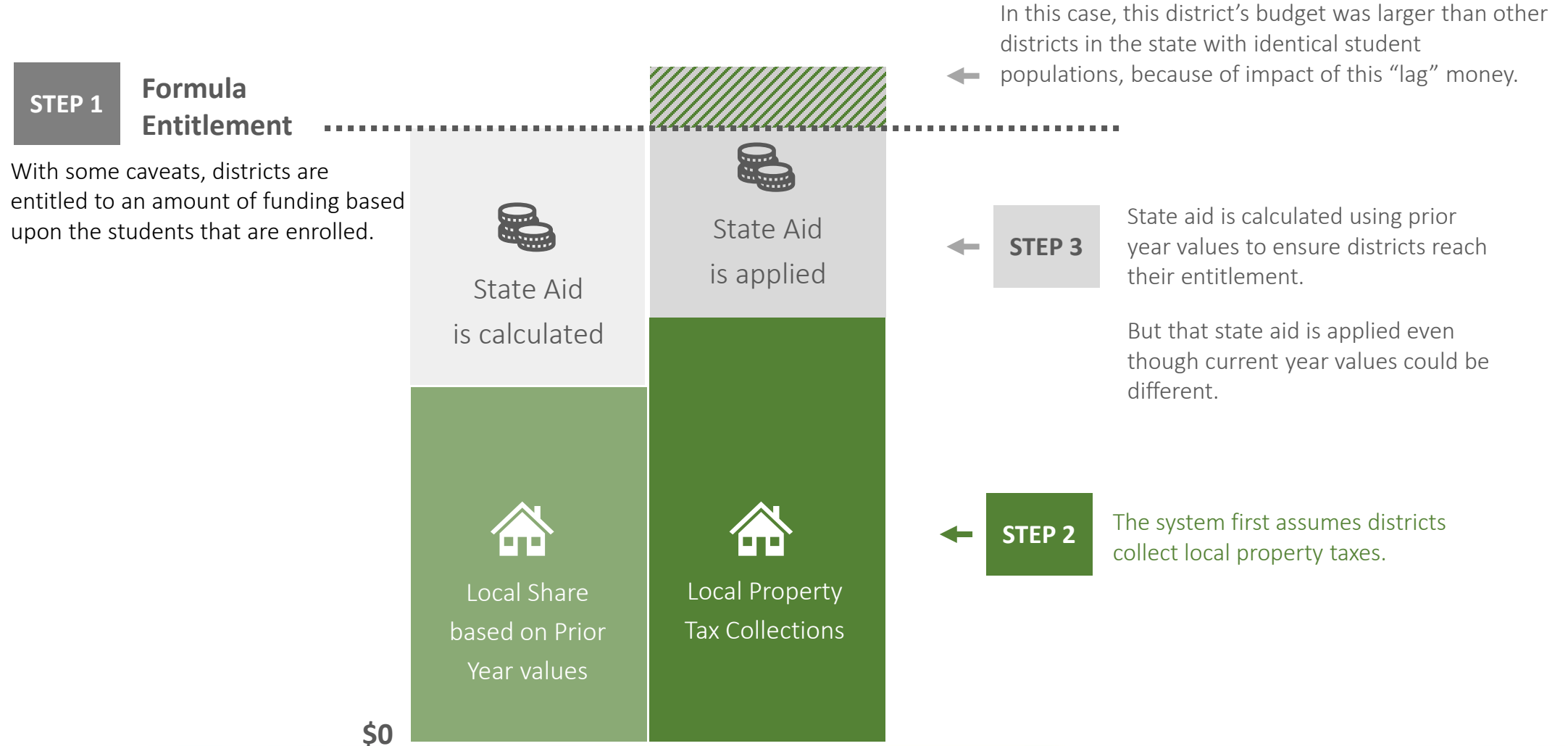
The use of current year values in conjunction with a fast growth allotment was one of the Texas Commission on Public School Finance's major recommendations:

- **"Making this property value change... will eliminate what is known as the formula lag,** which can cause a misalignment of state and local revenues if/when local district property value growth slows/falls in the future."

Changing to current year values:

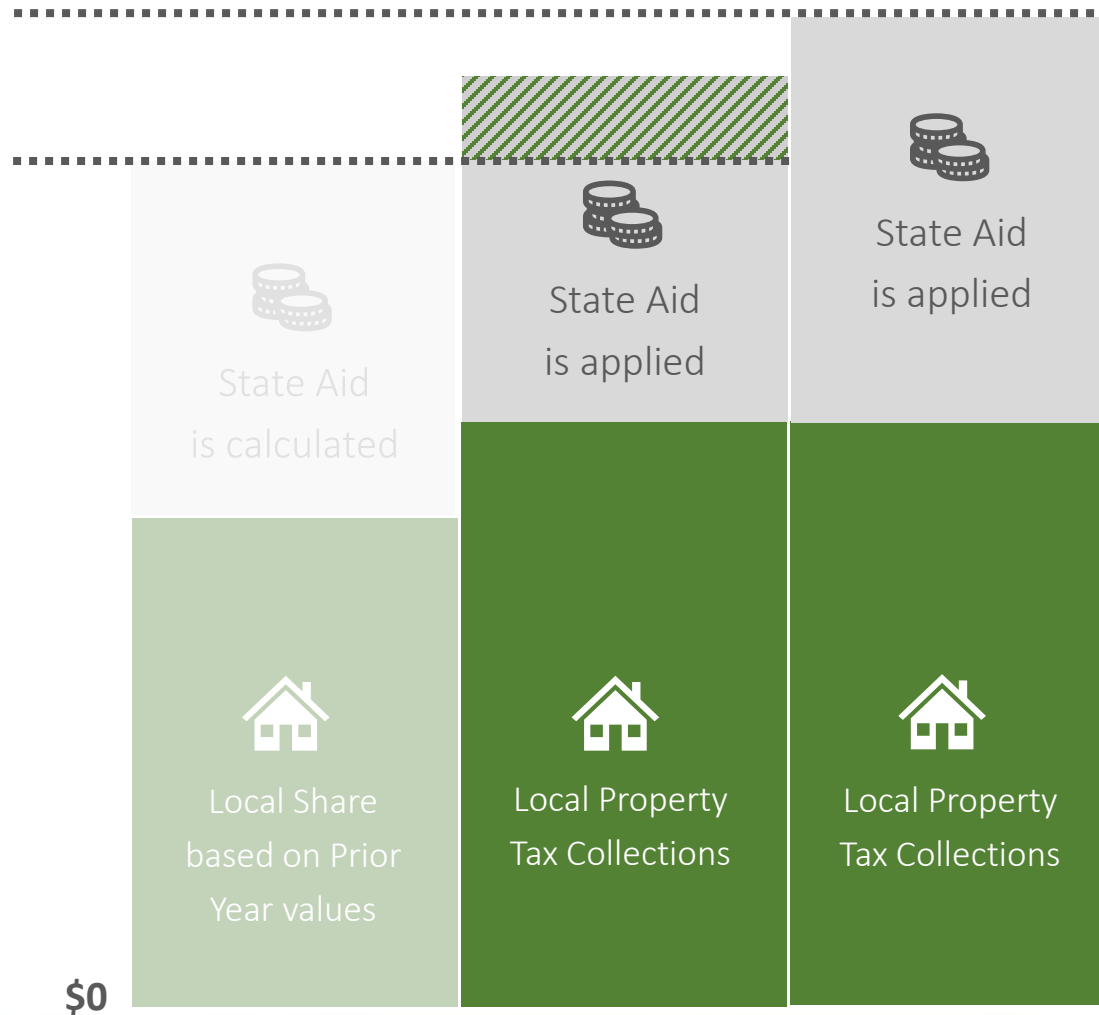
1. Ensures funding is based on student need, not property wealth
2. Allowed a higher basic allotment, which increased funding for the vast majority of districts

How did the system work with prior year values?



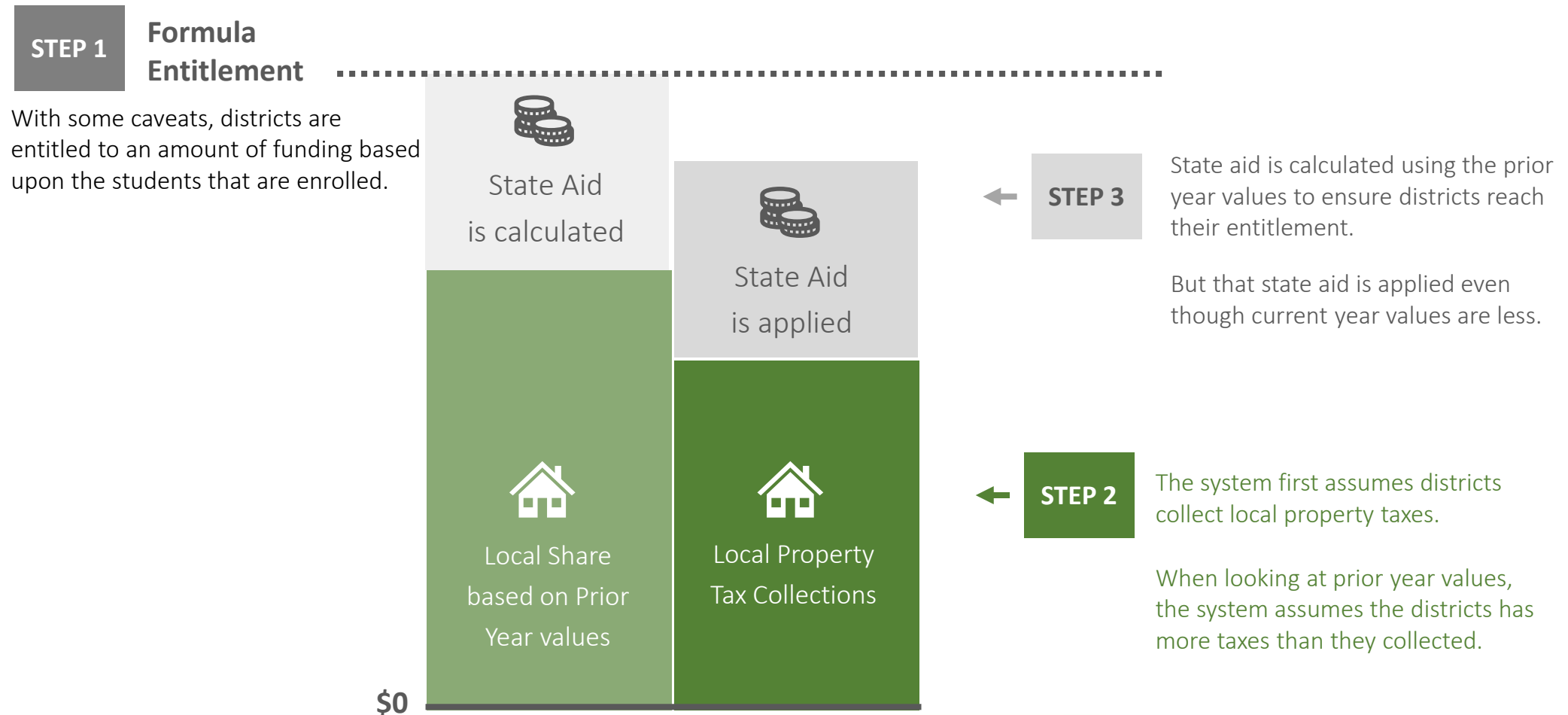
Most Districts Benefit from Current Year with BA Increase

Formula Entitlement with Increased Basic Allotment



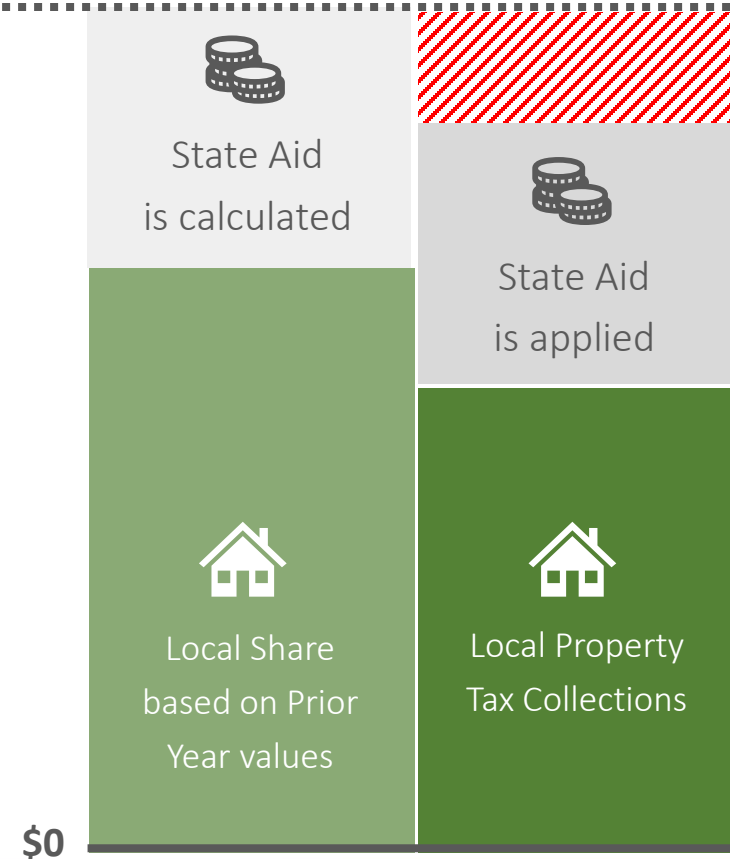
← The increase in the basic allotment allowed by a switch to current year values means that this district, which had the benefit of lag money previously, still receives more overall funding with current year values.

With prior year values, what happened when values decline?



With prior year values, what happened when values decline?

Formula
Entitlement



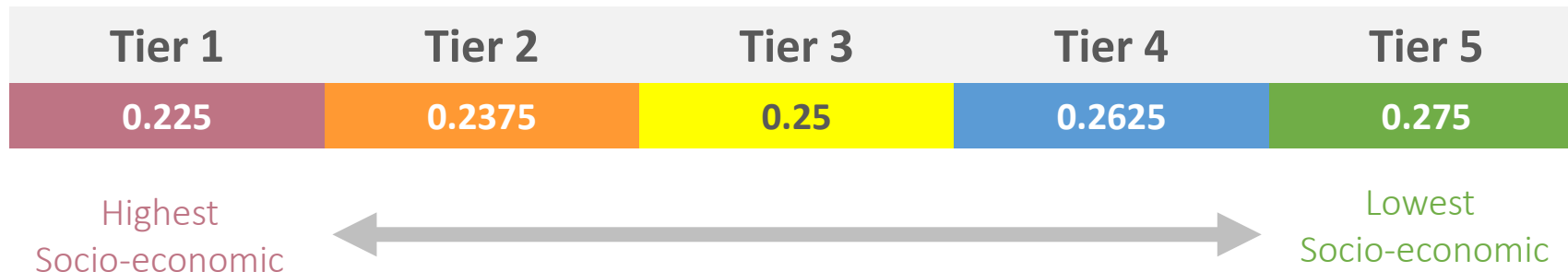
The use of prior year values means that this district has less money than the assumed entitlement for other districts with identical student populations.

How did the Compensatory Education allotment change?

HB 3 changes the previous funding methodology:

Was: a single multiplier (0.20 x the basic allotment) for each student eligible for the national free and reduced lunch program

Now will be: a tiered multiplier for those free/reduced lunch students based on the tier of the student's home address census block group.



Census Block Group Tiers: How will census block groups be categorized/determined?

Below are the five categories used in determining census block groups:

1. Median household income by block group
2. The highest average educational level of the population (i.e., block group)
3. Percentage of single-parent households
4. Home ownership rate (i.e., calculated as owner occupied housing/units total housing units)
5. Other* economic criteria determined by the commissioner and advisory committee (*not part of the initial census block determination*)

*other criteria will be determined and adopted in the future, pending rulemaking comments and recommendations from the Compensatory Education Advisory Committee



Census Tiers

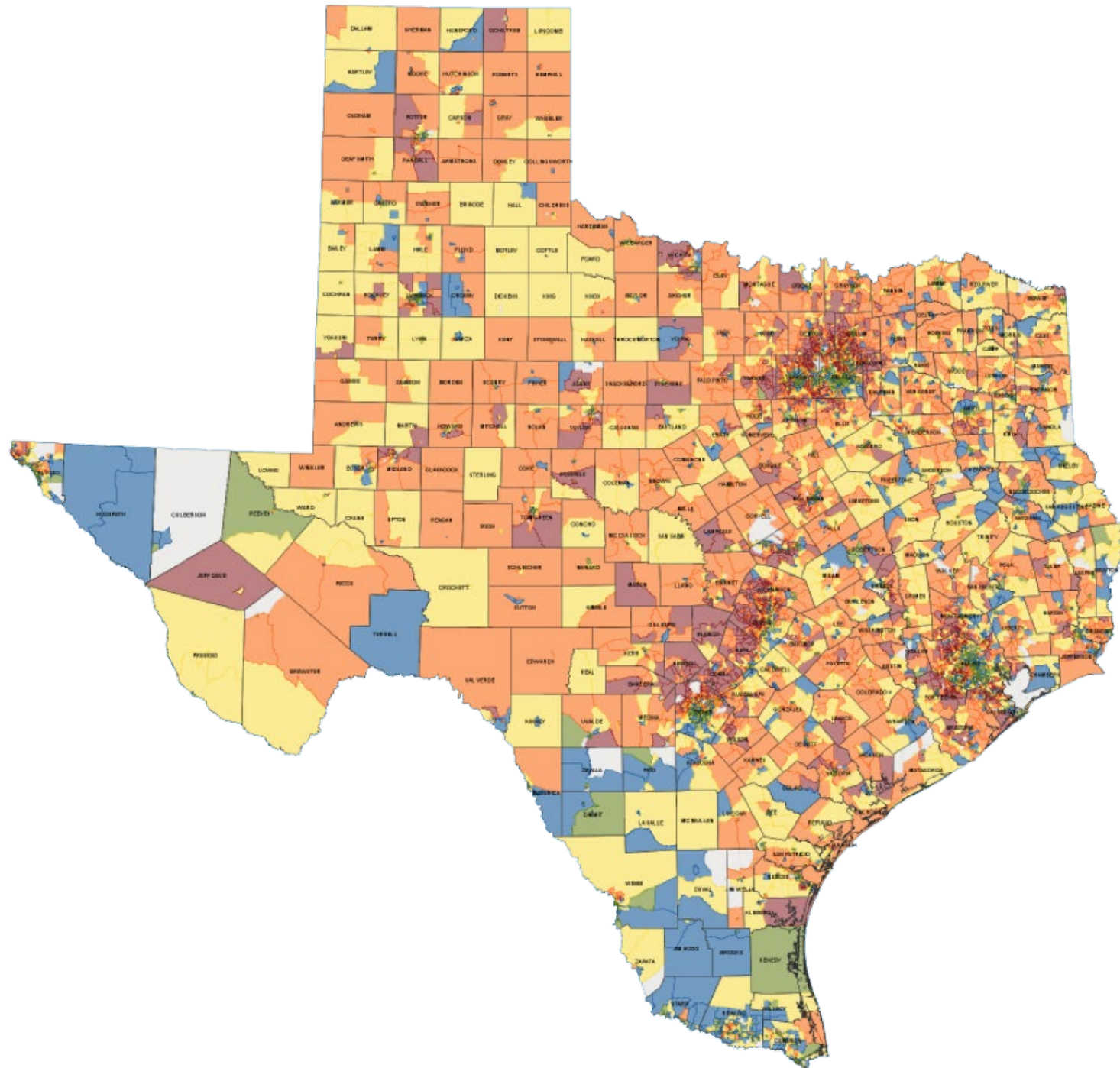
Key Point: Students are funded if they are identified as eligible for a free or reduced lunch. But the level of funding for each student is based on the tier of the student's home address census block group.

Highest
Socio-economic



Lowest
Socio-economic

Tier 1	0.225
Tier 2	0.2375
Tier 3	0.25
Tier 4	0.2625
Tier 5	0.275



Changes to G/T Allotment

BEFORE



- The G/T program was funded with a separate allotment
- Reported G/T expenditures using PIC Code 21
- State spending requirement

AFTER



- The G/T program is funded within the district's basic allotment (\$6,160)
- Continue to report G/T expenditures using PIC Code 21
- Certify that the district has a compliant G/T program



Key Takeaway

The reallocation did not discontinue G/T programming in Texas.
There is a statutory requirement to provide it regardless of how it is funded.

TEC Sec §29.124:

“If the Commissioner has determined that the district has failed to implement a program, the commissioner must reduce the total amount of funding to which the district is entitled under Chapter 48 by an amount equal to the basic allotment multiplied by the product of 0.12 and an amount equal to five percent of the students in ADA in the district within 30 days.”



In Statute

Texas Education Code §29.124 (New)

Changes to Bilingual Education Allotment

BEFORE



-
- Funding for any LEP student in any language program
($0.1 \times \text{Basic Allotment for LEP} = \514)

AFTER

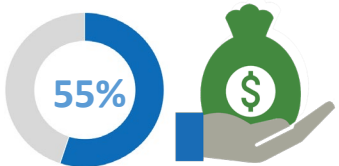


-
- Funding for any LEP students in any language program
($0.1 \times \text{BA for LEP} = \616)
 - For LEP students served in a dual language immersion program, additional funding ($0.15 \times \text{BA for LEP in dual language} = \924)
 - For non-LEP students served in a two-way dual language immersion program, additional funding
($0.05 \times \text{BA for non-LEP} = \308)

Bilingual Education Allotment Key Points



Additional funding (0.05 or \$308) for LEP/English learners and non-LEP/English learners in a bilingual education program using dual language immersion.



55% of BEA funds must be used in providing bilingual education or special language (ESL) programs and spending definitions have been **expanded**.



TEA will expand the **tools and resources** available for dual language immersion.

HB 3 reduces recapture in three primary ways

1. The calculation of recapture is now based on local revenue in excess of entitlement instead of equalized wealth levels

- **CEI:** Disparities between recapture and non-recapture districts caused by the CEI have been eliminated
- **Transportation:** Costs for transportation are now funded equally between recapture and non-recapture districts
- **Entitlement prevails over recapture:** Districts are now guaranteed that recapture will not reduce revenue below their entitlement level (TEC, Section 48.257, HB 3 Enrolled Page 92)

2. Total entitlement increased

- New allotments were created (Early Education Allotment, CCMR Bonus, Teacher Incentive Allotment, etc.)
- Existing allotments were expanded (SCE, Special Education, bilingual/dual language)

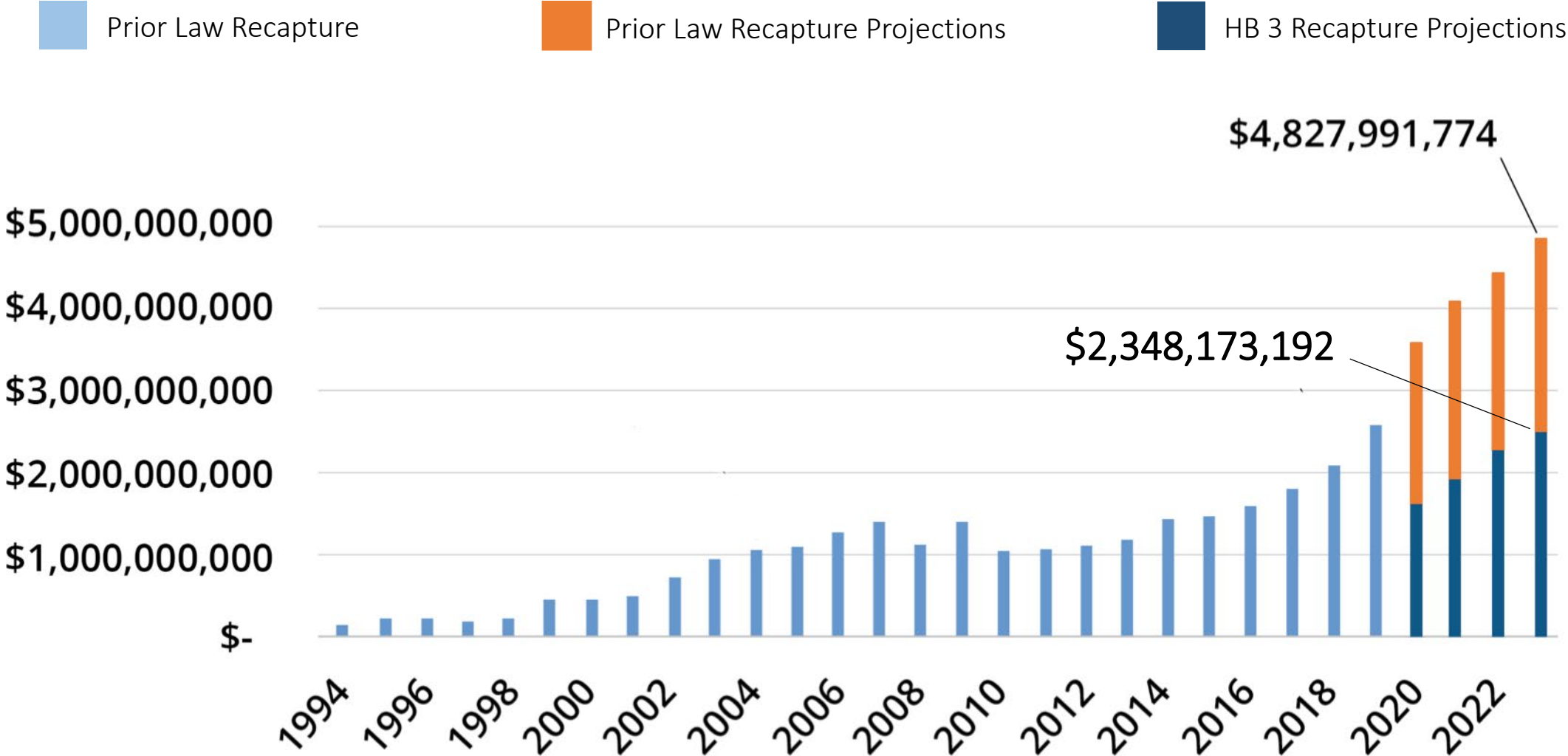
3. Lowered property tax rates

- HB 3 lowered tax rates, resulting in fewer collections
- HB 3 contains a mechanism to lower future property tax rates

Recapture is projected to be reduced over prior law by \$3.6 billion in the next biennium.



HB 3 formula changes reduced the reliance on recapture as a method of financing for the FSP

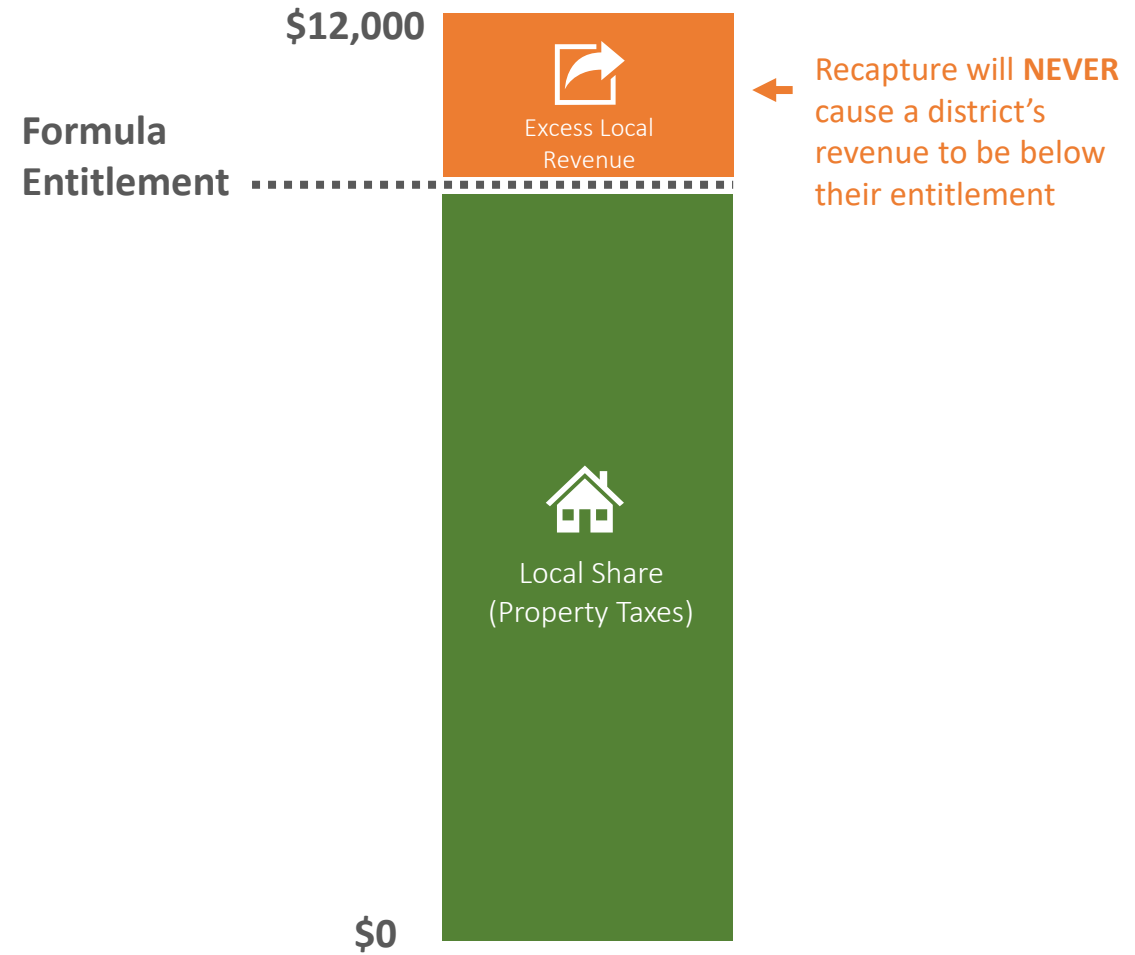


Under HB 3 Entitlement Prevails Over Recapture

Recapture Under Prior Law



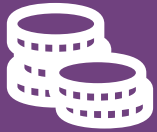
Recapture Under House Bill 3



Key New Allotments Under HB 3



Early Education Allotment



Early Education Allotment

Establishes an Early Education Allotment **(additional 0.10 weight)** for each student in ADA:

- In grades K-3, *and*
- Who is educationally disadvantaged or Limited English Proficient (LEP)
 - A student who is both educationally disadvantaged and limited English proficiency generates a funding weight of 0.20
- Funds must be used to support implementing early literacy and mathematics proficiency plans that lead to improved third grade proficiency

Early Education Allotment Examples

The Early Education Allotment is:

- \$616 per K-3 student that is economically disadvantaged
- \$616 per K-3 English learner
- If a student is **both** economically disadvantaged and an English learner, the allotment would be \$1,232 for that student

Example:

- If a district has **1000** students per grade in **Kindergarten-Grade 3** that are economically disadvantaged (but not LEP):

$$1000(\text{students}) \times 4(\text{grade levels}) \times \$616.00 = \$2,464,000$$

College, Career, or Military Readiness Outcomes Bonus

CCMR bonuses are paid for each annual graduate above a certain threshold percentage

- **Economically Disadvantaged:** **\$5,000** for each CCM-Ready economically disadvantaged annual graduate above a threshold
- **Non-Economically Disadvantaged:** **\$3,000** for each CCM-Ready non-economically disadvantaged annual graduate above a threshold

In addition to the economically disadvantaged / non-economically-disadvantaged CCMR bonuses, CCMR bonuses are paid for each annual graduate:

- **Special Education:** **\$2,000** for each CCM-Ready annual graduate enrolled in special education

Rules will be adopted to formalize the fixed threshold percentages.

Defining College, Career, or Military Readiness

The CCMR bonus uses a more rigorous standard for CCMR than the academic accountability system:

➤ **College:**

- ✓ Texas Success Initiative (TSI) score on SAT/ACT/TSI Assessment (TSIA) and
- ✓ Earned an associate degree prior to graduation *or* enrolled in college by the fall immediately after high school graduation

➤ **Career:**

- ✓ TSI score on SAT/ACT/TSIA and
- ✓ Received an industry-based certification / Level I / Level II certificate

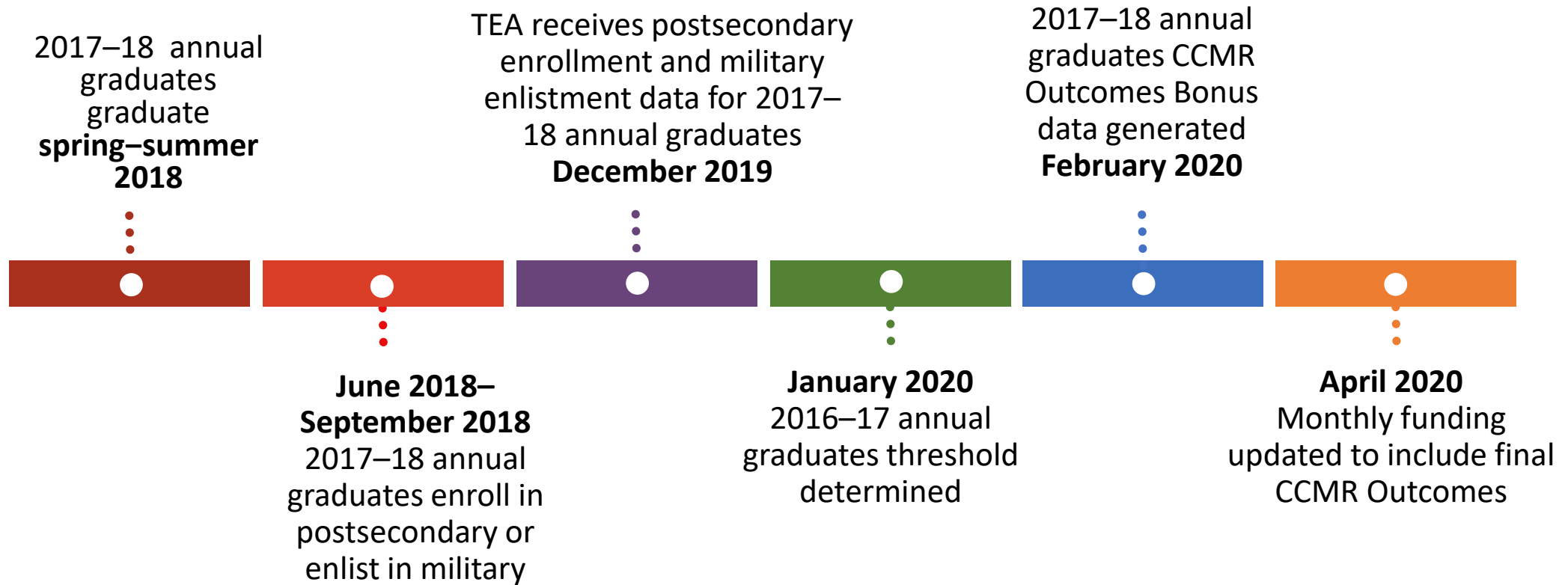
➤ **Military:**

- ✓ Armed Services Vocational Aptitude Battery (ASVAB) passing score and
- ✓ Enlisted in U.S. Armed Forces after graduation

CCMR Bonus for Graduates Above the Threshold

- The CCMR bonus is paid for each annual graduate, in each of the three categories, above the minimum threshold.
- The **thresholds will be defined by rule in the spring** when final data are available. Preliminarily, assume the thresholds are the following:
 - 20% for non-economically disadvantaged
 - 9% for economically disadvantaged
 - 0% for special education

CCMR Funding Starts in 2019–20 from 2017–18 Graduates



Key Point: Districts will receive an outcomes bonus in the 2019-2020 school year and this bonus will be generated from 2017-2018 graduates.

Teacher Incentive Allotment (TIA) Funding

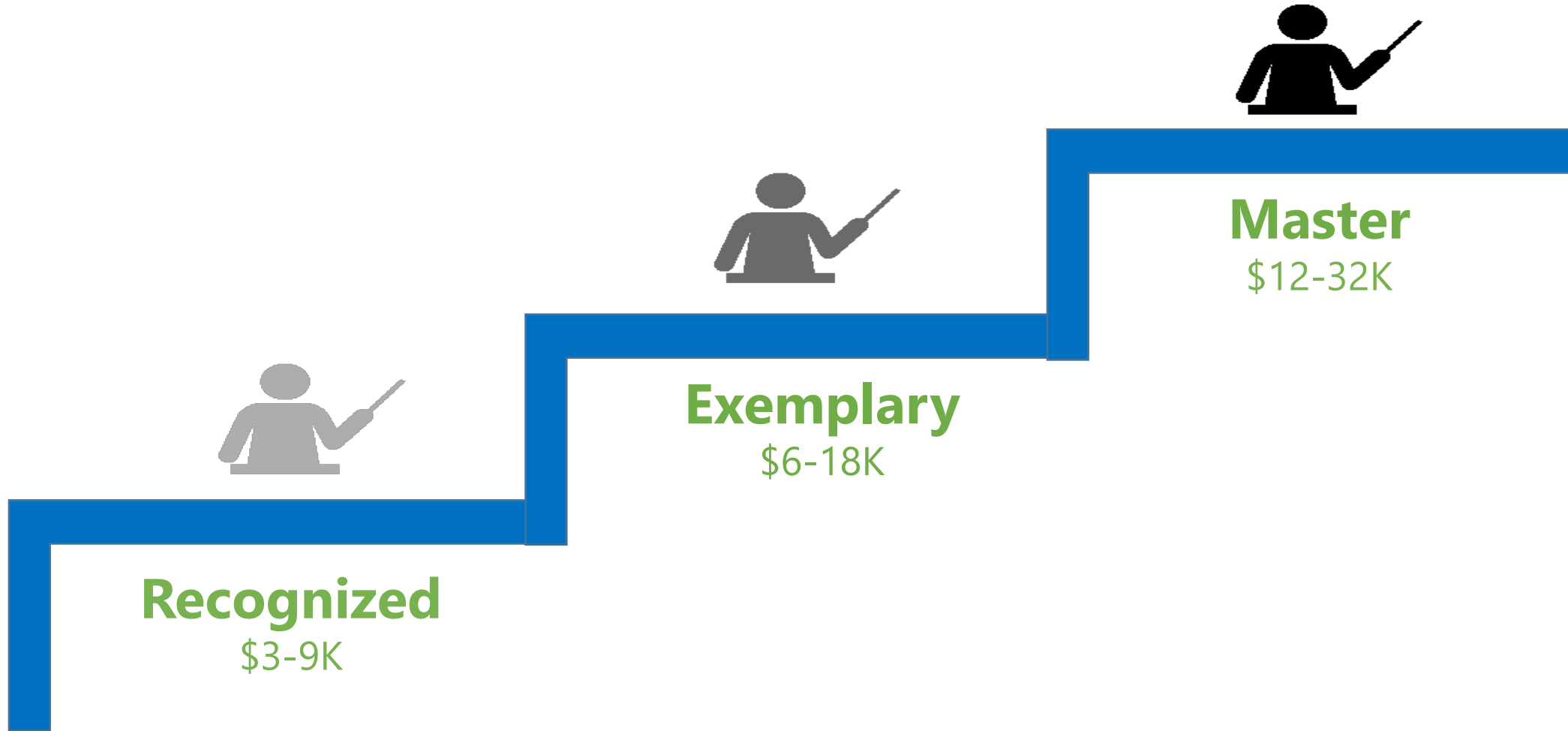
➔ More Need

Designation	Base	Multiplier	Tier	Non Eco-Dis	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5
			Student Point Value	X 0	X 0.5	X 1.0	X 2.0	X 3.0	X 4.0
Recognized	\$3,000	\$1,500	Non-rural	\$ 3,000	\$ 3,750	\$ 4,500	\$ 6,000	\$ 7,500	\$ 9,000
			Rural	\$ 4,500	\$ 6,000	\$ 7,500	\$ 9,000	\$ 9,000	\$ 9,000
Exemplary	\$6,000	\$3,000	Non-rural	\$ 6,000	\$ 7,500	\$ 9,000	\$ 12,000	\$ 15,000	\$ 18,000
			Rural	\$ 9,000	\$ 12,000	\$ 15,000	\$ 18,000	\$ 18,000	\$ 18,000
Master	\$12,000	\$5,000	Non-rural	\$ 12,000	\$ 14,500	\$ 17,000	\$ 22,000	\$ 27,000	\$ 32,000
			Rural	\$ 17,000	\$ 22,000	\$ 27,000	\$ 32,000	\$ 32,000	\$ 32,000

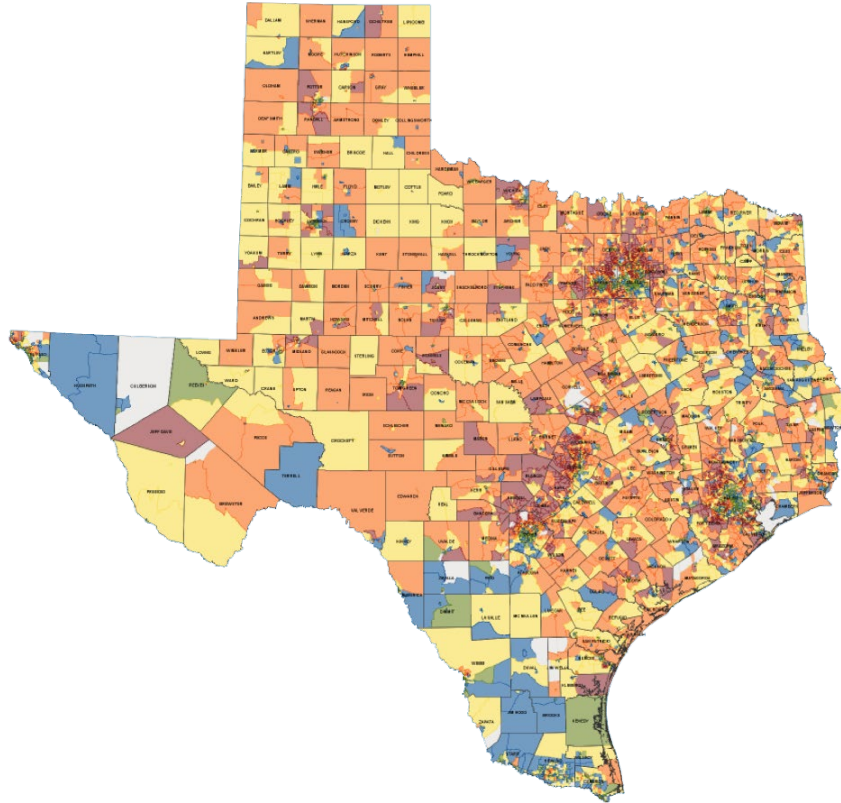
Max funding
amount =
\$32,000

➔ More Funding

TIA Funding Factor #1: Teacher Designation



TIA Funding Factor #2: Socio-Economic Level



Each student is assigned a point value based on the Census block group in which that student resides.

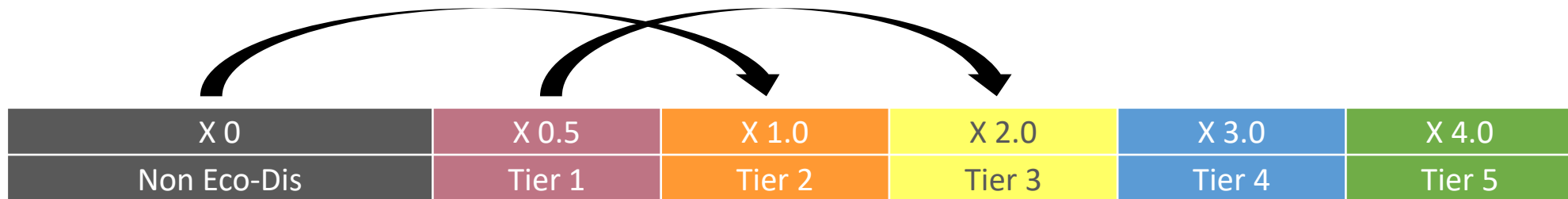
- Each student not qualifying for Compensatory Education is assigned a **0**.
- Each student qualifying for Compensatory Education is assigned a point value of **0.5, 1, 2, 3, or 4** and is placed in a corresponding tier (same tiers used for Comp Ed).

Student does not qualify for Comp Ed	Student qualifies for Comp Ed				
X 0	X 0.5	X 1.0	X 2.0	X 3.0	X 4.0
Non Eco-Dis	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5

➔ **High Need**

Rural or Not Rural

Each student enrolled at a campus classified as rural is assigned a point value **two tiers higher** than their assigned Comp Ed tier.



Key Points: Teacher Incentive Allotment (TIA)



Districts, if they choose to, can develop a **local designation system** and designate high-performing teachers (Master, Exemplary, or Recognized).



Districts will receive **additional funding (\$3-32K per year)** for every designated teacher they employ.



Districts will receive greater funding for designated teachers who work on **rural and/or high-needs campuses**.

90%

At least 90% of TIA funds must be used on teacher compensation on the campus where the designated teacher works.



TEA in partnership with Texas Tech University will approve the local designation systems.



Mentor Program Allotment (MPA) Funding Formula

- **\$3M in annual state funding** has been allocated to the Mentor Program Allotment.
- As a result, if more districts apply than what the Allotment would fund, TEA will **utilize a priority point system** to determine which districts would qualify for funding.
- A district's allotment will be calculated based on the number of beginning teachers. **For each beginning teacher the district employs, it will receive \$1,800** to be used towards mentor stipends, mentor training, or scheduled release time.



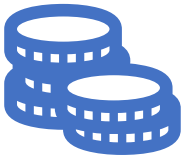
Mentor Program Allotment (MPA) Funding Formula

- To ensure that funds allow for as many districts as possible to build strong mentorship programs, the **allotment will be capped at \$100K per district.**
- Districts may consider other **sources of funding**, such as Title IIA or School Improvement Grants, to further support their mentor program goals and implementation.
- Funding will be **calculated annually** and interested districts will have to apply for MPA funds each year.

Mentor Program Allotment Key Points



The Mentor Program Allotment (MPA) is a new optional program for districts. If districts choose to follow the best practices in TEC §21.458, they could qualify for MPA funds.



The Mentor Program Allotment funding formula will provide districts \$1,800 per mentee, which can be used on mentor stipends, scheduled release time, and mentor training. Funding is intended to reduce district costs for building and sustaining best practices in mentorship.



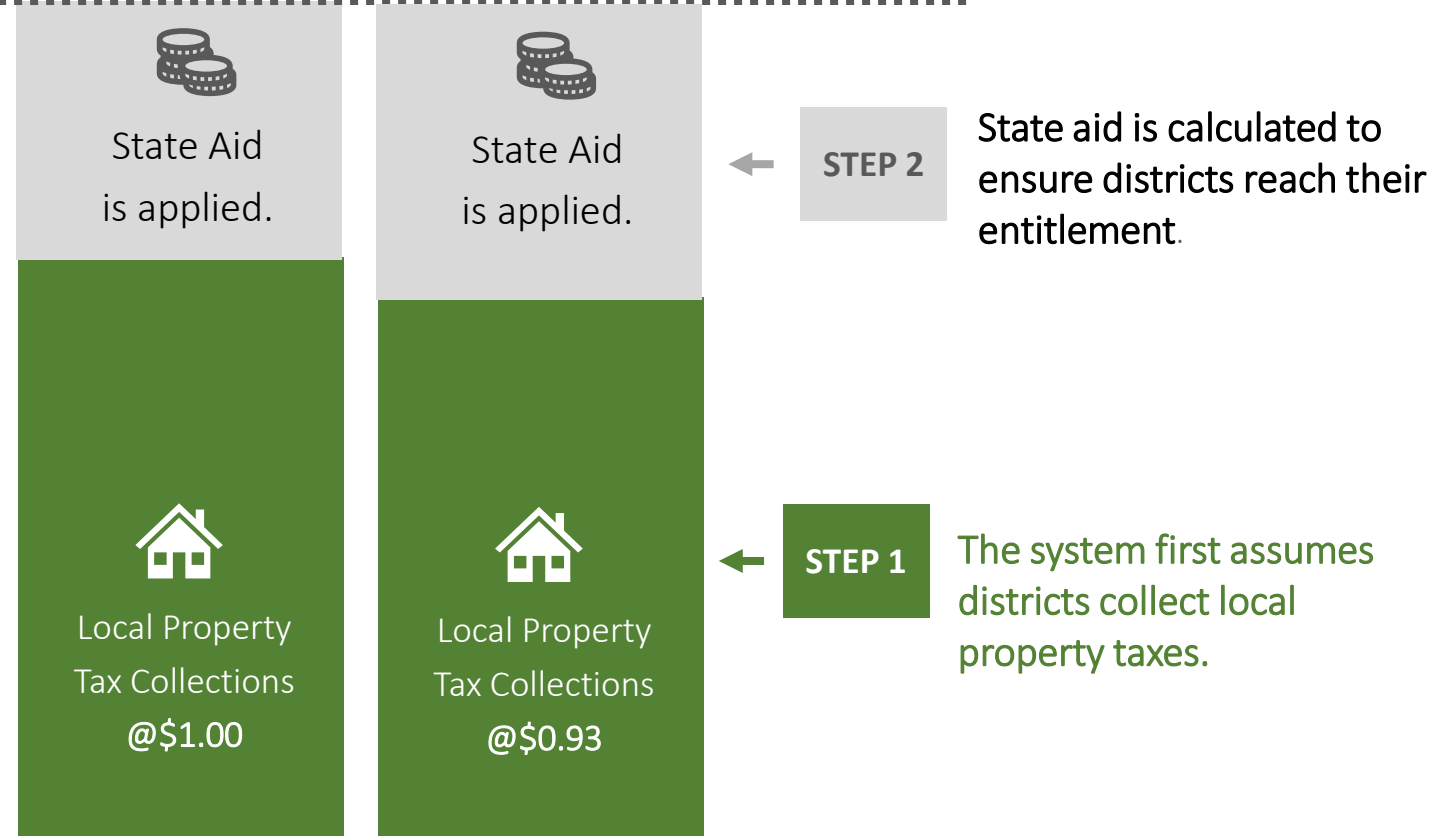
Funding will begin in the 2020-2021 school year. Interested districts will need to apply for MPA funding in spring 2020 and there will be an annual application window.

Tax Rate Compression TY 2020 (2020-2021 SY)

Local Property Tax Compression Does Not Impact School District Funding

Formula Entitlement

With some caveats, districts are entitled to an amount of funding based upon the students that are enrolled.



Local Property Tax Compression Does Not Impact School District Funding (Recapture Districts)

STEP 1

Formula Entitlement

With some caveats, districts are entitled to an amount of funding based upon the students that are enrolled.



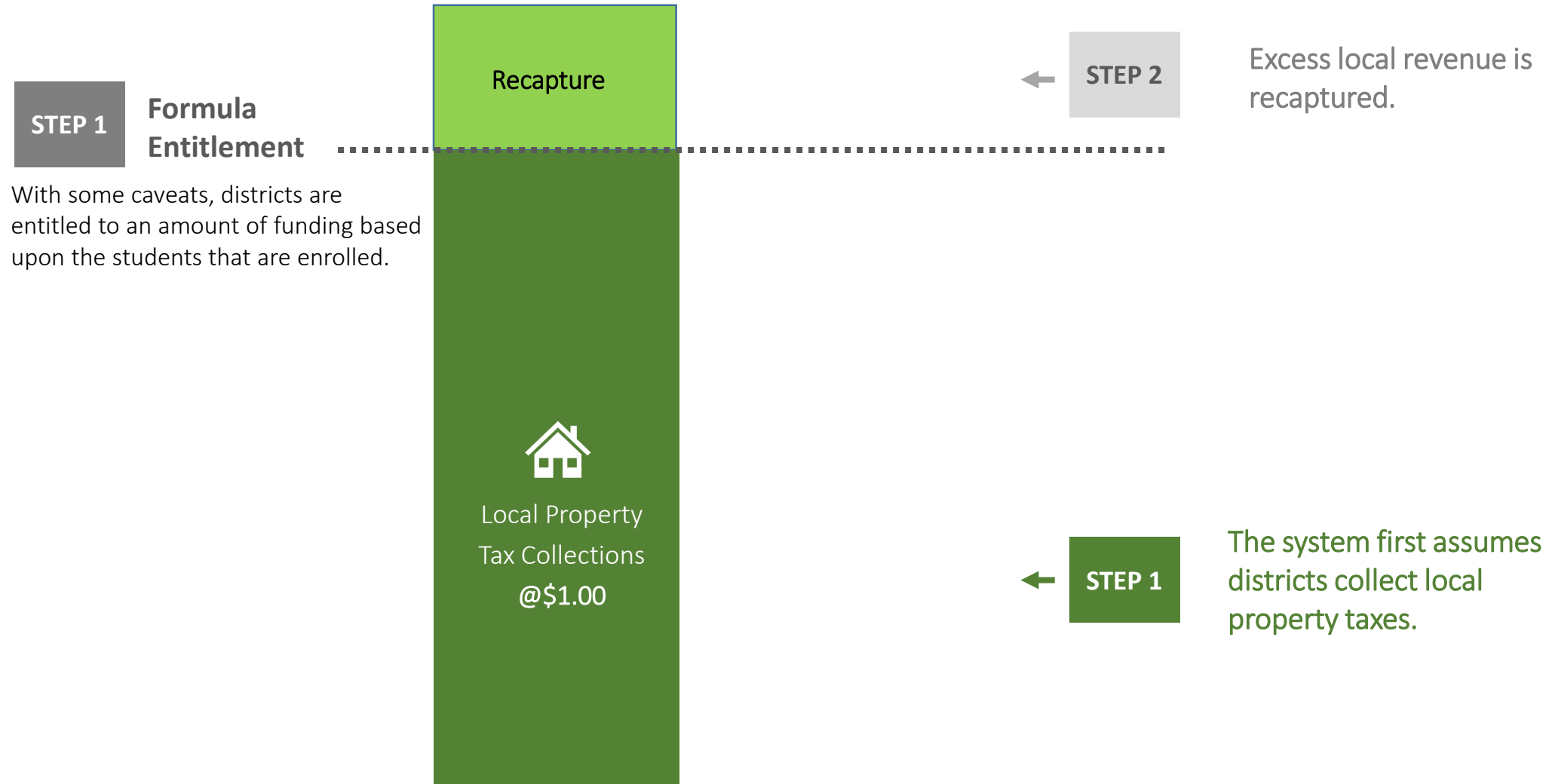
Local Property
Tax Collections
@\$1.00



STEP 1

The system first assumes districts collect local property taxes.

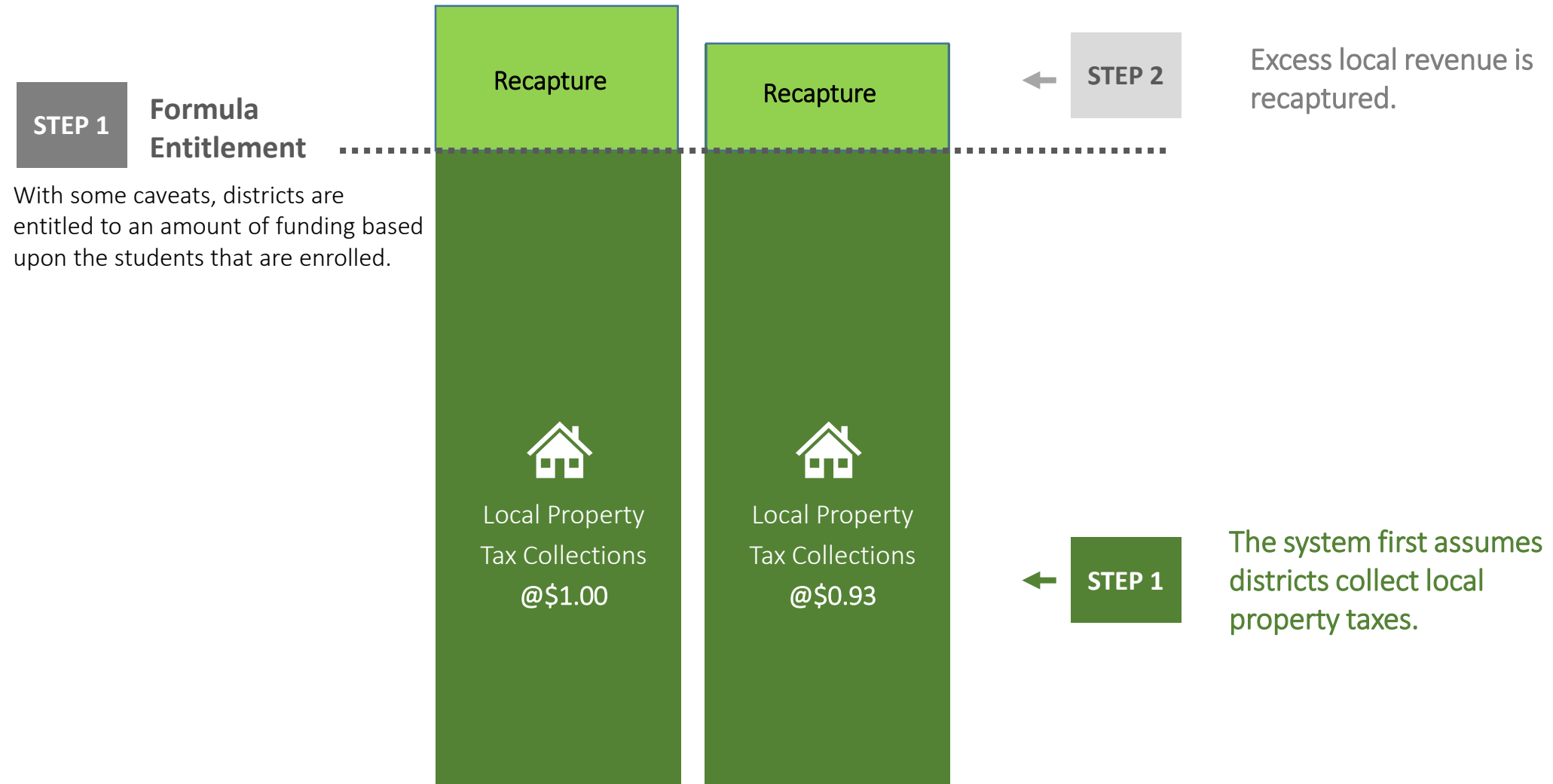
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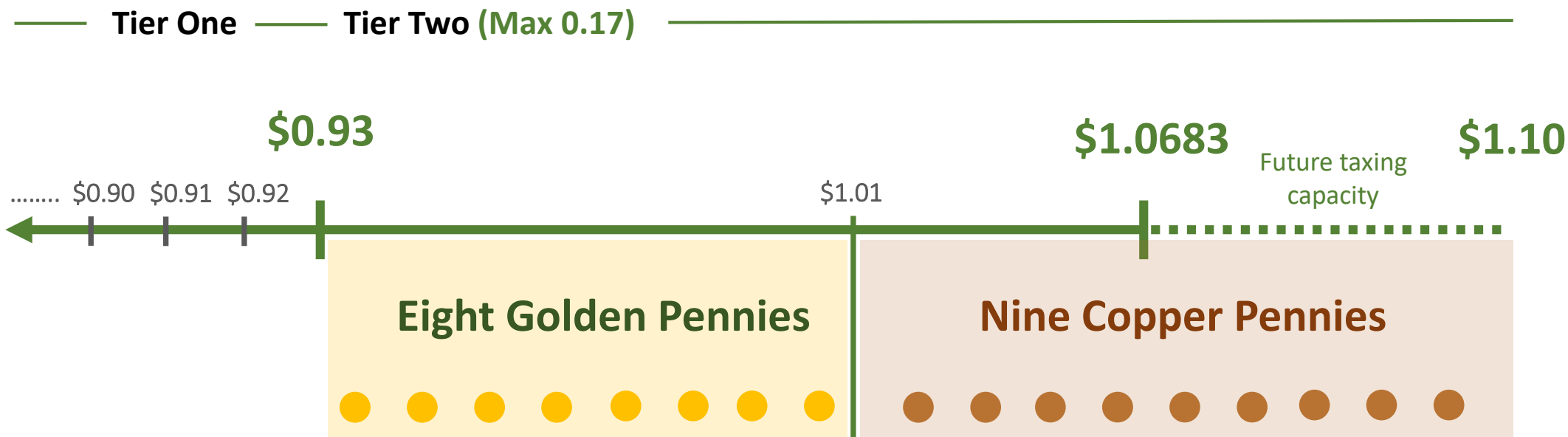


Max M&O Tax Rates Drop From \$1.17 To \$1.0683



HB 3 Year 1 (TY2019)

1. Tier One max rate reduced by 7%
2. First two Copper Pennies become Golden Pennies
3. Remaining Copper Pennies are cut by 35%
4. Rates in most cases cannot be raised for year 1



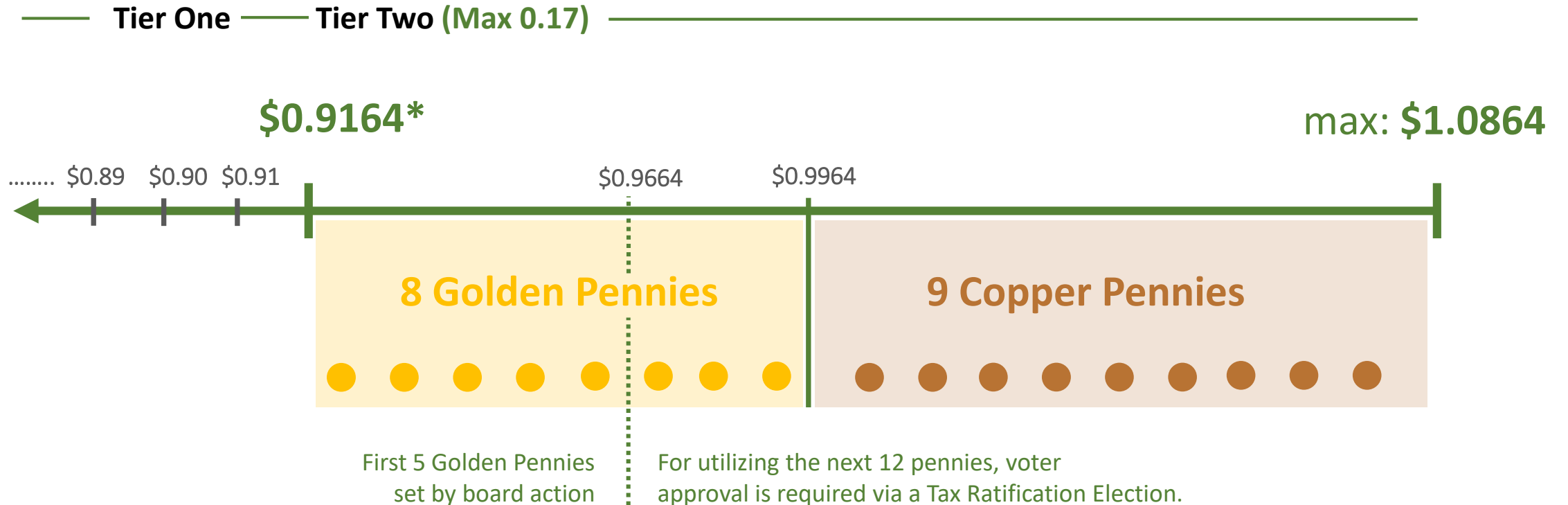


Tier One M&O Rates Continue to Decline



HB 3 Year 2 (TY2020)

1. 2.5% Compression begins on Tier One
2. TRE threshold increased by one penny



* Statewide compression number for TY 2020 (could be lower for individual districts)



Tier One Tax Rate: (2021 School Year)

For tax year 2020 (SY 2021) state *and* local compression of tax rates will apply to the Tier One tax rate

- State and local compression work in parallel
- The greater amount of compression from the two calculations (lowest tax rate) will apply.



Tier One Tax Rate: State Compression (2021 School Year)

State compression will be based on the comptroller's estimates of statewide property value growth that are published in the general appropriations act each legislative session.

- For the 2020 tax year the estimate of statewide property value growth is **4.01 percent**.
- The percentage for the 2021 and 2022 tax years will be available in **January of 2021**, prior to the next legislative session.

Tier One Tax Rate: State Compression (2021 School Year)

How does state compression work?

- The maximum compressed tax rate (MCR) for a school district is the prior year MCR (\$0.93) * (1.025 / state property value growth percentage).

$$\text{MCR} = 0.93 * (1.025 / 1.0401) = \$0.916494$$

- TEA will truncate (round down) at 4 decimal places - \$0.9164.



Key Takeaway

\$0.9164 will be the *actual* highest Tier One tax rate (MCR) for the 2021 school year.

Local Compression (2021 School Year)

How does local compression work?

- Districts which grow faster than the statewide average growth rate will benefit from having their tax rates compressed further so that the district's local tax collections only increase by 2.5% year over year.

MCR = prior year compressed tax rate * (1.025 / local property value growth percentage)

- For a district with local value growth of 10% for TY 2020

MCR = \$0.93 * (1.025 / 1.1) = \$0.8665

State and Local Compression

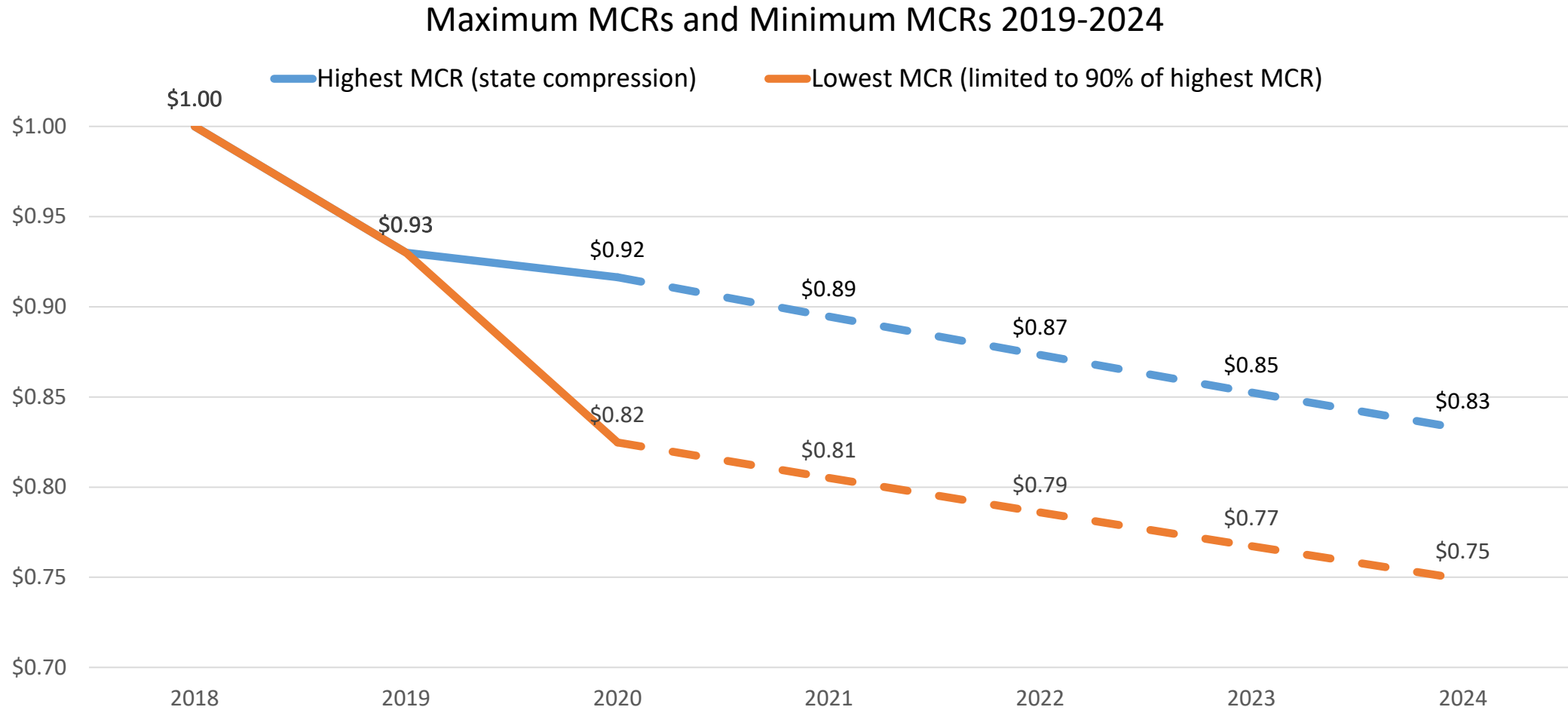
- A district's Tier One tax rate will be the **lesser of state or local compression**.
- Local compression lowers a district's M&O tax rate to keep the overall M&O taxes raised by the district **limited to a 2.5% increase a year**.
- Only districts with property value growth **faster** than the statewide average (4.01%) will have additional local compression.
- Local compression only applies to what used to be the first \$1.00 of a school districts M&O tax rate (now \$0.93 cents).

Limit on Compression

In order to maintain tax rate equity, no district can have an MCR less than 90% of any other district.

- The lower limit on MCR for TY2020 will be $\$0.9164 * 0.9 = \0.8247 .
- Districts which grow more than 15.6% for the TY2020 will have their compression limited – **no district will have a maximum Tier One tax rate lower than \$0.8247 for FY2021.**

Tax Compression – Tax Years 2019 through 2024*



*2021-2024 values assume a statewide property value growth rate of 5%

Voter approval elections for TY 2020

In TY 2020, voter approval elections are allowed again.

But first, let's review what districts can do without an election.

- Districts can increase their M&O tax rate to the sum of their Maximum Compressed tax rate plus \$0.04 golden pennies without a voter election.
- **For TY 2020, districts can access a 5th golden penny**, without a voter election - but only with unanimous Board approval.
- This 5th golden penny will be available in every future year. It is **only in tax year 2020 that the unanimous Board approval is required.**

Voter approval elections for TY 2020

In TY 2020 and beyond, districts can have a voter approval election to increase their M&O tax rates up to the sum of:

- The district's maximum compressed tax rate and
- \$0.17 of enrichment

The maximum M&O tax rate for any district* in TY 2020 will be \$1.0864 (0.9164 + 0.17)

*Five districts are authorized by special law to tax above \$1.17 in TY 2018 and will be able to exceed this amount.

House Bill 3: Resources

Stay tuned for the most up-to-date information from TEA on the implementation of House Bill 3



tea.texas.gov/HB3

Visit tea.texas.gov/HB3 for the most up-to-date information



HB3info@tea.texas.gov

Email HB3info@tea.texas.gov with any questions