

Legislative Update TASBO Conference

FEBRUARY 2015

HOUSTON



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1. State budget and school finance outlook
 2. Other major policy areas
 3. Prospects

State Budget and School Finance

House and Senate Budget Comparison

	House (\$ billions)	Senate (\$ billions)
All Funds	\$202.4	\$205.1
General Revenue Funds	\$98.8	\$101.5
Amount Remaining to Constitutional Spending Limit	\$8.1	\$5.4
Amount between Spending Limit and BRE	\$5.4	\$4.2

House and Senate – Public Education

- Both bills (HB 1 and SB 2) contain the following:
 - Full funding of the Foundation School Program
 - Basic Allotment \$5,040 for both years
 - Austin Yield increased to \$72.94 in 2015-16 and \$76.75 in 2016-17 (both House and Senate versions)
 - Student growth costs \$2.5 billion
 - Rapid property value saves \$4.5 billion
 - Formula increases cost about \$1.4 billion
 - Eliminate the one-time transition assistance to school districts for the 1.5% employer contribution to TRS (\$330 million)

House Bill 1 (TEA Budget)

- \$2.2 billion in general revenue reserved in rider above “current services” funding level for FSP
 - No increase in general revenue appropriation due to property value savings, increased recapture, and property tax relief fund increases

Senate Bill 2 (TEA Budget)

- Increased Foundation School Program funding in the budget by \$3.2 billion for the biennium
 - \$3 billion in funding explicitly for property tax relief
 - \$200 million to address the issue that has been referred to as “fractional funding.”
- Method of tax relief is not identified in SB 2
 - Statements by the Lt. Governor point toward an increase in the homestead exemption, a lower cap on value growth (appraisal limits), or a combination of the two

Senate Bill 2, cont'd.

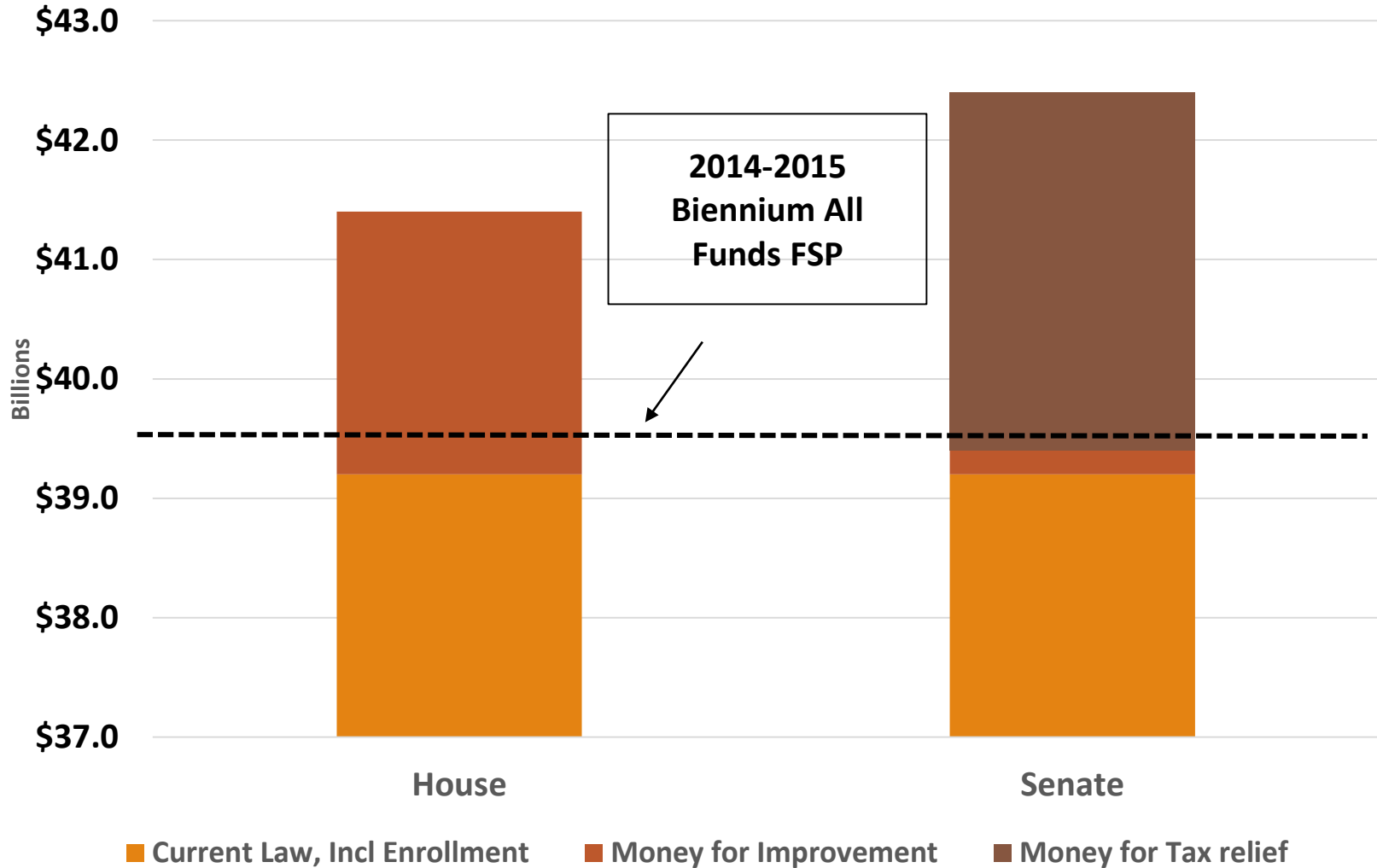
- \$100 million for K-3 math and reading teacher academies
- \$25 million for college and career readiness course for 7th and 8th graders
- \$18.4 million for support for children with autism
- \$4 million for training for Texas Principal Evaluation System and Texas Teacher Evaluation System

State Share of FSP under SB 2

Fiscal Year	% State Share of FSP
2010	46.6%
2011	48.0%
2012	45.9%
2013	44.9%
2014	45.2%
2015	43.8%
2016 (SB 2 Projection)	44.9%
2017 (SB 2 Projection)	43.1%

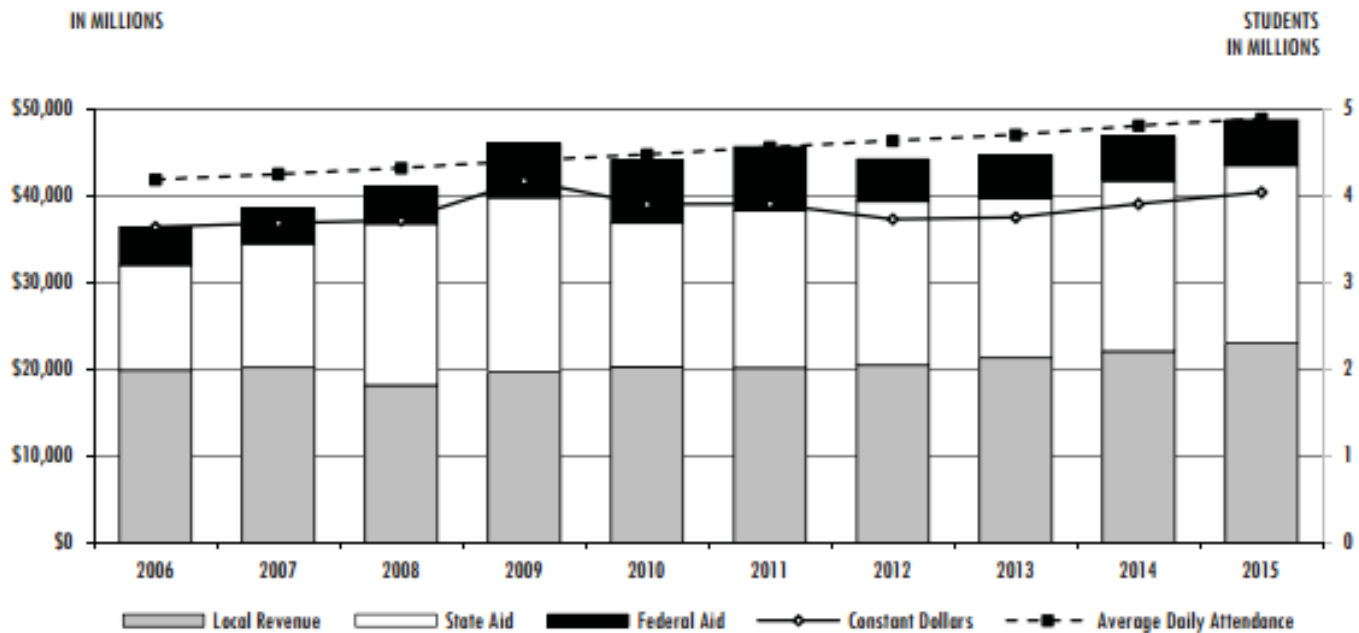
Source: LBB

House and Senate FSP Comparison, All Funds 2016-2017 Biennium



Education Funding

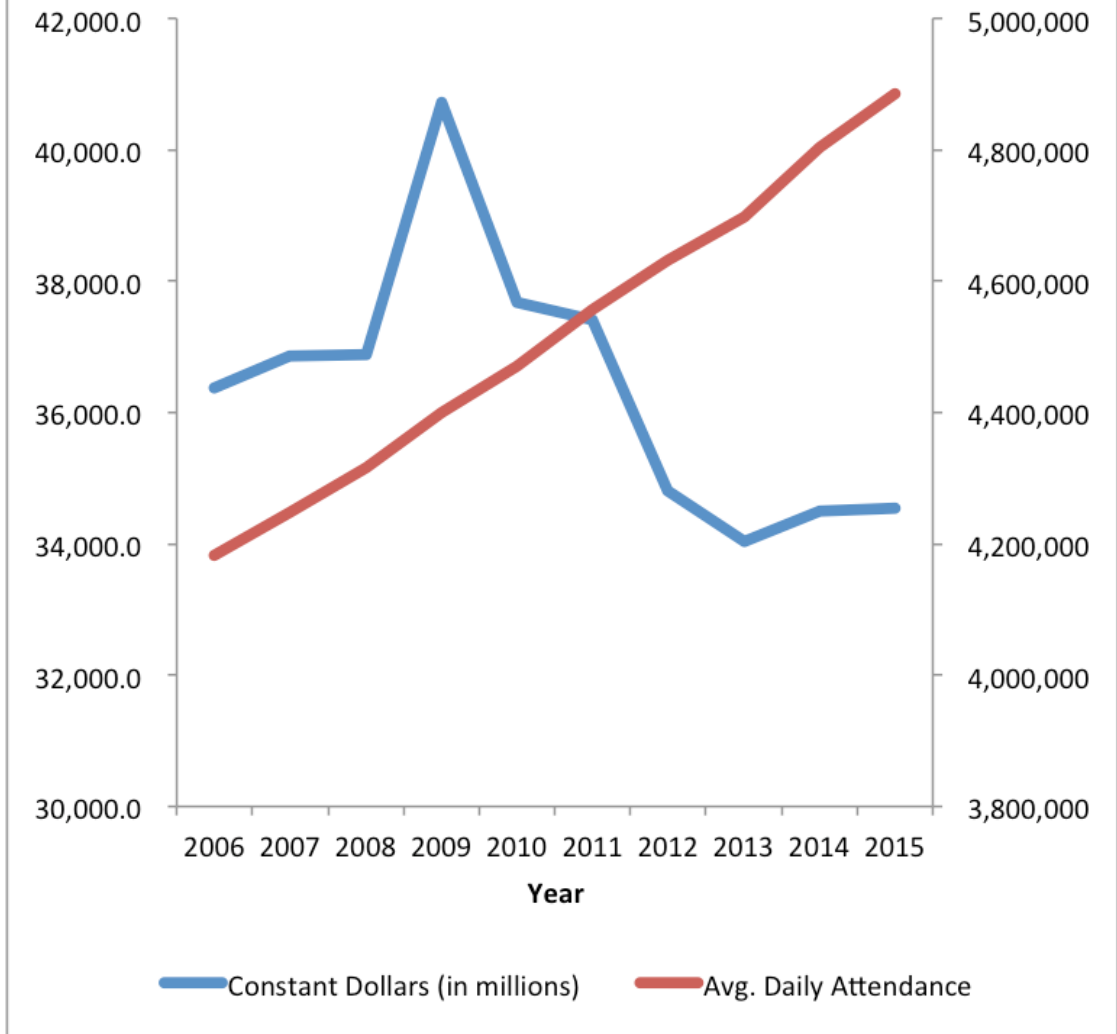
FIGURE 184
PRE-K–12 PUBLIC EDUCATION FUNDING
CONSTANT DOLLARS CALCULATED WITH IMPLICIT PRICE DEFLATOR
FISCAL YEARS 2006 TO 2015



NOTE: Fiscal years 2014 and 2015 are projected.

SOURCES: Legislative Budget Board; Texas Education Agency; U.S. Department of Commerce.

Education spending vs. enrollment growth



Source: Texas Weekly

TRS-Care Insolvency

- Estimated \$727.2 million is needed for the TRS-Care to remain solvent.
- LBB recommends allocating this cost to maintain TRS-Care solvency as follows: 50% to the state contribution, 25% to retiree costs, and 12.5% to both active member and school district contributions.

TRS-Care Insolvency

- Estimated Increases:
 - State contribution increase from of 1.0% to 1.6%
 - Active member increase from 0.65% to 0.80%
 - School district contribution increase from 0.55% to 0.73%
 - Retiree premium increases or plan design-changes

Finance Legislation

- SB 161 by Rodriguez – Increase bilingual/ESL weight to 0.25
- SB 241 by Watson – Change transportation funding; eliminate linear density
- SB 243/SB 244 by Watson – Update or eliminate CEI
- SB 246 by Watson – Modify Basic Allotment reduction to apply only if district adopts rate below \$1.00

Finance legislation, cont'd.

- SB 247 by Watson – Increase Tier 2 Level 2 yield to match Tier 1
- HB 1478 by Meyer – 39.6% limit on recapture
- HB 1479 by Meyer – Eight golden pennies, instead of six

HB 654 by Aycocock

- Multi-district voluntary tax base consolidation
- Commissioner consolidation as alternative
- Elimination of the basic allotment and guaranteed yield structure
- No defined state aid calculation; state funding based solely on appropriations
- Limits on disparities in local revenue per WADA
- Equal distribution of state aid based on WADA
- Re-alignments of tax bases every 10 years

Issues raised by HB 654

- Cumbersome governance structure
 - Problematic authorization elections
 - Consolidations likely (difficulty in negotiating partnerships)
 - Problems with debt issuance and impermanence of new entities
- State abandonment of foundation concept
 - Elimination of transportation, NIFA, high school
 - Only local enrichment (no tier 2 state aid)
- 10-year span in which equity can fall far outside the nominally permissible level

Chairman Otto Statements

- Looks forward to the Legislature discussing a bill that creates at least 30 "school finance districts," with the goal of providing per-student funding that is within \$300 of the statewide average.
- "The model could put an end to the decades-long routine of school finance lawsuits over unequal funding," Otto said.
- "I'm tired of being sued," Otto said. "It's a cottage industry."

Other Major Policy Areas of Interest

Gov. Abbott State-of-the-State

- Public Education
 - Gov. Abbott called for an end to school finance litigation.
 - “Time to stop fighting and time to make schools better for students”
 - Improving early education his first emergency item of the session
 - \$118 million for high-quality pre-k programs
 - \$64 million for Literacy and Math Achievement Academies and Reading Excellence Teams
 - \$30 million for Reading-to-Learn Academies for 4th-5th grade educators

Gov. Abbott State-of-the-State

- Called for genuine local control for school districts, meaning more choice for parents and students.
- The state should require that each public school publish an A – F report card on its campus website
- Create an Achievement School District

State-of-State, cont'd.

- Tax Relief and Budget Controls
 - \$2 billion reduction in the state's business tax
 - \$2.2 billion in property tax relief
 - Stated that he would make sure school districts are held harmless for any revenue impact due to the reduction
 - Wants property tax relief to be lasting
 - Hints at, but did not explicitly say, the 10% appraisal limit should be lowered
 - Recommended that the state adopt a more strict budget limitation, allowing growth at the rate of population + inflation

Pre-Kindergarten Funding

- Widespread agreement on need for additional funding for pre-K programs
 - Widespread disagreement on methodology
- Options
 - Restore prior grant program
 - Increase eligibility
 - Increase to full-day support
 - Create quality program for limited cost

Pre-Kindergarten legislation

- HB 124 by Martinez-Fischer, HB 186 by Thompson, and SB 72 by Ellis – PK open to all 4-year olds, must be offered if at least 15 identified; effective 2019-20 school year
- HB 391 by Munoz, HB 424 by Dutton – Full-day PK for eligible students, effective 2015-16
- SB 23 by Zaffirini – Full-day open to all 4-year olds, effective 2019-20

Instructional Materials Allotment

- Criticism of IMA as insufficient
- Options
 - Continue current program
 - Move to full local choice
 - Combine funding requirements with the basic allotment
- HB 1475 by VanDeaver - frontload IMA funding to first year of the biennium

Achievement school districts / low performing schools

- Statewide school district for low-performing schools with state direction and local funding
- Major political push by combination of conservative groups and some minority legislators
- Substantial political support in 2013
- Significant technical/legal issues over achievement school district use of local district funds

SB 520 by Sen. West

- Creates Texas Opportunity School District (TOSD)
- Up to 10 campuses rated as unacceptable for at least two consecutive years may be transferred to the TOSD
 - Applies to districts enrolling at least 20,000 students
- Educational services may be provided to schools in the TOSD only by qualified charters that have been in operation in Texas for at least three years.

SB 520 by Sen. West

- Campuses may be returned to their prior districts
 - if acceptable performance is demonstrated, or
 - if performance is still rated as unacceptable after three years in the TOSD, at which point closure may be ordered.

Voucher-Type Programs

- Recurring issue
- Variations in mechanism (straight voucher, taxpayer savings grant, mandatory school choice, tax-funded scholarships, etc.)
- Major political conflict

Voucher/Choice Legislation

- HB 279 by Simmons – PEG status for all special ed students
- SB 276 by Campbell – taxpayer savings grant of 60% of average maintenance and operations spending; administration assigned to Comptroller; effective 2015-16
- HB 874 by Miller – tax credit scholarship (voucher) program worth 60% of the average FSP entitlement; paid for with donations of up to 50% of tax liability for franchise or insurance premiums; limit of \$65 million from each tax in 2016

Debt/Transparency

- Forced disclosure of myriad bond issue details
 - Bills defeated on points of order
 - Major advocacy by outgoing Comptroller Combs
 - Unknown position by new Comptroller Hegar
- Other “transparency issues” likely to surface on the general premise that more information to the public will lead to different results on bond issues, board elections, etc.

Debt/Transparency Legislation

- SB 103 by Hinojosa – prohibits issuance of capital appreciation bonds
- SB 309 by Campbell - reporting of certain information by political subdivisions to Comptroller
- HB 114 by Flynn -- Relating to the issuance of certain capital appreciation bonds by political subdivisions.

Debt/Transparency, cont'd.

- HB 1283 by Simmons -- this bill would require all bond elections to occur on the November general election date.
- HB 1378 by Flynn -- requires annual financial reports of school districts to include the sources of revenue for each fund, the total disbursements of the fund, the total amount of all authorized debt, the total outstanding debt, and the principal of each outstanding obligation.

Fund Balance Transparency

- Focus area of LBB GEER
 - As of FY 2013, Texas school districts reported a total of \$13.7 billion in general fund balances
 - Of that, \$9.5 billion was classified as unassigned and was available for any legal expenditure
 - LBB report recommends reinstating the requirement for a minimum general fund balance
 - LBB recommends requiring school districts to publicly report the intended use of general fund balance in excess of a certain percentage of operating expenditures
 - The LBB report also recommends school boards adopt a general fund balance policy

How Tax Relief Works

- Legislature could propose tax relief by:
 - Increasing the homestead exemption
 - Increased inventory exemptions for business
 - Lowering the cap on value growth (appraisal limits)
 - Compress tax rate for school districts (similar to 2006)
 - Combination of the four options

Homestead Exemption

- Requires 2/3rd's vote in each chamber to pass
- Requires a successful passage during an election on date chosen by Legislature
- Uncertain if the mechanism would allow/grant relief in first year of the biennium due to timing of election
- Legislature can hold districts harmless for M&O and/or I&S
- If state chooses to not reimburse for I&S, districts that do not receive EDA or IFA funds would be forced to raise tax rates to pay debt service

Inventory Exemptions

- Texas is one of about a half-dozen state that tax business inventory under the property tax
- One bill would expand the definition of freeport goods from 175 to 365 days
- Could affect about 180 school districts reporting exempt value for freeport goods
- The same hold-harmless issues addressed under the homestead exemption apply here

Appraisal Limits

- Constitutional amendment required
- Requires 2/3rd's vote in each chamber to pass
- Requires a successful passage during an election on date chosen by Legislature
- Uncertain if the mechanism would allow grant relief in year one of the biennium due to timing of election
- Legislature would determine if they will reimburse schools for loss in value (historically, they have)

M&O Tax Rate Compression

- Compress M&O tax rate for school districts
- Legislature authorized to change compression percentage in the general appropriations act (Rider 41)

Property Tax / Tax Relief

- HB 52/HJR 30 by Martinez – Increase homestead exemption to \$45,000
- SB 156/SJR 14 by Nichols – 5% appraisal growth cap
- HB 193 by Murphy, HB 250 by Leach, SB 138 by Perry – Phase-out and repeal of franchise tax
- SB 105 by Estes, SB 175 by Huffines – Repeal of franchise tax

Property Tax / Tax Relief, cont.

- SB 182 by Bettencourt, HB 365 by Elkins – Rollback rate calculations and election requirements for cities, counties, and other jurisdictions
- SB 279/SJR 21 by Watson – Increase homestead exemption to \$25,000; adjust annually for inflation
- SB 280 by Watson – New requirements for taxpayers appealing on the basis of unequal appraisal
- SB 281 by Watson – New requirement for taxpayers to provide supporting evidence when protesting valuation

Property Tax / Tax Relief, cont.

- SB 516/SJR 29 by Bettencourt – Expands length of time inventory is eligible as freeport goods from 175 to 365 days

Prospects for Additional Funding



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