

# **Foundation School Program Overview**

PRESENTED TO HOUSE COMMITTEE ON APPROPRIATIONS AND THE HOUSE

COMMITTEE ON PUBLIC EDUCATION

LEGISLATIVE BUDGET BOARD STAFF

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### **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:**

83,000 in fiscal year 2016 (1.7% increase)

85,000 in fiscal year 2017 (1.7% increase)

### **Property Value Growth:**

Tax Year 2014: +8.74%

Tax Year 2015: +4.56%

Tax Year 2016: +6.18%

**Tax Effort:** Assumption that approximately 40 districts would successfully pass tax ratification elections each year for an estimated state cost of:

2016: \$35 million

2017: \$65 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 C	Facilities Funding	
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Tier 1 - Formula Funding	Tier 2 - Enrichment Funding	Facilities 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	- Golden Pennies - Copper Pennies	- Instructional Facilities    Allotment    - Existing Debt Allotment

# **Tier 1 Entitlement Funding**

#### **Basic Allotment**

#### Cost of Education Index

#### Small and Mid-size Adjustment

### **Adjusted Allotment**

\$4,765 or great by appropriation (\$5,140 in fiscal years 2016 and 2017)

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)

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 (\$74.28 per penny per WADA in FY 16 and \$77.53 per penny per WADA in FY 17)	\$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

	2014-15 Expended	2016-17 Appropriated	Difference
State Aid for Facilities (in millions)	\$1,207.1	\$1,445.1	\$238.0

NOTE: Does not include funding of \$23.75 million in each fiscal year of the 2016-17 biennium for the New Instructional Facilities Program

# 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 2016-17 biennium
- Tier 2
  - Golden Pennies are not subject to recapture
  - Copper Pennies Equalized Wealth Level: \$319,500 per WADA in the 2016-17 biennium
- 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, 3<sup>rd</sup> 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)	\$565.4	\$195.6	\$62.8
Number of Districts Affected	249	694	40

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 **<u>sum-certain</u>** All Funds appropriation, and all six methods of finance are **<u>estimated.</u>** 

Method of Finance	2014-15 Expended	2016-17 Appropriated	Difference
General Revenue			
Foundation School Fund No. 193	\$26,753,600,000	\$30,112,800,000	\$3,359,200,000
Available School Fund	\$2,471,700,000	\$2,777,500,000	\$305,800,000
Lottery Proceeds	\$2,426,900,000	\$2,416,300,000	(\$10,600,000)
Tax Rate Conversion Fund	\$0	\$200,000,000	\$200,000,000
General Revenue, Subtotal	\$31,652,200,000	\$35,506,600,000	\$3,854,400,000
Other Funds			
Property Tax Relief Fund	\$5,366,900,000	\$2,949,900,000	(\$2,417,000,000)
Appropriated Receipts (Recapture Revenue)	\$2,604,400,000	\$3,845,000,000	\$1,240,600,000
Other Funds, Subtotal	\$7,971,300,000	\$6,794,900,000	(\$1,176,400,000)
Total	\$39,623,500,000	\$42,301,500,000	\$2,678,000,000

### Sources of Biennial Increase of \$2.7 billion:

- FSP entitlement increase -\$1.5 billion
- Homestead exemption increase - \$1.2 billion

NOTE: Franchise tax relief of \$2.6 billion did not affect the All Funds appropriation, but did increase the GR appropriation and decrease the Property Tax Relief Fund appropriation

#### 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.
- (3) 2016-17 Appropriated Receipts are estimated to be lower than appropriated amounts due to the increase in the homestead exemption (current projection is \$3.6 billion)



### **Contact the LBB**

Legislative Budget Board www.lbb.state.tx.us 512.463.1200