



Public Education Funding: Recapture & What to Expect in 2023



Alamo Heights ISD
November 29, 2022

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Texas School Coalition



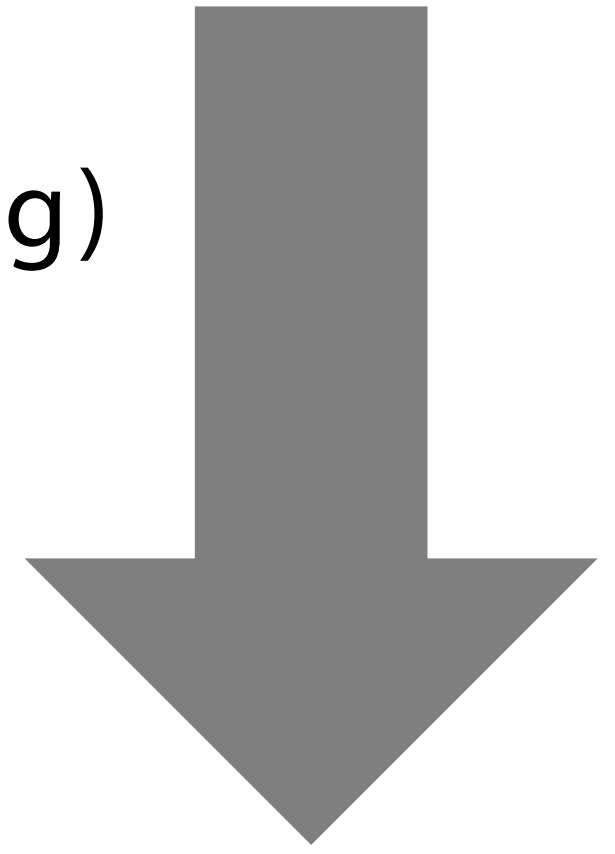
What is recapture?

- A method of equalizing varying degrees of property wealth among Texas school districts
- Taking from the rich
- But not necessarily giving to the poor

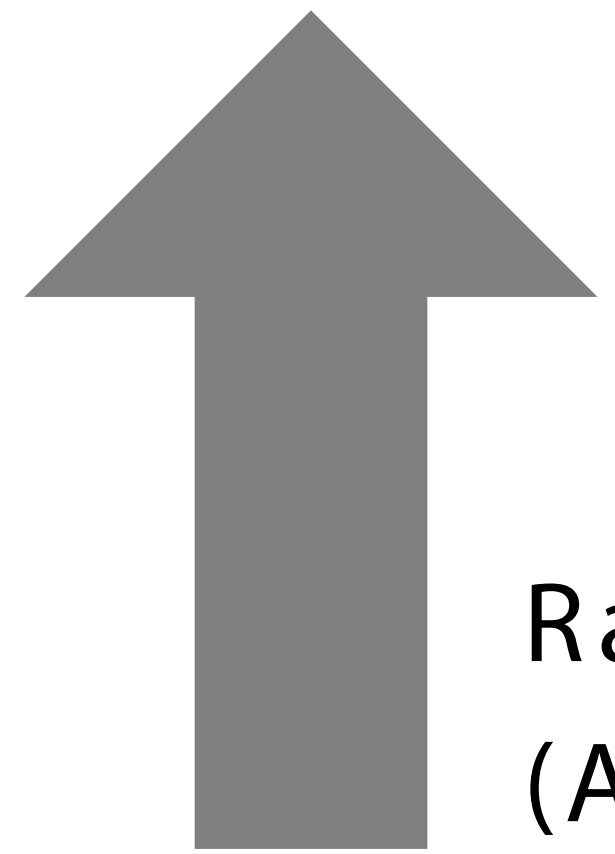


Higher wealth districts

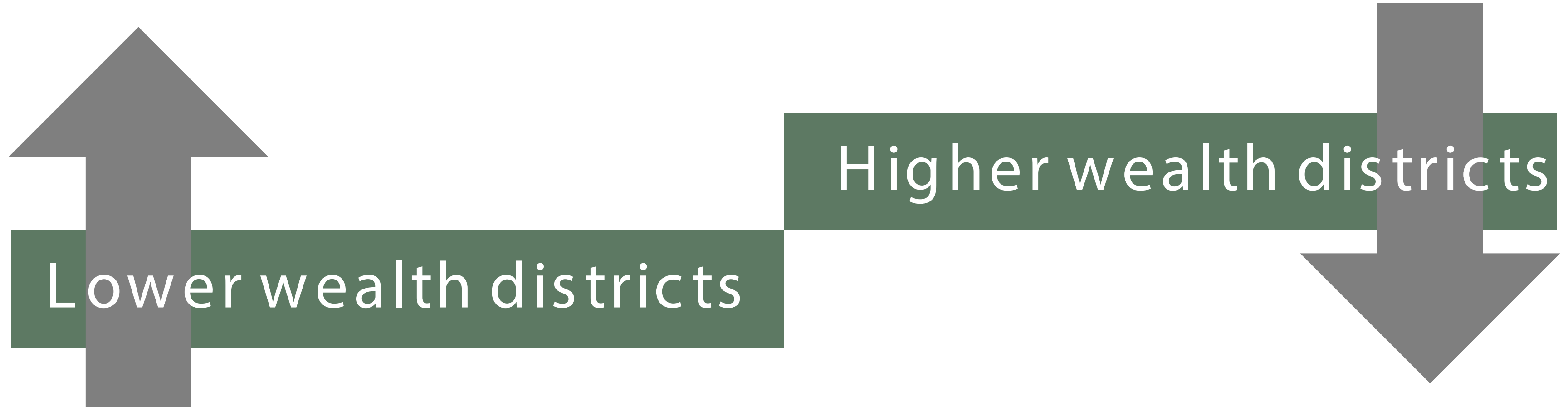
Insert a ceiling
(Reduce local funding)



Raise the floor
(Additional state funding)



Lower wealth districts



Lower wealth districts

Higher wealth districts

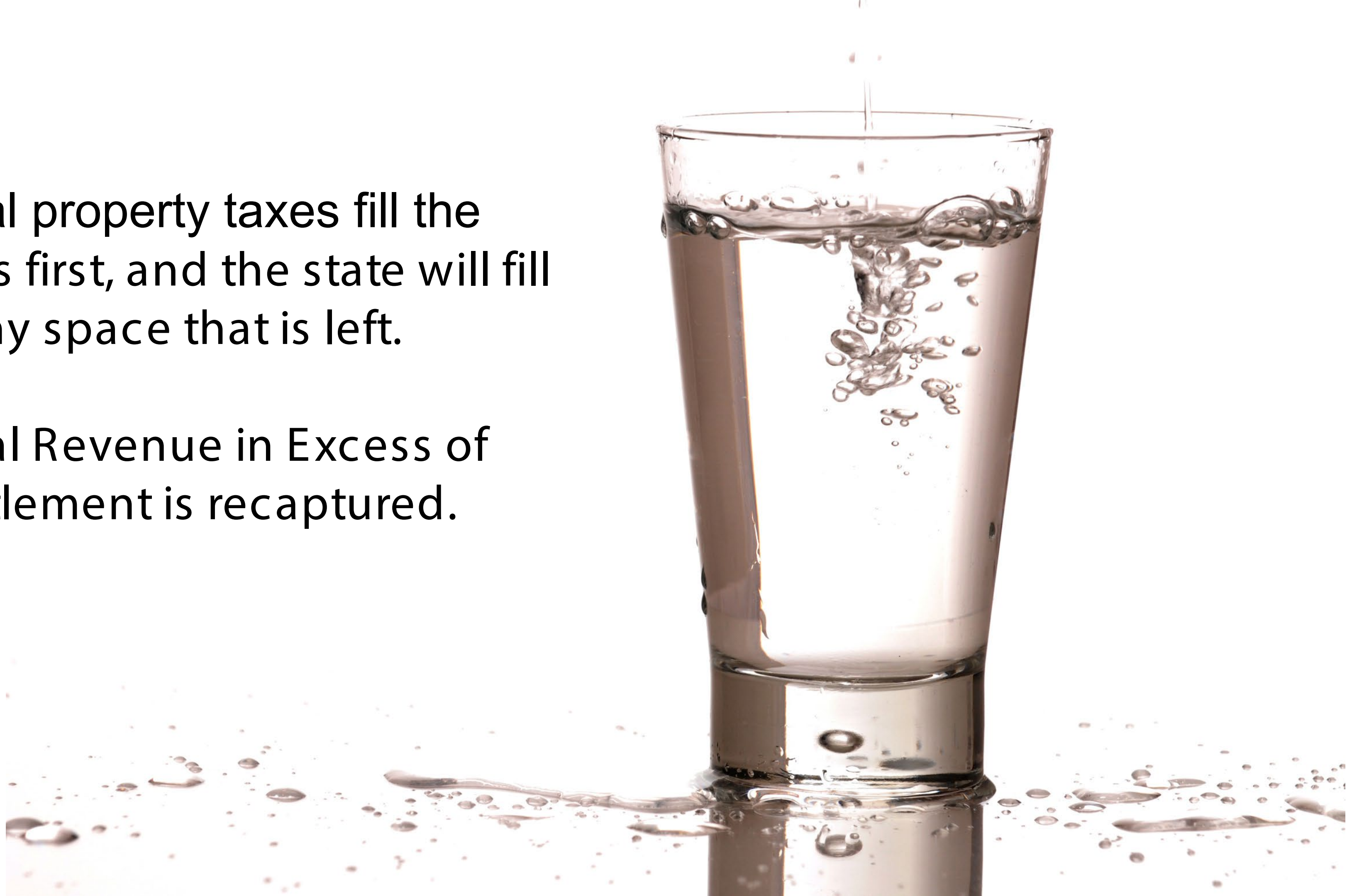
Formulas determine the size of the glass (district's entitlement) based on:

- Basic Allotment (per student funding)
- District characteristics
- Student characteristics
- Other additional funding not on a per-student basis (such as transportation, teacher incentives)
- District tax effort

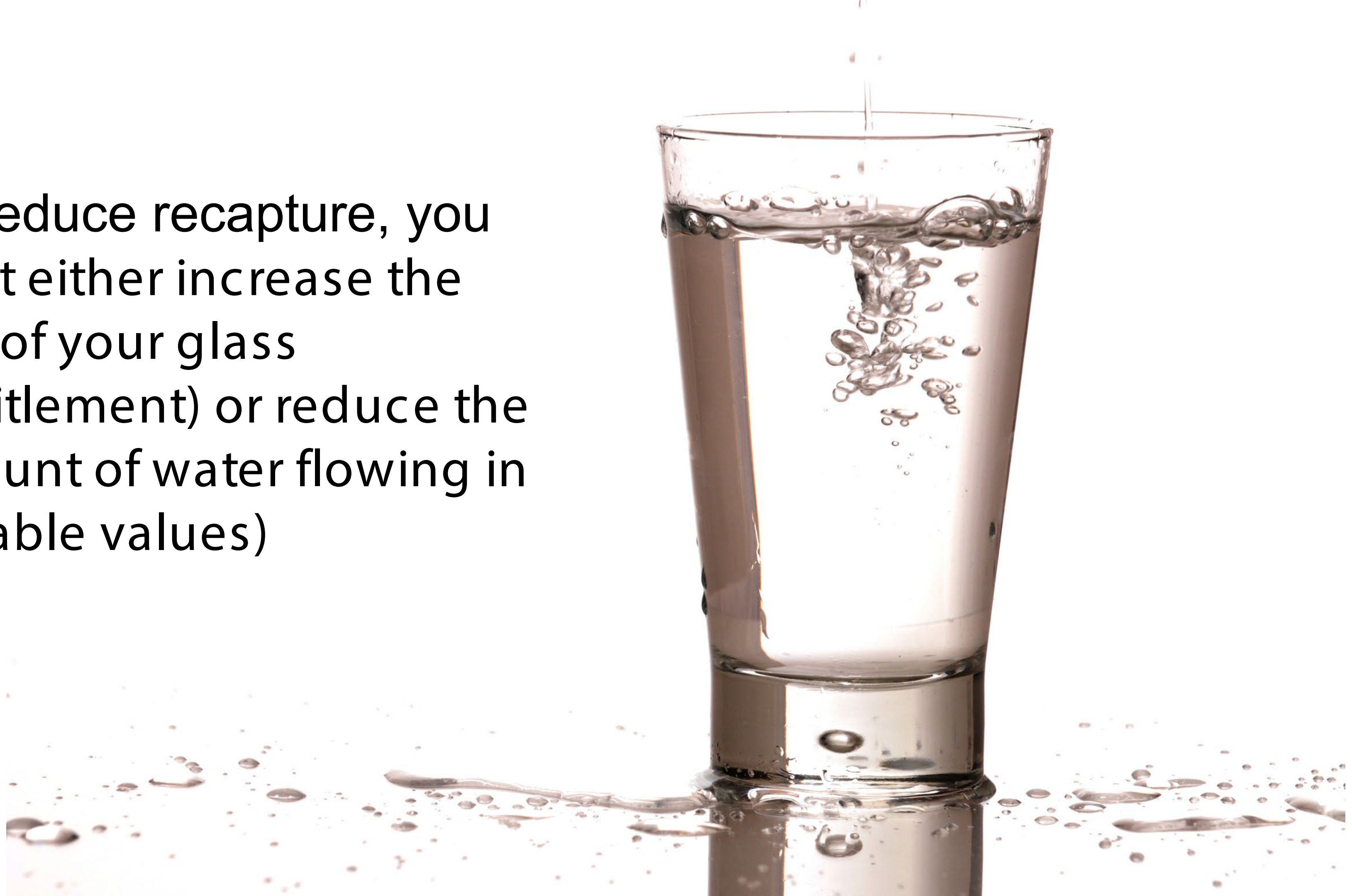


Local property taxes fill the glass first, and the state will fill in any space that is left.

Local Revenue in Excess of Entitlement is recaptured.



To reduce recapture, you must either increase the size of your glass (entitlement) or reduce the amount of water flowing in (taxable values)





If a district reduces its tax rate, it reduces recapture



Not necessarily. Recapture is revenue in excess of entitlement.



Reducing tax rate reduces entitlement, so the district has less with which to educate students.



Taxpayers may pay less, but district could still pay the same in recapture.

COMMON MISPERCEPTIONS



Maintenance & Operations Tax Rate

Tier 2 – “Copper Pennies”

- Up to \$0.09 copper pennies available (with election)
- **\$49.28/penny/WADA** yield; above that recaptured

Tier 2 – “Golden Pennies”

- \$0.08 golden pennies available and assessed in Alamo Heights ISD (approved by election)
- NOT subject to recapture, resulting in a **\$143.44/penny/WADA** yield in AHISD (while other districts receive a yield of \$98.56/penny/WADA)

Tier 1 – “Silver Pennies”

- Tier 1 MCR is \$0.8555 in 2022-23 school year, and rate will continue to be compressed over time, subject to “equity floor”
- Revenue in excess of entitlement subject to recapture
- **\$66.86/penny/WADA** in 2022-23 in AHISD

If M&O Tax Rate had been \$0.01 less in 2022-23

Total Taxes Collected Reduced by	\$802,779
Recapture reduced by	\$0
Revenue for use in AHISD reduced by	\$802,779

If M&O Tax Rate had been \$0.10 less in 2022-23

Total Taxes Collected Reduced by	\$8,027,790
Recapture reduced by	\$857,178
Revenue for use in AHISD reduced by	\$7,170,611



Paying less recapture means the district would have more \$ with which to serve students

COMMON MISPERCEPTIONS



Possibly, depending how recapture was reduced.



If just because taxpayers pay less, schools have less money to use to serve students.



If reduction is due increased state funding, that allows more local dollars to stay local.

Districts that pay recapture can afford it, as their students have many advantages



There is a difference in property wealth and personal wealth.



Many recapture districts serve a majority of students from severe poverty.

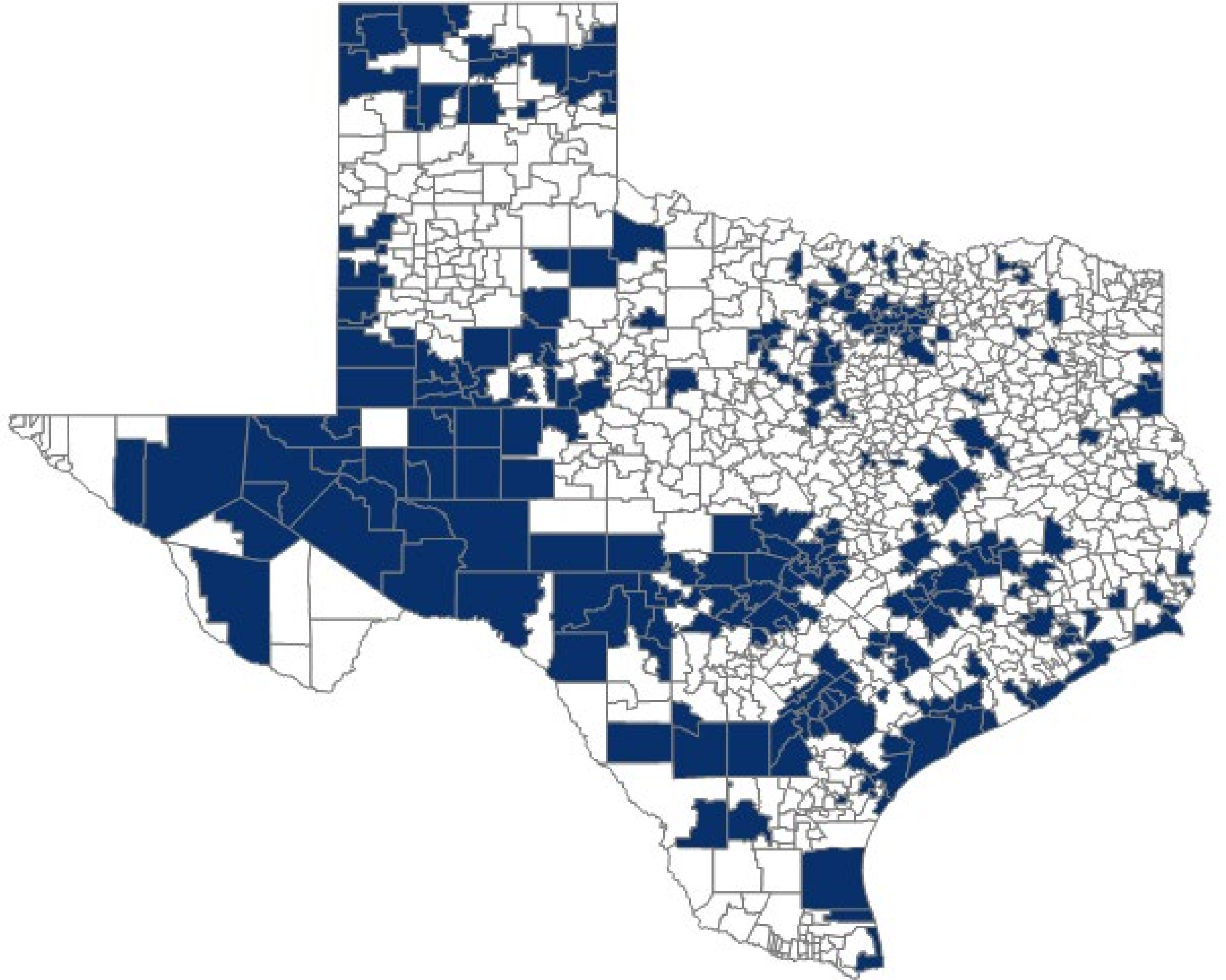


Formulas should adjust, but many recapture districts struggle to meet student needs.

COMMON
MISPERCEPTIONS



Recapture districts can be found in nearly every region of the state.



Top 10 Recapture Districts

Districts Paying the Most Recapture 2021-22

	School District	Recapture
1	Austin ISD	\$762,800,496
2	Plano ISD	\$211,043,809
3	Houston ISD	\$184,136,019
4	Midland ISD	\$123,679,057
5	Pecos-Barstow-Toyah ISD	\$110,570,743
6	Eanes ISD	\$105,390,633
7	Highland Park ISD (Dallas)	\$101,068,025
8	Dallas ISD	\$97,604,039
9	Wink-Loving ISD	\$75,630,368
10	Spring Branch ISD	\$64,424,027
31	Alamo Heights ISD	\$34,507,367

Districts Paying the Most Recapture as Percent of Total M&O Tax Collections 2021-22

School District	Recapture	% of collections
Glasscock County ISD	\$31,502,735	85%
Rankin ISD	\$47,955,351	84%
Grady ISD	\$25,848,858	83%
Wink-Loving ISD	\$75,630,368	83%
McMullen County ISD	\$22,092,017	82%
Kenedy County Wide CSD	\$7,612,863	80%
Westhoff ISD	\$4,529,223	79%
Palo Pinto ISD	\$4,137,051	76%
Port Aransas ISD	\$20,467,289	75%
Culberson County-Allamoore ISD	\$22,126,902	75%
Alamo Heights ISD (49th)	\$34,507,367	48%

Source: TEA SOF Near Final Data, 2021-2022

Recaptured funds benefit schools in need with low wealth levels.



Recapture benefits the state, not other school districts.



Formulas determine entitlement; growth of recapture doesn't change that.



Funding levels are the same, so it's simply a matter of the source of funding--who pays.

COMMON
MISPERCEPTIONS



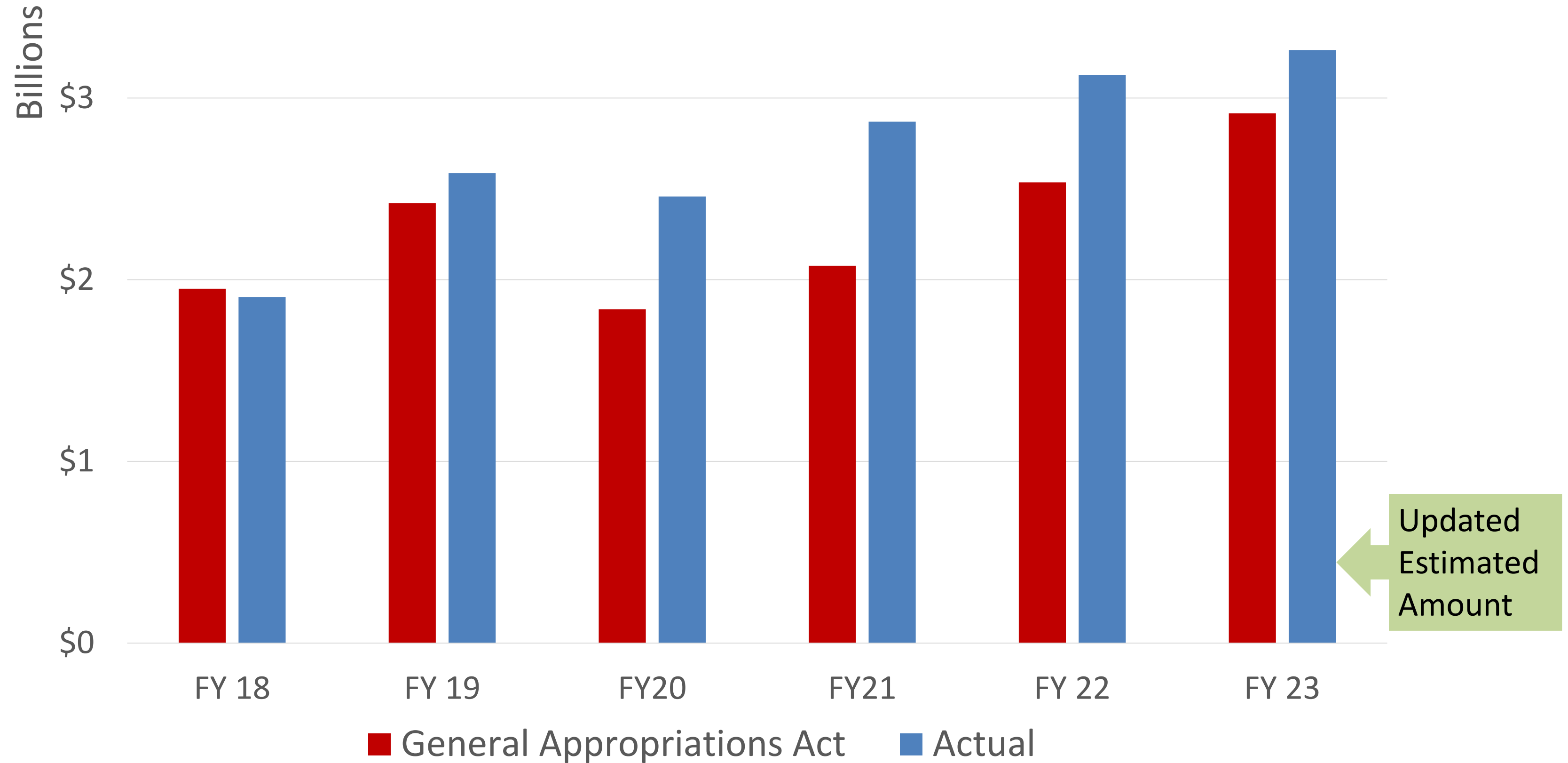


The Appropriations Shell Game

In 2021, supplemental appropriations reduced spending for Foundation School Program by \$5.2 billion for FY 20 and 21. \$1.4 billion of that was due to higher than expected recapture.

Every two years, legislators underestimate the total amount that districts will pay in recapture. Then, when districts pay more than projected, legislators use those recapture dollars to replace other state funding that would have gone to schools.

Appropriated vs. Actual Recapture



The Texas Legislature reduced recapture in 2019 with HB 3

COMMON MISPERCEPTIONS



Sort of, but not really.



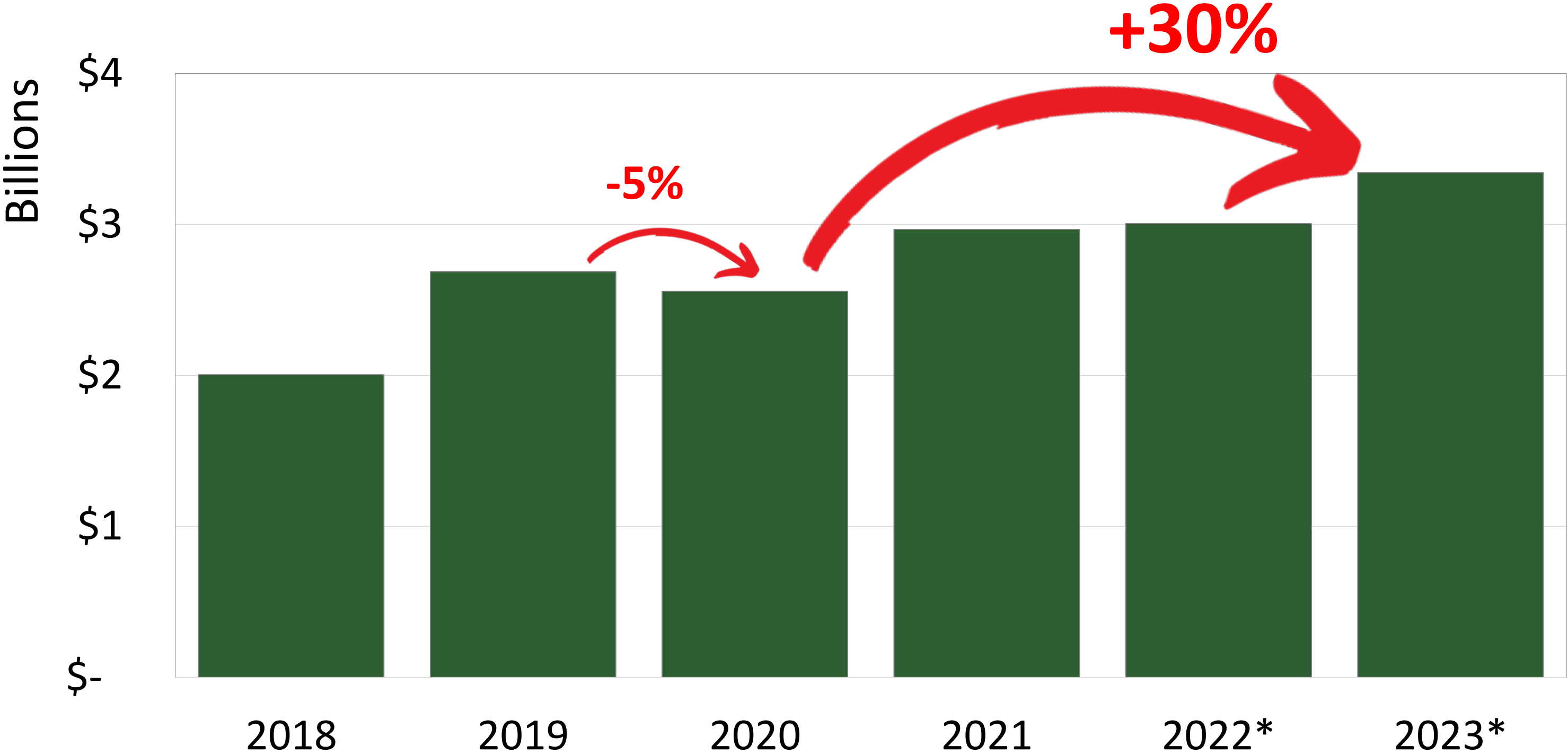
HB 3 reduced recapture compared to what it could have been absent change.



HB 3 provided a slight one-year reduction, but now recapture is back above pre-HB 3 levels.



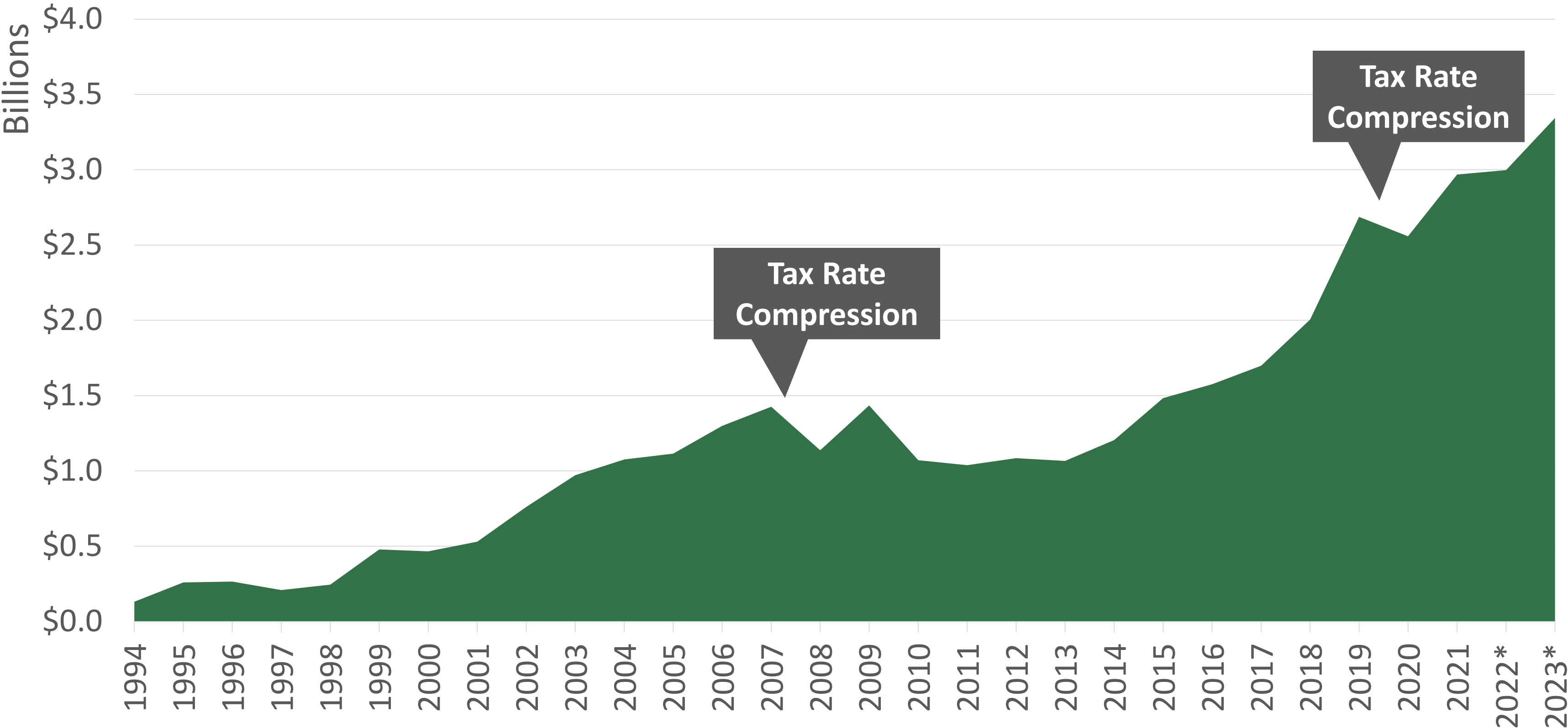
Recapture has grown by 30% since initial HB 3 reduction



Source: TEA Summary of Finance data

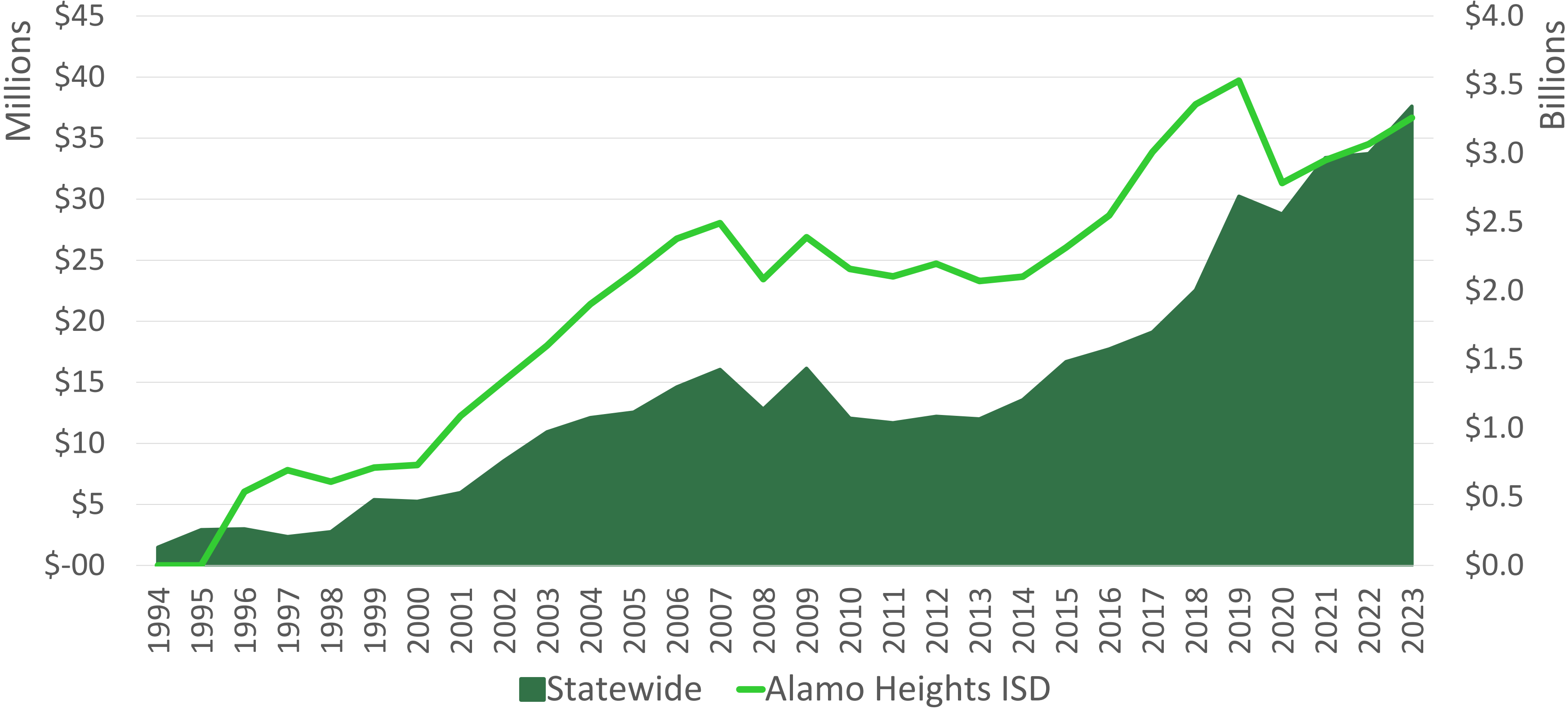
* Near Final numbers used for 2022; Preliminary figures for 2023

Statewide Recapture 1994-2023



Source: TEA Summary of Finance data; *2022 are Near Final and 2023 figures are preliminary data

Alamo Heights ISD compared to Statewide Recapture 1994-2023



Source: TEA Summary of Finance data;
*2022 are Near Final and 2023 figures are preliminary data

How do we fix it?

IF IT WAS EASY, IT WOULD
ALREADY BE DONE.

POSSIBLE
SOLUTIONS





Past Attempts

RECAPTURE REPEAL

2003: removal of "Chapter 41" from law, effective if something else was adopted in its place...it wasn't.

TAX RATE COMPRESSION

2006: 50 cent tax rate compression kept recapture under control...for a while. 2019's HB 3 offered a similar solution with continued incremental compression over time.

TAXPARENCY

2017: attempt to have percent of taxes paid that remain with district vs. percent recaptured. Failed to pass as this isn't info legislators want taxpayers to know.



CHANGES ARE VERY EXPENSIVE

Recapture is a \$3 billion source of revenue that is not easily replaced.

CHALLENGES



IT'S HARD TO MOVE THE NEEDLE

Because property values continue to increase, it is difficult to feel the impact of the reforms.



RECAPTURE DISTRICTS ARE IN THE MINORITY

Legislators represent fewer districts that pay recapture than those that do.





Possible Solutions

COST OF EDUCATION ADJUSTMENT

The cost of education is greater along the coast, yet formulas don't account for that when calculating entitlement.

STOP THE SHELL GAME

Ensure that money paid in recapture benefits schools, rather than just generating a state savings.

INCREASE TRANSPARENCY FOR TAXPAYERS

At the very least, ensure taxpayers know where their dollars are going.



Possible Solutions

INCREASE THE BASIC ALLOTMENT

Inflation has increased by 12% since HB 3 passed in 2019, and the formulas have not kept pace. Every \$100 increase in the BA reduces recapture by \$100 million statewide.

FUND ENROLLMENT VS. ATTENDANCE

Enrollment represents the true cost to operate schools, not attendance. Texas is one of very few states to fund schools based on seat time.

EARLY PAYMENT DISCOUNT

Corporate taxpayers receive a discount when sales tax payments are early, but schools paying recapture do not. HB 3 repealed the discount from law in 2019.

What to expect from the 88th Texas Legislature



LEADERSHIP



GOVERNOR GREG ABBOTT

Governor Abbott emerged from the most tumultuous two years in state history with a double-digit victory over his opponent. Will that affect how he governs?



LT. GOVERNOR DAN PATRICK

It's Dan Patrick's Senate, and he makes the rules. He had 31 goals in 2021, and he accomplished 26. What will his priorities be in 2023?



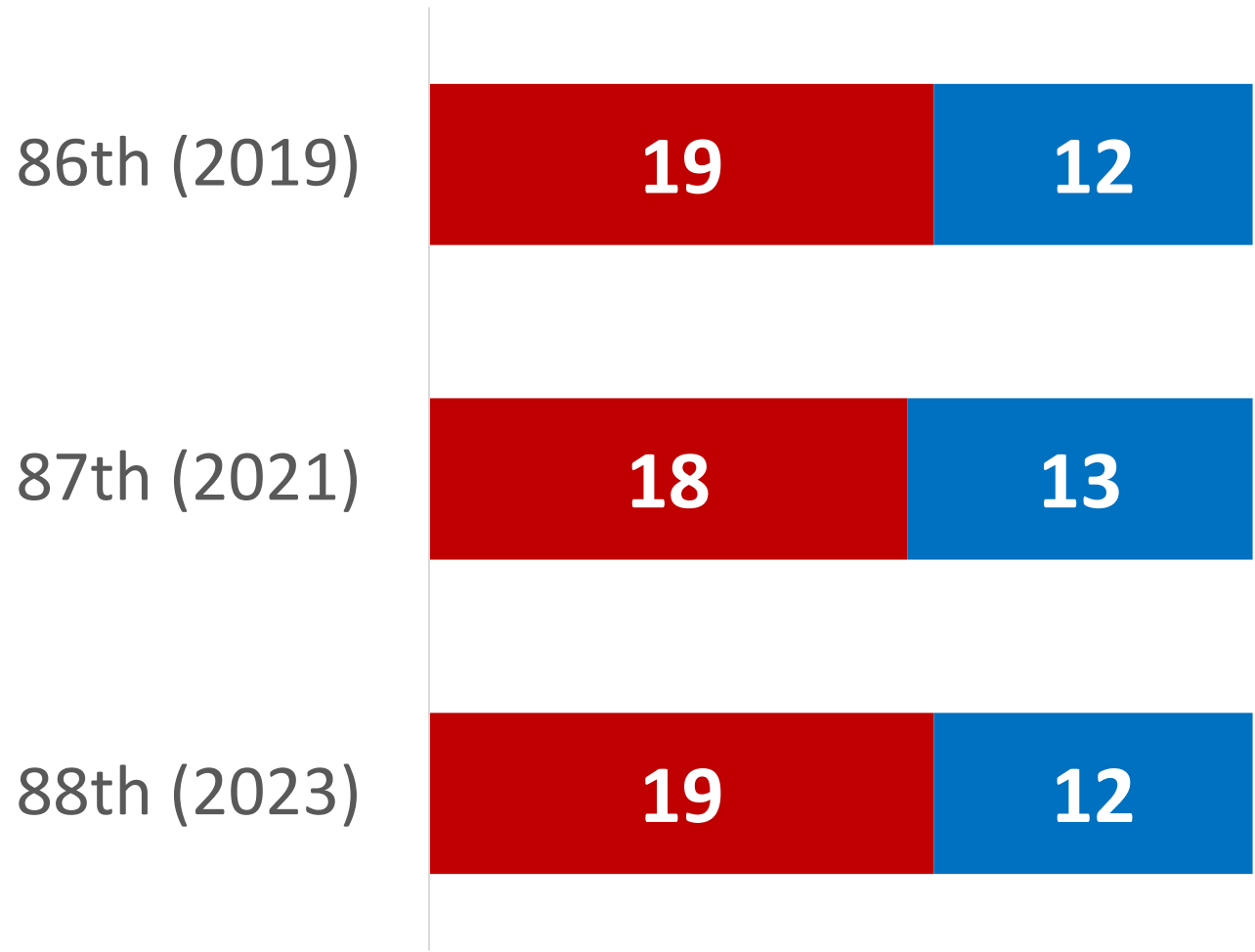
SPEAKER DADE PHELAN

Phelan is on track to be re-elected Speaker of the House in January. Will he lead the House the same way in his second term as Speaker?

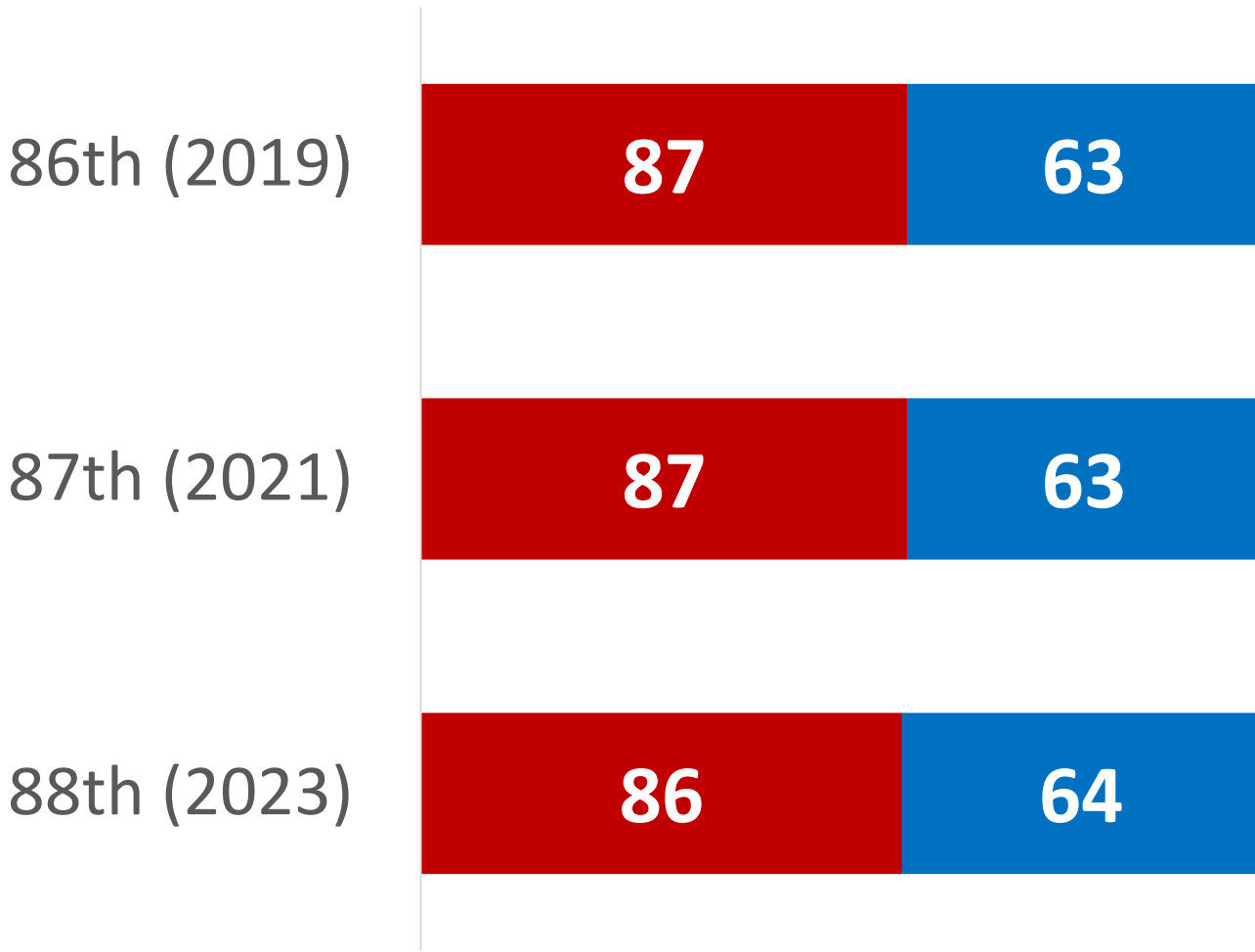


BALANCE OF POWER

Texas Senate



Texas House



ON PRIVATE SCHOOL VOUCHERS



Governor Greg Abbott

May 2022

“Empowering parents means giving them the choice to send their children to any public school, charter school or private school with state funding following the student.”



Speaker Dade Phelan

May 2022

“The delta’s pretty large on school choice, on getting it across the finish line.”

SCHOOL SAFETY

The School Safety Allotment became law in 2019 (SB 11).
It delivers **\$9.72 per ADA**.



Santa Fe ISD received a total of **\$38,463** from the School Safety Allotment in SY 2021-22.

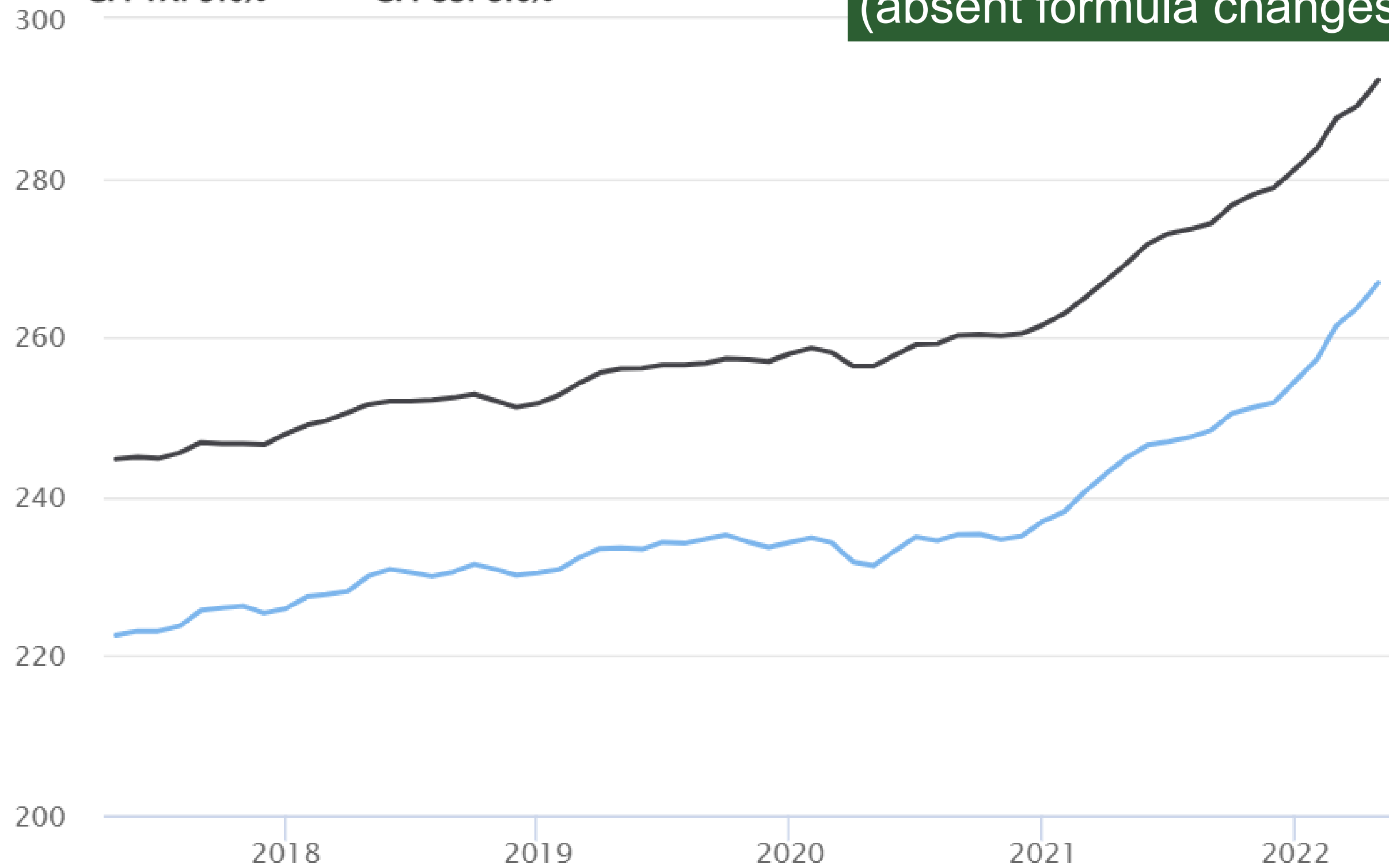


Uvalde ISD received a total of **\$34,625** from the School Safety Allotment in SY 2021-22.

Inflation

Legend/Change from previous year:

— CPI TX: 9.0% — CPI US: 8.6%

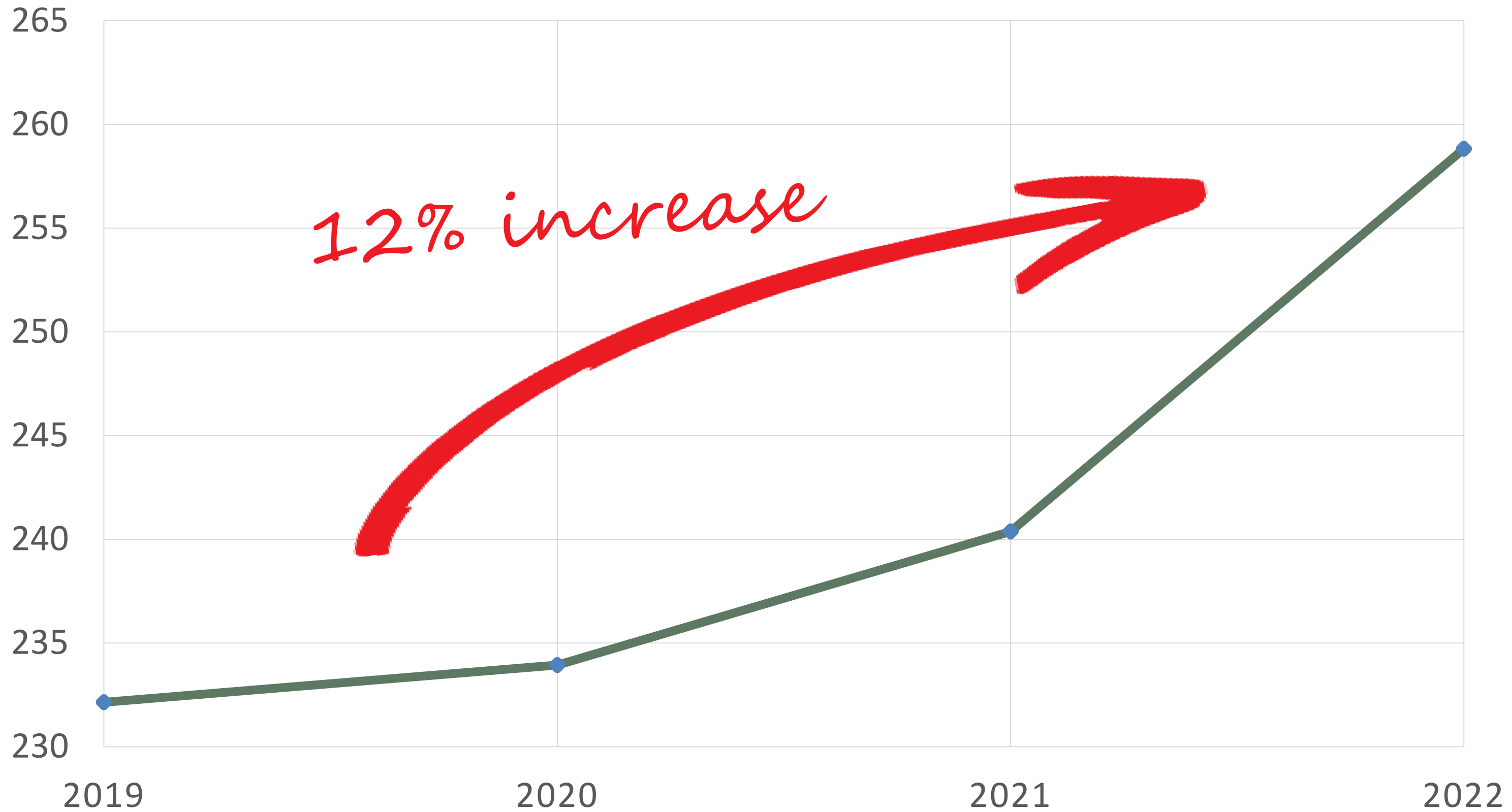


Increased cost due to general inflation is borne by the district (absent formula changes).

*Excluding food and energy

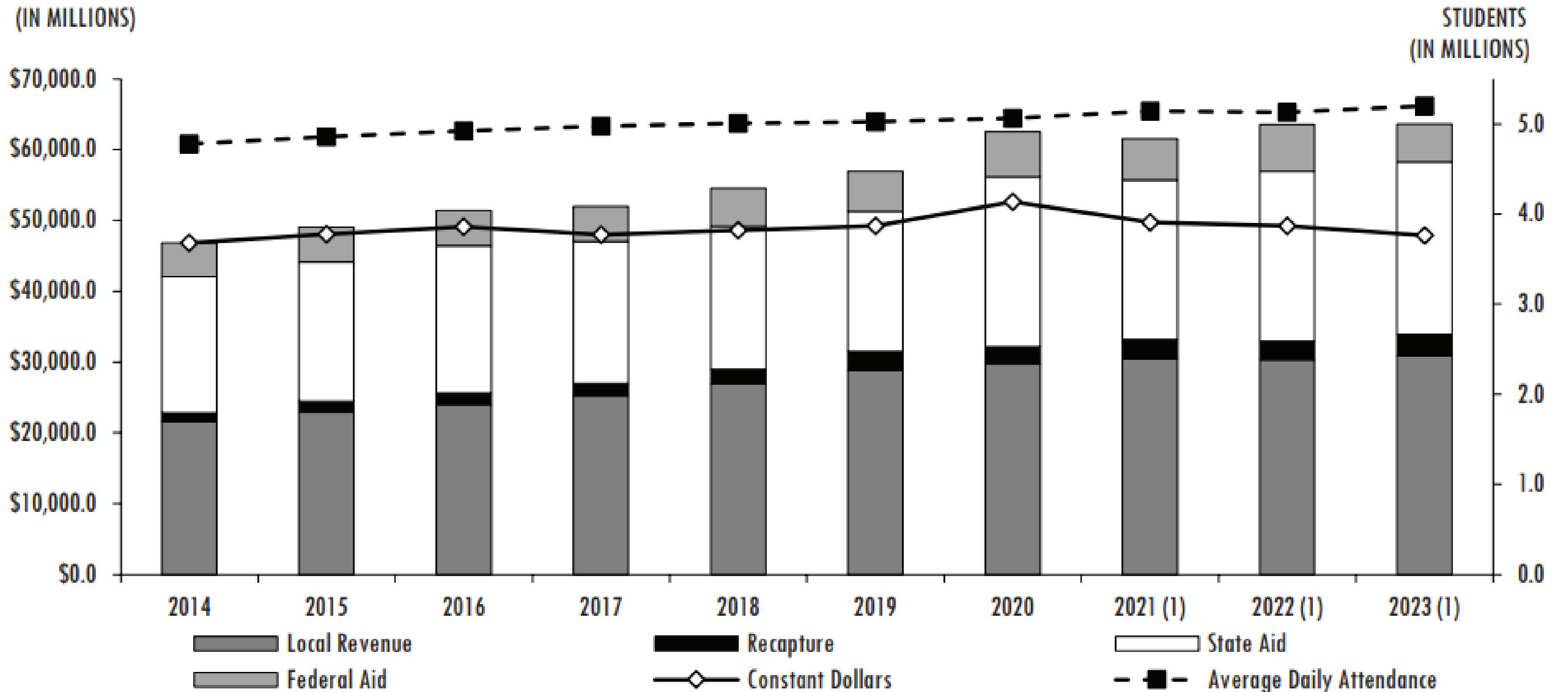
Source: US Bureau of Labor Statistics and [Texas Comptroller of Public Accounts](#)

AVERAGE CONSUMER PRICE INDEX FOR TEXAS

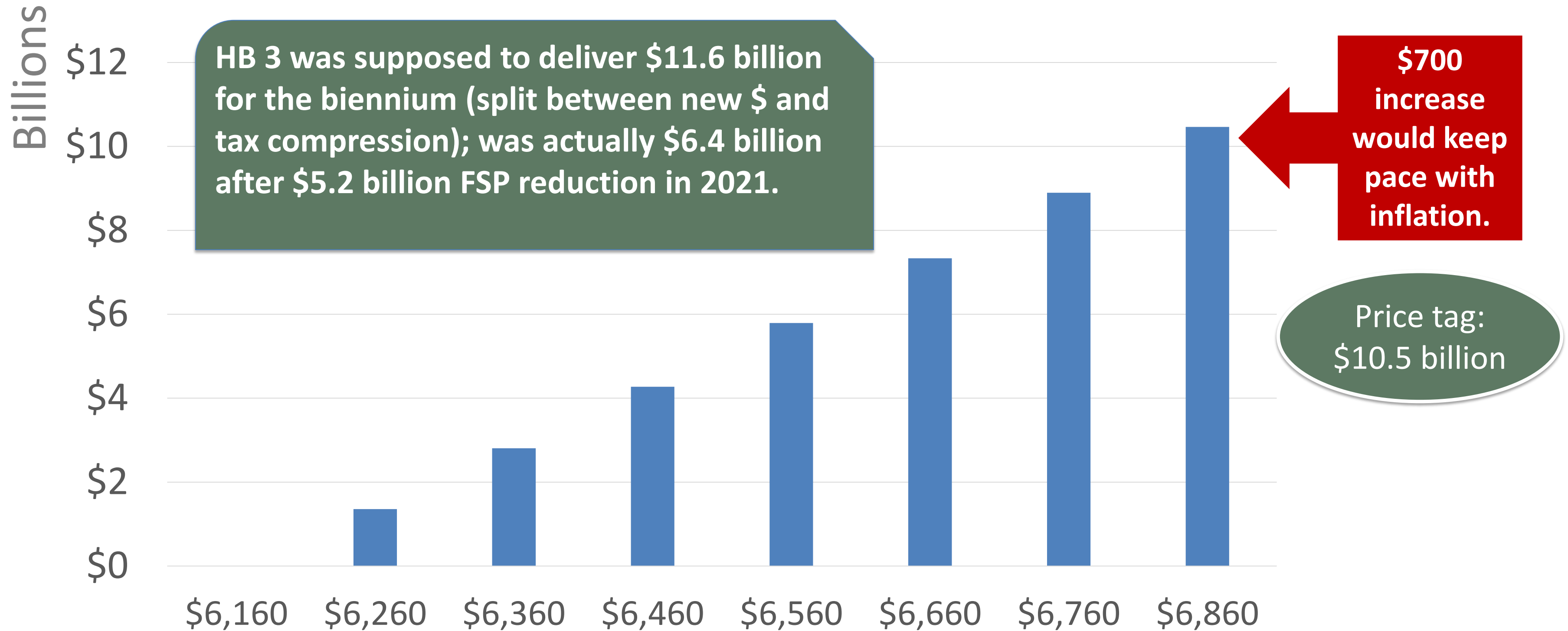


CPI data through July 2022 retrieved from Data.Texas.Gov

FIGURE 154
PREKINDERGARTEN TO GRADE 12 TEXAS EDUCATION AGENCY FUNDING IN ACTUAL AND CONSTANT DOLLARS
FISCAL YEARS 2014 TO 2023



Biennial Cost to Increase Basic Allotment



Sur•plus /'s rpl s/

noun an amount of something left over when requirements have been met; an excess of production or supply over demand

adjective more than what is needed or used; excess

Comptroller projected \$27 billion surplus over the summer

Likely more by January...

Surplus a result of:

- Supplanted federal funds
- Reduced spending in 22-23 biennium
- State revenue that far exceeds expectations



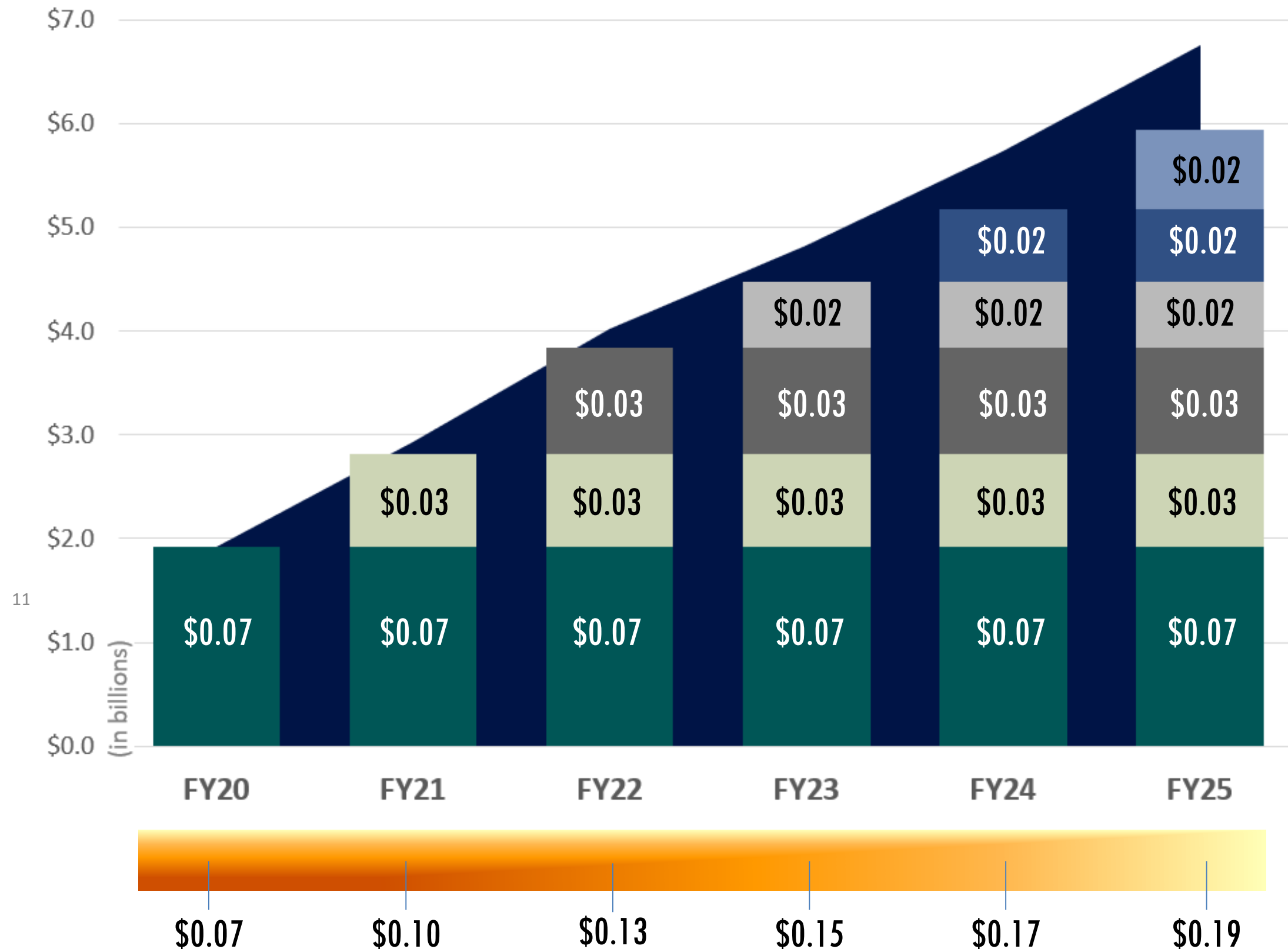
How might they spend a \$27 billion surplus?

Hypothetical Spending	Biennial Cost
Additional Cost of Current Law Tax Compression	\$4 billion
Cost of additional 15 cents of compression	\$9 billion
Increase Basic Allotment by \$700	\$10.5 billion
TOTAL	\$23.5 billion



Other priorities remain: TRS, School Safety, Special Education, School Facilities, etc. Plus Highways, The Grid, Health & Human Services (mental health, foster care, etc.)

Cost of Tax Rate Compression



Year	Pennies Compressed	Cost (in billions)
2019-20	\$0.07	\$1.92
2020-21	\$0.03	\$0.90
2021-22	\$0.03	\$1.06

The columns show the original cost of each round of compression at the time it occurs.

The area behind the columns shows the cumulative cost of compression. Cumulative cost is higher because of growth in the tax base over time. The cumulative number of pennies "purchased" through compression is shown below the graph.

What to Expect in the 88th

FUNDING

- State expected to enter 88th with large budget surplus
- Schools viewed as “flush with cash” from ESSER
- Will fund balances be challenged again?
- Funding increases for school employees needed now more than ever



What to Expect in the 88th

- Despite some turnover, don't expect much to change
- Lack of trust for local control
- Emphasis on parental empowerment
- Focus on more property tax relief
- Increased funding for schools likely be tied to other reforms



Questions?



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