

HB 3 in 30: Recapture

July 25, 2019

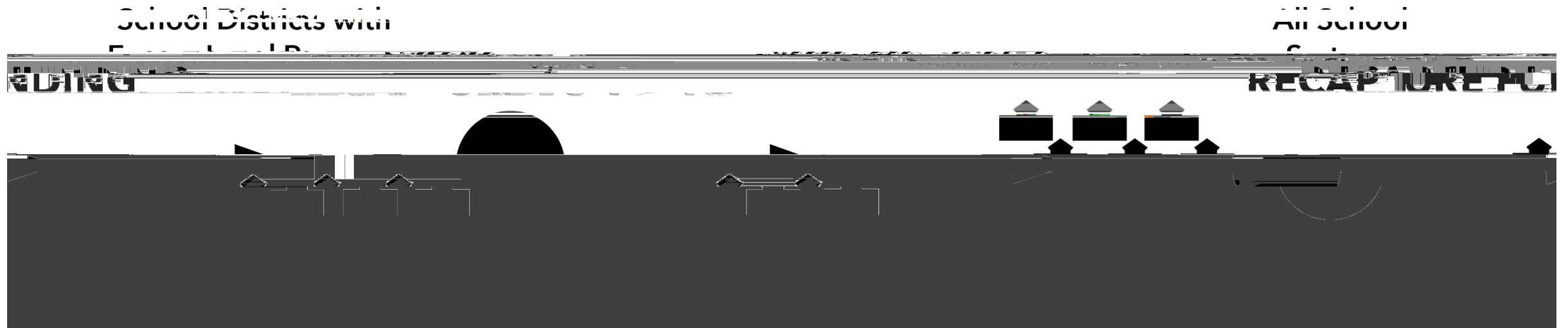
Agenda

1. Background on Recapture
2. Recapture Formula Changes
- 3.

Background on Recapture

What is recapture?

Texas Education Code makes provisions for certain districts with excess local revenue to pay funds into the Foundation School Program for distribution to other districts.



Frequently Asked Questions

Are recapture payments from school districts used to fund other

No. Recaptured funds are appropriated in the General Appropriations Act as a method of finance to help pay for the Foundation School Program (FSP). Texas Education Code, 49.154(b) states, "Receipts shall be deposited in the state treasury and may be used only for foundation school program purposes."

What is the basic structure of school finance?

Formula

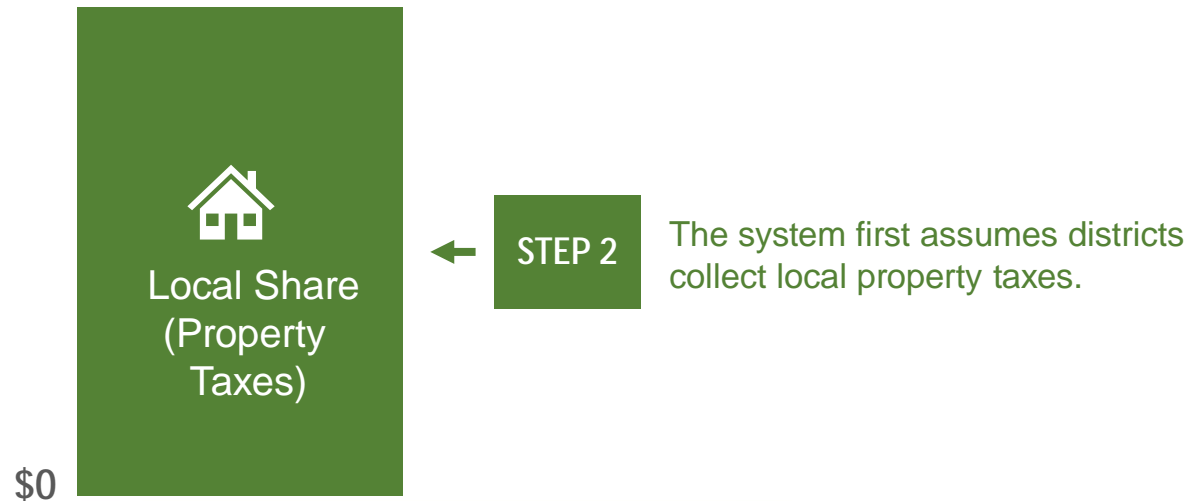
Entitlement \$9,557

\$0

What is the basic structure of school finance?

STEP 1 Formula Entitlement \$9,557

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

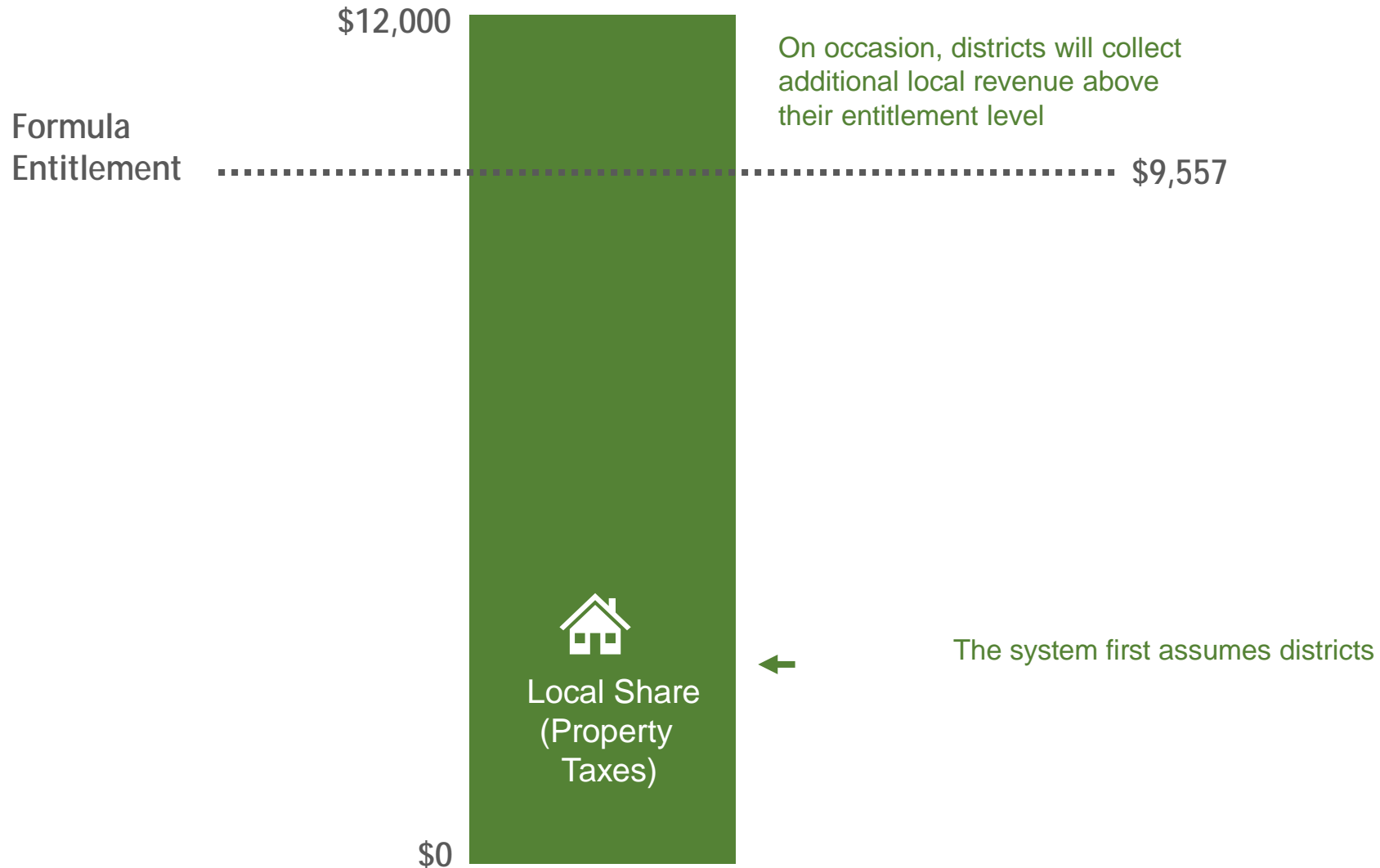


What is the basic structure of school finance?

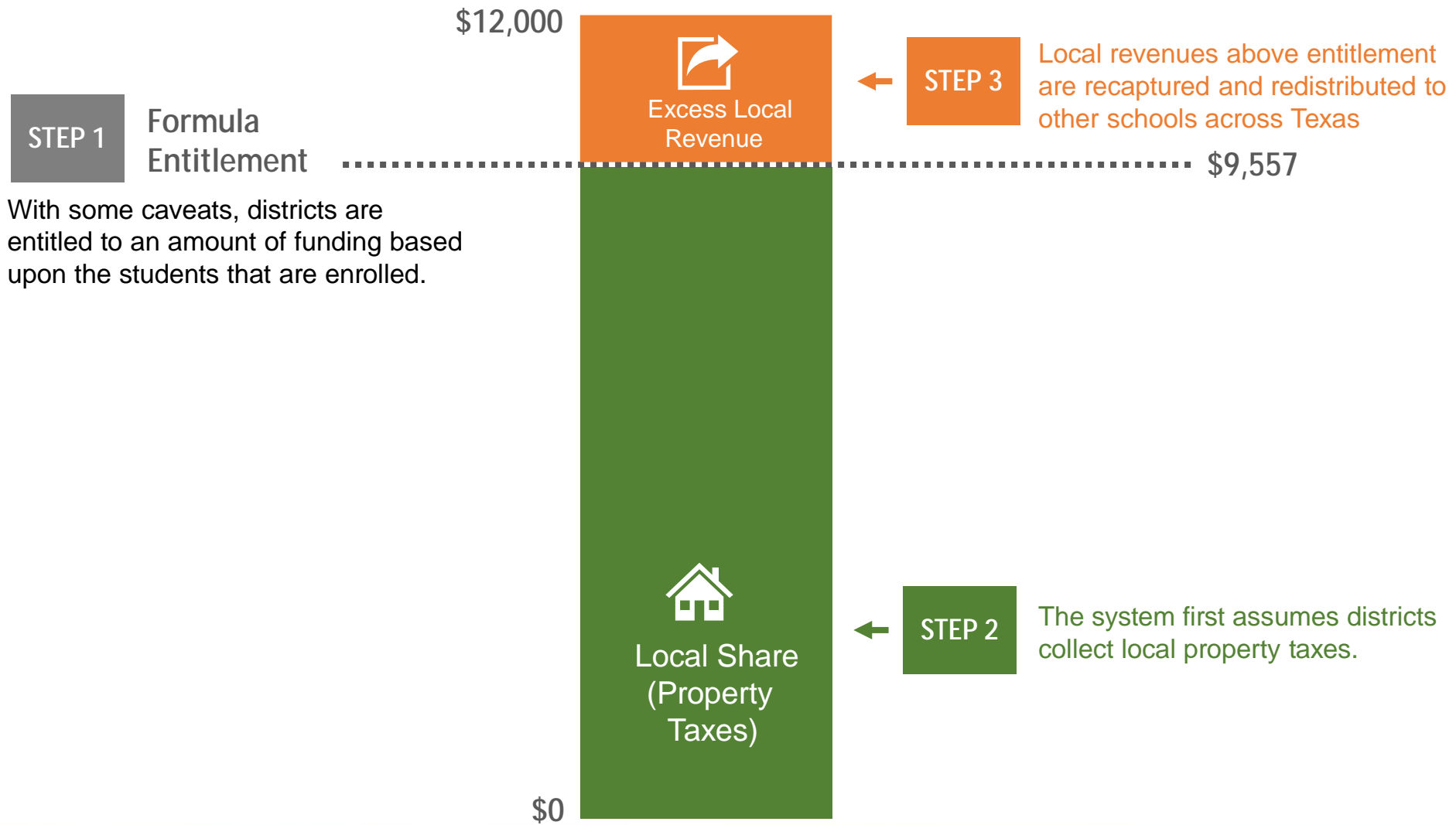


*The entitlement value of \$9,557 is the average of all districts M&O Tier I & Tier II funding entitlement in 2019-2020.

When does recapture occur?

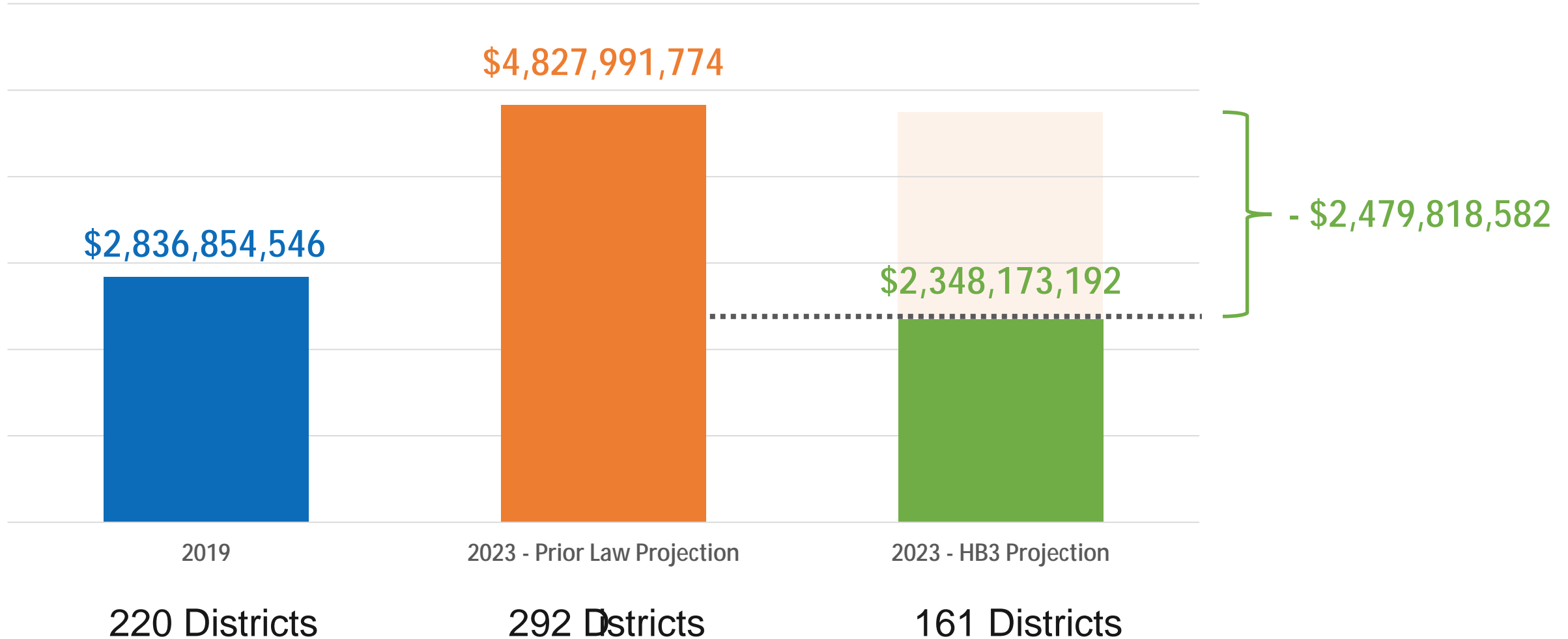


When does recapture occur?



*The entitlement value of \$9,557 is the average of all districts M&O Tier I & Tier II funding entitlement in 2019-2020; \$12,000 is illustrative.

HB 3 Reduces Recapture



Recapture Formula Changes

HB 3 reduces recapture in three primary ways

1. The calculation of recapture is now based on local revenue in excess of entitlement instead of equalized wealth levels

- **CEI:** Disparities between recapture and non-recapture districts caused by the CEI have been eliminated
- **Transportation:** Costs for transportation are now funded equally between recapture and non-recapture districts
- **Entitlement prevails over recapture:** Districts are now guaranteed that recapture will not reduce revenue below their entitlement level (TEC, Section 48.257, HB 3 Enrolled Page 92)

2. Total entitlement increased

- New allotments were created (Early Education Allotment, CCMR Bonus (a)10.1 1/ (llo)-lo5n -0. Tdtheir e 92)

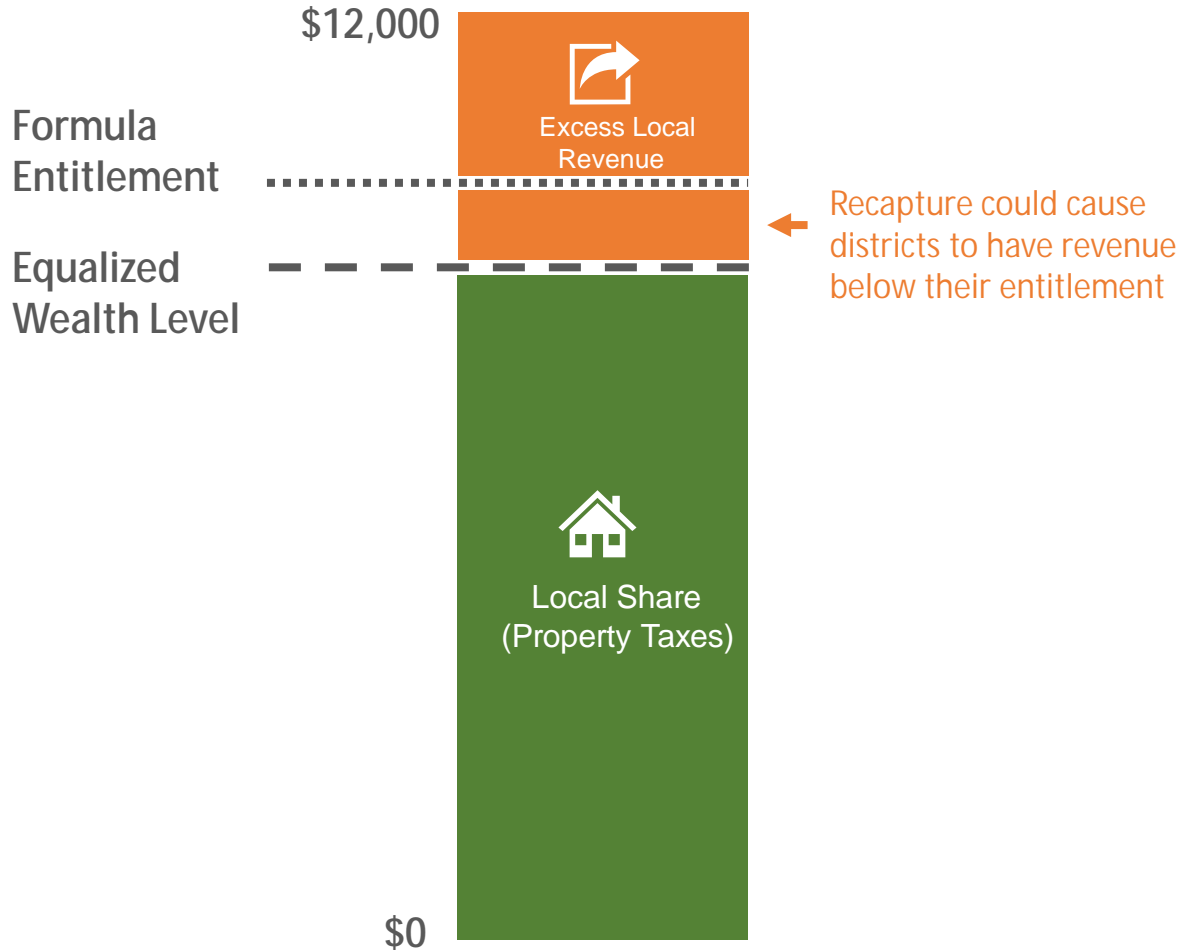
Cost of Education Index (CEI)

- Repeals the Cost of Education Index (CEI), so districts no longer receive funding based on a decades-old metric.
- With prior law, recapture districts only received half their CEI allocation. Now, recapture & non-recapture districts are treated the same.
 - HB 3 requires TEA to study geographic variations in resource costs and cost of education, including transportation
- The CEI had not changed since initial data was gathered in 1989.
- Some areas had notably different CEI values even though the districts were adjacent.

- Prior to HB 3, recapture districts did not receive the benefit of the transportation allotment because transportation was excluded from the calculation of weighted average daily attendance (WADA), which was used to determine a districts wealth level.
- Under HB 3, transportation funding is treated the same between recapture and non-recapture districts because school districts will not be sending recaptured

Under HB 3 Entitlement Prevails Over Recapture

Recapture Under Prior Law



Recapture Under House Bill 3



If: (Tier 1 M&O tax collections – Recapture) is less than
(Tier 1 entitlement – ASF payment)

Other Formula Changes Affecting Recapture

Move from prior tax year to current tax year values

- The previous method used prior year values to arrive at a proportional tax base reduction percentage.

Establishes an Equalized Wealth Transition Grant

- ✓ The grant establishes a 5-year glide path off of the 1992-1993 Chapter 41 hold harmless (repealed by HB 3), calculated as the amount the district received in 2018-2019.

School Year	Chapter 41 HH Percentage
2019-2020	100%
2020-2021	80%
2021-2022	60%
2022-2023	40%
2023-2024	20%
2024-2025	0%

In Statute:

Texas Education Code, Section 48.278 – (HB 3, Enrolled Page 120)

- ✓ **Early agreement credit on recapture was repealed, with funding redirected to the basic allotment.**
 - Therefore, the September 1 deadline to submit contracts to reduce local revenue levels in order to receive the early agreement credit is no longer relevant.
- ✓ **Under HB 3, districts now have the option of making one lump-sum payment in August.**
 - The payment option to submit seven equal payments from February through August remains unchanged
 - Districts subject to recapture will select a payment option in the Excess Local Revenue subsystem of the online Foundation School Program (FSP) system to the Texas Education Agency (TEA) by January 15 annually

Netting Option to Reduce Local Revenue Level

1. Section 41.0041, Education Code, was repealed which provided certain districts the option of authorizing the Commissioner to withhold state aid in lieu of holding an election.
2. However, provisions in the TE§48.257(c), allow districts to offset the reduction of excess local revenue against Chapter 48 funds provided in Subchapter F.
3. All districts will have the option to use state aid calculated under Subchapter F, Chapter 48, Education Code as an offset to their attendance credit for purposes of reducing their local revenue level.

In Statute:

Texas Education Code, Section 48.257(c) – (HB 3, Enrolled Page 93)



Question

What happens if I don't compress my taxes in compliance with HB 3?



Answer

The agency, in calculating funding under the FSP, will reduce state aid or adjust recapture in an amount equal to the amount of revenue generated by a school district's tax effort that is not in compliance with HB 3.

TEA Next Steps

1. Notifications to districts with local revenue in excess of entitlement were sent July 11, 2019
2. Rulemaking Options and Procedures for Districts with Local Revenue in Excess of

Next Steps for Districts

Frequently Asked Questions



Question

How do I...?



Answer

Visit the Excess Local Revenue webpage on the TEA's website at:
https://tea.texas.gov/Finance_and_Grants/State_Funding/Excess_Local_Revenue/
or contact Kim Wall at kim.wall@teatexas.gov or (512)463-4809.

A photograph of a classroom where several children are raising their hands. The image is overlaid with a semi-transparent white box containing text. The background shows a teacher and students in a typical classroom setting with colorful decorations.

Thank you!

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