

# Equity Center

## The Road to House Bill 3 and Beyond

### Region 10

October 30, 2019

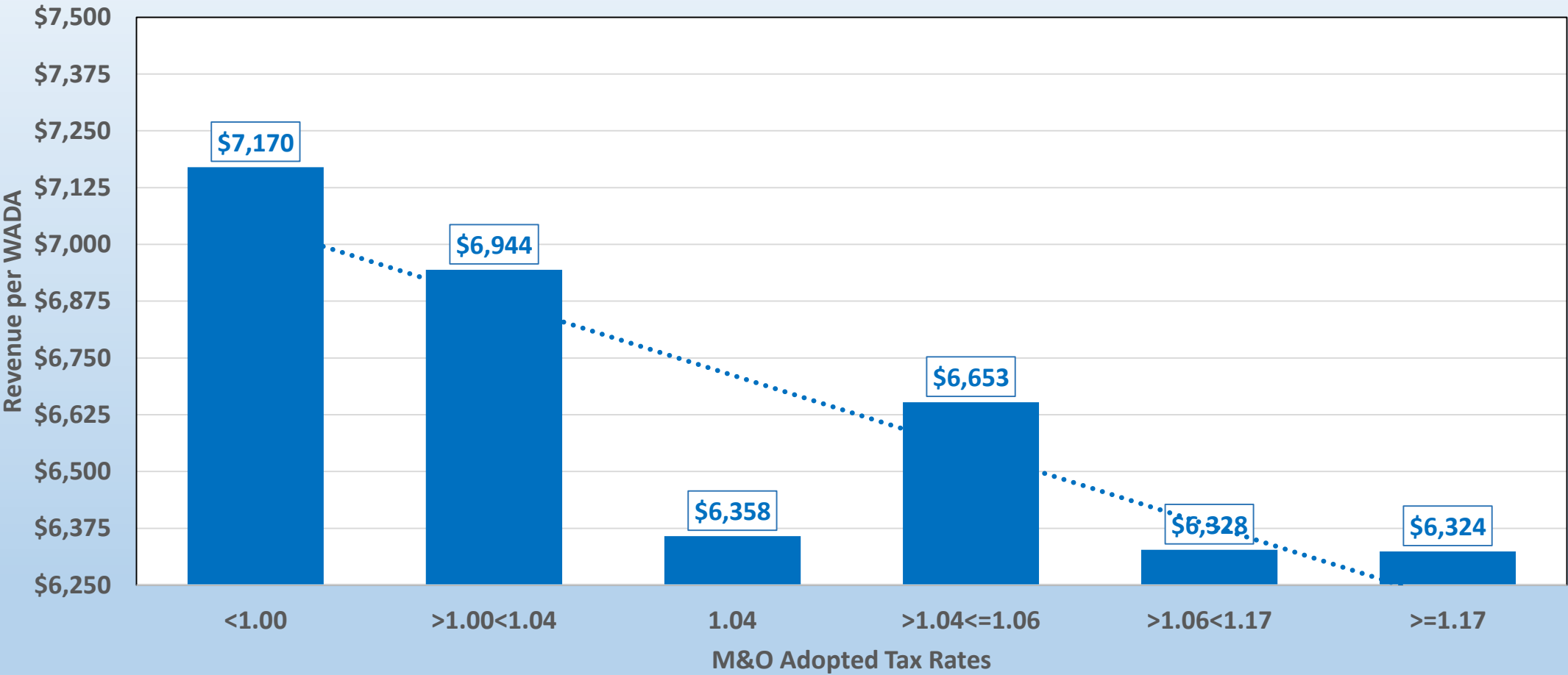
# Why Not Just More Money?

# What happened to the \$11.6 billion?

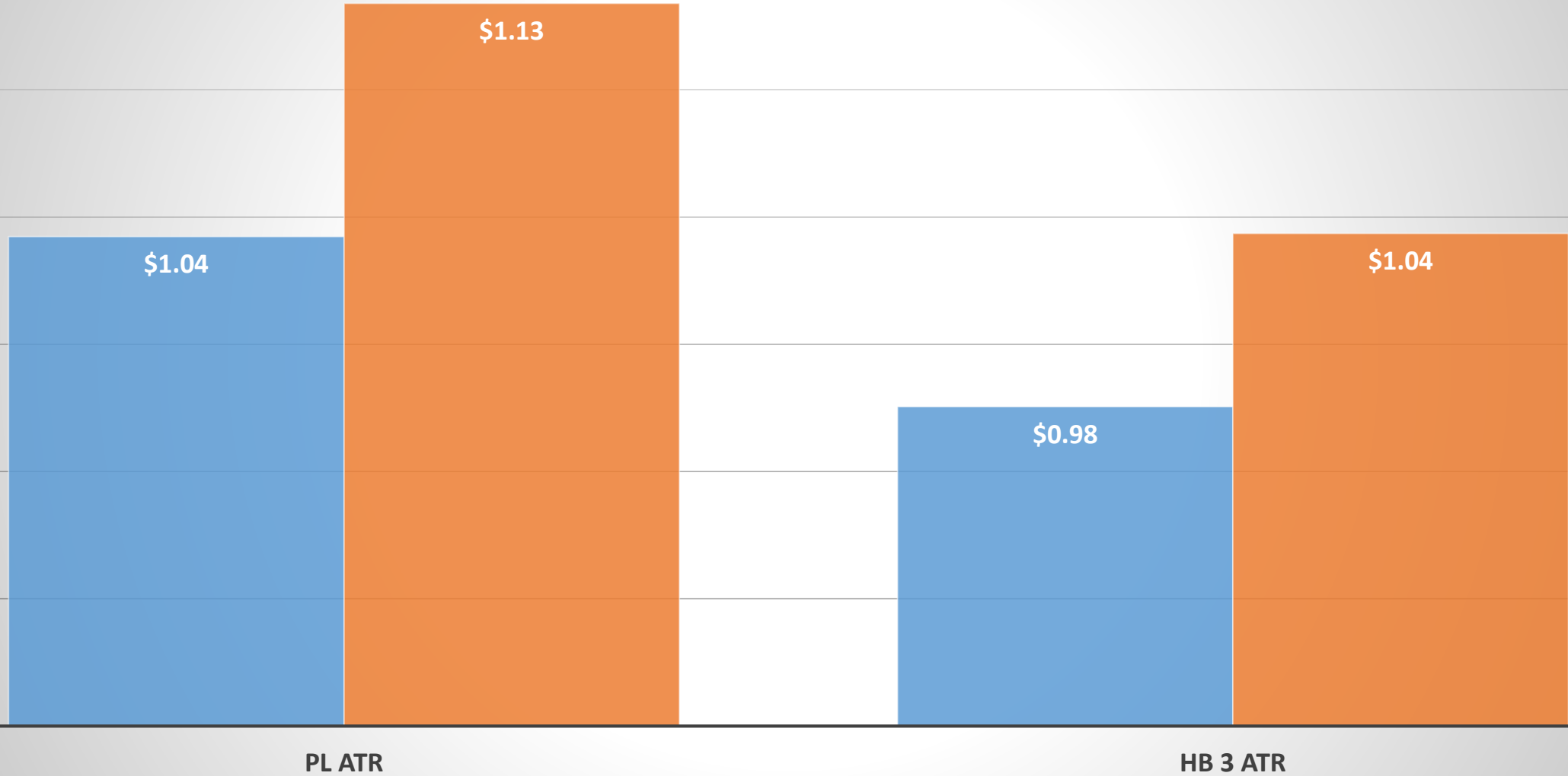
- 1,017 school districts
- 5.2 million students
- **\$11.6 billion in new revenue**
  - **\$6.5 billion for education reform: \$635 per ADA on average**
    - **\$2 billion for compensation increases**
  - **\$5 billion in tax reduction/compression**

\$405,828

# FY 20 Prior Law (PL) Rev/WADA

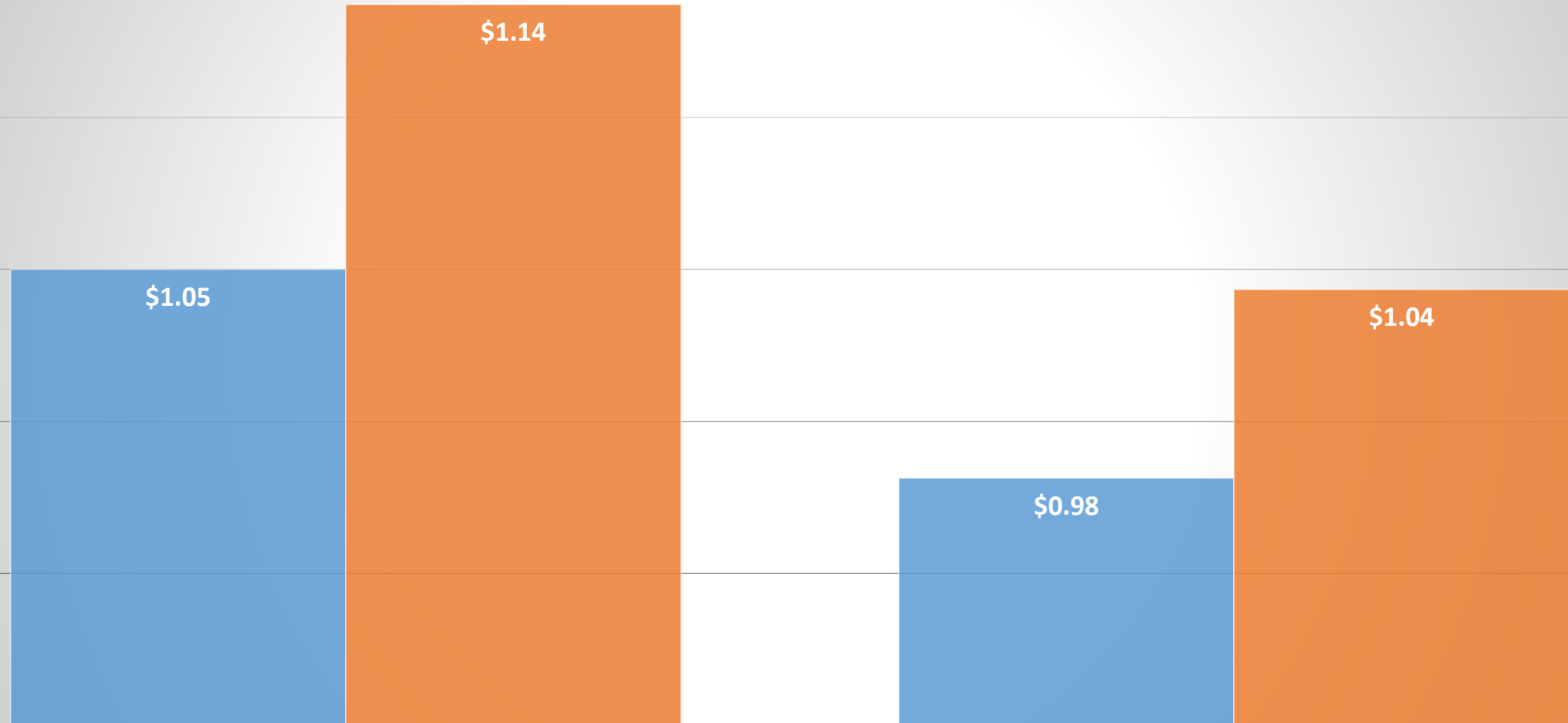


## Prior Law/HB 3 Average M&O Tax Rates FY 20



■ Wealthiest 5% ■ Poorest 5%

## Prior Law/HB 3 Average M&O Tax Rates FY 20



PL ATR

HB 3 ATR

■ Wealthiest 10% ■ Poorest 10%

# A Blueprint for Success

- Equity Center Plan
  - Efficient, cost-based system. Equity, similar revenue for similar students for similar tax effort.
- 2017 Legislative Session Senate Bill 2145
- Texas Commission on Public School Finance
- House Bill 3

# The Plan is based on these basic elements

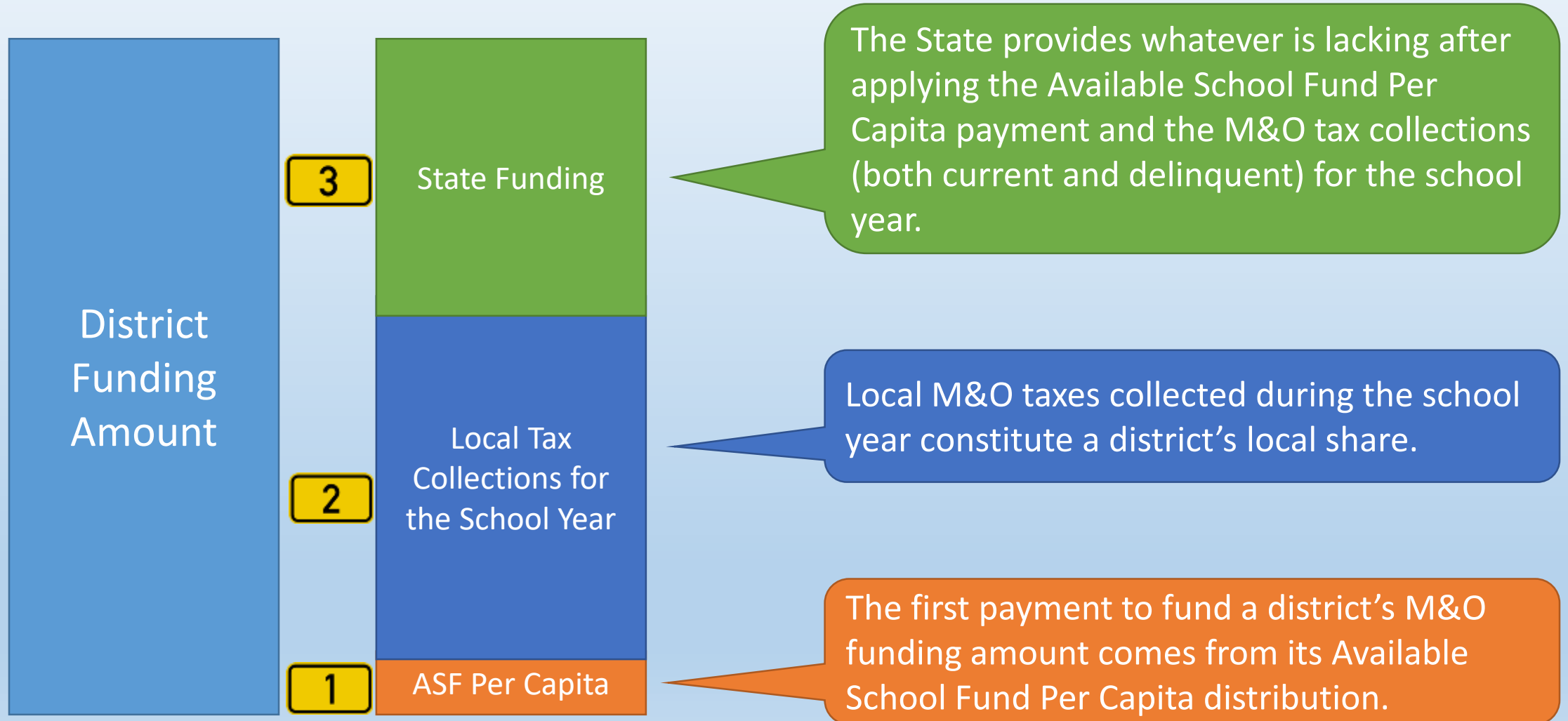
- No prior year value surprises or inequities
- Guaranteed revenue – no tax collections surprises
- WADA is calculated by a much simpler formula
  - No funding is determined by WADA calculations
  - WADA is only used for equity measurements
- Collections do not determine funding
  - It is a stable system based on the needed funding level, not the state of a district's economy
- No convoluted recapture calculations that no one understands
- Everyone treated the same for ASF Per-Capita and Transportation

# Efficiency Savings

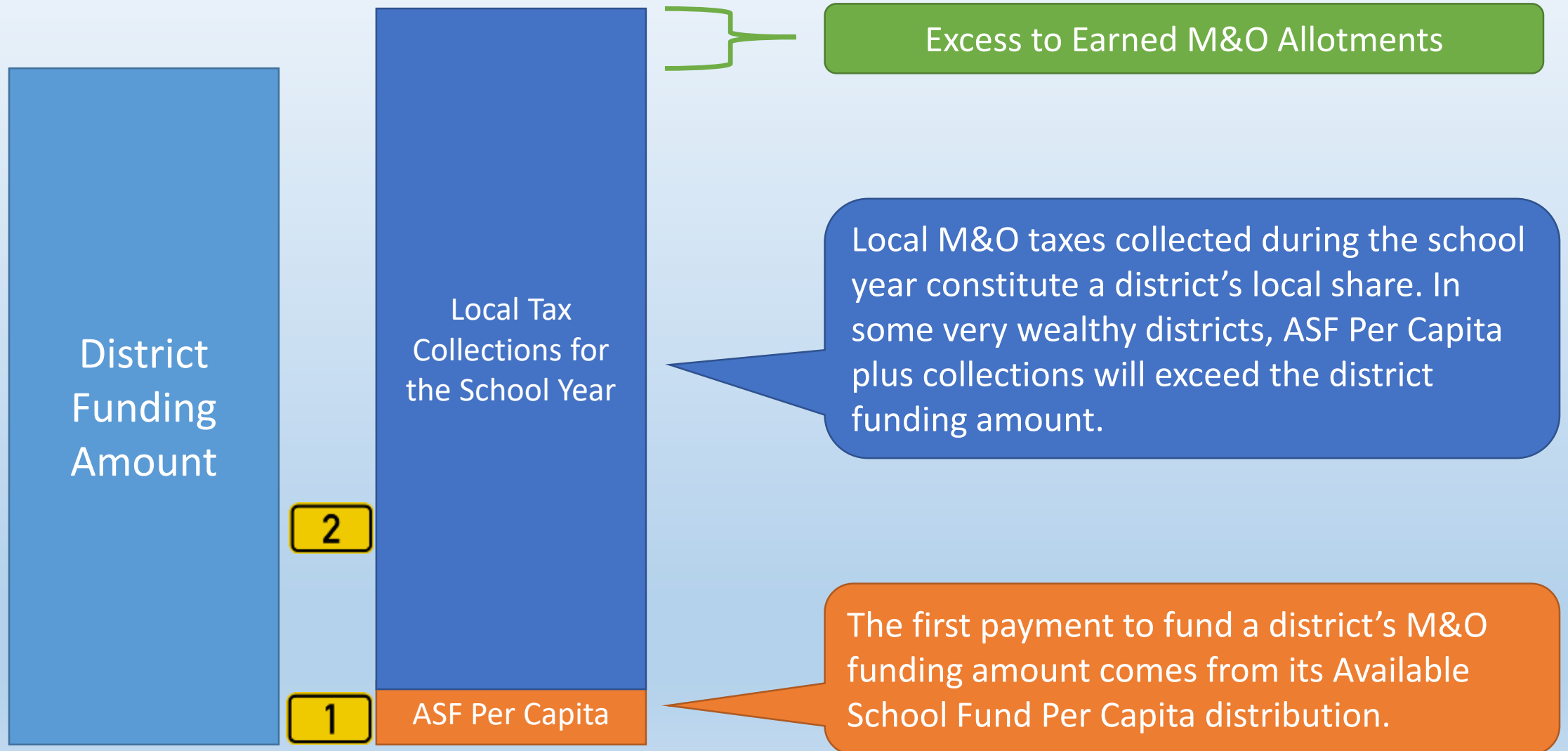
- The plan eliminates inefficient, **non-cost based elements** from the current funding system
- This creates **efficiency savings** that can be used to address important funding issues in ways that **benefit all Texas' children and taxpayers**

- High School Allotment
- Staff Allotment
- Early Agreement Credit
- 1993 Wealth Hold-harmless
- Hardship Grant
- Property Value Decline Funding
- Prior Year Values
- Tier 2 Golden/Copper Pennies
- Per Capita Double Dip
- New Instructional Facilities Allotment
- Gifted & Talented Allotment
- Public Education Grant

# Determining State/Local Funding for M&O



# Determining M&O “Excess” for Property Wealthy Districts



# HB 21: Texas Commission on Public School Finance

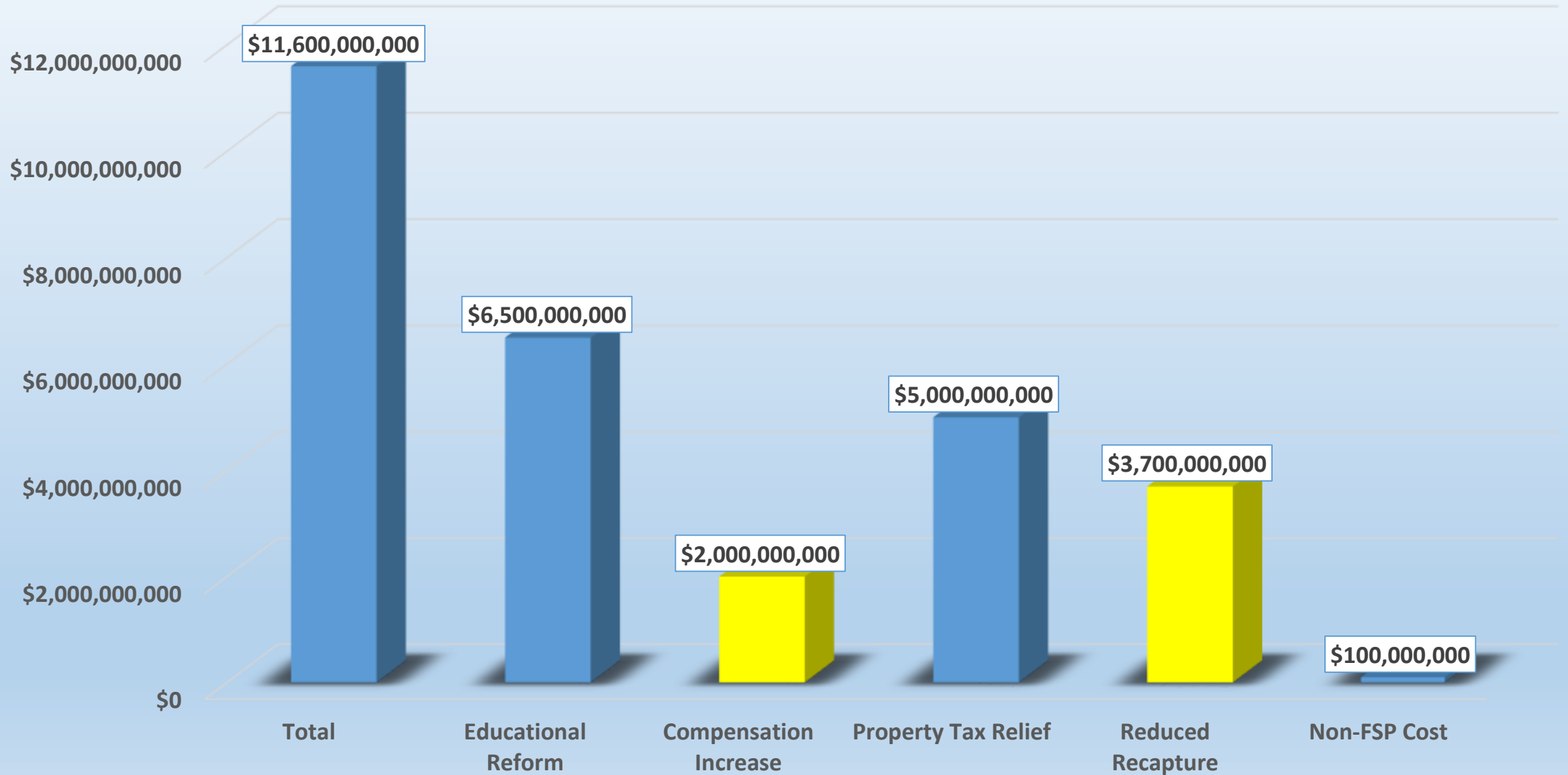
- Recommendations issued in December included:
  - Eliminating the High School Allotment, Early Agreement Credit, 1993 WHH, Gifted and Talented Allotment,
  - Moving to Current Year Values
  - Indexing Golden and Copper Pennies to the Basic Allotment
  - Incentive/merit pay
  - Outcomes-based funding
  - Small and Midsize Adjustments changed
  - Increase Compensatory Education Allotment
  - Transportation Allotment changed...

# House Bill 3

# Billions and Billions... Context

- State two-year budget is \$250 Billion
  - 6.3% growth
  - -1.5% adjusted for population and inflation
- \$118 Billion is unrestricted General Revenue
- Total K-12 public education portion of the budget: \$56 billion

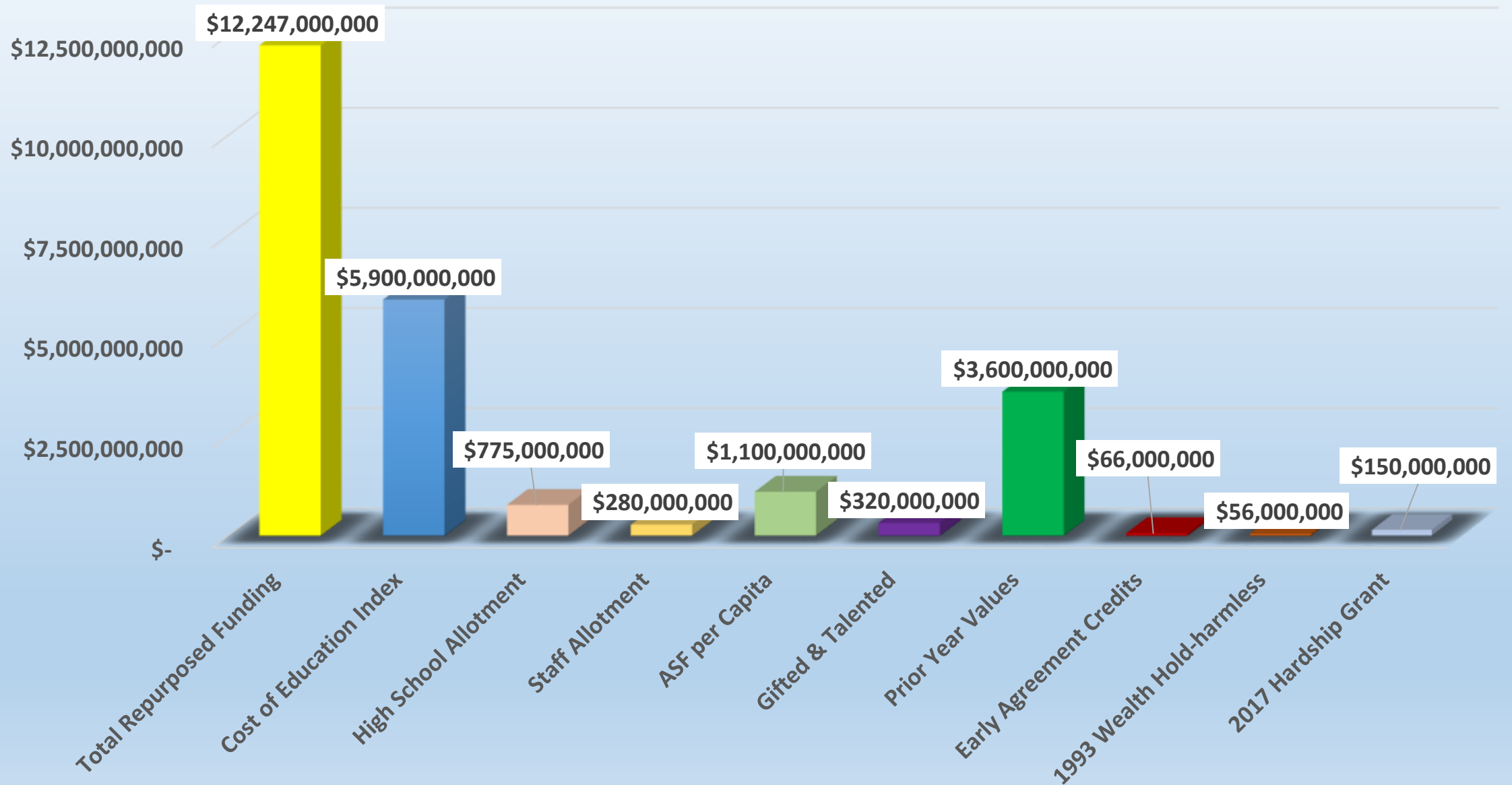
## New Revenue for FY 20-21--HB3



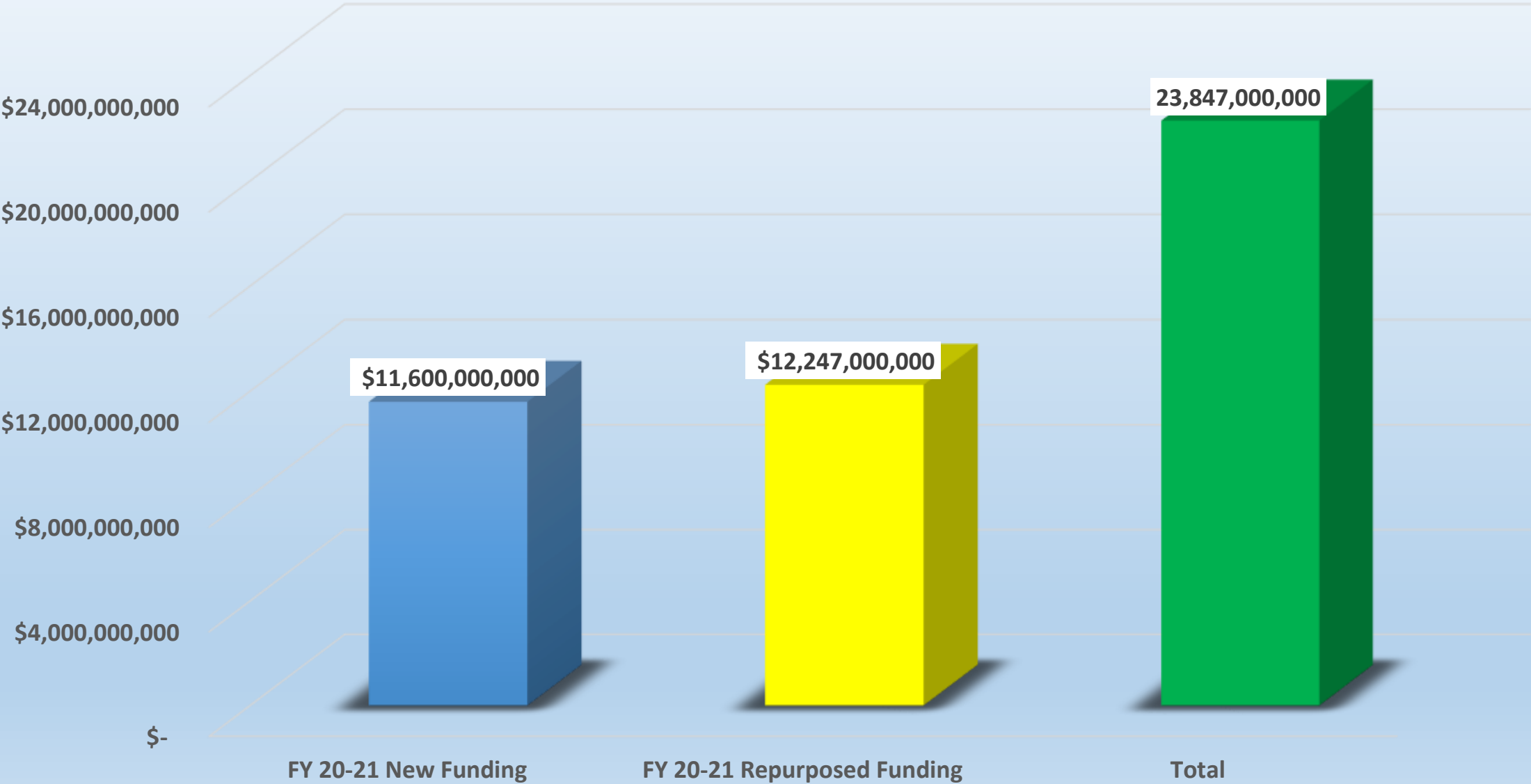
# Educational Reforms / Repurposed Funds

- Basic Allotment increase to \$6,160, an increase of \$1,020
- Eliminated and repurposed billions of dollars in existing educational programs such as:
  - Cost of Education Index (\$5.9 billion)
  - High School Allotment (\$775,000,000)
  - Staff Allotment (\$280 million)
  - Gifted and Talented Allotment (\$320,000,000)
  - Move to current year values (\$3.6 billion)
  - 4% early agreement credit (\$66,000,000)
  - 1993 Wealth Hold Harmless (\$56 million)

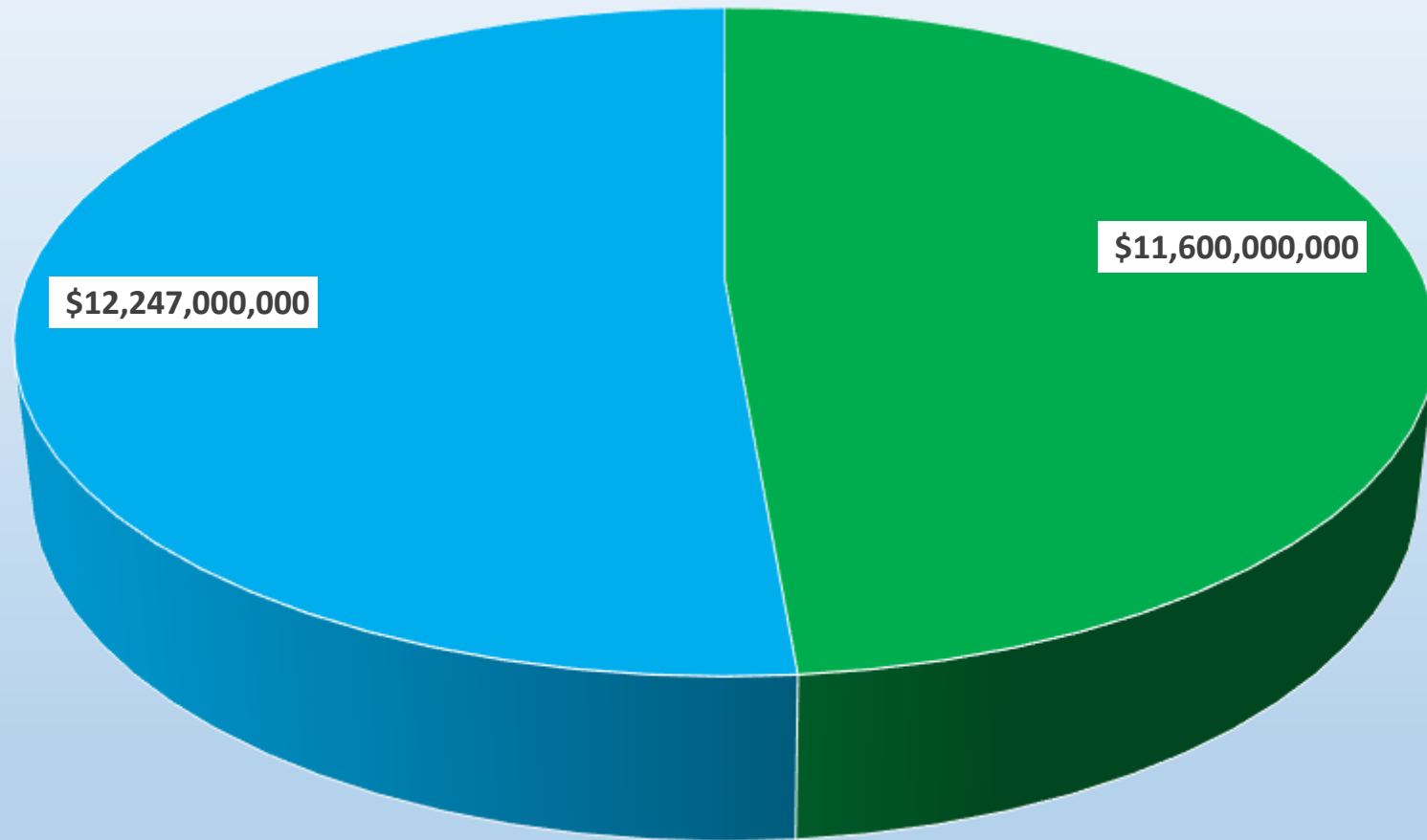
## FY 20-21 Repurposed Funding--HB 3



# FY 20-21 New & Repurposed Funding



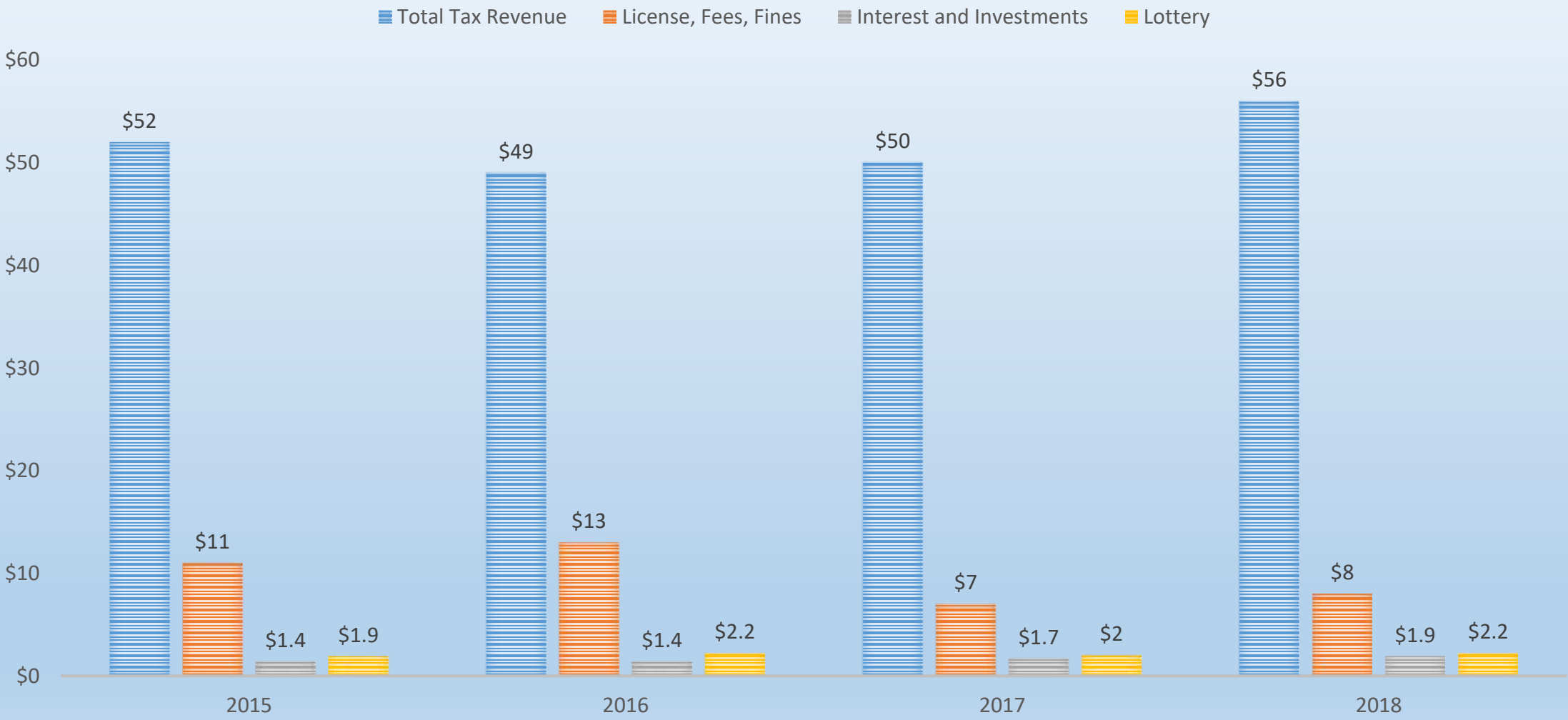
## FY 20-21 New & Repurposed Funding--\$23.8 Billion



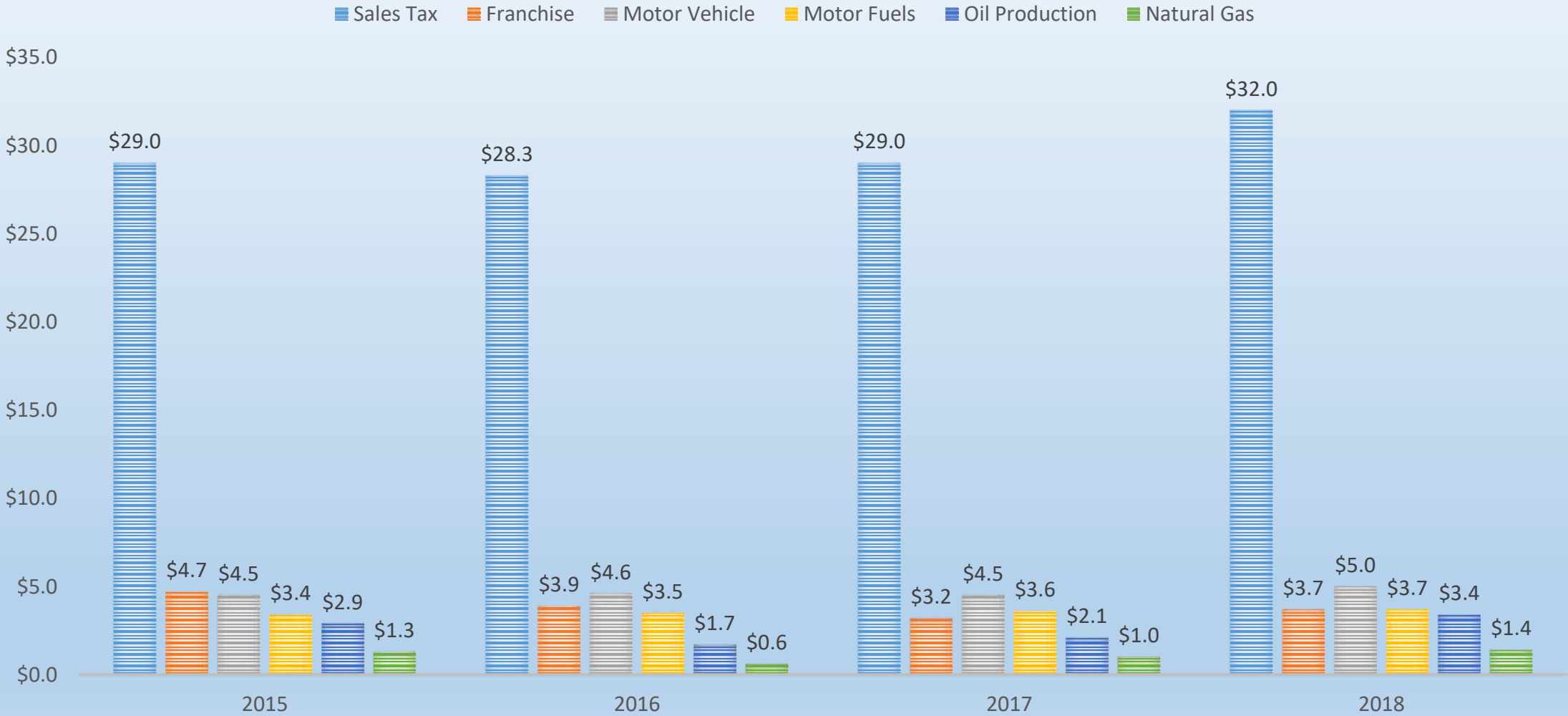
■ FY 20-21 New Funding

■ FY 20-21 Repurposed Funding

# STATE REVENUE \$ (BILLIONS)



# STATE TAX REVENUE BY SOURCE \$ (BILLIONS)



# New Education Reforms / Expenditures

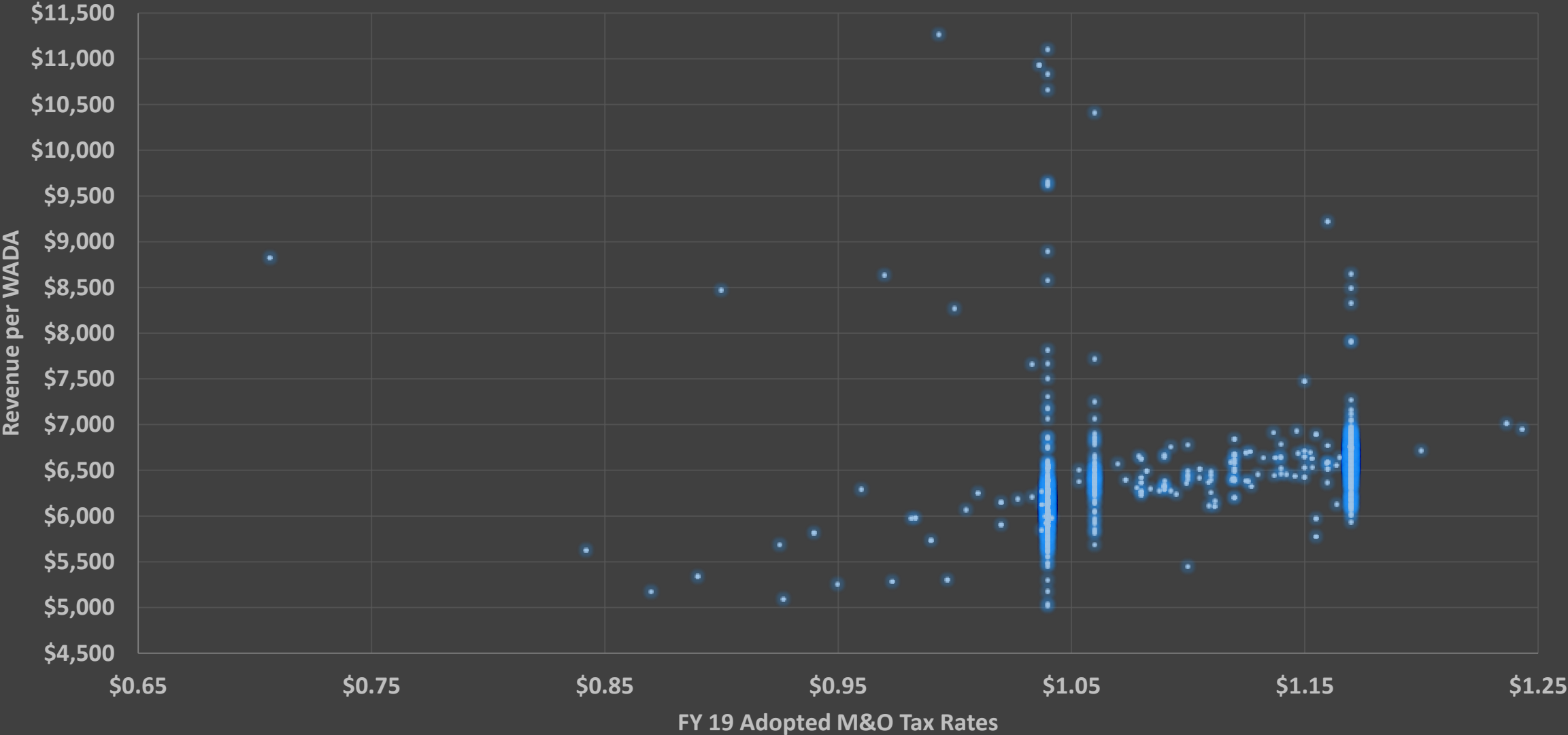
- Compensatory Education Allotment increase
- Bilingual Allotment increase
- Special Education Allotment increase
- Dyslexia Allotment increase
- Mentor Allotment
- Career and Technology Allotment expansion
- Fast Growth Allotment
- College, Career, and Military Readiness Outcomes Bonus...

# Future Repurposing of Funds

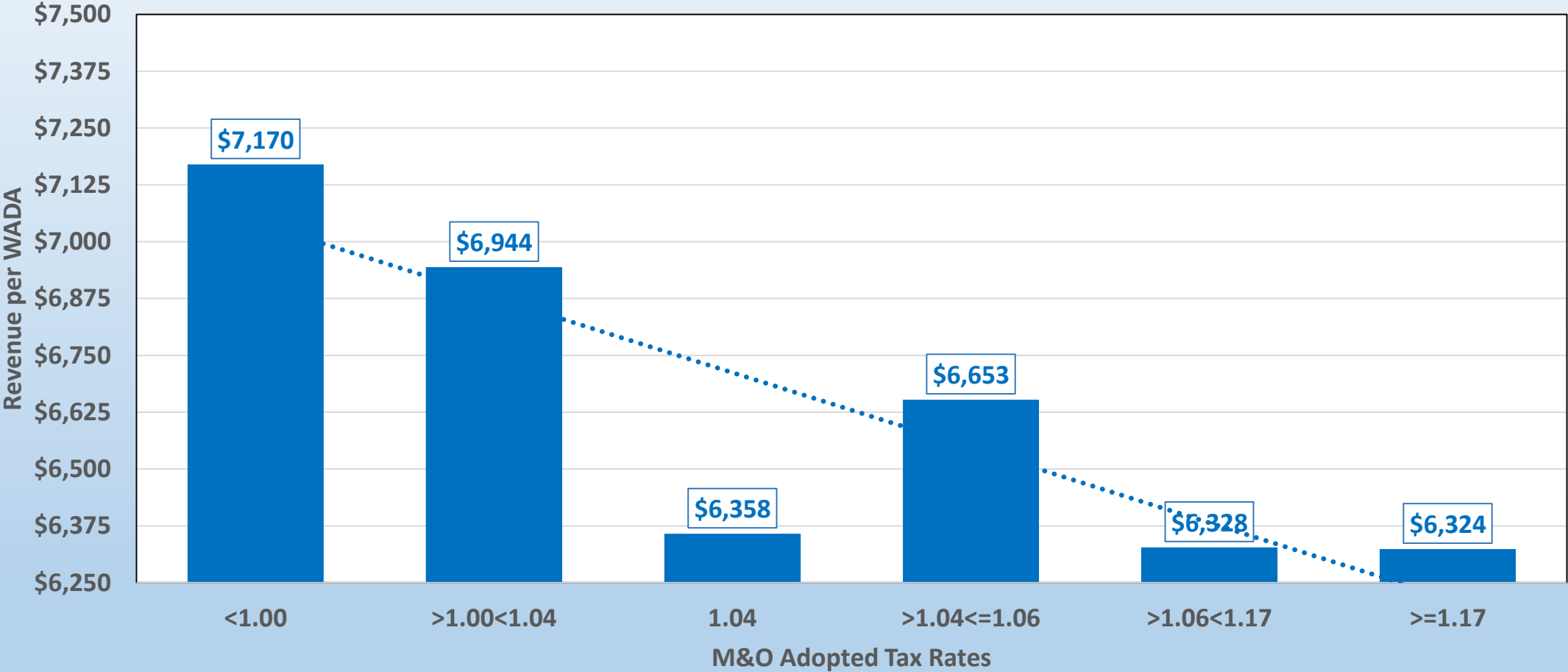
- Formula Transition Grant
- WHH Transition Grant
- 2-year Transition Grant
- Tax Code issues and inefficiencies (approaching \$1 billion per year)
- 313 agreements/state share

Efficiency, Equity Require Funding Based on  
Actual Cost, not District Wealth

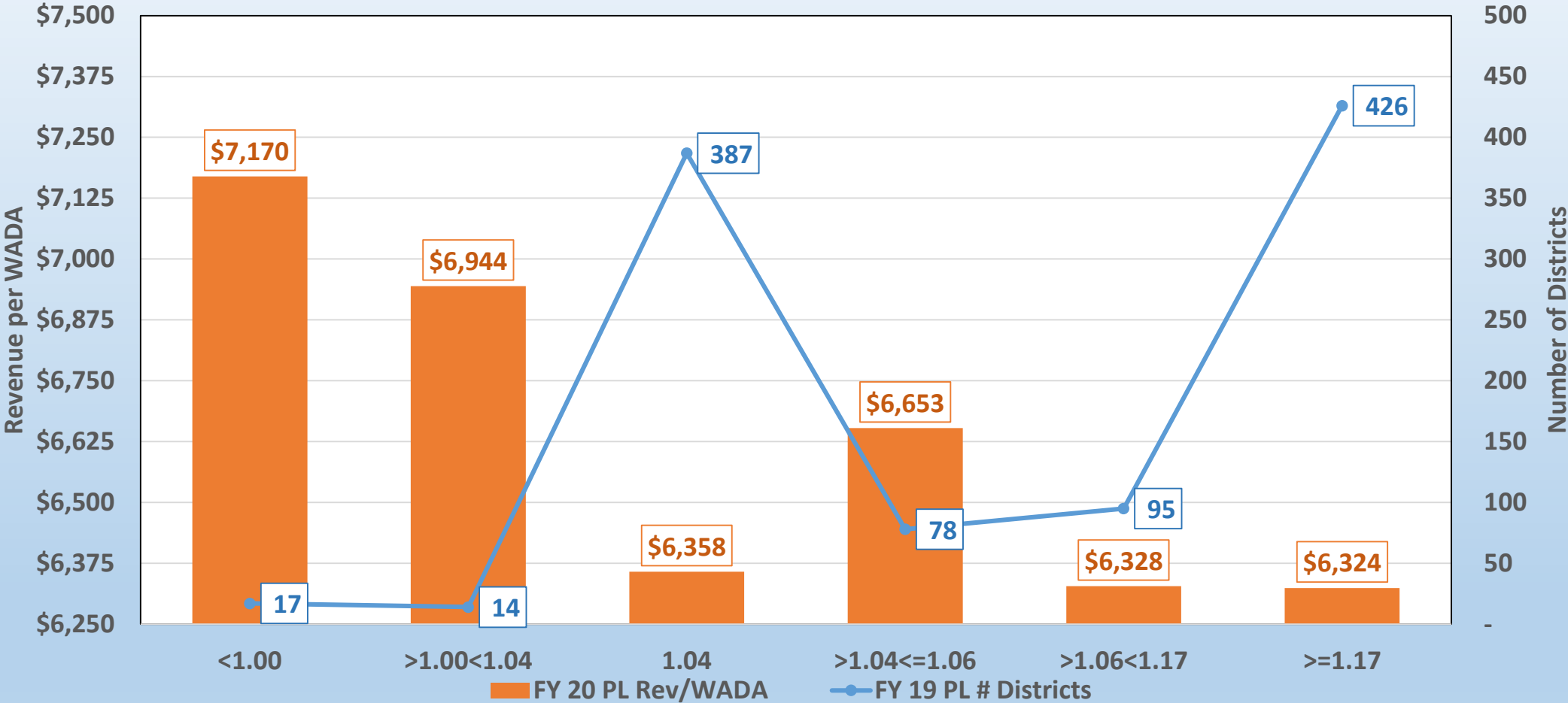
# Prior Law FY 20 Projected Revenue/WADA by Adopted Tax Rate



# FY 20 Prior Law (PL) Rev/WADA



# Funding Levels & Tax Rates Under Prior Law--FY 20



## Equity Gains From HB 3, 86<sup>th</sup> Legislative Session

**Basic Allotment increased from \$5,140 to \$6,160**



**Funding formulas moved to a Single Chapter, placing all school districts on formula funding, regardless of wealth**



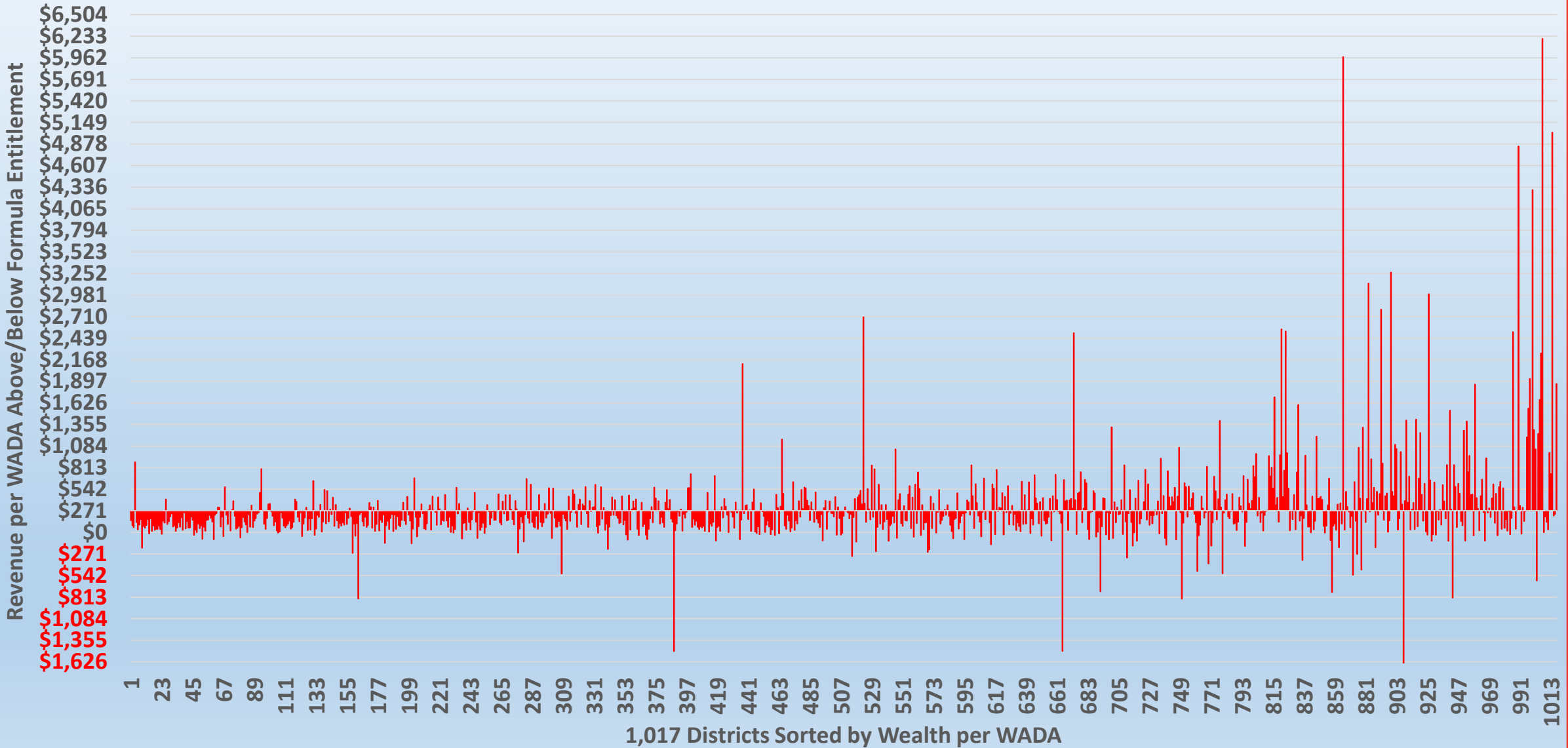
**Funding formulas changed to base calculations on Current Year Values, moving an additional \$3.6 Billion into the Equalized Funding System**



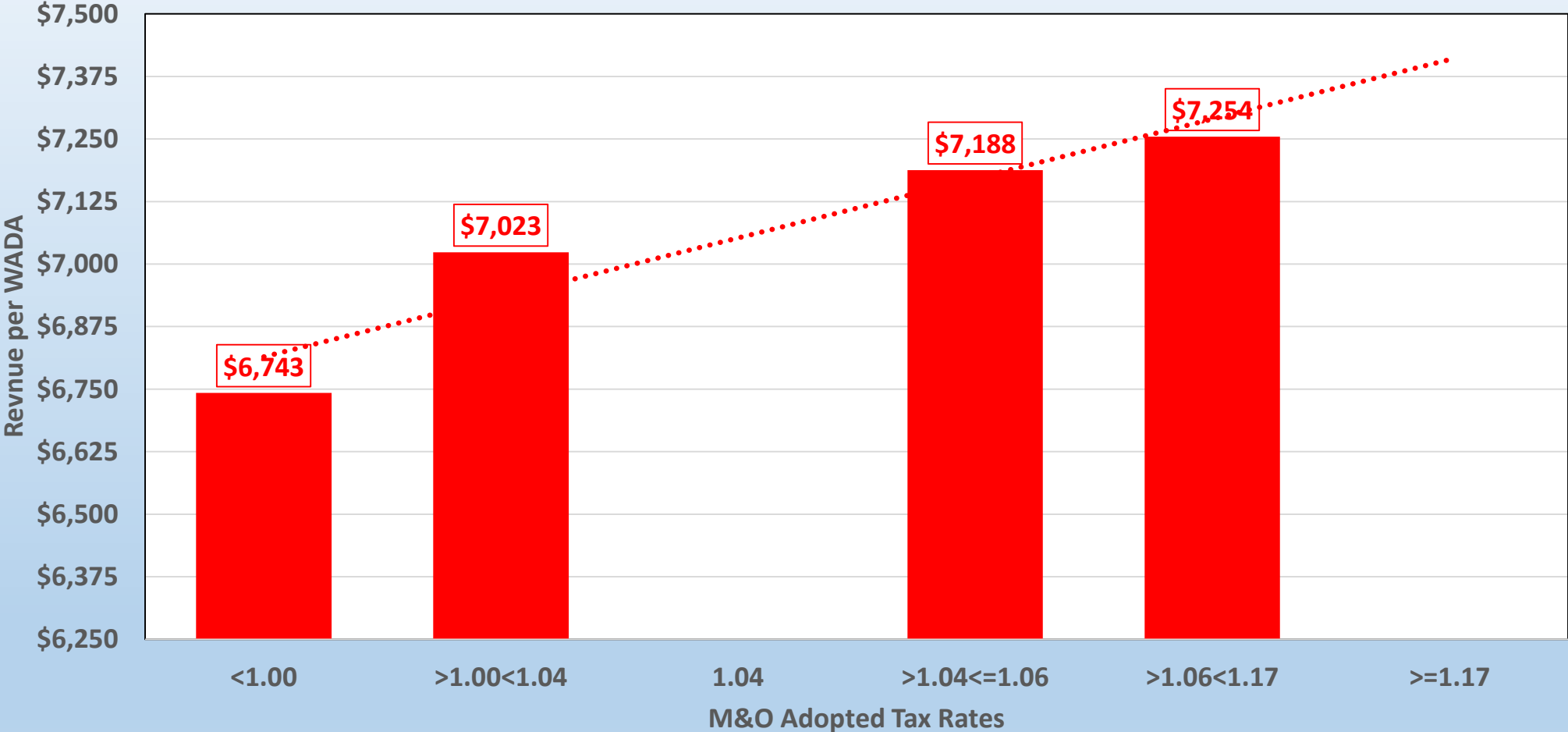
**ASF Per Capita included as first funding for all districts, ensuring all districts, regardless of wealth, receive Per Capita funding the same way**



# Impact of Prior Year Values on District Funding Above/Below Formula Entitlement FY 19



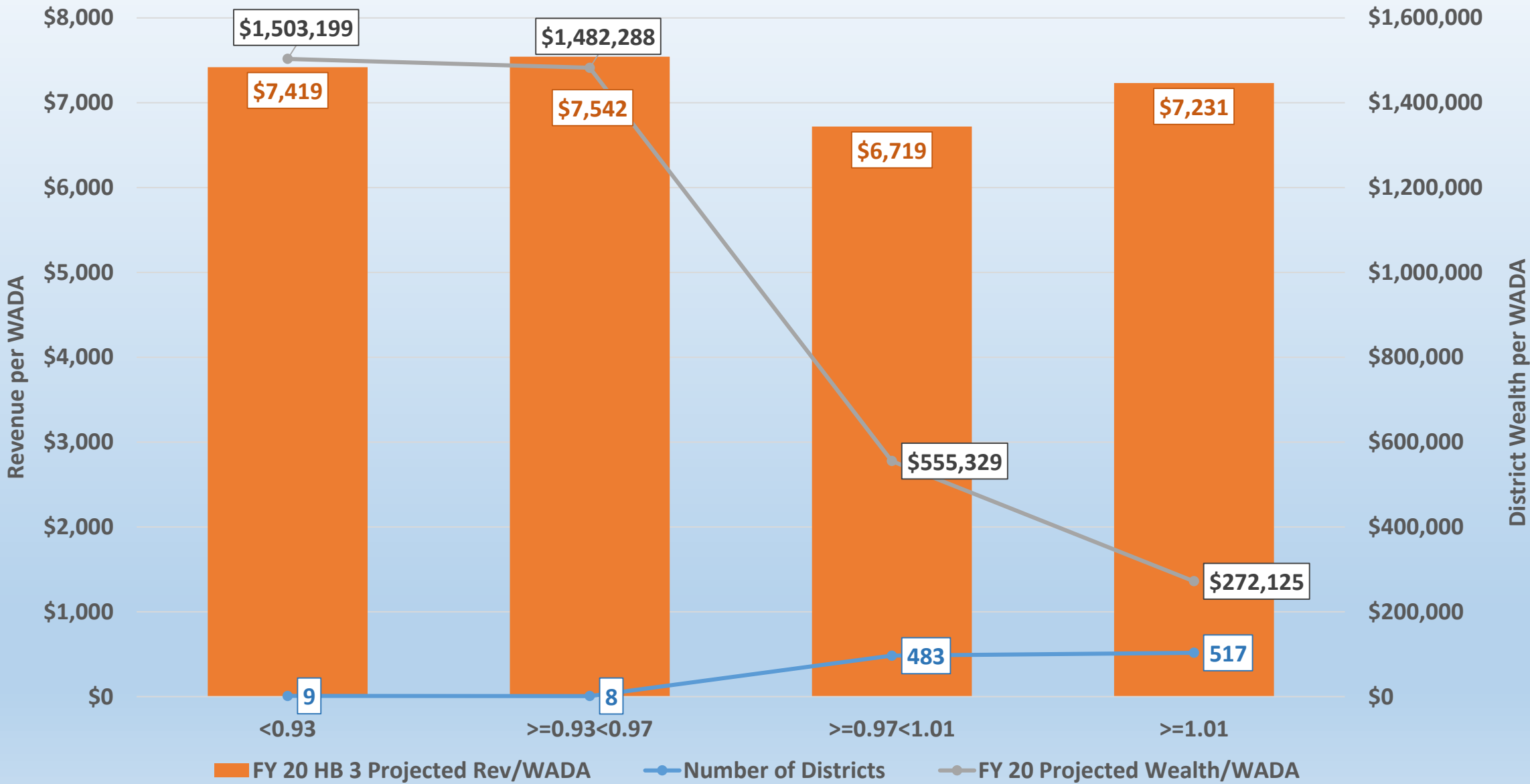
# FY 20 HB 3 Rev/WADA



# HB 3 FY 20 Projected Revenue/WADA by Compressed Tax Rates



# HB 3 Major M&O Tax Rate Categories After Compression--FY 20



## Equity Gains From HB 3, 86<sup>th</sup> Legislative Session (cont.)

**Eliminated the High School Allotment, rolling those funds into the Equalized Formula System, ensuring all districts are impacted equally**



**Eliminated the Staff Allotment, rolling those funds into the Equalized Formula System, ensuring all districts are impacted equally**



**Eliminated the GT Allotment, rolling those funds into the Equalized Formula System**



**Moved optional Local Option Homestead Exemption funding to Chapter 48 for all districts, making sure that all districts with a LOHE, if funding is available, receive it in the same way, regardless of district wealth**



## Equity Gains From HB 3, 86<sup>th</sup> Legislative Session (cont.)

**Eliminated the 4% Bonus in funding recapture districts received for simply signing a Letter of Agreement to Purchase Attendance Credits by September 1 each year** ✓

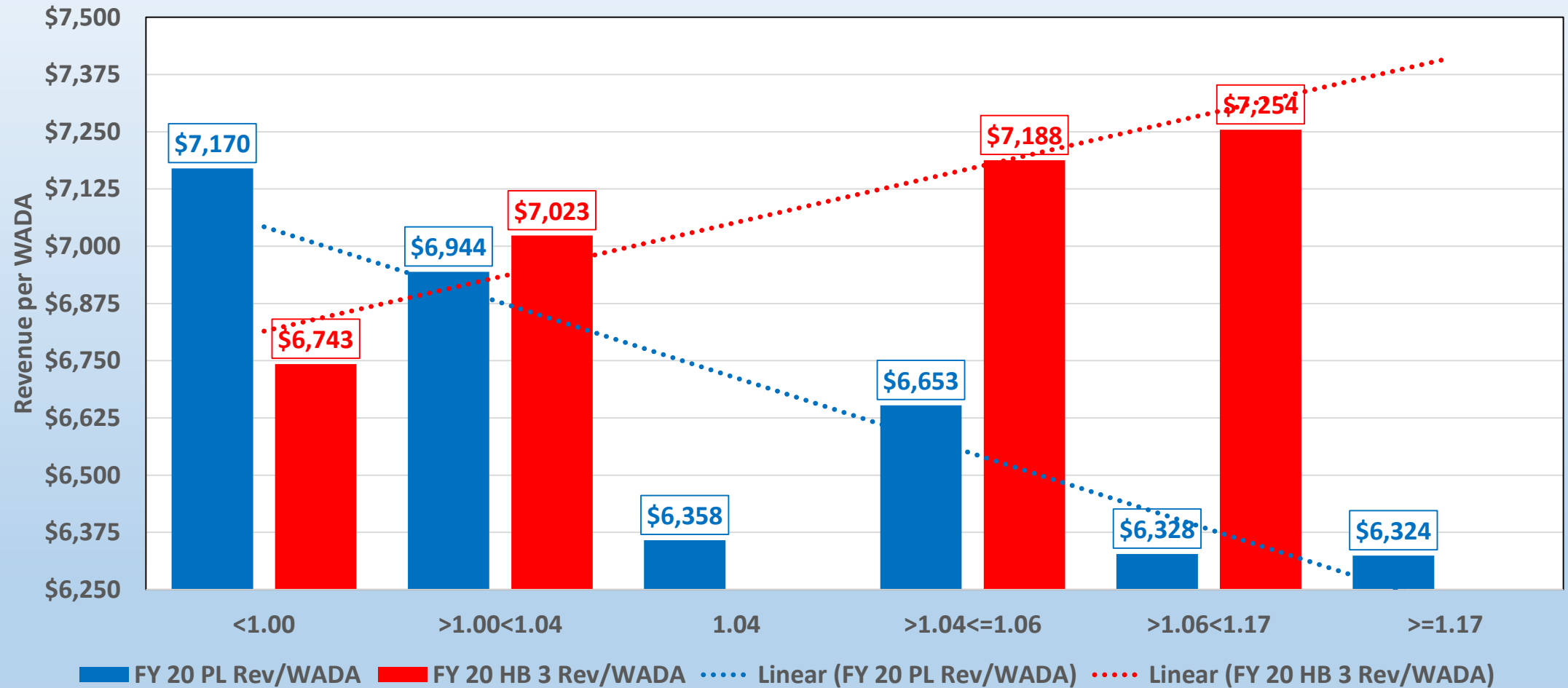
**Put the 1993 Wealth Hold-Harmless (26 years old) on a 5-year Phase Out to elimination** ✓

**Eliminated the 2017 Hardship Grant** ✓

**Disaster Relief placed in Chapter 48 so that it impacts all districts uniformly** ✓

**Eliminates the Equalized Wealth Level and puts all districts in the same Formula Funding System** ✓

## HB 3 Correcting the Equity Trends--FY 20



## Equity Gains From HB 3, 86<sup>th</sup> Legislative Session (cont.)

**Changes “Recapture” to Local Revenue in Excess of Entitlement and greatly simplifies the calculation, increasing equity**



**Increases the Yield on Copper Pennies to nearly \$50 per WADA per penny, and ties the Yield to 80% of the Basic Allotment, so the Yield Increases as the BA Increases**



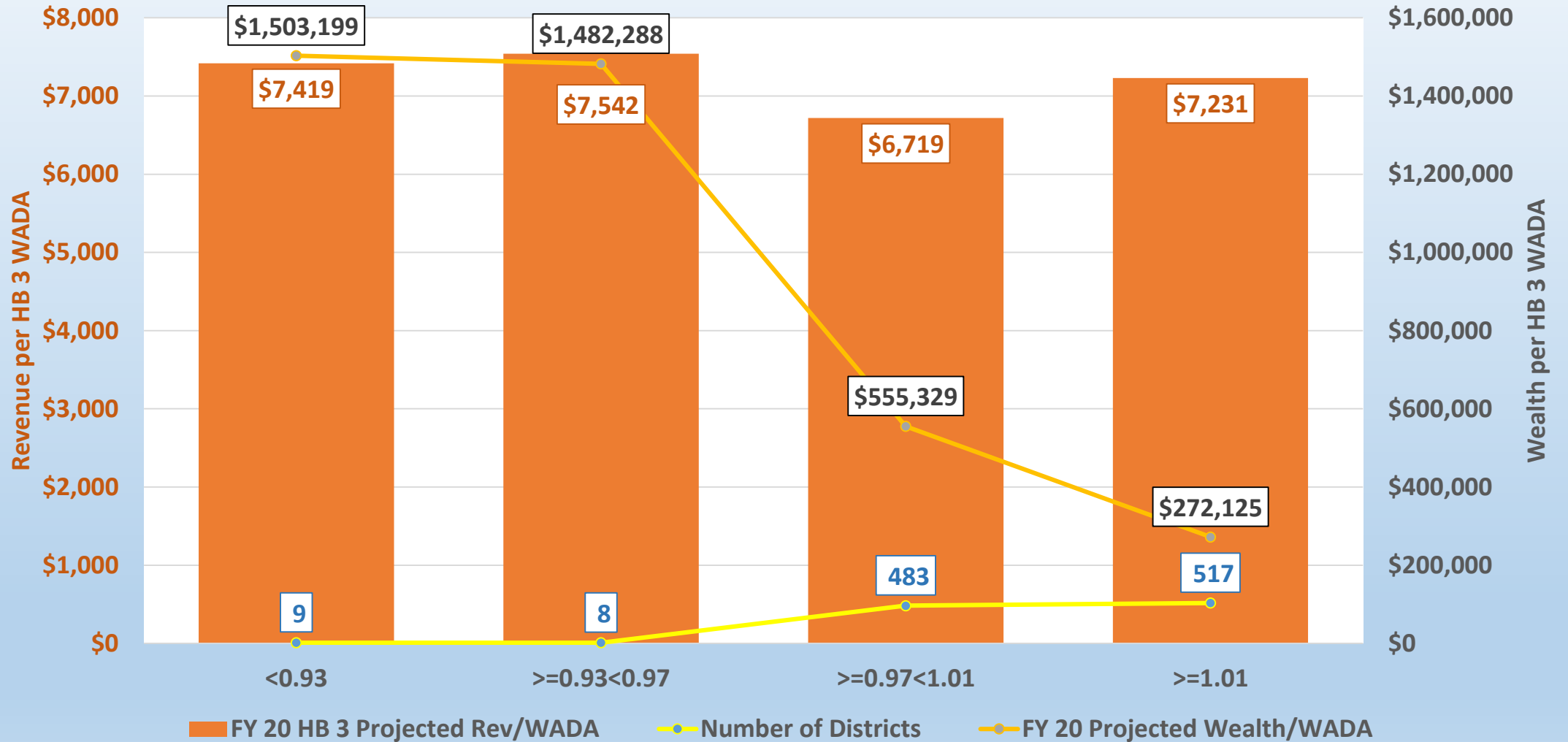
**Requires all districts to adopt tax rates equal to their New Compressed Rates in order to earn Full Entitlement in Tier 1**



**Forces all districts to tax at full New Compressed Rates before they can access any Tier 2 Golden or Copper Pennies**

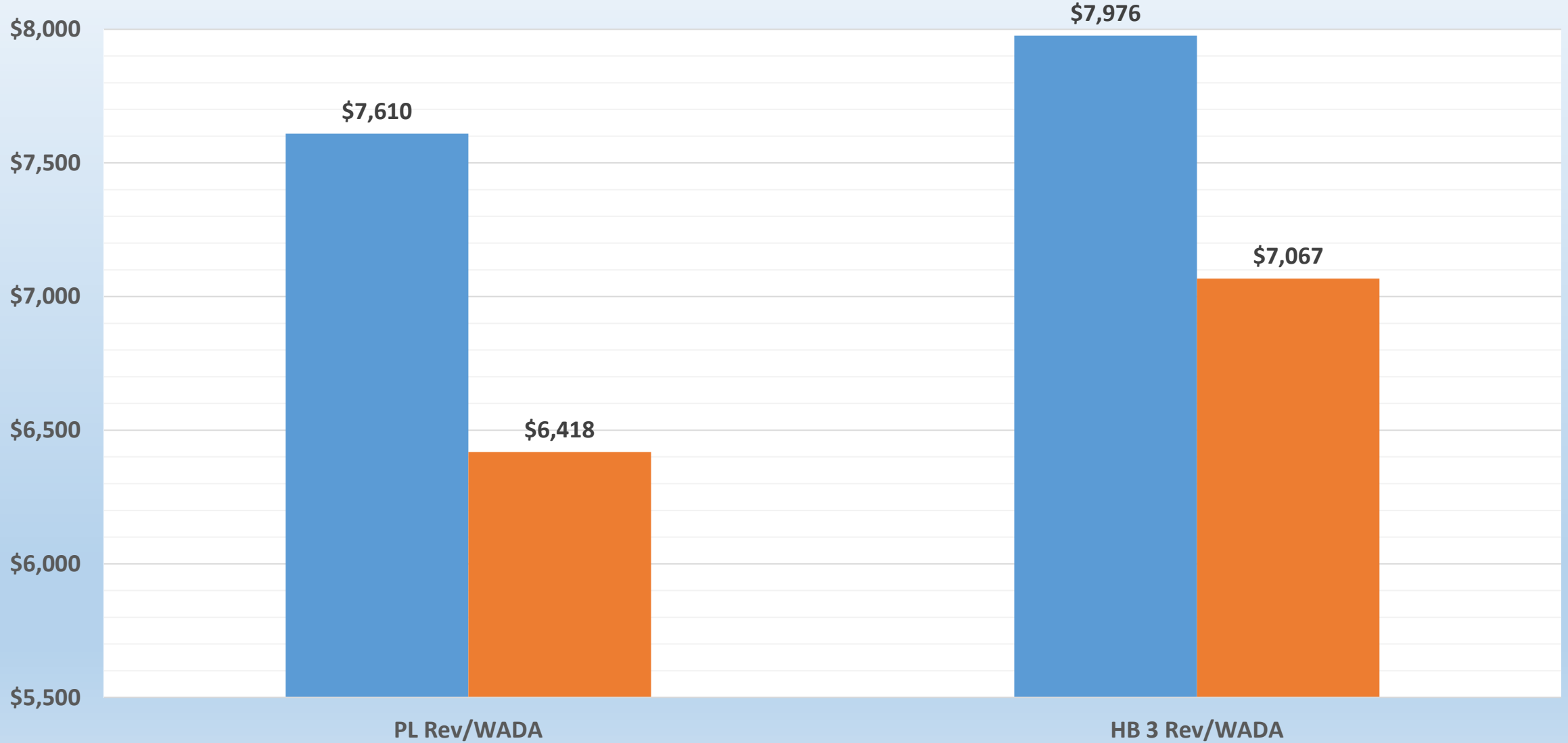


## HB 3 Major Tax Rate Categories After Compression FY 20



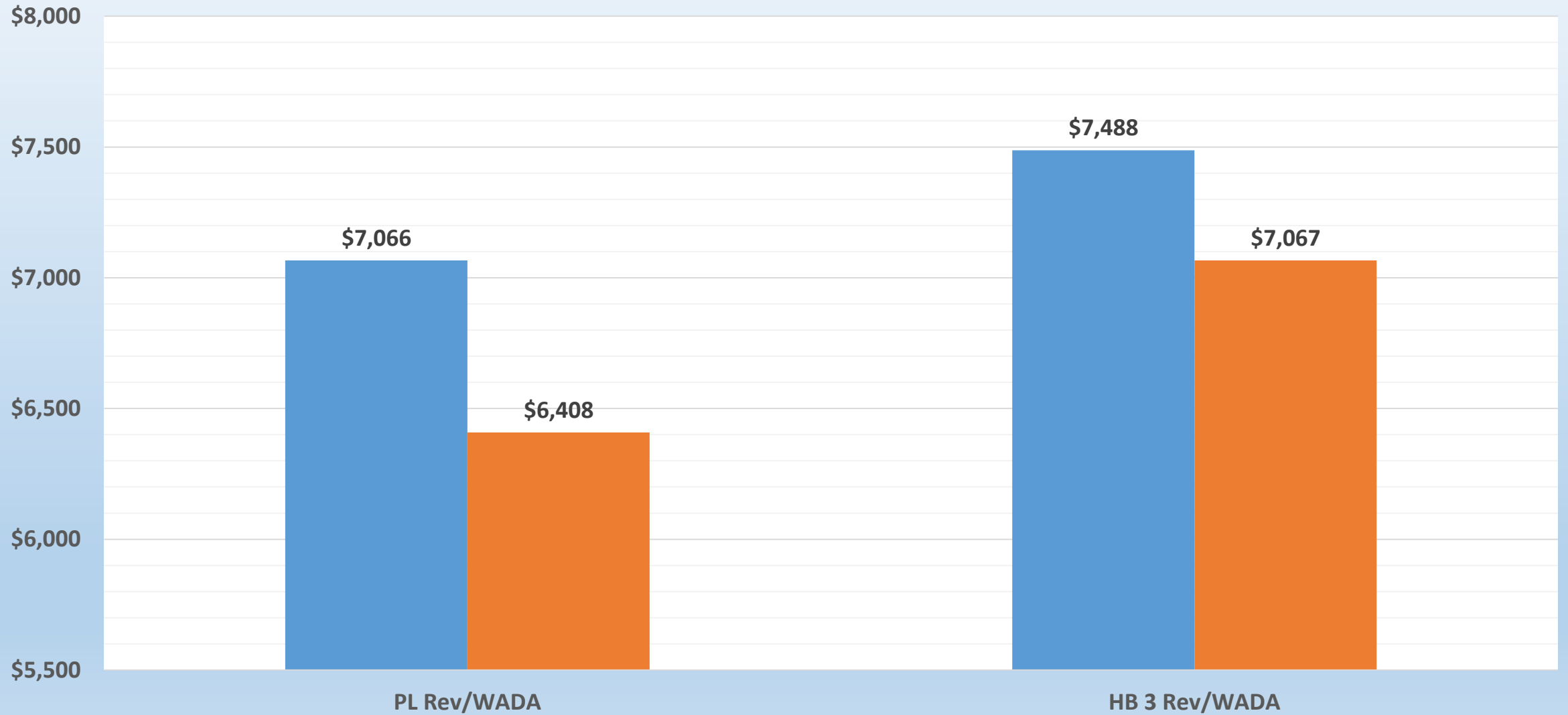
## Prior Law/HB3 Average FY20 Revenue per WADA

■ Wealthiest 5% ■ Poorest 5%



## Prior Law/HB3 Average FY20 Revenue per WADA

■ Wealthiest 10% ■ Poorest 10%



# Compensation

- 30% of ALL new revenue per ADA a district receives from FY 19 to FY 20 must go to employee compensation
- 75% of this amount must be used for full-time teachers, counselors, librarians, and nurses. Must prioritize differentiated compensation for classroom teachers with more than five years of experience.
- Creates teacher merit/incentive pay program\*

# FY20 Tax Rate Compression and Rollback Rate

- Tier 1 tax rate is 93 cents. Added to this is the maximum of 4 cents or the number of pennies the starting tax rate is above 1.00
- If starting compressed rate is  $<1.00$  and  $ATR <1.00$ , then ATR is compressed to 93%. Rollback rate would add 4 cents
- Copper pennies are compressed at a ratio of 31.95/49.28
- TRE's can only be done by a district that has already adopted a strategic plan that proposed a higher tax rate or if the total compressed tax rate is  $<.97$

# FY21 and Beyond Tax Rate Compression and Rollback Rate

- Statewide Tier 1 tax rate is the lower of:
  - Prior Year Compression Percentage (0.93 for FY21)
  - $\text{Prior Year Compression Percentage} \times 1.025 / (1 + \text{Estimated Change in Taxable PV})$
- District maximum compressed rate is lower of:
  - Statewide Tier 1 tax rate (above)
  - If DPV increased by more than 2.5%:
    - $(1.025 \times ((\text{PYDPE} + \text{PV of 311 or 313}) \times \text{PYMCR})) / \text{DPV}$ , but not less than 90% of statewide tier 1 tax rate
- Rollback is the district maximum compressed rate plus greater of:
  - 5 cents – with unanimous board approval
  - Number of enrichment pennies from the prior year

# FY21 and Beyond Tax Rate Compression and Rollback Rate

- Statewide Tier 1 tax rate is the lower of:
  - Prior Year Compression Percentage (0.93 for FY21)
  - Prior Year Compression Percentage x 1.025 / (1 + Estimated Change in Taxable PV)

$$0.93 \times 1.025 / (1 + 0.0407) = 0.915970...$$

# FY21 and Beyond Tax Rate Compression and Rollback Rate

- Minimum Tier 1 tax rate is 90% of the statewide Tier 1 tax rate:

$$0.91597 \times 90\% = 0.824373$$

# FY21 and Beyond Tax Rate Compression and Rollback Rate

- District maximum compressed rate is lower of:
  - Statewide Tier 1 tax rate (0.91597)
  - If DPV increased by more than 2.5%:
    - $(1.025 \times ((\text{PYDPE} + \text{PV of 311 or 313}) \times \text{PYMCR})) / \text{DPV}$ , but not less than 90% of statewide tier 1 tax rate

$$(1.025 \times 100,000,000 \times 0.93) / 110,000,000 = 0.866590....$$

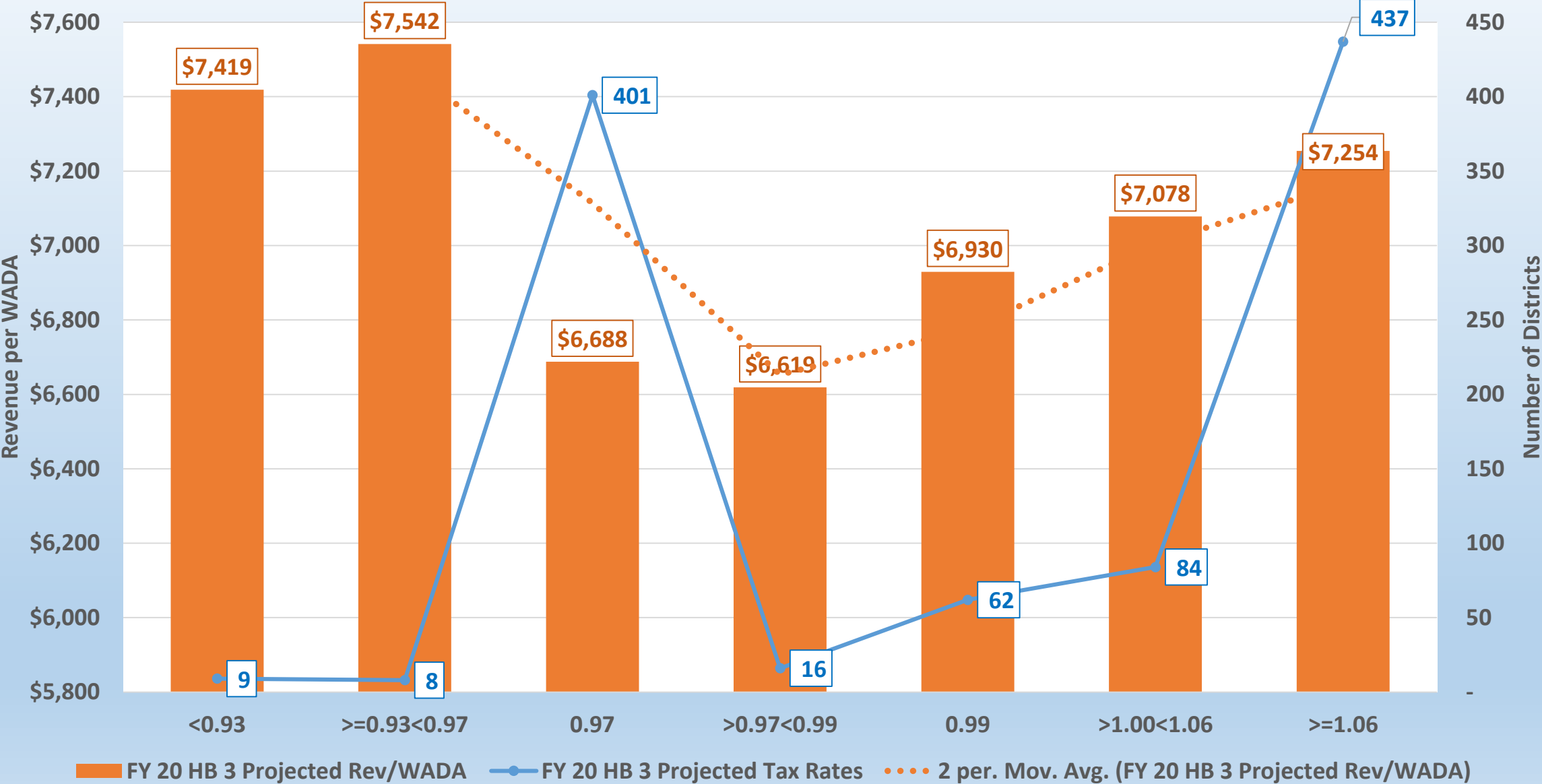
# House Public Education Committee 10-28-19

- House Bill 3 Implementation Update
- Unintended Consequences/What needs to be addressed
  - Small and Midsized adjustments/CTE\*
  - Fast Growth Allotment\*
  - Formula Transition Grants and Teacher Compensation
  - Special Ed funding for Charter Schools
  - Regional Education Service Center Staff Supplement
  - PTECH and New Tech Funding

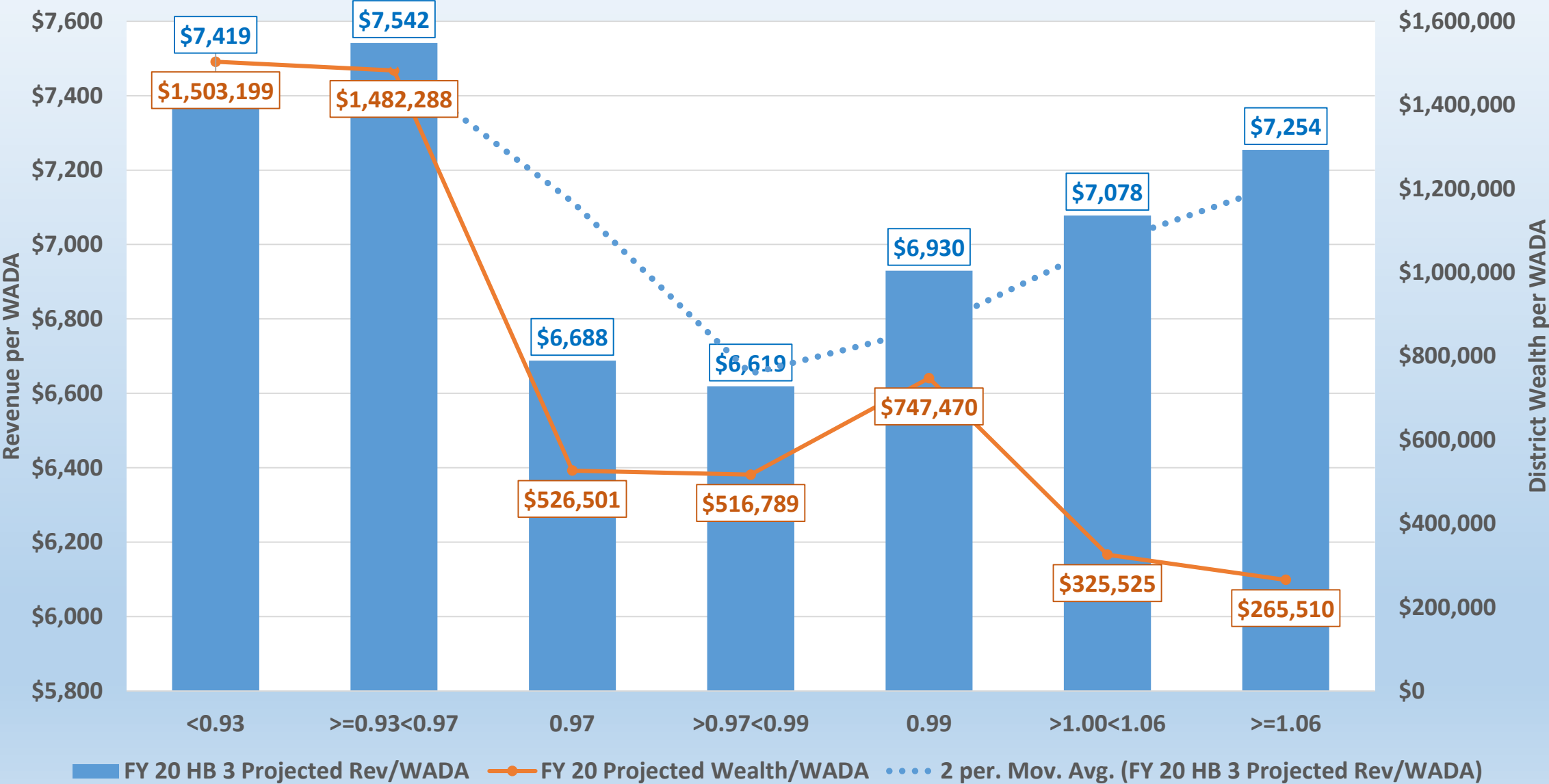
# Interim Charges

- Chapter 313 agreements
  - LOHE funding
  - I&S
  - Tier II
- 
- Senate: released as early as November
  - House: to-be-determined

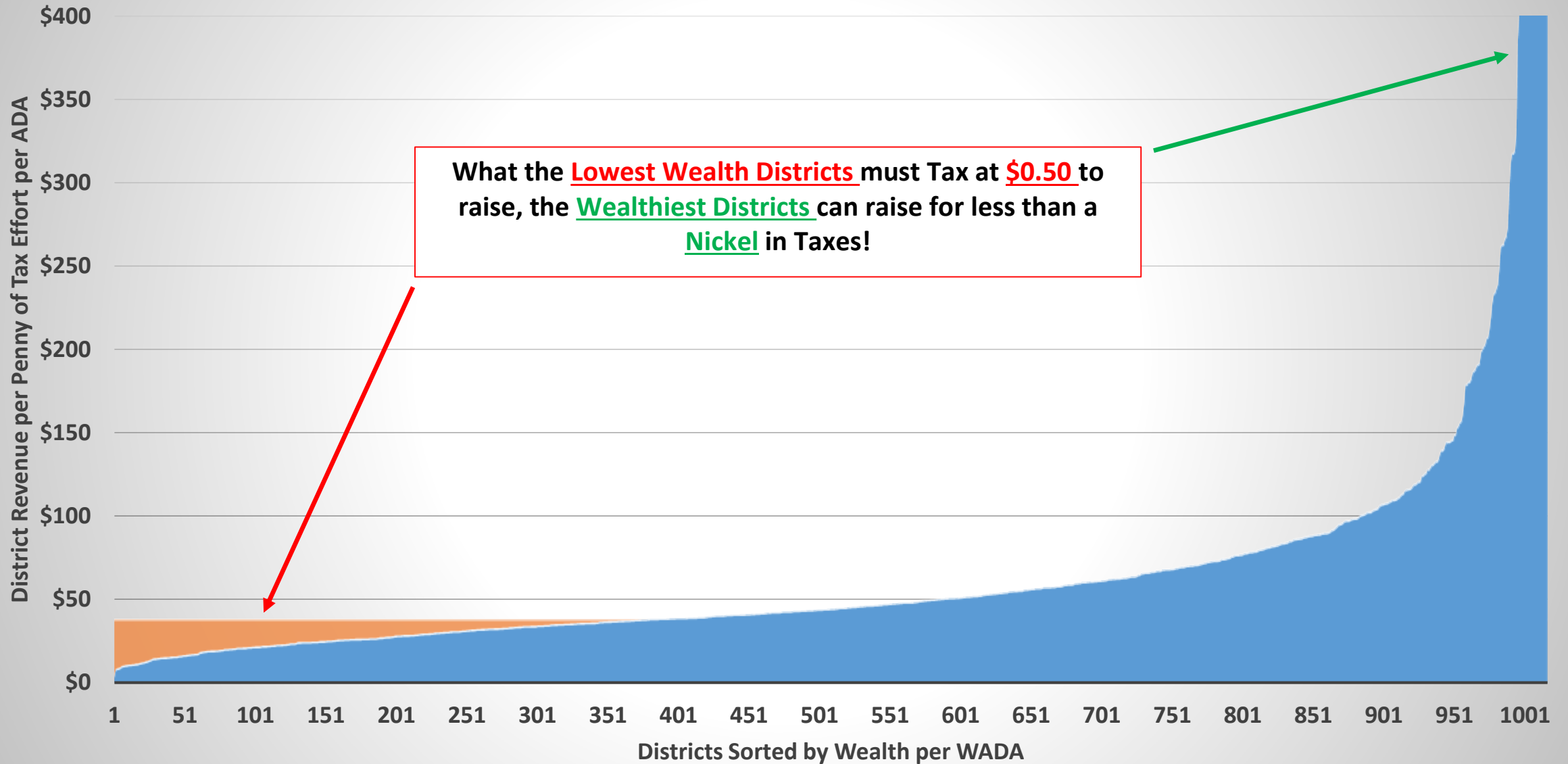
# HB 3 Revenue per WADA--M&O Tax Rate Groups



# HB 3 FY 20 Revenue per WADA--M&O Tax Groups & Average Wealth per WADA

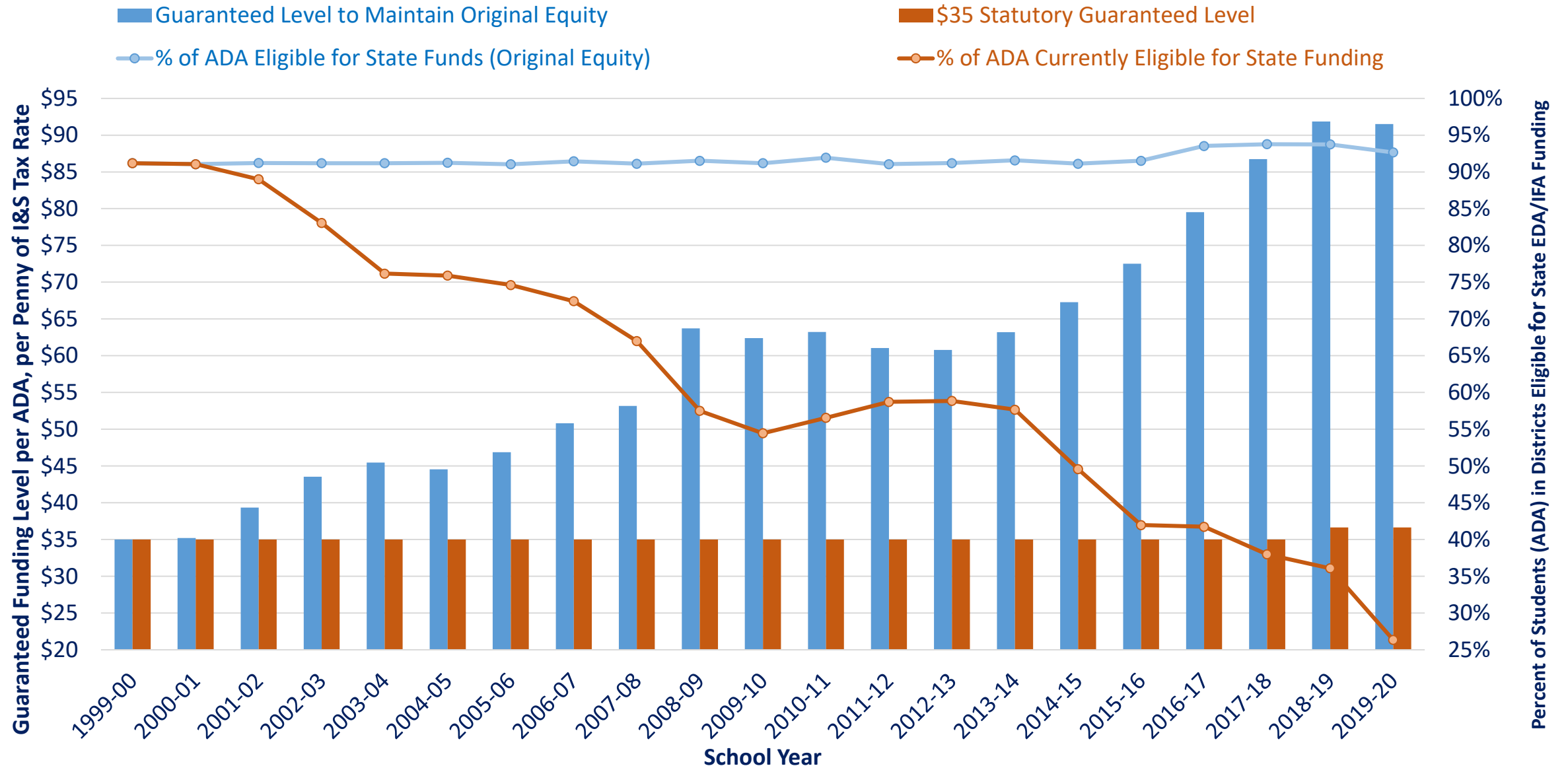


## Unequalized Funding for Facilities--EDA & IFA for FY 20



# Comparison of EDA/IFA Funding Levels and Percent of ADA in Eligible Districts

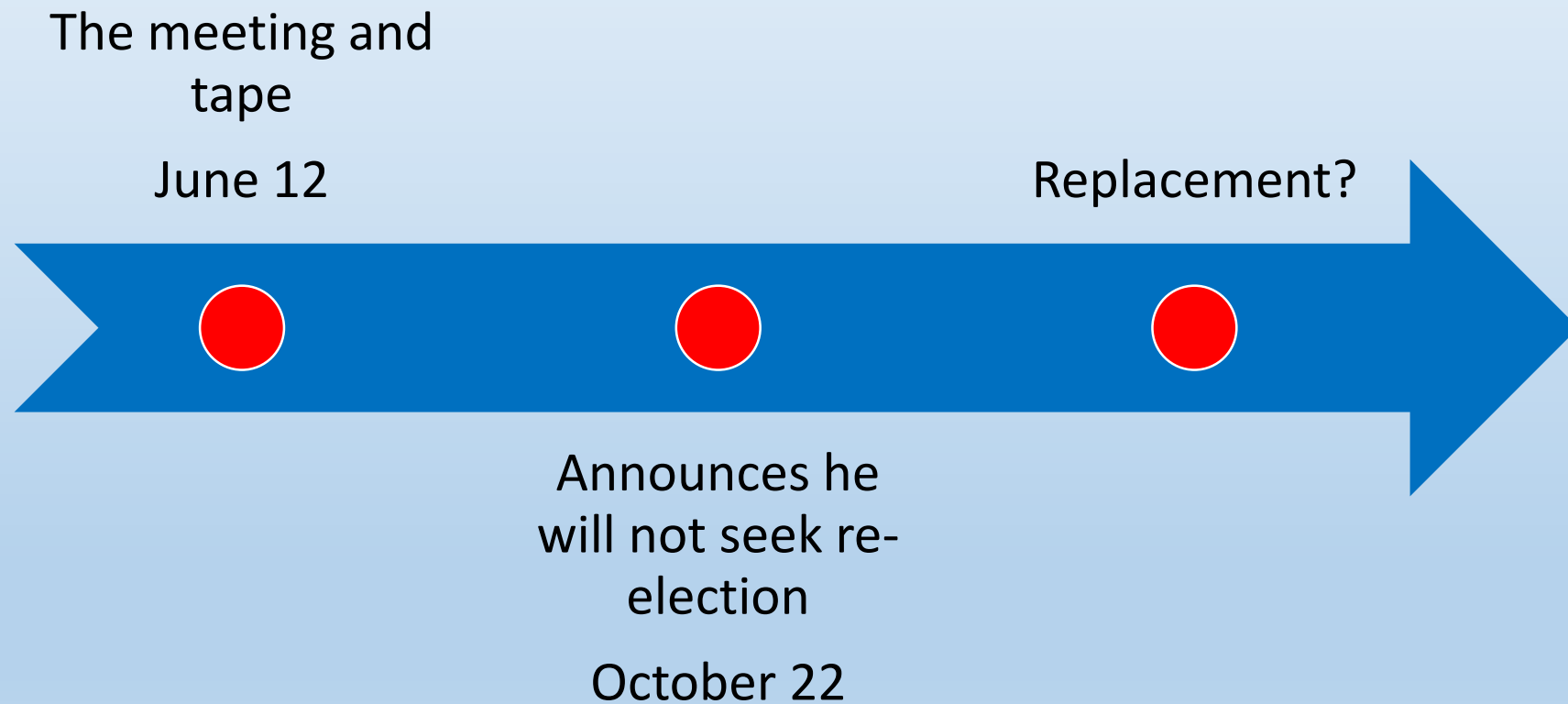
## Statutorily Frozen at a \$35 Guaranteed Level vs. Original Equity Level Maintained



# Political Landscape - House

- 83 R 64 D with 3 vacancies
- 9 seat swing
- Special election HB 28 – Zerwas
- HD 114 – John Turner – 8,000
- HD 105 – Terry Meza – 4,000
- HD 102 – Ramos – 3,000
- HD 108 – Meyer – 220 votes out of 78,000 cast
- HD 112 – Chen Button retained by 1,100
- HD 92 Stickland, HD 96 Zedler,

# Speaker's Politics



# Political Landscape - 2021

- Redistricting
- House Bill 3 revisions
- Ch. 313 Sunset
- SB 29
- The \$60 Billion Question: M&O

# What's Next?

(Remember—Efficiency, Equity and Adequacy Require a Funding System Based on Known Cost)

- **Cost Based**

- Current Year Collections
- I&S/Facilities
  - EC study
- Student Cost Differentials  
(Small/Mid-sized, Geographic Variations, etc.)

- **Non-Cost Based**

- Full Tier 1 Entitlement for Some but not for All
- Variations in Tier 1 Tax Rates
- LOHE Funding
- Tier 2 Yield Gaps
- Old and New Hold Harmlesses
- Other Special Provisions