

See Items #3-6 – Property Value Decline Impact on M&O and I&S in 2017-18 and 2018-19

Hurricane Harvey will cause a decline in property values for a number of districts in Texas. This will reduce both M&O and I&S collections in those districts, once properties are appraised again after the storm. These appraisals will happen starting in January 2018 for all districts, as part of the normal, annual cycle of appraisals. This can be accelerated if a district orders reappraisal, applying to the last four months of 2017. Given the school finance system, a reduction in local property values entitles districts to additional state aid to make up for the decline (solely for M&O), but this increased state aid always lags one year, so the districts will experience a significant one-time hole in their budgets the year the decline occurs. For I&S collections, all but the most property poor districts are entirely dependent on local property taxes.

The agency modeled a Mid-Range Estimate (MRE) and Worst-Case Scenario (WCS) based on property tax decline data from districts affected by Hurricane Ike, applied to 130 districts most impacted by Hurricane Harvey. The following chart shows the impact.

Fiscal Year & Academic Year	FY2018 2017-2018	FY2019 2018-2019	FY2020 2019-2020
Reduction in ISD Property Tax Collections:			
M&O Collections	\$ 71	\$385 – \$1,520	\$411 - \$1,626
I&S Collections	\$ 18	\$85 – \$341	NA*
Total Property Tax Collection Reductions+	\$ 89	\$470 – \$1,861	\$411 - \$1,626
Increases in State Costs:			
FSP State Aid Increases (Decreases)	(\$ 5)	(\$31) – (\$123)	\$241 - \$978
Ch 41 Recapture Revenue Decreases	\$ 5	\$39 – \$140	\$159 - \$561
Total State Costs	\$ 0	\$8 – \$17	\$400 - \$1,539
Total ISD Budget Reductions	\$ 89	\$462 - \$1,844	\$11 - \$87

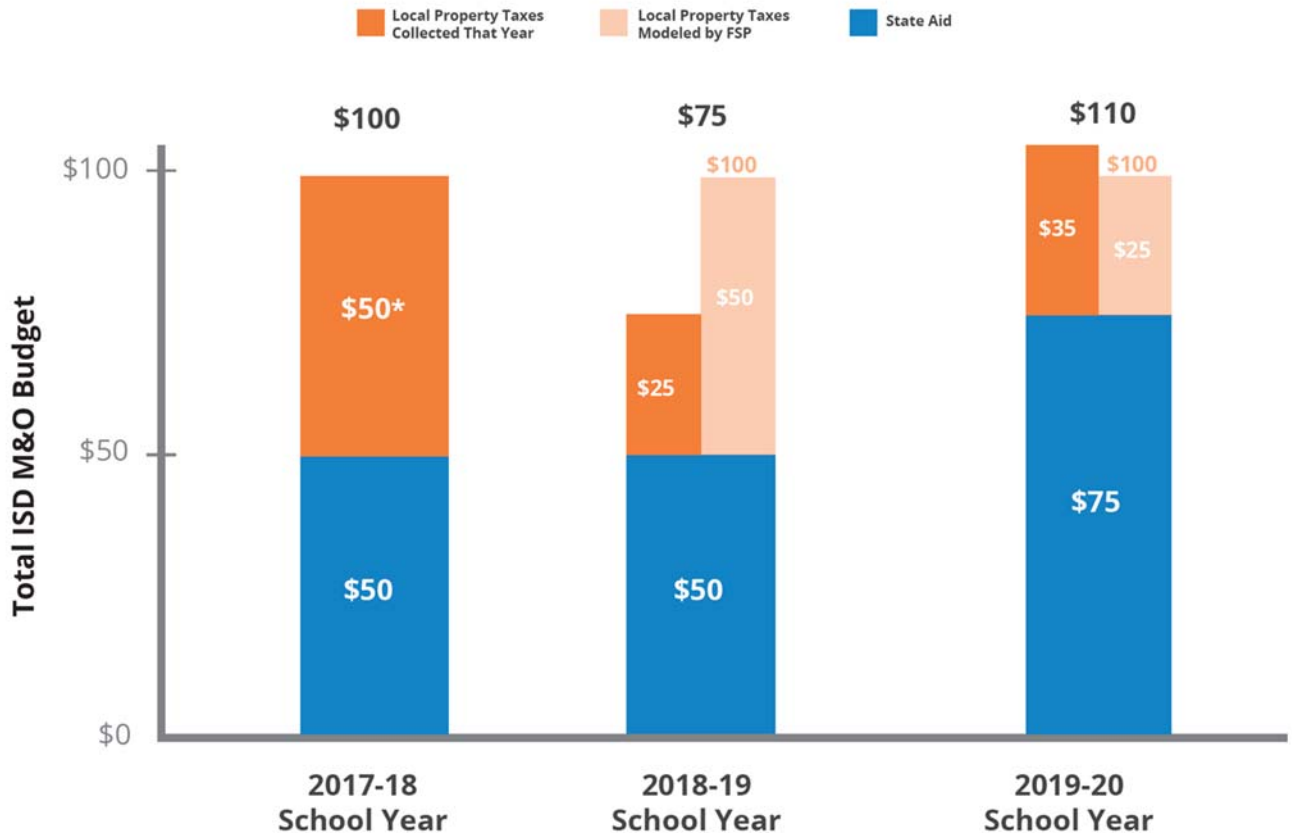
In Millions. Ranges are MRE – WCS.

NA* – By FY2020, we assume districts will have adjusted I&S tax rates, so there would be no reduction in tax collections to support debt payments going forward. This will occur for many in FY2019.

+ - This model assumes a 1% decline in collections for taxes paid by Jan 2018. This isn't property tax relief, as tax bills don't decline, but rather taxpayers who are unable to pay their property tax bill and go delinquent because of the storm.

An Illustration

The following graph provides an illustration of this effect, based upon a district with a baseline M&O budget of \$100.



2017-2018: In this example, the district's total M&O budget before the storm was \$100, of which half was supplied by local property taxes and half by state aid. Absent reappraisals ordered by the ISD, there isn't any decline in values from the storm. (In reality, there will be a slight decline in collections given the likelihood of taxpayer delinquency, signified by the asterisk). The state aid portion of their budget is based on 2016-2017 values, which in this case are assumed to be the same as 2017-2018.

2018-2019: Property will be re-valued this year because property's market value is determined every year. The example assumes significant declines in values, so that total collections are only \$25. But this reduced current year value doesn't affect this year's state share. Instead, state share is based upon the values for the prior year. As a result, the district will see a noticeable reduction in its total budget.

2019-2020: The significant decline in property values from the prior year are finally recognized with corresponding increases in state share during this year. Plus, property values will begin swinging back up at this point, as storm recovery is in full swing. The result will be a positive side-effect of the lag in FSP formulas, with the district's overall budget up to \$110.