FOUNDATION SCHOOL PROGRAM FUNDING FOR SCHOOL FACILITIES

AN ISSUE BRIEF FROM LEGISLATIVE BUDGET BOARD STAFF

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OBJECTIVE

The Foundation School Program's Instructional Facilities Allotment and Existing Debt Allotment provide state assistance for the repayment of locally authorized debt that is issued for the construction of school facilities. A new provision supplies state hold harmless revenue to replace local revenue lost due to the increase in the homestead exemption effective in fiscal year 2016.

KEY FACTS

- School district debt service equalization accounts for about $8.4 billion (9.3 percent) of FSP entitlement for the 2016–17 biennium. The state share for these programs is $1.4 billion (3.0 percent) of the total FSP All Funds appropriation amount.
- Eighty-four percent of school districts have qualifying debt service for one or both FSP Facilities programs during the 2016–17 biennium. About half of districts with qualifying debt service receive state aid at the programs' current $35 yield.

BUDGETARY IMPACT

The 2016–17 biennial appropriations to the Texas Education Agency for the Foundation School Program's Instructional Facilities Allotment program and the Existing Debt Allotment program are $1.4 billion in All Funds.

STATUTORY REFERENCES

The Texas Education Code, Chapter 46

The Foundation School Program (FSP) provides assistance for the repayment of locally authorized debt issued for the construction of public school facilities. FSP support for the repayment of debt is provided primarily through two programs: the Instructional Facilities Allotment (IFA) and the Existing Debt Allotment (EDA). FSP entitlement for IFA and EDA is funded through a combination of state aid and local property tax revenue. Debt service equalization through IFA and EDA accounts for about $8.4 billion or 9.3 percent of total FSP entitlement for the 2016–17 biennium. The state share for these programs, together with additional state aid to compensate for local revenue lost through the increase in the homestead exemption, is provided through $1.4 billion (3.0 percent) of the total FSP All Funds appropriation amount. About 84.0 percent of school districts have qualifying debt service in one or both of the FSP facilities programs in fiscal year 2016.

INSTRUCTIONAL FACILITIES ALLOTMENT

The IFA program, initiated in 1997, provides funding through an application and award process. New funding awards are made based on the availability of specific appropriations. School districts can apply for IFA funding for bonded debt and for certain types of lease-purchase arrangements. To qualify for IFA assistance, debt service must be for instructional facilities. Award amounts per district per biennium are limited to the greater of $250 per student or $100,000. By statute, districts are ranked for the purpose of making awards, with district property wealth per student being the primary ranking criterion to ensure that funding is targeted toward property-poor school districts. However, statute also provides for ranking enhancements if a school district has a high rate of enrollment growth, has no outstanding debt, or has been denied an award in a prior funding cycle.

The program provides state aid through a guaranteed yield on local tax effort of $35 per penny per student. School districts' local share of IFA is met by levying and collecting tax revenue. The award and guaranteed yield on local tax effort remain in effect until the debt covered by the award is retired. The annual amount of debt service qualifying for state aid is limited to the lesser of the award amount or actual debt service.

Since the program's inception, there have been 10 IFA award cycles. The Eighty-fourth Legislature appropriated $55.5 million for a new cycle of IFA awards for fiscal year 2017. In fiscal year 2016, 440 school districts have debt service covered by previously issued IFA awards. Projected entitlement for the IFA program for the 2016–17 biennium is $1.5 billion, consisting of $0.6 billion in state aid with a local share of $0.9 billion.

EXISTING DEBT ALLOTMENT

The EDA program, initiated in 1999, provides state support for debt service costs on bonds issued by school districts. The districts are not required to apply for funding through the EDA program. Debt service automatically qualifies for EDA if a payment was made on the debt in the prior biennium. Debt service earning entitlement through the IFA program is excluded from eligible debt service when calculating EDA entitlement.

The EDA program provides state aid through a guaranteed yield on school district taxes levied to pay the principal and interest on eligible bonds. Annual EDA entitlement per school district is limited to a guaranteed yield of $35 per penny per student for the lesser of the following three rates: (1) the district's effective rate needed to service eligible debt; (2) the district's effective interest and sinking rate for the second year of the prior biennium; or (3) $0.29. School districts' local share of EDA is met by levying and collecting property tax revenue. For the 2016–17 biennium, 851 school districts have debt service that is eligible for the EDA program. Projected entitlement for the EDA program for the 2016–17 biennium is $6.7 billion, consisting of $0.6 billion in state aid with a local share of $6.1 billion.

ADDITIONAL STATE AID FOR HOMESTEAD EXEMPTION – FACILITIES

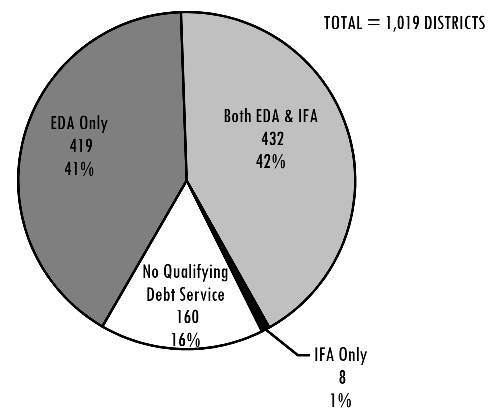
In fiscal year 2016, the amount of homestead valuation that is exempt from school property taxation increased from $15,000 to $25,000. The IFA and EDA structures deliver additional state aid in response to changes in a school district's tax base, such as the increase in the homestead exemption. However, for many districts the additional aid delivered through those programs does not fully offset the reduction in local interest and sinking revenue. Beginning with fiscal year 2016, school districts qualify for additional state aid to compensate for revenue loss associated with the change in the homestead exemption that is not offset by increased state aid delivered through IFA and EDA. State support is calculated using the lesser of actual IFA and EDA eligible debt service for bonds each year or eligible debt service for bonds as of September 1, 2015. This state aid is commonly known as Additional State Aid for Homestead Exemption for Facilities (ASAHE-Facilities) to distinguish it from a similarly named aid provision for FSP maintenance and operations funding. ASAHE-Facilities funding is estimated to total $0.2 billion for the 2016–17 biennium.

SCHOOL DISTRICT PARTICIPATION AND FUNDING HISTORY

In fiscal year 2016, 859 school districts have qualifying debt service for the EDA or IFA programs. **Figure 1** shows that a significant portion of districts have qualifying debt service in both programs. Both IFA and EDA currently have a guaranteed yield of $35 per penny per student in average daily attendance (ADA).

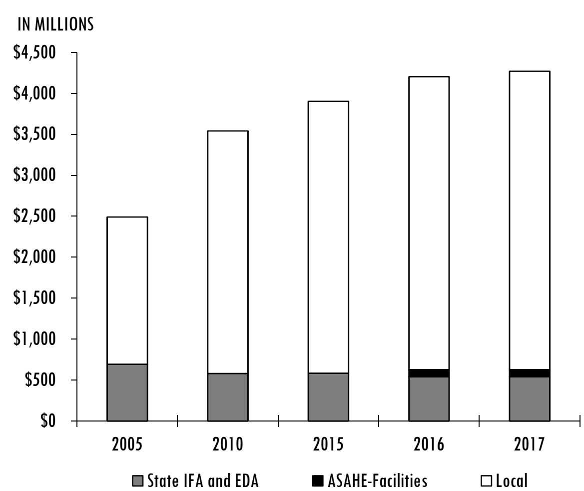
Figure 2 shows the state and local share of entitlement for the programs for historical fiscal years and the current biennium. During this time, the share of local revenue making up total entitlement has increased due to the combined effects of property value growth and the guarantee remaining constant at the $35 level. As property values increase, a smaller proportion of districts have local yields below the guarantee level. For fiscal year 2016, the $35 per penny per ADA yield represents the 45th percentile of wealth per ADA among school districts. Of the 859 districts with qualifying debt service in one or both programs, 416 are projected to have local yields at or above the $35 yield during fiscal year 2016. For districts with local yields greater than or equal to $35 guarantee level, EDA and IFA entitlement consists solely of local revenue. Districts with local yields that are less than the $35 guarantee level have EDA and IFA entitlement consisting of a mix of state aid and local revenue.

FIGURE 1
SCHOOL DISTRICT PARTICIPATION IN FSP FACILITIES PROGRAMS, FISCAL YEAR 2016



SOURCE: Legislative Budget Board.

FIGURE 2
FSP FACILITIES ENTITLEMENT, STATE AND LOCAL SHARES FISCAL YEARS 2005, 2010, AND 2015 TO 2017



SOURCE: Legislative Budget Board.

USEFUL REFERENCES

The Texas Education Code, Chapter 46
www.statutes.legis.state.tx.us/Docs/ED/htm/ED.46.htm

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