

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

April 15, 2015

TO: Honorable Larry Taylor, Chair, Senate Committee on Education

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: SB945 by Taylor, Larry (relating to funding under the public school finance system for a school district with a compressed tax rate below the state maximum compressed tax rate.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for SB945, Committee Report 1st House, Substituted: a negative impact of (\$192,300,000) through the biennium ending August 31, 2017.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2016	(\$94,300,000)
2017	(\$98,000,000)
2018	(\$145,200,000)
2019	(\$150,000,000)
2020	(\$155,000,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from Foundation School Fund 193
2016	(\$94,300,000)
2017	(\$98,000,000)
2018	(\$145,200,000)
2019	(\$150,000,000)
2020	(\$155,000,000)

Fiscal Analysis

The bill would provide a mechanism within the Foundation School Program (FSP) to enable school districts with compressed tax rates that are below \$1.00 to increase FSP Tier 1 participation

by converting tax effort equalized under Tier 2 at \$31.95 to Tier 1 effort. For affected school districts, the number of pennies of tax effort that could be converted from Tier 2 to Tier 1 would be limited to the number needed to achieve a Tier 1 rate of \$1.00. Rate conversion would be optional per district discretion in fiscal years 2016 and 2017 and would be automatic beginning in fiscal year 2018.

The bill would take effect September 1, 2015.

Methodology

The provisions of the bill would apply to 472 (46 percent) of the currently operating school districts that levy property taxes for the purpose of maintenance and operations (M&O). Property tax relief measures enacted in 2006 compressed school district M&O tax rates to a rate equal to approximately two-thirds of the district's adopted tax year 2005 rate and provided additional discretionary taxing authority up to a limit of \$1.17. For districts that were taxing at \$1.50 in tax year 2005, the rate resulting from the compression is \$1.00. For districts that were taxing below \$1.50 in tax year 2005, the rate resulting from compression is equal to 66.67% of the adopted 2005 tax rate, with outcomes ranging from just over \$0.64 to \$0.99.

The compressed rate portion of a school district's current M&O tax rate determines a school district's entitlement under Tier 1 of the Foundation School Program. Under current law, districts with compressed rates below \$1.00 receive proportionally reduced entitlement under Tier 1. For example, a district with a compressed rate of \$0.90 receives Tier 1 formula entitlement on the basis of 90 percent of the basic allotment and a local share of \$0.90. Current law does not provide a means for districts receiving prorated entitlement to increase Tier 1 participation to \$1.00 (100%) because the proration is a function of the district's 2005 tax rate, which cannot be changed.

M&O pennies levied in addition to those that make up the district's compressed rate are equalized through Tier 2 of the FSP. Each district has access to \$0.06 equalized at a yield based on the local yield of the Austin Independent School District. All remaining pennies levied up to the \$1.17 maximum are equalized at a yield of \$31.95. A district with a compressed rate of \$1.00 has access to \$0.11 equalized at the \$31.95 yield. Districts with compressed rates below \$1.00 have access to more than \$0.11 equalized at the \$31.95 yield, ranging from \$0.12 to \$0.46.

Under the bill, a district with a compressed rate below \$1.00 would be able to convert pennies equalized at the \$31.95 yield to Tier 1 pennies until a full \$1.00 Tier 1 rate is achieved, providing entitlement based on 100% of the basic allotment and a Tier 1 local share of \$1.00. Conversion of Tier 2 pennies would be optional in fiscal years 2016 and 2017 and would be automatic beginning in fiscal year 2018.

Conversion of pennies from Tier 2 to Tier 1 would produce a net cost to the Foundation School Program. Currently, Tier 1 formula funding provides more revenue per penny than the portion of Tier 2 equalized at the \$31.95 yield. An analysis of districts with compressed rates below \$1.00 indicates that a total of 348 of the 472 affected districts are currently levying pennies equalized at \$31.95 that would convert to Tier 1 pennies. Based on a model of the Foundation School Program using the current tax rates of these districts, it is assumed that 276 districts would opt to convert pennies to Tier 1 pennies in fiscal years 2016 and 2017. The net cost to the Foundation School Program in fiscal years 2016 and 2017 under this assumption would be \$172.3 million, consisting of \$86.3 million in fiscal year 2016 and \$86.0 million in fiscal year 2017. Cost in fiscal year 2018 would be anticipated to total \$130.2 million, increasing to \$140.0 million by fiscal year 2020. The figures estimated assume no change in adopted tax rates. To the extent that some of the 472

districts with compressed rates below \$1.00 choose to levy additional pennies for the purpose of increasing Tier 1 entitlement, Foundation School Program costs would exceed the figures estimated. Based on historical data concerning tax ratification elections, it is assumed that approximately 30-40 districts would hold elections each year and that 46% (approximately 16) of those elections would be held by districts with compressed rates below \$1.00. On average, additional cost to the Foundation School Program for rate conversion applying to additional pennies ratified through such elections is estimated to total approximately \$8.0 million in fiscal year 2016 and \$12.0 million in fiscal year 2017, averaging approximately \$15.0 million per year through 2020.

Local Government Impact

The bill would provide an M&O rate conversion mechanism to enable uniform access to \$1.00 within Tier 1 of the Foundation School Program. Beginning in 2018, school districts with compressed rates below \$1.00 that levy pennies eligible for rate conversion would receive additional revenue under the bill through increased Tier 1 entitlement. Rate conversion would be optional in fiscal years 2016 and 2017.

Source Agencies: 701 Central Education Agency

LBB Staff: UP, JBi, AM, AH, JSp