

# METHODS OF FINANCING THE FOUNDATION SCHOOL PROGRAM

AN ISSUE BRIEF FROM LEGISLATIVE BUDGET BOARD STAFF

ID: 1375

JUNE 2014

## OBJECTIVE

The appropriation for the Foundation School Program is a sum-certain All Funds appropriation comprising five estimated methods of finance.

## KEY FACTS

- ◆ The Foundation School Program (FSP) appropriation contains revenue streams dedicated to supporting public education and unrestricted General Revenue Funds. The dedicated revenue appropriations are estimated and can increase or decrease based on actual revenue. The difference between the sum of those revenue sources and the sum-certain All Funds FSP appropriation is funded from the draw on unrestricted General Revenue Funds.

- ◆ The All Funds FSP appropriation is 80 percent General Revenue Funds and 20 percent Other Funds.

## BUDGETARY IMPACT

For the 2014–15 biennium, the FSP appropriation is \$40.4 billion in All Funds. Of that, \$32.4 billion is General Revenue Funds and \$8.0 billion is from Other Funds.

## STATUTORY REFERENCES

Texas Education Code, Sections 41.094 and 42.253 and Chapter 43

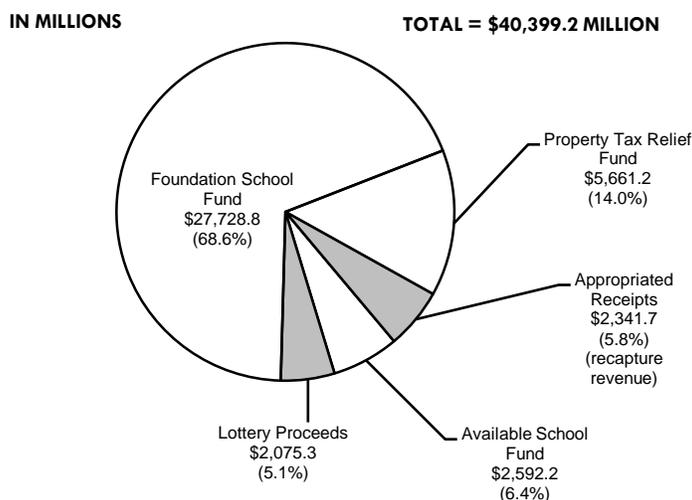
Texas Government Code, Section 403.109

Texas Government Code, Section 466.355

The Foundation School Program (FSP) is the primary mechanism for distributing state funding for public education. It is the single largest state-funded program in the state budget. The appropriation for the FSP is unique in that the All Funds appropriation is sum-certain, but each of the five methods of finance is estimated. Several of the methods of finance are dedicated for public education and cannot be used for another purpose. These include the Available School Fund (ASF), Lottery Proceeds, the Property Tax Relief Fund (PTRF), and Appropriated Receipts (recapture revenues). Their appropriation is necessarily based on the projected revenues for the biennium. The estimated nature of the appropriation of these methods of finance allows for all of the dedicated revenues in those funds to be used to support the FSP. The difference, up to the sum certain All Funds appropriation, is made up from an account within the General Revenue Fund, the Foundation School Fund. If revenue from the dedicated resources increases relative to projections, the draw on unrestricted General Revenue Funds decreases and vice versa.

The Foundation School Fund comprises the largest share of the All Funds FSP appropriation. Fig. 1 shows the share represented by each Method of Finance in the 2014–15 biennial appropriation.

**FIG. 1  
METHODS OF FINANCING THE FOUNDATION SCHOOL PROGRAM  
2014–15 BIENNIAL APPROPRIATION**



SOURCE: Legislative Budget Board.

**AVAILABLE SCHOOL FUND (GENERAL REVENUE FUND)**

The ASF is a constitutionally dedicated fund for the support of the public education system. It is funded in part from returns on investment of the Permanent School Fund, a constitutionally dedicated investment fund primarily managed by the State Board of Education. Additionally, the ASF receives 25 percent of the state's motor fuels tax revenue, and the General Land Office (GLO) may transfer up to \$300 million per year from holdings the GLO manages on behalf of the FSP. Authority for the GLO transfer was established through a constitutional amendment approved by Texas voters in 2011.

The Texas Constitution states that "the available school fund shall be distributed to the several counties according to their scholastic population and applied in the manner provided by law." This language has been interpreted to allow these funds to serve both to fund instructional materials and as a method of financing the FSP through an allocation to all school districts and charter schools on a per student basis. Because ASF funding must be provided to all students, even school districts that are not otherwise eligible for state aid through the FSP formulas are entitled to the per capita allocation. For school districts that do receive state aid through the FSP, the ASF per capita allocation funds a portion of that entitlement.

**LOTTERY PROCEEDS (GENERAL REVENUE FUND)**

Since 1997, proceeds from the sale of Texas Lottery games, net of the cost of administering the lottery, awarding prizes, and deducting an allocation for the support of veterans' assistance, are statutorily dedicated to funding the FSP.

**FOUNDATION SCHOOL FUND, FUND 193 (GENERAL REVENUE FUND)**

The Foundation School Fund is an account within the General Revenue Fund used exclusively for the purpose of funding public education. It is not dedicated in statute, but it is not appropriated directly to any agency other than the Texas Education Agency (TEA).

**PROPERTY TAX RELIEF FUND (OTHER FUNDS)**

The PTRF, established by the Legislature in 2006, is a fund outside of General Revenue Funds (Other Funds). The fund was established as part of the effort to compress school district maintenance and operations property tax rates by one-third and serves to finance a portion of the state cost of replacing that lost local revenue. The PTRF is funded with revenues resulting from a package of legislation that was enacted in the same session, which altered the franchise (business margins) tax, motor vehicle sales and use tax, and taxes on tobacco products. The amounts deposited to the PTRF are the incremental amounts generated by the change in those taxes enacted by the legislation, with the greatest contributions coming from the franchise tax.

**APPROPRIATED RECEIPTS (OTHER FUNDS)**

The final estimated method of finance supporting the FSP is Appropriated Receipts. The term Appropriated Receipts refers to revenues collected by a state agency, and many state agencies have Appropriated Receipts as a method of finance from various revenue sources and programs. For TEA, the entire Appropriated Receipts appropriation consists of revenue collected from school districts subject to recapture. School districts with property wealth per student that exceeds the statutory limit established in Texas Education Code, Chapter 41, must select one of four statutorily established options for reducing wealth. The most commonly selected option is to remit funds directly to the state. Those revenues are then used as a method of financing state aid through the FSP.

**LOCAL PROPERTY TAX REVENUE RETAINED LOCALLY (NOT APPROPRIATED)**

The FSP is a shared funding structure in which state appropriations combine with local property tax revenue to fund school districts' total entitlement. In the 2014–15 biennium, state funding comprises about 46 percent of total FSP funding. An estimated \$45.1 billion in local property tax revenue makes up the remainder.

**CONTACT**

Aaron Henriksen

Email: [Issuebrief@lbb.state.tx.us](mailto:Issuebrief@lbb.state.tx.us)