



LEGISLATIVE BUDGET BOARD

# **Summary of Foundation School Program:**

## **2014-15 Biennial Base and 2016-17 House Bill 1 Recommendation**

**PRESENTED TO HOUSE COMMITTEE ON APPROPRIATIONS**

**LEGISLATIVE BUDGET BOARD STAFF**

**FEBRUARY 2015**

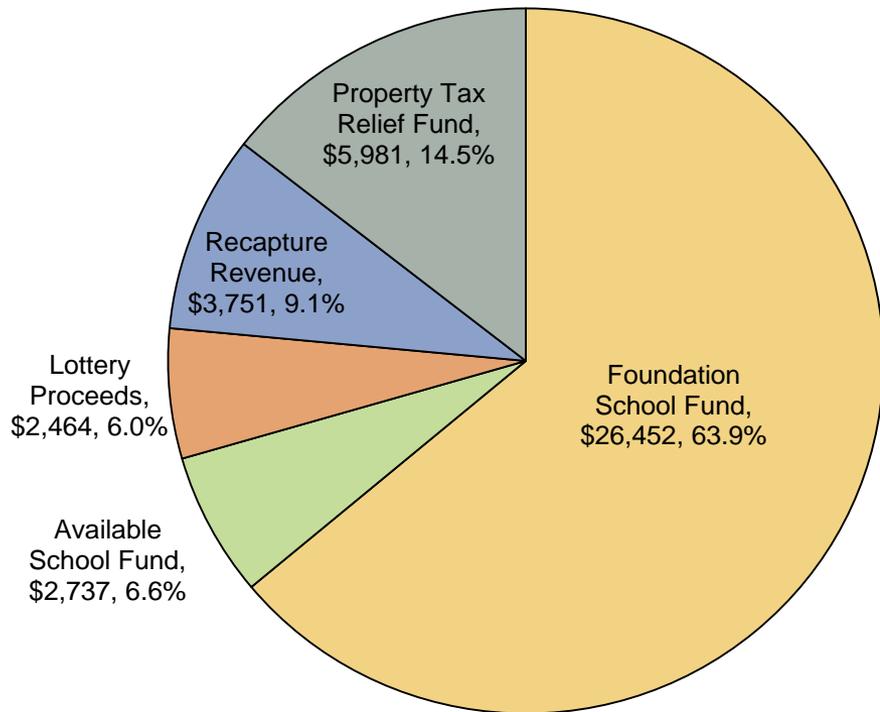
# Foundation School Program Overview

The FSP is the system of statutory funding formulas that provide the primary means of distributing state aid to Texas public schools.

The FSP is funded jointly through a combination of local property tax revenue and state funds that make up a total revenue entitlement for school districts and charter schools.

The FSP is the largest single General Revenue appropriation in the state budget, comprising approximately one-third of the total General Revenue budget and about 20 percent of the All Funds budget. It comprises 95 percent of TEA's General Revenue Budget and 78 percent of TEA's All Funds budget.

# FSP State Methods of Finance, 2016-17 Biennial Recommendation\* (in millions)



**All Funds: \$41,383.3 million**

## General Revenue Funds Dedicated for Public Education

**Available School Fund (ASF)**- (Permanent School Fund distribution, 25 percent motor fuels tax, General Land Office discretionary transfer)

**Lottery Proceeds**

## Other Funds Dedicated for Public Education

**Property Tax Relief Fund (PTRF)**- (portion of franchise tax, tobacco taxes, liar's affidavit)

**Recapture Revenue**- (payments from property wealthy school districts)

## Foundation School Fund (GR, Fund 193)

State costs not covered by other MOFs are funded from General Revenue

\*Amounts exclude TEA programs funded from funds set-aside from the FSP.

# Key FSP Formula Funding Elements

FSP Funding Elements		House Bill 1 Amounts
<b>Tier 1 Funding Elements</b>		
<b>Basic Allotment</b>	<ul style="list-style-type: none"> <li>• Primary formula element in Tier 1</li> <li>• Statute sets the Basic Allotment at \$4,765 or higher by appropriation</li> </ul>	\$5,040
<b>Equalized Wealth Level</b>	<ul style="list-style-type: none"> <li>• Property wealth per WADA above which school districts are subject to recapture in Tier 1</li> <li>• Tied in statute to Basic Allotment</li> </ul>	\$504,000 per Weighted Average Daily Attendance (WADA)
<b>Hold Harmless Reduction Percentage</b>	<ul style="list-style-type: none"> <li>• Established by Senate Bill 1, 82<sup>nd</sup> First Called Session to achieve entitlement reduction</li> <li>• Set in the GAA beginning in FY2013</li> <li>• Target Revenue Hold Harmless expires in FY2018</li> </ul>	0.9263
<b>Tier 2 Funding Elements</b>		
<b>Austin ISD Yield</b>	Yield associated with first six enrichment pennies levied above compressed tax rate (Golden Pennies)	\$72.94 per penny per WADA in 2016 and \$76.75 per WADA in 2017
<b>Pennies Equalized At \$31.95 Yield</b>	Yield associated with enrichment pennies levied above compressed tax rate plus six pennies up to the \$1.17 maintenance and operations tax rate cap (Copper Pennies)	\$31.95 per penny per WADA

# Major FSP Budget Drivers

## District Property Values (DPV)

Under current law, DPV growth reduces the level of state aid needed to fund FSP entitlement.

Tax Year	CPA Projection	Budget Years Affected	83 <sup>rd</sup> Assumptions
Tax Year 2013	+ 5.83% (actual)	Fiscal Years 2014 & 2015	+ 4.77%
Tax Year 2014	+ 8.64% (projected)	Fiscal Years 2015 & 2016	+ 4.03%
Tax Year 2015	+ 5.71% (projected)	Fiscal Years 2016 & 2017	
Tax Year 2016	+ 5.30% (projected)	Fiscal Years 2017 & 2018	

## District Tax Effort

**Assumption:** On a statewide level, about 40 school districts will successfully pass Tax Ratification Elections (TREs) each year for a biennial state cost of \$100 million.

Currently, 288 school districts (28 percent) have adopted the statutory maximum tax rate of \$1.17. About 56 percent of taxing districts (572) have adopted M&O tax rates of \$1.04.

# Major FSP Budget Drivers, cont'd

## Student Growth

TEA projects a total average daily attendance (ADA) of 4,944,349 in fiscal year 2016 and 5,029,406 in fiscal year 2017, with an overall biennial growth rate of 1.72%.

Fiscal Year	Number of New Students	Rate of Growth
FY2014	82,047 ADA	1.75% (actual)
FY2015	81,440 ADA	1.70% (projected)
FY2016	83,620 ADA	1.72% (projected)
FY2017	85,058 ADA	1.72% (projected)

Reflects strong growth projected in compensatory education, bilingual education, and career and technical education populations.

Reflects relatively flat growth in FTEs served in special education settings (0.3%) and a slight decline in special education mainstream ADA (-0.8%).

# 2014-15 FSP GR Appropriations vs. 2014-15 FSP Base

<b>2014-15 FSP GR Appropriations (in millions)</b>	<b>\$32,362</b>
<b>New Costs/(Savings)</b>	
<b>Settle-up.</b> FY2013 and FY2014 overpayments led to larger than projected savings in FY2014 and FY2015.	(\$370)
<b>Updated Drivers.</b> Primarily related to updated district property values and enrollment amounts.	(\$370)
<b>2014-15 Cost Adjustments</b>	<b>(\$740)</b>
<b>Method of Finance Shifts (reducing draw on GR)</b>	
<b>PTRF.</b> 2014-15 revenue below estimate due to impact of franchise tax exemption in HB 500.	\$290
<b>Recapture.</b> Revenue higher than appropriated due to strong property value growth.	(\$260)
<b>2014-15 MOF Shifts</b>	<b>\$30</b>
<b>Total, 2014-15 GR Base Adjustments</b>	<b>(\$710)</b>
<b>2014-15 FSP GR Base (Adjusted)</b>	<b>\$31,652</b>

SOURCE: Legislative Budget Board.

# 2014-15 FSP GR Base Compared to House Bill 1

House Bill 1 fully funds the state's statutory obligation in the FSP, including anticipated enrollment growth, based on the assumptions laid out previously. In addition, House Bill 1 adds another \$2.2 billion in General Revenue Funds above what is estimated to be required to fully fund the 2016-17 current law entitlement. The additional \$2.2 billion will be delivered to districts in a manner determined by the Legislature to improve equity, reduce recapture, and increase the state's share of the school finance system.

<b>2014-15 FSP GR Base (in millions)</b>	<b>\$31,652</b>
<b>New Costs/(Savings)</b>	
Enrollment Growth	\$2,500
DPV Change	(\$4,500)
Settle Up	\$80
Enrichment Tax Effort and Prior Year and Other Adjustments	\$34
Recapture Revenue over base	(\$1,150)
16-17 PTRF increase over base	(\$610)
<b>Total 2016-17 Current Law Costs Over 2014-15 Base</b>	<b>(\$2,216)</b>
<b>Additional FSP Changes in HB 1</b>	
<b>2016-17 GR Cost Over Current Law: FSP appropriations in addition to funding needed for anticipated enrollment growth and all other statutory obligations</b>	<b>\$2,216</b>
<b>2016-17 GR Cost Over 2014-15 GR Base</b>	<b>\$0</b>



## LEGISLATIVE BUDGET BOARD

# Contact the LBB

Legislative Budget Board

[www.lbb.state.tx.us](http://www.lbb.state.tx.us)

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