

**SUBJECT:** Funding for school districts that annex academically unacceptable districts

**COMMITTEE:** Public Education — favorable, without amendment

**VOTE:** 11 ayes — Huberty, Bernal, Allen, Bohac, Deshotel, Dutton, Gooden, K. King, Koop, Meyer, VanDeaver

0 nays

**WITNESSES:** For — (*Registered, but did not testify:* Barry Haenisch, Texas Association of Community Schools; Amy Beneski, Texas Association of School Administrators; Dax Gonzalez, Texas Association of School Boards; Tracy Ginsburg, Texas Association of School Business Officials; Colby Nichols, Texas Rural Education Association; Curtis Culwell, Texas school alliance; Christy Rome, Texas School Coalition)

Against — None

On — (*Registered, but did not testify:* Von Byer and Leonardo Lopez, Texas Education Agency)

**BACKGROUND:** Education Code, sec. 13.054 gives the Commissioner of Education authority to order annexation to one or more adjoining districts of a school district that has been rated academically unacceptable for two years. Sec. 13.054(f) requires state Tier 1 funding be adjusted for the enlarged district for five years beginning with the school year in which the annexation occurs. Funding is adjusted using a multiplier that takes into consideration the number of students residing in the enlarged district before and after annexation.

Education Code, ch. 13, subch. G, allows school districts created after August 22, 1963, through consolidation to qualify for incentive aid payments from the state for up to 10 years.

**DIGEST:** HB 3722 would apply funding adjustments to property-wealthy districts ordered by the Commissioner of Education to annex an adjoining district

that had been rated academically unacceptable for two years. For five years beginning with the school year in which the annexation occurred, the additional funding would be determined by multiplying the lesser of the enlarged district's local fund assignment computer under Education Code, sec. 42.252 or the enlarged district's total cost of Tier 1 by a fraction, the numerator of which was the number of students residing in the territory annexed to the receiving district before the annexation and the denominator of which was the number of students residing in the enlarged district on the date of annexation.

The commissioner instead could authorize a district to receive incentive aid payments provided by Education Code, ch. 13, subch. G, governing incentive aid payments, if the commissioner determined that would result in greater payments for the district. Such a determination would be final and not appealable.

Funding provided under either of the bill's provisions would be in addition to other funding the district received through other provisions of the Education Code, including chapters 41 and 42. The commissioner could adopt rules to implement the bill.

This bill would take effect September 1, 2017, and would apply to annexations that occurred after that date.

**SUPPORTERS  
SAY:**

HB 3722 would make certain property-wealthy districts that annexed low-performing districts eligible for funding adjustments to help with costs related to the annexation. Current law provides annexation incentive funding only for districts that receive Tier 1 state funding under Education Code, ch. 42. Districts subject to the wealth-equalization provisions under Education Code, ch. 41 do not receive Tier 1 state funding. The bill would give the Commissioner of Education the ability to authorize the greater of annexation or consolidation incentives, regardless of whether the district was funded under chapter 41 or 42.

In recent years, the commissioner has ordered property-wealthy districts to annex adjoining districts that have failed to meet state financial and

academic accountability standards. The newly enlarged district may experience unexpected costs to fix neglected schools and provide additional instruction to struggling students. The incentive funding provided under HB 3722 could help with some of those costs.

While some contend the bill's incentive funding should be applied retroactively to help districts that were subject to annexation orders in recent years, such a change could result in unanticipated costs to the state budget for fiscal 2018-19.

**OPPONENTS  
SAY:**

HB 3722 should apply retroactively to annexations that occurred before September 1, 2017. This expansion of the bill's funding requirements could help Texas City ISD, which was ordered by the state to annex low-performing La Marque ISD beginning in the 2016-17 school year and is facing unexpected costs from the forced annexation, even as it is required under state school finance laws to send away millions of local tax dollars through recapture. Funding adjustments could help make needed safety repairs to inherited school buildings and meet the high academic needs presented by many newly acquired students.