

Recapture: Purchasing Attendance Credits vs. Detachment



Date: February, 2017
2017-2018 Budget Planning
Presenter: Budgeting and Financial Planning

Key Questions

- What is **Recapture**?
- Why are we here?
- Didn't we already vote on this?
- What will the May 6 ballot language say?
- What is the difference between **Purchasing Attendance Credits** and **Detachment**?
- Which one costs more?
- What is the budget impact under each scenario?
- How does the vote impact my taxes?

What is Recapture?

- Recapture (Robin Hood) legislation was passed in 1993 in an attempt to equalize disparities between property-wealthy and property-poor districts.
- Under current law, local property taxes recaptured from property-wealthy districts do not actually increase funding for property-poor districts, but instead replace and free-up State general revenue that may be spent for other purposes.

Why are we here?

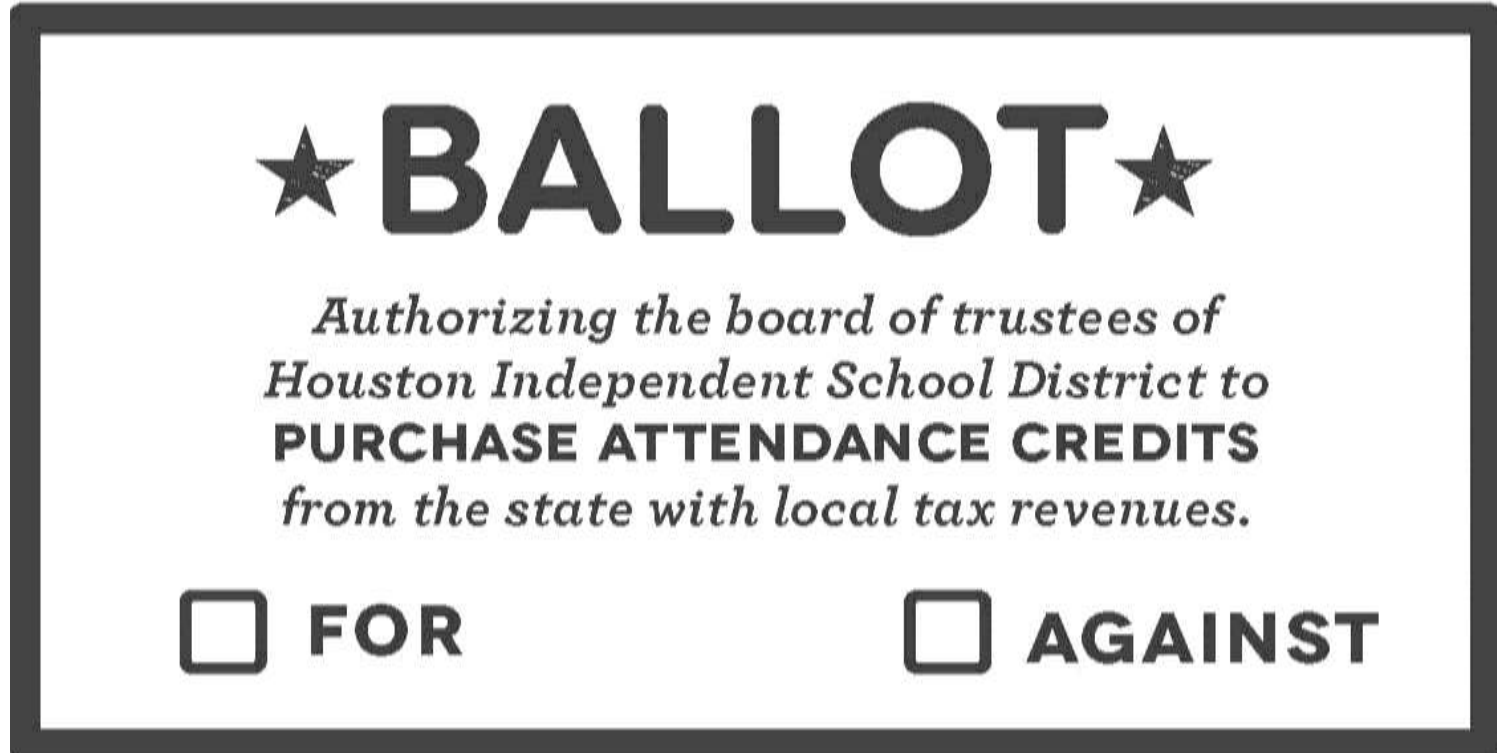
- Although noting that the current funding system satisfied minimum constitutional requirements, the recent Texas Supreme Court decision stated our school funding system was Byzantine and undeniably imperfect.
- HISD property values per student exceed the level set by the Legislature, requiring HISD to equalize its wealth by either Purchasing Attendance Credits or detaching property.
- Under current law, even a school district with almost 80% economically disadvantaged students and over 30% English language learners, is considered wealthy and is therefore subject to Recapture.

Didn't we already vote on this?

- Yes, in November 2016 HISD voters voted AGAINST Proposition 1: on Purchasing Attendance Credits, making HISD subject to Detachment to pay our Recapture obligation.
- Since then circumstances have changed: action by the Texas Education Agency and other factors have reduced HISD's current Recapture obligation from about \$162 million to about \$77 million.
- This action also decreases future Recapture obligations.
- In addition, the vote began a conversation among legislators in Austin about changing the state's school finance system.
- In light of the changes, the Board of Education called a new election for May 6, 2017, to allow voters to reconsider how HISD will satisfy its Recapture obligation based.

What will the May 6 ballot language say?

Ballot language is mandated by state law



- Early voting is April 24 to May 2, 2017
- General election will be held Saturday, May 6, 2017

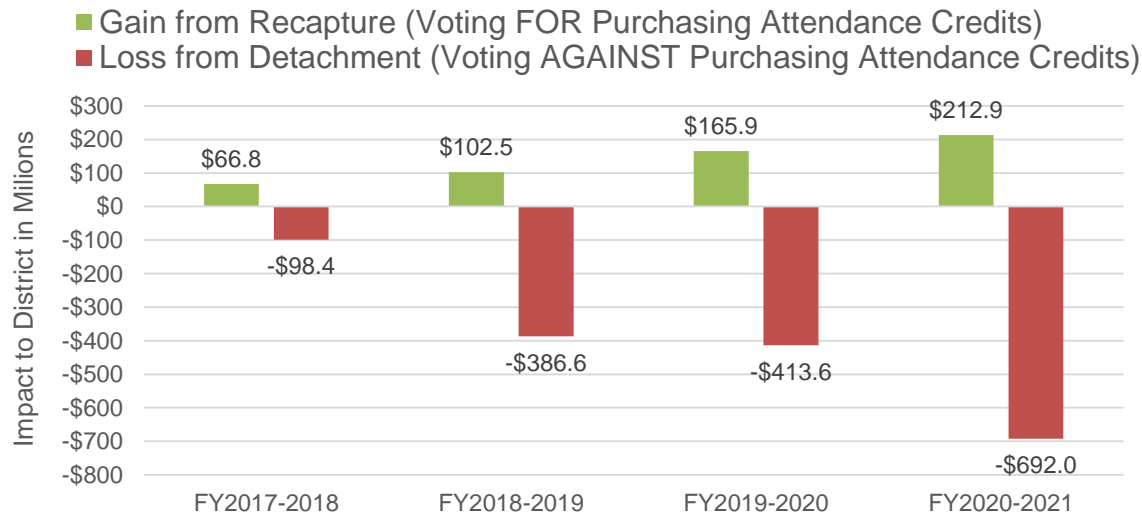
What is the difference between voting FOR or AGAINST Purchasing Attendance Credits?

- **FOR Purchasing Attendance Credits**
 - A vote “FOR” means the District will Purchase Attendance Credits to pay our Recapture obligation.
 - Simply put, HISD will wire funds to the state comprised of local property taxes.
- **AGAINST Purchasing Attendance Credits (Detachment)**
 - A vote “AGAINST” means detaching commercial properties and reassigning to other school districts to pay our Recapture obligation.
 - Simply put, the TEA will take the most valuable buildings on HISD’s tax roll and they will be reassigned to another school district for taxing purposes.

The state gets our local property tax dollars in both scenarios. Both are ways to equalize wealth between districts.

Which option costs more overall? Detachment

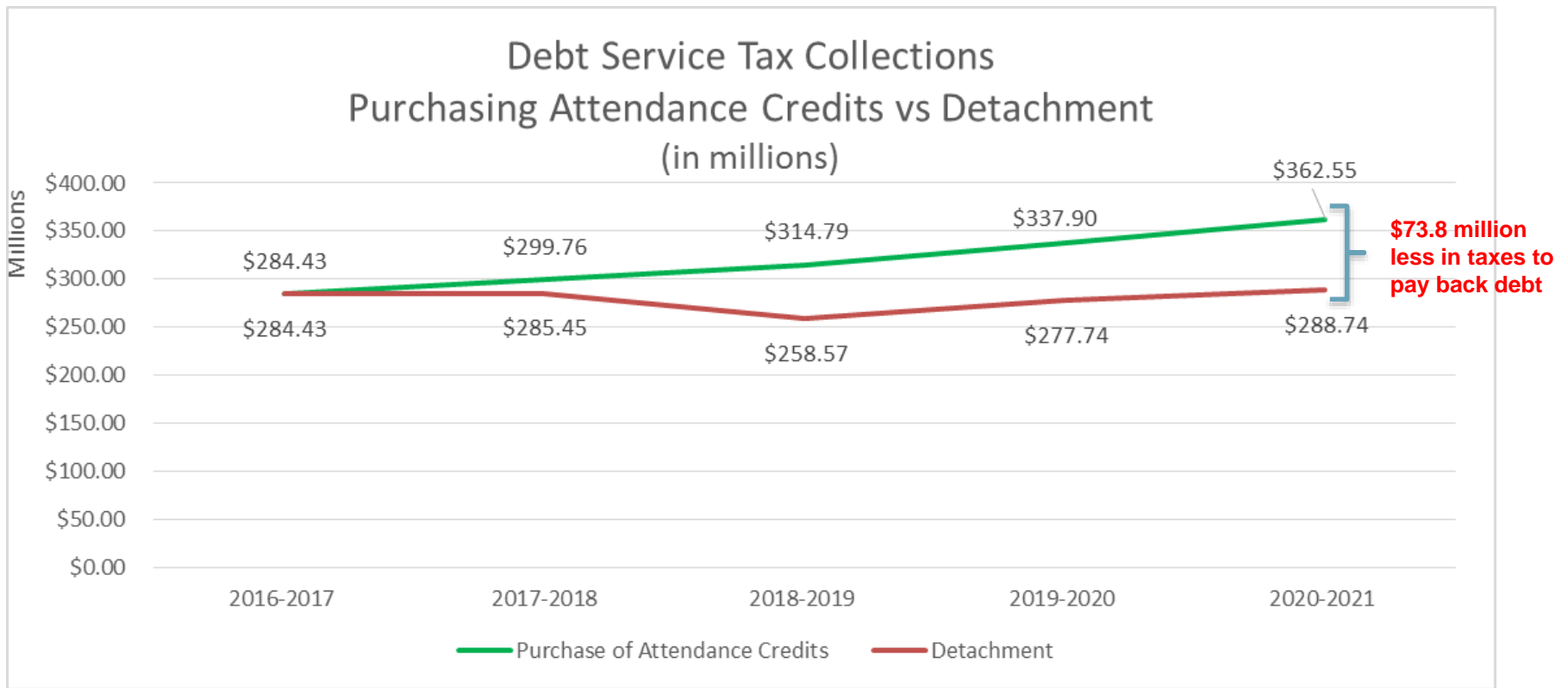
- **A vote FOR Purchasing Attendance Credits:** HISD will make Recapture payments to the state, but our total tax collections will continue to grow to offset these payments as property values rise.
- **A vote AGAINST Purchasing Attendance Credits (Detachment):** Commercial properties will be permanently detached from HISD, and the district will permanently lose those tax collections for district operations. In addition the district will lose future tax collections on the detached property used to pay back the district's debt for building schools. These tax collections are not lost under the Purchase of Attendance Credits.
- Overall, HISD will lose more money under Detachment.



NOTES:
Cumulative gain/loss, including both general operations and debt.

Why does a vote AGAINST Purchasing Attendance Credits (Detachment) cost more?

- Under detachment, HISD loses \$73 million in tax collections that are used to pay back debt used to build schools.



What is the budget impact of voting FOR Purchasing Attendance Credits?

- A vote FOR Purchasing Attendance Credits will give the district more capacity in the future to fund schools.
- Under this option, the district's budget will fluctuate, but HISD does not project significant budget deficits under this scenario.
- Between fiscal years 2016 and 2021, the HISD projects budget net total growth of **\$162 million.**

What is the budget impact of voting AGAINST Purchasing Attendance Credits (Detachment)?

- A vote AGAINST Purchasing Attendance Credits (Detachment) means the District has less capacity to fund schools in the future.
- A vote AGAINST Purchasing Attendance Credits (Detachment) means the District will face budget cuts.
 - Detachment will cause the district's budget to fluctuate; tax collection losses will lag the year after property is detached, producing budget volatility.
 - Between fiscal years 2016 and 2021, the HISD projects budget net total growth of **\$113 million**.
 - However, during this time the District also projects the district will need to cut its budget by \$86 million in fiscal year 2019.

How does the vote impact the property tax rate in HISD?

- Under both scenarios, the HISD tax rate may increase to fund the financial needs of the District to keep teacher pay competitive, pay for fixed cost increases, and pay back district bonds.
- However, a vote AGAINST Purchasing Attendance Credits (Detachment) would result in a higher tax rate over the next two to three years because the District will have less property to tax.

How will Detachment affect who pays taxes?

- As more and more commercial properties in HISD are detached, the shared responsibility of funding public education in Houston shifts from a relatively equal responsibility between commercial and residential to more residential.



How will taxes of detached commercial properties be impacted?

- A vote AGAINST Purchasing Attendance Credits means our highest valued commercial properties will be detached.
 - Residential properties cannot be detached
- Detached properties will be assigned to a new district and will likely pay a higher tax rate.
 - The Texas Education Agency has decided the first detached properties will be assigned to Aldine ISD. About \$8 billion worth of property has been identified for Detachment.
- HISD has the lowest tax rate among school districts in Harris County.
 - **HISD's total tax rate is \$1.2067**
 - Maintenance & Operations (M&O) - \$1.0267
 - Interest & Sinking (I&S) - \$0.18
 - **Aldine ISD's total tax rate is \$1.3233880**
 - Maintenance & Operations (M&O) - \$1.1333880
 - Interest & Sinking (I&S) - \$0.19

How do you want HISD to pay its Recapture Obligation?

★ BALLOT ★

*Authorizing the board of trustees of
Houston Independent School District to
PURCHASE ATTENDANCE CREDITS
from the state with local tax revenues.*

FOR **AGAINST**

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Thank you



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