

GREG BONNEN
CHAIR



MARY GONZÁLEZ
VICE CHAIR

TEXAS HOUSE OF REPRESENTATIVES
APPROPRIATIONS COMMITTEE

AGENDA

FEBRUARY 14, 2023
8:00 AM
CAPITOL EXTENSION, E1.030

- I. CALL TO ORDER**
- II. CHAIRMAN’S OPENING REMARKS AND INTRODUCTIONS**
- III. BIENNIAL REVENUE ESTIMATE AND ECONOMIC STABILIZATION FUND**
 - The Honorable Glenn Hegar, Comptroller
- IV. ENDOWMENTS AND SUSTAINABLE INVESTMENT OPPORTUNITIES**
 - The Honorable Glenn Hegar, Comptroller
- V. HOUSE BUDGET RECOMMENDATIONS AND SPENDING LIMITS**
 - Jerry McGinty, Director, Legislative Budget Board
 - Aaron Henricksen, Assistant Director, Legislative Budget Board
- VI. TEXAS SUNSET ADVISORY COMMISSION**
 - Brian Francis, Acting Director, Sunset Advisory Commission
- VII. STATE AUDITOR’S OFFICE**
 - Lisa Collier, State Auditor, State Auditor’s Office
- VIII. PROPERTY TAX PROPOSALS INCLUDED IN TEA RIDER 81**
 - Maggie Jebson, Budget Analyst, Legislative Budget Board
 - Avery Saxe, Public Education Manager, Legislative Budget Board
 - Mike Morath, Commissioner, Texas Education Agency
- IX. PUBLIC EDUCATION FUNDING PROPOSALS INCLUDED IN TEA RIDER 82**
 - Mike Morath, Commissioner, Texas Education Agency
- X. CLOSING REMARKS**
- XI. ADJOURN**

AGENDA ITEM III:
BIENNIAL REVENUE ESTIMATE
AND ECONOMIC
STABILIZATION FUND

BIENNIAL REVENUE ESTIMATE

January 2023

The Texas Comptroller issues the Biennial Revenue Estimate before every regular legislative session, projecting the amount that lawmakers have available for state programs and services through the upcoming biennium. The 88th Legislature will have a projected 2022-23 ending balance of \$32.69 billion, in addition to \$155.54 billion in total collections of available general revenue-related (GR-R) funds in 2024-25.

Revenue Available for General-Purpose Spending

In Billions of Dollars

PROJECTED

		2022-23	2024-25	
General Revenue-Related (GR-R) Tax Collections	+	\$137.87	\$148.17	
Other GR-R Revenue	+	\$19.12	\$17.72	
Total GR-R Revenue	=	\$156.98	\$165.9	SUBTOTAL
Beginning Balance	+	\$11.68	\$32.69	
Total GR-R Revenue & Fund Balances	=	\$168.66	\$198.58	SUBTOTAL
Reserve for Transfer of Unencumbered and Unobligated General Revenue Fund Balance to the Economic Stabilization Fund	-	\$5.71	\$0	
Reserve for Transfer to the Texas Tomorrow Fund	-	\$0	\$0.15	
Reserve for Transfer of Severance Taxes to the State Highway Fund	-	\$6.96	\$7.34	
Reserve for Transfer of Severance Taxes to the Economic Stabilization Fund	-	\$6.96	\$2.86	
Total Revenue Available for General-Purpose Spending	=	\$149.04	\$188.23	TOTAL

State Revenue, General Revenue-Related

Motor Vehicle Sales & Rental Taxes

Oil Production Tax

Franchise Tax

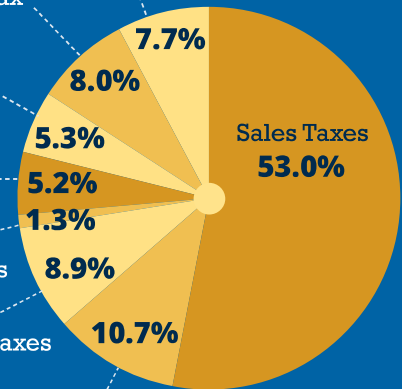
Natural Gas Production Tax

Motor Fuel Taxes

All Other State Taxes

Other Revenues

Fees, Investments & Other Non-Tax Revenue

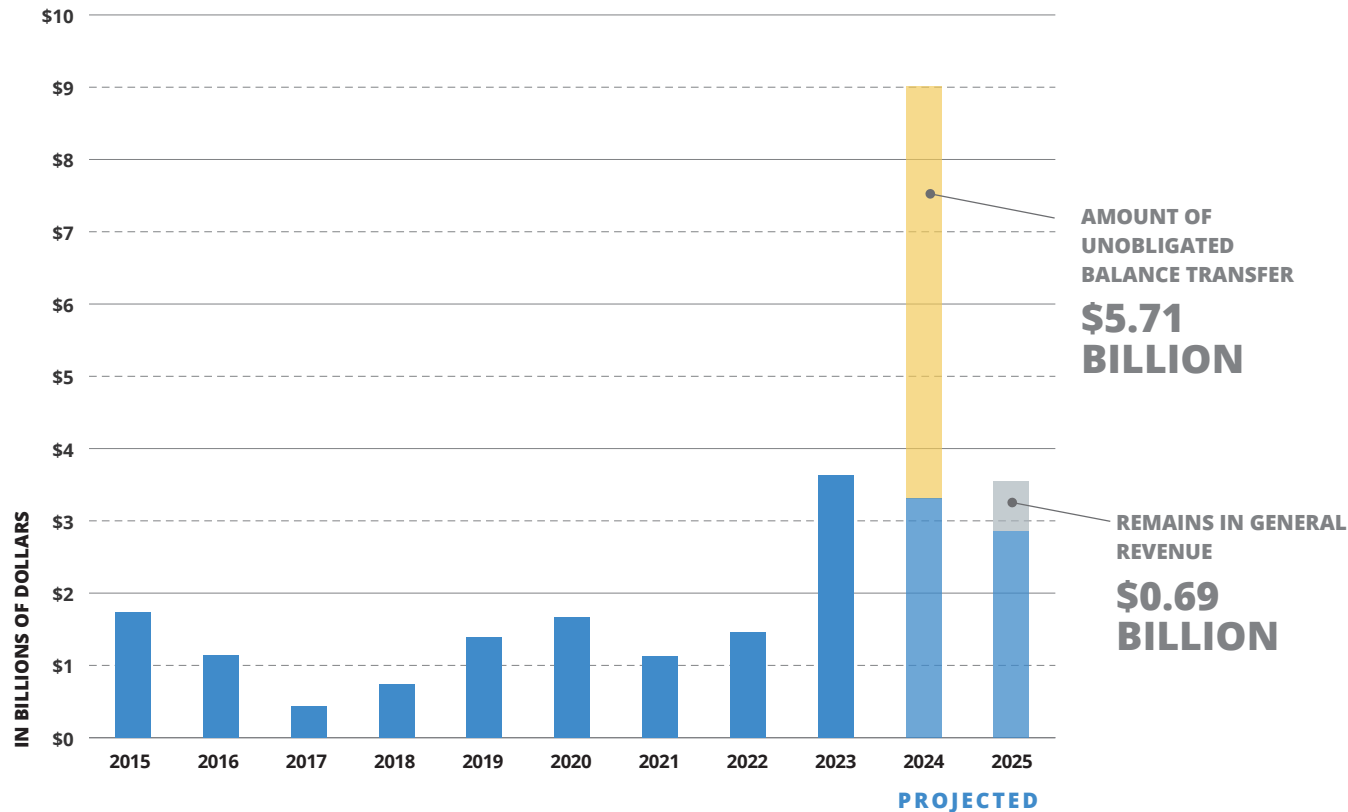


Note: The amount reserved for transfer of severance taxes to the ESF is reduced by \$0.69 billion in fiscal 2024 and by another \$3.79 billion in fiscal 2025 because the ESF will have reached its constitutional cap.

Totals may not sum because of rounding.

ECONOMIC STABILIZATION FUND: FUNDING SOURCES, FY 2015-2025

Severance Taxes and Unencumbered and Unobligated General Revenue Fund Balance Transfers to the Economic Stabilization Fund, FY 2015-2025



The ESF receives:

- An amount from General Revenue (GR) equal to at least one-half of 75 percent of oil production and natural gas production tax revenues in any fiscal year that exceeds fiscal 1987 collections with the remainder going to the State Highway Fund. These taxes are referred to collectively as “severance” taxes.
- One-half of any unencumbered GR surplus at the end of each biennium. Unencumbered GR is net of any tax allocations yet to be made, state agency encumbrances, accounts payable and payroll accruals, dedicated account balances and any required transfers to the ESF.
- All of the interest earned on the ESF balance and investment income.
- Direct appropriations to the ESF by the Legislature. Through fiscal 2022, no direct appropriations to the ESF have been made.

Source: Texas Comptroller of Public Accounts

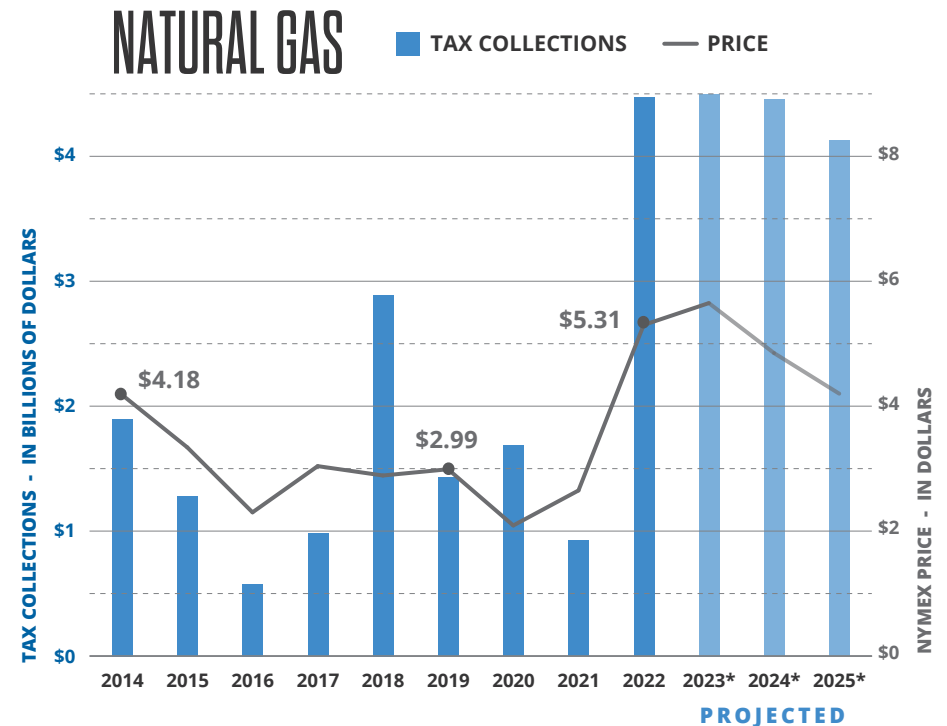
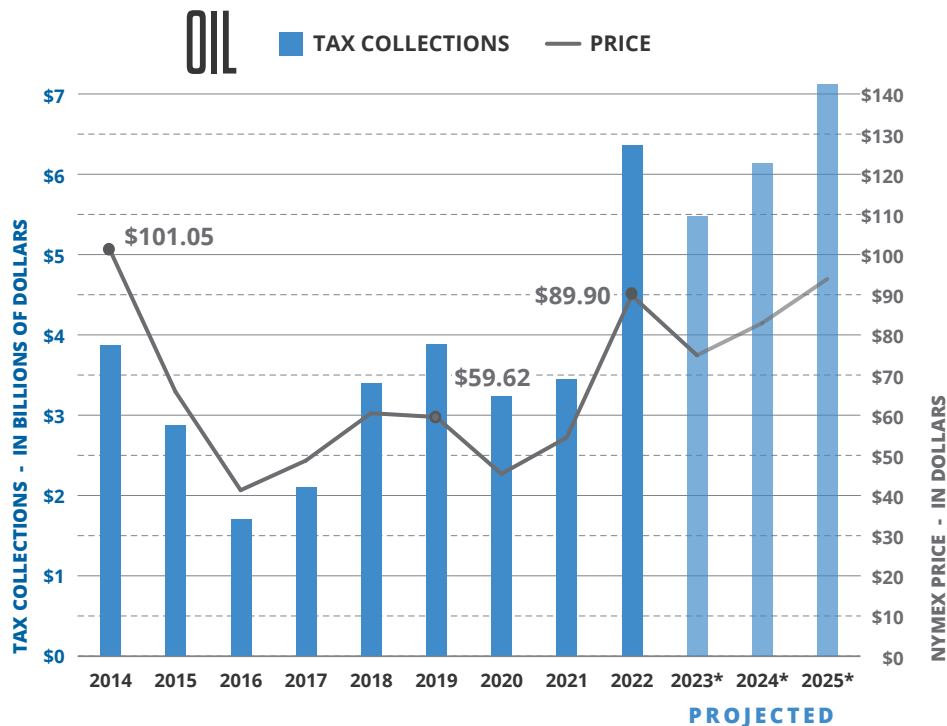
SEVERANCE TAXES: A STORY OF VOLATILITY IN REVENUE AND PRICES

Oil and natural gas production taxes are taxes on the removal of natural resources from Texas land. The oil production tax is levied at 4.6 percent of value, and the natural gas production tax is levied at 7.5 percent of value. These taxes are the product of two factors: price and production. The price of these resources during the last nine years is a study in volatility.

During the last nine fiscal years, the average New York Mercantile Exchange (NYMEX) market monthly prices of oil ranged from \$16.70 to \$114.34. Prices even were negative \$37.63 on April 20, 2020, in response to the COVID-19 pandemic.

The average monthly natural gas NYMEX prices ranged from \$1.70 to \$8.16. FY 2022 saw the second highest price on record (\$9.32 on June 6, 2022), which was mainly attributable to domestic demand increase and the rise of liquified natural gas exports to the European Union to mitigate its supply crises.

Oil and Natural Gas Production Taxes, Annual Collections and NYMEX Oil and Natural Gas Prices, FY 2014-2025



* Tax collections and price are estimated in the 2024-25 BRE
Sources: Texas Comptroller of Public Accounts; U.S. Energy Information Agency (EIA).

**AGENDA ITEM IV:
ENDOWMENTS AND
SUSTAINABLE INVESTMENT
OPPORTUNITIES**

NO TESTIMONY PROVIDED

**AGENDA ITEM V:
HOUSE BUDGET
RECOMMENDATIONS AND
SPENDING LIMITS**



LEGISLATIVE BUDGET BOARD

House Bill 1, as Introduced

2024-25 Biennium

PRESENTED TO HOUSE APPROPRIATIONS COMMITTEE
LEGISLATIVE BUDGET BOARD STAFF

FEBRUARY 2023

House Bill 1, by Method of Finance

MOF Type	2022–23	2024–25	Biennial Change	% Change
General Revenue Funds	\$118,180.0	\$130,127.9	\$11,947.9	10.1%
General Revenue–Dedicated Funds	\$6,749.8	\$6,297.4	(\$452.4)	(6.7%)
Federal Funds	\$124,732.4	\$93,705.3	(\$31,027.2)	(24.9%)
Other Funds	\$47,522.4	\$58,564.5	\$11,042.1	23.2%
ALL FUNDS <i>(in millions)</i>	\$297,184.7	\$288,695.1	(\$8,489.5)	(2.9%)

General Revenue Funds, by Article

Article	2022–23	2024–25	\$ Change	% Change
1 – General Gov't	\$7,877.6	\$7,171.9	(\$705.7)	(9.0%)
2 – Health/Human Services	\$37,511.9	\$40,997.5	\$3,485.6	9.3%
3 – Public Education	\$40,490.0	\$38,420.7	(\$2,069.2)	(5.1%) ☆
3 – Higher Education	\$17,184.7	\$20,991.8	\$3,807.0	22.2%
4 – Judiciary	\$597.7	\$743.6	\$145.9	24.4%
5 – Public Safety/Criminal Justice	\$11,887.7	\$17,432.1	\$5,544.4	46.6%
6 – Natural Resources	\$1,379.4	\$2,104.7	\$725.3	52.6%
7 – Business/Econ Development	\$508.1	\$1,113.1	\$605.0	119.1%
8 – Regulatory	\$309.5	\$331.9	\$22.3	7.2%
9 – General Provisions	\$0.0	\$350.0	\$350.0	-
10 – Legislature	\$433.4	\$470.7	\$37.3	8.6%
TOTAL, ALL ARTICLES <i>(in millions)</i>	\$118,180.0	\$130,127.9	\$11,947.9	10.1%

☆ In addition to amounts shown above, the introduced bill transfers \$9.7 billion in General Revenue to the Property Tax Relief Fund.

Major Funding Items

PUBLIC EDUCATION

- Funding for the Foundation School Program fully funds requirements in current law and includes projected student enrollment growth
- \$15.0 billion set aside for additional property tax relief
- Provides \$2.4 billion to increase the yield on the golden pennies

HIGHER EDUCATION

- 2024-25 formula funding rates were generally maintained at 2022-23 appropriated levels
- Contingency funding of \$2.5 billion for a new Higher Education Endowment Fund
- Contingency funding of \$650.0 million for additional Community College financing

HEALTH & HUMAN SERVICES / BEHAVIORAL HEALTH

- All Funds decrease of \$5.5 billion primarily related to onetime COVID-related federal funds in 2022-23
- \$1,030.0 million in additional behavioral health service funding
- Projected increases in Medicaid and CHIP client services of \$1.8 billion in GR and a decrease of \$6.9 billion in All Funds due to a less favorable FMAP and reduced Medicaid caseloads related to the end of the Public Health Emergency
- An additional \$100.0 million in GR funding to target foster care rate increases at Department of Family & Protective Services

Major Funding Items

TRANSPORTATION / INFRASTRUCTURE

- \$30.5 billion for highway planning and design, right-of-way acquisition, construction, and maintenance
- \$550.0 million for maritime transportation infrastructure projects, including \$400.0 million for the Ship Channel Improvement Revolving Fund and \$150.0 million for maritime port capital improvement projects

BORDER SECURITY

- \$4.6 billion to maintain current border security operations, with pay increases for border law enforcement.

CRIMINAL JUSTICE & PUBLIC SAFETY

- \$118.8 million in additional funding for adult probation supervision and \$23.9 million to provide body-worn cameras for correctional officers at the 23 maximum security facilities at the Texas Department of Criminal Justice
- \$200.0 million for the construction of new facilities and \$133.8 million for juvenile probation supervision at the Texas Juvenile Justice Department

OTHER HIGHLIGHTS

- \$400.0 million to finish the Alamo Plan construction and restoration projects
- \$500.0 million for Gulf Coast Protection District projects contingent on certain local and federal actions
- \$350.0 million in contingency funding to create a rural law enforcement fund
- \$350.0 million in contingency funding to create the Texas Space Commission

Major Funding Items

EMPLOYEE COMPENSATION & STATE BENEFITS

- \$1.8 billion to fund a 5% increase (with a \$3,000 minimum) in FY 2024 followed by another 5% increase (with a \$3,000 minimum) in FY 2025 for all state employees, including law enforcement (Schedule C)
- \$855.0 million to eliminate the unfunded liabilities in the Law Enforcement and Custodial Officer Supplemental (LECOS) retirement plan and Judicial Retirement System (JRS) II retirement funds
- Recommendations for the Teacher Retirement System (TRS) include an increased state contribution rate, from 8.0% in FY 2023 to 8.25% in FY 2024 and 2025

SUPPLEMENTAL APPROPRIATIONS BILL - intended funding is highlighted in Art IX, Section 17.17, including:

- \$2.3 billion for state hospital construction and additional inpatient capacity
- \$1.0 billion for an additional one-time legacy payment to the employees retirement system
- \$600.0 million to assist school districts in implementing school safety initiatives
- \$400.0 million for flood mitigation projects
- \$273.6 million for cross-article agency vehicle replacement
- \$243.8 million to fully fund all remaining Texas Guaranteed Tuition plan obligations
- \$148.9 million to begin the FY 24 pay increase three months earlier, effective June 1st

Constitutional / Statutory Limitations

2024–25 Remaining General Revenue Spending Authority (in billions)	
Pay-as-you-go Limit <i>Texas Constitution, Article III, Section 49a</i>	\$43.6
Tax Spending Limit <i>Texas Constitution, Article VIII, Section 22</i>	\$4.0
Consolidated General Revenue Limit <i>Texas Government Code, Section 316.001</i>	\$17.1

These amounts compare the introduced bill with the Comptroller’s Biennial Revenue Estimate and do not fully account for revisions that will occur due to supplemental appropriations and other legislative decisions.

Federal COVID-19 Funding

Texas has a remaining balance of **\$5.4 billion** in Coronavirus State Fiscal Recovery (CSFR) funds appropriated by the American Rescue Plan Act (ARPA).

States have until:

- the end of calendar year 2024 to fully obligate
- the end of calendar year 2026 to fully liquidate

LBB Staff

- Support committee deliberations
- Provide budget and program analysis
- Assist the committee with state fiscal analysis

Publications include:

Appropriations Bills	Strategic Fiscal Reviews
Bill Summaries	Criminal Justice – projections/reports
Legislative Budget Estimates – Strategy	Infographics and Issue Briefs
Legislative Budget Estimates – Program	Interactive Graphics
Fiscal Size-Up, 2022-23 Biennium	School Performance Reviews



LEGISLATIVE BUDGET BOARD

Contact the LBB

Legislative Budget Board

www.lbb.texas.gov

512.463.1200

AGENDA ITEM VI:
TEXAS SUNSET ADVISORY
COMMISSION



SUNSET ADVISORY COMMISSION

PO Box 13066 ❖ Austin Texas 78711-3066

Senate Members

Chair
Sen. Charles Schwertner, M.D.
Georgetown

Sen. Nathan Johnson
Dallas

Sen. Angela Paxton
McKinney

Sen. Charles Perry
Lubbock

Sen. Drew Springer, Jr.
Muenster

James "Jim" Lee
Houston

Major Fiscal Implications of Sunset Reviews for the 88th Legislative Session

The Sunset Commission adopted 235 recommendations related to 21 entities under review this biennium. Overall, the recommendations would result in a cost to the state over the next two fiscal years, due primarily to recommended investments in the Public Utility Commission of Texas and the Texas Juvenile Justice Department so each can better carry out its statutory duties.

The chart below provides an overview of Sunset's recommendations with a potentially significant fiscal impact to the state, with additional detail in the following paragraphs. The exact fiscal impact of many recommendations will depend on each agency's approach to implementation. The entities under review are currently engaging in the state budgeting process and are working with the Legislative Budget Board to determine the associated cost.

88th Session Sunset Reviews With Fiscal Implications

Agency	Key Recommendations With Potential Fiscal Impacts
Anatomical Board of the State of Texas (Anatomical Board)	1) Abolish the board and transfer the regulation of whole body donation to the Texas Funeral Service Commission
Texas Commission on Environmental Quality (TCEQ)	1) Improve access to public records 2) Post all permit applications online 3) Improve accessibility and functionality of the agency's website 4) Increase statutory limits on administrative penalties 5) Regularly update compliance history ratings 6) Develop an online system for regulated entities to report continued operations
Texas Juvenile Justice Department (TJJD)	1) Construct two new state secure facilities 2) Increase capacity of facilities operated at the county level 3) Amend Rider 4 for increased flexibility in pay for county-level staff 4) Redirect adequate staffing to implement the regionalization plan
Public Utility Commission of Texas (PUC)	1) Sunset supports PUC's requests for a data analytics team and additional engineering expertise to improve its ability to regulate the electric industry 2) Sunset supports PUC's request for additional appropriations to improve its ability to regulate the water and wastewater industry 3) Develop a plan to improve case data collection and analysis
State Board of Veterinary Medical Examiners (Veterinary Board)	1) Temporarily attach the agency to the Texas Department of Licensing and Regulation (TDLR) 2) Determine database needs, working with TDLR and the Department of Information Resources
Texas Water Development Board (TWDB)	1) Improve the project review process 2) Conduct a feasibility review of certain projects in the state water plan

House Members

Vice Chair
Rep. Justin Holland
Heath

Rep. Keith Bell
Forney

Rep. Terry Canales
Edinburg

Rep. Travis Clardy
Nacogdoches

Rep. Craig Goldman
Fort Worth

Jeff Austin III
Jacksonville

Acting Director

Brian Francis

- **Anatomical Board of the State of Texas.** The Sunset Commission’s recommendation to abolish the Anatomical Board and transfer the regulation of whole body donation to the Texas Funeral Service Commission would significantly increase accountability and effective delivery of these services while also having a positive fiscal impact to the state. Overall, the abolishment and transfer of the board’s functions would result in a one-time gain to the General Revenue Fund. While the Anatomical Board has no staff and does not receive state appropriations, all unexpended and unobligated funds under its management, which totaled about \$548,900 at the end of 2022, would be transferred to general revenue for the purpose of the Texas Funeral Service Commission administering the board’s duties. Additionally, the commission, under its current authority, could charge fees to help cover the cost of the board’s duties, if necessary.
- **Texas Commission on Environmental Quality.** TCEQ has two exceptional item requests in its legislative appropriations request to implement the Sunset recommendations focused on public access to information. These requests were not included in the introduced base budget. TCEQ has requested \$7.2 million over the biennium to improve access to public records and to post all permit applications and materials online. TCEQ has also requested \$6.3 million over the biennium to update the agency’s website to improve accessibility and functionality. Other recommendations could result in a positive or negative fiscal impact depending on the agency’s implementation. For example, the Sunset Commission recommends increasing the statutory limits on many of TCEQ’s administrative penalties from \$25,000 to \$40,000, which could result in positive fiscal impact to the state. The Sunset Commission also recommends TCEQ regularly update compliance history ratings and develop an online system for regulated entities to report continued operations, which may require the agency to develop new software.
- **Texas Juvenile Justice Department.** The Sunset Commission adopted three appropriative recommendations for TJJD with expected fiscal impacts to address the agency’s capacity and staffing shortfalls. The commission requests the House Appropriations Committee and Senate Finance Committee consider appropriating additional funds to TJJD for the construction of two new state secure facilities near population centers. **The introduced base budget includes \$200 million in fiscal year 2024 for this purpose.** The commission also requests the committees consider appropriating funds to increase county-level capacity so more youth can remain closer to home. **The introduced base budget allocates an additional \$22 million** across the biennium for local facilities and regional diversion alternatives, which **TJJD could use to implement the recommendation.** The commission also recommends amending TJJD’s Rider 4 to provide greater flexibility for local juvenile probation boards to increase staff pay. The introduced base budget removes the rider, providing the flexibility proposed by the Sunset Commission. Finally, TJJD also has an exceptional item request of approximately \$900,000 across the biennium to fund staff positions to assist with the agency’s probation support duties, which would fulfill the commission’s recommendation to redirect adequate staffing toward implementation of the agency’s regionalization plan.
- **Public Utility Commission of Texas.** The Sunset Commission adopted two appropriative recommendations aimed at helping PUC improve its ability to regulate the electric and water industries. These recommendations request the House Appropriations Committee and Senate Finance Committee consider appropriating PUC its exceptional item requests related to these functions, which were not included in the introduced base budget. To address its lack of independent analysis capabilities needed to effectively regulate the electric market, PUC has an exceptional item request of \$1.9 million across the biennium for a data analytics team and a request of \$2 million across the biennium for additional engineering expertise. PUC is also requesting approximately \$3.5 million across the biennium to help the agency recover its costs to regulate water and wastewater utilities effectively. Finally, given the agency’s resource constraints, the Sunset Commission’s appropriative recommendations may not cover the costs associated with implementing all Sunset recommendations. For example, Sunset’s directive that the agency develop a plan to improve its case data collection and analysis will take staff time and

eventual implementation of the plan could result in additional costs, such as for a true case management system. However, improvements to this core function should increase efficiency in the long term by allowing the agency to identify and eliminate procedural bottlenecks and better allocate staff resources.

- **State Board of Veterinary Medical Examiners.** The Sunset Commission recommends temporarily attaching the Veterinary Board to the Texas Department of Licensing and Regulation (TDLR) for four years to provide the Veterinary Board with administrative oversight, guidance, and support. This recommendation would present a cost to the state, but TDLR has not estimated the exact fiscal implication at this time. The attachment would require additional funding to support TDLR's expanded workload and TDLR would need to be authorized to pay an independent management consultant to assist in administering the Veterinary Board to improve the efficiency and effectiveness of its operations. Other recommendations direct the board to begin activities that could result in future fiscal impacts to the state depending on the board's implementation, such as having the Veterinary Board work with TDLR and the Department of Information Resources to determine its database needs, with the ultimate goal of acquiring and implementing a suitable database at a later time.
- **Texas Water Development Board.** TWDB has an exceptional item request including a project management system that would help implement the Sunset recommendation for the agency to develop a plan to improve its project review process. The standalone cost of this system cannot be estimated by Sunset staff because this request, which is not included in the introduced base budget, also seeks additional funding for targeted salary increases and office space buildout to support the agency's increased workload and responsibilities. The Sunset Commission also recommended the agency conduct a feasibility review of certain projects in the state water plan, which could require additional resources and expertise the agency currently does not have, but the exact fiscal impact would depend on the agency's implementation.

Other entities the Sunset Commission reviewed for the 88th Legislative Session should be able to implement Sunset recommendations with existing appropriations. The commission found these entities provide an ongoing benefit to the state and would require continued appropriations as laid out in the introduced budget. These entities include:

- Texas Economic Development and Tourism Office
- Office of the Independent Ombudsman
- Texas Commission on Law Enforcement
- Texas Low-Level Radioactive Waste Disposal Compact
- Office of Public Utility Council
- Texas State Soil and Water Conservation Board
- Texas Invasive Species Coordinating Committee
- Office of State-Federal Relations
- State Water Implementation Fund for Texas Advisory Committee

Additionally, the Sunset Commission reviewed six entities not subject to appropriations — the Electric Reliability Council of Texas, Bandera County River Authority and Groundwater District, Lavaca-Navidad River Authority, San Antonio River Authority, San Jacinto River Authority, and Upper Guadalupe River Authority.

**AGENDA ITEM VII:
STATE AUDITOR'S
OFFICE**



Texas State Auditor's Office Presentation to the House Committee on Appropriations

Lisa R. Collier, CPA, CFE, CIDA, State Auditor

February 14, 2023

Types of Projects and Services Provided by the State Auditor's Office

AUDIT AND REVIEW

The State Auditor's Office conducts audits of any entity receiving funds from the State, as specified in the audit plan. Audits are conducted in accordance with generally accepted auditing standards as prescribed by the American Institute of Certified Public Accountants, the Governmental Accounting Standards Board, and the United States General Accounting Office.

Texas Government Code, Section 321.013

CLASSIFICATION

The State Classification Team maintains the State's compensation and classification system, including the State's Position Classification Plan in the General Appropriations Act; analyzes state workforce issues; provides support to state agencies' and higher education institutions' human resources offices; and provides information on employee compensation issues to the Legislature.

Texas Government Code, Chapter 654, Subchapter C

INVESTIGATIONS

The Investigations Team investigates allegations of illegal acts and improprieties involving any entity that receives funds from the State. Investigation results are reported to prosecution authorities as appropriate. The Investigations Team operates and maintains the fraud hotline for reporting such allegations and also provides fraud-related training.

Texas Government Code, Section 321.0136

PROFESSIONAL DEVELOPMENT

The Professional Development Team coordinates and provides continuing professional education opportunities for auditors, accountants, managers, investigators, and other professional staff. Professional Development offers courses covering a variety of topics for state and local government entities and other organizations.

Texas Government Code, Section 2102.012

State Auditor's Office Contact Information

Lisa R. Collier, CPA, CFE, CIDA
State Auditor

(512) 936-9448

Lisa.Collier@sao.texas.gov

Contact for questions regarding Classification:

Sharon Schneider, CCP, PHR, SHRM-CP
Classification Manager

(512) 936-9631

Sharon.Schneider@sao.texas.gov

Contact for members of the House of Representatives:

Cesar Saldivar, CIA, CFE, CGAP

(512) 936-9436

Cesar.Saldivar@sao.texas.gov



Texas State Auditor's Office Presentation to the House Committee on Appropriations

The 87th Legislature required the State Auditor's Office to complete certain audits and projects. That work is listed below.

Medicaid Managed Care Rates – Rider 5, page X-7, 2022-2023 General Appropriations Act (GAA)

- 22-042: Actuarial Analysis of the Health and Human Services Commission's Fiscal Year 2023 Medicaid Managed Care Rates
- 23-005: An Audit Report on the Health and Human Services Commission's Medicaid Managed Care Rate-setting Process

TxGANG Intelligence Database – Rider 6, Page X-7, GAA

- 22-039: An Audit Report on the Department of Public Safety's Texas Gang Intelligence Database

Industrial Hemp Program – Rider 7, page X-8, GAA

- 22-038: An Audit Report on Licensing and Permitting Processes of the Industrial Hemp Program at the Department of Agriculture.

Emergency Communications – Rider 10, page III-262, GAA

- 22-024: A Report on the Methodology for Examining and Reporting on Emergency Communication Systems and Their Utilization
- 23-007: A Report on Emergency Communications and Their Utilization
- 23-303: A Supplemental Report on Emergency Communications and Their Utilization

Red River Authority – Special District Local Laws Code, Section 8510.01045

- 22-032: An Audit Report on the Red River Authority of Texas

Temporary Assistance for Needy Families – Texas Government Code, Section 531.005522

- 23-304: Temporary Assistance for Needy Families Audit

Single Source Continuum Contractors – Texas Human Resources Code, Section 40.0583

- 23-012: An Audit Report on Performance-based Contracts at the Department of Family and Proective Services

**AGENDA ITEM VIII:
PROPERTY TAX PROPOSALS
INCLUDED IN TEA RIDER 81**



LEGISLATIVE BUDGET BOARD

Property Tax Relief

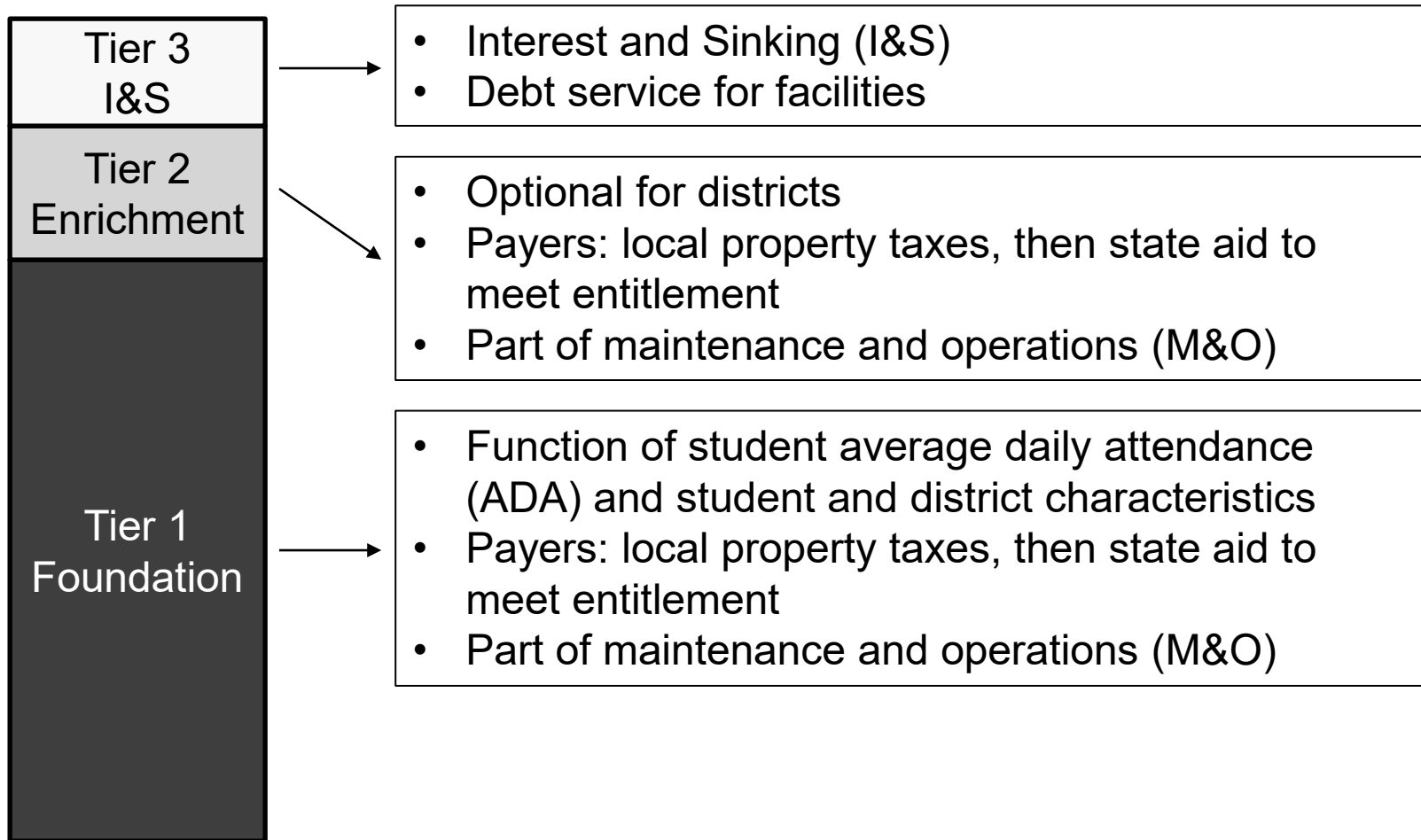
**PRESENTED TO THE HOUSE APPROPRIATIONS COMMITTEE
LEGISLATIVE BUDGET BOARD STAFF**

February 2023

Foundation School Program Overview

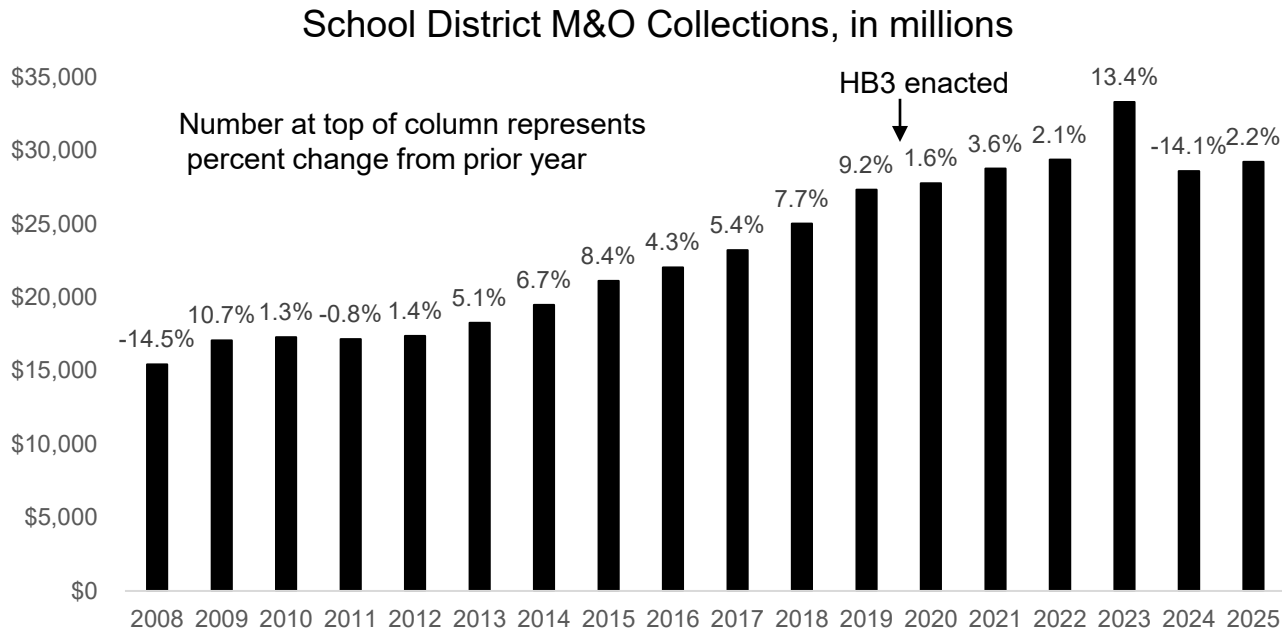
- The Foundation School Program (FSP) is the principal vehicle for distributing state aid to school districts.
- District maintenance and operations (M&O) entitlement is based on student average daily attendance, student characteristics, and other factors.
- Entitlement is funded with local property taxes, then state aid
- Excess local revenue is recaptured and redistributed

Foundation School Program Overview



HB3 Impact on Property Taxes

- Most Tier 1 tax rates were \$1.00 per \$100 of property valuation.
- As property values grew, so did local property taxes, which reduced the state share of the FSP.
- House Bill 3 slowed collection growth by reducing district Tier 1 tax rates in proportion to property value growth.



Rider 81: Property Tax Relief

- TEA Rider 81, HB1 As Introduced outlines \$15.0 billion for property tax relief.
 - Section (a): \$3.1 billion required by current law due to property value growth expected in 2024-25 biennium
 - Section (b): \$2.2 billion required by current law due to certain state savings from 2022-23 biennium
 - Section (c): \$9.7 billion transfer from General Revenue Fund to Property Tax Relief Fund (PTRF)
 - Section (d): \$9.7 billion from PTRF for additional property tax relief; lists relief options

Rider 81(a): Tier 1 Compression Overview

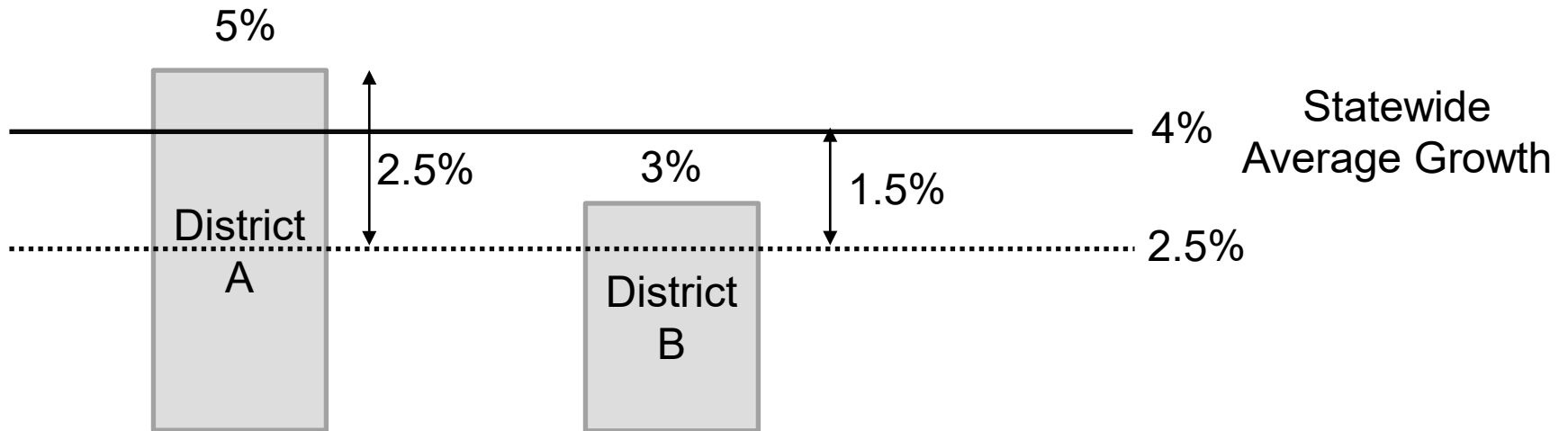
- MCR is the Tier 1 tax rate a district must levy to receive its full Tier 1 FSP funding entitlement.
- In general, district MCRs are compressed annually by the greater of:
 1. The amount that the district’s property value growth rate exceeds 2.5 percent, or
 2. The amount that the statewide average property value growth rate exceeds 2.5 percent
- No district’s MCR can be less than 90% of the highest MCR, which is the State Compression Percentage (SCP).

Rider 81 Section	2024-25 Cost to State*
(a)	\$3.1 billion

**Estimates are subject to change based on updated data.*

Rider 81(a): Example Tier 1 Compression

- District A grows faster than statewide average, compression will be approximately 2.5%
- District B grows slower than statewide average, compression will be approximately 1.5%



Rider 81(b): TEC 48.2552(c) Compression

- MCR floor is 90% of the SCP
- Education Code, Sec. 48.2552(c) requires SCP reduction using state savings realized in the prior biennium by limiting compression with the MCR floor.
- HB 1 As Introduced reduces the SCP by 7.75 percent in FY 2024.

Rider 81 Section		2024-25 Cost to State	
(b)		\$2.2 billion	
Rider 81 Sections	2024-25 Cost to State	SCP FY 2025	SCP Reduction
(a) and (b)	\$5.3 billion	\$0.7893	\$0.1048

**Estimates are subject to change based on updated data.*

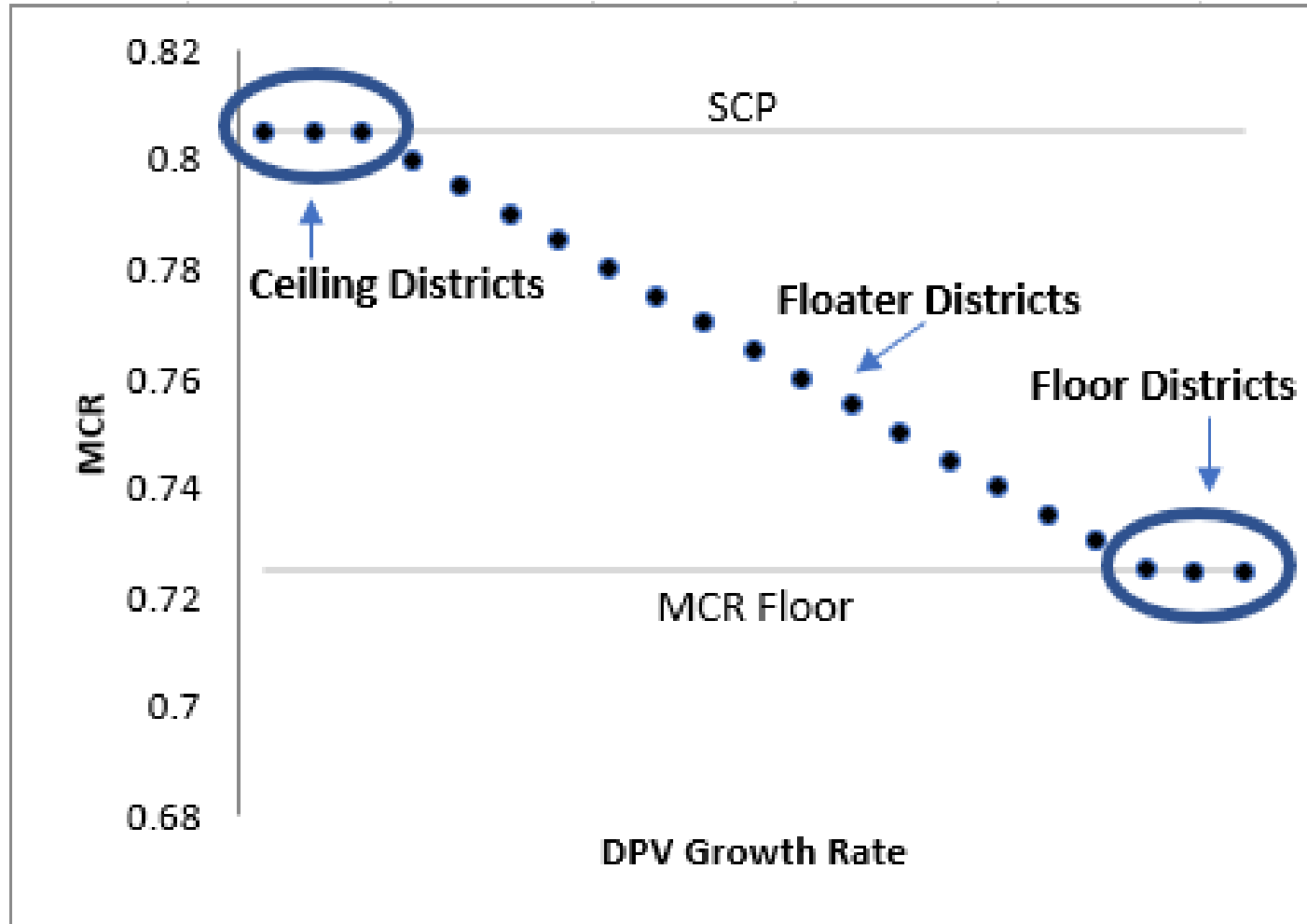
Rider 81(d) - Options for Additional Tax Relief

1. Reduce SCP through GAA rider
2. Decrease MCRs by an equal amount*
3. Collection limit reduction (CLR)*
4. Exemptions and Special Appraisals** (e.g. homestead exemption)

**Requires statutory change*

***Requires constitutional amendment and statutory change*

District MCRs Visual



SCP Reduction

- Additional SCP reduction can be done by rider in the GAA.
- Option would decrease the maximum and minimum Tier 1 tax rates.
- This affects different districts differently:
 - Ceiling districts receive 100% of the benefit
 - Floor districts receive up to 90% of the benefit
 - Floater districts may not see any benefit

Additional SCP Decrease	2024-25 Cost to State*
\$0.10	\$6.5 billion

**Estimates are subject to change based on updated data.*

Equal MCR Reduction

- After current law compression, reduce all district MCRs by an equal amount
- Taxpayers in:
 - Ceiling and floater districts receive 100% of the benefit
 - Floor districts receive 90% of the benefit
- Requires statutory change

Equal MCR Reduction	2024-25 Cost to State*
\$0.10	\$7.6 billion

**Estimates are subject to change based on updated data.*

Collection Limit Reduction (CLR)

- Under current law, local property tax levies can grow 2.5% before district Tier 1 tax rates compress.
- Option would reduce the 2.5% rate to slow local collection growth.
- All districts with growth higher than the new collection limit percentage would benefit, but floor districts only benefit 90%.
- Requires statutory change (Education Code, Sec. 48.255 and 48.2551)

Collection Limit	Collection Limit Reduction	2024-25 Cost to State*
1.0%	1.5%	\$1.4 billion

**Estimates are subject to change based on updated data.*

Exemptions and Special Appraisals

- Includes options that reduce taxable value (e.g, increasing the residence homestead exemption) or appraising certain property at something other than market value.
- Taxpayer benefit will vary within and between districts.
- Requires both constitutional amendment and statutory change.



LEGISLATIVE BUDGET BOARD

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Legislative Budget Board

www.lbb.texas.gov

512.463.1200



Texas Education Agency

HOUSE APPROPRIATIONS COMMITTEE – 88TH LEGISLATURE

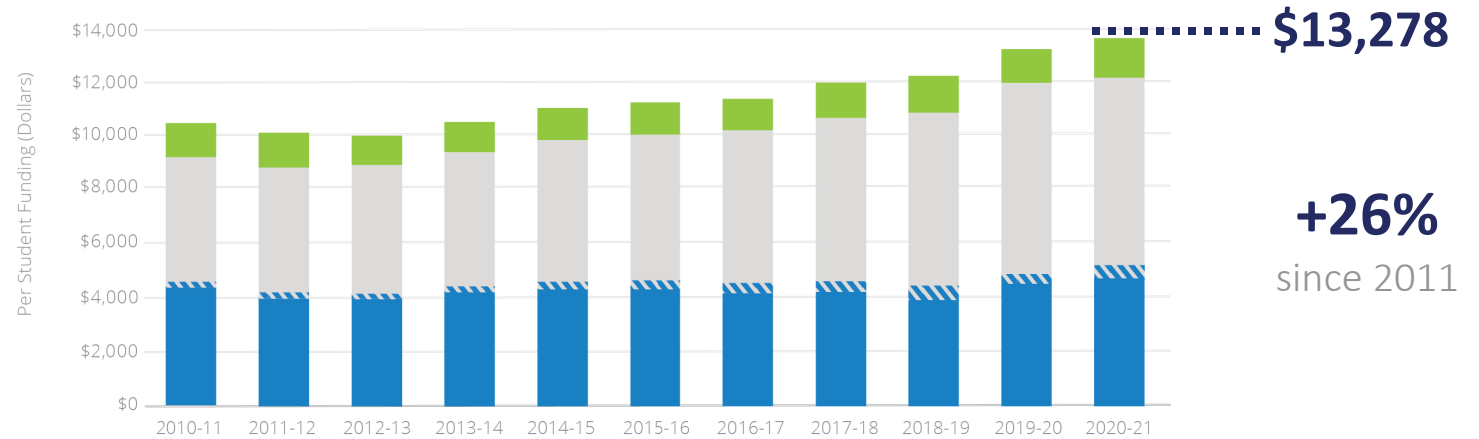
Rider 81. Property Tax Reduction



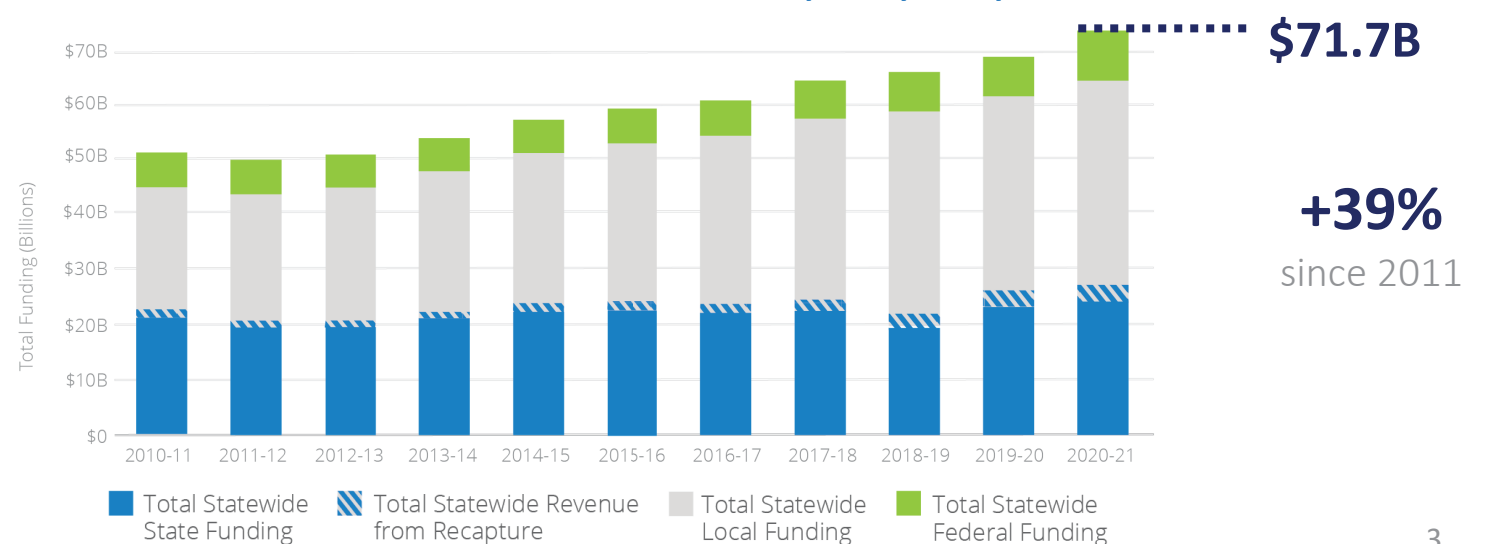
“All-in” funding for public education includes:

- Foundation School Program (FSP) formula funds to school systems to cover their cost to operate (M&O) from a mix of local property taxes and state revenues
- Debt service funds (I&S), primarily from local property taxes
- Federal funds, primarily for school lunch, special education, and low-income students
- Direct payments to TRS for teacher retirement from state revenues
- Funds to school systems for instructional materials from state revenues
- Other grants and supports from state revenues

PER STUDENT ANNUAL FUNDING



TOTAL ANNUAL FUNDING: \$71,710,051,834



■ Total Statewide State Funding
 ▨ Total Statewide Revenue from Recapture
 ■ Total Statewide Local Funding
 ■ Total Statewide Federal Funding

Foundation School Program (FSP)

This program establishes **how much funding** school districts and charter schools are entitled to.

Statutory formulas (TEC Ch. 46 & 48) consider both student and district characteristics:

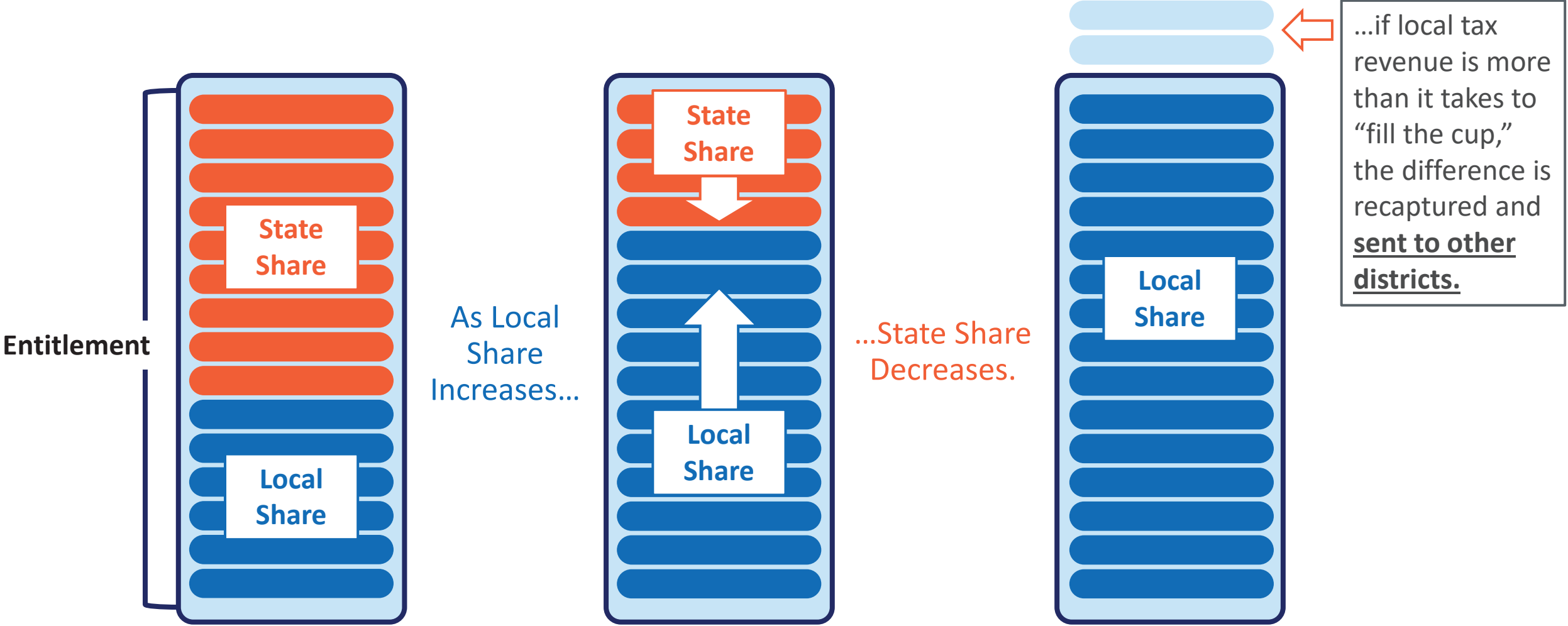
- Number and type of students
- District size
- Local taxable property values
- Tax rates (for Tier I entitlement and for Tier II enrichment)

Foundation School Program (FSP)

In addition to establishing entitlement levels, statutory formulas are used to determine:

- How much a district can generate locally (**local share**) through property taxes, and
- How much will be provided through state funds to complete the entitlement (**state share**), or
- How much **excess local revenue** the district will generate, which will be recaptured and sent to other districts.

FSP M&O Mechanism



Tax Compression under HB 3

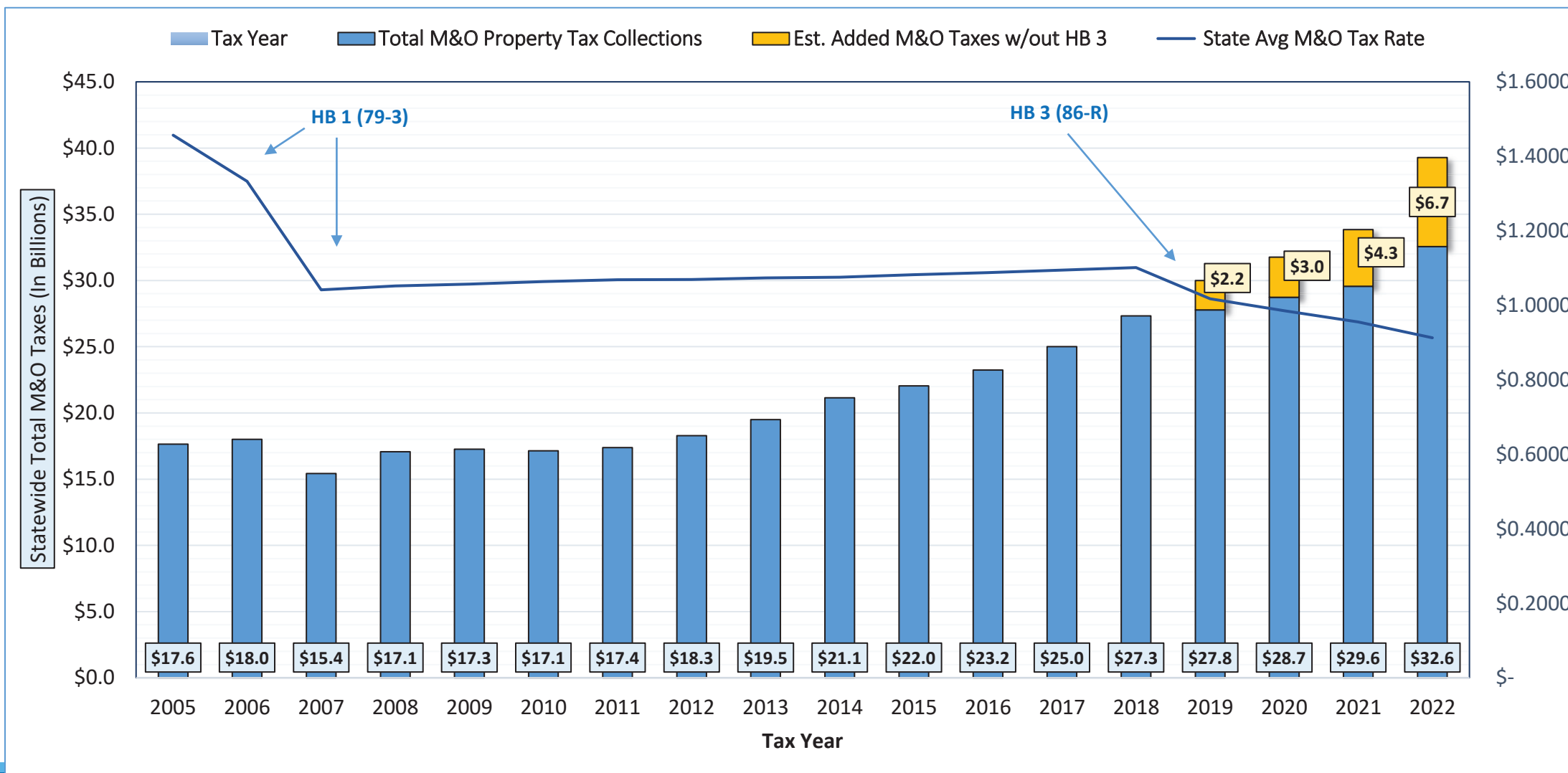
- HB 3 immediately compressed tax rates from \$1.00 to \$0.93 per \$100 of valuation (Tax Year 2019).
- For subsequent years, TEA calculates maximum compressed tax rates (**MCR**) in two ways:
 - State compression: compares estimated statewide property value growth to 2.5%
 - Local compression: compares estimated local property value growth to 2.5%
- Districts receive the **lower** of the state or local compressed rate.
- **No district can have a rate that is 10% lower than any other district (“equity band”).**

Compression Example

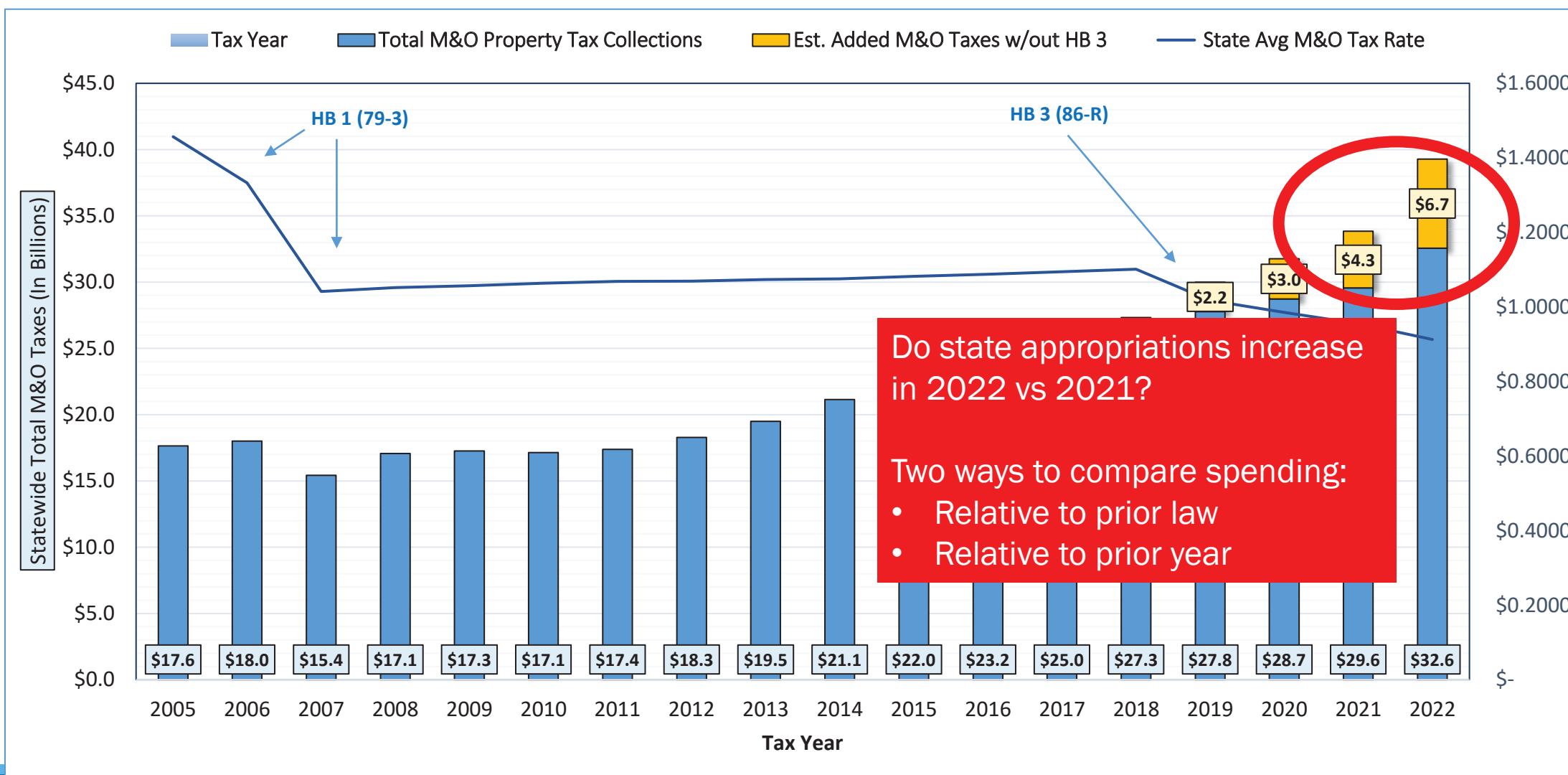
	This Year	Next Year (<u>no</u> compression)	Percent change
Property values	\$700M	\$742M	+6%
Tax Rate	\$0.9134	\$0.9134	No change in rate
Collections	\$6.39M	\$6.78M	+6% ←

	This Year	Next Year (<u>WITH</u> compression)	Percent change
Property values	\$700M	\$742M	+6%
Tax Rate	\$0.9134	\$0.8832	Rate adjusted down
Collections	\$6.39M	\$6.55M	+2.5% ←

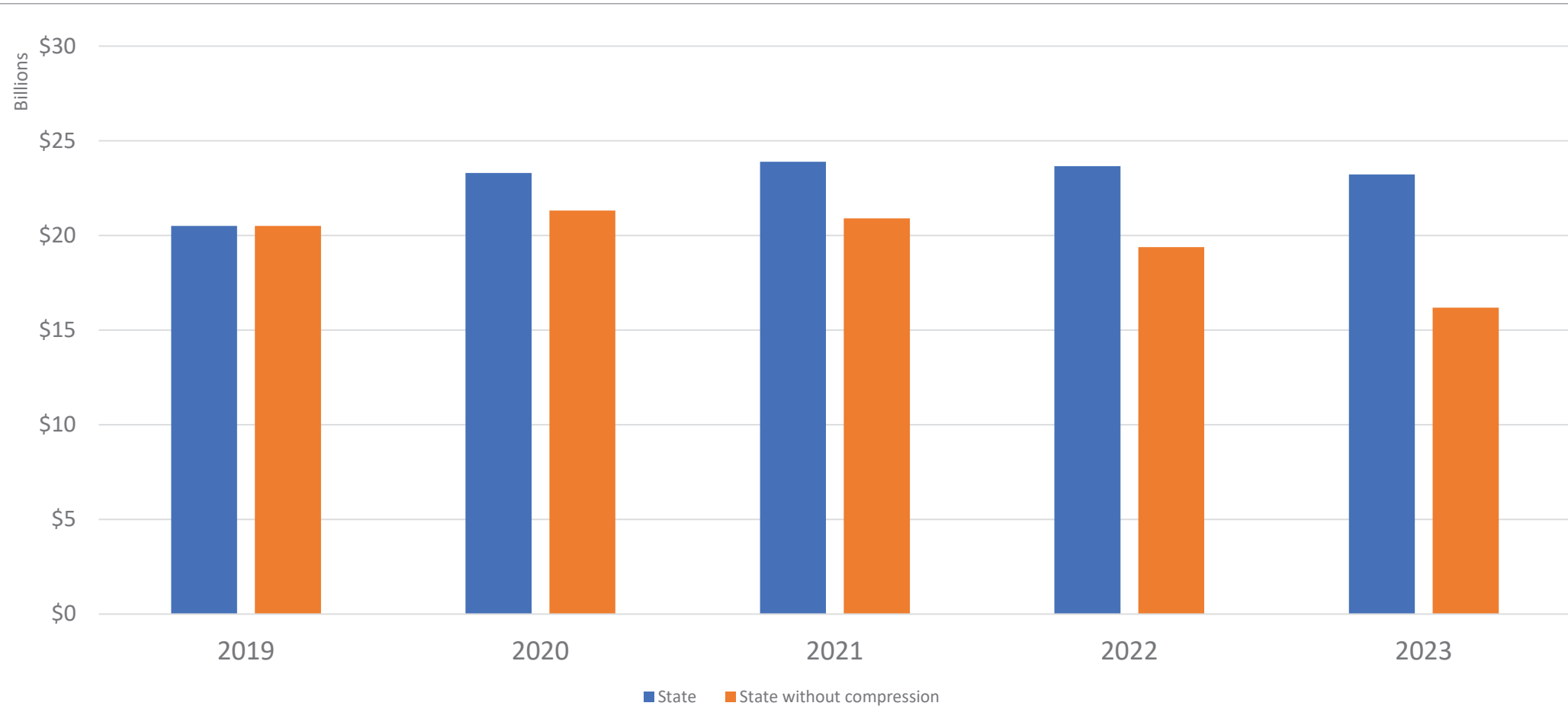
Tax Rates and Tax Collection History



Projecting the Sustainability of Tax Compression



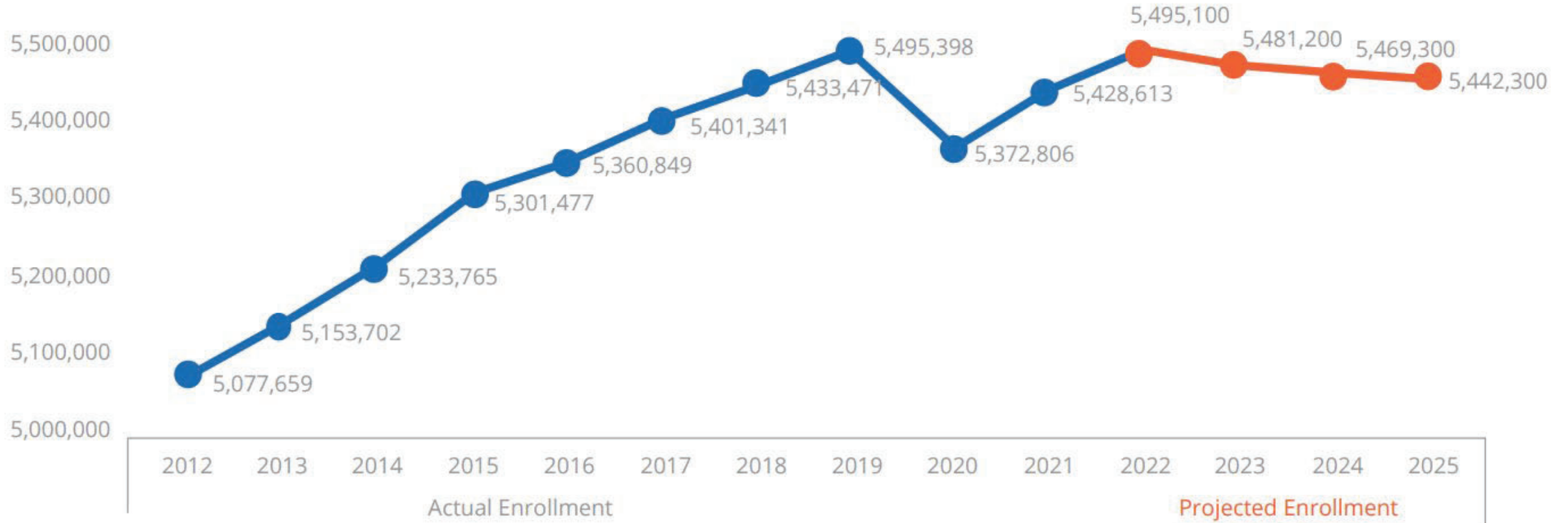
State appropriations for the FSP have not necessarily increased year over year even as property tax rates have been cut, because spending increases are dependent upon enrollment growth





State Appropriations for Public Education

ENROLLMENT TRENDS AND PROJECTIONS

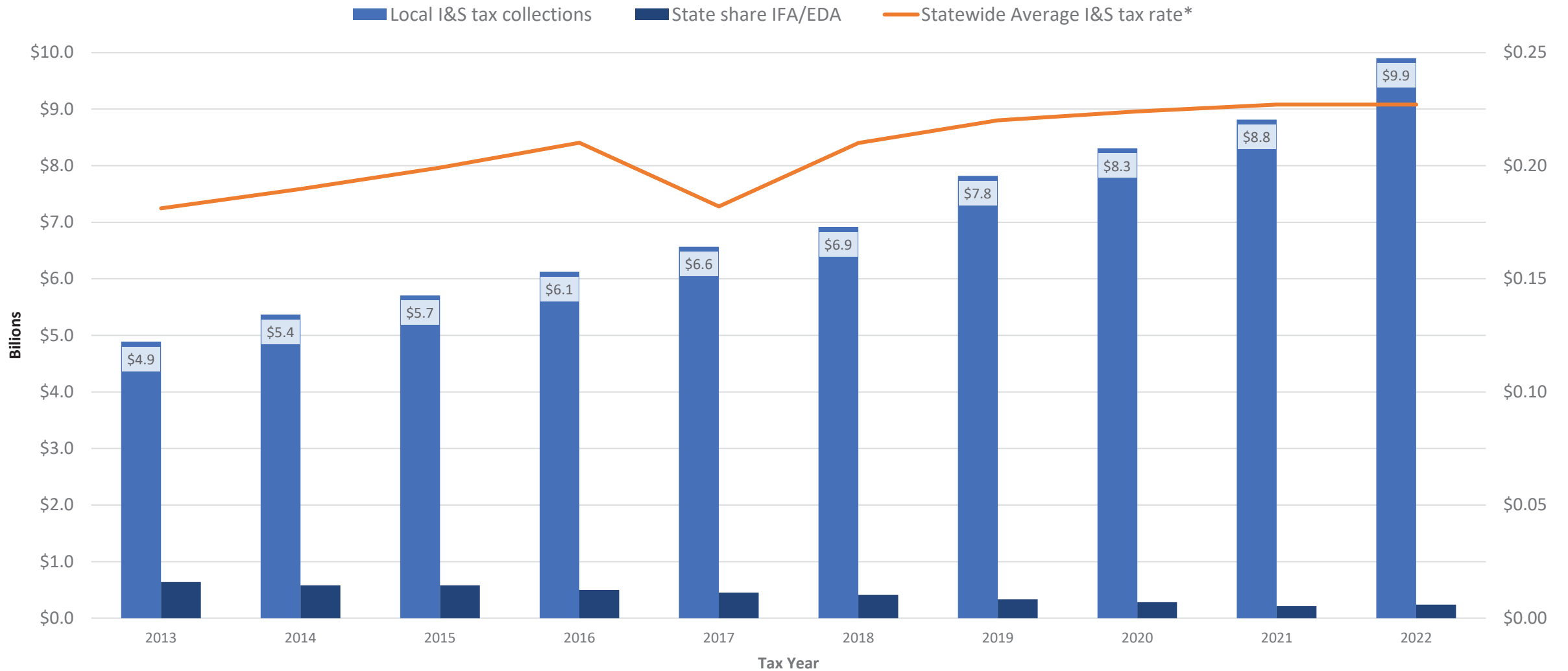


Reminder...

- Tax compression **does not affect the calculation of funding** that a school district is entitled to.
- It only decreases the amount of that funding that is collected through local taxes, as opposed to provided by the state.
- After local taxes are compressed, **the state will fill the gap**, or the district will have less excess local revenue (pay less in recapture).



I&S Funding & Tax Rates



*Statewide average I&S tax rate includes districts without an I&S tax rate

AGENDA ITEM IX:
PUBLIC EDUCATION FUNDING
PROPOSALS INCLUDED IN TEA
RIDER 82

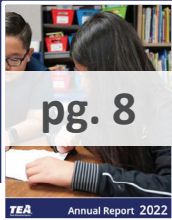
Rider 82. Public Education Funding Increases



Rider 82 Areas of Focus

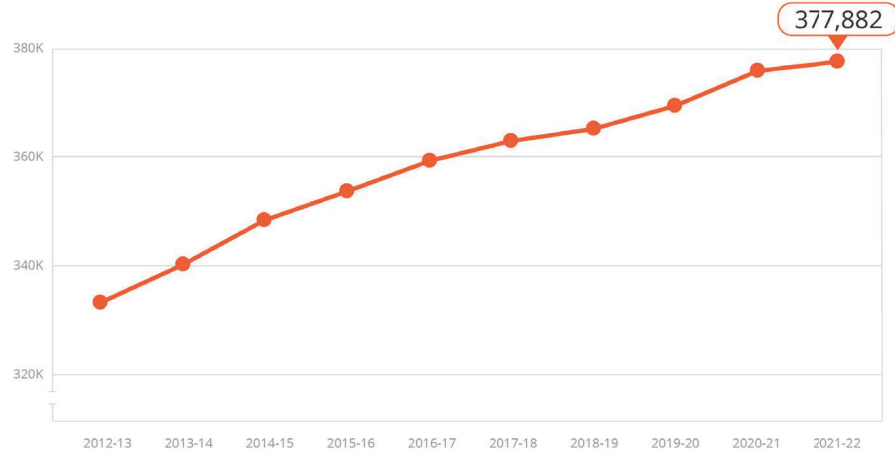
82. Public Education Funding Increases. It is the intent of the legislature to provide increased funding for school districts and charter schools. Possible strategies include, but are not limited to:

1. funding for increased compensation and benefits for classroom teachers;
2. additional funding for the Teacher Incentive Allotment under Education Code, Section 48.112;
3. increases to the Basic Allotment pursuant to Education Code, Section 48.051;
4. increases to the School Safety Allotment under Education Code, Section 48.115; and
5. increases to the Instructional Materials and Technology Allotment under Education Code, Section 31.0211.

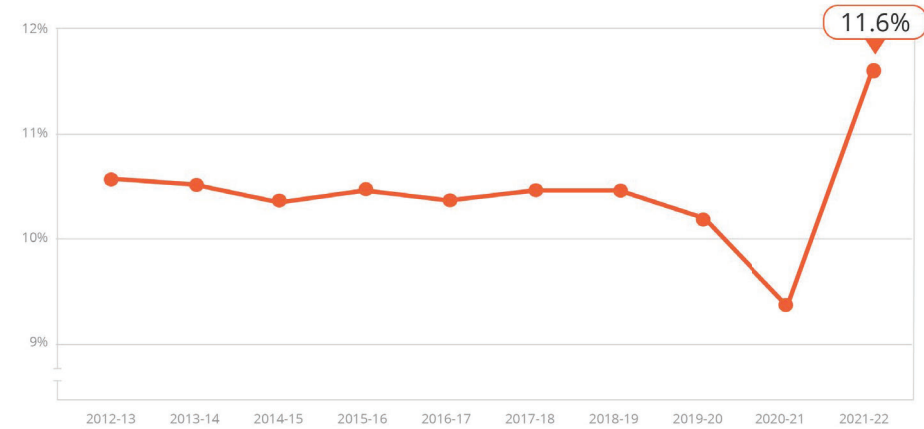


Recruit, Support and Retain Teachers and Principals

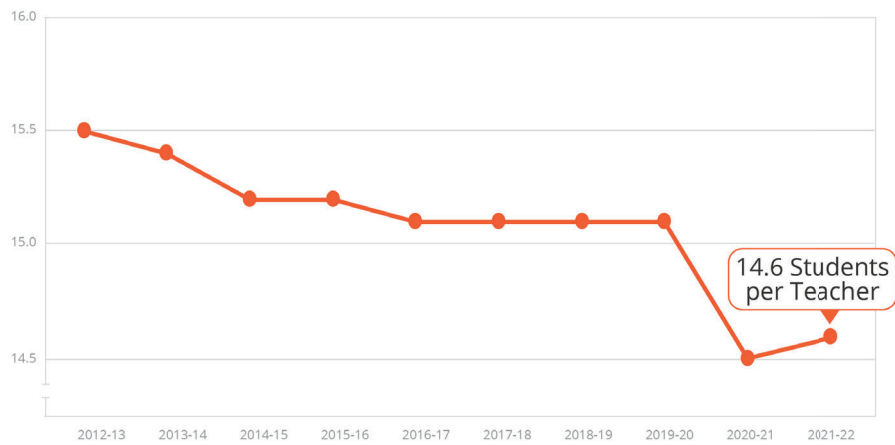
NUMBER OF EMPLOYED TEACHERS



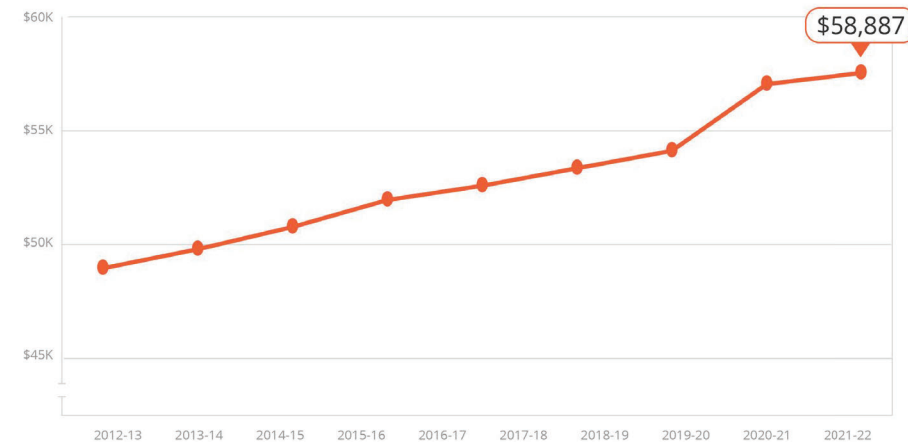
TEACHER ATTRITION RATE



STUDENT/TEACHER RATIOS



AVERAGE TEACHER PAY



Small/Rural Districts have a much lower median salary when compared with other district types, because they must operate with more teachers per student due to small student counts.

TEA District Type	Median Salary	Median Beginner Salary	Teacher FTEs	Average student enrollment	Median Teacher / Student Ratio
Rural	\$51,300	\$40,339	17,140	398	10.5
Non-metropolitan Stable	\$52,924	\$44,000	20,862	1,699	13.0
Charter School Districts	\$53,008	\$47,427	23,525	2,125	15.1
Independent Town	\$53,181	\$45,714	17,050	3,755	13.6
Non-metropolitan Fast Growing	\$53,480	\$44,893	3,319	1,355	12.8
Other Central City Suburban	\$54,862	\$47,386	54,780	4,866	14.0
Other Central City	\$58,704	\$51,810	57,014	21,778	14.3
Major Urban	\$59,457	\$54,363	57,654	80,558	14.9
Major Suburban	\$61,314	\$55,545	118,413	21,878	15.0



TIA Projections



	2022-23	2023-24	2024-25	2025-26
TIA Participating Districts	378	474	560	623
% of Teacher Eligible	55%	57%	58%	60%
Number of Eligible Teacher	62,703	81,901	100,702	116,473
Number of Designated	12,800	17,500	23,000	38,436
Total Allotment Amount	\$145 million	\$195 million	\$250 million	\$379 million

TIA funding is driven by # of participating districts, breadth of system with districts, and per teacher statutory formulas:

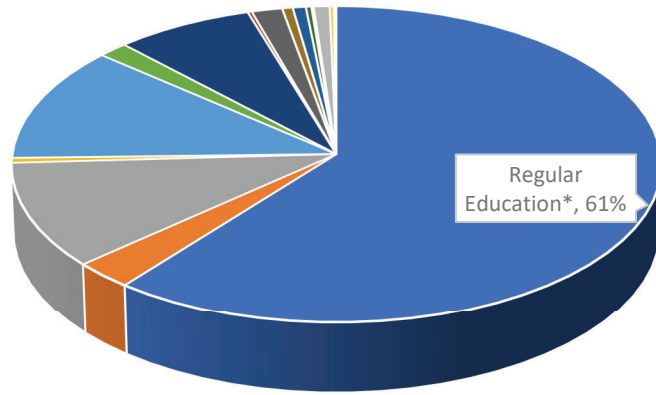
Per Teacher Formula: Base + (Multiplier X (Average Student enrolled Eco-Dis Tier + 2 for rural schools))								
			Non Eco-Dis	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5
	Base	Multiplier	0	0.5	1	2	3	4
Recognized	3,000	1,500	3,000	3,750	4,500	6,000	7,500	9,000
Exemplary	6,000	3,000	6,000	7,500	9,000	12,000	15,000	18,000
Master	12,000	5,000	12,000	14,500	17,000	22,000	27,000	32,000

TIA funding for teachers could be increased by:

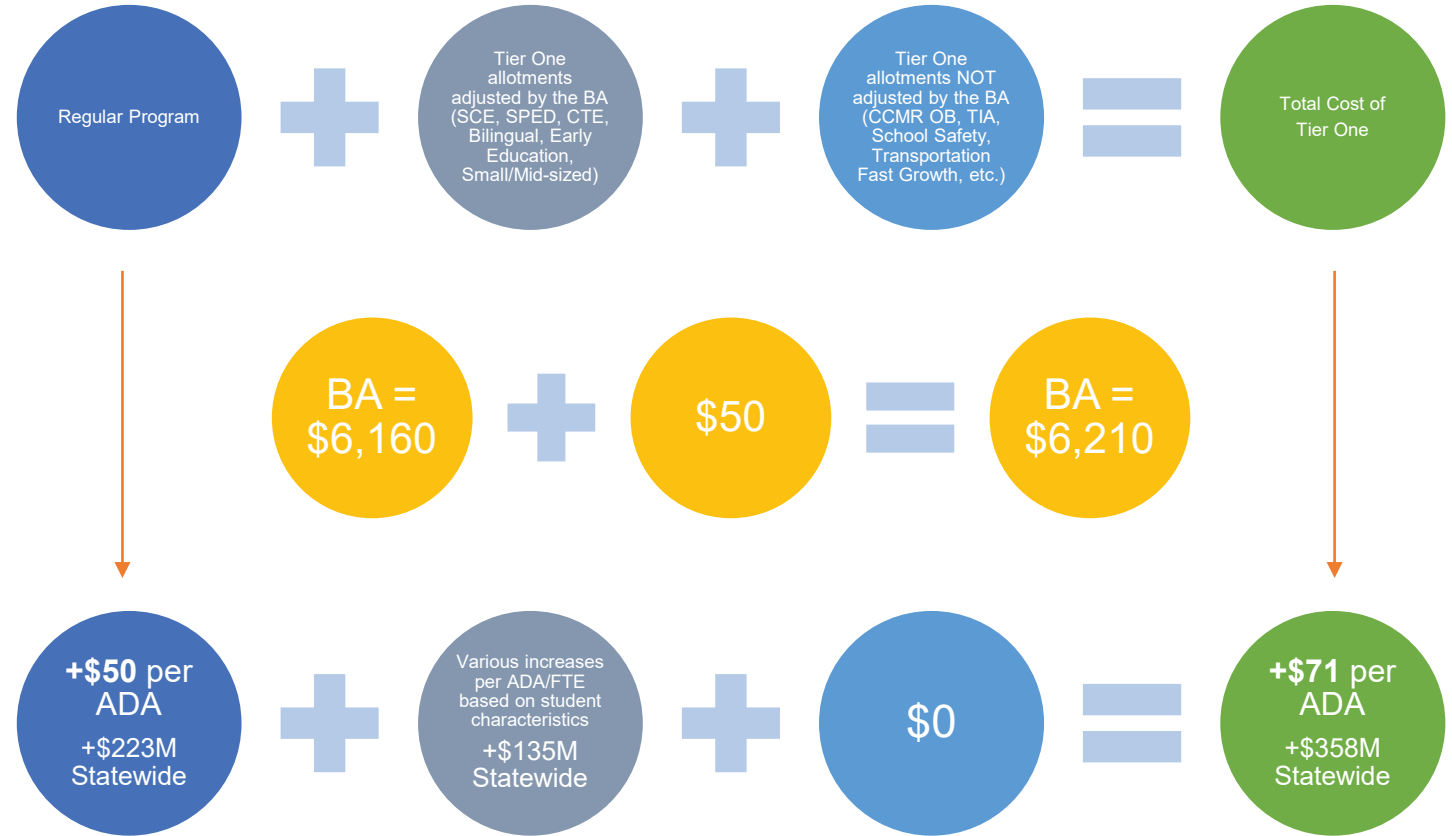
1. Offering start-up funds for technical assistance
2. Increasing per teacher funding formulas
3. Adding another TIA designation category

\$50 Increase to the Basic Allotment (BA) Example

Tier One Allotment



- Regular Education*
- Special Education*
- Compensatory Education
- Career/Technology Education
- Early Education Allotment*
- Fast Growth Allotment
- Mentor Program Allotment
- Transportation
- Dropout Recovery and Residential Allotment
- Certification Exam Reimbursement
- Small and Mid-size Allotment*
- Dyslexia Allotment
- Bilingual Education*
- Gifted and Talented Allotment
- CCMR Outcomes Bonus
- Teacher Incentive Allotment
- School Safety Allotment
- New Instructional facility Allotment*
- College Preparation Reimbursement
- Total Setaside



* ADA-based allotments

Note: Increases to the BA also impact Other Programs (e.g., Formula Transition Grant) and Tier Two Allotments

Statutorily Required Formula Funding Increases in Tier Two

- Tier two golden pennies increase to match the property wealth per weighted student for a district at the 96th percentile.
- Given property tax projections, golden penny yield will increase from \$98.56 to \$126.21 in FY24 and \$129.52 in FY25.

What does this mean?

The Golden Penny yield increase means that any district that is taxing in Tier 2 that does not have a wealth per student level above the yield will see a budget increase.

Given average Tier 2 tax rates in the state and average property wealth projections, this translates to an average funding increase for districts of

~ \$239 per ADA

School Safety Funding

June 2022

Governor Abbott and the Legislature provided \$17.1M for school districts to purchase silent panic alert technology

October 2022

Governor Abbott and the Legislature provided \$400M to assist school districts in replacing or upgrading doors, windows, fencing, communications, and other safety measures

January 2023

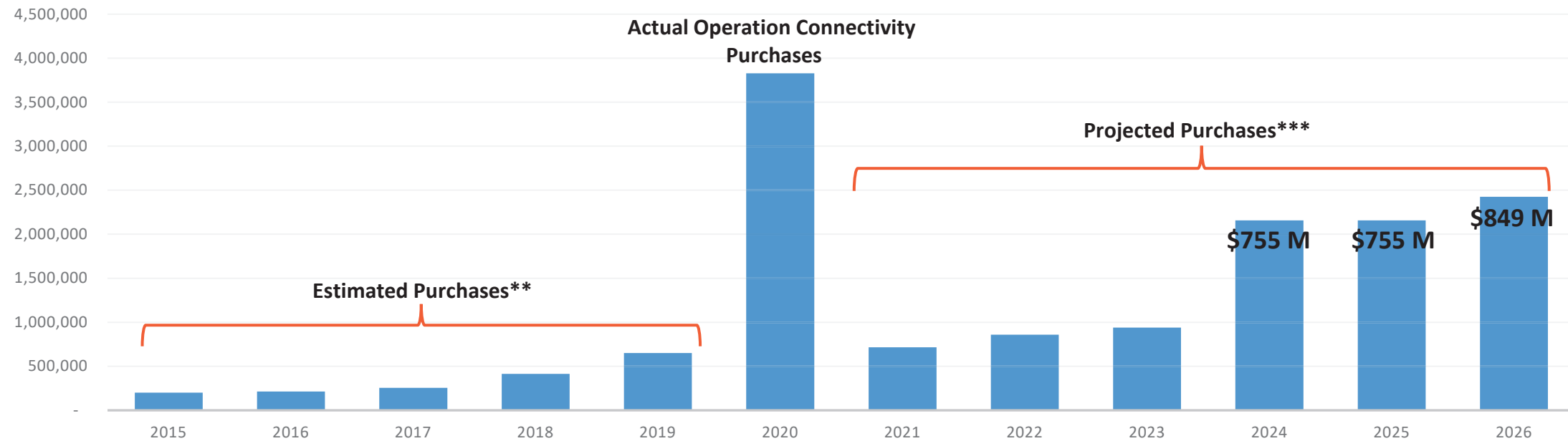
HB 1 & SB 1 Introduced Budget Bills include \$600M for School Safety
(Article IX, Sec. 17.17)

The school safety allotment is provided to district per ADA.

As new funds are considered, a per campus allotment plus funding per ADA may be wise to ensure all schools have a sufficient level of safety resources. This would require a statutory change.

Historical and Projected E-Learning Device* Purchases By LEAs in Texas

Total E-Learning Device Purchases By TX LEAs per Year



*E-learning Device is defined as a laptop or keyboarded laptop computer sufficient for learning.

**Estimated purchases are based upon National Education Statistics Resource Center data, Industry Data & 2019 TEA LEA Survey Data

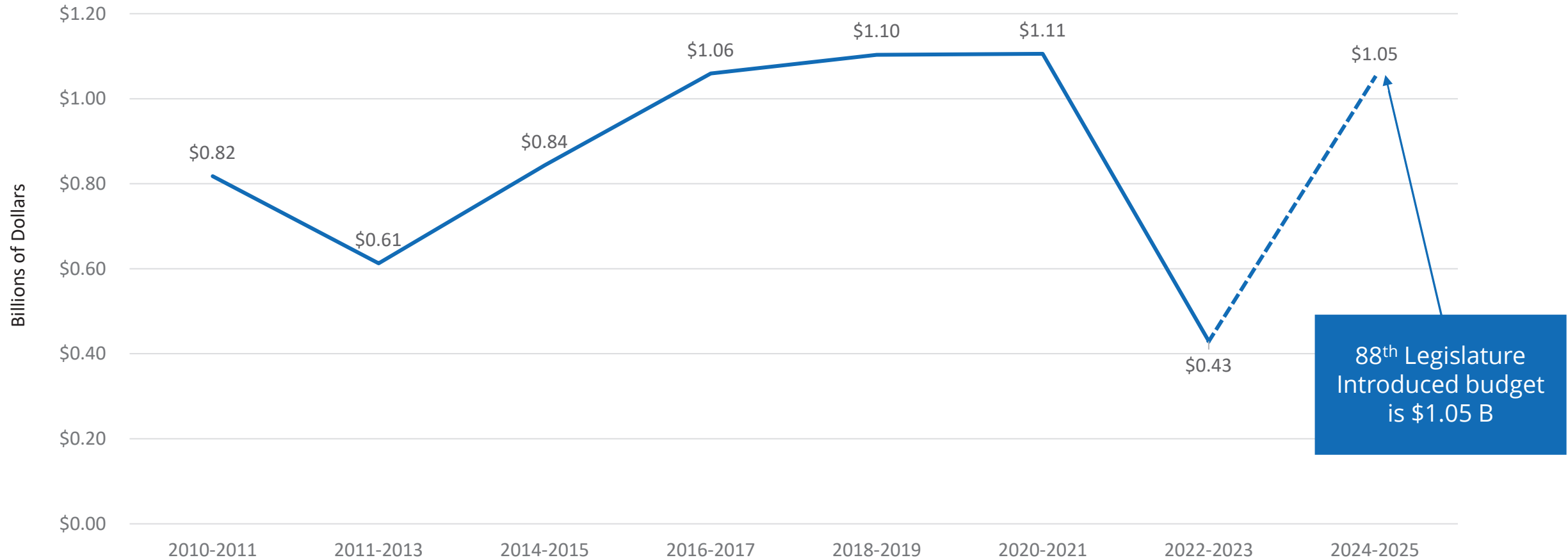
***Projected purchases are based upon a maximum 5-year lifecycle as a 3-to-5-year lifecycle is industry standard recommendation for 1:1 student devices.

NOTE: These numbers take a 5% loss rate pre-COVID and at 10% loss rate post-COVID into account.



Funding for Instructional Materials: Supporting Districts, Supporting Teachers, Supporting Kids

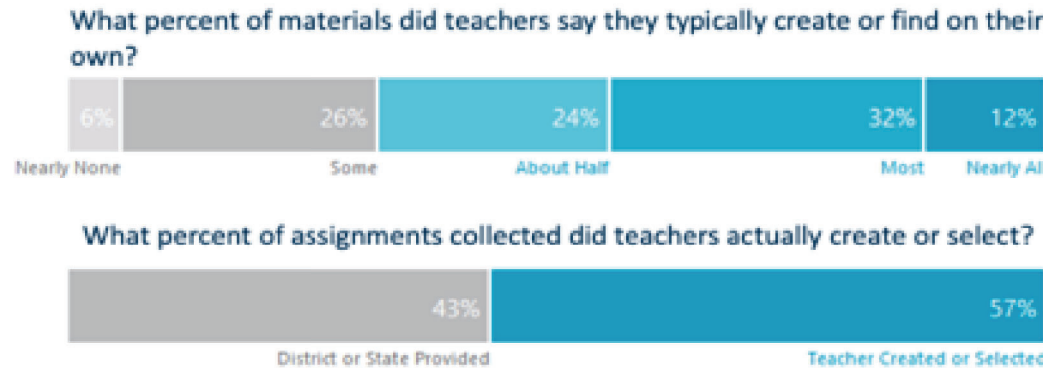
Instructional Materials and Technology Appropriations, 2016-2025





Teachers Do Not Have Enough Time To Prepare Rigorous Lessons

Teachers reported spending **7 hours per week** or **250 hours per year** developing or selecting instructional materials.



Where do teachers find materials?

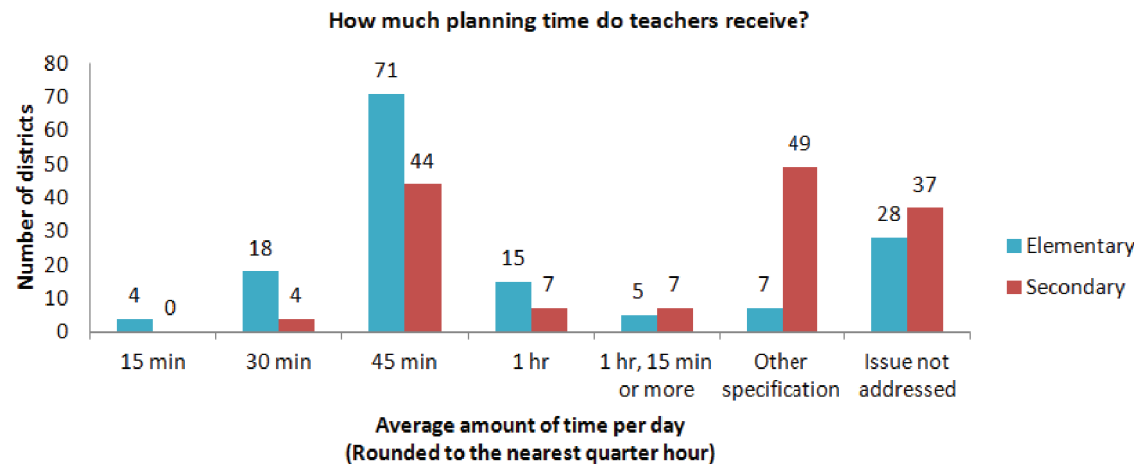


94% say Google



87% say Pinterest

Teachers reported being given only **3 hours 45 mins per week** on average for all planning activities.



<https://www.nctq.org/blog/July-2016:-How-much-time-do-teachers-get-to-plan-and-collaborate>

From: The Opportunity Myth; The New Teacher Project, 2018; and, Failing by Design: How we make teaching too hard for mere mortals'; Pondiscio, 2016.



Students Are Not Consistently Exposed To Rigor

A national study examined student classroom work to see if it was on grade-level.¹



TEA reproduced the study methodology with elementary reading teachers in 26 Texas school systems.



Students & teachers work hard. Students get As and Bs in class.
But student **proficiency does not grow.** Students, parents, and teachers might not even realize this until it is too late to correct – sometimes, after graduation.

The M&O tax rate is allocated into all three portions of the FSP formulas.

Tier One



Excess Local Revenue Limitations Apply

Tier Two

Golden Pennies



No Excess Local Revenue Limits

Tier Two

Copper Pennies



Excess Local Revenue Limitations Apply

*The specific tax rate where the golden and copper pennies begin will vary by district because each district can have different MCRs. Figures on this slide are based on the state MCR for Tax Year 2022.