



LEGISLATIVE BUDGET BOARD

Foundation School Program Overview

**PRESENTED TO HOUSE COMMITTEE ON PUBLIC EDUCATION
LEGISLATIVE BUDGET BOARD STAFF**

FEBRUARY 2019

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:

65,045 in fiscal year 2020 (1.28% increase)

65,880 in fiscal year 2021 (1.28% increase)

Property Value Growth as projected by the Comptroller:

Tax Year 2018: +7.04%

Tax Year 2019: +6.19%

Tax Year 2020: +4.07%

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

2020: \$40 million

2021: \$80 million

Major Funding Categories in the Foundation School Program

Maintenance and Operations (M&O) Funding		Facilities Funding
Tier 1 – Formula Funding	Tier 2 – Enrichment Funding	
• Regular Program Allotment	• Golden Pennies	• Instructional Facilities Allotment
• Special Education Allotment	• Copper Pennies	• Existing Debt Allotment
• Compensatory Education Allotment		
• Bilingual Education Allotment		
• Career and Technology Education Allotment		
• Gifted and Talented Allotment		
• Public Education Grant Allotment		
• Transportation Allotment		
• New Instructional Facilities Allotment		
• High School Allotment		

M&O Tier 1: Series of allotments, with local share determined by tax base and fixed tax rate

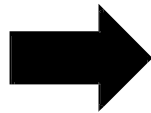
M&O Tier 2: Equalized enrichment of Maintenance and Operations (M&O) tax effort

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

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 2020 and 2021)		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		(\$6,545 avg in FY 2018)

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 (\$126.88 per penny per WADA in FY 20 and \$135.92 per penny per WADA in FY 21)	\$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

	2018-19 Base	2020-21 HB 1	Difference
State Aid for Facilities (in millions)	\$1,140.6	\$1,146.8	\$6.2

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

NOTE: Figures above exclude the New Instructional Facilities Allotment (NIFA). House Bill 1 as Introduced includes \$47.5 million for NIFA in the 2020-21 biennium, which represents level funding from 2018-19 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.

House Bill 21, 85th Legislature, First Called Session, 2017

House Bill 21, First Called Session, 2017, transferred \$311.0 million of existing Health and Human Services Commission appropriations to the Texas Education Agency to implement the following FSP changes and new programs:

- the Financial Hardship Transition Program, funded at \$150.0 million, provides grants to school districts that otherwise would experience financial hardships from other statutory changes occurring during the 2018–19 biennium;
- charter schools are provided with facilities funding for the first time, with \$60.0 million provided for this purpose for the 2018–19 biennium;
- the legislation provides \$60.0 million for an increase in the yield for the Existing Debt Allotment; and
- the legislation provides \$41.0 million for a change in the small-sized district adjustment applied to the Basic Allotment.

In addition to the above FSP changes, the legislation established both the Dyslexia Grant Program and the Autism Grant Program. House Bill 30, First Called Session, 2017, provided \$40.0 million for these programs (\$10.0 million each fiscal year for each program).

Foundation School Program Budget: 2018-19 Base Compared to House Bill 1

House Bill 1 fully funds the state's FSP statutory obligations, including \$2.4 billion for anticipated enrollment growth, and \$2.2 billion for the increase in the golden penny yield, based on the assumptions laid out previously.

The 2020-21 General Revenue cost to maintain current law is \$1.6 billion less than the 2018-19 cost. House Bill 1 provides this \$1.6 billion in General Revenue for the FSP, and, in addition, provides another \$7.4 billion in General Revenue Funds, contingent on the enactment of legislation that increases the state share of the FSP, enhances district entitlement, reduces recapture, and provides local property tax relief, while maintaining an equitable system of school finance. In total, HB 1 provides FSP General Revenue funding \$9.0 billion above the estimated cost of current law.

Method of Finance	2018-19 Base	2020-21 HB 1	Difference
General Revenue			
Foundation School Fund No. 193	\$28,343.3	\$35,516.9	\$7,173.6
Available School Fund	\$3,489.1	\$3,591.4	\$102.3
Lottery Proceeds	\$2,786.8	\$2,867.2	\$80.4
General Revenue, Subtotal	\$34,619.2	\$41,975.5	\$7,356.3
Other Funds			
Property Tax Relief Fund	\$3,431.6	\$3,603.3	\$171.7
Recapture Revenue	\$4,669.2	\$7,022.9	\$2,353.7
Other Funds, Subtotal	\$8,100.8	\$10,626.2	\$2,525.4
Total	\$42,720.0	\$52,601.7	\$9,881.7

NOTES:

1. Amounts above exclude FSP set-asides.
2. With the exception of Recapture Revenue, amounts above do not include local revenue.



LEGISLATIVE BUDGET BOARD

Contact the LBB

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