



TEXAS LEGISLATIVE STUDY GROUP

An Official Caucus of the Texas House of Representatives

Representative:

Desk:

Conference Committee Report Analysis for House Bill 3 Saturday, May 25, 2019

Author: Rep. Dan Huberty Committee: Public Education

Recommendation: Favorable

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OVERVIEW

The Committee Conference Report for House Bill 3 is the most significant attempt to update and improve the public school finance system in several sessions. The CCR for HB3 allocates a total of \$11.6 billion from current revenue, without identifying a transformative, reliable, long term revenue stream for public education. As CSHB3 left the House, total funding was at \$9 billion; including \$6.3 billion for education and \$2.7 billion for property tax relief. The Conference Committee increased those totals to \$6.5 billion for education and \$5.1 billion for property tax relief. Although almost all of the additional money allocated by the Conference Committee went to property tax relief, the House-approved funding levels were maintained.






At passed the House, CSHB 3 increased the statewide average per pupil by approximately \$890 in additional funding. The CCR for HB3 now allocates \$11.6 billion state dollars; designating \$6.5 billion for public education (including \$2 billion to increase compensation for teachers, librarians, counselors, and nurses) and \$5.1 billion for property tax relief. The final HB3 provides a statewide average increase of approximately \$1,020 per pupil in additional funding through the basic allotment, from \$5,140 to \$6,160.


The LSG encourages members to look carefully at the runs to determine the impact HB3 will have on your local school districts.

Four Changes in the final HB 3 that would have a dramatic impact on public school funding

-  The pivotal change in HB3 is the increase in the basic allotment from \$5,140 to \$6,160.
-  The bill provides a reduction in recapture payments that is driven by an increase in the basic allotment as well changes to funding weights that include additional funding for students from low income households and English Language Learners (ELL). HB3 reduces recapture payments for property-wealthy districts that pay to subsidize property-poor districts by \$3.6 billion, for a 47% recapture reduction this biennium. This allows school districts that typically contribute a large portion of their local tax dollars to equalize funding in property poor districts to ease the impact of recapture.
-  Although HB3 does not provide funding and eligibility for Full-Day Pre-K for ALL children, it does create an Early Education Allotment that assures districts will invest in Full-Day Pre-K for eligible children.
-  HB3 increases the state share of education funding from 38% to 45% and uses current year property values to calculate the state funding for school districts. Using current year property values frees up a total of \$3.6 billion for state funding.

Property Tax Relief

-  The House-passed CSHB3 provided property tax relief with a 4-cent compression in the M&O tax rate from \$1.00 to \$0.96, a reduction that would have amounted to an annual average savings of approximately \$100 for homeowners.
-  Most of the additional funding adopted by the HB3 conference committee would be spent to compress school property tax rates by an average of 8-cents per \$100 valuation in 2020 and 13 cents per \$100 valuation in 2021. HB3 also provides for an additional 2.5% tax compression in 2021.
-  Preliminary estimates indicate that in 2020, this would amount to an annual tax cut of \$160 for an owner of a \$200,000 home, and a tax cut of \$260 for that same home in 2021. And, there are no provisions that require landlords to pass the benefits of property tax cuts through to renters.
-  In contrast with this relatively small tax cut for many homeowners, tax rate compression (which is a percentage reduction) would provide much larger tax cuts to wealthiest corporate and individual property owners.
-  With the additional compression, school district revenue will be capped to prohibit the district from collecting any amount above 2.5% in additional revenue generated from the M&O property tax rate. To prevent large gaps in tax rates across the state, HB3 will prohibit high appraisal value school districts from lowering their tax rates more than 10% below the highest tax rate and allows for each

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school district to have varying maximum tax rates, which is a change from the current \$1.17 per \$100 valuation.

In terms of equity, additional state funding via the basic allotment prevents widening the “equity gap,” at this time, especially in the first year of the biennium, but the impact of additional tax rate compression could widen that gap and force future legislatures faced with reductions in state revenue to address equity issues.

Teacher Pay Raises and Compensation

📖 Teacher pay raises are likely to be variable. HB3 will require a district to use at least 30 percent of any year-over-year revenue increase for pay raises. Of that total, 75 percent must go to teachers, librarians, counselors and nurses. HB3 provides for a \$2 billion *compensation package* for teachers and includes a limited incentive 5 years of teaching experience to earn an additional \$4,000 with an incentive pay plan for teachers who work in rural school districts or high-needs campuses. HB3 allows for district flexibility to determine how the compensations will be dispersed.

📖 HB3 will prohibit teachers from being measured based on students’ performance on state standardized tests and will not require school districts to use the state standardized test to regulate teacher bonuses.

📖 Teachers who are retired will receive a one-time \$2,000 *13th monthly check*.

HB3 makes other significant changes to the formula weights and allotments.

✍️ **Compensatory Education Allotment.** HB 3 would allow the TEA commissioner to create a 5-tier index, based on census block data, consisting of weights of 0.225, 0.237, 0.25, 0.2625, and 0.275 for economically disadvantaged students. Concerns have been expressed about using census block data as the primary data source being used, given that funding could be impacted should the federal government adopt policy that leads to a significant census undercount.

✍️ **Educator Effectiveness Allotment:** HB 3 creates the Educator Effectiveness Allotment that lets school districts pay their teachers more if they teach in rural areas or those that serve low-income students. The districts are entitled to this allotment with a funding weight of 0.012 and can use this weight if the teacher is assigned to teach low income students as defined by the compensatory education index or teaches in a district that qualifies as a rural area.

✍️ **Bilingual Allotment:** A new Bilingual Allotment is created for students who are not of limited English proficiency but are enrolled in a bilingual program through dual-language immersion, there is a weight of 0.05. For students who are of limited English proficiency but use a dual language program there is a weight of 0.15. For students who are of limited English proficiency but do not use a dual language program the weight is 0.1.

✍️ **Dyslexia Allotment:** HB 3 creates a new allotment for students with dyslexia that has a weight of 0.1 multiplied by the number of students served. The weight for students who have been identified as having dyslexia or a related disorder will be calculated into the funding for their school district.

✍️ **Transportation Allotment:** HB 3 allows for regular transportation to be funded through a single mileage reimbursement rate instead of the original linear density calculations and expands on the definition of “regular eligible student” when calculating the rate per mile of students in the transportation system. There is an approximate reimbursement rate of \$1.00 for the districts on a per-mile basis, which is a slight reduction from the \$1.04/mile in House-passed CSHB3.

✍️ **New Instructional Facilities Allotment:** This allotment increases the cap on appropriations for facilities from \$25 million to \$100 million and removes a section that previously allowed school districts to recapture a credit under the allotment.

✍️ **Small and Mid-Size Districts:** The current small and mid-size district “adjustment” was made within the basic allotment and it is replaced as an “allotment” that is additional to the basic allotment.

✍️ **Gifted and Talented Allotment:** This allotment was designed to encourage accelerated programs for gifted and talented students and has been accounted for into the Basic Allotment. HB3 requires reporting from the district for the use of funds for their Gifted and Talented program.


✍️ **Cost of Education Index:** This CEI, originally designed to recognize the difference in costs for providing educational services and basic needs in different areas of the state, is eliminated.

Concerns

The LSG’s favorable recommendation on HB3 acknowledges that many educators and policy analysts have expressed concerns about certain details in HB 3, something that is to be expected given the complexities involved in crafting a major school finance bill.

✍️ HB3 makes a very important state investment in public education, but it does not provide the reliable state revenue source that will be necessary to realize a truly transformational, long term school finance solution. For that reason, future legislatures may still have to address challenges if state revenue is not be readily available.

✍️ Because the provisions of HB3 that provide property tax relief are driven by tax rate compression, the tax relief will primarily benefit the wealthiest corporate and individual property owners instead of the

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typical homeowner, who would benefit more from increasing the homestead exemption. And, maintaining the level of tax rate compression in HB3 will require additional revenue going forward.

- ✎ There are no provisions in HB3 that would make sure property tax relief would be passed through to rent reductions for millions of Texans who pay rent.
- ✎ Special education funding authority is delegated to the TEA Commissioner, who must determine whether or not the amount of funding in the allotment is satisfactory, based on federal law, and use FSP funds to adjust for deficiencies in special education if and when they are found.

These are all legitimate points worthy of consideration, but the fact that they are not addressed HB 3 does not negate the positive changes HB 3 would make for public education in Texas.

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