



# Legislative Interim Update


Moak, Casey and Associates

## In this presentation



- Review the formula changes for the Foundation School Program
- Review the status of the state's revenues and political environment
- Cover upcoming interim work on public education funding
- Update on initial School Finance Commission meeting


## HB 21 Public Education Changes



Program	Year	Cost	Termination
Small School Formula Change	2018-19 + five years of transition	\$41 million (\$0+\$41)	Full implementation in 2023-2024
ASATR Protection	2017-18 and 2018-2019	\$150 million (\$100+ \$50)	Terminated 09/01/2019
EDA Yield Increase estimated at \$38.50	2018-19	\$60 million (\$0+\$60)	
Charter School Facilities	2018-19	\$60 million (\$0+\$60)	
Pilot Programs: Autism and Dyslexia	2018-19	\$40 million (\$0 + up to \$40)	2021
Texas Public School Finance Commission	2017-18		01/08/2019

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## Other FSP Changes Coming



- Austin Yield increases to \$106.28 in 2018-19
- Importance of defending this in the next session

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## Revenue Performance FY 2018



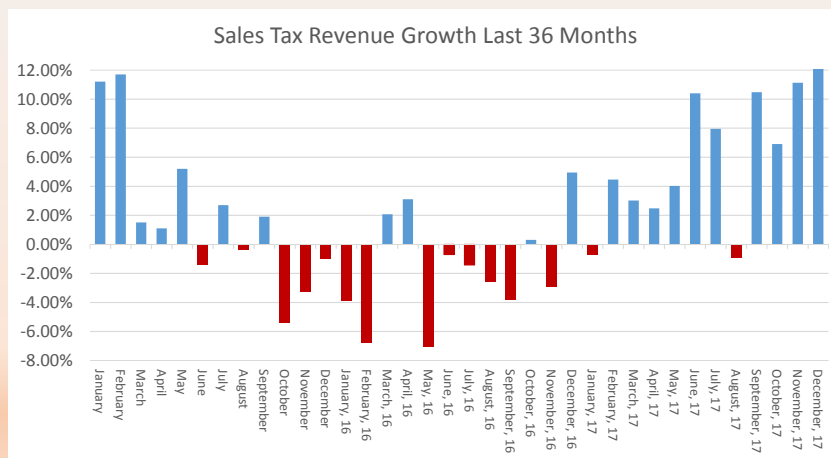
	Biennial Revenue Estimate Projected Growth	Actual Growth to Date
Sales Tax	5.50%	10.25%
Motor Vehicle Tax	10.27%	8.89%
Natural Gas Tax	-9.53%	52.20%
Oil Production Tax	9.85%	40.98%
Alcoholic Beverage Tax	4.63%	4.74%
Cigarette and Tobacco	-7.72%	-7.19%
Motor Fuels Taxes	1.61%	6.39%

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## Recent Sales Tax Growth

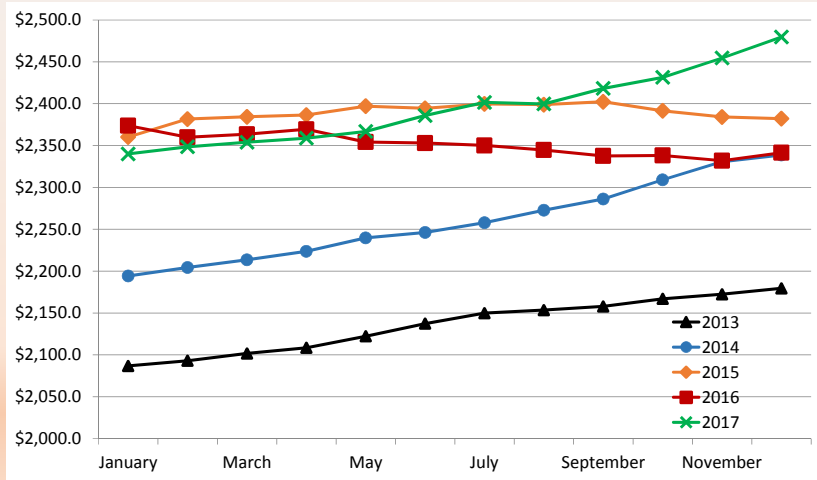


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## 1-Year Moving Average Monthly Sales Tax Collections

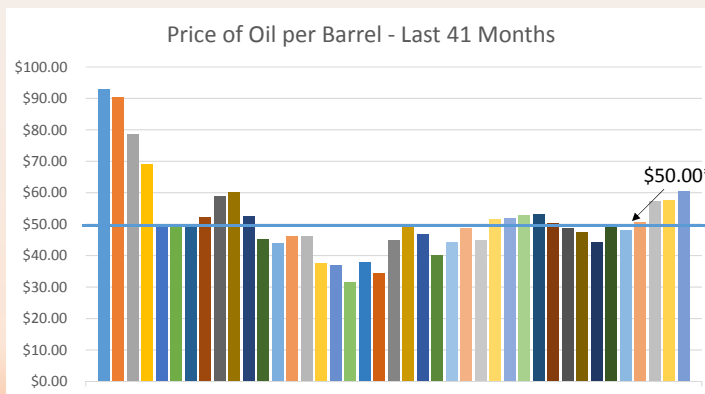


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## Oil Prices Stabilizing



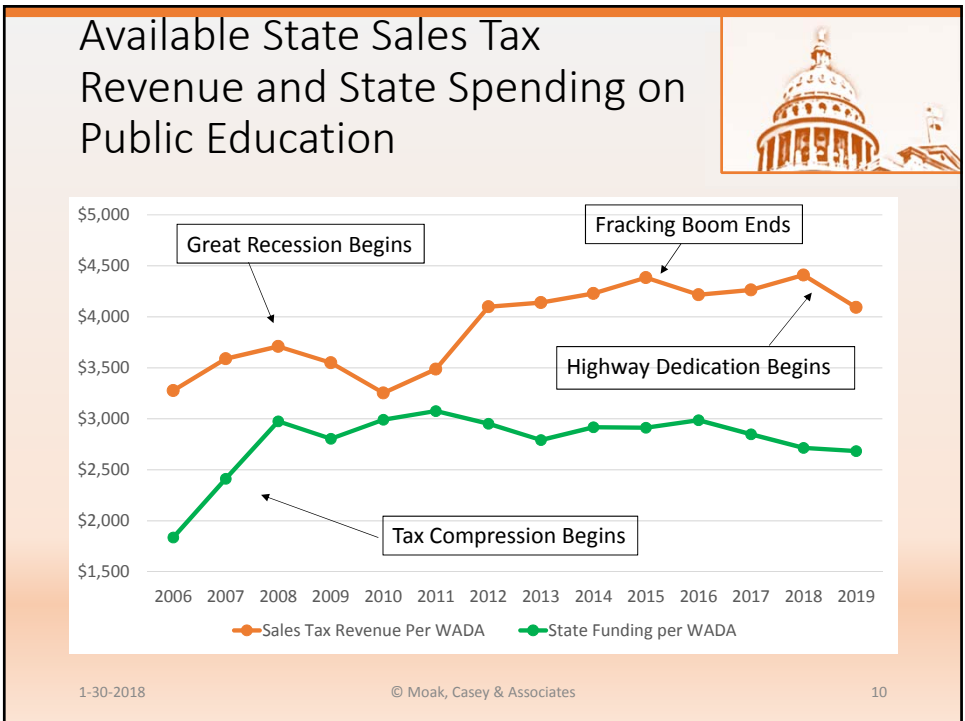
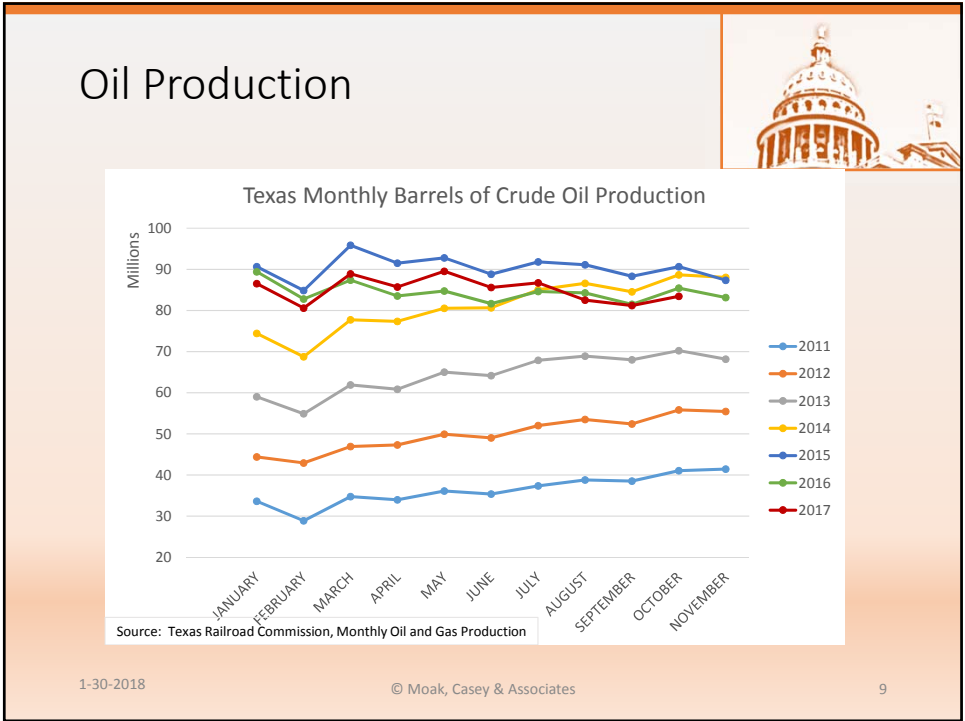
WTI on Monday of first full week of the month

\* Comptroller's estimate based on \$50 per barrel in 2018

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## Revenue Increases



- Oil Prices
- Production Outlook
- Domestic Market and International Market

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## Future of NAFTA



- Renegotiation
- Cancellation
- Southern Border vs. Northern Border

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## Political Environment



- No court mandate
- Retirements in the House
  - Speaker Straus
  - Chairs of State Affairs (Cook), Insurance (Phillips), Elections (Laubenburg)
  - 9 other House members (5 of whom are running for other offices)
- Retirements in the Senate
  - Senators Garcia and Van Taylor
- Election year focus

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## Interim Charges – House Appropriations



- Examine the use of one-time funding and deferral measures employed by the Legislature in the state budget for the 2018-19 biennium, as well as other factors that may contribute to a **structural deficit**
- Continue to study strategies to use the **Economic Stabilization Fund**
- Study the **sustainability of TRS-Care** and consider options for funding retired teacher health care in Texas

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## Interim Charges – House Appropriations



- Monitor the agencies and programs under the Committee's jurisdiction and oversee the implementation of relevant legislation passed by the 85th Legislature specifically the impact of the Texas Education Agency's **reinterpretation of regulations related to the local option homestead exemption**

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## Interim Charges – House Ways and Means



- Review the impact of **Hurricane Harvey on state and local taxes, review the property tax system** and identify improvements, and **review the franchise tax** and identify any changes that would improve the state's business climate

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## Interim Charges – House Pensions



- Review and evaluate health incentive programs within the group benefit programs at ERS and TRS. Identify best practices among similar programs and barriers to implementation. Make recommendations for achieving further savings through existing and/or new programs.

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## Interim Charges – Senate Education



- Study current local, state, and/or national **compensation strategies** for classroom teachers and make recommendations to elevate the teaching profession as well as comprehensive policies to attract, retain, and reward teachers
- **Review, modify, or abolish** chapters of the education code. Specifically, study cost-drivers, unnecessary mandates, reduction/elimination of inefficiencies, focus on policies or opportunities targeted to improving student outcomes, and better utilization of taxpayer resources.

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## Interim Charges – Senate Select Committee on Property Tax Reform



- Study the feasibility of **replacing the property tax** with sales tax or other consumption tax revenue, with **emphasis on school maintenance and operations tax**. Evaluate whether some local property taxes lend themselves to a swap more than others. Quantify the short-term and long-term economic effects of a tax swap. Identify a target property tax rate and evaluate how to reach that target with a consumption tax swap.

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## Interim Charges – Senate Select Committee on Property Tax Reform



- Study and recommend ways to **enhance voter engagement** in local government decisions around **budgets and property tax rates** through digital media and social media. Determine how budget and tax rate information should be formatted for effective communication through digital and social media. Identify the ways in which digital and social media present new opportunities for voters to give feedback to local governments. Identify best practices among local governments in Texas and in other states.

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## Governor Abbott's Plan



- Revenue cap of 2.5% per year
  - Voter approval required for any increase above 2.5%
  - Not clear whether the 2.5% cap applies to M&O taxes only or total taxes
  - 2/3rds vote required by board of taxing unit and public
  - Even with voter approval, increases may not exceed statewide population and inflation growth
  - For school districts, proposal appears to ignore impact of property values on school funding formula
- Statutory prohibition on unfunded legislative mandates
- Require appraisal district directors to be locally-elected officials

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## Abbott Plan, Cont.



- Improve property owner rights in appraisal and protest process
- Comptroller database on all properties and taxes applicable
- Improve transparency of local debt
- 2/3rds supermajority to authorize new debt
- 1/3rd of voters must participate

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## Abbott Plan, Cont.



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## Texas Commission on Public School Finance



- Created in HB 21
- Commission composed of thirteen members,
  - Four members appointed by the Governor:
    - one current or retired classroom teacher (Melissa Martin, Galena Park ISD),
    - one business community member (Todd Williams, Dallas),
    - one civic community member (Elvira Reyna, Denton County), and
    - Chair of the commission (Scott Brister, former Justice of Texas Supreme Court);
  - Four members appointed by the Lt. Governor:
    - three senators (Larry Taylor, Paul Bettencourt, Royce West) and
    - one administrator or school board member (Doug Killian, Superintendent, Pflugerville ISD);

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## Texas Commission on Public School Finance



- Four members appointed by the Speaker of the House of Representatives:
  - three house members (Dan Huberty, Diego Bernal, Ken King) and
  - one administrator or school board member (Nicole Conley Johnson, CFO Austin ISD);
- One member appointed by the Chair of the SBOE:
  - One member of the State Board of Education (Keven Ellis)
- The Commission is to report by December 31, 2018 and will be assisted by the Commissioner and staff of the Texas Education Agency
- First meeting January 23; second meeting February 8

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## Charges to the Commission



Develop recommendations to address issues, including:

- (1) the purpose of the public school finance system and the relationship between state and local funding in that system;
- (2) the appropriate levels of local maintenance and operations and interest and sinking fund tax effort necessary to implement a public school finance system that complies with the requirements under the Texas Constitution; and
- (3) policy changes to the public school finance system necessary to adjust for student demographics and the geographic diversity in the state.

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## Commissioner Morath's Presentation to Commission



- In his January 23<sup>rd</sup> presentation to the Commission on School Finance, Commissioner Mike Morath highlighted four major areas to be addressed:
  - Teacher Quality—connection between teacher quality and how teachers are paid
  - Quality Early Learning—importance of prekindergarten education, especially for economically-disadvantaged students
  - Coherent Curricula—need for effective curricula and linking of instructional materials funding to preferred curricula
  - Increased Summer Learning—need for longer school calendars to improve student retention and learning

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## Plans Abound with No Mandate



- Texas Association of School Boards
- Equity Center
- Texas School Alliance
- Texas Public Policy Foundation
- Other Players
  - Commissioner of Education
  - Legislative and Executive Budget Offices
  - Education Groups
  - Public Policy Groups

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## TASB



- Single Tier Guaranteed Yield
  - \$56/penny per WADA
  - WADA includes only 50% of an updated cost of education index
  - Compensatory weight increased to .30, but applied to counts of at-risk instead of free/reduced lunch eligibility
  - Bilingual increased to .20
- Recapture on all pennies at \$560,000/WADA
- Minimum gain \$65/WADA, maximum \$250/WADA
- Approximate cost to state \$3.1 billion for the biennium

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## Equity Center



- Effectively a single-tier structure
  - Basic allotment varies with the adopted tax rate
  - If local taxes exceed the cost of allotments less ASF, the excess amount is recaptured
  - Use of current-year values (eliminate one-year lag)
- No recommendations for weight changes
- No defined or targeted cost
  - Left to legislative discretion
  - Plan largely a statement about structure

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## Texas School Alliance



- Updated FSP elements
  - Increase Basic Allotment to \$5,450
  - Increase Tier 2 Level 2 yield to \$51.77
  - Cost of education index to be updated
  - Simplify Tier 1 by eliminating gifted/talented, high school, and staff salary allotments; also ASATR and 1992-93 Chapter 41 hold harmless
  - Expand Austin yield zone to 8 cents
- Estimated cost around \$3.5 billion, but somewhat dependent on which CEI, and whether a hold-harmless component is desired

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## TPPF



- Revise the current system
  - Place a greater emphasis upon student-level equity. Recommend that Maintenance and Operations funding for school districts be based on services provided.
  - An equitable system would ensure that children from diverse backgrounds are provided equal opportunity
  - All the outdated and complex formulas in the FSP should be replaced with a single “GDK Allotment”.
  - This system would more closely track the original constitutional per capita concept, and parents would assign their child’s points to districts based on the services that they prefer.

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## TPPF, cont.



- Education Savings Accounts / Vouchers
  - Debit cards
  - Flat amount per student

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## Where Does This Lead?





- Into the Unknown
- Speculation
  - Will state revenue growth be sufficient to plug the left over 2017 commitments?
  - Will the surge in sales tax collections end as Harvey damage is repaired?
  - Will the House and Senate members of the Commission come to the table to write a compromise plan?
  - How strongly a role will Judge Brister play as head of the Commission?
  - Will the Commissioner, Comptroller, or some other state official be willing to play a leadership role?

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