

Written Testimony for HISD Trustee Mike Lunceford
Joint House Public Education & House Appropriations Hearing
September 28, 2016 – 9:00 a.m. – Room E1.030

Thank you, Chairmen and Members. My name is Mike Lunceford and I have been a trustee for Houston ISD since 2010. My colleagues affectionately call me “the numbers guy.”

Houston ISD appreciates your chamber’s work on school finance. Thank you for having today’s conversation *last* session. You took that risk because you felt it was the right thing to do for Texas’ students and for that we are grateful.

Texas’ school finance system needs reform. The Supreme Court said our students deserve a 21st Century funding system that amounts to more than “Band-Aid on top of Band-Aid.” HISD paying recapture is proof that the system is broken.

The purpose of my testimony today is to shed light on how recapture impacts Houston ISD and give you some legislative recommendations for next session. State law also requires us to have an election and I will address that, as well.

First, I’d like to provide some context:

- Houston ISD educates over 215,000 kids at 287 campuses.
- We are the largest district in Texas and the seventh largest in the country.
- Nearly 80 percent of our students are economically disadvantaged.
- One-third of our students are learning English.
- 16,000 of our students receive special education services.
- Too many are at-risk of dropping out.
- Most of our students live in poverty and require wrap-around services at school.

It simply costs more to educate Houston’s students: they require more inside and outside of the classroom. Expenses have risen for these needs, particularly as the state has raised academic goals. And the school formulas haven’t kept up with and recognized the growing costs of serving these students.

Our student demographics explain our concern. As a recapture-paying district, HISD is sending the state more than we receive in state aid. This means our local taxpayers are paying more than their fair share.

And as the local share goes up, the state share goes down. The district with the largest number of poor kids in the state is being asked to send \$162 million to Austin. Something is not right.

In addition, HISD’s \$162 million recapture payment to the state is \$30 million more than the initial group of about 30 school districts sent the state back in 1994 when recapture began.

However, this did not happen overnight. Over the years, Houston and Texas have enjoyed a booming economy. I previously served on the board for the Harris County Appraisal District (HCAD). I saw the property value growth throughout Houston year after year, particularly for homeowners. I knew that meant more revenue for HISD, but I also knew one day that could mean paying recapture.

Today, as a result of rising property values and an outdated school finance system, recapture has caused HISD to slash budgets, impacting class-size, tutoring and programs.

- Paying recapture will cause a \$95 million shortfall for HISD in 2016-17.
- We had to cut \$40 million from schools alone.
- If the school finance system remains unchanged, HISD is projected to send more than \$1 billion to the state over the next four years.
- That only means more cuts to classrooms and declining resources for our kids.

To give you another perspective:

- \$162 million equates to 11 cents of every local property tax dollar leaving Houston and going elsewhere.
- \$162 million also equates to over a half million dollar cut per school – which means a librarian, counselor, nurse, 3 teachers and a library full of books.
- \$162 million equals a \$4,000 cut per classroom.
- We ultimately cut funding by \$179 per student.

Recaptured dollars are NOT “extra funds.” They are essential to support the District’s effort to remain competitive.

Also, HISD cannot simply write a check to the state. State law requires us to obtain voter approval. We have to hold an election. The board placed this item on the November 8 ballot. And let me add:

- HISD’s board is required by state law to hold an election, otherwise we cannot adopt a tax rate.
- The ballot language refers to “purchasing attendance credits with local revenues.”
- This is the state-required ballot language and it’s not straightforward.
- We launched a community outreach campaign to educate voters on the ballot language and recapture in general.

The consequences for the election are dire, if the measure passes or fails.

- If voters APPROVE the purchasing of attendance credits, HISD will begin paying \$162 million to the state next spring. Those payments would continue year after year, amounting to over a billion dollars in the next four years.
- If voters REJECT purchasing attendance credits, the Texas Education Agency would remove the most-valuable commercial properties from our tax roll and reassign them to other districts, affecting our ability to pay-off bonds.

Either way, we hope the Legislature will take action next session. Recapture for this biennium funds \$3.8 billion (or 9.1%) of the state's overall education budget. Next biennium, recapture could account for over \$5 billion of the education budget.

If the \$5.1 billion recapture forecasted for next biennium were a state tax, it would be the 5th largest state tax. Recapture should be eliminated and replaced with a general revenue source. Otherwise the state will grow too dependent on recapture and it will become too expensive to replace with general revenue.

Here are some of our legislative recommendations:

First, stop recapturing homes. Why are you recapturing homes? Property value growth is high, particularly for homeowners. They need relief. Recapture exacerbates the property tax issue in our state.

To elaborate, HISD gives a full 20% local homestead exemption, which the state has now locked in until 2019 and taken away any local discretion, but the state funding formulas penalize HISD and many other school districts for giving our homeowners property tax relief. The state pretends that this homestead exemption doesn't exist and that this home value is on the tax rolls, so the state "sees" HISD as being wealthier than it actually is. Out of our \$162 million potential recapture for 2016-2017, \$125 million is based on home values that are not even taxable, which of course actually forces us to raise taxes on other taxpayers to pay this amount. This simply makes no sense. If the state is interested in property tax relief for homeowners, the state should not base recapture on tax exempt home value. Further, the state should consider reducing recapture on all home values, since homes are not income-producing property. Think about it as similar to the use of ag values instead of market values in rural areas.

The Legislature should also:

- Provide transportation allotment funding for recapture-paying Chapter 41 districts. HISD transports 36,000 kids over 300 square miles per day. The number of kids transported every day has grown by almost 29% in the past five years and yet HISD is losing \$12 million for transportation because of recapture. We're still transporting the same kids, just without any State transportation assistance.
- For calculating recapture only, the state should include full-day Pre-K students in its WADA calculations (Weighted Average Daily attendance or wealth per student). We have over 15,000 Pre-K students – almost all are low income – who aren't being counted in the state's WADA calculations. Let us count the students we're already educating. That saves HISD \$39 million.

In summary, don't recapture us on home values that are not even taxable (\$125M), don't take away our transportation funding (\$12M), and allow us to count all of the students we already are educating for purposes of computing our recapture obligation (\$39M). These three very specific and reasonable adjustments actually would entirely eliminate Houston ISD's recapture obligation for 2016-2017, and they would provide meaningful relief to other school districts as well.

Other recommendations include:

- If recapture continues, the state should re-write the ballot language for recapture elections, so that it's straightforward about what voters are being asked to do.
- Update the weights for compensatory and bilingual education. These weights haven't been updated since 1984. Our state's goals for education and for at-risk and bilingual children, however, have increased dramatically over the past 32 years.
- Increase the equalized wealth level for Level 1 school districts.