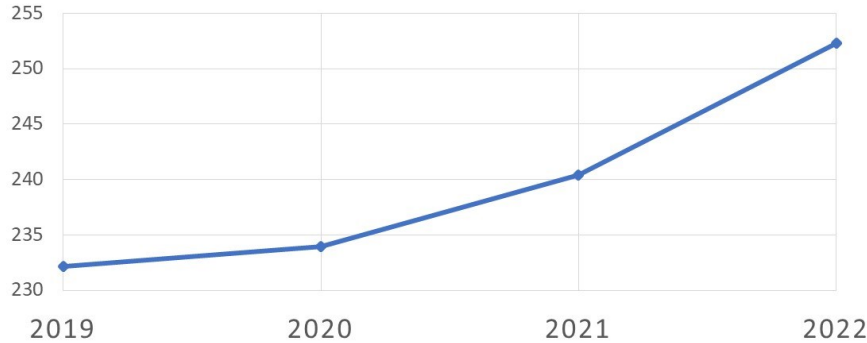


Testimony for the House Public Education Committee
Kyle Lynch, Superintendent, Seminole ISD
May 24, 2022



AVERAGE CONSUMER PRICE INDEX FOR TEXAS



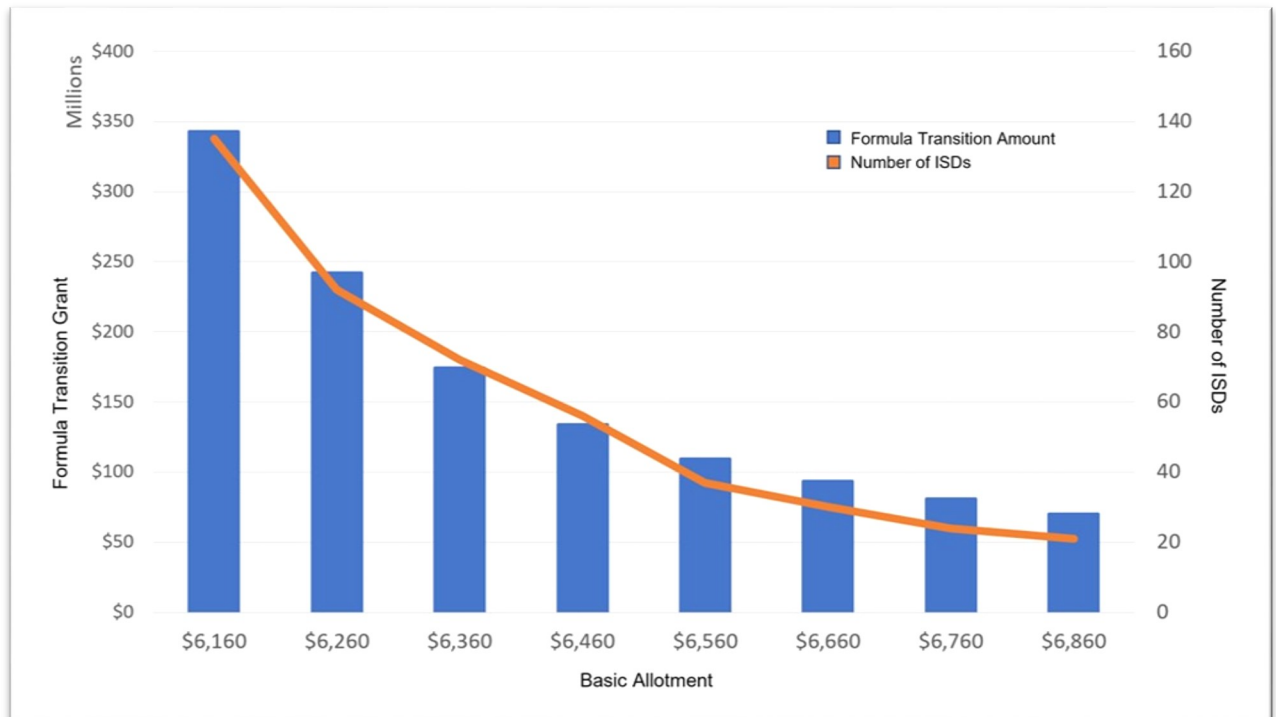
Inflation has far surpassed 3% gain since 2019

HB 3 guaranteed a minimum 3% gain for almost all school districts, but since then, inflation has increased by 9%, increasing the cost of operating a school district. School finance formulas have remained primarily stagnant during that time, as there are no automatic adjustments or increases tied to inflation or rising property values. The Basic Allotment would need to increase by \$600 just to keep up with inflation.

Formula Transition Grant causes districts to face fiscal cliff

The Formula Transition Grant (FTG) intended to ensure most districts received a minimum 3% increase from HB 3 will expire in fall 2024. Without legislative changes, 125-150 districts are headed towards a fiscal cliff when FTGs expire. Seminole ISD stands to lose \$1,310 per student while the costly requirements to retain staff and serve students well—including the requirements, from HB 4545—remain. A Basic Allotment increase would eliminate the cliff for most districts, while mitigating it for others.

Formula Transition Grant Total per \$100 Increase in Basic Allotment



Recapture has grown by 22% since the initial reduction caused by HB 3

The property tax relief offered in HB 3 helped to quell the growth of recapture a little, with an initial decline in both the number of districts paying recapture as well as the amount of recapture paid by those districts. Since that initial decline, recapture has begun to climb again—by 21.8% since the reduced amount caused by HB 3. Recapture exceeded an annual total of \$3 billion for the first time ever this school year.

Every \$100 increase to the Basic Allotment equates to a roughly \$100 million annual reduction in recapture. That reduction could be accompanied by an early payment discount (similar to what is offered to corporate taxpayers who submit early sales tax payments) to further limit recapture's steady growth.

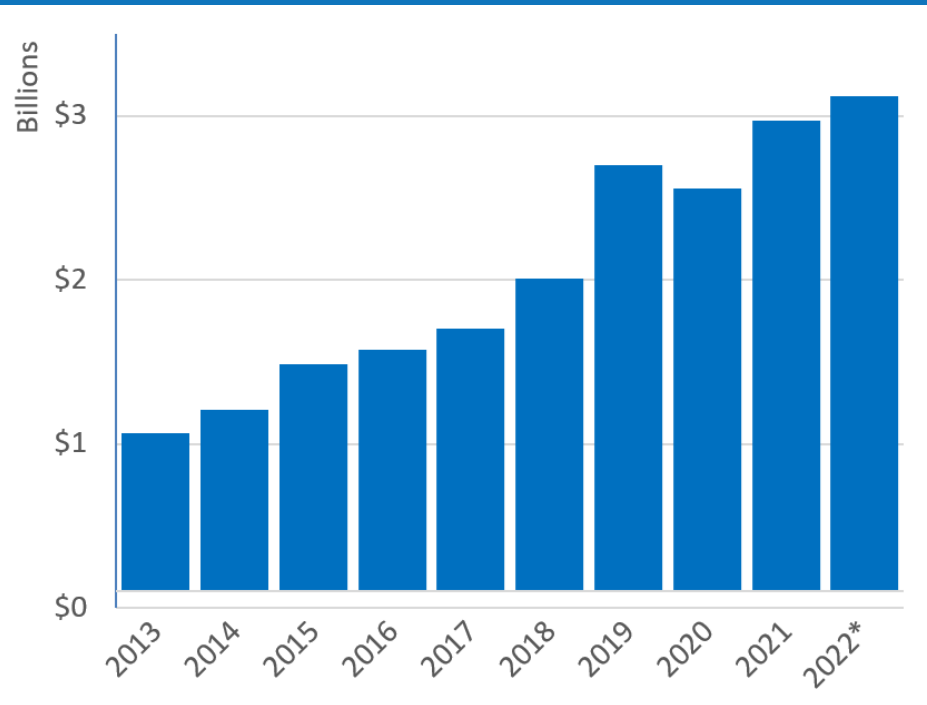
Why does recapture continue to grow?

The amount to which school districts are entitled is determined by the school finance formulas in state law. Recapture is any local property tax revenue in excess of that entitlement. If property values grow at a faster pace than school district entitlements, then recapture continues to grow. In the years since the passage of HB 3, we've primarily seen rising property values and stagnant school funding, causing a 21.8% growth in recapture.

The property tax compression in HB 3 helped to limit the growth of recapture by reducing the amount of taxes collected by school districts. However, the equity floor (limiting how low a tax rate may be compressed) has put many districts with the highest value growth in the position of value growth out-pacing tax compression, meaning taxpayers are paying more but their local school district is not receiving any additional dollars.

For more information, go to recapturetexas.org.

Statewide Total Recapture 2013-2022



* 2022 values are preliminary, based on TEA Summary of Finance data as of May 23, 2022.

How to fix it

- Increase the Basic Allotment to help schools keep up with inflation.
- Provide recapture districts with the option of an early payment discount.
- Establish a safety net for districts facing Formula Transition Grant fiscal cliff.