

- SUBJECT:** Hold harmless funds offset for school districts newly subject to recapture
- COMMITTEE:** Public Education — committee substitute recommended
- VOTE:** 7 ayes — Eissler, Zedler, Branch, Dutton, Hochberg, Olivo, Patrick
0 nays
2 absent — Delisi, Mowery
- WITNESSES:** For — Robby Collins, Dallas Independent School District; David Thompson, Houston Independent School District; Joe Wisnowski, Texas School Alliance; (*Registered, but did not testify:* Clayton Downing, Texas School Coalition; David Duty, Texas Association of School Boards; Ken McCraw, Texas Association of Community Schools; Bill Carpenter)
Against — None
On — Wayne Pierce, Equity Center
- BACKGROUND:** Under Education Code, ch. 41, school districts are prohibited from having a wealth per student above the “equalized wealth level.” The wealth per student is determined by dividing the number of students in weighted average daily attendance (WADA) by the district’s taxable property value.

By July 15 of each year, the Texas Education Agency (TEA) commissioner must notify school districts if their wealth per student exceeds the equalized wealth level. These districts have several options for reducing their wealth per student to the equalized wealth level, including consolidation with another district, purchasing attendance credits from districts with low property wealth, educating nonresident students, and consolidating the district’s tax base with another district.

District voters must approve the purchase of attendance credits, education of nonresident students, or tax base consolidation in an election held by September 1 after the commissioner notifies a district that it has exceeded the equalized wealth level.

HB 1 by Chisum, enacted by the 79th Legislature in its third called session in 2006, included a “hold harmless” provision to ensure that school districts receive sufficient state funding to offset the cost of local property tax reductions. Under this “hold harmless” provision, school districts are ensured of receiving sufficient funding to cover the cost of a teacher pay raise and the \$275 per student high school allotment authorized in the bill, as well as the greatest of:

- the amount of state and local revenue per WADA available to the district for the 2005-06 school year;
- the amount of state and local revenue per WADA to which the district would have been entitled under existing law based on the district’s 2005 tax rate; or
- the amount of state and local revenue per WADA to which the district would have been entitled based on the district’s 2006 rollback tax rate.

DIGEST:

CSHB 3226 would amend Education Code, ch. 41, to specify that if a school district’s wealth per student exceeded the equalized wealth level for the first time in 2006-07 or a subsequent school year, the TEA commissioner would have to estimate the amount of state revenue to which the district was entitled for that school year under the “hold harmless” provisions of HB 1 and the cost to the district to purchase attendance credits sufficient to reduce the district’s wealth per student to the equalized wealth level for that school year.

If the commissioner determined that the amount of state “hold harmless” funding to which the district was entitled exceeded the amount that the district had to purchase in attendance credits, the school district could authorize TEA to withhold from state “hold harmless” funding the amount that would have been required to purchase attendance credits to reduce the district’s wealth per student to the equalized wealth level for that school year. The board’s decision would not require voter approval.

If the cost of purchasing attendance credits exceeded the amount of state “hold harmless” revenue, the commissioner would have to withhold the full amount of a district’s “hold harmless” revenue for that year and withhold any remaining amount from “hold harmless” revenue in the subsequent school year. The district would not be required to take any further action to reduce its wealth during that school year.

The bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2007.

**SUPPORTERS
SAY:**

HB 3226 would eliminate a voter approval requirement in the school finance system when it no longer served the purpose for which it was intended. Some school districts, including Houston ISD and Dallas ISD, are likely to exceed the equalized wealth level within the next year or two. Under current law, these districts will be required to reduce their local property wealth by purchasing attendance credits or consolidating with another district. These measures require voter approval because they involve sending local property tax revenue out of the school district.

At the same time that they are required to give up local property tax revenue, these districts expect to receive substantially more money from the state under the “hold harmless” provisions included in HB 1 than they will be required to give up under the current “recapture” system. The overall system creates a net gain for these districts that eliminates the need for a special election to approve the method by which local funds are “recaptured” by the state.

A local election to approve the sale of attendance credits is expected to cost Houston ISD about \$1 million and the Dallas ISD about \$500,000. Galveston ISD recently held a local election in which the purchase of attendance credits was not approved, even though the district will have a net funding gain after state money is distributed to the district. These elections are unnecessary and confusing to voters and should not be required under the school finance system as it exists following the enactment of school finance legislation in 2006.

**OPPONENTS
SAY:**

The school finance system needs to be recalibrated to account for changes brought about by the “hold harmless” provisions included in HB 1, which failed to reform certain aspects of how the school finance system works. Rather than adopting confusing exceptions to address conflicts between the new system and the old, the state should revise the underlying school finance structure to ensure that state funds are distributed fairly.

NOTES:

The original version of the bill would have allowed school districts that exceeded the equalized wealth level in an amount that exceeded that district’s entire amount of “hold harmless” funding to keep any amount of funding that exceeded the district’s hold harmless funding for that year.

The committee substitute would require these additional funds to be withheld from the district's "hold harmless" funding in the subsequent year.

The committee substitute also removed a requirement that the TEA commissioner notify a district only if the "hold harmless" amount exceeded the cost of purchasing attendance credits by more than 10 percent.

The companion bill, SB 1600 by West, was reported favorably, as substituted, by the Senate Education Committee on April 16 and recommended for the Senate Local and Uncontested Calendar.