

# School Finance Update

October 2017



## Regular Session Recap

2

- Austin yield increase delivers new money
  - Yield for the 6 golden pennies jumps from \$77.53 to \$99.41 in 2018 and \$106.28 in 2019
  - Typically 1.5%-2%
- Increase to NIFA award amount (\$1,000), but no increase for appropriation

## Regular Session Recap

3

- No cuts in formula funding, student growth fully funded
  - Total TEA appropriation up \$632 M, but portion funded from state sources down \$418 M due to property value growth

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## State Share of FSP Declining

4

	% State
2017*	39.21%
2018*	36.86%
2019**	36.61%

\* From TEA's payment files; includes debt service funds, charter schools included

\*\* From MCA model for 2018-19 school year; includes debt service funds and charter schools

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## Appropriations Changes

5

- Increases
  - Property value decline - \$75 M
  - Administration Support for Cybersecurity - \$5 M
  - Open-source Instruction Materials - \$10 M
  - Texas Juvenile Justice Dept. - \$1.28 M
  - Windham Schools (TDCJ) - \$1.37 M
- Decreases
  - IFA awards - (\$55 M)
  - Incentive Aid - (\$1 M)
  - Literacy Academies - (\$8.8 M)

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## Appropriations Changes

6

- More decreases
  - Math Academies - (\$13.8 M)
  - Enhanced PK - (\$30 M)
  - High Quality PK - (\$118 M)
  - Ready-to-learn Academies - (\$5.6 M)
  - School Improvement and Governance Support - (\$0.6 M)
  - Student Success Initiative - (\$20.7 M)
  - Advanced Placement Initiative - (\$1.7 M)

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## Appropriations Changes

7

- Still more decreases
  - Texas Gateway - (\$3 M)
  - Virtual School Network - (\$7.2 M)
  - Amachi - (\$1.2 M)
  - Early Childhood School Readiness - (\$3.5 M)
  - Teach for America - (\$1 M)
  - ESCs - (\$1.25 M)

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## Pre-Kindergarten Funding

8

- The budget restructured the approach to pre-kindergarten funding
- High-Quality Pre-Kindergarten program will be funded from a portion of the approximate \$1.58 billion in funding for pre-kindergarten in the 2018-19 biennium.
- The Commissioner shall ensure that school districts and charter schools receiving pre-kindergarten funds will use not less than 15 percent, an estimated \$236 million statewide, to implement prekindergarten consistent with the requirements of a High-Quality Pre-Kindergarten program

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## House and Senate – Different Directions

9

- HB 21 - House Version
  - Raise the basic allotment
  - Eliminate transportation, high school allotment, staff salary allotment, Chapter 41 1992-93 revenue hold harmless
  - New dyslexia weight, increased bilingual weight
  - Phase in small district increase
  - Financial hardship grants
  - 8<sup>th</sup> grade CTE

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## Different Directions

10

- HB 21 – Senate Version
  - Phase in small district increase
  - Financial hardship grants
  - “Education Savings Account” vouchers
  - New dyslexia weight, \$10 million grant for students with autism
  - Charter school facilities funding and small boost to EDA
  - School finance commission

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## Other Regular Session Bills

11

- Higher amounts for New Instructional Facilities Allotment (NIFA), but no additional appropriation - HB 1081
- Transportation allotment for students subject to a high risk of violence while walking to school - SB 195
- State financial assistance for district to which an academically unacceptable district is annexed - SB 1353

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## Other Regular Session Bills

12

- Changes to attendance of students in blended learning programs and the state virtual school network - SB 2084
- Three-point seat belts on buses that transport schoolchildren - SB 693

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## TRS-Care Funding

13

- School district contribution for TRS-Care increased from 0.55 to 0.75 percent
  - \$133 million for the biennium
  - Maximum school district contribution allowed under statute
- State increases its contribution from 1.0 to 1.25 percent: \$162 million
- Changes linked to HB 3976, enabling increases to premiums and deductibles for retirees

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## TRS-Care, cont'd.

14

- January 2018 implementation
- TRS will adopt final plan, but estimates include:
  - Non-Medicare retirees under different plan
    - \$1,500 deductible, which includes all medical and most prescription drug costs
    - 20 percent co-pay after deductible is reached
    - \$5,650 Maximum-Out-Of-Pocket cost for individuals
    - Some generic maintenance drugs available at no cost
  - \$690+ million cost savings

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## TEA Evaluation of FSP

15

- Rider 73 - Public Education State Funding Transparency
- TEA shall evaluate elements of FSP and compare state aid with the rate of inflation and other factors impacting school district costs
- TEA shall report its findings by January 1, 2018

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## TEA Evaluation, cont.

16

- No later than January 1, 2019, TEA shall report on its website the following information related to the FSP for fiscal years 2008 through 2018:
  - ADA (attendance)
  - local revenue for public education
  - state aid for public education
  - the amount of state aid provided per student in ADA for school districts represented in constant dollars
  - the amount of state aid provided per student in ADA for charter holders, represented in constant dollars
  - the amount of recapture revenue represented in constant dollars
  - the total funding provided to school districts, represented in constant dollars

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## Special Session

17

- Continuation of Different Agendas
- Governor's call related to public education
  - \$1,000 teacher pay raise (actual call only referred to salary and benefits)
    - "We don't need to spend more, we need to spend smarter."
  - More flexibility to hire and fire teachers
  - Special education voucher program
  - School finance commission, school finance
  - Bathroom bill, at minimum for public schools
  - Union dues
  - Property tax reform

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## Special Session Recap - HB 21

18

- Financial Hardship Grants
  - \$100 million in 2018, \$50 million in 2019
  - TEA calculates what district would have earned with ASATR in place vs. current law
    - Will use 2017 LPE district data, 2015-16 expenditures, no settle-up process or data changes
  - Restrictions on awards include:
    - 120% of state average expenditures
    - 10% district cap compared to overall hardship grant
    - Applied only up to \$1.00 tax rate
    - Value decline funding or hardship grant

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## Facilities Funding

19

- Charter School Facilities Funding
  - \$60 million in 2018-19 to charter schools that have last overall accountability rating of at least acceptable
  - Amounts to about \$245/ADA
  - 250,000 charter school ADA, but 16 charter districts or 6,000 students on IR accountability rating list

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## Facilities Funding

20

- EDA Enhancement
  - \$60 million to increase the \$35 EDA Yield (\$40/ADA cap) starting in 2018-19
  - Likely only enough to raise yield to \$38.50, result of about \$34 per ADA; not applicable to IFA

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## Small School Adjustment

21

- Amends small district adjustment for districts covering less than 300 square miles
- Beginning in FY19, an increase to the small district adjustment each year through FY24 until adjustment equals to the level currently provided for small districts covering 300 or more square miles
- Charter school funding would be based on the level provided in FY18

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## Autism Grant Program

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- State aid limited to \$20 million for current biennium
- School districts and charters may apply
- Program designed for ages 3-8
- Program expires September 1, 2021

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## Dyslexia Grant Program

23

- Funding for current biennium limited to \$20 million
- Programs designed for students ages 3-8
- Not more than ten programs shall be approved
- No program may receive more than \$1 million for the 2018-2019 biennium

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## School Finance Commission

24

- School finance commission to develop and make recommendations for improvements to the current public school finance system or for new methods of financing public schools
- Commission report due by December 31, 2018
  - Assisted by the Commissioner and staff of TEA
- 13 members
  - Governor, Lt. Governor, Speaker each appoint 4
  - Chair of SBOE appoints one

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## Finance Commission, cont'd.

25

- Recommendations to include:
  - Purpose of public school finance system and relationship between state and local funding
  - Appropriate levels of tax effort necessary to implement constitutional school finance system
  - Policy changes necessary to adjust for student demographic and geographic diversity

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## School Finance Commission

26

- Governor appoints:
  - Chairman of the commission, 1 current or retired classroom teacher, 1 business community member, 1 civic community member
- Lt. Governor appoints 3 senators and 1 administrator or school board member
- Speaker appoints 3 house members and 1 administrator or school board member
- One member of SBOE appointed by chair

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## Finance Commission, cont'd.

27

- 4 members appointed by the Lt. Governor
  - 3 senators and
  - 1 administrator or school board member
- 4 members appointed by the Speaker of the House
  - 3 house members and
  - 1 administrator or school board member;
- 1 member appointed by the Chair of the SBOE
  - One member of the State Board of Education

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## Previous Commissions and Studies

28

Year	Study
1984	Report of the Price Differential Index Advisory Committee to the Texas State Board of Education (SBOE)
1985	Report of the Texas Program Cost Differential Study and Recommendations of the Advisory Committee for Accountable Costs to the SBOE
1986	Report of the Price Differential Index Advisory Committee to the SBOE
1986	The 1985-86 Accountable Costs Study and Recommendation of the Accountable Costs Advisory Committee to the SBOE
1988	SBOE, 1987-88 Accountable Costs Study
1988	SBOE, Revised Cost-of-Education Index
1991	Legislative Education Board (LEB), Cost-of-Education Index, 1992-93 Biennium
1992	LEB, et al., Public Education Special Cost Studies Staff Report
1994	LEB, Foundation School Program Funding Elements, Report to the Foundation School Fund Budget Committee

\*Does not include the regular interim charges, court case studies, and/or various organization and association studies issued

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## Previous Commissions and Studies

29

Year	Study
1997	Legislative Budget Board (LBB), Foundation School Program Funding Elements
1998	SBOE, Revised Cost-of-Education Index
1999	LBB, Foundation School Program Fiscal and Policy Studies
2000	Dana Center, A Study of Uncontrollable Variations in the Costs of Texas Public Education
2001	LBB, Foundation School Program Fiscal and Policy Studies
2004	Joint Select Committee on Public School Finance
2009	LBB, Foundation School Program Fiscal and Policy Studies
2010	Joint Select Committee on Public School Finance Weights, Allotments, and Adjustments

\*Does not include the regular interim charges, court case studies, and/or various organization and association studies issued  
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## Additional Funding in HB 21

30

- \$351 million appropriated to TEA from Health and Human Services Commission
- \$212 million appropriated to TRS from Health and Human Services Commission
  - For TRS-Care to decrease the premiums and deductibles
  - Reduce costs for an enrolled adult child with a mental disability or a physical incapacity
- Total amount of transfers is \$563 million

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## Hamstringing General State Spending

31

Action	Annual Impact
2014 Highway Fund diversion of half of transfer to Economic Stabilization Fund	\$1.00 B
2016 Franchise Tax reduction	\$1.25 B
2016 Homestead exemption increase	\$0.60 B
2018 Highway Fund diversion of Sales Tax	Up to \$2.50 B
2020 Highway Fund diversion of Motor Vehicle Sales Tax	\$0.43 B

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## Structural Deficit Looming

32

- \$3 billion in 2018-2019 budget came from postponing sales tax transfers and one-time changes for funds consolidation and sales of securities
- The sales tax transfer will increase in cost next biennium, and MV sales transfer will kick in
- Medicaid funding shortfall of \$2 billion will need to be covered
- Total \$7.9 billion deficit

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## Balancing the State Budget

33

- \$1.8 billion delay in sales tax diversion to the Highway Fund (2019)
- \$988 million from the Rainy Day Fund for one-time use items, including e-rate for schools
- \$500 million from accelerated sales of unclaimed property
- \$300 million transfer from PSF to ASF

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## School Districts Save State Budget...Again

34

- The largest method of finance was state savings due to local school district property value growth
- Local value growth saved the state:
  - \$3.6 billion
- Recapture increased:
  - \$1+ billion

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# All Funds State Budget

35

**FIGURE 2  
FUNDING BY ARTICLE, ALL FUNDS  
(IN MILLIONS)**

ALL FUNCTIONS	ESTIMATED/BUDGETED 2016-17	CCR SB1 2018-19	BIENNIAL CHANGE	PERCENTAGE CHANGE
Article I – General Government	\$7,043.9	\$6,240.8	(\$803.2)	(11.4%)
Article II – Health and Human Services	\$81,280.1	\$79,456.5	(\$1,823.6)	(2.2%)
Article III – Agencies of Education	\$79,148.6	\$80,433.0	\$1,284.4	1.6%
<i>Public Education</i>	\$58,895.8	\$59,944.8	\$1,049.1	1.8%
<i>Higher Education</i>	\$20,252.8	\$20,488.2	\$235.4	1.2%
Article IV – Judiciary	\$813.3	\$823.6	\$10.3	1.3%
Article V – Public Safety and Criminal Justice	\$12,575.5	\$12,311.7	(\$263.7)	(2.1%)
Article VI – Natural Resources	\$4,530.2	\$4,544.5	\$14.2	0.3%
Article VII – Business and Economic Development	\$29,649.6	\$31,845.8	\$2,196.2	7.4%
Article VIII – Regulatory	\$956.4	\$630.6	(\$325.8)	(34.1%)
Article IX – General Provisions	\$0.0	\$83.9	\$83.9	N/A
Article X – Legislature	\$400.9	\$387.5	(\$13.2)	(3.3%)
<b>Total, All Articles</b>	<b>\$216,398.5</b>	<b>\$216,757.9</b>	<b>\$359.4</b>	<b>0.2%</b>

NOTES:  
 (1) Includes supplemental spending adjustments pursuant to House Bill 2, Eighty-fifth Legislature, 2017.  
 (2) Excludes Interagency Contracts.  
 (3) Biennial change and percentage change are calculated on actual amounts before rounding. Therefore, figure totals may not sum due to rounding.  
 SOURCE: Legislative Budget Board.

# General Revenue State Budget

36

**FIGURE 4  
FUNDING BY ARTICLE, GENERAL REVENUE FUNDS  
(IN MILLIONS)**

ALL FUNCTIONS	ESTIMATED/BUDGETED 2016-17	CCR SB1 2018-19	BIENNIAL CHANGE	PERCENTAGE CHANGE
Article I – General Government	\$3,315.6	\$3,277.6	(\$38.0)	(1.1%)
Article II – Health and Human Services	\$33,575.3	\$33,464.3	(\$111.1)	(0.3%)
Article III – Agencies of Education	\$56,291.6	\$55,894.8	(\$396.8)	(0.7%)
<i>Public Education</i>	\$41,593.5	\$40,957.6	(\$635.9)	(1.5%)
<i>Higher Education</i>	\$14,698.1	\$14,937.2	\$239.1	1.6%
Article IV – Judiciary	\$503.3	\$494.6	(\$8.7)	(1.7%)
Article V – Public Safety and Criminal Justice	\$11,606.6	\$11,416.3	(\$190.3)	(1.6%)
Article VI – Natural Resources	\$818.4	\$895.2	\$76.8	9.4%
Article VII – Business and Economic Development	\$1,162.6	\$547.7	(\$614.9)	(52.9%)
Article VIII – Regulatory	\$337.1	\$344.7	\$7.5	2.2%
Article IX – General Provisions	\$0.0	\$4.5	\$4.5	N/A
Article X – Legislature	\$400.8	\$387.3	(\$13.4)	(3.4%)
<b>Total, All Articles</b>	<b>\$108,011.4</b>	<b>\$106,726.9</b>	<b>(\$1,284.4)</b>	<b>(1.2%)</b>

NOTES:  
 (1) Includes supplemental spending adjustments pursuant to House Bill 2, Eighty-fifth Legislature, 2017.  
 (2) Biennial change and percentage change are calculated on actual amounts before rounding. Therefore, figure totals may not sum due to rounding.  
 SOURCE: Legislative Budget Board.



## Harvey Impact

37

- FSP cost reductions from displaced students, poor attendance after waivers take care of closures
- FSP cost increases from loss of taxable value
  - Reappraisal impact
  - Tax year 2018 reductions
- State recovery costs
- Drag on state revenue, or stimulus?

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38

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