

SUBJECT: Extending additional state aid for tax reduction to certain school districts

COMMITTEE: Public Education — favorable, without amendment

VOTE: 10 ayes — Huberty, Allen, Bohac, Deshotel, Dutton, Gooden, K. King,
Koop, Meyer, VanDeaver

0 nays

1 absent — Bernal

WITNESSES: For — Larry Smith, Canadian ISD; Dave Plymale, Goliad ISD; Leandro Gonzales, Grady ISD; Mike Motheral, Small Rural School Finance Coalition; Dominic Giarratani, Texas Association of School Boards; Christy Rome, Texas School Coalition; Cynthia Brugge; Kevin Chisum; (*Registered, but did not testify*: Barry Haenisch, Texas Association of Community Schools; Amy Beneski, Texas Association of School Administrators; Michelle Smith, Texas Association of School Business Officials; Colby Nichols, Texas Rural Education Association, Texas Association of Community Schools; Portia Bosse, Texas State Teachers Association)

Against — Ray Freeman, Equity Center; Samuel Guzman, Mexican American School Board Members Association; David Hinojosa, Texas Latino Education Coalition; (*Registered, but did not testify*: Chandra Villanueva, Center for Public Policy Priorities; Jaime Puente, Mexican American Legal Defense and Education Fund; John Hubbard, Pharr-San Juan-Alamo ISD; Drew Scheberle, the Greater Austin Chamber of Commerce; Bill Grusendorf, Texas Association of Rural Schools)

On — Leonardo Lopez, Texas Education Agency; (*Registered, but did not testify*: Kara Belew, Texas Education Agency)

BACKGROUND: Education Code, sec. 42.2516 establishes Additional State Aid for Tax Reduction (ASATR). ASATR was enacted in 2006 as a "hold harmless" provision for certain districts that otherwise would have lost revenue when

the Legislature reduced property taxes by one-third. Eligible districts may receive additional state aid or, if property wealthy, be required to give up less revenue through recapture. The provision is set to expire September 1, 2017.

DIGEST:

HB 22 would extend by two years the provision of Additional State Aid for Tax Reduction (ASATR) to certain school districts by postponing its expiration date from September 1, 2017, to September 1, 2019. A district, as determined by the commissioner of education, that otherwise would receive ASATR for the 2017-18 or 2018-19 school year in an amount that was 4 percent or less of the district's total funding would be ineligible to receive additional state aid. A district, as determined by the commissioner, that was not entitled to ASATR for the 2016-17 or a subsequent school year would be ineligible to receive additional state aid for any subsequent school year.

The bill contains two versions of the provision outlined above. One version would take effect if the bill became effective immediately, and the other would take effect if the bill became effective after September 1, 2017. This 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 on the 91st day after the last day of the special session.

**SUPPORTERS
SAY:**

HB 22 would help districts that face financial hardship due to the scheduled expiration of a "hold harmless" mechanism known as Additional State Aid for Tax Reduction (ASATR) by extending the expiration date until September 1, 2019. The Texas Education Agency projects that up to 160 districts could benefit from continuation of the state aid in fiscal 2018-19. The bill would continue ASATR only for districts that rely on the additional state aid for more than 4 percent of their operating expenses, ensuring that the neediest districts continued to receive funding.

ASATR was created by the Legislature in 2006 to keep certain districts from losing funding after local property taxes were cut by one-third as part of school finance reform. Many districts that formerly received

ASATR no longer qualify, but some still rely on it to help fund their schools. Most of the remaining districts are small, and ASATR constitutes a significant part of their operating revenue. A majority of ASATR districts are required to send a portion of their local property tax revenue to the state under the recapture provisions of Education Code, ch. 41, further limiting their available revenue.

The loss of ASATR would diminish educational opportunities for students in affected districts, and as many as two dozen districts have said they might have to close. While students could be absorbed by nearby districts, as some have suggested, it would be a severe economic and emotional blow for a small town to lose its schools. In addition, consolidating far-flung districts in sparsely populated areas of the state could result in students taking even longer bus rides.

While funding to cover the cost of continuing ASATR could come from existing appropriations to the Foundation School Program, lawmakers also would have the option to tap the Economic Stabilization Fund or defer certain Medicaid payments.

Districts have taken steps in an attempt to prepare for the loss of ASATR, including cost reductions and "tax swap" measures designed to generate more money for operating expenses while keeping the tax rate level. Some have suggested that districts should raise their tax rates, but voters might not approve a tax hike, particularly when much of the new revenue would be paid to the state in recapture. It has been particularly difficult for some districts to plan for the expiration of ASATR due to the impact on local mineral valuations related to volatile swings in the price of oil.

**OPPONENTS
SAY:**

HB 22 would extend a program that contributes to inefficiencies in the school finance system by funneling additional aid to some districts at the expense of others. Without a new appropriation for the bill's \$355.6 million cost, a prorated amount of money could be taken from all districts in fiscal 2019 to pay for the program. The bill would benefit about 15 percent of districts serving about 5 percent of public school students, according to the Legislative Budget Board, which said that more than 90

percent of the continued ASATR funding would flow to districts in the two highest quintiles of property wealth per weighted student.

ASATR guarantees funding beyond that provided through the regular school finance formulas, meaning those districts have benefitted from greater funding than similar districts that do not receive ASATR. It is time for these ASATR districts to join the vast majority of districts that are expected to operate on formula funding.

Districts receiving ASATR have been on notice since 2011 that the funding would expire and should have planned for the loss of funding. If some districts must close, their students could be absorbed into another district.

NOTES:

According to the Legislative Budget Board's fiscal note, HB 22 would cost the Foundation School Program \$355.6 million in fiscal 2018-19.