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TEXAS ASSOCIATION OF SCHOOL BUSINESS OFFICIALS

School Finance Q and A

TASA TASB Convention
2019

Foundation School Program M&O Funding

	State Aid (All Funds)	Local M&O Property Taxes	Recapture	Total Available for Schools
FY 20 Old Law	\$20.31	\$28.87	(\$3.57)	\$45.61
FY 20 New Law	\$24.13	\$26.67	(\$1.99)	\$48.81
<u>Difference</u>	\$3.82	(\$2.20)	\$1.58	\$3.20
FY 21 Old Law	\$20.56	\$30.03	(\$4.13)	\$46.46
FY 21 New Law	\$24.58	\$27.37	(\$2.21)	\$49.74
<u>Difference</u>	\$4.02	(\$2.66)	\$1.92	\$3.28

The state cost of HB 3 was just over \$11.3 billion for the biennium, once property tax relief is netted out, increases for schools are just over \$3 billion per year.

FSP Quick Reference: 86th Session Changes



It's Gone

Cost of Education Index
Gifted and Talented
Allotment
High School Allotment
Support Staff Allotment
ASAHE for M&O



It's Changed

Small / Mid-Size Adjustment
Comp Ed Allotment
Mainstream Weight
Bilingual Education Allotment
CTE Allotment
Transportation Allotment
NIFA
Basic Allotment
Prior Year Property Value
Tier 1 tax rate
Recapture Calculation
Guaranteed Yields in Tier 2

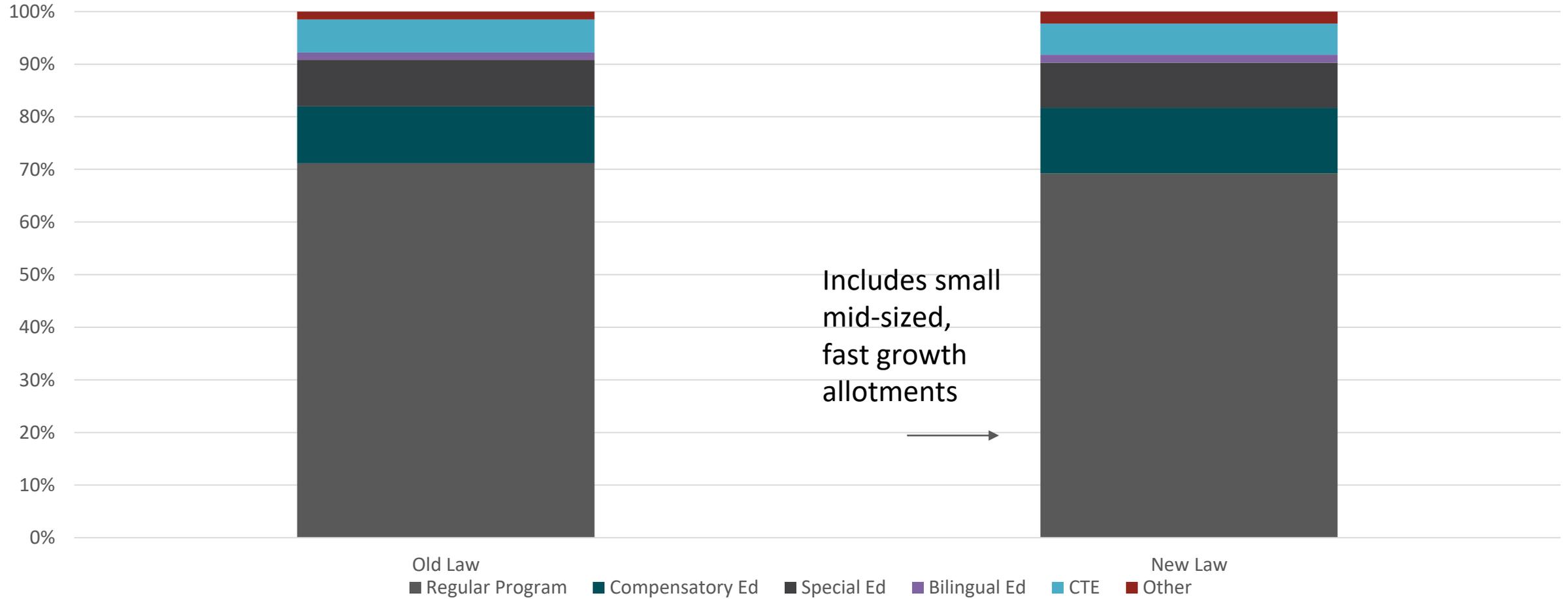


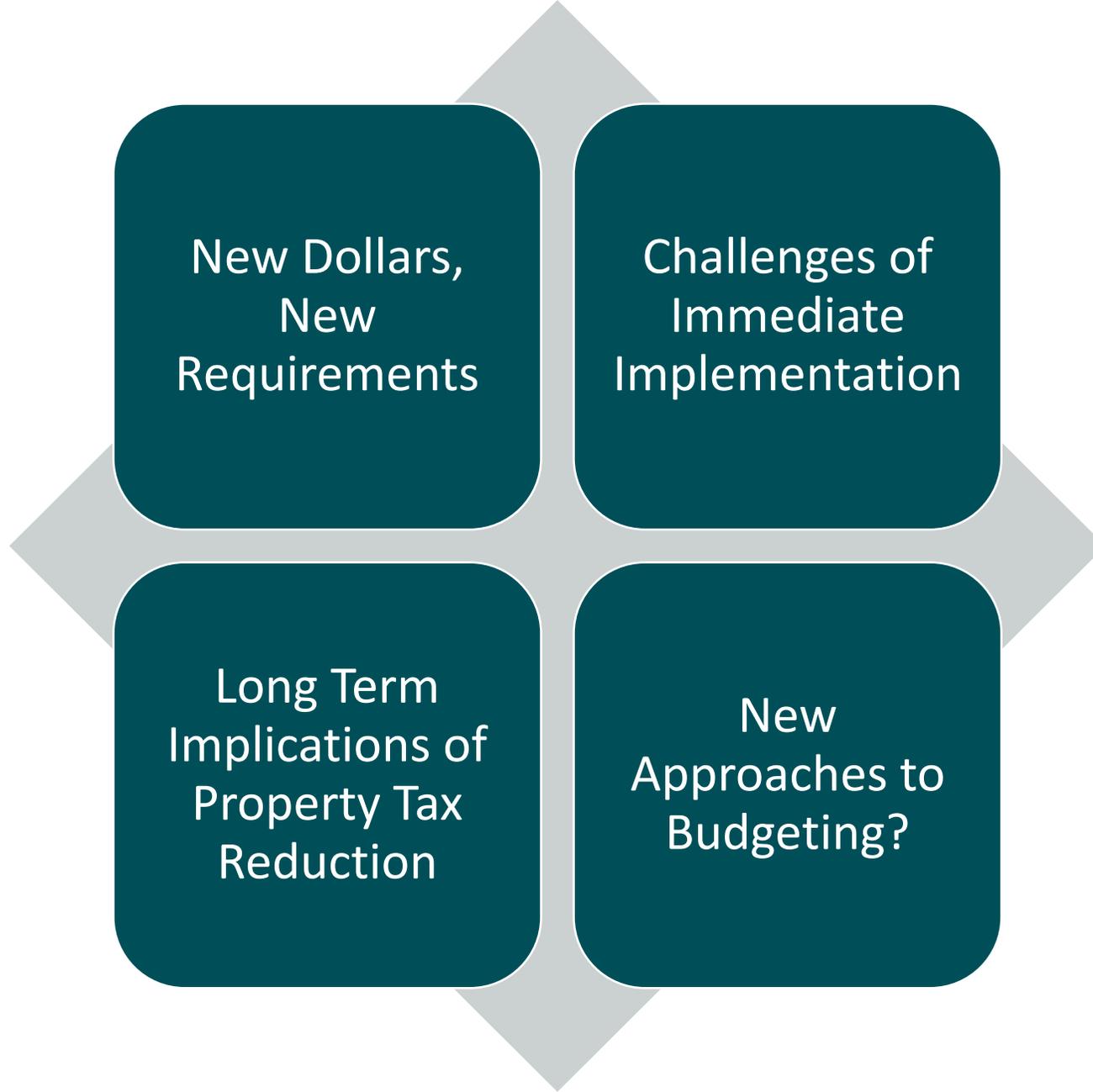
It's New

Dyslexia Allotment
Early Education Allotment
Fast Growth Allotment
CCMR Bonus
Mentor Teacher Allotment
School Safety Allotment
Dropout Recovery Schools Allotment
Teacher Incentive Allotment
Fee Reimbursement Allotments
Extended Year Funding
Formula Transition Grants



Tier 1 Composition by Program



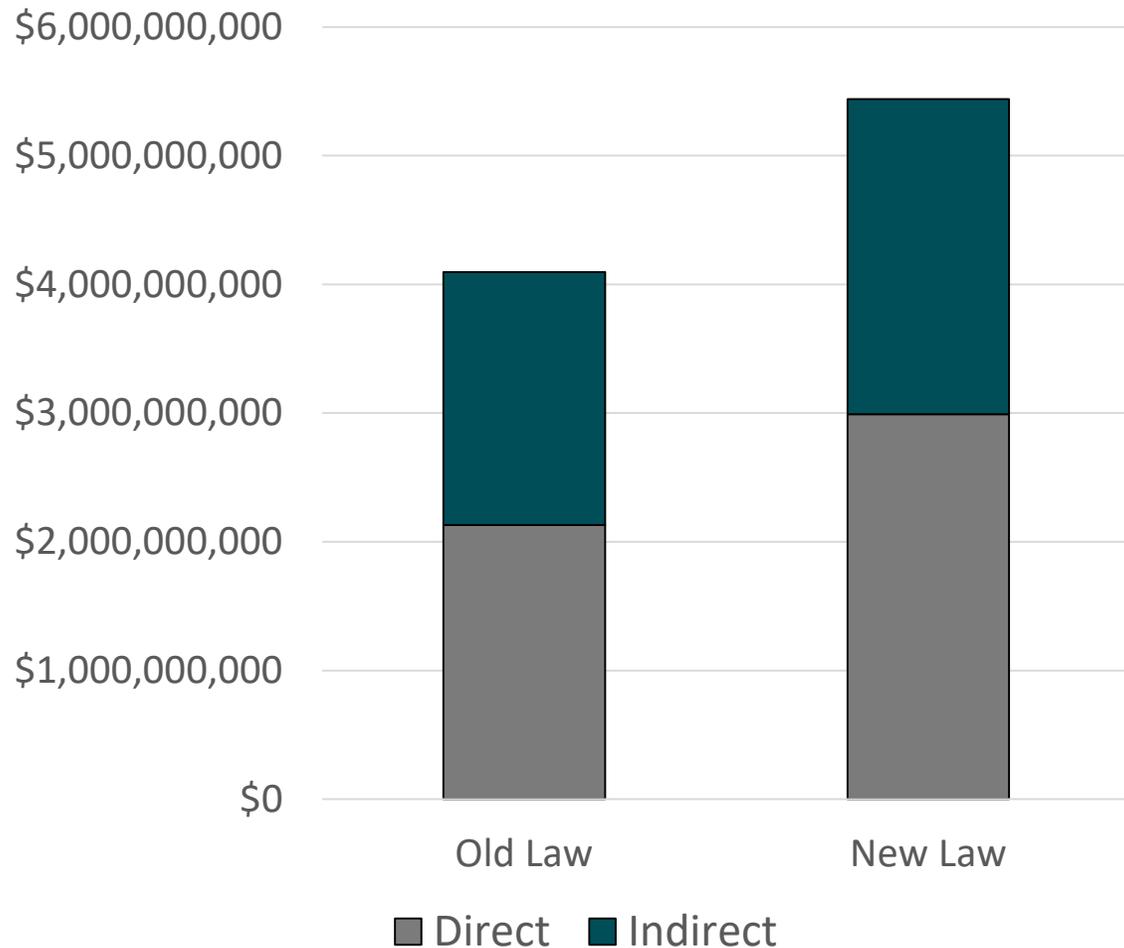


New Dollars, New Requirements

Increases in Tier 1 Categorical Programs

- New Tier 1 Programs:
 - Dyslexia – PIC 37
 - Early Education – PIC 36
 - College, Career and Military Readiness Allotment – PIC 38
 - School Safety Allotment
- Increased separation of district dollars into discrete programs.
- Some conflict between separation of funds via accounting codes and overlap of program goals
 - Early Education Allotment / Compensatory Education Allotment / Pre- k
 - Dyslexia / Special Education
- Elimination of some programs did not mean elimination of program requirements

Compensatory Education Allotment



- Significant new dollars in compensatory education
- Can spend on either **low income or at risk students**
- Can spend in conjunction with Title 1 plans
- Still must be **supplemental**, but Commissioner directed to adopt rules for use that allow districts to meet the needs of students and allow streamlined reporting

New Grant-like Programs Inside Tier 1

- New “Opt-In” Programs
 - Mentor Teacher Allotment
 - Teacher Effectiveness Allotment
 - Dual Language Allotment
 - Extended Year Funding
- Agency rules will have a significant impact on usage and program effectiveness
- District usage rates, in turn, may affect long-term program sustainability

New Requirements

- Salary requirements
 - Increased minimum salary schedule
 - Requirement to use 30 percent of increase on compensation increases
- More flexibility than other approaches considered may allow districts to address local challenges
- Budget uncertainty leads to implementation challenges
- Uneven gains leave some districts with very large increases, others with no increases
- Some districts face communication challenges when expected pay increases did not materialize

New Requirements

- Implementation of full day pre-kindergarten
 - **Up to** two three-year waivers (per Commissioner discretion)
 - Districts must demonstrate **lack of space** or concerns over **reduced participation**
 - Districts must first seek **partnerships**
 - Early education allotment discussed as revenue source for program expansion. Districts using early education allotment for other interventions should consider **long-term budget implications** associated with eventual implementation

New Requirements

- Implementation of reading academies for **all k – 3 teachers and principals**
- Early Childhood Literacy and Math Plans, CCMR Plans
 - Adopted by the board
 - Posted to the website
 - Specific quantifiable goals

Challenges of Immediate Implementation

Salary Requirement

- 30% of gain requirement mean districts must calculate gain quickly, stakes are high
 - Estimate revenue too conservatively and risk backlash from teachers
 - Estimate too liberally and risk long-term financial well-being of the district
- Course corrections may be required in some cases
- Effective communication will be required in all cases

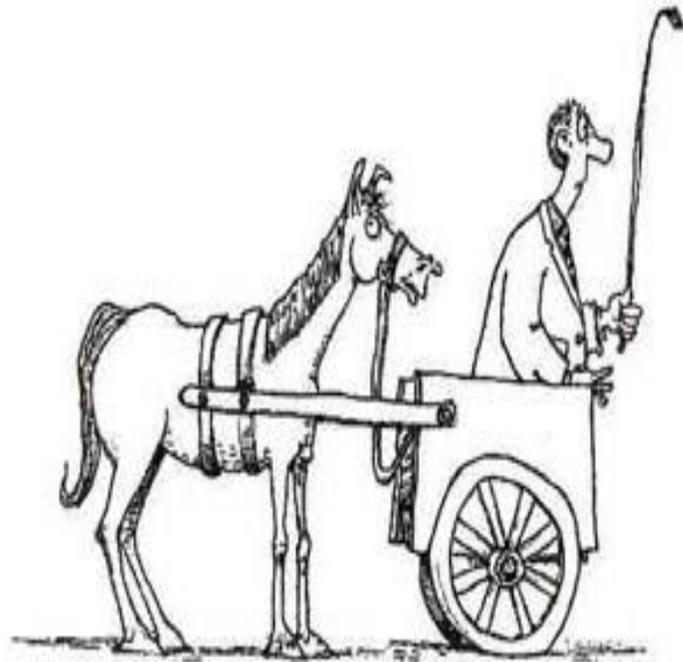


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Challenges of Immediate Implementation

- **New programs** will require **new data**
 - Census block-group of student address for low-income students for compensatory education allotment
 - Service indicator for students with dyslexia or a related disorder for **dyslexia** allotment
 - New systems to track **outcomes for students** after they leave the public education system for **CCMR** allotment
 - Teacher incentive allotment may require better **linkage between student outcomes, teacher of record**
 - A reimbursement for exam fees for **industry certification exams** passed requires data on **students taking, passing exams, fees paid**

Challenges of Immediate Implementation



- Immediate implementation means districts have access to new revenue right away
- Can provide much needed relief for some who have been struggling
- May not allow for the kind of effective planning contemplated by requirements like the early math and literacy / CCMR plans

Long Term Implications of Property Tax Reduction

Tax Rate Calculation Issues

- For tax year 2019 the Voter Approved Tax Rate (VATR) is:
 - \$0.93 plus the greater of:
 - \$.04 or
 - Previously adopted **enrichment pennies***, less required **copper penny compression**

*less disaster pennies adopted for tax year 2018



“If I find happiness in my own back yard,
will it increase my property taxes?”

Tax Rate Changes for TY 2019

2018-2019 M&O Tax Rate	2019-2020 VATR
< \$1.04	\$0.97
\$1.04	\$0.97
\$1.06	\$0.99
\$1.17	\$1.0683

- ✓ Base rates in Tier 1 were reduced from \$1.00 for most districts to \$0.93 for all districts.
- ✓ Tier 2 floats down to begin after \$0.93.
 - ✓ First \$0.08 are “golden”
 - ✓ Remaining pennies are copper
- ✓ Copper penny compression for districts that have them based on increase in the yield
- ✓ Disaster pennies excluded
- ✓ **See TEA correspondence**

Required Copper Penny Compression

- What are **enrichment** pennies?
 - Any M&O tax effort over and above that required for the foundation portion of the FSP (called Tier 1)
 - These Tier 2 pennies are split between what we call “**golden**” and “**copper**” pennies
- First \$0.08 are golden pennies, equalized to \$98.56 and not subject to recapture
- Statute requires districts to reduce copper penny tax effort in proportion to legislative increases in the guaranteed state match on that tax effort
- Applies to districts that had prior TREs
- The legislature increased that yield from \$31.95 to \$49.28, so for a district that had 9 pennies of tax effort in that zone, those 9 pennies are multiplied by the fraction $(31.95 / 49.28)$ and become 5.83 pennies

Tax Rate Changes TY 2020

- For tax year 2020, the VATR will be:
 - The **lesser of the state compression percentage** or the **variable district maximum compressed rate** plus the greater of:
 - 2019 enrichment pennies, or
 - \$0.05 with unanimous consent of board otherwise \$0.04
 - State compression percentage will be **\$0.9165**, per Comptroller-projected state value growth of 4.01%
 - District maximum compressed rate may be lower depending on value growth within the district

How will District 2.5% Compression Work?

Effective September 1, 2020

If values grow by > 2.5%, each district's maximum compressed rate (MCR) is calculated using this formula:

$$\text{MCR} = (1.025((\text{PYDPV} + \text{E}) \times \text{PYMCR})) / \text{DPV}$$

This formula is designed to restrict the Tier 1 tax levy to no more than 2.5% more than the prior year

E= value of 313 projects that are ending the limitation period and captured value for 311 TIRZ (TIF) refinanced or renewed after 9/1/2019

How will 2.5% Compression Work?

TEA will calculate each district's Tier 1 tax rate

- lesser of state compression percentage or local MCR
- restricting the degree of statewide variation in rates by applying an “equity band” per HB3

Equity Band - No district can have an MCR < 90% of the highest MCR

TEA will need a statewide source of data to make this calculation.

The Agency is currently working through details of timing and data-sources.

As long as district adopts the Tier 1 rate given by TEA, state aid or reduced recapture should make up for lost property tax revenue

So, what will my tax rate be for 2020-21?

- Tier 1 tax rates should fall between \$0.8248 and \$0.9165. This means a reduction of between \$0.0135 and \$0.1052, depending on district value growth 2019 to 2020 *(these may at some point be rounded down to \$0.9164 and \$0.8247)*
- Districts will have access to the same number of golden & copper pennies in Tier 2 on top of that Tier 1 rate as they had in 2019-2020 without a TRE
- Districts with 4 golden pennies (or fewer), **have the opportunity to get a 5th with unanimous vote of the board**
- Up to 17 pennies on top of whatever **district** Tier 1 rate is **with an election**

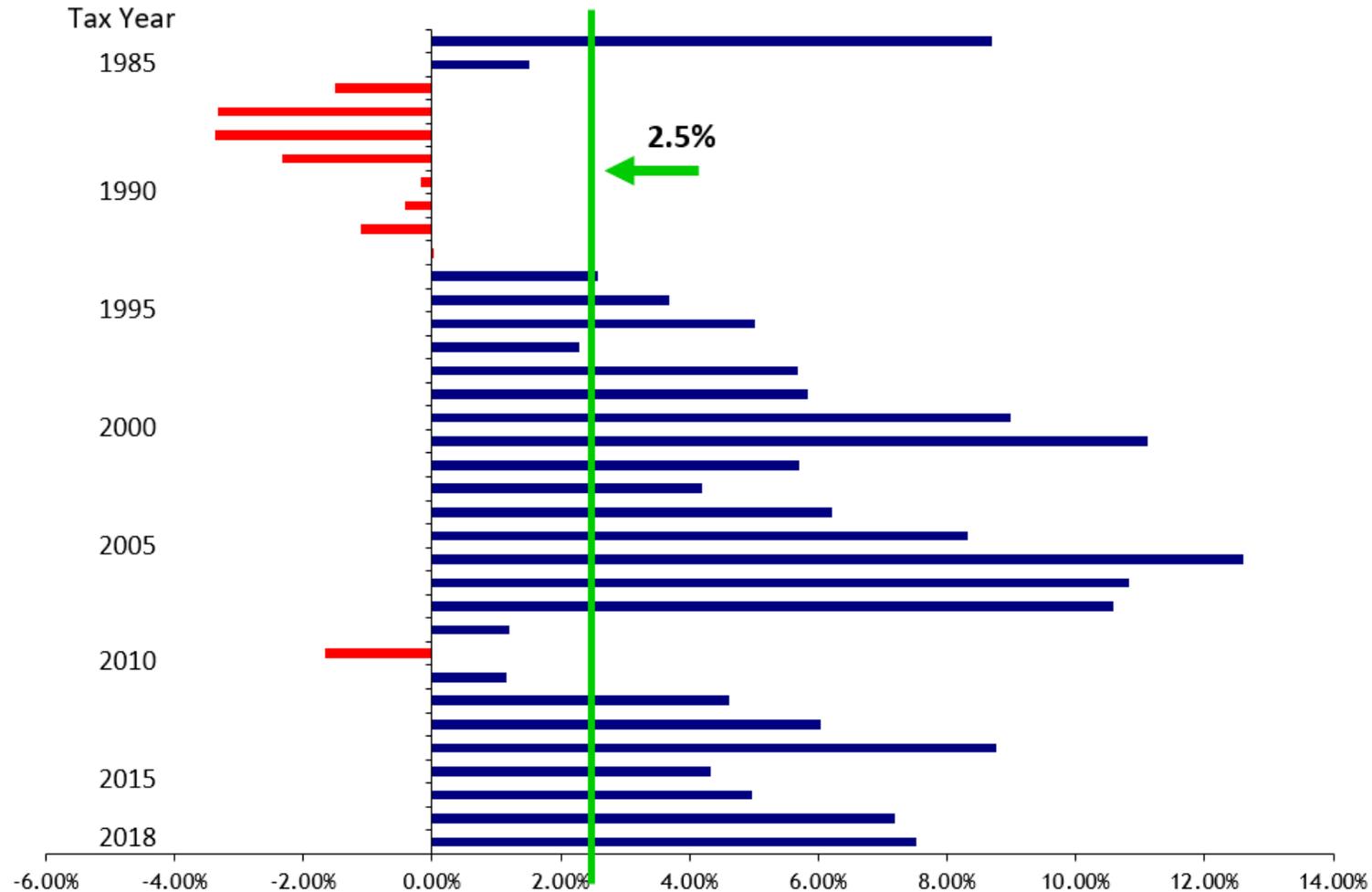
Tax Ratification Elections

November uniform election date seem almost certain

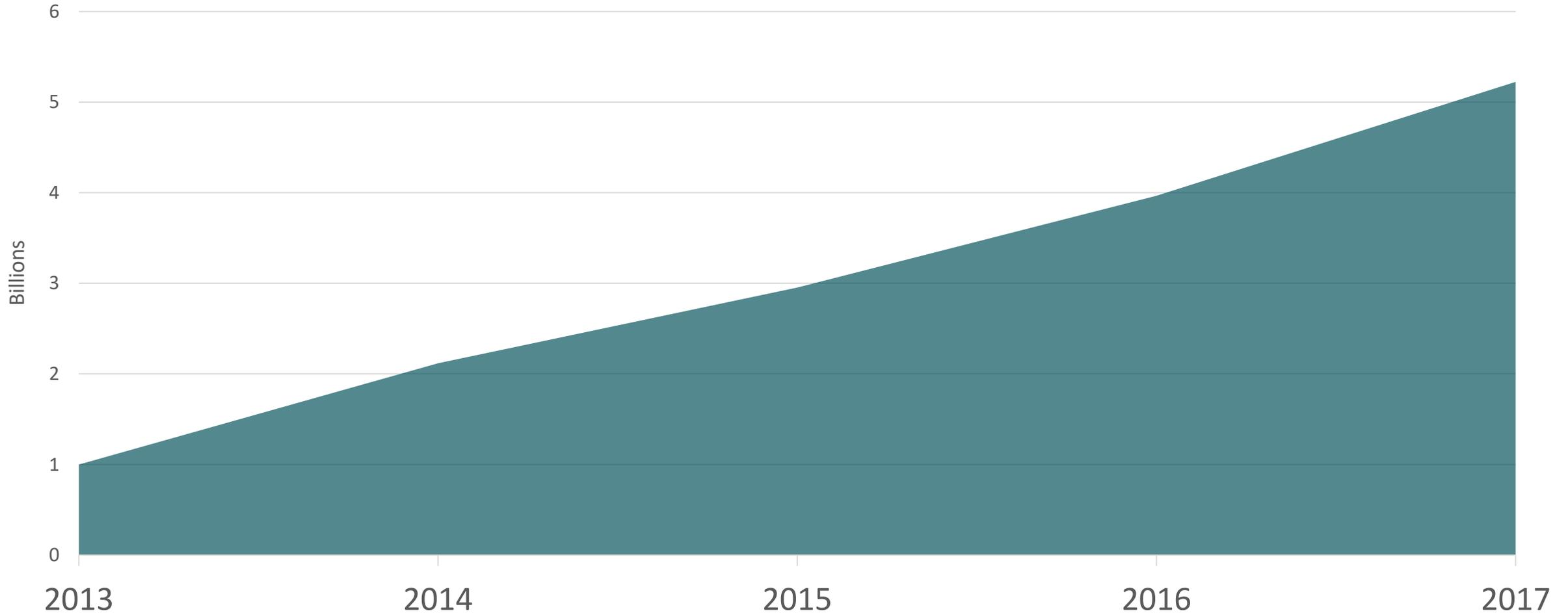
Require an efficiency study prior to the TRE

- ✓ At district cost;
- ✓ District selects vendor (may use your auditor if they offer this service)
- ✓ Vendors must follow LBB guidelines
- ✓ Results must be posted not later than 30 days before the TRE

Statewide Property Value Growth: 1984 to 2018



Hypothetical, Backward-Looking Estimate of State Cost for a 2.5% Proposal



New Approaches to Budgeting

Better Use of Categorical Funds

- Examine current uses of categorical funds:
 - Can changes in rule allow for redirection of current expenditures?
 - What programs currently funded through flexible dollars could be funded through categorical dollars?
- Examine grant-like programs to be offered under HB 3
 - How much flexibility will districts have to tailor those programs to meet local needs?
 - Are there ways to leverage those dollars to achieve local goals?
- Examine long-term implications of current revenue estimate
 - How much of this year's revenue is temporary?
 - What is the plan for long-term sustainability of new programs?

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“I want you to find a bold and innovative way to do everything exactly the same way it’s been done for 25 years.”



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