

September 14, 2018

In a letter prepared in anticipation of the 2017 legislative session, (<https://tinyurl.com/y8j44r8l>), we shared information regarding property taxes in Plano ISD and the devastating effects the “Robin Hood” system of school finance has had on Plano ISD taxpayers. In anticipation of the 2019 legislative session, a session in which property taxes and the school finance system should be top of mind, we wanted to provide an update. As you will see from the following information, the current financing system – and the overreliance of the State of Texas on property wealthy school districts to fund public education – is putting an unhealthy strain on taxpayers in Chapter 41 school districts, including Plano ISD taxpayers.

As we shared in our 2016 Letter, Plano ISD taxpayers expressed concerns regarding rising property taxes resulting from rising property values. As the 2017 legislature did not make changes to the school finance system and as property values continue to grow, these concerns have only amplified. While many taxing authorities have been able to mitigate property value growth by adopting an effective tax rate (i.e. a tax rate sufficient to generate the same revenue as generated the prior tax year), or some variation thereof, as we explained in our 2016 Letter, the recapture system currently in place in the State of Texas prohibits school districts like Plano ISD from doing the same.<sup>1</sup>

The intervening years since the 2016 Letter have not been kind to Plano ISD taxpayers. Plano ISD’s gross operating revenues from local property taxes for tax year 2015 were \$474.2 million. As a result of the State’s current funding formula, Plano ISD paid \$59.8 million in recapture taxes to the State, resulting in a net funding of \$415.8 million. In other words, while Plano ISD collected \$474.2 million from local taxpayers, the District realized only 87.4% of that amount, delivering the remaining 12.6% to the State. As shown in the chart below, those figures have grown.

Tax Year	M&O <sup>2</sup> Tax Rate	M&O Local Tax Collections	State Recapture Tax	Effective State Tax Rate	M&O Net Local Tax Revenue
2015	\$1.17	\$474.2 million	\$59.8 million <i>12.6% of total collections</i>	\$0.147	\$415.8 million
2016	\$1.17	\$520.7 million	\$104.7 million <i>20.1% of total collections</i>	\$0.235	\$416 million

<sup>1</sup> For example, as shown in the 2016 Letter, adopting an effective tax rate in 2016 would have generated \$26.1 million *less* in revenue due to a \$44.8 million increase in Plano ISD’s recapture payment. In fact, even keeping the 2016 tax rate at the same tax rate as the previous year generated a loss in revenue of \$2.1 million.

<sup>2</sup> School districts tax use two separate tax rates: (1) the maintenance and operations (“M&O”) rate, which funds operational costs, and (2) the interest and sinking (“I&S”) rate, which funds debt service. This letter addresses only Plano ISD’s M&O rate.



Tax Year	M&O <sup>2</sup> Tax Rate	M&O Local Tax Collections	State Recapture Tax	Effective State Tax Rate	M&O Net Local Tax Revenue
2017	\$1.17	\$572.5 million	\$154.8 million <i>27% of total collections</i>	\$0.316	\$417.7 million
2018	\$1.17	\$618.1 million	\$207.9 million <i>33.7% of total collections</i>	\$0.394	\$410.1 million

As you can see, Plano ISD's recapture payment has grown exponentially in the years since the 2016 Letter, increasing by nearly 350% (from \$59.8 million in 2015 to \$207.9 million in 2018). While gross revenues collected in 2018 were \$618.1 million, when reducing this amount for recapture, Plano ISD generated net local revenue of \$410.1 million. Incredibly, while Plano ISD M&O tax collections increased by \$143.9 million between 2015 and 2018, Plano ISD's recapture obligations increased by \$148.1 million over the same period – meaning local net revenue actually *decreased* between 2015 and 2018. When viewed in terms of a percentage of tax collections delivered to the state, Plano ISD sent 12.6% of its collections in 2015. This percentage exploded to 33.7% in 2018. This is a trend which cannot continue.

Plano ISD is seeing direct effects on its budget as a result of this skyrocketing recapture obligation. In May 2018 (and for the second consecutive year), Plano ISD trustees adopted a deficit budget.<sup>3</sup> As the State reaps the benefit of a \$148.1 million windfall from Plano ISD taxpayers, Plano ISD parents and students bear the burden in the form of reduced services and Plano ISD taxpayers bear the cost in the form of a tax rate (at the maximum rate permitted under applicable law) which cannot be reduced. This is a second trend which cannot continue.

The Plano ISD Board of Trustees believes the current system for funding public education has devolved into an unjust system, over-relying on local property taxes in Chapter 41 districts like Plano ISD to fund an increasing share of the total cost of public education.<sup>4</sup> As property values grow, this over-reliance grows, allowing the State to use this windfall to fund other priorities. Some might call this “robbing Peter to pay Paul.” Others might call it “smoke and mirrors.” Either way, this is a third trend which cannot continue.

The Plano ISD Board of Trustees also believes Plano ISD taxpayers have a right to know how their tax dollars are being spent, including which portion of their property taxes are locally retained and

<sup>3</sup> The 2017-18 preliminary general fund budget adopted by the Plano ISD Board of Trustees at its June 6, 2017 meeting reflects a deficit of \$6,797,958, and the 2018-19 preliminary general fund budget adopted by the Plano ISD Board of Trustees at its May 22, 2018 meeting reflects a deficit of \$3,005,342.

<sup>4</sup> Per figures provided in reports published by the Legislative Budget Board, during the ten year period beginning in 2008 and ending in 2017, the State's share of funding public education dropped from 44.9% of the total to 38.4%. Federal aid has remained constant at about 10%, with the State's deficit made up by local revenues – increasing from 44.8% of the total in 2008 to 51.5% in 2017.



which portion is paid to the State as recapture. To address this, and echoing our request in the 2016 Letter, we propose a new Truth in Taxation opportunity. We propose identifying for each specific taxpayer on their individual property tax statement the distribution of property tax revenues by identifying the portion of ISD taxes in one of three categories: (a) Interest and Sinking (I&S), (b) Maintenance and Operations – Local, and (c) Maintenance and Operations - State. We call this “taxparency”, and Plano ISD believes that all taxpayers will benefit from taxparency by better understanding where their tax dollars are being spent.

We invite dialogue with you on this issue and welcome any questions that you have. We ask for your leadership on this opportunity and would be delighted to learn more about the ideas that you have that would allow Chapter 41 school districts that pay recapture tax, like Plano ISD, to (a) reduce or eliminate the recapture tax, (b) gain the ability to reduce its tax rate without a net operating revenue reduction, and (c) provide taxparency to its taxpayers.

We look forward to sharing our ideas with you and talking about solutions that can position us to minimize taxpayer impact during periods of property value escalation and provide taxparency at all times.

Sincerely,

Missy Bender  
President  
Plano ISD Board of Trustees

Cc: Sen. Van Taylor  
Rep. Jodie Laubenberg  
Rep. Jeff Leach  
Rep. Matt Shaheen  
Sara Bonser  
Plano ISD Board of Trustees  
Randy McDowell