



Leonard Independent School District

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On behalf of LISD, I would like to update some information regarding the No New Revenue Rate (NNR) for the 22-23 school year that was inquired about at a recent meeting. While the state school funding system is very complex and is based on a series of formulas, in an effort to better understand updates to this system, the LISD Board of Trustees and I attended a board workshop a few weeks ago focusing on a school finance overview. Our presenter works with school districts, regional education service centers and the Texas Education Agency, so is widely known and respected across the state in the school finance world.

One area of focus was the NNR. As the district was asked: Why did the school district not set the tax rate at the No New Revenue Rate instead of adopting the voter-approved rate? The "No New Revenue Rate" that this question addresses is much more pertinent to the tax rate of cities and counties, but different for school districts because school district revenue is made up of both STATE REVENUE and LOCAL TAX REVENUE. When a school district's TAX REVENUE INCREASES, STATE FUNDING DECREASES. Furthermore, state funding is connected to local tax effort (ex. IF WE LOWER THE TAX RATE beyond the state mandated compressed tax rate, WE LOSE STATE FUNDING). Losing funding impacts the school system in many ways.

To give you a brief overview of school funding and how this impacts the daily operations of the school system, there are two parts to this. We have the Maintenance & Operations side (known as M&O). This side pays for day-to-day operations and expenses such as: salaries, utilities, supplies, instructional materials, repairs, etc. The other side is known as Interest & Sinking (I&S). This includes principal and interest payments on debt issued for such things as: new construction, renovations, heating and AC systems, roof replacements, etc. Leonard ISD currently has an M&O tax rate of \$.09429 and an I&S rate of \$0.00 due to paying off our debt during the 2017-18 school year for the bond from 1998 for the current high school. Therefore, the total tax rate for LISD for the 22-23 school year is \$0.9429 which is the lowest school district tax rate of the ten school districts in Fannin County and other schools in our area.

While state law now requires calculation of a "No New Revenue Rate," it also requires calculation of the "Rate to Maintain Same Level of Maintenance & Operations Revenue and Pay Debt Service." This Rate to Maintain is the rate which provides the district with equitable revenues (both state and local tax revenues) per student as last year. This rate is different from the No New Revenue Rate because it takes into account the fact that as local tax revenues increase, state funding for schools decrease. The required language often causes confusion as the section of the tax code that indicates a change in the no-new-revenue tax rate does not account for the offsetting reduction of state funding that occurs. In Texas, schools are funded by local taxes and state funding, and any increase of one causes a decrease in the other.

During our training session, the board and I were provided with four different scenarios (see chart below) regarding funding for LISD for the school year based on the current state funding template. These scenarios ranged from our current adopted voter-approved rate of \$0.9429 down to the lowest rate of \$0.773217 which is the No New Revenue Rate (NNR). The Texas tax code states that school districts must "impose taxes in an amount that, when added to state

funds to be distributed to the district, ... would provide the same amount of maintenance and operation taxes and state funds distributed ... for the applicable school year that were available to the district in the preceding school year ...”

To get a better clarification of this, I reached back out to our trainer because according to the state template, LISD would be losing a lot of state funding, yet the Comptroller’s Worksheet Form 50-859 now requires school districts to include the NNR tax rate on this form and post it. Something was not adding up if there was such a push from lawmakers for taxing entities to adopt the NNR instead of their voter-approved tax rate, which would cause school districts to lose funding and risk eliminating student programs and decrease staff positions which no district would want to have to do but could as a last resort. After additional time was spent on this, our trainer reached back out to the school finance division at TEA and the creator of the template. After having multiple conversations with them a consensus was reached. Between the three of them, they discussed discrepancies within the template and identified where in the funding model it was indicating school districts such as LISD would not receive any state funding when running projected numbers such as ours, which we had shared at a meeting because those numbers were a result of the state template after all.

I also reached out to TEA for a final confirmation, and, after a lengthy process, received confirmation that the state funding template has now in fact been revised to be able to produce a reasonable estimate if a school district does adopt a NNR rate; however, I was told by TEA they have no record of any school district doing this since there is still a loss of state funding, and schools must be able to provide for the education of all students and the state would not be able to make up this funding loss. After all, this is how Texas schools receive funding for each school year to pay staff, provide instructional materials, support student programs, etc. Furthermore, as a result of more accurate and updated information that has since become available by TEA, the information below shows an estimate of the impact the following M&O rates would have on our district.

• State & Local Revenue Balance

RATE	\$0.9429	\$0.8546	\$0.8046	\$0.773217
State	\$6.1M	\$5.6M	\$5.5M	\$5.1M
Local	\$3.6M	\$3.3M	\$3.1M	\$3.0M
TOTAL	\$9.7M	\$8.9M	\$8.6M**	\$8.1M**

** Includes \$0 FTG (Formula Transition Grant)

Looking at the numbers you can see there would still be a major decrease in school funding impacting LISD, plus when factoring in additional formulas, the following conclusions can be drawn.

1. At an adopted M&O tax rate of \$0.773217, the district’s calculated no new revenue (NNR) rate, when compared to the allowed voter approved tax rate of \$0.9429 results in:
 - A reduction of tier I state aid in the amount of \$328,910.
 - A complete loss of tier II state aid in the amount of \$943,603
 - A reduction of local tax revenue in the amount of \$584,557.
 - A reduction of total combined state and local revenue of \$1,857,070 which translates into a loss in per ADA total funding of \$2,384.39 per student.

Prior to this clarification, the following numbers had been shared with the district at the training session.

RATE	\$0.9429	\$0.8546	\$0.8046	\$0.773217
State	\$6.1M	\$5.6M	\$5.8M	\$0
Local	\$3.6M	\$3.3M	\$3.1M	\$3.0M
TOTAL	\$9.7M	\$8.9M	\$8.9M*	\$3.0M

*Includes \$600K of FTG

The difference in the discrepancy upon further review yields the following: while the state allotment includes any formula transition grant (FTG) state revenue that is calculated in the state funding formulas, this detail was not being accurately calculated in any of the state funding templates at the time of our training. This has since been updated at the state level; therefore, I wanted to provide as much clarification as possible to a very complex system. While we know the school district would lose an enormous amount of money had the district adopted the NNR of \$.0773217, the district wanted to provide an update to the original numbers that were shared prior to the state template being revised over the past week.

Sincerely,

Brad Maxwell
LISD Superintendent