



# Consequences of the Proposition 1 Election

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# HISD Proposition 1

*Authorizing the board of trustees of Houston Independent School District to purchase **attendance credits**<sup>1</sup> from the state with local tax revenues.*

<sup>1</sup> *attendance credits pay for the education costs of non-district students, allowing a wealthy district to effectively reduce its level of property wealth per student*



# √ For

- Houston will send the state a check for ~\$162 million out of excess property tax revenues, an amount likely to increase in the future as property values grow.



# √ Against

- The commissioner of education will detach ~\$20 billion of business property from Houston ISD and assign it to another district—a process that will continue each year as long as property values continue to increase (Education Code 41.004).

# The Detachment Process

- Only mineral property, or real utility, industrial, or commercial property may be detached; however, any personal property at the situs is also detached (41.026).
- The Commissioner ranks parcels by wealth and detaches in descending order until the appropriate wealth level is achieved (41.206).

# School Districts Levy a Property Tax For:

	<u>Houston</u>	<u>State Average</u>
<b>Maintenance and Operations (M&amp;O)</b>	<b>\$1.0267</b>	<b>\$1.0628</b>
<b>Interest and Sinking Fund (I&amp;S, or Debt Service)</b>	<b><u>\$0.1700</u></b>	<b><u>\$0.2736</u></b>
<b>Total</b>	<b>\$1.1967</b>	<b>\$1.3364</b>

*Tax rates are per \$100 of taxable property value and are from the 2015 tax year.*



# What Happens to Detached Property?

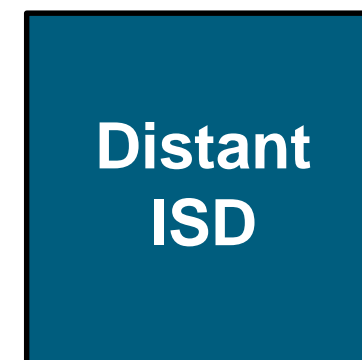
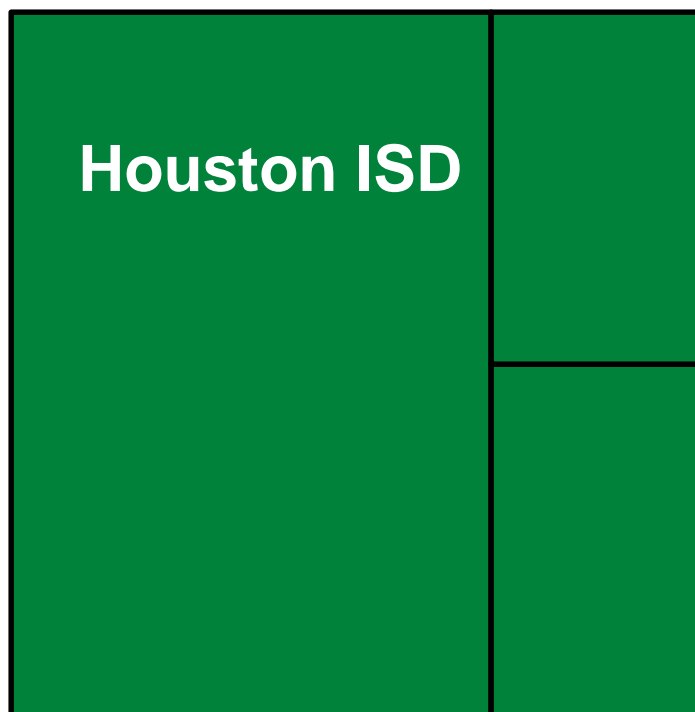
**Houston ISD**

**Neighbor  
ISD**

**Distant  
ISD**



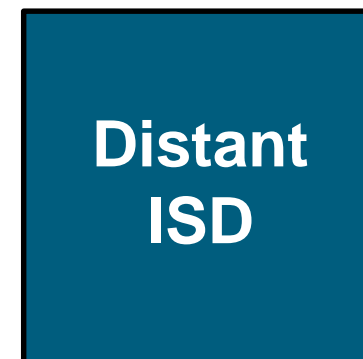
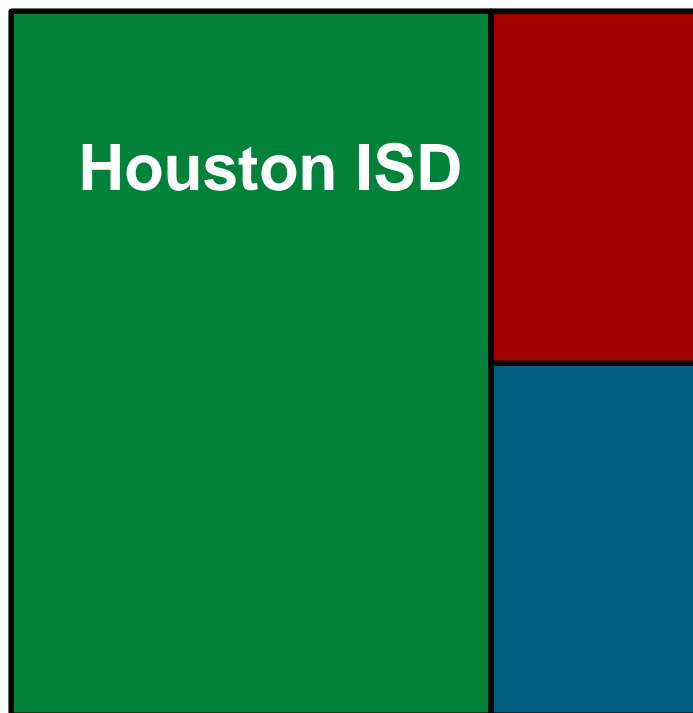
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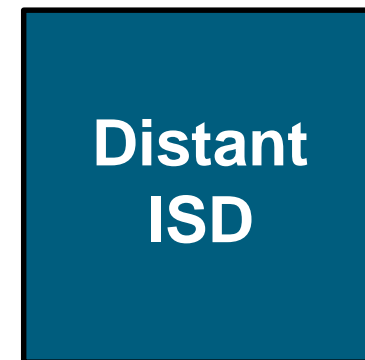
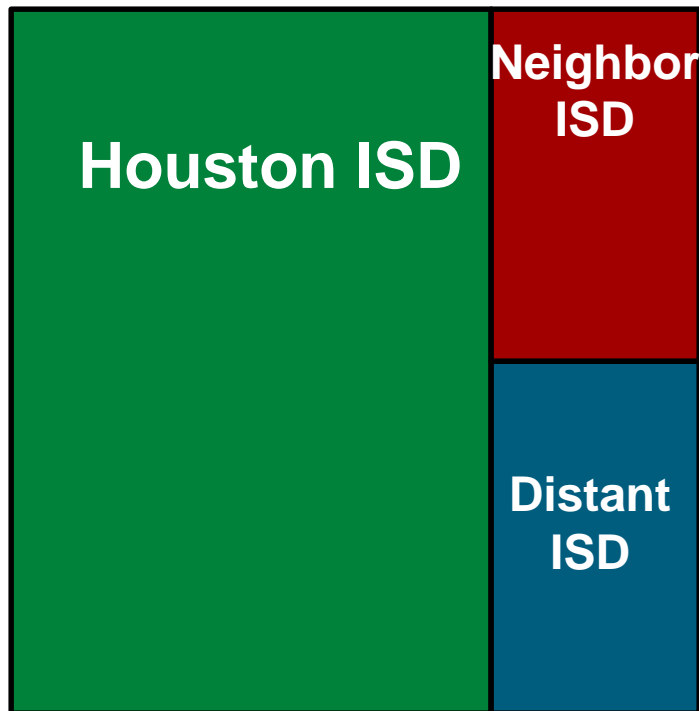


# What Happens to Detached Property?





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# “Detached” Property


- The property does not move physically, it stays in place but is no longer a part of Houston ISD’s tax base—either for maintenance and operations or for debt service.
- Odds are the property taxes on those detached properties will increase, and increase substantially.



# Districts Eligible to Receive Houston Property

The district must not be property wealthy and may have a higher tax rate than Houston ISD:

- **If in Harris County**, up to 15 cents higher
- **If in Education Service Center Region 4** (in which Houston is located), up to 10 cents higher
- **Elsewhere in the state**, up to 5 cents higher.



# Detached Properties Will Likely See Higher Tax Rates

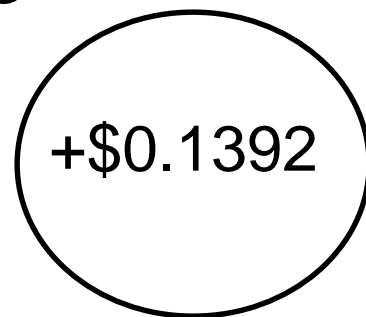
	Houston ISD	Statewide Average	Difference
Maintenance & Operations	\$1.0267	\$1.0628	+\$0.0361
Debt Service	<u>\$0.1700</u>	<u>\$0.2731</u>	<u>+\$0.1031</u>
Total Tax Rate	\$1.1967	\$1.3359	+\$0.1392



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**The average statewide total school tax rate is 12% higher than Houston ISD**



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**Two-thirds of all districts have higher total tax rates than Houston ISD**

# Non-Detached Properties Will See a Higher Debt Tax Rate

	Taxable Value \$bl	Debt Levy \$ml	Debt Tax Rate Per \$100
Houston ISD no detachment	\$165	\$297	\$0.180
Houston ISD w/ detachment	<u>\$147</u>	<u>\$297</u>	<u>\$0.204</u>
Difference	(\$18)	\$0	\$0.024



# How Much Does \$0.024 Cost?

<b>Property</b>	<b>Additional Tax</b>
\$150,000 home	\$23
\$300,000 home	\$52
\$1,000,000 home	\$186
\$1 million business	\$240
\$5 million business	\$1,200
\$100 million business	\$24,000

# If Detachment Takes Place

- **Properties detached** from HISD will likely face a **higher tax rate** in the new school district to which they are assigned.
- **Properties not detached** from HISD will face a **higher tax rate** to pay for debt service.

# What Happens to Houston ISD?

- **If Proposition 1 passes**, Houston sends a check to the state for **\$162 million** in 2017.
- **If Proposition 1 fails**, Houston loses property on which it collects **\$185 million** in M&O taxes, as a result of how state formulas work.
- **But if Proposition 1 fails**, detachment might not take effect until 2018, while the recapture check would be made in 2017.



# Optional Homestead Exemption

- In addition to the \$25,000 state-mandated homestead exemption (subsidized by the state), districts may offer an optional homestead exemption up to 20% (not subsidized by the state)
- In 2015, 193 of 1019 districts, including Houston, offered a local option exemption
- A 2015 state law prohibited districts from rescinding a local option homestead exemption until 2020



# Optional HS Exemption Revenue Losses, 2015

## Current Practice

Houston optional HS exemption	\$129 ml
All districts w/ optional HS exemption	\$433 ml

## What if?

All Property Wealthy Districts	\$601 ml
All districts	\$2,322 ml

# What if Detachment Is Disallowed?

- If detachment will not reduce the district's wealth per student to a level equal to or less than the equalized wealth level, **the commissioner ... shall order the consolidation of the district with one or more other districts...**



# Voting “NO” Forces the Legislature to Act...



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*...to do what?*



# Legislative Options

- 1. Lift only Houston:** make a specific exception in the law allowing only Houston to be wealthier than all other districts.
- 2. Lift only wealthy districts:** reduce recapture on property wealthy districts so Houston would owe nothing.
- 3. Lift all districts:** Increase state funding for all districts so they can have as much money as Houston ISD.

# Lift Only Houston

- The state will forgo up to **\$162 million** in recapture revenue.
- Maybe 1 in 6 legislators has any type of connection to the Houston area (but not necessarily Houston ISD itself).
- How do you convince the other 5 legislators that Houston deserves special treatment?

# Lift Only Wealthy Districts

- Recaptured property taxes in 2017 are estimated to total **\$2.1 billion** while the state spends \$18 billion of its own money for schools.
- Making special provision for property wealthy districts is a step backwards on equity and could jeopardize the constitutionality of the current system.

# Lift All Districts

- To bring all districts up to the level of revenue available to Houston in 2017 would require an additional **\$4.9 billion**.
- The state faces a shortfall in the next budget session and won't have enough money to pay for current services, much less a new commitment for schools without raising taxes.