



**HB 3 in 30: Recapture**

July 25, 2019

## Agenda

1. **Background on Recapture** 00:58
2. **Recapture Formula Changes** 04:47
3. **Procedural Changes for Recapture** 07:11
4. **Additional Resources** 8:39
  - Options and procedures for districts with excess local revenue
    - Next steps (TEA and District)
  - HB 3 Resources

## TEA Staff

- **Leo Lopez**, Associate Commissioner for School Finance
- **Al McKenzie**, Director of Forecasting & Fiscal Analysis
- **Amy Copeland**, Assistant Director of State Funding
- **Kim Wall**, Recapture Program Administrator

# Background on Recapture

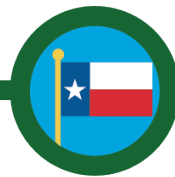
# What is recapture?

Texas Education Code makes provisions for certain districts with excess local revenue to pay funds into the Foundation School Program for distribution to other districts.

School Districts with  
Excess Local Revenue



**RECAPTURE FUNDING**



All School  
Systems





Question

**Are recapture payments from school districts used to fund other functions of the state budget?**



Answer

No. Recaptured funds are appropriated in the General Appropriations Act as a method of finance to help pay for the Foundation School Program (FSP). Texas Education Code, 49.154(b) states, “Receipts shall be deposited in the state treasury and may be used only for foundation school program purposes.”



# What is the basic structure of school finance?

**STEP 1**    **Formula Entitlement** ..... **\$9,557**

With some caveats, districts are entitled to an amount of funding based upon the students that are enrolled.

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# What is the basic structure of school finance?

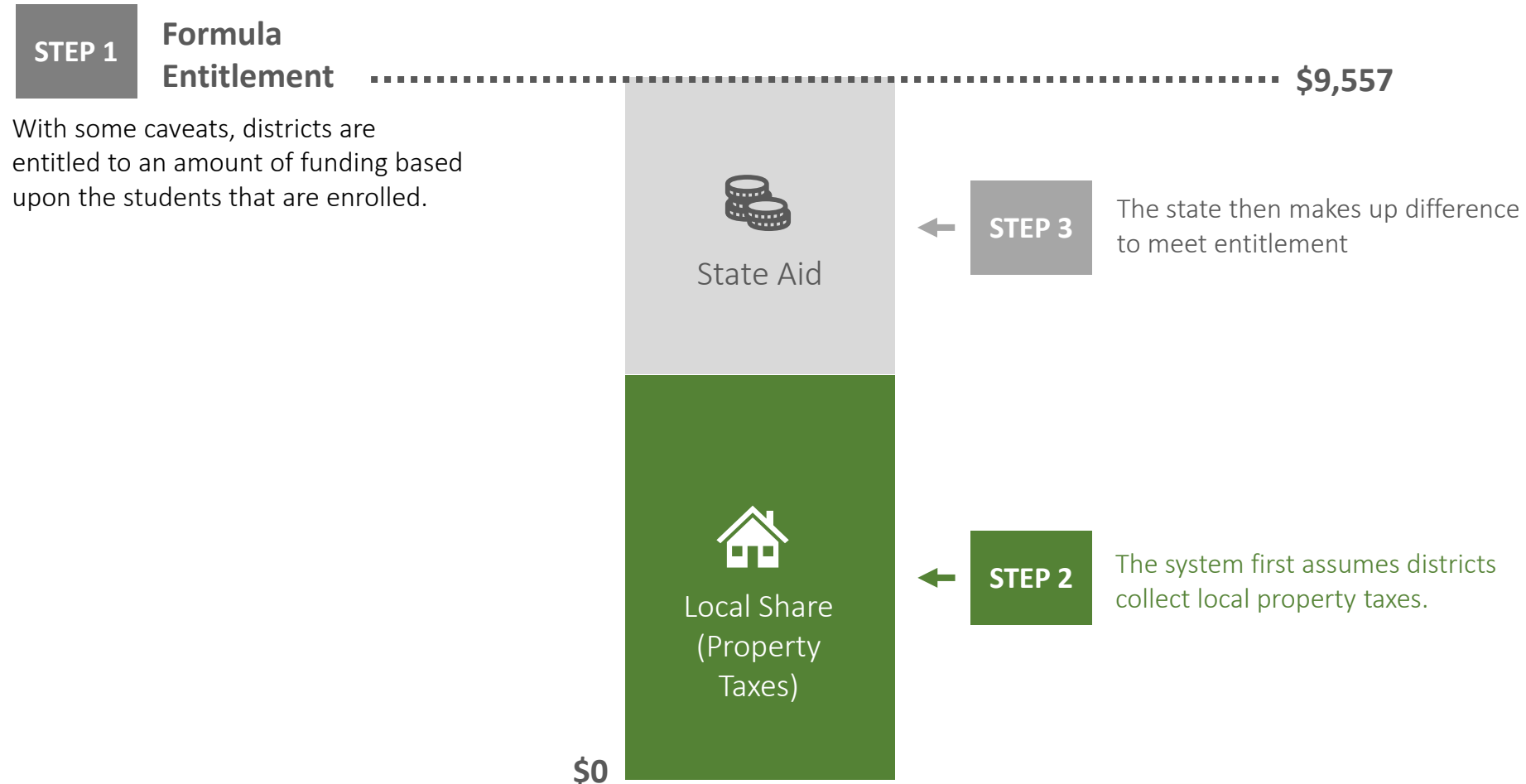
**STEP 1** **Formula Entitlement** ..... \$9,557

With some caveats, districts are entitled to an amount of funding based upon the students that are enrolled.

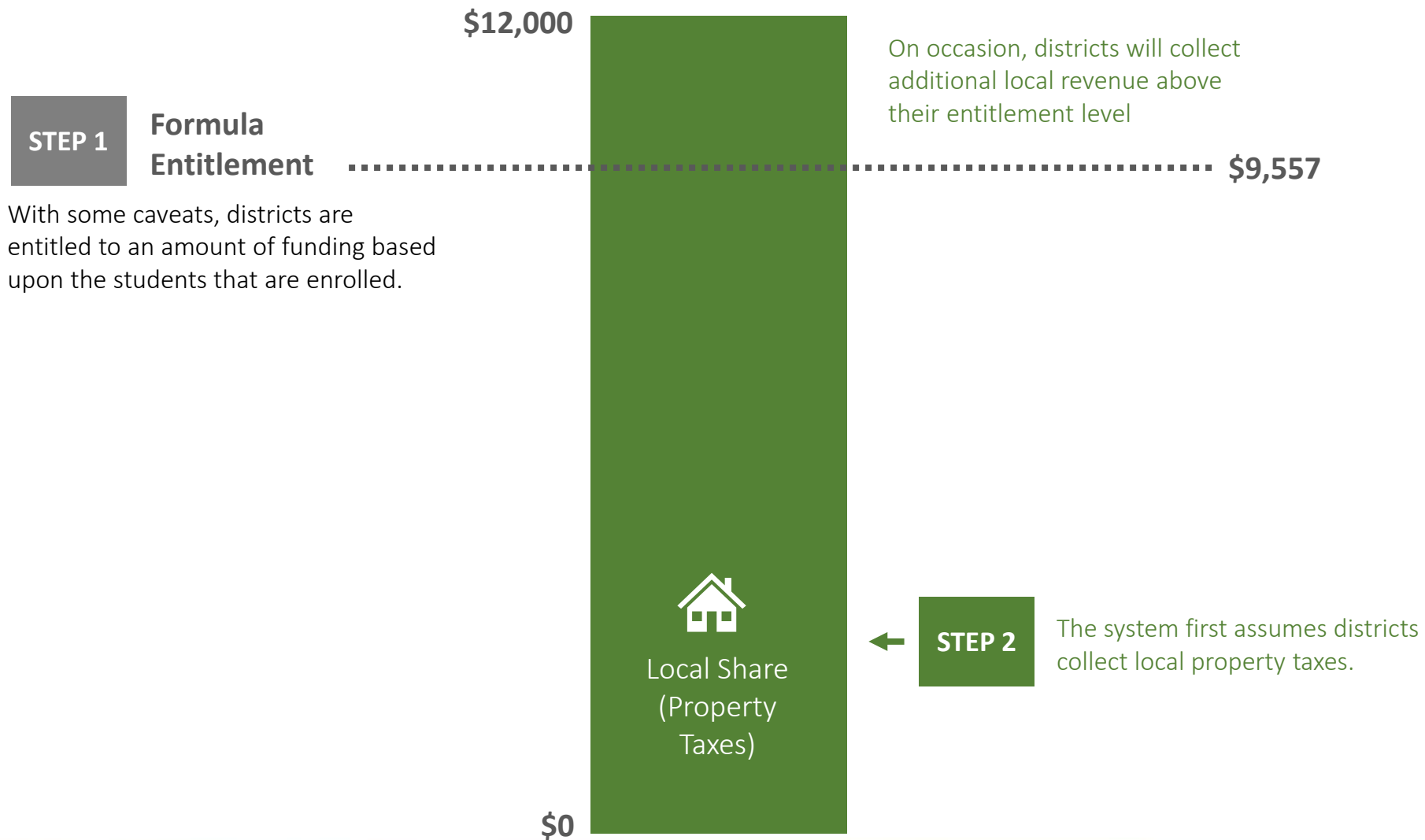




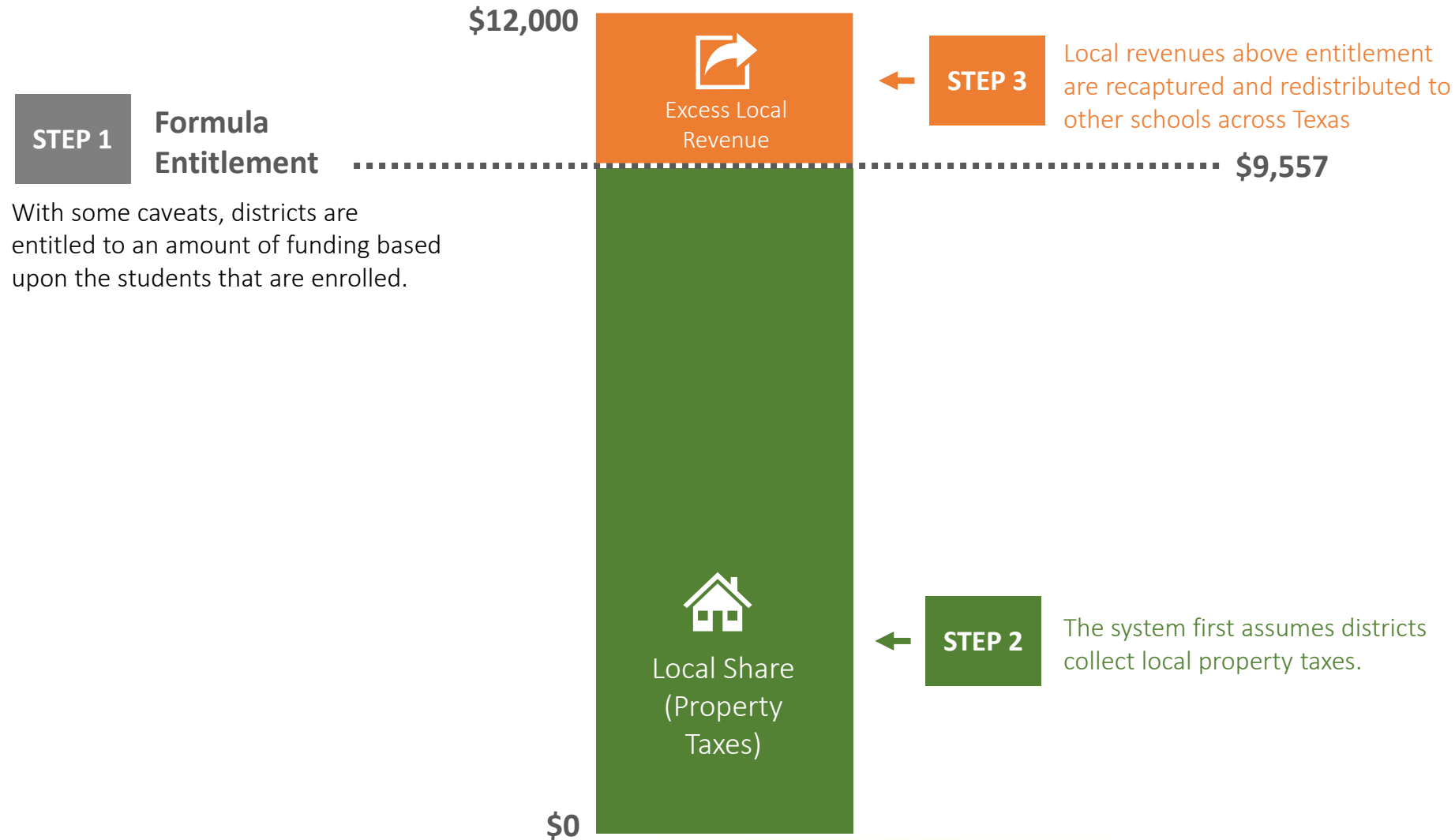
# What is the basic structure of school finance?



# When does recapture occur?

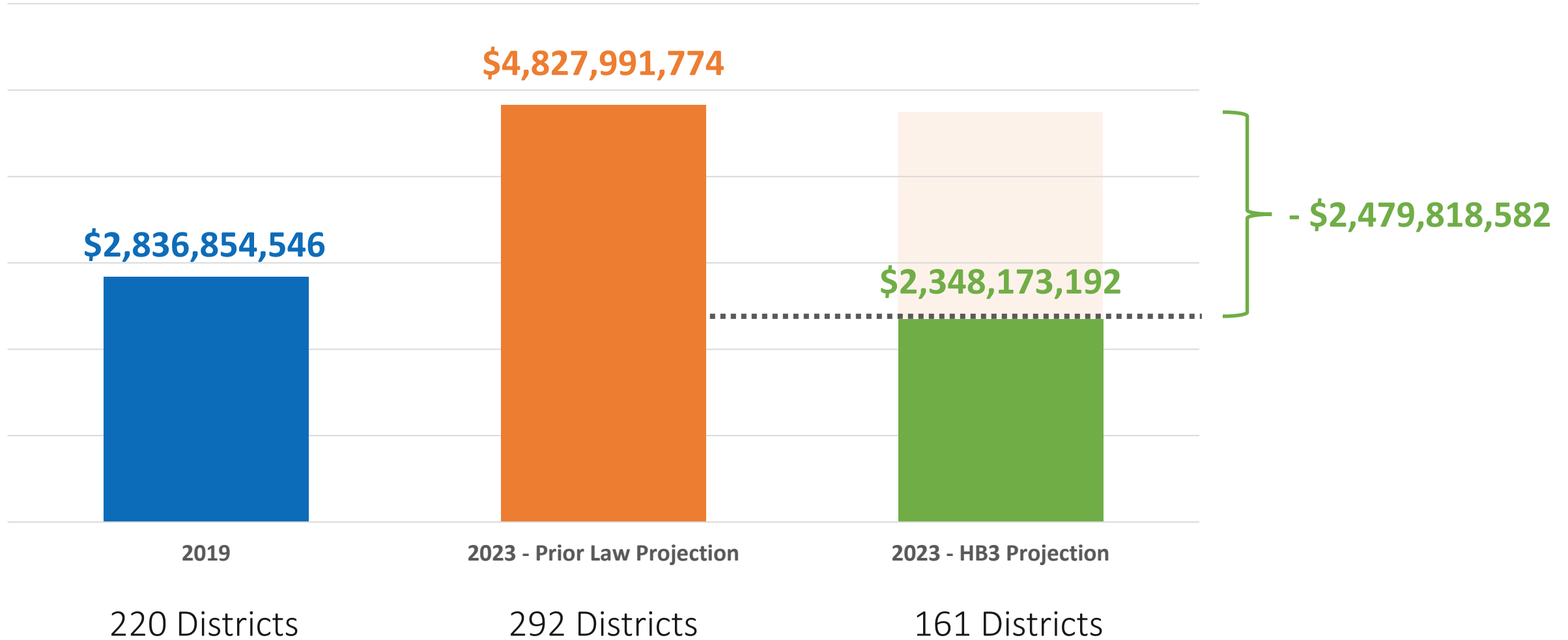


# When does recapture occur?

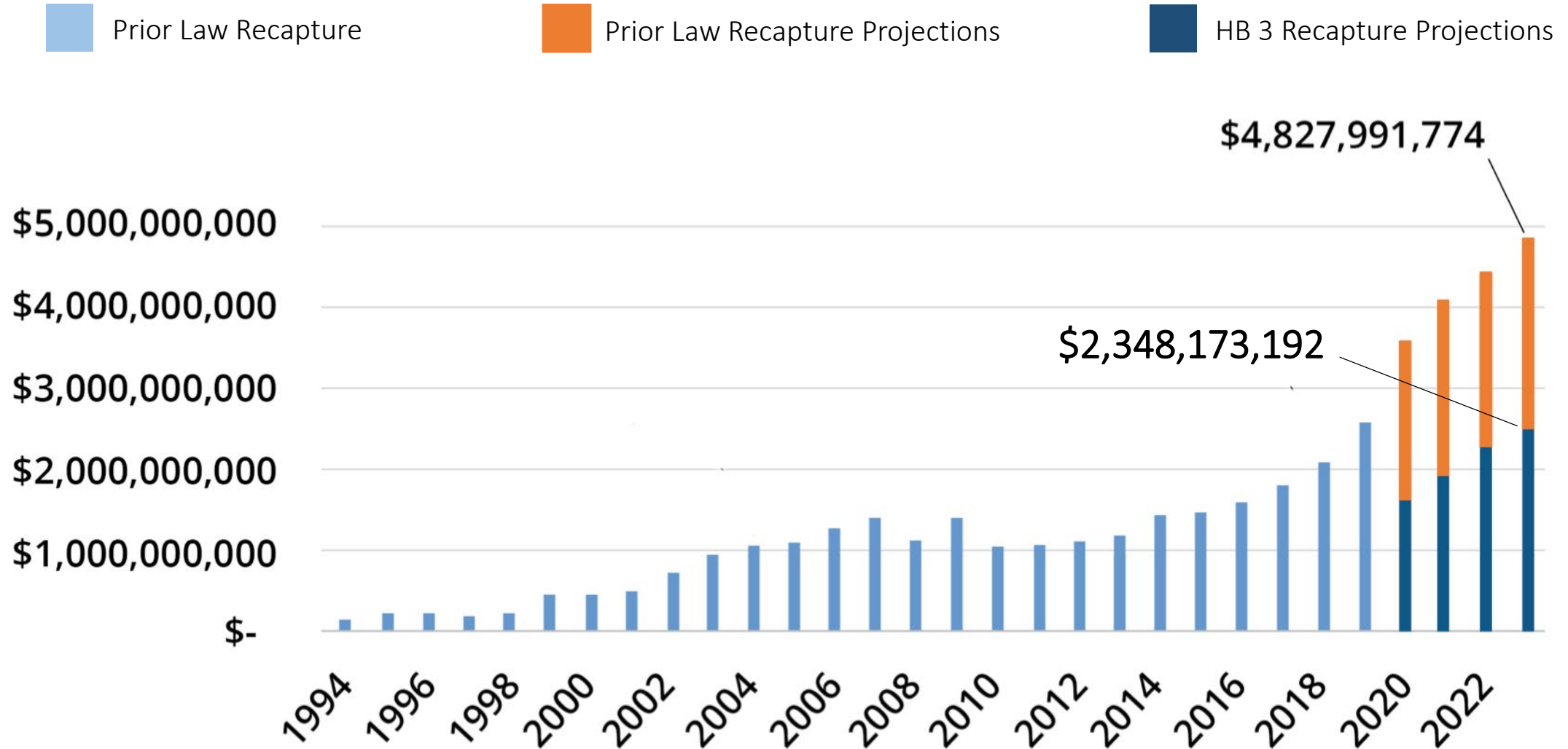


\*The entitlement value of \$9,557 is the average of all districts M&O Tier I & Tier II funding entitlement in 2019-2020; \$12,000 is illustrative.

# HB 3 Reduces Recapture



# Reliance on recapture as structured was unsustainable



# Recapture Formula Changes

# HB 3 reduces recapture in three primary ways

## 1. The calculation of recapture is now based on local revenue in excess of entitlement instead of equalized wealth levels

- **CEI:** Disparities between recapture and non-recapture districts caused by the CEI have been eliminated
- **Transportation:** Costs for transportation are now funded equally between recapture and non-recapture districts
- **Entitlement prevails over recapture:** Districts are now guaranteed that recapture will not reduce revenue below their entitlement level (TEC, Section 48.257, HB 3 Enrolled Page 92)

## 2. Total entitlement increased

- New allotments were created (Early Education Allotment, CCMR Bonus, Teacher Incentive Allotment, etc.)
- Existing allotments were expanded (SCE, Special Education, bilingual/dual language)

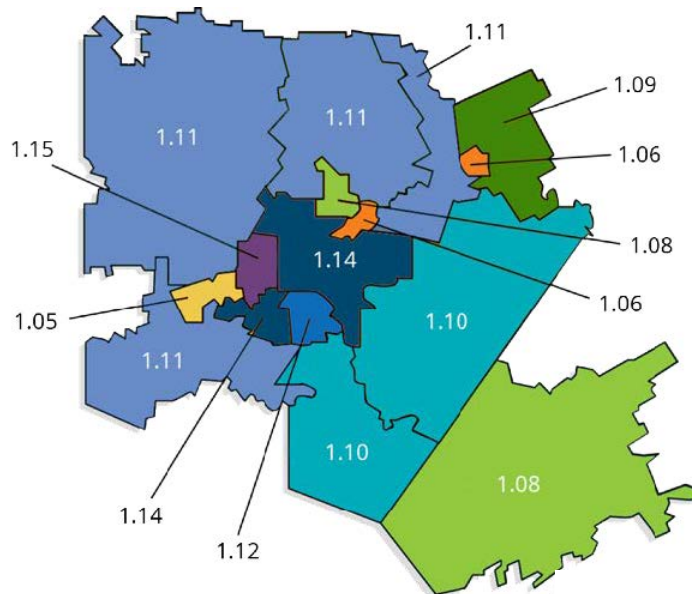
## 3. Lowered property tax rates

- HB 3 lowered tax rates, resulting in fewer collections
- HB 3 contains a mechanism to lower future property tax rates

***Recapture is projected to be reduced over prior law by \$3.6 billion in the next biennium.***

# Cost of Education Index (CEI)

- Repeals the Cost of Education Index (CEI), so districts no longer receive funding based on a decades-old metric.
- With prior law, recapture districts only received half their CEI allocation. Now, recapture & non-recapture districts are treated the same.
  - HB 3 requires TEA to study geographic variations in resource costs and cost of education, including transportation



- The CEI had not changed since initial data was gathered in 1989.
- Some areas had notably different CEI values even though the districts were adjacent.



# Transportation funding for recapture districts

- Prior to HB 3, recapture districts did not receive the benefit of the transportation allotment because transportation was excluded from the calculation of weighted average daily attendance (WADA), which was used to determine a districts wealth level.
- Under HB 3, transportation funding is treated the same between recapture and non-recapture districts because school districts will not be sending recaptured dollars back to the state for costs associated with basic student transportation.

## **In Statute:**

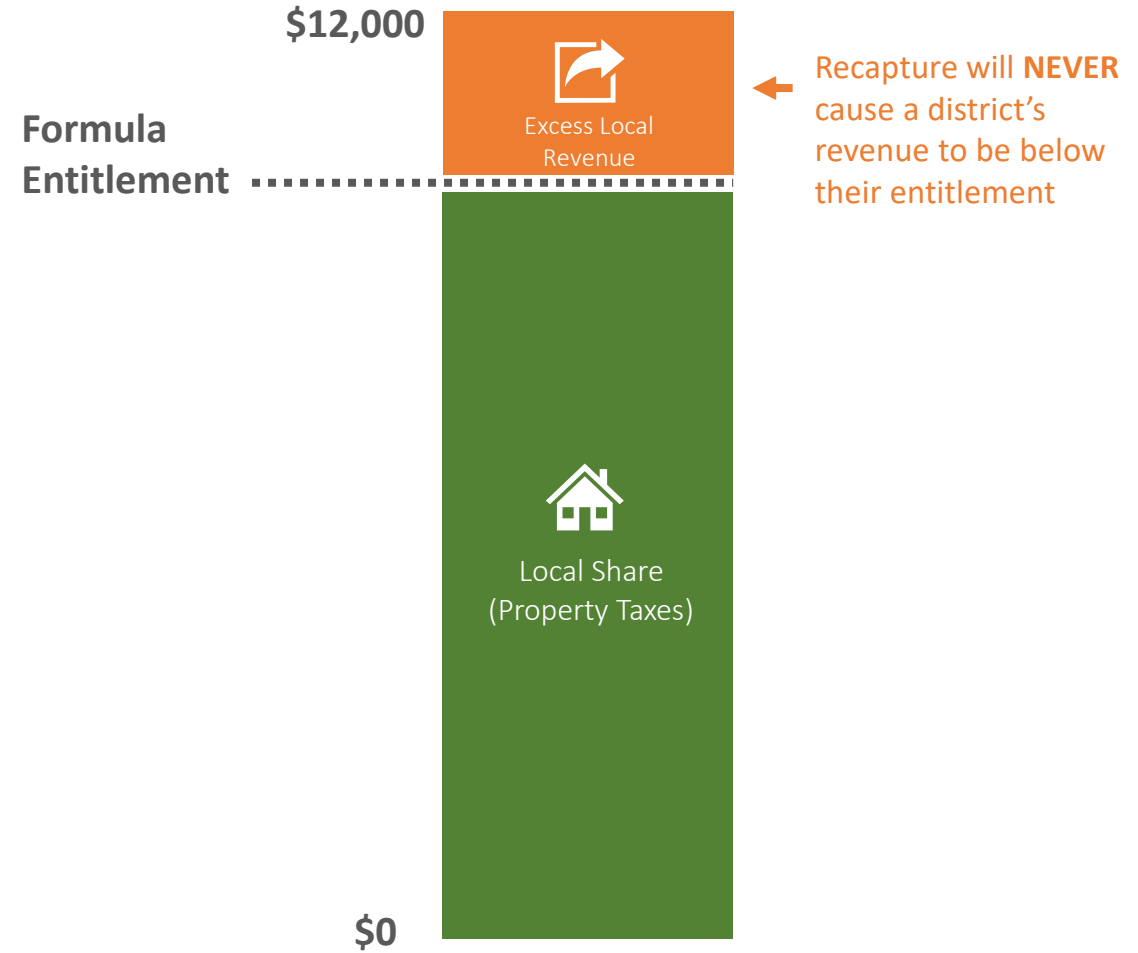
Texas Education Code, Section 48.257 – (HB 3, Enrolled Page 92)

# Under HB 3 Entitlement Prevails Over Recapture

### Recapture Under Prior Law



### Recapture Under House Bill 3



# Under HB 3 Entitlement Prevails Over Recapture

If: (Tier 1 M&O tax collections – Recapture) is less than  
(Tier 1 entitlement – ASF payment)

Then: Entitlement Prevails Over Recapture (Recapture Payments are Reduced)

For Example:

Districts with Local Optional Homestead Exemptions (LOHEs) that have excess local revenue above entitlement (i.e. recapture), which would normally result in them having less than the “bucket” receive an adjustment of local share/excess local revenue to ensure that recapture doesn’t pull that district’s revenue down below their entitlement if it otherwise would have done so.

# Other Formula Changes Affecting Recapture

# Move from prior tax year to current tax year values

- The previous method used prior year values to arrive at a proportional tax base reduction percentage.
  - This percentage was applied to current year tax collections to arrive at recapture amount
  - Created budget instability, i.e. surpluses and deficits
- Shift to current year values aligns recapture with entitlement

**More details to come in another presentation regarding Current Year Values.**

**In Statute:**

Texas Education Code, Section 48.256 – (HB 3, Enrolled Page 92)

# Equitable distribution of the Available School Fund (ASF)

- Prior to HB 3, not all districts benefited equally from the ASF.
  - For non-recapture districts, the ASF was a method of finance.
  - For most recapture districts, ASF was provided on top of the locally generated entitlement funding.
  
- To provide this funding more equitably, under HB 3 all districts now receive ASF funding as part of their Tier One entitlement.

## **In Statute:**

Texas Education Code, Section 48.251(c)(1) – (HB 3, Enrolled Page 87)

# Establishes an Equalized Wealth Transition Grant

- ✓ The grant establishes a 5-year glide path off of the 1992-1993 Chapter 41 hold harmless (repealed by HB 3), calculated as the amount the district received in 2018-2019.

School Year	Chapter 41 HH Percentage
2019-2020	100%
2020-2021	80%
2021-2022	60%
2022-2023	40%
2023-2024	20%
2024-2025	0%

## In Statute:

Texas Education Code, Section 48.278 – (HB 3, Enrolled Page 120)

# Procedural Changes for Recapture



# Early Agreement Credit Repealed, New Payment Option

- ✓ **Early agreement credit on recapture was repealed, with funding redirected to the basic allotment.**
  - Therefore, the September 1 deadline to submit contracts to reduce local revenue levels in order to receive the early agreement credit is no longer relevant.
- ✓ **Under HB 3, districts now have the option of making one lump-sum payment in August.**
  - The payment option to submit seven equal payments from February through August remains unchanged
  - Districts subject to recapture will select a payment option in the Excess Local Revenue subsystem of the online Foundation School Program (FSP) system to the Texas Education Agency (TEA) by January 15 annually

# Notification of Local Revenue in Excess of Entitlement

- ✓ Pursuant to §49.004, TEA notifies districts with tier one excess local revenue and tier two (level two) excess local revenue, as established in TEC, §48.257
- ✓ Since the 2019 district property value (DPV) is unknown at this time, for the 2019-2020 school year, the 2019 DPV was estimated by applying the comptroller growth assumption of 5.76 percent to the 2018 tax year DPV
  - However, beginning in SY 2020-2021, TEA will collect better estimates of current tax year property values from districts for use in future notice determinations
- ✓ Allows districts to move forward with preparation for an election under TEC, Chapter 49, if necessary

## **In Statute:**

Texas Education Code, §§48.257 and 49.004 – (HB 3, Enrolled Pages 92 and 125)

# Netting Option to Reduce Local Revenue Level

1. Section 41.0041, Education Code, was repealed which provided certain districts the option of authorizing the Commissioner to withhold state aid in lieu of holding an election.
2. However, provisions in the TEC, §48.257(c), allow districts to offset the reduction of excess local revenue against Chapter 48 funds provided in Subchapter F.
3. All districts will have the option to use state aid calculated under Subchapter F, Chapter 48, Education Code as an offset to their attendance credit for purposes of reducing their local revenue level.

## **In Statute:**

Texas Education Code, Section 48.257(c) – (HB 3, Enrolled Page 93)



Question

**What happens if I don't compress my taxes in compliance with HB 3?**



Answer

The agency, in calculating funding under the FSP, will reduce state aid or adjust recapture in an amount equal to the amount of revenue generated by a school district's tax effort that is not in compliance with HB 3.

## TEA Next Steps

1. Notifications to districts with local revenue in excess of entitlement were sent **July 11, 2019**
2. Rulemaking – *Options and Procedures for Districts with Local Revenue in Excess of Entitlement for School Year 2019-2020*
  - ✓ Target Filing Date: **September 2019**

## District Next Steps

### 1. If you received the notification:

- ✓ Districts must submit the district intent/choice selection form indicating which option(s) the district intends to reduce local revenue in excess of entitlement for school year 2019–2020 by **September 1, 2019**
- ✓ Allows districts to move forward with preparation for an election under TEC, Chapter 49, if necessary

### 2. If you received the notification:

- ✓ Submit agreement (contract) to reduce excess local revenue by **January 15, 2020**

# Frequently Asked Questions



Question

How do I...?



Answer

Visit the *Excess Local Revenue* webpage on the TEA's website at:  
[https://tea.texas.gov/Finance and Grants/State Funding/Excess Local Revenue/](https://tea.texas.gov/Finance_and_Grants/State_Funding/Excess_Local_Revenue/)  
or contact Kim Wall at [kim.wall@tea.texas.gov](mailto:kim.wall@tea.texas.gov) or (512)-463-4809.

# House Bill 3: Resources

Stay tuned for the most up-to-date information from TEA on the implementation of House Bill 3



[tea.texas.gov/HB3](http://tea.texas.gov/HB3)

Visit [tea.texas.gov/HB3](http://tea.texas.gov/HB3) for the most up-to-date information



[HB3info@tea.texas.gov](mailto:HB3info@tea.texas.gov)

Email [HB3info@tea.texas.gov](mailto:HB3info@tea.texas.gov) with any questions



A photograph of a classroom scene. A male teacher in a light blue shirt is standing and has his hands raised. Several young students are seated at a table, also with their hands raised. The background shows a classroom with blue shelves, a bookshelf, and a wall decorated with colorful children's drawings and a red pennant that says '2nd'.

# Thank you!

Additional questions: Email [HB3info@tea.texas.gov](mailto:HB3info@tea.texas.gov)  
*(include the topic name in the subject line)*