FOUNDATION SCHOOL PROGRAM FUNDING FOR SCHOOL FACILITIES

AN ISSUE BRIEF FROM LEGISLATIVE BUDGET BOARD STAFF

ID: 1371 AUGUST 2014

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.

KEY FACTS

- ♦ School district debt service equalization accounts for about $8.0 billion (9.6 percent) of FSP entitlement for the 2014–15 biennium. The state share for these programs is $1.3 billion (3 percent) of the total FSP All Funds appropriation amount.
- ♦ Eighty percent of school districts are participating in one or both FSP Facilities programs during the 2014–15 biennium.

BUDGETARY IMPACT

All Funds appropriations to the Texas Education Agency for qualifying local debt service obligations for school facilities under the Foundation School Program's Instructional Facilities Allotment program and the Existing Debt Allotment Program for the 2014–15 biennium are $1.3 billion.

STATUTORY REFERENCES

Texas Education Code, Chapter 46

The Foundation School Program (FSP) is the primary means of distributing state aid to Texas public schools. In addition to distributing funding in support of public schools' ongoing operating costs, the FSP provides assistance for the repayment of locally authorized debt issued for the construction of public school facilities. FSP support for the repayment of locally-authorized debt issued for the construction of public school facilities is provided through two programs: the Instructional Facilities Allotment (IFA) and the Existing Debt Allotment (EDA). Like funding for operations, FSP entitlement for facilities is funded through a combination of state aid and local property tax revenue. Debt service equalization through IFA and EDA accounts for about $8.0 billion or 9.6 percent of total FSP entitlement for the 2014–15 biennium. The state share for these programs is provided through $1.3 billion (3 percent) of the total FSP All Funds appropriation amount. By statute, EDA and IFA have a higher priority for appropriations than FSP funding for operations.

About 80 percent of school districts have eligible debt service in one or both of the FSP facilities programs, while 19 percent of school districts are levying no taxes for debt service in fiscal year 2014 and are not accessing either program. The remaining one percent of districts may have debt service that will become eligible for the EDA program in the next biennium.

INSTRUCTIONAL FACILITIES ALLOTMENT

In 1997, the Legislature created the IFA program to provide state support for the cost of school facilities. School districts receive IFA funding through an application and award process. New funding awards are made based on the availability of specific appropriations. Under 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.

School districts can apply for IFA funding for bonded debt and for certain types of lease-purchase arrangements. To qualify for assistance under IFA, debt service must be for instructional facilities. Total entitlement award amounts per district per biennium are limited to the greater of $250 per student or $100,000. The program provides state aid through a guaranteed yield on local tax effort of $35.00 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 ten IFA award cycles. For the 2014–15 biennium, 444 school districts have debt service covered by an IFA award. Total entitlement for the IFA program for the 2014–15 biennium is $1.6 billion, consisting of $0.6 billion in state aid with a local share of $1.0 billion.

EXISTING DEBT ALLOTMENT

The EDA program was created in 1999 to provide state support for debt service costs for bonds issued by school districts with the approval of local voters. School districts are not required to apply for funding under the EDA program. A school district automatically qualifies for EDA assistance for any debt service on bonded debt, excluding that covered by IFA, if a payment was made on the debt in the prior biennium.

To qualify for funding under EDA, debt service must be for bonded debt. Like the IFA program, EDA 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 $35.00 per penny per student for the lesser of three rates: the district's effective rate needed to service eligible debt, the district's effective interest and sinking rate for the second year of the prior biennium, or $0.29. School districts' local share of EDA is met by levying and collecting tax revenue.

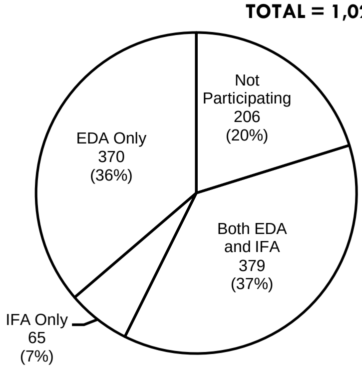
For the 2014–15 biennium, 749 school districts have debt service covered by the EDA program. Total entitlement for the EDA program for the 2014–15 biennium is $6.4 billion, consisting of $0.7 billion in state aid with a local share of $5.7 billion.

SCHOOL DISTRICT PARTICIPATION AND FUNDING HISTORY

A total of 814 school districts are participating in the EDA and IFA programs during the 2014–15 biennium. As noted in Fig. 1, a significant portion of participating districts have qualifying debt service in both programs. Among the districts with no qualifying debt service in either program, 192 are levying no local property taxes for debt service in fiscal year 2014 are assumed to have no outstanding bonded debt. The remaining 14 districts may have debt service that will qualify for assistance under the EDA program beginning with the 2016–17 beinnium.

FIG. 1: SCHOOL DISTRICT PARTICIPATION IN FOUNDATION SCHOOL PROGRAM FACILITIES PROGRAMS 2014–15 BIENNIUM

TOTAL = 1,020 DISTRICTS

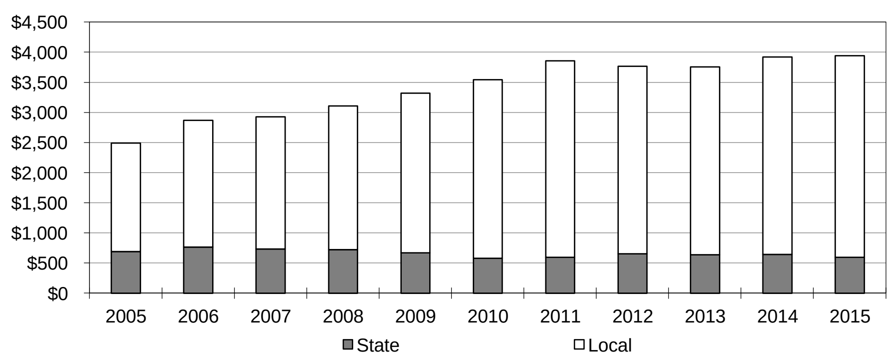


SOURCE: Legislative Budget Board.

Both the IFA and EDA programs currently have a guaranteed yield of $35 per penny per student in average daily attendance (ADA). The initial guaranteed yield for the IFA program was $28 for the 1998–99 biennium, with the current $35 yield taking effect in fiscal year 2000. The yield for the EDA program was established at $35 beginning with fiscal year 2000 and was limited to a maximum of $0.12 of tax effort. The limit on tax effort for EDA was increased to $0.29 beginning with fiscal year 2002. Fig. 2 shows the state and local share of entitlement for the programs for fiscal years 2005 through 2015. Overall entitlement for the programs has increased, with a larger portion of the increase in the form of local share due to the guarantee remaining constant at the $35 level. As property values increase, a smaller proportion of districts have local yields below this guarantee level. The $35 per penny per ADA yield falls at the 56th percentile of wealth per ADA among school districts in fiscal year 2014. Of the 814 districts with qualifying debt service in one or both programs, 399 districts are projected to have local yields at or above the $35 yield during the 2014–15 biennium.

FIG. 2: FOUNDATION SCHOOL PROGRAM FACILITIES ENTITLEMENT STATE & LOCAL SHARE FISCAL YEARS 2005-2015

IN MILLIONS



SOURCE: Legislative Budget Board.

USEFUL REFERENCES

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

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