LEGISLATIVE BUDGET BOARD

Foundation School Program Overview

PRESENTED TO THE HOUSE COMMITTEE ON PUBLIC EDUCATION

LEGISLATIVE BUDGET BOARD STAFF FEBRUARY 2017

How are Schools Funded?

Three basic variables:

- **Number of students**
  - More students increase state cost
  - Fewer students decrease state cost
- **Property Values**
  - Higher values decrease state cost
  - Lower values increase state cost
- **Tax Rates**
  - Higher tax rates increase state cost
  - Lower tax rates decrease state cost

Statewide Assumptions for Basic Variables:
Student Enrollment Growth as projected by TEA:
81,796 in fiscal year 2018 (1.64% increase)
83,110 in fiscal year 2019 (1.64% increase)
Property Value Growth as projected by the Comptroller:
Tax Year 2016: +6.60%
Tax Year 2017: +5.85%
Tax Year 2018: +4.89%
Tax Effort: Assumption that approximately 40 districts would successfully pass tax ratification elections each year for an estimated state cost of:
2018: $40 million
2019: $80 million

Major Funding Categories with the Foundation School Program

Tier 1: Series of allotments, with local share determined by tax base and fixed tax rate, augmented by Hold Harmless

Tier 2: Equalized enrichment of Maintenance and Operations (M&O) tax effort

Facilities: Equalized enrichment of Interest and Sinking (I&S) tax effort

Maintenance and Operations Funding		Facilities Funding
Tier 1 - Formula Funding - Regular Program Allotment - Special Education Allotment - Compensatory Education Allotment - Bilingual Education Allotment - Career and Technology Education Allotment - Gifted and Talented Allotment - Public Education Grant Allotment - Transportation Allotment - Tuition Allotment - New Instructional Facilities Allotment - High School Allotment **Additional State Aid for Tax Reduction (ASATR) - Hold Harmless (when applicable) Expires Fiscal Year 2017**	Tier 2 - Enrichment Funding - Golden Pennies - Copper Pennies	Facilities Funding - Instructional Facilities Allotment - Existing Debt Allotment

Tier 1 Entitlement Funding

Basic Allotment	X	Cost of Education Index	X	Small and Mid-size Adjustment	=	Adjusted Allotment
$4,765 or great by appropriation ($5,140 in fiscal years 2018 and 2019)		Intended to adjust for cost outside districts' control. Range: 1.02 – 1.20		Adjustments for diseconomies of scale for districts with 1,600 ADA or below and between 1,600 and 5,000 ADA		($6,465 avg in FY 2017)

Adjusted Allotment is used to calculate amounts for

- **Regular Program** – for each student in attendance in the regular program; not weighted
- **Special Education** – funds services for students with disabilities; weights varies by instructional arrangement
- **Compensatory Education** – for educationally disadvantaged students; weight of .2 or 2.41 applied to FTE hours for pregnant students
- **Bilingual Education** – for students served in a bilingual or special language program; weight of .1
- **Career and Technology Allotment** – for each FTE student in attendance in an approved course; 135% of the Adjusted Allotment for time in approved classes plus $50 per student for students enrolled in certain advanced CTE classes
- **Gifted and Talented** – for students served in a gifted and talented program; weight is .12
- **Public Education Grant** – for students transferred from an outside district which is authorized to receive a public education grant; weight is .1

Tier 1 Allotments that are not a function of the Adjusted Allotment:

- **Transportation Allotment** – funds transportation to and from a school and a student's home based on an allocation per mile as identified by the GAA
- **Tuition Allotment** – for tuition paid by districts that do not offer all grade levels through grade 12
- **New Instructional Facilities Allotment** – subject to appropriations, to provide support for opening a new campus; $250 per student in ADA in first year of operation, plus $250 for each additional student in the second year of operation
- **High School Allotment** - $275 per student in ADA for grades 9 to 12

For most districts, state aid for Tier 1 is calculated by subtracting the amount of local revenue available for Tier 1 from the total Tier 1 entitlement

Tier 2 - Enrichment

The enrichment tier provides tax rate discretion to school districts.

	Golden Pennies	Copper Pennies
Applies to	First six pennies of tax effort above Tier 1 tax rate	Remaining pennies of tax effort above "Golden Penny" tax rate and $1.17 per $100 of taxable property value
Guaranteed Yield	The same amount of revenue per penny of tax effort per weighted student as Austin ISD ($99.85 per penny per WADA in FY 18 and $106.37 per penny per WADA in FY 19)	$31.95 per penny per WADA
Subject to Recapture	No	Yes (above Equalized Wealth Level of $319,500 per WADA)

Facilities Funding

Two state facilities funding programs:

Instructional Facilities Allotment

- Requires application
- New award cycles are subject to appropriation
- Only for the construction of instructional facilities
- Guaranteed yield of local tax effort of $35 per penny per student

Existing Debt Allotment

- Does not require application
- Must have made a debt service payment in the prior biennium
- Not limited to the construction of instructional facilities
- Guaranteed yield of local tax effort of $35 per penny per student

	2016-17 Expended	2018-19 HB 1	Difference
State Aid for Facilities (in millions)	$1,280.7	$1,207.2	($73.5)

NOTE: Figures above exclude the New Instructional Facilities Allotment (NIFA). House Bill 1 as Introduced includes $47.5 million for NIFA in the 2018-19 biennium, which represents level funding from 2016-17 biennial appropriations.

Recapture

- Governed by Chapter 41 of the Education Code
- A district with a wealth per weighted student that exceeds the Equalized Wealth Level is subject to recapture
- Tier 1 Equalized Wealth Level (EWL) is statutorily tied to Basic Allotment
    - EWL of $514,000 per WADA and Basic Allotment of $5,140 in the 2018-19 biennium per House Bill 1, as Introduced
- Tier 2
    - Golden Pennies are not subject to recapture
    - Copper Pennies Equalized Wealth Level: $319,500 per WADA
- A district subject to recapture must exercise at least one of 5 available options. In practice, most districts choose to remit tax revenues associated with property value above the Equalized Wealth Level directly to the state, which is then used as a method of financing the FSP. The amount of recapture revenue a district provides to the state is calculated to bring the districts wealth per weighted student down to the Equalized Wealth Level.
- Recapture funds are required by law to be used to fund the Foundation School Program and are not used for any other purpose.

Summary of FSP Hold Harmless Provisions

Additional State Aid for Tax Reduction (ASATR) – created by the Seventy-ninth Legislature, 3rd Called Session (2006) and modified by subsequent Legislatures

- Provides additional state aid if a district's Tier 1 formula calculation is less than Target Revenue
- Target Revenue is a legacy of 2006-07 revenue per WADA rebased in fiscal year 2010
- Expires at the end of Fiscal Year 2017

Additional State Aid for Homestead Exemptions (ASAHE) - created by the Eighty-fourth Legislature, Regular Session (2015)

- Provides districts with additional state aid to be held harmless for the SB 1 increase in the homestead exemption from $15,000 to $25,000
- Applies to both M&O and I&S revenue

Chapter 41 Hold Harmless - created by the Seventy-fourth Legislature, Regular Session (1995)

- Provides a higher Equalized Wealth Level based on certain district characteristics from 1992-93, reducing recapture for affected districts

	ASATR	ASAHE	Chapter 41
Total 2016-17 Biennial Cost (in millions)	$714.9	$203.0	$63.2
Number of Districts Affected in FY 2016	251	720 (M&O) 612 (Facilities)	42

NOTE: ASAHE Hold Harmless amount noted above is the portion of the total state cost of property tax relief (currently estimated at approximately $675 million per fiscal year) not automatically funded through the FSP funding formulas.

Foundation School Program Budget

The FSP is the single largest single appropriation of General Revenue Funds in the state budget.

The FSP receives a **sum-certain** All Funds appropriation, and all methods of finance are **estimated.**

Method of Finance	2016-17 Expended	2018-19 HB 1	Difference
General Revenue			
Foundation School Fund No. 193	$29,928,800,000	$29,957,900,000	$29,100,000
Available School Fund	$2,796,300,000	$3,078,000,000	$281,700,000
Lottery Proceeds	$2,630,800,000	$2,520,000,000	($110,800,000)
Tax Rate Conversion Fund	$200,000,000	$0	($200,000,000)
General Revenue, Subtotal	***$35,555,900,000***	***$35,555,900,000***	***$0***
Other Funds			
Property Tax Relief Fund	$3,332,900,000	$3,681,600,000	$348,700,000
Appropriated Receipts (Recapture Revenue)	$3,464,300,000	$4,596,900,000	$1,132,600,000
Other Funds, Subtotal	***$6,797,200,000***	***$8,278,500,000***	***$1,481,300,000***
Total	**$42,353,100,000**	**$43,834,400,000**	**$1,481,300,000**

House Bill 1 provides $1.47 billion in General Revenue Funds in addition to the amounts estimated to be needed to fully fund 2018-19 student enrollment growth and all other statutory obligations.

The additional funding is contingent on school finance legislation that improves equity, reduces recapture, and increases the state share of the Foundation School Program.

Notes:
(1) Amounts do not include $34.3 million of Foundation School Program set-asides.
(2) Amounts above do not include local revenue (with the exception of Recapture Revenue) since local property tax revenue is not appropriated by the state.

LEGISLATIVE BUDGET BOARD

Contact the LBB

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