

### Hurricane Harvey School Finance Issues October 10, 2017

|                                       | A<br>Issue/Response   | B<br>Current Action/Next Steps  | C<br>FY 2018 Estimated Costs**  | D<br>FY 2019 Estimated Costs**   | E<br>Biennial Total Est. Cost** | F<br>Legal Authority                             |
|---------------------------------------|---|---|---|--|---------------------------------|--|
| <b>Enrollment Related Adjustments</b> |   |   |   |  |                                 |  |
| 1                                     | <p><b>Increased enrollment due to student displacement in the 2017–2018 school year.</b></p> <p><b>Is this currently a legally required cost to the state?</b><br/>Yes.</p> <p><b>Issue:</b> Many districts have newly enrolled students displaced from their home districts because of Hurricane Harvey. TEA does not normally increase Foundation School Program (FSP formula) funding to districts during the school year when there are increases in student enrollment. Instead, FSP formula increases due to enrollment changes are made during the FSP settle-up process occurring in September of 2018 (FY 2019) following the school year.</p> <p><b>Solution:</b> Districts can receive an increase in their state aid <i>during</i> the 2017–2018 school year if they have increased average daily attendance (ADA) and apply to TEA. To date, three districts have applied for adjustments, with a total of 930 students in average daily attendance.</p> | <p>TEA issued guidance to school districts. Beginning with the October 2017 FSP formula payment, TEA will increase the amount of state aid to districts that have (1) additional ADA and (2) submit an application to TEA.</p>  | <p><b>\$380 million</b></p> <p>Costs will be shifted from FY 2019 to FY 2018. This shifting is cost neutral for the biennium because the state is legally obligated to fund the FSP formulas for students at the districts they actually attend. TEA is just shifting the costs from FY 2019 (September 2018 settle-up) to FY 2018.</p> | <p><b>(-\$380 million) cost reduction</b></p> <p>These existing costs will be shifted from FY 2019 to FY 2018.</p> <p>Note: There may be additional costs to the state for increased students in FY 2019.</p>  | <p><b>\$0</b></p>               | <p>TEC §42.005(d). Average Daily Attendance.</p> |
| 2                                     | <p><b>Loss of funding due to student enrollment decline during the 2017–2018 school year.</b></p> <p><b>Is this currently a legally required cost to the state?</b><br/>No.</p> <p><b>Issue:</b> School districts and charter schools with enrollment losses during the 2017–2018 school year will have lower average daily attendance. ADA is a major component in determining FSP formula funds as Texas provides funding on a per ADA basis. As a result, a loss of ADA in the 2017–2018 school year would normally result in the following:</p> <p>1. For Chapter 42 districts, a loss of FSP funds in September 2018 (FY 2019) during FSP settle-up.</p>   | <p>Consistent with current practice, TEA will continue to make full FSP formula payments to all school districts (and requesting charter schools), regardless of a student enrollment decline. This prevents any immediate loss of state funding during the 2017–2018 school year.</p> <p>On Oct. 9, 2018, TEA issued a <i>To the Administrator Addressed Letter</i> providing an ADA hold harmless for 157 initially</p> | <p><b>\$0</b></p>   | <p><b>\$400 million</b></p> <p>based on mid-range best estimate</p> <p>Composed of:</p> <p>\$150 million forgone recapture collections to State Treasury (this is not state aid payment or currently anticipated in state budget).</p> <p>\$250 million state aid to school districts during</p> | <p><b>\$400 million</b></p>     | <p>TEC §42.005(d). Average Daily Attendance.</p> |

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| <p>2. For Chapter 41 districts, an increase in recapture. The timing of recapture payments depends on when ADA data is received by TEA.</p> <p>In anticipation of this loss of FSP funding during settle-up, school districts might reduce costs through personnel reductions during the 2017–2018 school year.</p> <p><b>Solution:</b> TEA will hold school districts and charter schools meeting certain qualifications <i>harmless</i> for their loss of ADA. This will encourage districts to avoid reducing school personnel throughout the 2017–2018 school year.</p> <p>The commissioner will hold affected districts and charter schools harmless to a projected ADA number calculated using a three-year average trend from the 2014–2015 through 2016–2017 school years, unless this projection is both 15 percent higher and 100 ADA higher than the 2017–2018 legislative projections. In the latter case, 2017–2018 legislative projections will be used. <b>This is a one-time adjustment for the 2017–2018 school year.</b></p> | <p>identified school districts and charter schools that (1) had damage to at least one facility, or (2) had instructional facilities that were closed for 9 or 10 hurricane-related waiver days. The school district or charter school must complete the Governor’s Commission to Rebuild Texas Worksheet.</p> <p>TEA will continue to monitor to ensure qualifying districts are held harmless for ADA losses.</p>  |  | <p>September 2018 (FY2019) FSP settle-up.</p> <p>TEA would have to request a supplemental appropriation for the state aid portion during the 86th Texas Legislature.</p> |                                    |   |
| <b>2017–2018 School Year Tax Issues</b>  |  |  |  |                                    |   |
| <p><b>3</b> <b>Loss of maintenance and operations (M&amp;O) property tax revenue during the 2017–2018 school year.</b></p> <p><b>Is this currently a legally required cost to the state?</b><br/>No.</p> <p><b>Issue:</b> M&amp;O local property tax revenue helps school districts pay for their maintenance and operations. School districts may experience losses in M&amp;O local property tax revenue during the 2017–2018 school year due to (1) 2017 tax year property reappraisals, which would decrease property values/tax revenue, and (2) delayed/uncollected tax collections. TEA is aware of one school district that has voted to reappraise its 2017 tax year. TEA would not normally increase the 2017–2018 school year FSP formula state aid to make up for any decrease in 2017 tax year local property tax collections.</p> <p><b>TEA Proposal:</b> Collect information from school districts about 2017 tax year collection losses and potentially</p>  | <p>TEA issued guidance to school districts.</p> <p>In December of 2017, TEA will collect data from districts to develop a projection of lost property tax revenue during the 2017–2018 school year and reappraisal efforts. TEA would then provide analysis to the legislature in February 2018.</p> <p>Thereafter, TEA could provide additional state aid to replace lost local property tax revenue. This action would potentially require TEA to borrow funds from FY 2019 and bring them to FY 2018.</p> | <p><b>TBD</b> (Estimate anticipated in February of 2018)</p> <p>TEA could potentially borrow money from FY 2019 to provide state aid to school districts during the 2017–2018 school year for the loss of local property tax revenue. If done, TEA would request a supplemental appropriation during the 86th legislative session.</p> | <p><b>N/A. This is covered in the 2018–2019 school year tax issues (below).</b></p>  | <p><b>TBD</b></p>                  | <p>TEC §42.2523. Adjustment for Property Value Affected by State of Disaster.</p> |

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| <p>borrow money from FY 2019 to provide state aid to school districts during the 2017–2018 school year to make up for lost local property tax revenue.</p> <p>Note: Charter schools do not levy taxes.</p>  |  |  |   |                                 |   |
| <p><b>4</b> <b>Loss of interest and sinking (I&amp;S) property tax revenue during the 2017–2018 school year.</b></p> <p><b>Is this currently a legally required cost to the state?</b><br/>No. However, if a district defaults on a bond payment that is guaranteed by the Texas Permanent School Fund (TPSF), the TPSF must make the payment. The school district is then required to repay the TPSF.</p> <p><b>Issue:</b> The local I&amp;S property tax revenue provides funds for the payment of the debt that districts issue to finance facilities and other capital expenditures. During the 2017–2018 school year, there are 130 school districts that were estimated to collect \$1.8 billion in I&amp;S local property tax revenue.</p> <p>School districts may experience losses in local property tax revenue during the 2017–2018 school year due to (1) 2017 tax year property reappraisals, which would decrease property values/tax revenue, and (2) delayed/uncollected tax collections. TEA is aware of one school district that has voted to reappraise its 2017 tax year. TEA would not normally increase the 2017–2018 school year FSP formula state aid to make up for any decrease in 2017 tax year local property tax collections.</p> <p>To mitigate this loss in revenue, school districts can (1) use their available fund balance or other available revenue, such as M&amp;O, and/or (2) seek refinancing options.</p> <p>TEA is unaware of any district that is in jeopardy of not making its I&amp;S payments.</p> <p>Note: Charter schools do not levy taxes.</p> | <p>TEA is unaware of any district that is in jeopardy of not making its I&amp;S payments.</p> <p>To mitigate any loss in I&amp;S tax revenue, school districts can (1) use their available fund balance or other available revenue such as M&amp;O revenue, and/or (2) seek refinancing options.</p> | <p><b>\$0</b></p> <p>TEA is unaware of any district that is in jeopardy of not making its I&amp;S payments.</p> <p>If a school district has insufficient I&amp;S tax revenue to pay its bonds, TPSF will make the payment. The school district is then required to repay the TPSF.</p> | <p><b>N/A. This is covered in the 2018–2019 school year tax issues (below).</b></p> | <p><b>\$0</b></p>               | <p>TEC §45.003<br/>Bonds and Tax Elections.<br/>TEC §45.052<br/>Guaranteed Bonds.</p> |

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|   | <b>2018–2019 School Year Tax Issues</b>   |   |   |   |                                    |   |
| 5 | <p><b>Loss of maintenance and operations (M&amp;O) property tax revenue) during the 2018–2019 school year.</b></p> <p><b>Is this currently a legally required cost to the state?</b></p> <p>1. <b>Reappraised Property: Yes.</b> If 2017 tax year property is reappraised, TEA is required by the FSP formulas to provide FSP formula state aid to make up for local property tax revenue losses in the 2018–2019 school year.</p> <p>2. <b>Un-Reappraised Property: No.</b> If 2017 tax year property is not reappraised, then there is no state obligation to make up for declines in local property tax revenue during the 2018–2019 school year. However, the state could consider additional funding for local property value loss in a supplemental appropriation.</p> <p><b>Issue:</b><br/> <b>Reappraised Property:</b> Beginning with the 2018–2019 school year, the state is legally obligated to “make-up” state aid (state share) for any reported loss of local property tax revenue on reappraised tax year 2017 property.</p> <p>To date, TEA is aware of one school district that is reappraising tax year 2017 property values. Others are considering this option.</p> <p><b>Un-reappraised Property:</b> There is no current state obligation to make up for lost property tax revenue during the 2018–2019 school year. The legislature could provide additional funding to mitigate property tax revenue loss in a supplemental appropriation.</p> | <p>TEA will collect data from districts to develop a projection of lost property tax revenue during the 2017–2018 school year and reappraisal efforts. TEA would then provide analysis to the legislature in February 2018.</p> | <p><b>N/A. This is covered in the 2017–2018 school year tax issues (above).</b></p> | <p><b>TBD.</b> Estimate anticipated in February of 2018 (could be significant state cost depending on number of reappraisals).</p> <p><b>Reappraised Property:</b> If 2017 tax year property is reappraised, TEA is legally required to provide FSP formula state aid to make up for local property tax revenue losses in 2018–2019 school year.</p> <p>To date, TEA is aware of one school district that is reappraising tax year 2017 property values. Others are considering this option.</p> <p><b>Un-reappraised Property:</b> There is no current state obligation. The legislature could provide additional funding to mitigate property tax revenue loss in a supplemental appropriation.</p> | <p><b>TBD</b></p>                  | <p>TEC §42.2523. Adjustment for Property Value Affected by State of Disaster.</p> |

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| 6 | <p><b>Local tax increases to interest &amp; sinking (I&amp;S) to cover debt service during the 2018–2019 school year.</b></p> <p><b>Is this currently a legally required cost to the state?</b><br/>No.</p> <p><b>Issue:</b> The I&amp;S tax revenue provides funds for payment of the debt that districts issue to finance facilities and other capital expenditures. School districts may experience losses in I&amp;S local property tax revenue during the 2018–2019 school year due to (1) 2017 tax year property reappraisals, which would decrease property values/tax revenue, and (2) delayed/uncollected tax collections. TEA is aware of one school district that has voted to reappraise its 2017 tax year.</p> <p>Many school districts may be required to raise local I&amp;S taxes during the 2018–2019 school year to cover any loss of local property tax revenue caused by reappraisals. Taxes can be increased without a role back election in the year after a disaster.</p> <p>Depending on the type of bond, some school districts may not be able to raise I&amp;S taxes and will have to (1) use their available fund balance or other available revenue such as M&amp;O, and/or (2) seek refinancing options.</p> <p>Note: Charter schools do not levy taxes.</p> | <p>School districts may have to increase their I&amp;S tax rates in the 2018–2019 school year to ensure they have adequate funds to make bond payments.</p> <p>Depending on the type of bond, some school districts may not be able to raise I&amp;S taxes and will have to (1) use their available fund balance or other available revenue such as M&amp;O, and/or (2) seek refinancing options.</p> <p>TEA will collect data from districts to develop a projection of lost property tax revenue during the 2017–2018 school year and reappraisal efforts. TEA would then provide analysis to the legislature in February of 2018.</p> | <p><b>N/A. This is covered in the 2017–2018 school year tax issues (above)</b></p> | <p><b>\$0</b></p> <p>The legislature could consider options to help mitigate the anticipated tax increase. However, most I&amp;S tax rates are required to be adopted in the summer of 2018.</p> | <p><b>\$0</b></p> <p>The legislature could consider options to help mitigate the tax increase. However, I&amp;S rates are adopted in the summer of 2018.</p> | <p>TEC §45.003<br/>Bonds and Tax Elections.</p> <p>TEC §45.052<br/>Guaranteed Bonds.</p> <p>TAX §26.08a<br/>Election to Ratify School Taxes</p> |

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|   | <b>Facilities Issues</b>  |   |   |  |  |   |
| 7 | <p><b>Impact to state facilities funding costs.</b></p> <p><b>Is this currently a legally required cost to the state?</b><br/>Yes</p> <p><b>Issue:</b> Approximately, 39 of the 130 impacted school districts receive approximately \$47 million in state FSP aid for the Instructional Facilities Allotment (IFA) or Existing Debt Allotment (EDA). These programs help districts pay for the debt they incur for facilities and other capital expenditures.</p> <p>School districts with enrollment losses during the 2017–2018 school year will have lower average daily attendance. As ADA is a major component in determining EDA and IFA FSP formula state aid, the decrease in ADA would normally result in a decrease in EDA and IFA during the 2017–2018 school year settle-up occurring in September 2018 (FY 2019).</p> <p><b>Solution:</b><br/><b>2017–2018 School Year.</b> TEA will hold school districts meeting certain qualifications <i>harmless</i> for their loss of ADA. This is anticipated to largely stabilize their IFA and EDA state aid amounts. See row 2 above. <b>This is a one-time adjustment for the 2017–2018 school year.</b></p> <p><b>2018–2019 School Year.</b> EDA and IFA changes in state aid will depend on whether the school district reappraises its property (see 6 above) and ADA.</p> <p>Note: Charter schools are not eligible for IFA or EDA funding.</p> | <p>Consistent with current practice, TEA will continue to make full FSP formula payments to all school districts (and requesting charter schools), regardless of a student enrollment decline. This prevents any immediate loss of state funding during the 2017–2018 school year.</p> <p><b>2017–2018 School Year.</b> TEA will hold school districts meeting certain qualifications <i>harmless</i> for their loss of ADA. This is anticipated to largely stabilize their IFA and EDA state aid amounts. See row 2 above. <b>This is a one-time adjustment for the 2017–2018 school year.</b></p> | <p><b>\$0</b></p> <p>Cost is included in \$400 million ADA hold harmless in row 2 (above).</p> <p>TEA will hold school districts meeting certain qualifications <i>harmless</i> for their loss of ADA. This is anticipated to largely stabilize their IFA and EDA amounts. See row 2 (above). <b>This is a one-time adjustment for the 2017–2018 school year.</b></p> | <p><b>TBD</b></p> <p>Amount anticipated to be negligible. EDA and IFA changes in state aid will depend on whether the school district reappraises its property (see row 6 above) and ADA.</p>                      | <p><b>TBD</b></p>                      | <p>TEC §46.003 IFA<br/>TEC §46.032 EDA</p>          |
| 8 | <p><b>Facilities damage at Chapter 41 districts.</b></p> <p><b>Is this currently a legally required cost to the state?</b><br/>Yes, in forgone recapture funding to the State Treasury.</p> <p><b>Issue:</b> Chapter 41 school districts have significant property damage. These districts can already apply for a reduction/elimination in their recapture costs for the 2017–2018 and 2018–2019 school years for any facility damage</p>  | <p>Chapter 41 districts can apply to TEA for disaster aid assistance to reduce their recapture payments for the 2017–2018 and 2018–2019 school years.</p> <p>The application is available on the TEA website.</p>   | <p><b>\$474 million</b> (max cost)</p> <p>Loss of budgeted recapture to State Treasury.</p> <p>Note: Based on preliminary information, TEA has learned that FEMA may cover up to 90 percent of uninsured loss,</p>  | <p><b>\$500 million</b> (max cost)</p> <p>Loss of budgeted recapture to State Treasury.</p> <p>Note: Based on preliminary information, TEA has learned that FEMA may cover up to 90 percent of uninsured loss,</p> | <p><b>\$974 million</b> (max cost)</p> | <p>TEC §41.0931<br/>Disaster Remediation Costs.</p> |

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|   | <p>costs <i>not</i> covered by insurance or FEMA. Importantly, however, districts cannot recover <i>more than their recapture payments</i> (see row 9 below).</p> <p><b>Solution:</b> Chapter 41 districts with eligible remediation costs can offset recapture payments by applying to TEA in the 2017–2018 and 2018–2019 school years.</p>  |   | <p>leaving districts with at least a 10 percent uninsured and uncovered loss.</p>  | <p>leaving districts with at least a 10 percent uninsured and uncovered loss.</p>  |                                    |   |
| 9 | <p><b>Facilities damage related to Chapter 42 districts and Chapter 41 districts beyond recapture.</b></p> <p><b>Is this a legally required cost to the state?</b><br/>No.</p> <p><b>Issue:</b> The Texas Education Code provides that (1) Chapter 42 districts can receive facilities assistance, and (2) Chapter 41 districts can receive facilities assistance beyond their recapture payment amounts (see row 8 above), only if there is an FSP surplus in the fiscal year. Even if there is an FSP surplus, TEA must first use the surplus to finance special education camera needs.</p> <p>Note: Based on preliminary information, TEA has learned that FEMA may cover up to 90 percent of uninsured loss, leaving districts with at least a 10 percent uninsured and uncovered loss.</p> <p><b>TEA Proposal:</b> The only <i>potential</i> legal mechanism for TEA to assist districts is to borrow money from FY 2019 and declare an FSP surplus in FY 2018. This has never been done before. Further, the surplus would first be used for special education camera needs.</p> <p>Additionally, the legislature could provide additional funding as part of a supplemental appropriations during the 86th Texas Legislature.</p> | <p>TEA is encouraging districts to work with their insurance providers and FEMA to determine unreimbursed damage amounts.</p> | <p><b>TBD</b></p> <p><b>\$0</b> unless TEA borrows money from FY 2019 to create an FSP surplus in FY 2018. This has never been done before. If done, TEA would request a supplemental appropriation in the 86th Texas Legislature.</p> | <p><b>TBD</b></p> <p><b>\$0</b> unless there is an FSP formula surplus in FY 2019.</p> <p>The legislature could provide additional funding as part of a supplemental appropriation bill during the 86th Texas Legislature.</p> | <p><b>TBD</b></p>                  | <p>TEC §42.2524<br/>Reimbursement for Disaster Remediation Costs.</p> |

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|    | <b>Other Funding Issues</b>  |  |   |   |                                    |   |
| 10 | <p><b>Students newly eligible to generate State Compensatory Education (SCE) FSP formula funds.</b></p> <p><b>Is this currently a legally required cost to the state?</b><br/>Yes.</p> <p><b>Issue:</b> Data from the Texas Department of Agriculture (TDA) National School Lunch Program (free/reduced price lunch) indicates that districts will have more students qualifying for the FSP formula SCE weight during the 2017–2018 and 2018–2019 school years.</p> <p><b>Solution:</b> For the 2017–2018 school year, TEA estimates 162,000 additional students will qualify for the SCE weight in the school finance system. Consistent with current practice, TEA will update its SCE FSP related formulas in February of 2018. As a result, impacted districts will recognize increases to state aid for SCE identified students beginning with their March 2018 FSP payment.</p> | <p>TDA collects and provides National School Lunch Program student eligibility data to TEA. Per customary practice, TEA is scheduled to incorporate TDA data into the FSP system for the 2017–2018 school year during February of 2018. As a result, impacted districts will recognize increases to state aid for SCE identified students beginning with their March 2018 FSP payment.</p> | <p><b>\$186 million</b></p>   | <p><b>\$80 million</b></p> <p>Costs will vary depending on the number of additional students eligible for free/reduced lunch.</p> | <p><b>\$266 million</b></p>        | <p>TEC §42.152. Compensatory Education Allotment.</p> |
| 11 | <p><b>Students newly eligible for pre-K.</b></p> <p><b>Is this currently a legally required cost to the state?</b><br/>Yes.</p> <p><b>Issue:</b> Three- and four-year-old children may be newly eligible for free prekindergarten if they are deemed educationally disadvantaged and/or homeless for the 2017–2018 school year and beyond.</p> <p><b>Solution:</b> Districts will be provided additional prekindergarten FSP funding during the September 2018 (FY2019) FSP settle-up process for newly qualifying students.</p>   | <p>TEA will review PEIMS data provided by districts and flow funding for these students during the September 2018 (FY 2019) FSP settle-up for the 2017–2018 school year.</p>   | <p><b>\$0</b></p> <p>Additional funding for these students would not flow until the September 2018 (FY 2019) FSP settle-up for the 2017–2018 school year.</p> | <p><b>TBD</b></p>   | <p><b>TBD</b></p>                  | <p>TEC §29.153.</p>                                   |

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| 12 | <p><b>Storm recovery costs.</b></p> <p><b>Is this currently a legally required cost to the state?</b><br/>No.</p> <p><b>Issue:</b> Affected districts may face storm recovery expenditures for transportation, additional counselors, student mental health needs, and overtime for auxiliary and maintenance staff.</p> <p>The legislature could provide additional funding as part of a supplemental appropriations during the 86th Texas Legislature.</p> | <p>TEA is working to obtain approvals from FEMA so that some of these costs can be reimbursed. TEA is also working to identify additional federal funding sources and coordinate private resources.</p> | <p><b>\$0 to state</b></p> <p>All additional costs are borne by school systems.</p> | <p><b>\$0 to state</b></p> <p>All additional costs are borne by school systems.</p> <p>The legislature could provide additional funding as part of a supplemental appropriations bill during the 86th Texas Legislature.</p> | <p><b>\$0</b></p>               |                      |
| 13 | <p><b>Education service center (ESC) costs.</b></p> <p><b>Is this currently a legally required cost to the state?</b><br/>No, but TEA has pledged assistance.</p> <p><b>Issue:</b> ESCs are incurring substantial costs to help with hurricane-related remediation.</p> <p><b>Solution:</b> TEA has pledged to help the ESCs, possibly by utilizing its FSP transfer authority in Rider 25 of the 2018–2019 General Appropriations Act.</p>                  | <p>TEA will continue to collect hurricane-related costs from the ESCs and report to the legislature.</p>  | <p><b>\$1 million</b></p>   | <p><b>\$1 million</b></p>  | <p><b>\$2 million</b></p>       |                      |

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