HB 3 in 30: Current Year Property Values and the Fast Growth Allotment

August 1, 2019
Agenda

- Why move to current year values?
- Changes to district budgeting and forecasting practices
  - Estimates for SY 2020
  - Estimates for SY 2021
- Fast Growth Allotment
- NIFA
- Next steps (TEA and Districts)
Relevant Staff

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Why the move to current year values?
The use of current year values in conjunction with a fast growth allotment was one of the Texas Commission on Public School Finance’s major recommendations:

- “Making this property value change... will eliminate what is known as the formula lag, which can cause a misalignment of state and local revenues if/when local district property value growth slows/falls in the future.”

Changing to current year values:

1. Ensures funding is based on student need, not property wealth
2. Allowed a higher basic allotment, which increased funding for the vast majority of districts
What is the basic structure of school finance?

**STEP 1: Formula**

**Entitlement**

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

$0$
What is the basic structure of school finance?

**STEP 1**

**Formula Entitlement**

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

**STEP 2**

The system first assumes districts collect local property taxes.
What is the basic structure of school finance?

**STEP 1**

**Formula Entitlement**

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

**STEP 2**

$0

**Local Share (Property Taxes)**

The system first assumes districts collect local property taxes.

**STEP 3**

**State Aid**

The state then makes up difference to meet entitlement.
How did the system work with prior year values?

**STEP 1**

**Entitlement**

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

**Formula**

- State Aid is calculated
- Local Share based on Prior Year values
- Local Property Tax Collections

**STEP 2**

- The system first assumes districts collect local property taxes.
- But the system calculates local share based on prior year values multiplied by the district’s tier one tax rate.

**STEP 3**

- State aid is calculated using prior year values to ensure districts reach their entitlement.
- But that state aid is applied even though current year values could be different.
How did the system work with prior year values?

In this case, this district’s budget was larger than other districts in the state with identical student populations, because of impact of this “lag” money.

State aid is calculated using prior year values to ensure districts reach their entitlement.

But that state aid is applied even though current year values could be different.

The system first assumes districts collect local property taxes.
Most Districts Benefit from Current Year with BA Increase

The increase in the basic allotment allowed by a switch to current year values means that this district, which had the benefit of lag money previously, still receives more overall funding with current year values.
With prior year values, what happened when values decline?

**STEP 1**

**Entitlement**

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

- **State Aid is calculated**
- **Local Share based on Prior Year values**

**STEP 2**

Local Property Tax Collections

- **$0**

**STEP 3**

State Aid is calculated using the prior year values to ensure districts reach their entitlement.

- **State Aid is applied**
- **But that state aid is applied even though current year values are less.**

The system first assumes districts collect local property taxes.

- **When looking at prior year values, the system assumes the districts has more taxes than they collected.**
With prior year values, what happened when values decline?

The use of prior year values means that this district has less money than the assumed entitlement for other districts with identical student populations.
District Budgets Vary With “Lag” Money

With prior year values, districts with property bases that consistently grew had funding that was consistently above assumptions of formula entitlement. But those budgets declined in any year that property value growth slowed relative to the prior year.

*Graph assumes hypothetical district with constant student enrollment, and no additional change to the basic allotment or tier II rates across years.
Changes to district budgeting and forecasting practices
Current Year Values in FY 2020 – FSP Formulas

2019-20 School Year

The agency will use the **TY 2018 values** increased by 5.76 percent, the estimates of property value growth used in Rider 3, TEA, Article III of the General Appropriations Act (HB 1, 86th Legislature).

February 2020

**Preliminary TY 2019 values** will be received in February 2020 and will be incorporated into the LPE estimates for FSP.

August 2020

**Final TY 2019 values** will be received in August 2020 and will be incorporated as part of the settle-up process.

Districts wanting to estimate their final SY 2020 FSP State Aid could use their TY 2019 estimates of local taxable values from the appraisal district and convert to a ‘T2’ value by using historical ratios.
Estimated Tax Year 2019 “T2” = 

\[
\left( \frac{\text{Tax Year 2019 Local Appraised Value}}{\text{Tax Year 2018 Local Appraised Value}} \right) \times \text{Tax Year 2018 Comptroller Certified “T2” Values}
\]

*Be sure to adjust for any Chapter 313 value limitations which are beginning or ending in TY2018 or TY2019

More information on how 313 agreements are impacted by HB 3 will come later this year.
Estimating 2019 Comptroller Values using Local Appraisal Values for FY2020

For example:

A district with an appraised value of $10 million in TY 2018 and $10.5 million in TY 2019 would have a growth rate of 5%

If the district’s TY 2018 T2 value was $11 million, the projected 2019 T2 value would be $11 million * 1.05 = $11.55 million
Improved Budget Certainty with Current Year Values

• Using current year values should ultimately simplify budgeting for districts because districts should always receive their entitlement. Only the state and local split will change as a result of value changes.

• Unanticipated changes either up or down in property values will no longer change the total amount received, only the state and local split.

• Districts can be more confident in receiving the amount to which they are entitled based on their student counts, regardless of what happens to property values.

<table>
<thead>
<tr>
<th>Prior Law</th>
<th>Current Law</th>
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<tbody>
<tr>
<td>-Must have good projections of students</td>
<td>-Must have good projections of students</td>
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<tr>
<td>-Must have good projections of taxes</td>
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FAQ – School Years and associated tax years

2018-19 School Year

Tax Year 2017
District property values used to compute Local Share of Tiers one and two and wealth level for Chapter 41 recapture purposes.

Tax Year 2018
District property values not used in FSP

2019-20 School Year

Tax Year 2019
District property values used to compute Local Share of Tiers one and two

2020-21 School Year

Tax Year 2020
District property values used to compute Local Share of Tiers one and two
Fast Growth Allotment
The Texas Commission on Public School Finance also recommended that as part of the move to using current year property values in the school finance system.

The 86th Legislature created a Fast Growth Allotment to recognize that fast-growing districts had extra one-time expenses associated with rapid student enrollment growth.
Sec. 48.111. FAST GROWTH ALLOTMENT. A school district in which the growth in student enrollment in the district over the preceding three school years is in the top quartile of student enrollment growth in school districts in the state for that period, as determined by the commissioner, is entitled to an annual allotment equal to the basic allotment multiplied by 0.04 for each student in average daily attendance.

For the 2019-2020 school year, enrollment growth from FY2017 to FY2019 will be used.
Projected Rule Adoption Schedule

August / September 2019
- Proposal to be published in the Texas Register
- Preliminary list of fast growth districts will be published alongside the rule

September/October 2019
- 30-Day comment period

November 2019
- Adoption to be filed with Texas Register

December 2019
- Effective date of Rule
Fast Growth Allotment Funding Details

- Funds will begin to flow on the summary of finances beginning with the September 2019 FSP payment
  - Based on preliminary amounts from the filed rule methodology
  - Using estimated ADA data for the 2019-2020 school year.

- Final amounts will be based on final ADA data as submitted in PEIMS.

- Preliminary list of districts eligible for the allotment for the upcoming school year will be made available by April/May of the preceding school year.
Budget Planning with Fast Growth Allotment

- Districts must pay attention to their ranking on the list and budget conservatively.
- Treat Fast Growth Allotment funds as seed money to pay for one-time expenses associated with surging student enrollment, as opposed to relying on the allotment for recurring expenditures.

Key Point: Districts can come into & out of the fast growth allotment across years, depending on student enrollment growth rates. This makes the Fast Growth Allotment a variable source of funding, so steps should be taken to plan expenditures accordingly.
New Instructional Facility Allotment (NIFA)
HB 3 Changes to NIFA

HB 3:

✓ Increases the NIFA maximum annual appropriation from $25 million to $100 million to align with the increase to the per student multiplier (from $250 to $1,000) that occurred in 2017.

✓ While the NIFA appropriation has increased, the per student multiplier is still dependent on the number of applications. If more applications are received than would be covered by the appropriation, the per student funding could be less than $1,000.

✓ For 2019-20 applications, it is estimated that funding will be sufficient to reach the $1,000 per student multiplier.
Next Steps
Next Steps

TEA Next Steps

1. Data Collection – TEA will be standing up a new data collection in the Spring/Summer of 2020 related to local taxable property values.

2. Rulemaking – *Fast Growth Allotment*
   ✓ Target Filing Date: *September 2019*
Stay tuned for the most up-to-date information from TEA on the implementation of House Bill 3

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

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

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