

FOUNDATION SCHOOL PROGRAM OVERVIEW



AN ISSUE BRIEF FROM LEGISLATIVE BUDGET BOARD STAFF

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OBJECTIVE

The Foundation School Program serves as the primary funding mechanism for public schools in Texas.

KEY FACTS

- ◆ The Foundation School Program provides funding in support of the ongoing operating costs of public schools and aid for the repayment of long-term debt issued to build school facilities.
- ◆ The Foundation School Program distributes funding to more than 1,000 school districts and 200 charter holders, supporting the education of approximately 5.2 million students each year. Texas ranks first among the 50 states in the number of operating school districts and second in the number of students enrolled in public schools.

BUDGETARY IMPACT

All Funds appropriations to the Foundation School Program for the 2014–15 biennium are \$40.4 billion consisting of \$39.1 billion for ongoing operations and \$1.3 billion for debt service obligations for school facilities. The Foundation School Program is the largest single appropriation of state funds in the budget.

STATUTORY REFERENCES

Texas Education Code, Chapters 41, 42 and 46

Texas Constitution Article VIII, Section 1

The Foundation School Program (FSP) is the primary means of distributing state aid to Texas public schools. FSP entitlement for Texas public schools is funded through a combination of state aid and local property tax revenue and totals approximately \$83.3 billion for the 2014–15 biennium. The state share is supported with an All Funds appropriation of \$40.4 billion. The FSP distributes funding in support of public schools' ongoing operating costs and provides assistance for the repayment of locally authorized debt issued for the construction of public school facilities. FSP entitlement is calculated for each school district and charter school using formulas established by the Legislature in the Texas Education Code and the General Appropriations Act. For school districts with taxing authority, the portion of entitlement that is not covered by local property tax revenue is provided as state aid. For school districts without taxing authority and charter schools, entitlement is provided solely as state aid.

FOUNDATION SCHOOL PROGRAM OPERATIONS STRUCTURE

FSP funding supporting schools' ongoing operating costs is provided through two mechanisms. The first and largest portion of funding for school maintenance and operations is known as Tier 1. Tier 1 is formula-driven and is augmented by hold harmless aid for property tax rate reductions enacted in 2006. The primary drivers of each school district or charter school's Tier 1 entitlement are student counts and target revenue. Target revenue is an amount per student based on each school district or charter's state and local revenue per student at the time property tax reform measures were adopted in 2006.

The formula portion of Tier 1 is determined by multiplying a statutory allotment amount by counts of students enrolled in general and targeted education programs and the statutory factors or weights associated with those programs.

The resulting formula entitlement amount is compared to target revenue for each school district and charter holder. If formula entitlement does not meet or exceed target revenue, the district or charter receives additional funding to the target revenue level in the form of hold harmless aid. For school districts with taxing authority, local revenue generated by up to \$1.00 of the maintenance and operations tax rate provides the local share of Tier 1 funding. Amounts not funded through the local share are provided as state aid. Tier 1 entitlement accounts for 84.2 percent of FSP entitlement for the 2014–15 biennium. Fig. 1 lists the components of Tier 1.

FIG. 1
FOUNDATION SCHOOL PROGRAM
TIER 1 COMPONENTS

- Regular Program Allotment
- Special Education Allotment
- Compensatory Education Allotment
- Bilingual Education Allotment
- Career & Technology Education Allotment
- Gifted & Talented Education Allotment
- High School Allotment
- Public Education Grant Allotment
- Tuition Allotment
- Transportation Allotment
- New Instructional Facilities Allotment (NIFA)
- Additional State Aid for Tax Reduction (ASATR)

SOURCE: Chapter 42, Texas Education Code.

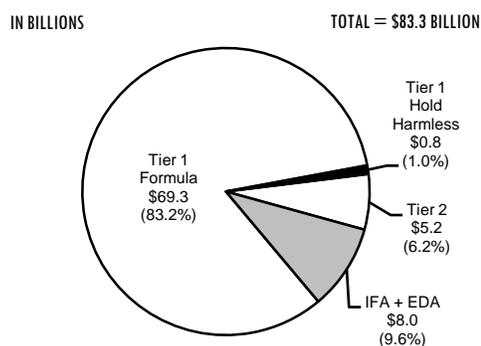
The second portion of FSP school maintenance and operations funding, Tier 2 enrichment funding, is provided through a guaranteed yield per penny of property tax levied in excess of the rate dedicated to meet the local share of Tier 1. For the first six pennies levied above the Tier 1 level, a district is guaranteed the same yield per penny per weighted student as Austin ISD. This yield is \$59.97 in fiscal year 2014 and \$61.86 in fiscal year 2015. Each additional enrichment penny levied above the first six is guaranteed to yield \$31.95 per weighted student. For school districts without taxing authority and charter schools, Tier 2 entitlement is determined using the average number of enrichment pennies levied by school districts with taxing authority. Tier 2 accounts for 6.2 percent of FSP entitlement for the 2014–15 biennium.

FOUNDATION SCHOOL PROGRAM FACILITIES STRUCTURE

The FSP supports the repayment of locally-authorized debt issued for the construction of public school facilities through two programs. For both programs assistance is provided through a guaranteed yield on local tax effort of \$35.00 per penny per student. Although the basic funding mechanism for both programs is similar, the two programs are distinct. The first program, the Instructional Facilities Allotment (IFA), is limited to instructional facilities and is funded through an application and award process. Assistance is available for the repayment of bonds and certain lease-purchase arrangements. Award amounts per district per biennium are limited to the greater of \$250 per student or \$100,000, with the total amount of awards statewide limited to a sum-certain appropriation.

The second debt equalization program within the FSP, the Existing Debt Allotment (EDA), provides assistance for debt service on bonds only. Any debt service for bonded debt, excluding that covered by IFA, automatically qualifies for EDA assistance if a payment was made on the debt in the prior biennium. 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 effective rate needed to service eligible debt, the effective interest and sinking rate for the second year of the prior biennium, or \$0.29. Debt service equalization through IFA and EDA accounts for 9.6 percent of FSP entitlement for the 2014–15 biennium.

FIG. 2
FOUNDATION SCHOOL PROGRAM ENTITLEMENT (STATE AND LOCAL)
2014–15 BIENNIUM



Source: Legislative Budget Board.

WEALTH EQUALIZATION

Chapter 41, Education Code, provides mechanisms for equalization of variations in the value of the property base per weighted student among school districts. School districts with wealth in the form of property value exceeding statutorily determined levels are required to exercise one or more of five options to reduce wealth per weighted student to the statutory level. These options include, consolidation with another school district, detachment of property for annexation by another school district, purchasing attendance credits from the state, contracting with a partner district to educate nonresident students, or consolidating tax bases with another school district. In practice, most districts subject to wealth equalization choose either to purchase attendance credits from the state or to pay the cost of educating students in partner school districts, or some combination of both options. Local revenue paid to the state or to other school districts for this purpose is commonly called recapture. Recapture paid to the state is used as a method of financing the state appropriation for the FSP.

Statute currently provides separate equalized wealth levels that apply to different portions of the FSP operations funding structure. For tax effort in Tier 1, rates up to \$1.00, district property value per weighted student is limited to \$495,000 in fiscal year 2014 and \$504,000 in fiscal year 2015. The first six pennies levied above the Tier 1 level are not subject to recapture. For remaining Tier 2 tax effort equalized at the \$31.95 guarantee level, districts are subject to an equalized wealth level of \$319,500. However, not all districts with property wealth exceeding \$319,500 per weighted student levy enrichment pennies in this portion of Tier 2. During the 2014–15 biennium, Tier 1 recapture will redistribute about \$2.3 billion, and Tier 2 recapture will redistribute approximately \$72.5 million of local revenue.

USEFUL REFERENCES

Chapter 42, Texas Education Code – Tier 1 & Tier 2 <http://www.statutes.legis.state.tx.us/Docs/ED/htm/ED.42.htm>

Chapter 46, Texas Education Code – IFA & EDA <http://www.statutes.legis.state.tx.us/Docs/ED/htm/ED.46.htm>

Chapter 41, Texas Education Code – Wealth Equalization <http://www.statutes.legis.state.tx.us/Docs/ED/htm/ED.41.htm>

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