

Finance: ASATR* (Additional State Aid for Tax Reduction)

Action Requested:

Restore funding in the manner in which it was reduced.

Background:

In the third called session of the 79th Legislature (2006), HB1 was adopted and established the foundation of the current school finance system in Texas. As part of this legislation, local school districts were required to reduce (compress) their tax rates for maintenance and operations by 33.33%. The legislation simultaneously established a formula component known as Additional State Aid for Tax Reduction (ASATR) to guarantee that the students would not be adversely impacted by the mandated tax rate reduction. In simple terms, the legislature mandated that districts decrease their tax rate, but established a guarantee that the State would make up for the loss. School districts have worked under this plan with only minor revisions since 2006.

The 79th Legislature anticipated that new state-generated revenue from the business margins tax would sufficiently replace the revenue decrease from the state-mandated decrease in locally-generated property taxes. The State installed a safety net called ASATR to guarantee that funding to school districts would never be lower than the 2006 levels. In 2011, when the business margins tax did not generate enough revenue to replace the property tax revenue, coupled with the decline in State's revenues, and the 82nd Legislature removed the safety net called the Hold Harmless funding provision in order to balance its budget.

In the first called session on the 82nd Legislature (2011), Senate Bill 1 (SB1) was adopted to implement substantial funding reductions for students throughout the State to remedy the State budget shortfall. Although funding cuts were proportionately distributed for 2011-12, students in districts receiving ASATR bear the brunt of the cuts for 2012-13. In addition, language was included in SB1, which will entirely eliminate ASATR funding effective with the 2017-18 school year.

As a point of reference, the 9 Districts in the North Texas Regional Consortium have, as a group, been cut in hold harmless funding by \$131.9 million per year from the 2010-11 levels.

Rationale:

The current school finance formula contains numerous "hold harmless" provisions. Replacing the ASATR funding honors the State's "hold harmless" guarantee.

The reinstatement of ASATR funding should be distributed in the same manner in which reductions were made in 2012-13. Students in districts receiving a disproportionately larger funding cut in 2011 should be the first to receive restored funding in 2013 or subsequent years.

Fiscal implications:

The following table identifies the values associated with the State's elimination of the statutory provisions of SB1 to the school districts within the North Texas Regional Consortium. The 9 districts in the NTRC lost nearly \$132 million in hold harmless funding.

ASATR Values

North Texas Regional Consortium

School District	ASATR Lost to Date
Allen	\$(6,718,183)
Coppell	\$(5,944,296)
Frisco	\$(10,128,196)
Highland Park	\$(2,659,782)
Lewisville	\$(30,632,301)
McKinney	\$(11,011,863)
Northwest	\$(3,315,317)
Plano	\$(35,238,363)
Richardson	\$(26,274,512)
TOTAL	\$(131,922,813)

Source: Texas Education Agency Summary of Finances

Taking action to repeal these statutory provisions would allow for either the state to redistribute any additional funding the same way in which cuts were made, or it would allow school districts to tax locally up to the hold harmless value without being subject to recapture.