Texas Commission on Public School Finance
Revenues Workgroup Recommendations
November 27, 2018

Revenue Workgroup Members

Sen. Paul Bettencourt
Houston

Justice Scott Brister
Georgetown

Nicole Conley-Johnson
Austin

Rep. Ken King
Canadian

Elvira Reyna
Denton County

RECOMMENDATIONS

Use Increase in General Revenue

- **Background:**
  - Since January 2017, the Comptroller has increased the revenue estimate from $104.9 billion to $110.2 billion in July 2018, a $5.3 billion increase
  - Sales tax revenue represents 58% of all state tax collections
  - During the first two months of FY 2019, sales tax revenues are over 10% higher compared to first two months of FY 2018

- **Rationale:**
  - Current trends indicate an increase of General Revenue available for budgeting for the next biennium
  - Historically state general revenue has grown an average of 10% every biennium since 2004-05
  - Comptroller will provide Legislature with the Biennial Revenue Estimate (BRE) in January 2019

- **Biennial Revenue Increase: TBD**

Sales Tax Collection Comparison

	2016-17	2017-18	% Change
Septemeber	$ 2,128,221,000	$ 2,356,666,000	10.41%
October	$ 2,290,300,000	$ 2,458,543,000	6.94%
November	$ 2,499,590,000	$ 2,784,661,000	11.12%
December	$ 2,437,750,000	$ 2,745,041,000	12.30%
January	$ 2,439,299,000	$ 2,672,488,000	9.06%
February	$ 2,397,932,000	$ 2,612,239,000	8.56%
March	$ 2,229,512,000	$ 2,400,001,000	7.19%
April	$ 2,427,420,000	$ 2,766,470,000	13.45%
May	$ 2,494,191,000	$ 2,758,373,000	10.18%
June	$ 2,426,348,000	$ 2,769,213,000	13.74%
July	$ 2,553,076,000	$ 2,741,744,000	6.93%
August	$ 2,473,082,000	$ 2,871,796,000	15.81%
Total	$ 28,796,721,000	$ 31,937,235,000	10.51%

	2017-18	2018-19	% Change
Septemeber	$ 2,356,666,000	$ 2,706,622,000	14.85%
October	$ 2,458,543,000	$ 2,637,335,000	7.27%
November	$ 2,784,661,000		
December	$ 2,745,041,000		
January	$ 2,672,488,000		
February	$ 2,612,239,000		
March	$ 2,400,001,000		
April	$ 2,766,470,000		
May	$ 2,758,373,000		
June	$ 2,769,213,000		
July	$ 2,741,744,000		
August	$ 2,871,796,000		
Total	$ 31,937,235,000	$ 5,343,957,000	10.98%

# Governor's Comprehensive School Finance Reform

- **Background:**
  - The state only pays the amount that a school district does not collect through local property taxes.
  - As property values rise – and property tax revenues rise – more local revenues mean a reduced need for state funding.
  - Fixed M&O tax rates ensure the state share will always decline as property values rise.

- **Rationale:**
  - Utilizing a 2.5% M&O Tax Compression To:
    - Prevent the imminent collapse in the state's share of public education funding
    - Reduce recapture's projected growth, keeping tax dollars local
    - Slow the growth of skyrocketing tax bills

# Without Tax Reform, the State Share Will Fall to 32% by 2023

- Current law projections have the state share of public education M&O funding falling to 32% in 2023
- Recapture will double its share of public education funding
- Local property taxes (including recapture) will finance 68% of education in 2023

Current Law State Share Projections (2018-2023)

Legend: 2018 2019 2020 2021 2022 2023

Categories: State Share, Recapture Share, Local Share
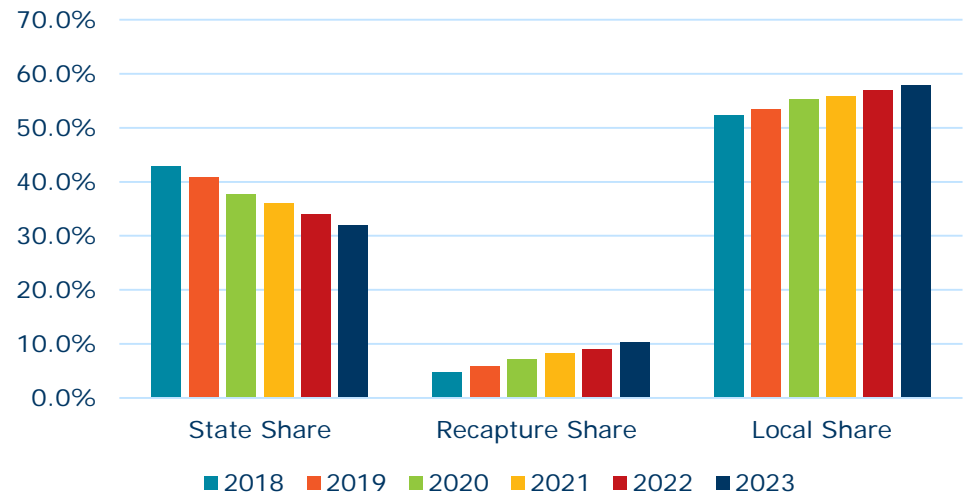
# Without Tax Reform, Recapture Will Also Skyrocket

- As property values have increased, more districts have entered recapture and those districts in recapture have seen their payments continue to increase.

- Without reform, the total amount of recapture and the size of district recapture payments will continue to grow rapidly.
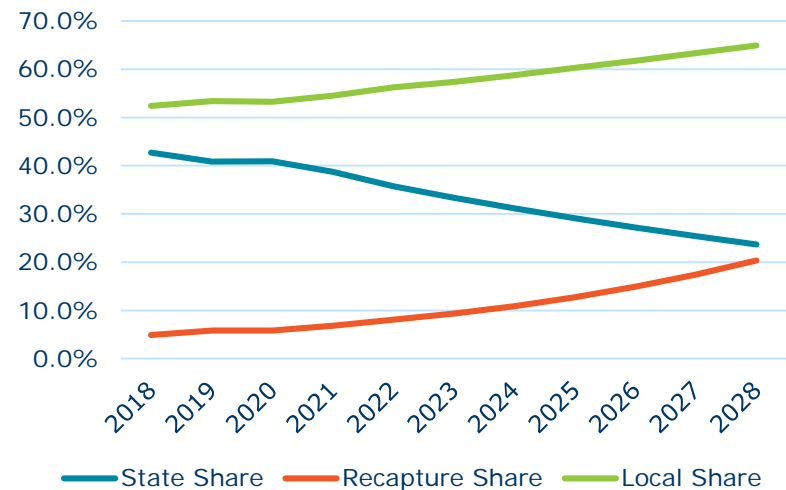
Recapture Actuals (1994-2018) and Projections (2019-2023)

$5,028,495,423

$2,092,219,983

$1,075,602,976
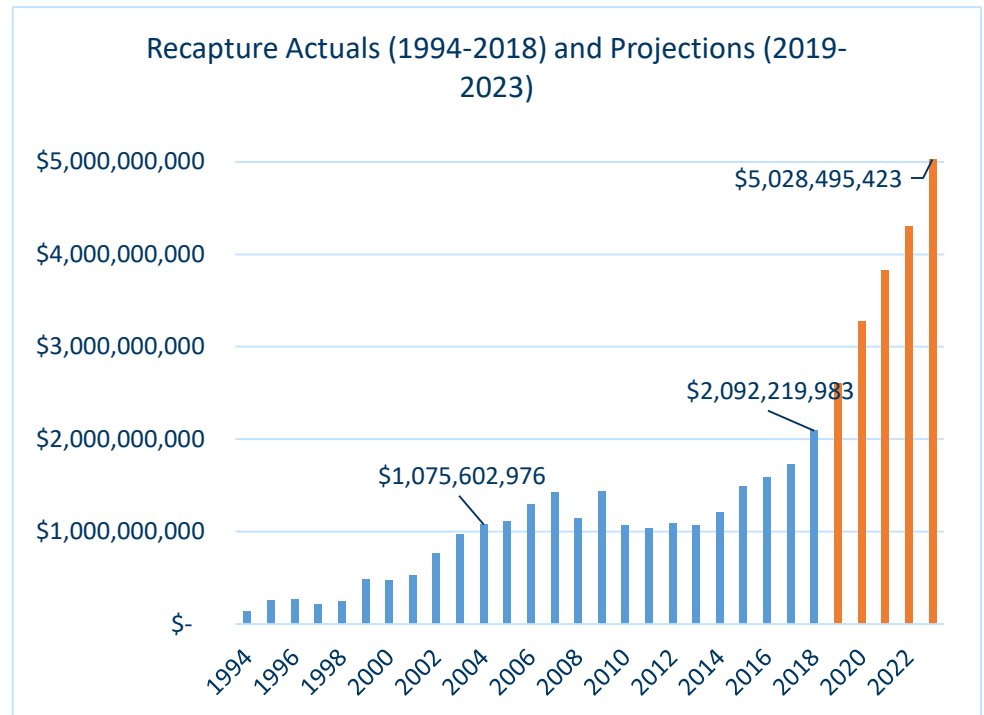
Increasing State Funding, Without Addressing Local Property Taxes or Recapture, Will Not Resolve Current Trends

State/Local Share Under Current Formula Trends
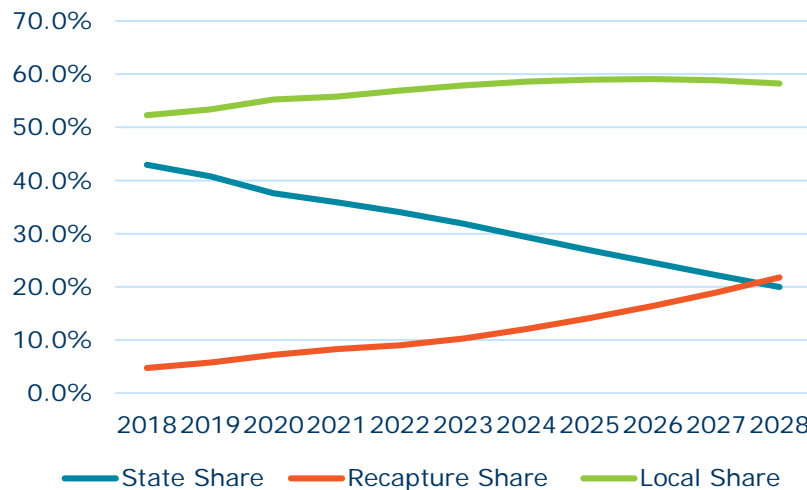
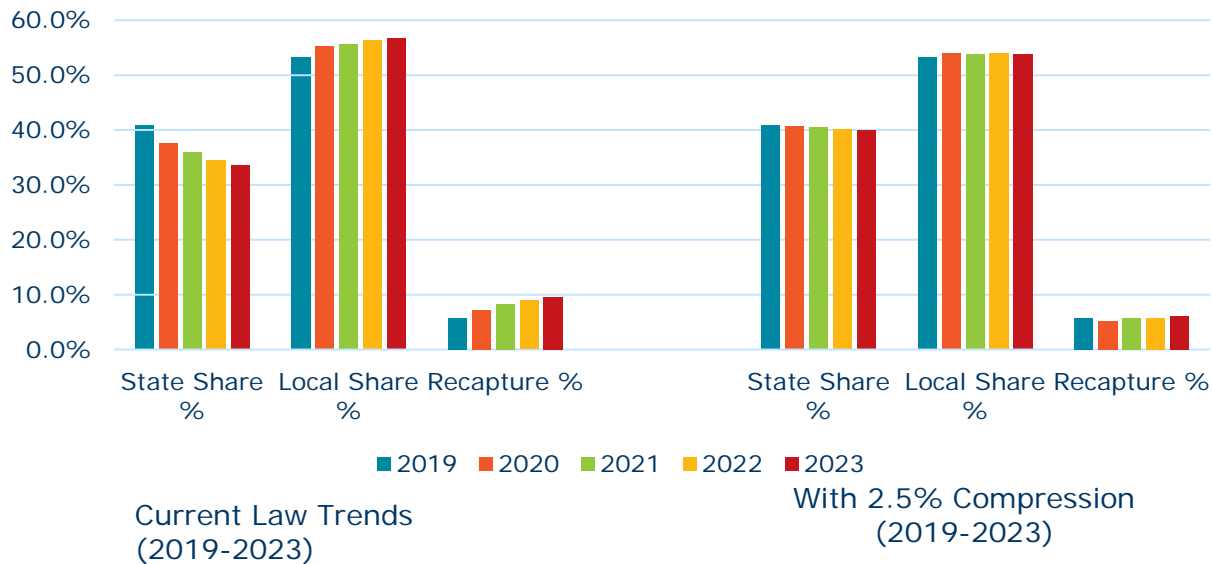### State/Local Share with $2.5 Billion Increase In Annual State Spending

Note: Any projections this far into the future are speculative. These projections show general trends, not certainty for the future.

Limiting Property Tax Growth Balances the State Share and Slows Recapture Growth

Impact of 2.5% Tier 1 M&O Compression on the State Share of M&O Funding

Legend: 2019, 2020, 2021, 2022, 2023

Current Law Trends (2019-2023)

With 2.5% Compression (2019-2023)

With 2.5% M&O tax compression:

- The state share of public education funding stabilizes going forward
- Growth in property tax bills slows
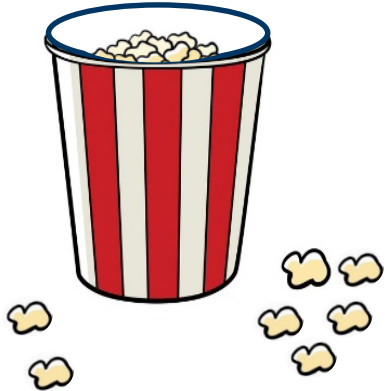- Future recapture growth slows

Instead of this...

Non-recapture District

Some Recapture Districts

The system should treat all districts the same

All Districts
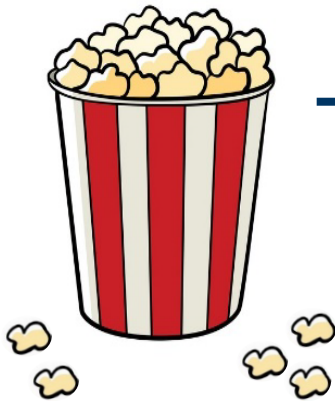
Merging Recapture Reform with Outcomes Reform

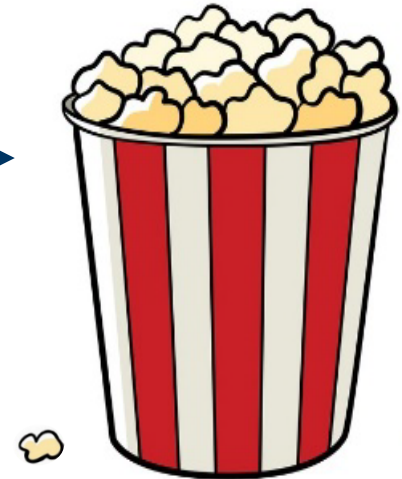The state will fully fund all districts' entitlements.

As a district increases teacher pay and improves its outcomes, the state owes the district more money.

As a district's bucket get bigger, the district owes less money in recapture.

Better teacher pay   **Better outcomes**

Recapture from the Taxpayer's Perspective

- ## Background:
  - Public school finance is a shared responsibility of the state and local school districts.
  - Any period in which property values rise at a rate greater than enrollment growth, the local share (and property taxes) will increase, while the state share will decrease.

- ## Rationale:
  - Changes in values should be used to adjust the compression percentage so that as values per student rise, the compression percentage declines by a corresponding amount.
  - Use some or all revenue from recapture to reduce the compression percentage, providing relief against rising property tax bills to all property owners by reducing tax rates uniformly statewide.
  - A rider should be included in the appropriations bill that clearly shows the sources of revenue to the Foundation School Fund separately for both maintenance and operations and facilities/debt service.

Recapture from the Taxpayer's Perspective

Shifting Responsibilities in Funding:
Foundation School Program Maintenance and Operations Revenues

	2018-19	2020-21	Change
Local Property Tax (includes amounts recaptured shown below)	$52.8 bl	$60.2 bl	$7.4 bl
State General Revenue Funding	$37.0 bl	$33.5 bl	($3.5 bl)
Total School M&O Funding	**$89.8 bl**	**$93.7 bl**	**$3.9 bl**

Item of Information:
Recaptured Property Tax   *$4.6 bl*   *$6.9 bl*   *$2.3 bl*

Note: State General Revenue funding for maintenance and operations is from the 2020-21 Budget Request from the Texas Education Agency. Property tax amounts are estimated based on the value growth assumptions stated in the agency's budget request. Tax rates are assumed to be constant. The total shown is not as would be calculated by the Foundation School Program formulas, as the FSP use prior, not current, year's property values. Recapture amounts are as estimated by the agency.

Recapture from the Taxpayer's Perspective

Foundation School Funding in the State Budget
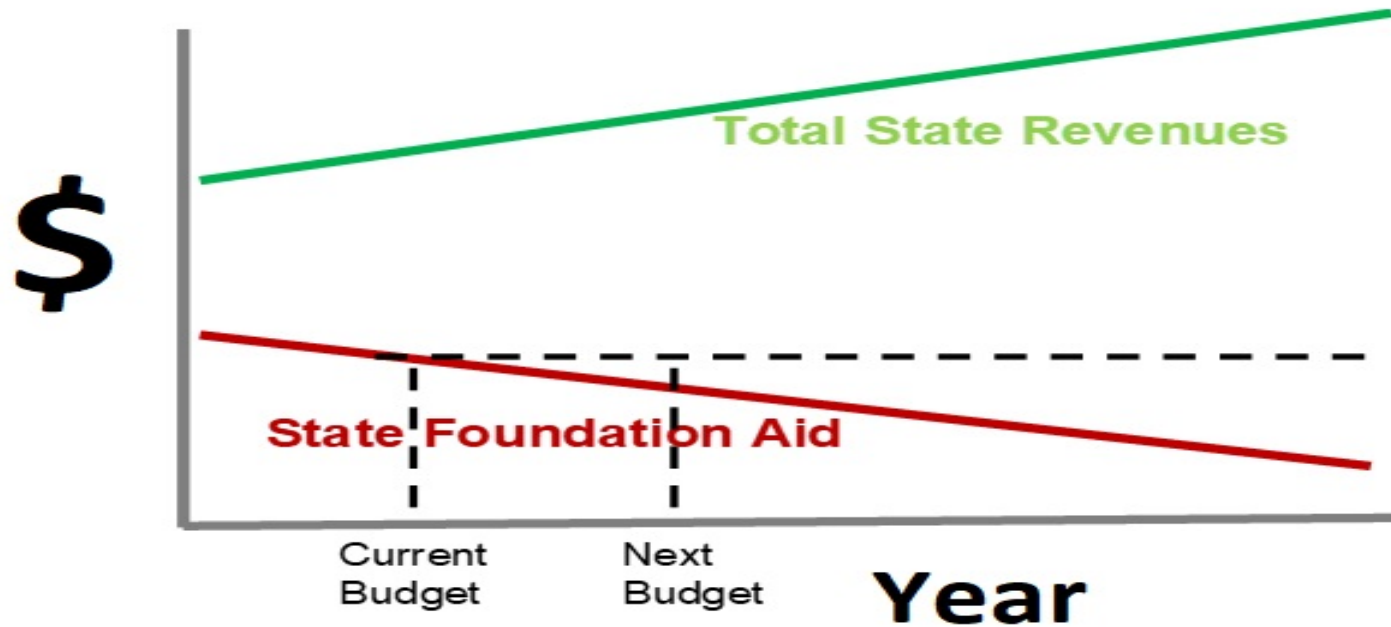
Eliminating School M&O Property Tax

- **Background:**
  - School district M&O property tax collects about $25 billion in 2018 or $51.3 billion in 2018-19, making up nearly one half of the heavy property tax burden Texans face.
  - Historical state general revenue-related revenue (GRR) growth has averaged 10.08 percent every biennium since 2004-05.

- **Rationale:**
  - Future state spending increases will be limited to 4 percent per biennium. Ninety percent of the surplus between future GRR growth and the spending growth limit will be used to eliminate the school M&O property tax, with the state increasing state education funding each year to gradually replace the M&O portion of each local school district's property tax revenue.
  - School districts will set their tax rate each year to reduce property tax revenue by the amount of the state's replacement funding.
  - If the historical rate of GRR growth holds, Texas should be able to eliminate the property tax in 11 years. If GRR growth is lower, then it will take longer.

Eliminating School M&O Property Tax

11-Year School M&O Property Tax Replacement Scenario – in thousands of dollars

	2020-21	2022-23	2024-25	2026-27	2028-29	2030-31
GRR Revenue (10.08% increase)	118,146,662	130,055,845	143,165,475	157,596,555	173,482,287	190,969,302
New GRR Available for State Spending (4% increase)	4,293,120	4,464,844	4,643,438	4,829,176	5,022,343	5,223,236
New GRR Property Tax Replacement Payment	5,872,988	7,287,203	8,348,291	9,476,542	10,724,704	12,109,870
Property Tax Replacement %	11.5%	16.1%	21.9%	31.8%	52.6%	100%
School M&O Property Taxes	45,402,951	38,115,747	29,767,455	20,290,913	9,566,208	0

Share Recapture Plan

- Background:
  - Let everyone benefit from rising property values
  - Property value growth would be divided by thirds

- Rationale:
  - Improving funding, improving equity and reducing recapture
  - Reduce M&O tax rate for homeowners and businesses
  - Do what the state is already doing – plug it in where it's needed within the state budget

Share Recapture Plan

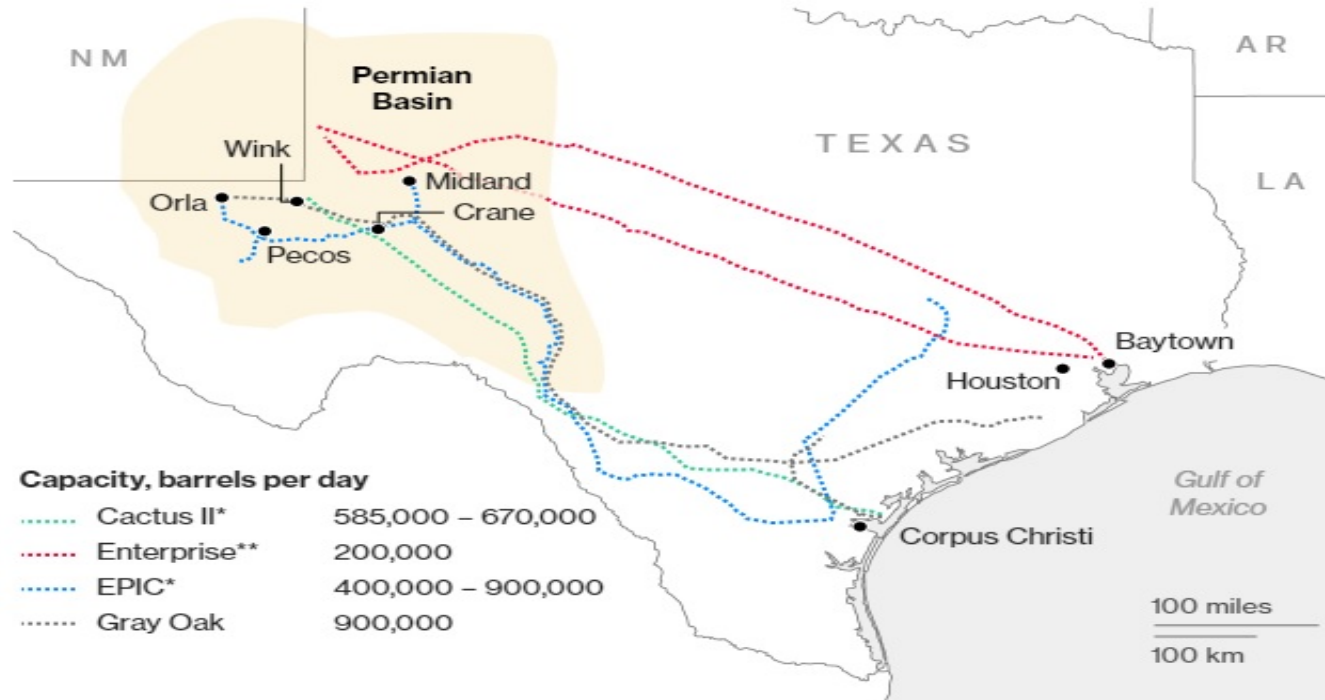| CDN	District	County	ESC	ADA	WADA	Wealth (per WADA)	LOHE %age	CTR	ATR	Current Law		$1B Added to BA 5282		$2B Added to BA 5424, Tax Seek			$2B Added to BA 5424, CTR Seek				$1B Added to BA and CP 5215		$2B Added to BA and CP 5352, Tax Seek		
										Revenue (Current Law)	Revenue per WADA (Current Law)	Revenue	Revenue per WADA	Tax Seek Rate	Revenue	Revenue per WADA	Tax Seek CTR	Tax Seek ATR	Revenue	Revenue per WADA	Revenue	Revenue per WADA	Tax Seek Rate	Revenue	Revenue per WADA
212903	LINDALE ISD	SMITH	7	3,842	4,992	258,252	0	1.0000	1.0800	30,857,586	6,182	31,581,801	6,327	1.052445	31,578,894	6,326	0.9744	1.0544	31,579,918	6,327	31,449,665	6,301	1.0570	31,448,466	6,300
57905	DALLAS ISD	DALLAS	10	142,448	205,621	487,280	10	1.0000	1.0401	1,254,983,341	6,103	1,285,723,993	6,253	1.0256	1,285,555,763	6,252	0.9747	1.0148	1,285,607,806	6,253	1,271,128,406	6,182	1.0261	1,271,057,052	6,182
57911	HIGHLAND PARK ISD	DALLAS	10	6,686	7,585	2,054,397	20	0.9800	1.0400	53,489,065	7,052	54,486,841	7,183	1.0337	54,480,878	7,182	0.9636	1.0236	54,483,184	7,182	54,016,697	7,121	1.0339	54,010,631	7,120
234909	FRUITVALE ISD	VAN ZANDT	7	405	689	72,275	20	1.0000	1.1700	4,136,058	6,007	4,235,100	6,151	1.11804	4,235,344	6,151	0.9734	1.1434	4,234,784	6,151	4,320,748	6,275	1.1372	4,320,761	6,275
34905	LINDEN-KILDARE CISD	CASS	8	637	1,092	193,196	0	1.0000	1.1700	7,279,456	6,668	7,438,889	6,813	1.12846	7,438,509	6,812	0.9747	1.1447	7,438,254	6,812	7,627,701	6,986	1.1432	7,627,512	6,986
15907	SAN ANTONIO ISD	BEXAR	20	44,377	63,928	250,731	0	1.0000	1.1700	416,469,085	6,515	425,968,348	6,663	1.12442	425,960,110	6,663	0.9740	1.1440	425,938,983	6,663	435,966,425	6,820	1.1409	435,973,329	6,820
15901	ALAMO HEIGHTS ISD	BEXAR	20	4,556	5,427	1,193,484	0	1.0000	1.0600	35,092,890	6,467	35,853,635	6,608	1.048452	35,851,899	6,607	0.9748	1.0348	35,859,027	6,607	35,493,642	6,541	1.0489	35,494,290	6,540
31901	BROWNSVILLE ISD	CAMERON	1	41,602	61,290	88,530	0	1.0000	1.1525	397,331,596	6,483	406,636,440	6,634	1.1053	406,624,993	6,634	0.9737	1.1262	406,576,123	6,633	413,739,504	6,750	1.1230	413,711,729	6,750
71902	EL PASO ISD	EL PASO	19	53,152	73,456	214,837	0	1.0000	1.0700	447,329,760	6,090	458,244,881	6,238	1.048	458,239,026	6,238	0.9736	1.0436	458,246,288	6,238	454,524,146	6,188	1.0505	454,506,312	6,188
101912	HOUSTON ISD	HARRIS	4	193,827	268,935	615,742	20	0.9800	1.0400	1,577,635,876	5,866	1,613,943,632	6,001	1.02566	1,613,689,629	6,000	0.9550	1.0150	1,613,929,705	6,001	1,596,891,221	5,937	1.0262	1,596,562,648	5,937
227901	AUSTIN ISD	TRAVIS	13	73,906	97,863	1,016,100	0	1.0000	1.0790	658,067,893	6,724	672,925,746	6,876	1.06522	672,822,871	6,875	0.9746	1.0536	672,937,373	6,876	670,878,363	6,856	1.0624	670,810,553	6,855

Severance Tax Revenue

- **Background:**
  - Permian Basin production continues to expand
  - New pipeline capacity in 2019 of 2 million barrels per day
  - Additional 2 plus million barrels per day pipeline capacity in 2020

- **Rationale:**
  - Use this increase in production severance taxes as a source to fund public education

- **Next Biennium Revenue Range Estimate:**
  - Projected Maximum of $3.2 billion
  - Minimum Targeted Amount of $1.3 to $2.5 billion

Pipelines Under Construction

Oil Pipelines Set to Open in 2019...

Capacity, barrels per day

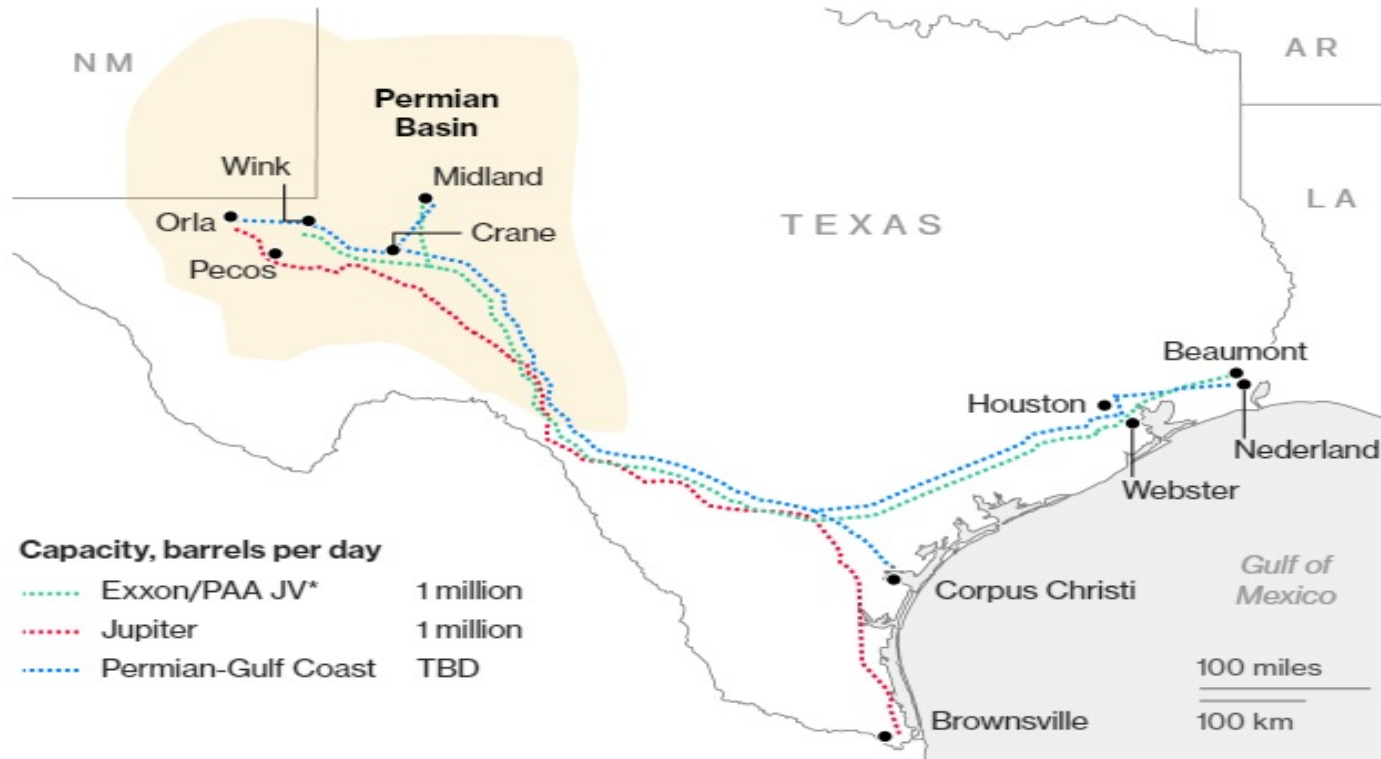|		
Cactus II*	585,000 – 670,000	
Enterprise**	200,000	
EPIC*	400,000 – 900,000	
Gray Oak	900,000	

Source: Pipeline companies
* Early flows to start in 2019, with full service planned for 2020☐. ** Enterprise Products Partners plans to convert one of the NGL pipes in those two routes

Pipelines Under Construction

...And in 2020
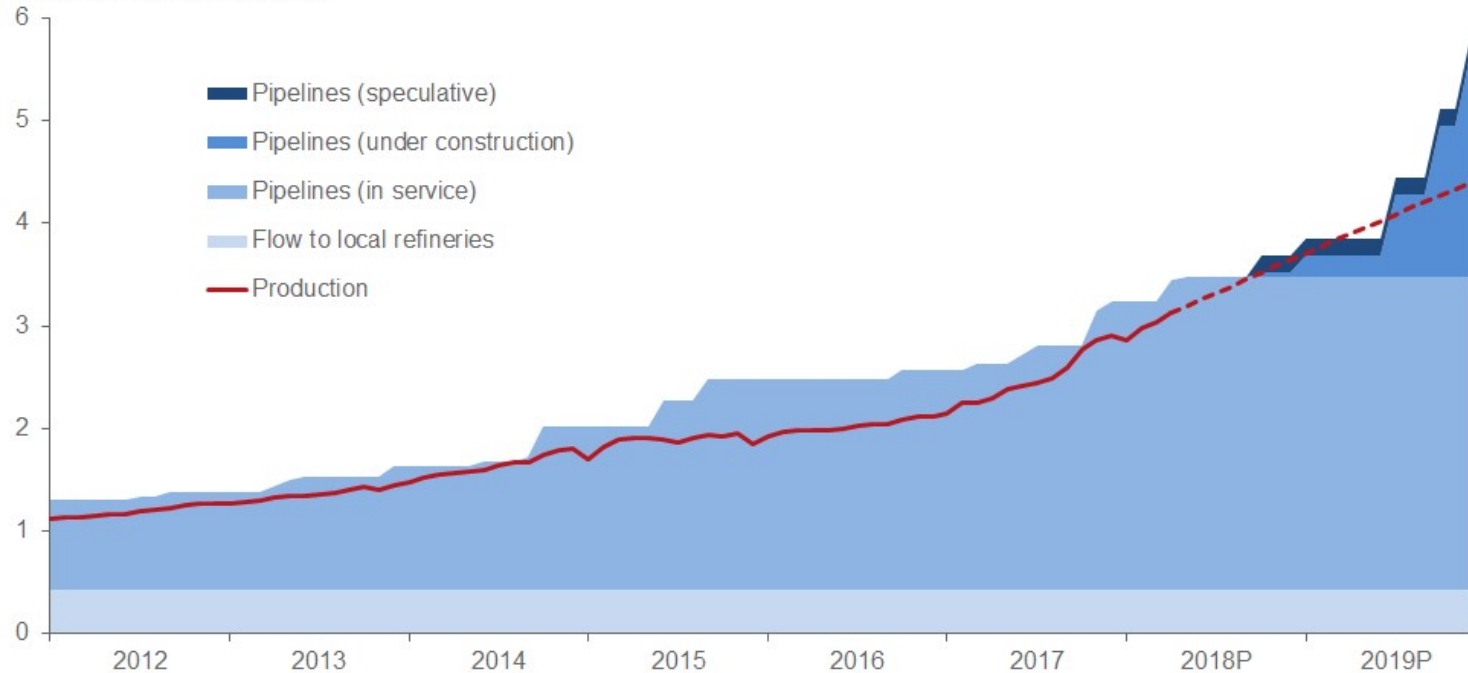
Permian Basin

Capacity, barrels per day
- Exxon/PAA JV* 1 million
- Jupiter 1 million
- Permian-Gulf Coast TBD

Source: Pipeline companies
* Exxon Plains All American joint venture pipeline path is notional. No route has been announced☐

Production and Pipeline

Chart 5
Permian Pipeline Capacity

Million barrels per day (mb/d)

Legend:
- Pipelines (speculative)
- Pipelines (under construction)
- Pipelines (in service)
- Flow to local refineries
- Production

NOTE: Years followed by "P" indicate projections. The dashed line represents the Permian Basin production forecast, assuming production growth of 0.75 mb/d in 2018 and 2019.
SOURCES: Energy Information Administration; company reports; calculations by the Federal Reserve Bank of Dallas.

Historic Total Oil Production

TOTAL OIL PRODUCTION (Barrels; includes Crude Oil and Condensate)

MONTH	2012	2013	2014	2015	2016	2017	2018
JANUARY	53,452,206	70,484,998	88,152,539	106,401,026	103,226,608	98,609,838	115,491,880
FEBRUARY	51,366,837	65,309,988	81,155,116	99,220,903	95,493,230	92,103,359	106,116,278
MARCH	55,770,263	73,947,884	91,776,277	111,719,905	100,765,748	102,039,879	119,694,390
APRIL	56,049,279	72,699,077	91,484,573	106,666,710	96,342,337	98,987,819	114,035,395
MAY	59,207,405	77,352,311	95,153,788	108,442,240	97,805,212	104,717,977	114,932,454
JUNE	58,387,648	76,003,388	94,344,721	103,267,375	93,919,191	101,987,299	112,598,174
JULY	61,859,310	80,089,245	99,689,520	106,392,700	96,928,736	106,018,887	112,230,932
AUGUST	63,590,302	81,141,186	101,326,677	105,355,382	96,840,169	102,994,802	* 100,957,202
SEPTEMBER	62,615,115	80,076,626	98,421,827	101,902,324	93,266,370	104,864,080	
OCTOBER	66,652,786	83,429,373	103,894,262	104,741,791	97,477,565	114,204,314	
NOVEMBER	66,425,018	80,854,985	103,204,453	101,151,135	94,548,072	113,750,810	
DECEMBER	69,098,293	86,267,370	109,622,447	102,599,203	97,774,868	118,117,622	
ANNUAL TOTAL	724,474,462	927,656,431	1,158,226,200	1,257,860,694	1,164,388,106	1,258,396,686	896,056,705

Railroad Commission of Texas

Projected 2019 Daily Production Increase of 1 to 1.5 million BPD