

Hurricane Harvey School Finance Issues March 12, 2018

	Finance Issue/Response A	Is there an Outstanding Decision for the Legislature? B	FY 2018 Estimated Costs** C	FY 2019 Estimated Costs** D	Biennial Total Est. Cost** E	Legal Authority F
	Pre-Pay for Attendance increases for displaced students					
1	<p>Districts will experience increased enrollment due to student displacement in the 2017–2018 school year.</p> <p>Is this currently a legally required cost to the state? Yes.</p> <p>Issue: Many districts have newly enrolled students displaced from their home districts because of Hurricane Harvey. TEA does not normally increase Foundation School Program (FSP formula) funding to districts during the school year when there are increases in a district's student enrollment. Instead, FSP formula increases are made during the FSP settle-up process occurring in September of 2018 (FY 2019) following the school year.</p> <p>Legislative solution: Districts can receive an increase in their state aid <i>during</i> the 2017–2018 school year if they have increased average daily attendance (ADA) and apply to TEA.</p> <p>To date, only six districts have applied for adjustments with TEA, with a total of 324 students in ADA. These districts include Calallen ISD, College Station ISD, Cuero ISD, Gregory Portland ISD, Splendora ISD, and Victoria ISD.</p>	<p>No.</p> <p>TEA issued guidance to school districts. Beginning with the October 2017 FSP formula payment, TEA will increase the amount of state aid to districts that (1) have additional ADA and (2) apply to TEA.</p> <p>To date, only six districts have applied for adjustments, with a total of 324 students ADA. These districts include Calallen ISD, College Station ISD, Cuero ISD, Gregory Portland ISD, Splendora ISD, and Victoria ISD.</p>	State cost: \$5 million	State savings: (-\$5 million)	State cost: \$0	TEC §42.005(d). Average Daily Attendance.
	Enrollment Decline					
2	<p>Districts will lose FSP formula funding due to student enrollment declines caused by Hurricane Harvey during the 2017–2018 school year.</p> <p>Is this currently a legally required cost to the state? Yes. With legislative approval, TEA has agreed to hold districts harmless for 2017–2018 enrollment declines that would otherwise decrease FSP state formula funding.</p>	<p>No.</p> <p>With legislative approval, on October 9, 2018, TEA issued a To the Administrator Addressed Letter providing an ADA hold harmless option for 152 initially identified school districts and charter schools</p>	Lost recapture state revenue: \$33 million	State cost: \$66 million	State cost/lost recapture revenue: \$99 million	TEC §42.005(d). Average Daily Attendance.

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	<p>Issue: School districts and charter schools with enrollment losses during the 2017–2018 school year will have lower average daily attendance (ADA). ADA is a major component in determining FSP formula funds as Texas provides funding on a per ADA basis. Thus, a decline in ADA in the 2017–2018 school year would normally result in the following:</p> <ol style="list-style-type: none"> For Chapter 42 districts, a loss of FSP funds in September 2018 (FY 2019) during FSP settle-up for the 2017–2018 school year. For Chapter 41 districts, an increase in recapture made during the 2017–2018 school year. <p>Legislative solution: TEA will hold school districts and charter schools meeting certain qualifications <i>harmless</i> for their loss of ADA during the 2017–2018 school year. This will encourage districts to avoid reducing school personnel throughout the 2017–2018 school year. This is a one-time adjustment for the 2017–2018 school year.</p> <p>As of February 20, 2018, TEA has approved 76 districts as eligible for the hold harmless option.</p>	<p>that (1) had damage to at least one facility, or (2) had instructional facilities that were closed for nine or 10 hurricane-related waiver days. The school district or charter school must complete the Governor’s Commission to Rebuild Texas Worksheet.</p> <p>As of February 20, 2018, TEA has approved 76 districts as eligible for the hold harmless option.</p> <p>TEA will continue to monitor to ensure that qualifying districts are held harmless for ADA losses.</p>		<p>school districts harmless for 2017–2018 enrollment declines.</p> <p>TEA will request a supplemental appropriation for the state aid portion during the 86th Texas Legislature.</p>		
2017–2018 School Year Tax Issues						
3a	<p>Districts which have not ordered re-appraisals may experience a loss of maintenance and operations (M&O) local property tax revenue during the 2017–2018 school year.</p> <p>Is this currently a legally required cost to the state? No.</p> <p>Issue: School districts may experience losses in M&O local property tax revenue during the 2017–2018 school year due to delayed and uncollected tax collections. TEA collected district data and currently estimates that local M&O property tax revenue collections will be approximately \$150 million less than anticipated.</p> <p>Potential legislative solution: The legislature must decide whether it wants to hold school districts harmless for the \$150M loss of anticipated local property tax revenue during the 2017–2018 school year.</p>	<p>Yes.</p> <p>The legislature must decide whether it wants to hold school districts harmless for the loss of anticipated local property tax revenue during the 2017–2018 school year.</p>	<p>Potential state cost: \$150 million</p>	<p>State cost: N/A.</p> <p>This is covered in the 2018–2019 school year tax issues in row 6 below.</p>	<p>Potential state cost: \$150 million</p>	<p>TEC §42.2523. Adjustment for Property Value Affected by State of Disaster.</p>

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3b	<p>Districts that have re-appraised their property for the 2017 will realize losses in SY 2018 tax collections as a result of the re-appraisals</p> <p>Is this currently a legally required cost to the state? No.</p> <p>Issue: Twelve school districts accounting for 26% of the affected districts property value have ordered reappraisals for the 2017 Tax year. These districts will experience losses in M&O local property tax revenue during the 2017–2018 school year due to lost tax collections. TEA collected district data and currently estimates that for these districts local M&O property tax revenue collections will be approximately \$150 million less than anticipated.</p>	<p>YES</p> <p>The legislature could choose to hold these districts harmless for the lost collections as a result of the re-appraisal</p>	<p>Potential state Cost: \$150 million</p>	<p>State Cost: N/A</p> <p>This is covered in the 2018–2019 school year tax issues in row 6 below.</p>	<p>Potential state cost: \$150 million</p>	<p>TEC §42.2523. Adjustment for Property Value Affected by State of Disaster</p>
4	<p>Districts could experience a loss of local interest and sinking (I&S) property tax revenue during the 2017–2018 school year and default on their debt payments.</p> <p>Is this currently a legally required cost to the state? No.</p> <p>Issue: The local I&S property tax revenue provides funds for the payment of the debt that districts issue to finance facilities and other capital expenditures. TEA anticipates decreases in local I&S property tax revenue but is not aware of any district that is in jeopardy of not making its I&S payments.</p> <p>TEA solution: TEA is not aware of any district that is in jeopardy of not making its I&S payments and has no recommendation to assist districts at this time.</p> <p>Note: Charter schools do not levy taxes.</p>	<p>No.</p> <p>TEA will continue to monitor, but is not aware of any district that is in jeopardy of not making its I&S payments.</p>	<p>State cost: \$0</p>	<p>State cost: N/A.</p> <p>This is covered in the 2018–2019 school year tax issues in row 6 below.</p>	<p>State cost: \$0</p>	<p>TEC §42.2523. Adjustment for Property Value Affected by State of Disaster.</p>
2018–2019 School Year Tax Issues						
5a	<p>Un-reappraised districts will not receive their originally estimated amount of maintenance and operations (M&O) property tax revenue due to property value declines caused by Hurricane Harvey. This could cause the district to lay off personnel prior to the 2018–2019 school year.</p>	<p>Yes.</p> <p>. The legislature must determine whether to hold districts harmless for the loss of anticipated property tax revenue due to property value</p>	<p>State cost: N/A</p> <p>This is covered in the 2017–2018 tax information above.</p>	<p>Potential state cost: Between \$500 million and \$1 billion (TEA estimate of the difference between the originally anticipated local property tax revenue and currently</p>	<p>Potential state cost: Between \$500 million and \$1 billion</p>	<p>TEC §42.2523. Adjustment for Property Value Affected by</p>

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	<p>Is this currently a legally required cost to the state? No. There is no state obligation to make up for maintenance and operations (M&O) property tax revenue declines caused by Hurricane Harvey.</p> <p>Issue: Un-reappraised districts will not receive their originally estimated amount of maintenance and operations (M&O) property tax revenue due to property value declines caused by Hurricane Harvey. Potential legislative solution: The legislature must determine whether to hold districts harmless for the loss of anticipated property tax revenue due to property value declines. TEA estimates that the amount necessary to hold districts harmless for the loss of local property tax revenue is between \$500 million and \$1 billion.</p>	declines. TEA estimates that the amount necessary to hold districts harmless for the loss of local property tax revenue is between \$500 million and \$1 billion.		<p>estimated local property tax revenue).</p> <p>There is currently no state obligation to make up for maintenance and operations (M&O) property tax revenue declines caused by Hurricane Harvey.</p> <p>The legislature will decide whether it wants to hold school districts fully or partially harmless for the loss of <i>anticipated</i> local property tax revenue during the 2018–2019 school year.</p> <p>TEA estimates that the amount necessary to hold districts harmless for the loss of local property tax revenue is between \$500 million and \$1 billion.</p>		State of Disaster.
5b	<p>Districts that reappraised their property will have lower local property tax collections and therefore, will receive more state formula funding.</p> <p>Is this currently a legally required cost to the state? Yes. TEA is required by the FSP formulas to provide increased FSP formula state aid for districts that reappraised their property value and lost local property tax revenue as a result.</p> <p>Issue: Beginning with the 2018–2019 school year, the state is legally obligated to “make-up” state aid (state share) for any reported loss of local property tax revenue on reappraised 2017 tax year property.</p> <p>TEA solution: TEA will pay additional state aid to make up for the loss of local property tax revenue. TEA will ask for a supplemental appropriation for the difference between amounts appropriated and actual district entitlements.</p> <p>TEA is aware of 12 school districts that have voted to reappraise their 2017 taxable property values: Conroe ISD,</p>	<p>No.</p> <p>TEA will pay additional state aid to make up for the loss of local property tax revenue.</p> <p>TEA will ask for a supplemental appropriation for the difference between amounts appropriated and actual district entitlements.</p>	<p>State cost: \$0</p> <p>N/A. This is covered in the 2017–2018 tax information above.</p>	<p>State cost: \$150 million</p> <p>Combined, these districts account for 29 percent of the tax base of the affected districts. TEA’s \$150 million estimate assumes a seven-percent decline in value due to reappraisals.</p>	<p>State cost: \$150 million</p>	

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	Fort Bend ISD, Humble ISD, Katy ISD, Lamar CISD, La Porte ISD, Magnolia ISD, Montgomery ISD, New Caney ISD, Splendora ISD, Spring Branch ISD, and Willis ISD.					
6	<p>As property values have declined, districts may be required to increase their local interest & sinking (I&S) tax rates to cover debt service payments during the 2018–2019 school year. This may result in higher local tax bills in certain districts.</p> <p>Is this currently a legally required cost to the state? No.</p> <p>Issue: School districts are required to levy an I&S tax rate to provide enough property tax revenue to pay for the debt for their facilities and other capital expenditures. School districts may experience losses in I&S local property tax revenue during the 2018–2019 school year and be required to raise I&S tax rates. This may result in higher local tax bills in certain districts.</p> <p>Potential legislative solution: The legislature must determine whether to hold districts harmless so that they are not required to raise their tax rates. TEA estimates the amount necessary to hold districts harmless for the loss of I&S local property tax revenue is \$132 million.</p> <p>Note: Charter schools do not levy taxes.</p>	<p>Yes.</p> <p>The legislature will decide whether it wants to hold school districts fully or partially harmless so that they will not have to increase local I&S property taxes rates.</p> <p>TEA estimates the hold harmless amount required to be paid to districts to be \$132-\$260 million.</p>	<p>State cost: N/A.</p> <p>This is covered in the 2017–2018 school year tax issues (above).</p>	<p>Potential state cost: \$132-\$260 million</p> <p>The legislature will decide whether it wants to hold school districts fully or partially harmless so that they will not have to increase local I&S property taxes rates.</p>	<p>Potential state cost: \$132-\$260 million</p> <p>The legislature could consider options to help mitigate the tax increase. However, I&S rates are adopted in the summer of 2018.</p>	<p>TEC §45.003 Bonds and Tax Elections.</p> <p>TEC §45.052 Guaranteed Bonds.</p> <p>TAX §26.08a Election to Ratify School Taxes</p>
7	<p>Districts with enrollment losses during the 2017–2018 school year will have lower average daily attendance, which will in turn decrease the amount of their potential Instructional Facilities Allotment (IFA) or Existing Debt Allotment (EDA) state aid during the 2017–2018 school year settle-up that will occur in September of 2018 (FY 2019).</p> <p>Is this currently a legally required cost to the state? Yes.</p> <p>Issue: Approximately 39 of the 130 affected school districts receive approximately \$47 million in state FSP aid for the IFA or EDA. These programs help districts pay for the debt they incur for facilities and other capital expenditures.</p>	<p>No.</p> <ol style="list-style-type: none"> For the 2017–2018 school year, TEA will hold school districts meeting certain qualifications <i>harmless</i> for their loss of ADA. This is anticipated to largely stabilize their IFA and EDA state aid amounts. This is a one-time adjustment for the 2017–2018 school year. See row 2 above. For the 2018–2019 school year, qualifying districts that reappraised will receive additional EDA and IFA state 	<p>State cost: N/A. Cost is included in \$100 million ADA hold harmless in row 2 above.</p> <p>TEA will hold school districts meeting certain qualifications <i>harmless</i> for their loss of ADA. This will largely stabilize their IFA and EDA amounts. This is a one-time adjustment for the 2017–2018 school year. See row 2 (above).</p>	<p>State cost: \$10 million</p> <p>Qualifying districts that reappraised will receive additional EDA and IFA state aid funding to make up for lost local property value and property tax revenue. See 5b above.</p>	<p>State cost: \$10 million</p>	<p>TEC §46.003 IFA</p> <p>TEC §46.032 EDA</p>

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	<p>TEA solution:</p> <ol style="list-style-type: none"> For the 2017–2018 school year, TEA will hold school districts meeting certain qualifications <i>harmless</i> for their loss of ADA. This will largely stabilize their IFA and EDA state aid amounts. This is a one-time adjustment for the 2017–2018 school year. See row 2 above. For the 2018–2019 school year, qualifying districts that reappraised will receive additional EDA and IFA state aid funding to make up for lost local property value and property tax revenue. See row 5b above. <p>Note: Charter schools are not eligible for IFA or EDA funding.</p>	aid funding to make up for lost local property value and property tax revenue. See row 5b above.				

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	Facilities Issues					
8	<p>Chapter 41 districts that experienced facilities damage due to Hurricane Harvey may not have enough funds to cover their recapture payments.</p> <p>Is this currently a legally required cost to the state? Yes, in forgone recapture funding to the state treasury.</p> <p>Issue: Chapter 41 school districts that have property damage can apply for a reduction or elimination in their recapture payment to the state for the 2017–2018 and 2018–2019 school years for any facility damage costs <i>not</i> covered by insurance or FEMA. Importantly, however, districts cannot recover <i>more than their recapture payment amounts</i> (but see row 9 below).</p> <p>TEA solution: Chapter 41 districts with eligible remediation costs can offset recapture payments by applying to TEA in the 2017–2018 and 2018–2019 school years. To date, TEA has received no applications.</p>	<p>No.</p> <p>Chapter 41 districts can apply to TEA for disaster aid assistance to reduce their recapture payments for the 2017–2018 and 2018–2019 school years.</p> <p>Facilities replacement costs obtained by TEA are estimated at \$900 million, \$300 million of which would be realized by Chapter 41 districts. FEMA and insurance should cover 90 percent of the anticipated losses, which implies a total of \$30 million in uncovered costs for Chapter 41 districts.</p>	<p>Lost recapture state revenue: \$10 million</p> <p>Loss of budgeted recapture to state treasury.</p> <p>Due to TEA requirements in documenting unremediated losses, TEA anticipates the majority of losses will be realized in the 2018–2019 school year</p>	<p>Lost recapture state revenue: \$20 million</p> <p>Loss of budgeted recapture to state treasury.</p>	<p>State cost: \$30 million</p>	<p>TEC §41.0931 Disaster Remediation Costs.</p>
9	<p>Chapter 42 districts that experienced facilities damage due to Hurricane Harvey can receive facilities assistance, and Chapter 41 districts that experienced facilities damage due to Hurricane Harvey can receive facilities assistance beyond their recapture payment amounts.</p> <p>Is this a legally required cost to the state? No.</p> <p>Issue: The Texas Education Code provides that (1) Chapter 42 districts can receive facilities assistance, and (2) Chapter 41 districts can receive facilities assistance beyond their recapture payment amounts (see row 8 above), only if there is an FSP surplus in the fiscal year. Even if there is an FSP surplus, TEA must first use the surplus to finance special education camera needs.</p> <p>Note: Based on preliminary information, TEA has learned that FEMA may cover up to 90 percent of uninsured loss, leaving districts with at least a 10 percent uninsured and uncovered loss.</p>	<p>Yes.</p> <p>TEA is encouraging districts to work with their insurance providers and FEMA to determine unreimbursed damage amounts and turn in applications to TEA. To date, TEA has received no qualifying applications.</p> <p>Facilities replacement costs obtained by TEA are estimated at \$900 million, \$600 million of which would be realized by Chapter 42 districts. FEMA and insurance should cover 90 percent of the anticipated losses, which implies a total of \$60 million in uncovered costs for Chapter 42 districts.</p>	<p>Potential increased state aid payments: \$30 million</p> <p>This cannot happen unless TEA borrows money from FY 2019 to create an FSP surplus in FY 2018. This has never been done before.</p>	<p>Potential increased state aid payments: \$30 million</p> <p>\$0 unless there is a sufficient FSP formula surplus in FY 2019.</p> <p>The legislature could provide additional funding as part of a supplemental appropriation during the 86th Texas Legislature.</p>	<p>Potential state cost: \$60 million</p>	<p>TEC §42.2524 Reimbursement for Disaster Remediation Costs.</p>

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	<p>Potential legislative solution: For school year 2017–2018, the only <i>potential</i> legal mechanism TEA can use to assist districts is to borrow money from FY 2019 and declare an FSP surplus in FY 2018. This has never been done before. Further, the surplus would first be required to be used for special education camera needs.</p> <p>For school year 2018–2019, the legislature could provide additional funding as part of a supplemental appropriation during the 86th Texas Legislature.</p>					
Other Funding Issues						
10	<p>Students will be newly eligible to generate State Compensatory Education (SCE) FSP formula funds, which will increase FSP state formula costs.</p> <p>Is this currently a legally required cost to the state? Yes.</p> <p>Issue: Data from the Texas Department of Agriculture (TDA) National School Lunch Program (free and reduced-price lunch) indicates that districts will have more students qualifying for the FSP formula SCE weight during the 2017–2018 and 2018–2019 school years.</p> <p>TEA solution: For the 2017–2018 school year, TEA estimates that 80,500 additional students will qualify for the SCE weight in the school finance system. Consistent with current practice, TEA updated its FSP formulas related to SCE in February of 2018. As a result, affected districts recognized increases to state aid for SCE–identified students beginning with their February 2018 FSP payments.</p>	<p>No.</p> <p>TDA collects and provides National School Lunch Program student eligibility data to TEA. Per customary practice, TEA incorporated TDA data into the FSP system for the 2017–2018 school year during February of 2018. Thus, affected districts recognized increases to state aid beginning with their February 2018 FSP payments.</p>	State cost: \$103 million	State cost: \$44 million Costs will vary depending on the number of additional students eligible for free or reduced-price lunch.	State cost: \$147 million	TEC §42.152. Compensatory Education Allotment.
11	<p>Districts will incur unreimbursed storm recovery costs.</p> <p>Is this currently a legally required cost to the state? No.</p> <p>Issue: Affected districts may face storm recovery expenditures for transportation, additional counselors, student mental health needs, and overtime for auxiliary and maintenance staff.</p>	<p>Yes.</p> <p>The legislature could provide additional funding as part of a supplemental appropriation during the 86th Texas Legislature.</p>	Potential state cost: \$0 All additional costs are borne by school systems.	Potential state cost: \$0 All additional costs are borne by school systems. The legislature could provide additional funding as part of a supplemental appropriations bill during the 86th Texas Legislature.	Potential state cost: \$0	

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	Potential legislative solution: The legislature could provide additional funding as part of a supplemental appropriation during the 86th Texas Legislature.					
12	<p>Education service centers (ESCs) are incurring additional costs.</p> <p>Is this currently a legally required cost to the state? No, but TEA has pledged assistance.</p> <p>Issue: ESCs are incurring substantial costs as they help districts with hurricane-related remediation.</p> <p>TEA solution: TEA has pledged to help the ESCs, possibly by using its FSP transfer authority in Rider 25 of the 2018–2019 General Appropriations Act.</p>	<p>No.</p> <p>TEA will continue to collect hurricane-related costs from the ESCs and report to the legislature.</p>	State cost: \$1 million	State cost: \$1 million	State cost: \$2 million	

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