

# Equity Center

## The Road to House Bill 3 and Beyond

### Region 15

November 6, 2019

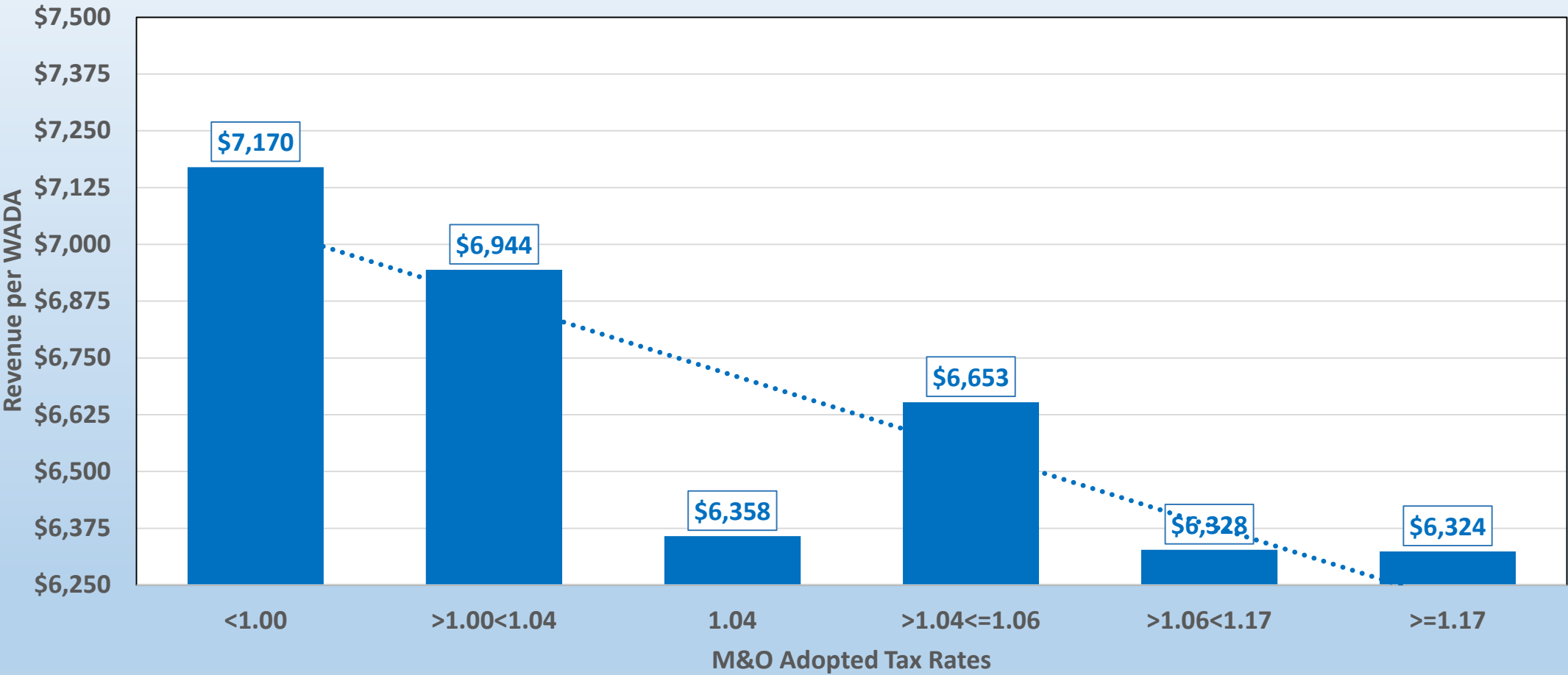
# Why Not Just More Money?

# 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



# The Plan is based on these basic elements

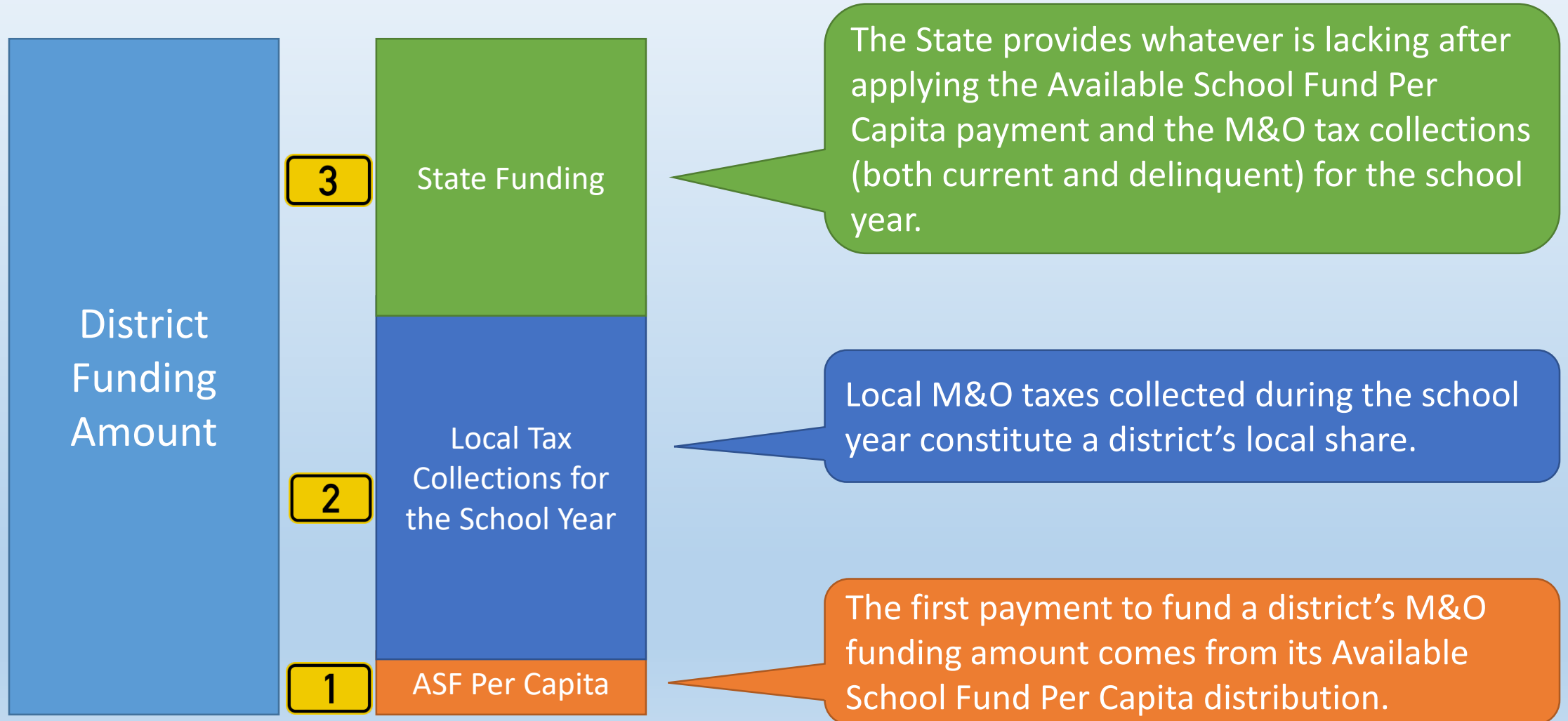
- No prior year value surprises or inequities
- Guaranteed revenue – no tax collections surprises
- WADA is calculated by a much simpler formula
  - No funding is determined by WADA calculations
  - WADA is only used for equity measurements
- Collections do not determine funding
  - It is a stable system 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**

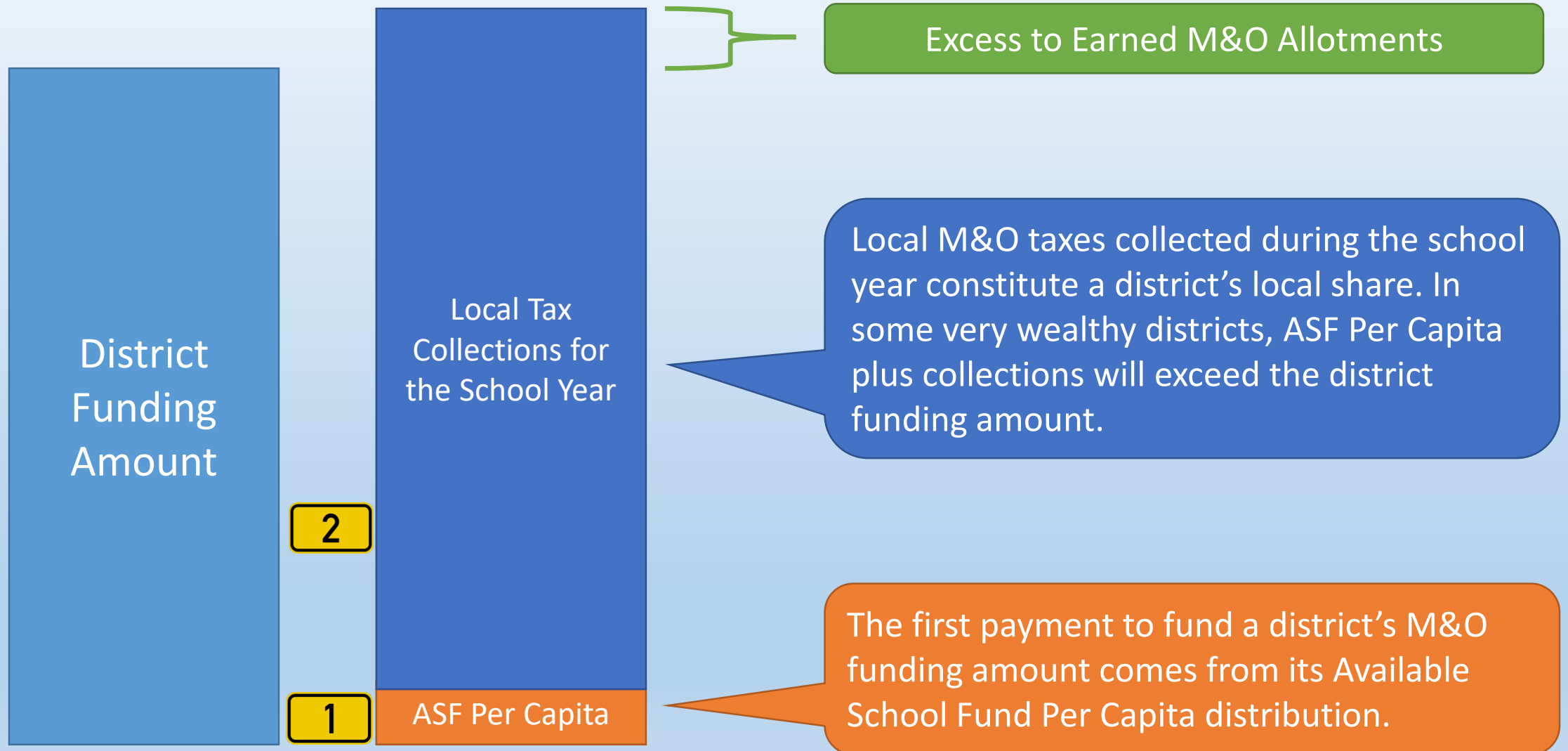
- High School Allotment
- Staff Allotment
- Early Agreement Credit
- 1993 Wealth Hold-harmless
- Hardship Grant
- Property Value Decline Funding
- Prior Year Values
- Tier 2 Golden/Copper Pennies
- Per Capita Double Dip
- New Instructional Facilities Allotment
- Gifted & Talented Allotment
- Public Education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

# Determining State/Local Funding for M&O





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

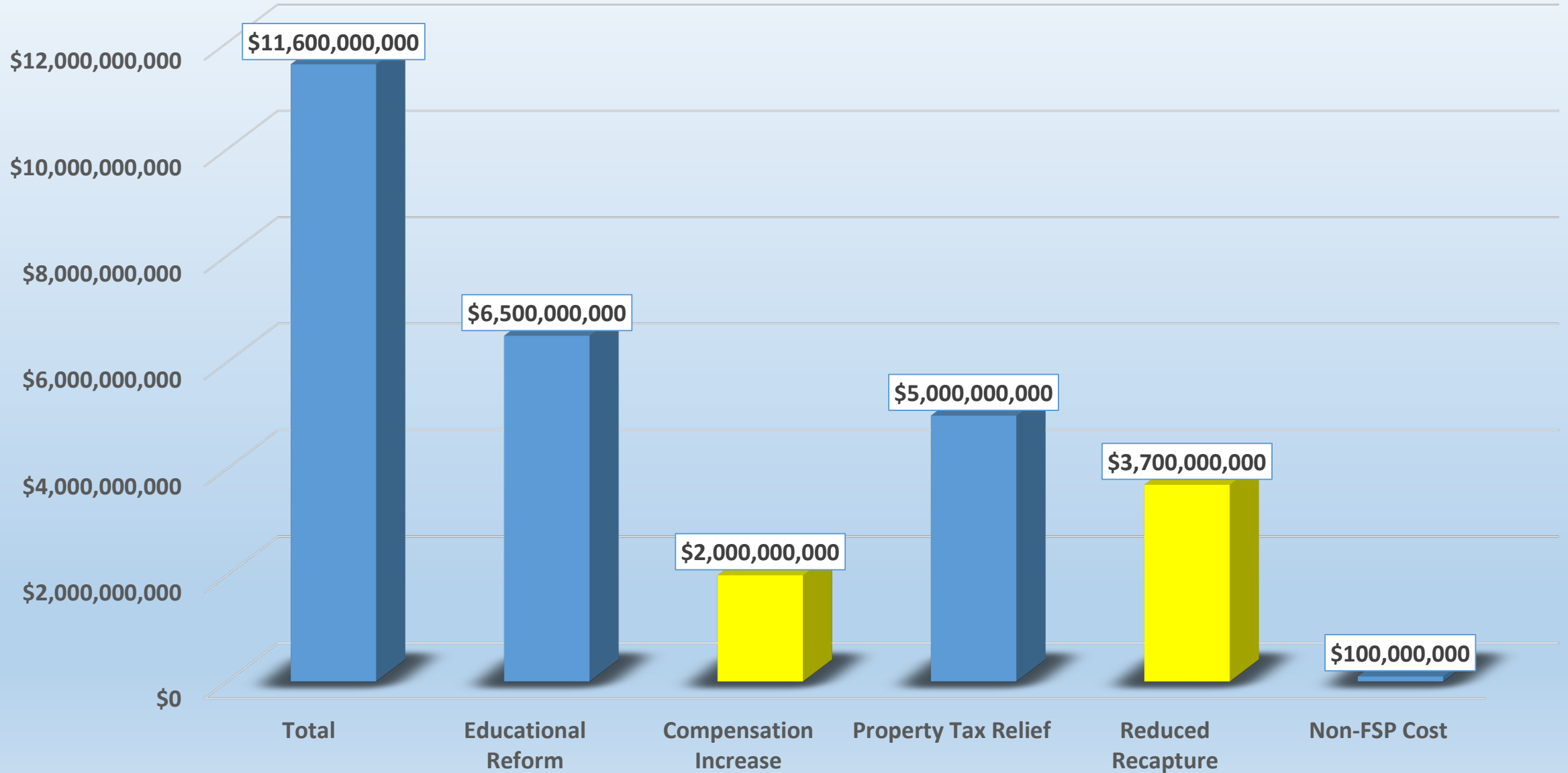


# HB 21: Texas Commission on Public School Finance

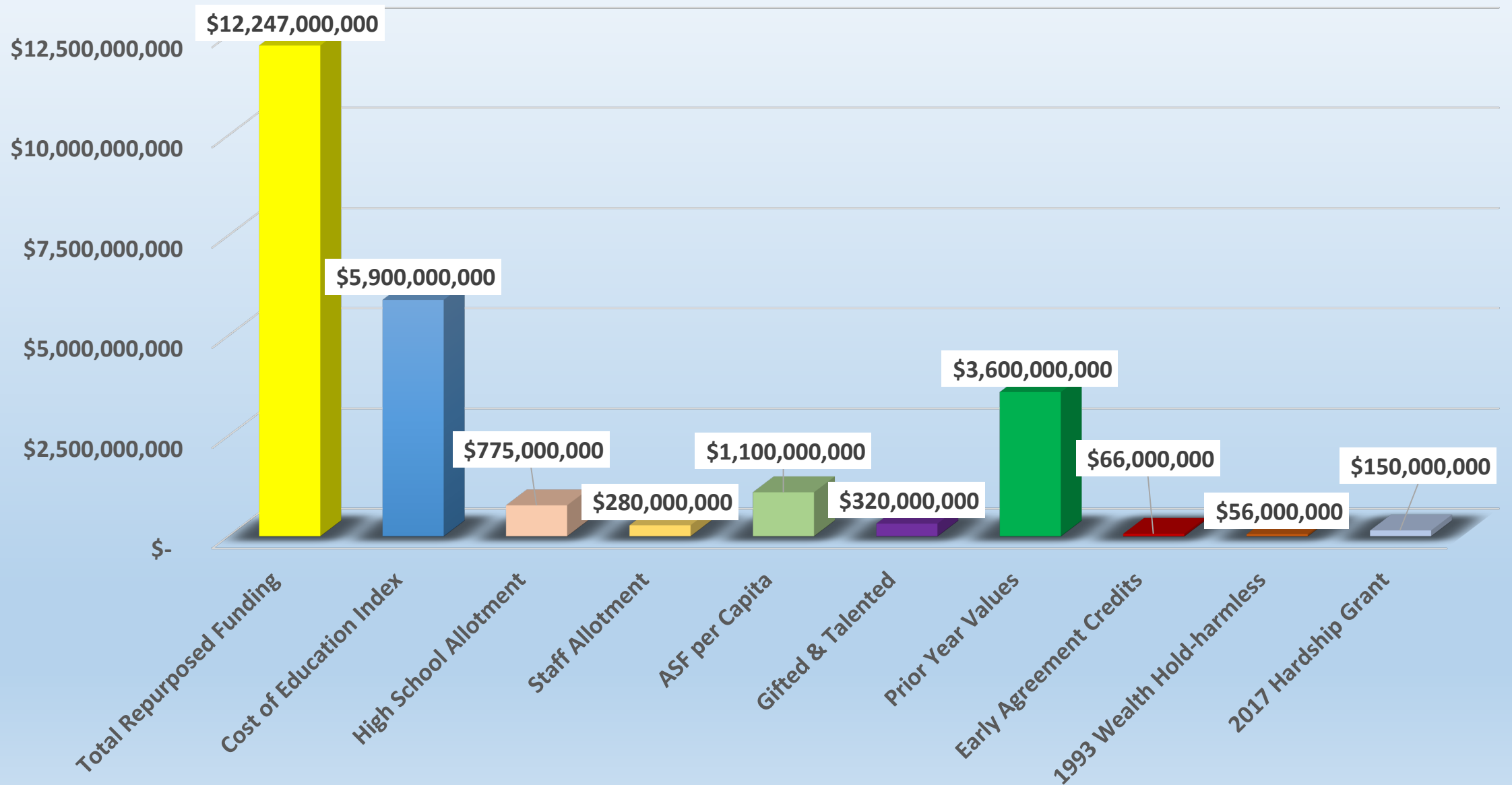
- Recommendations issued in December included:
  - Eliminating the High School Allotment, Early Agreement Credit, 1993 WHH, Gifted and Talented Allotment,
  - Moving to Current Year Values
  - Indexing Golden and Copper Pennies to the Basic Allotment
  - Incentive/merit pay
  - Outcomes-based funding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

# House Bill 3

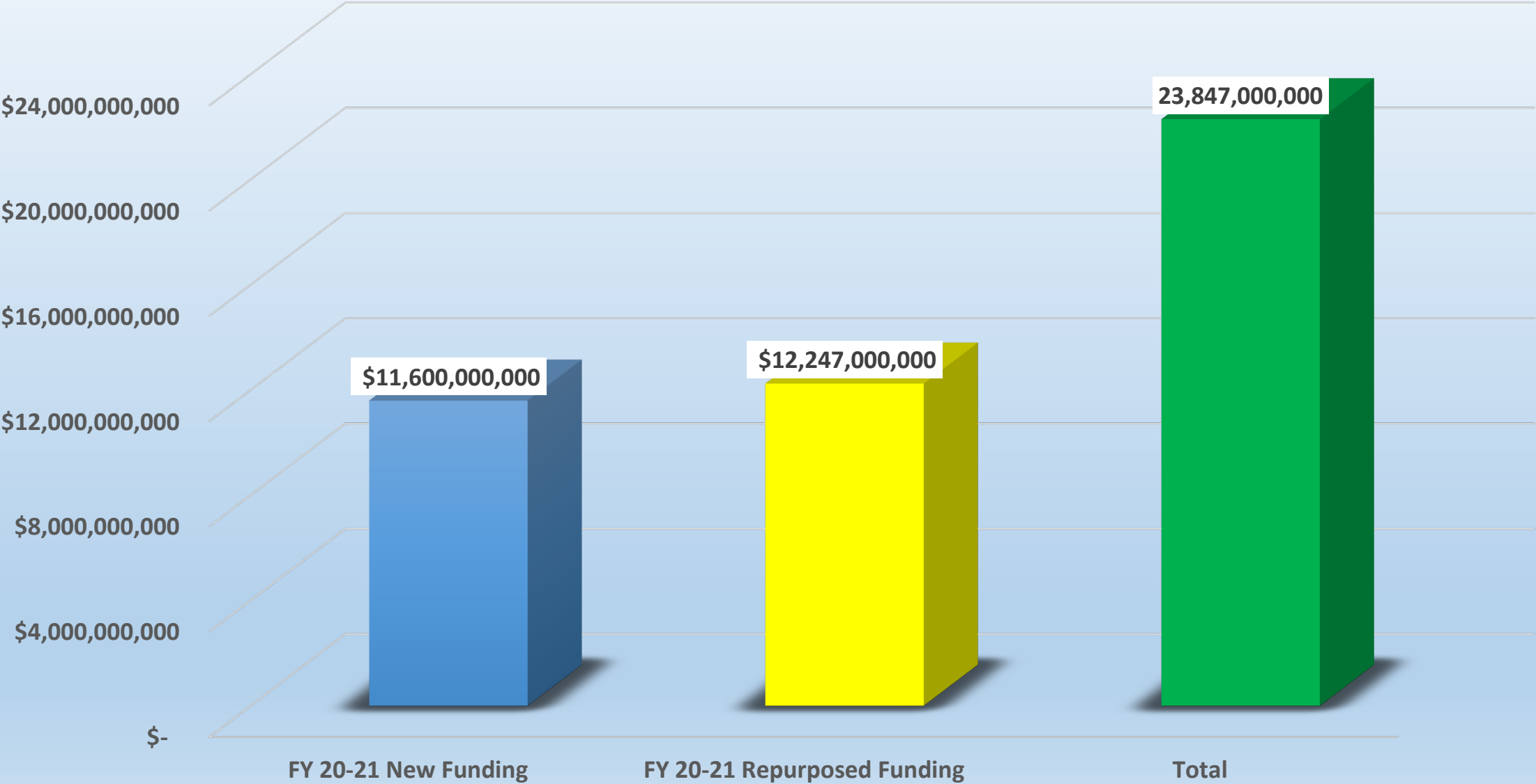
## New Revenue for FY 20-21--HB3



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



# FY 20-21 New & Repurposed Funding

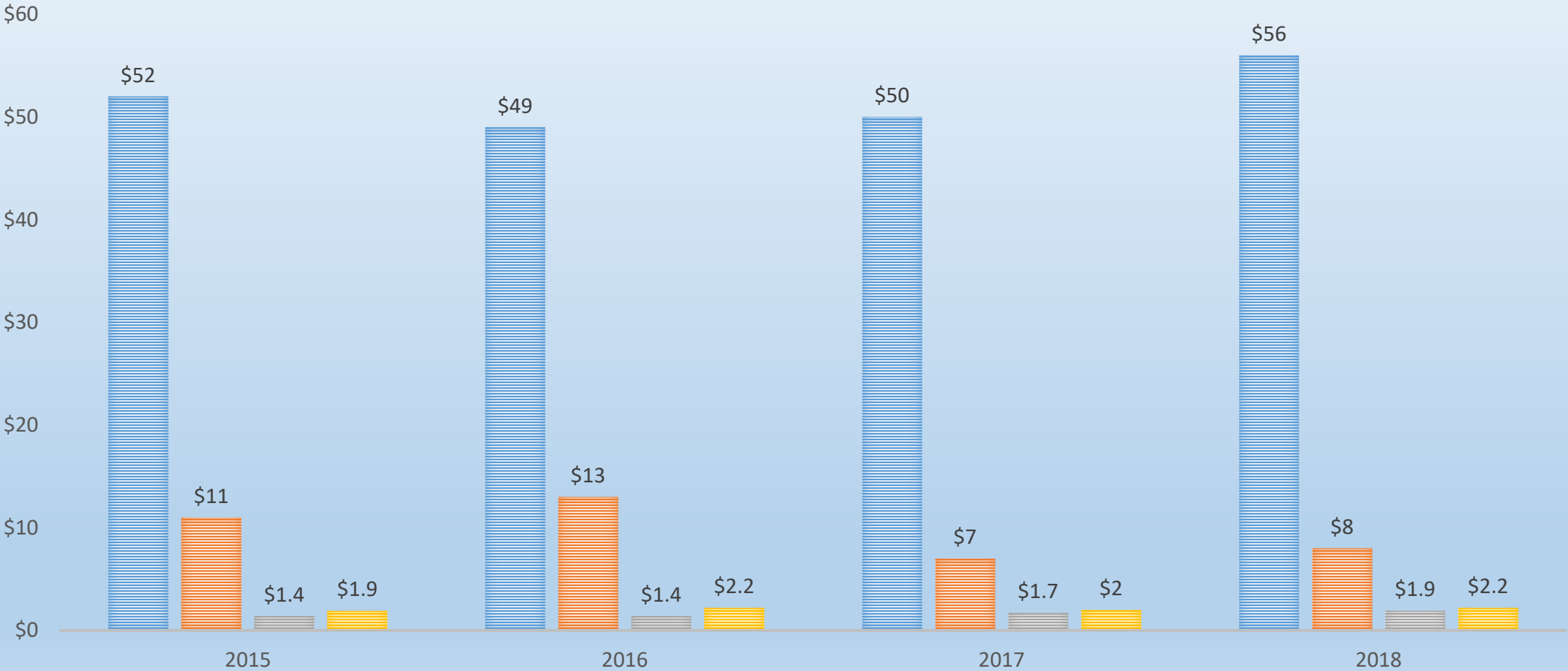


# New Education Reforms / Expenditures

- 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...

# STATE REVENUE \$ (BILLIONS)

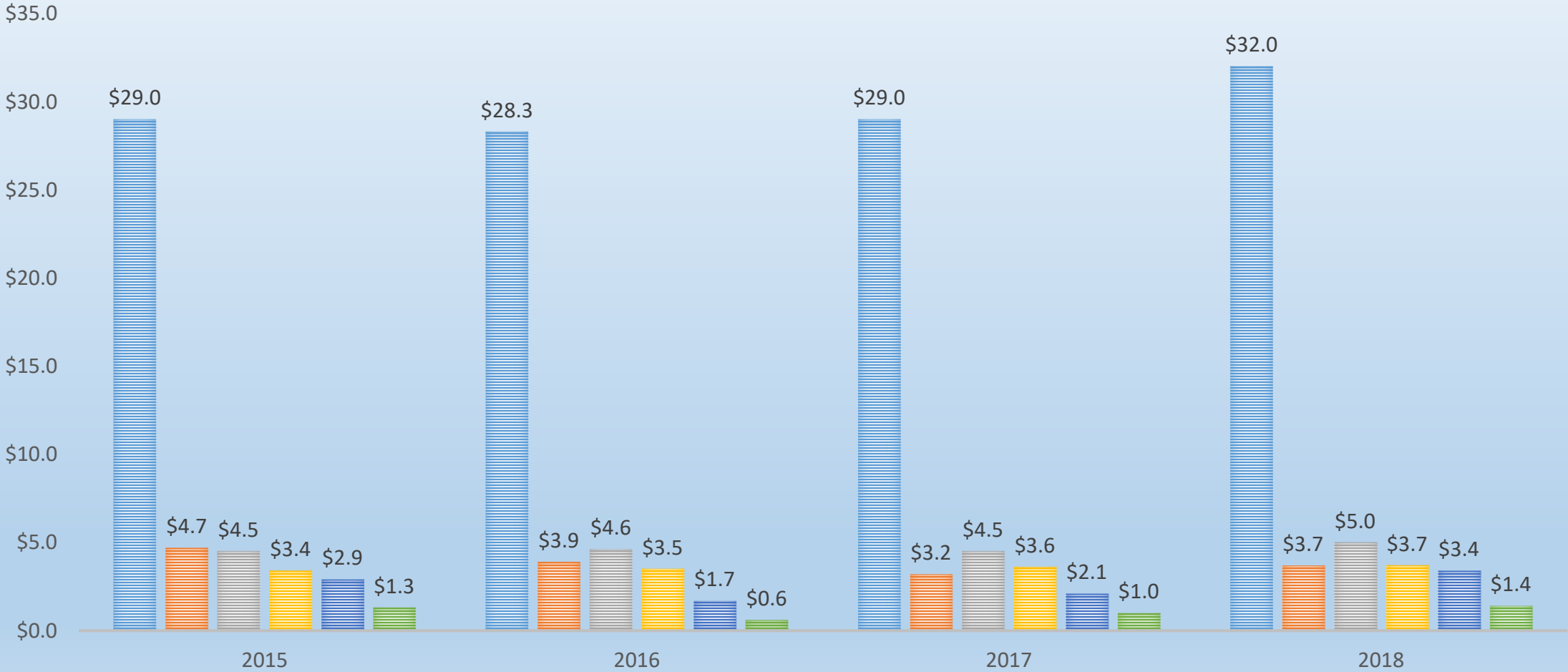
Total Tax Revenue License, Fees, Fines Interest and Investments Lottery





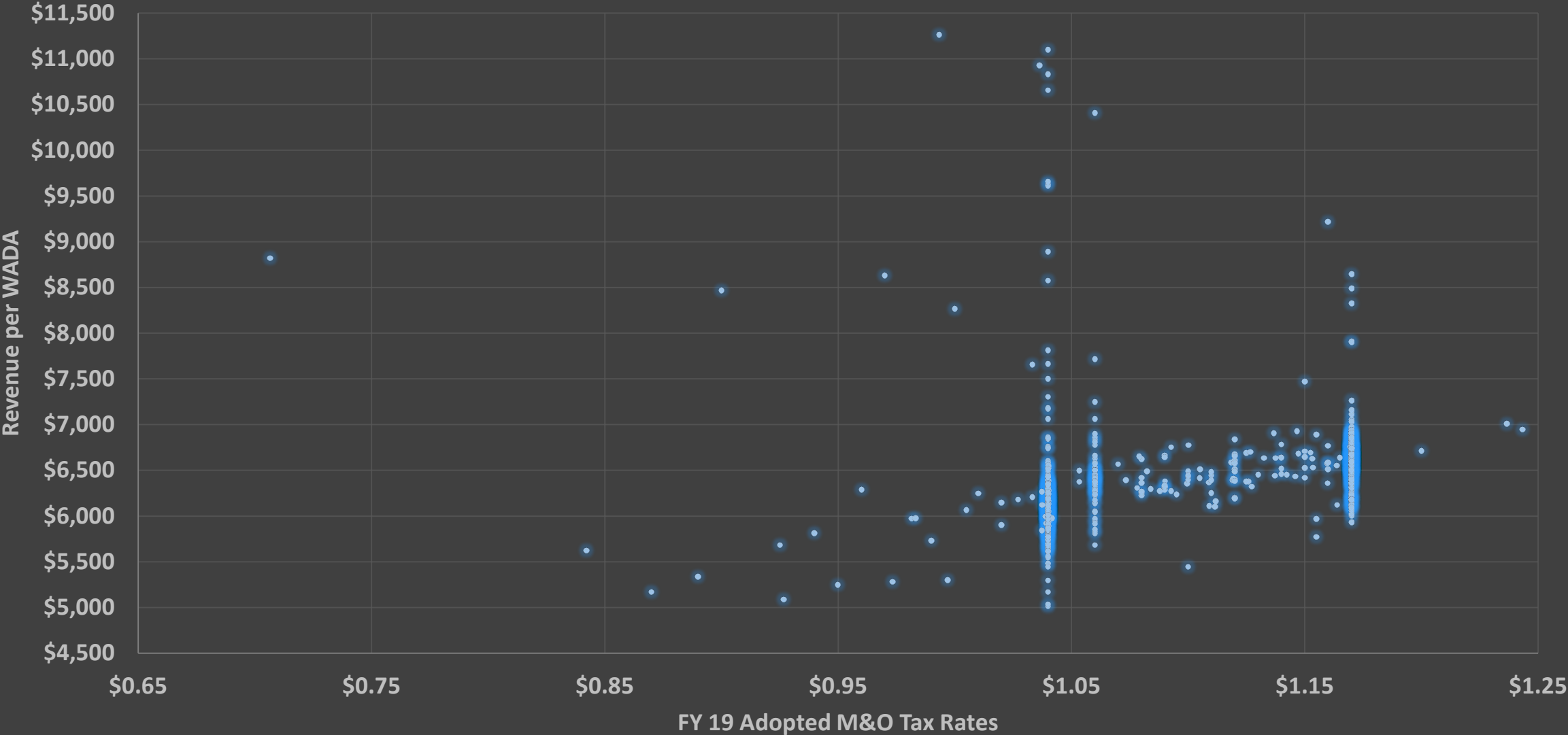
# STATE TAX REVENUE BY SOURCE \$ (BILLIONS)

Sales Tax   Franchise   Motor Vehicle   Motor Fuels   Oil Production   Natural Gas

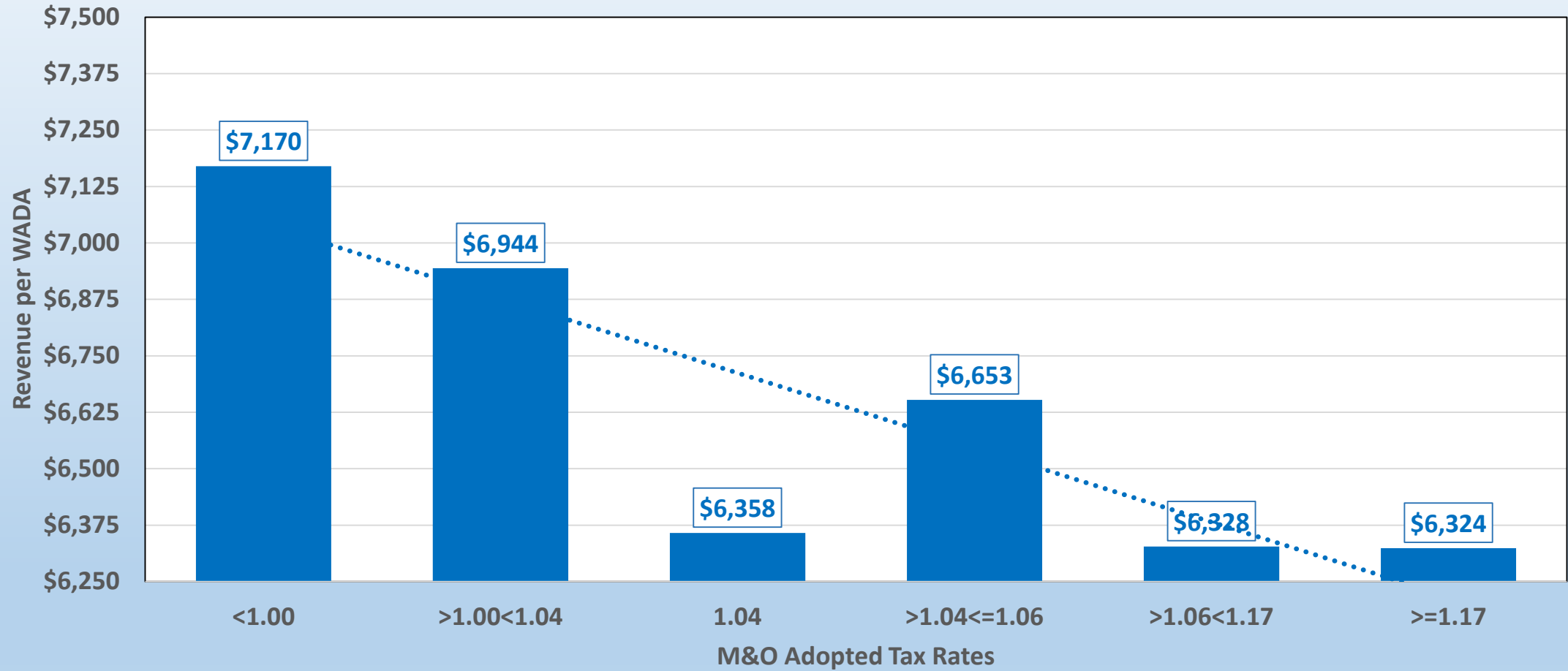


Efficiency, Equity Require Funding Based on  
Actual Cost, not District Wealth

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



# FY 20 Prior Law (PL) Rev/WADA



## 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**



## 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**



## 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**

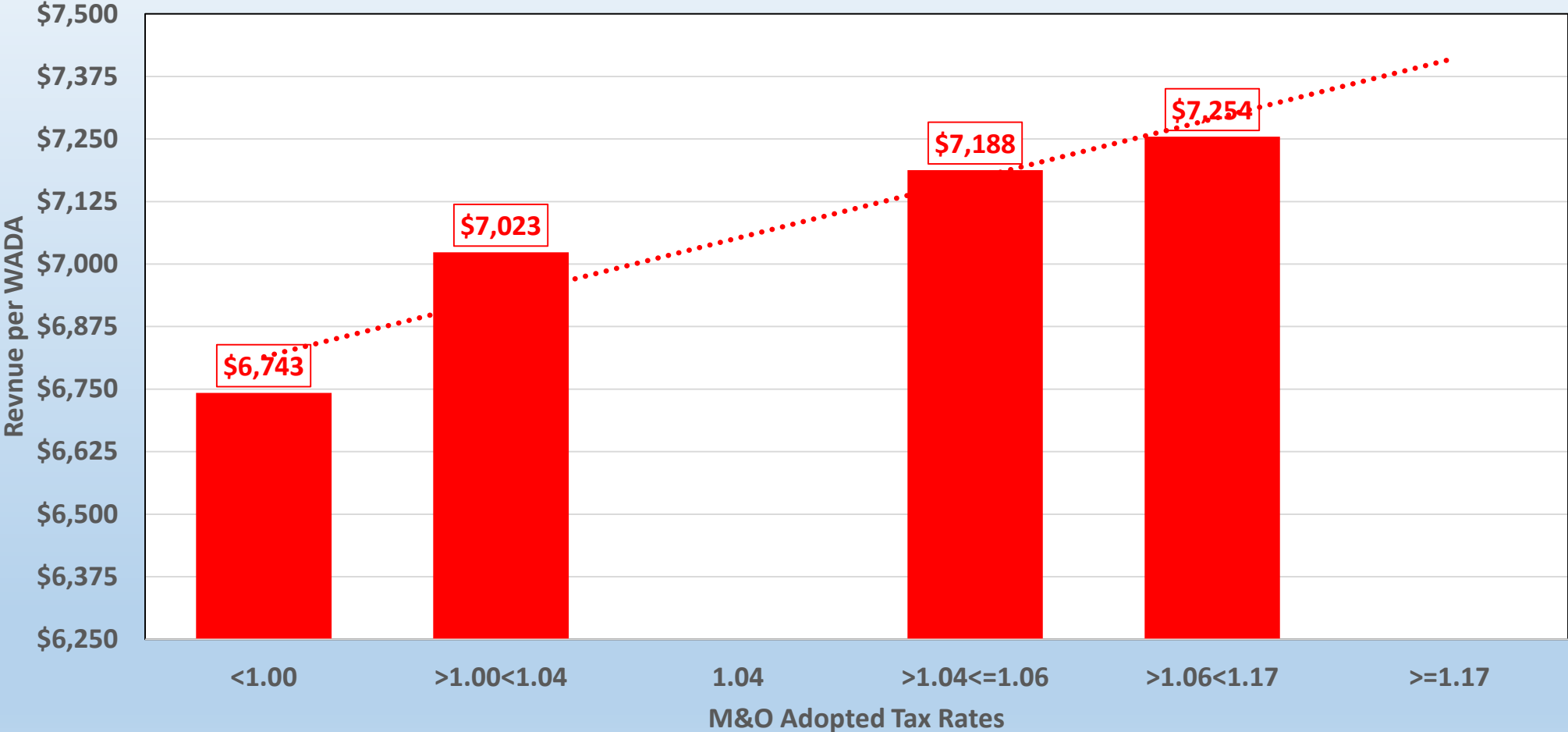


**Forces all districts to tax at full New Compressed Rates before they can access any Tier 2 Golden or Copper Pennies**

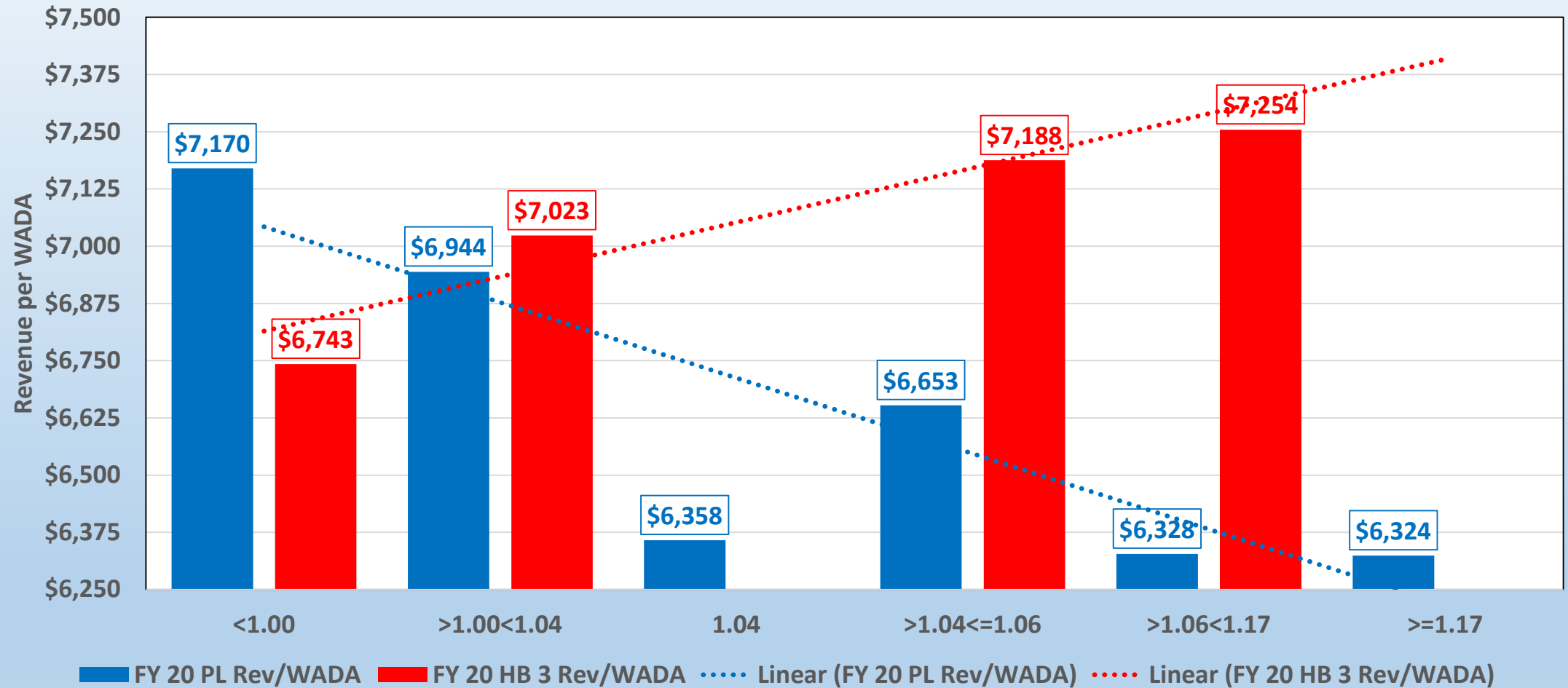




# FY 20 HB 3 Rev/WADA

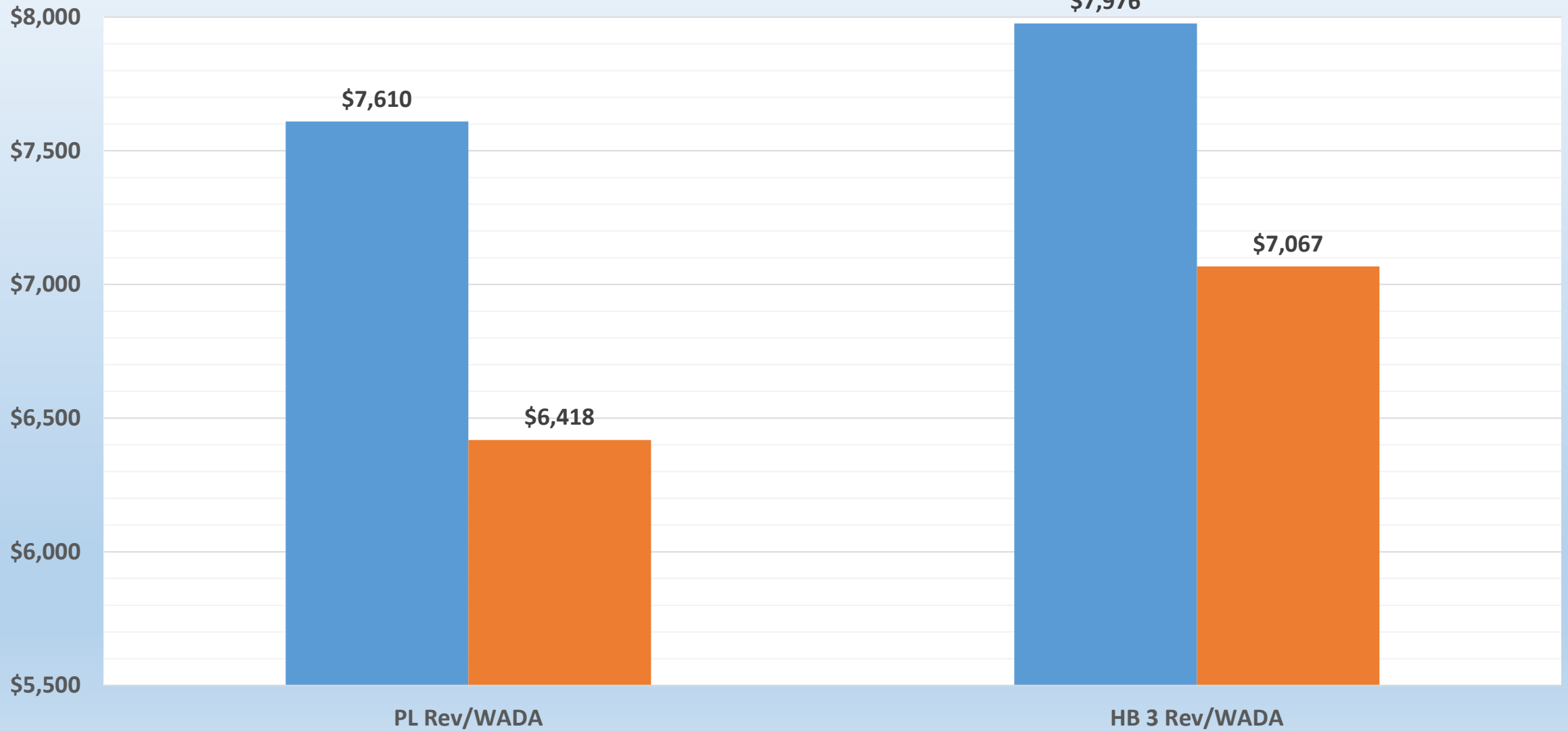


## HB 3 Correcting the Equity Trends--FY 20



## Prior Law/HB3 Average FY20 Revenue per WADA

■ Wealthiest 5% ■ Poorest 5%



# Compensation

- 30% of ALL new revenue (not including transition aid if approved) 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

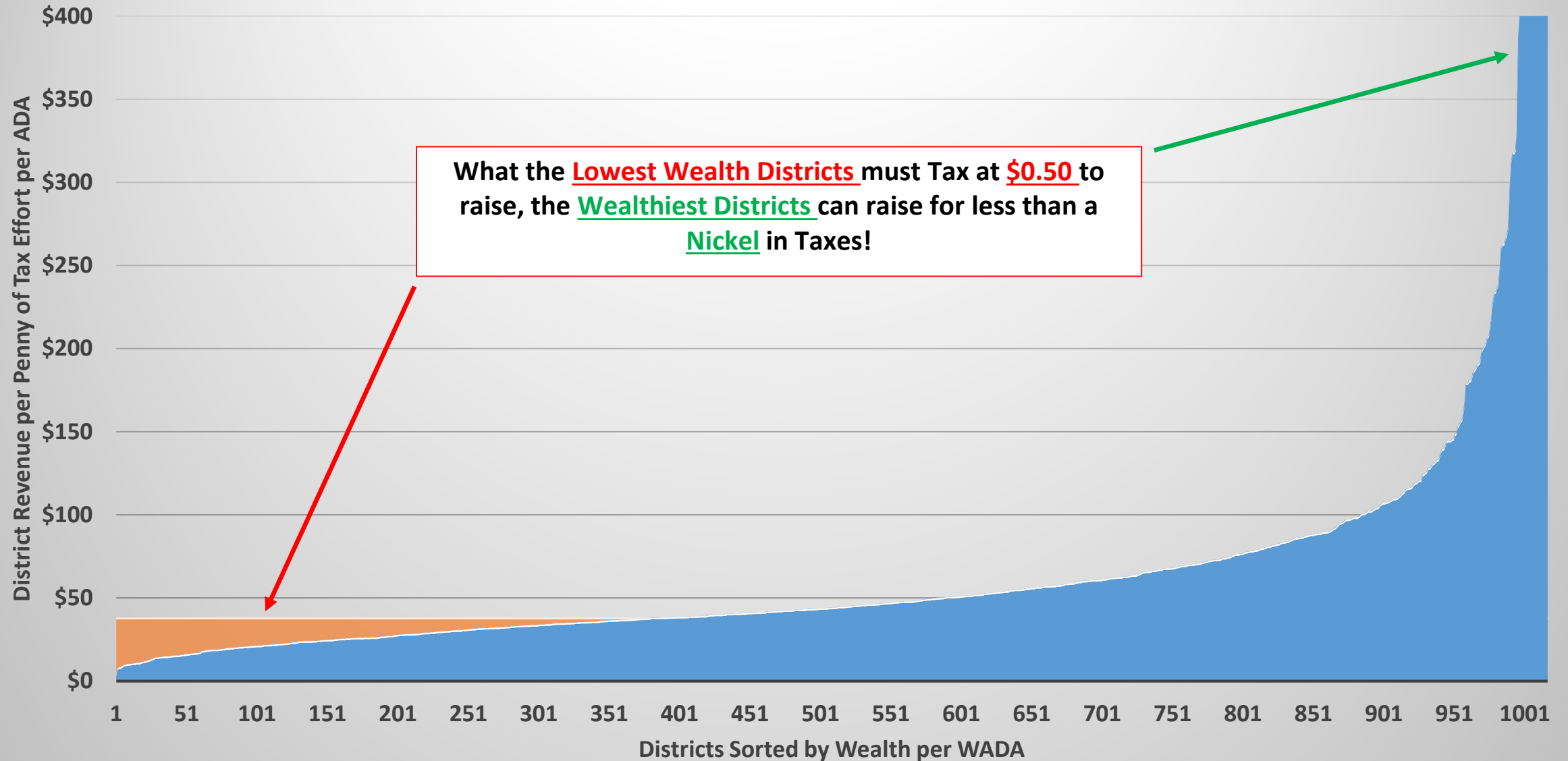
- District maximum compressed rate is lower of:
  - Statewide Tier 1 tax rate (0.91597)
  - If DPV increased by more than 2.5%:
    - $(1.025 \times ((\text{PYDPE} + \text{PV of 311 or 313}) \times \text{PYMCR})) / \text{DPV}$ , but not less than 90% of statewide tier 1 tax rate

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

# House Public Education Committee 10-28-19

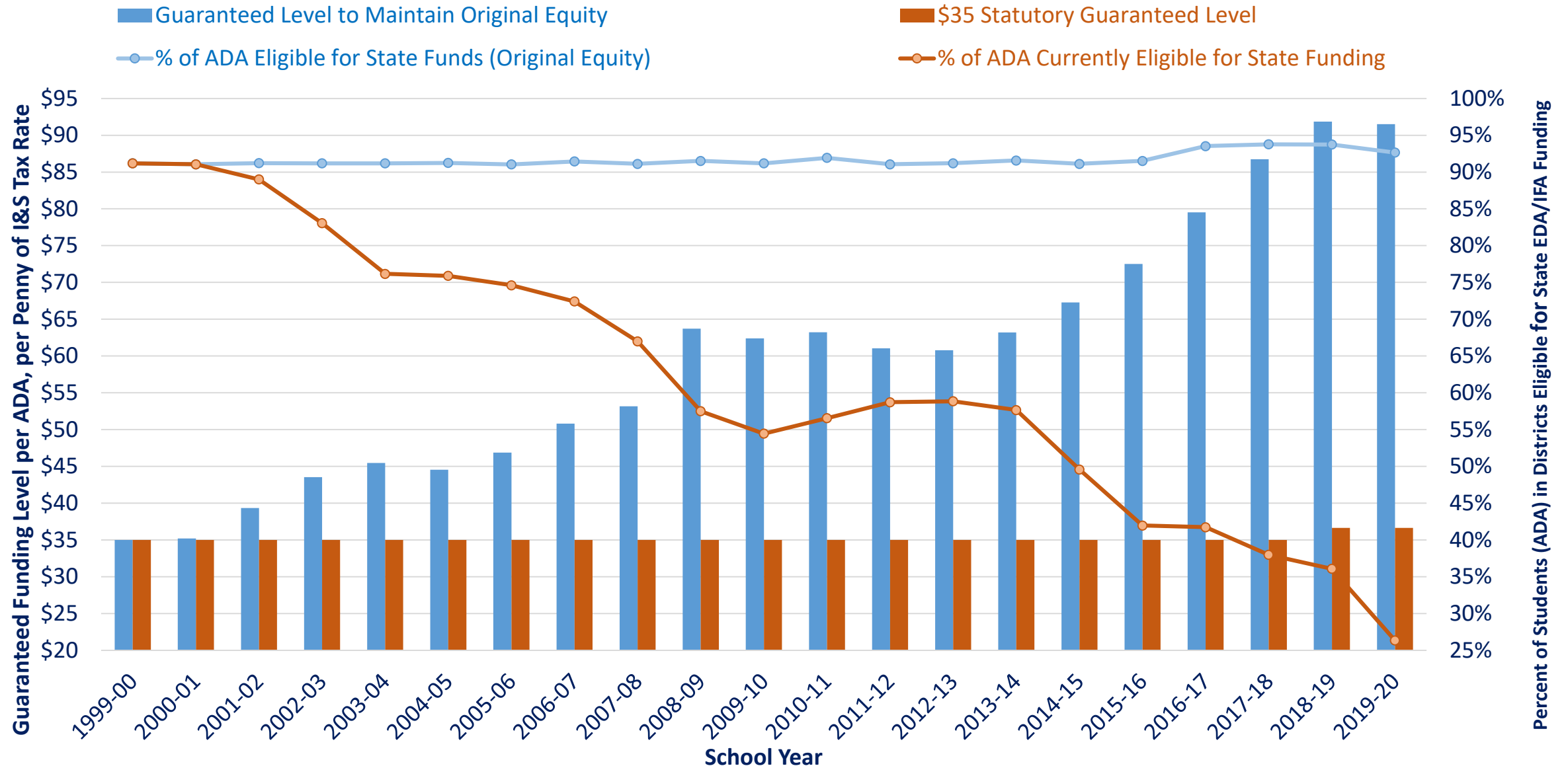
- House Bill 3 Implementation Update
- Unintended Consequences
  - Small and Midsized adjustments/CTE\*
  - Fast Growth Allotment\*
  - Formula Transition Grants and Teacher Compensation
  - Special Ed funding for Charter Schools
  - Regional Education Service Center Staff Supplement
  - PTECH and New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

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



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

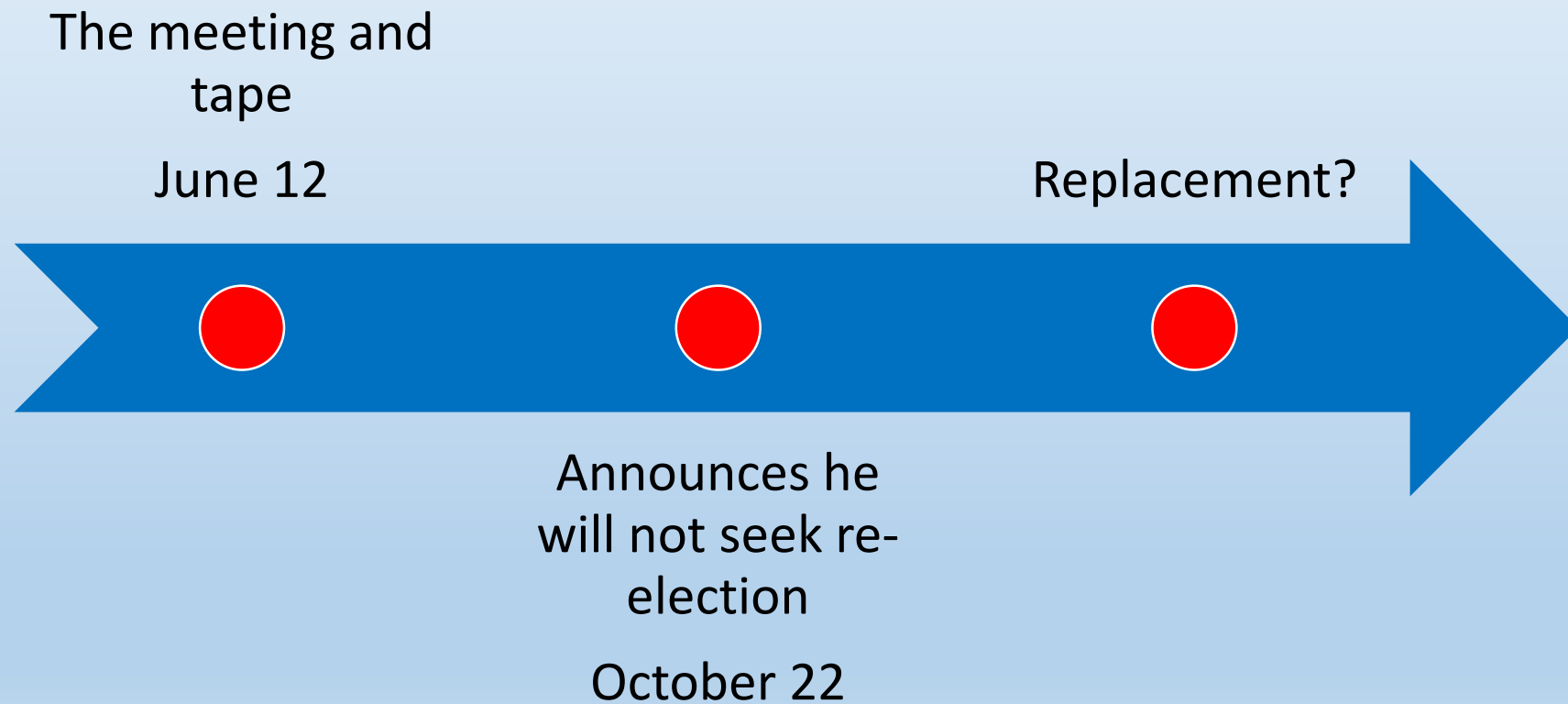
## Statutorily Frozen at a \$35 Guaranteed Level vs. Original Equity Level Maintained



# Political Landscape - House

- 83 R 64 D with 3 vacancies
- 9 seat swing, “33 Competitive General Elections Races”
- Special election HB 28 – Zerwas
- HD 53– Murr (78%) 2020: 1 general election challenger
- HD 59 – Sheffield (100%) 2020: 2 primary challengers
- HD 60 – Lang (100%) 2020: 2 primary challengers
- HD 72 – Darby (100%) 2020: 1 primary challenger
- HD 74 – Nevarez (100%)
- HB 80 – T. King (100%) 2020: 1 primary challenger

# Speaker's Politics



# Political Landscape - 2021

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

# 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
- Repurpose existing transition revenue for cost-based reasons