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# School Finance Made Easy

## Part 1: Educational Instruction and Operation

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This slide deck is intended to provide an in-depth overview of the mechanics of the Foundation School Program—the primary way that state aid is distributed to public school districts.

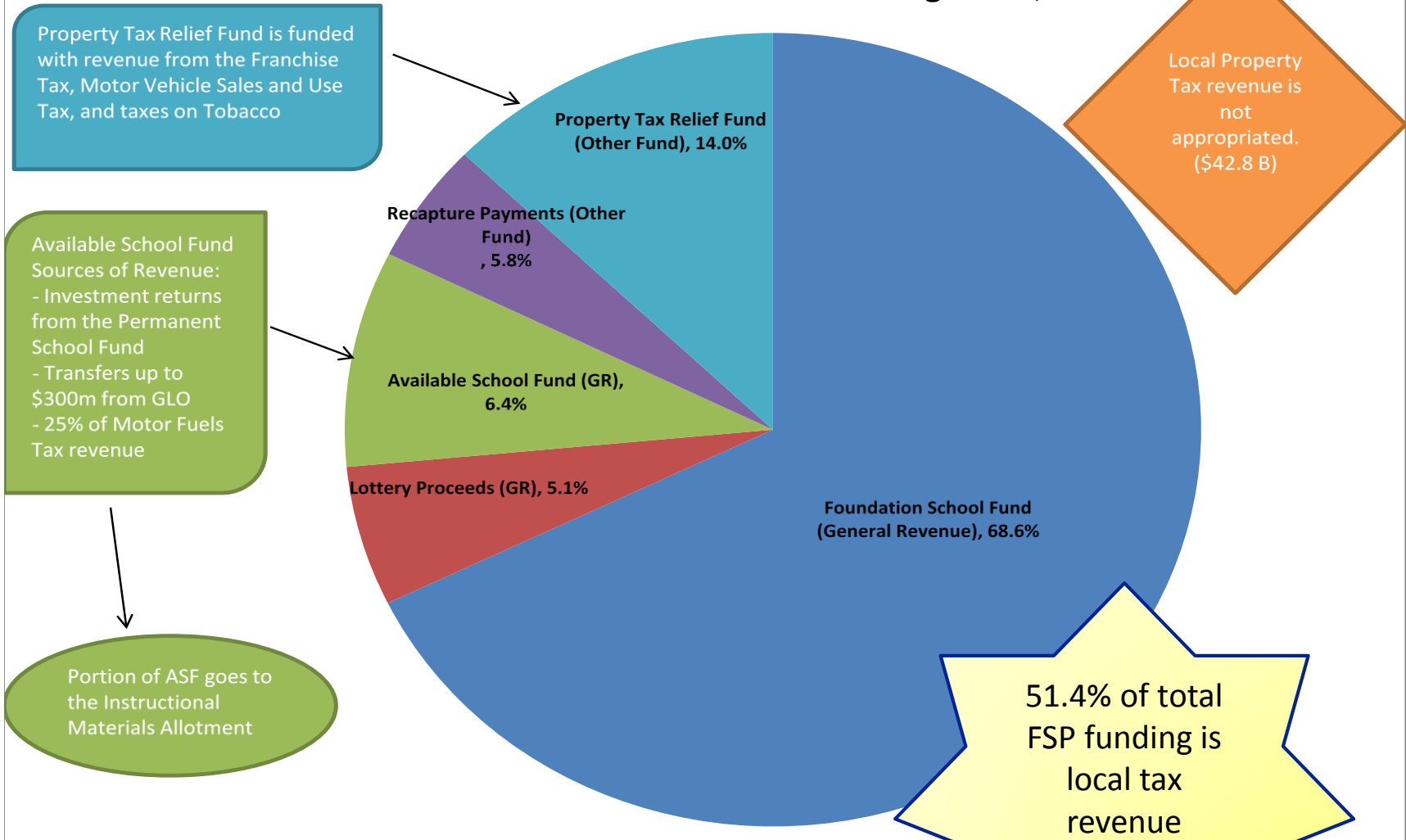
Part 1 is focused on the formulas used to provide funding for educational instruction and operation of our public schools.

Facility funding, which is also a part of the Foundation School Program will be covered in a separate publication.

## The Foundation School Program (FSP) is funded by a combination of state funds and local property taxes

- Each biennium the Legislature sets the “sum certain appropriation” for the FSP – this is a specific and set amount of money that districts are entitled to under current school finance laws.
- Schools are funded by a combination of local revenue and state aid. When district property values increase, like we’ve seen over the last several bienniums, the amount of state aid needed to meet the entitlement decreases.
- State aid comes from five different sources: Property Tax Relief Fund (Other Fund), Recapture Payments (Other Funds), Available School Fund (General Revenue), Lottery Proceeds (General Revenue), Foundation School Fund (General Revenue).
  - The Foundation School Fund is the primary source of General Revenue for schools.
  - When any of the other four funding sources increase, the Foundation School Fund portion decreases.

## Methods of Finance: Foundation School Program - \$40.4 B



Source: LBB Fiscal Size-Up 2014-15 biennium – FSP Appropriation

The instructional and operational formula of the Foundation School Program is broken into two tiers.

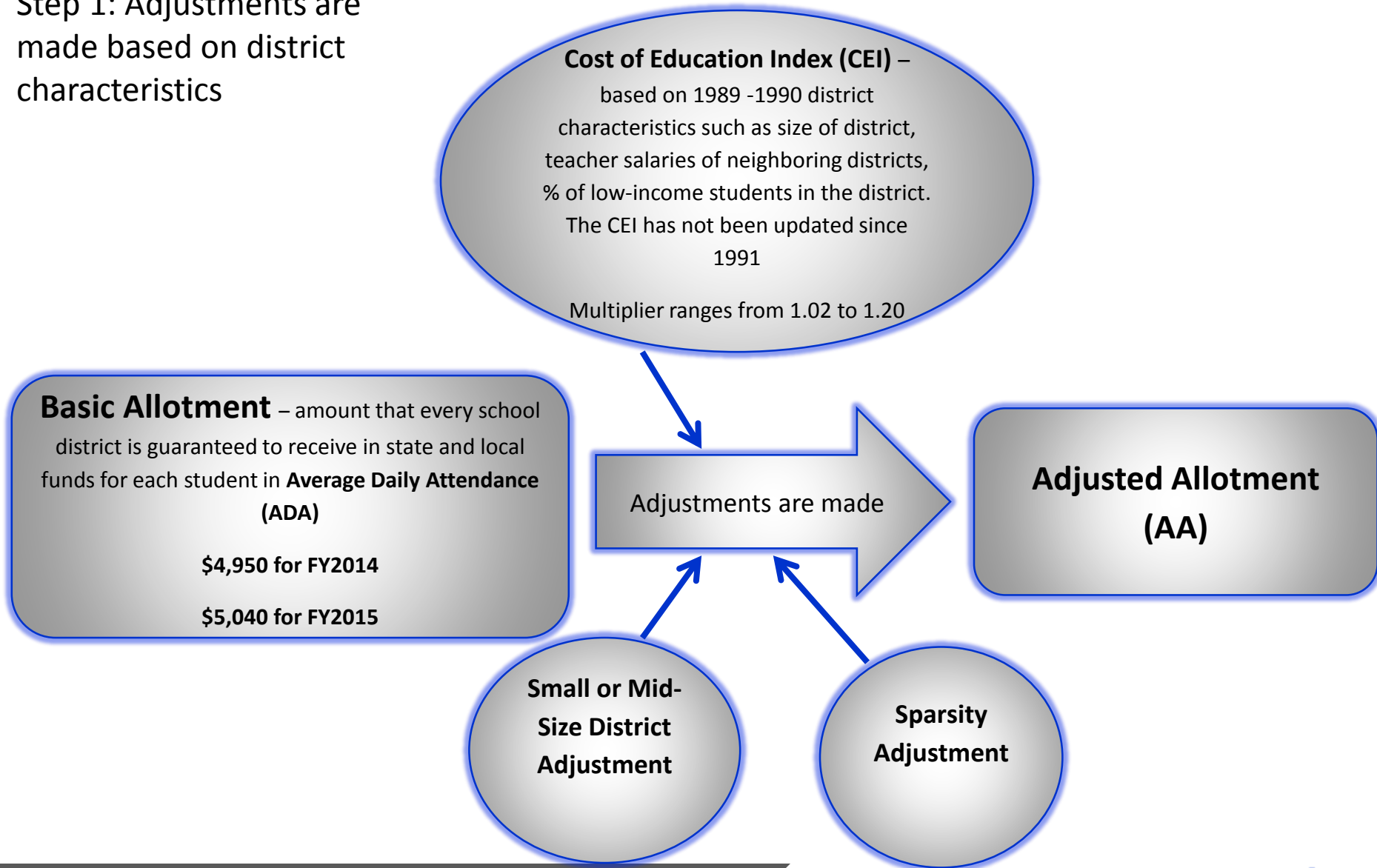
- Tier I – Basic Program Funding (generally the first \$1.00 of tax per \$100 property value)
- Tier II – Enrichment Funding (up to an additional \$0.17 of tax effort)
  - Golden Pennies (first 6 pennies)
  - Copper Pennies (final 11 pennies)

Tier I is supposed to provide districts adequate funding to deliver a basic education program. However, almost all districts find they cannot provide an adequate level of education with their Tier I funding and must increase their tax rate in order to access Tier II funding just to make ends meet.

In FY 2014, ninety percent of districts were taxing at \$1.04 or above (the highest rate possible without going through a tax election), and 28 percent of districts had reached the tax cap of \$1.17.

**Start with Tier I....**

Step 1: Adjustments are made based on district characteristics



## Step 2: Adjustments are made for student characteristics

Start with the Regular Program Allotment

Regular Program Allotment



Adjusted Allotment



Regular Education ADA  
(students not eligible for weighted funding)



**Regular Program Adjustment Factor (RPAF)**

Created in 2011 to reduce the regular program allotment. It was set to 100% for 2014 and 2015, effectively eliminating this reduction before it expires at the close of FY2015

**Then make adjustment for the weights or allotments attributed to special populations.** Weights and allotments are assigned for Compensatory Education (0.20), Special Education (1.1 to 5.0), Career & Technical (1.35), Advanced Course Career & Technical, Bilingual/ESL (0.1), Pregnancy Related Services (2.41), Military Allotment (only by appropriation), Gifted & Talented (0.12), Public Education Grant (0.1), High School Student, New Instructional Facility Allotment, Transportation Allotment.

*For example:* The Compensatory Education weight is a 20% add-on for a student that is economically disadvantaged:

Adjusted Allotment



0.20



Compensatory Education Enrollment (ADA)



Compensatory Education Allotment

*For example:* The High School Allotment allows for \$275 per each student in ADA in grades 9 through 12:

Adjusted Allotment



\$275



ADA for grades 9 through 12



High School Allotment

Once all of the allotments are calculated they are added together to arrive at the

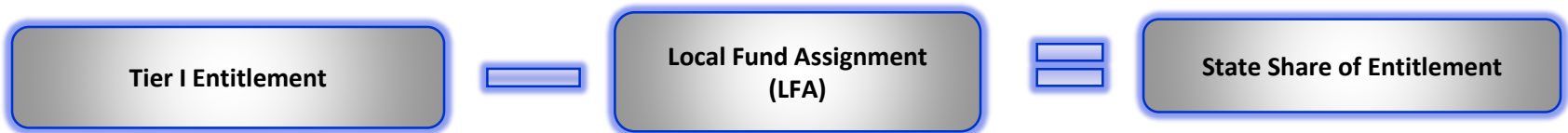
**Tier I Entitlement**

## Step 3: Calculate the State and Local Share of the Tier I Entitlement

First determine how much revenue can be generated through local property wealth:



Then the state's share is the amount of the Tier I Entitlement over the Local Fund Assignment



If the **Local Fund Assignment** for a district is more than the **Tier I Entitlement** that district is subject to the **Recapture** provisions of **Chapter 41** in the school code. One hundred fifty-three districts were subject to recapture in FY2015.

Tier I Entitlement < LFA = Recapture

Tier I Entitlement > LFA = State Aid

### Five Recapture Options:

1. Consolidate with another district
2. Detach property
3. **Purchase attendance credits from the state**
4. Contract to educate nonresident students
5. Consolidate tax bases with another district



## Now on to Tier II....

Tier II funding is based on **Weighted Average Daily Attendance (WADA)**

Take the Tier I Entitlement

(subtract) Transportation Allotment

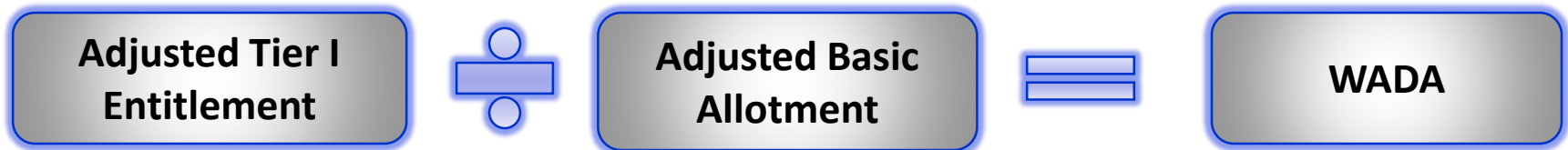
(subtract) New Instructional Facilities Allotment

(subtract) High School Allotment

(subtract) 50% of the Cost of Education Index

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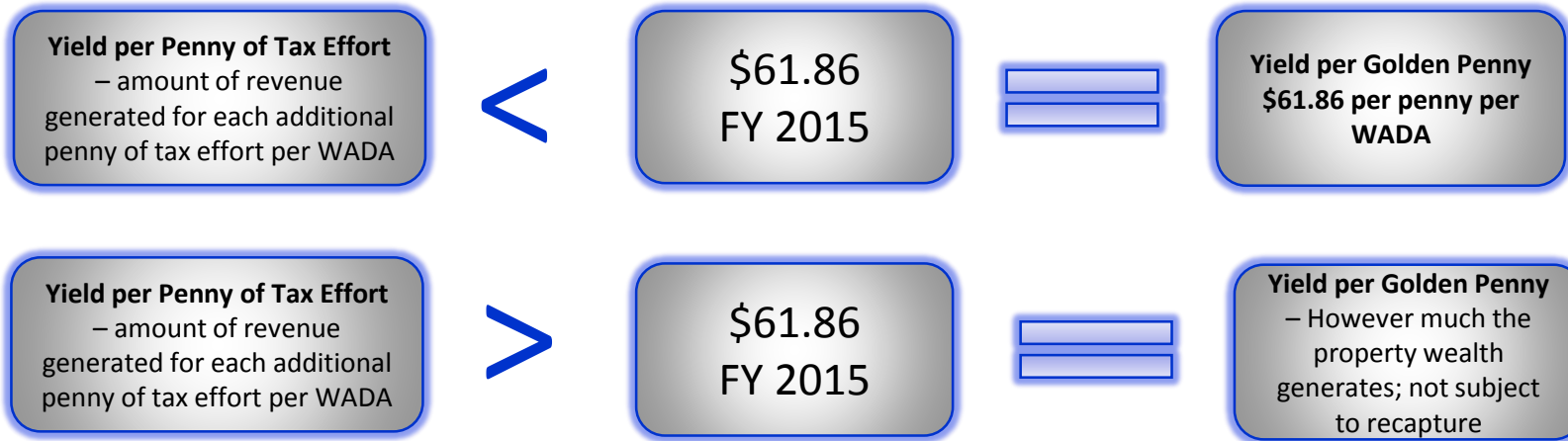
 Adjusted Tier I Entitlement



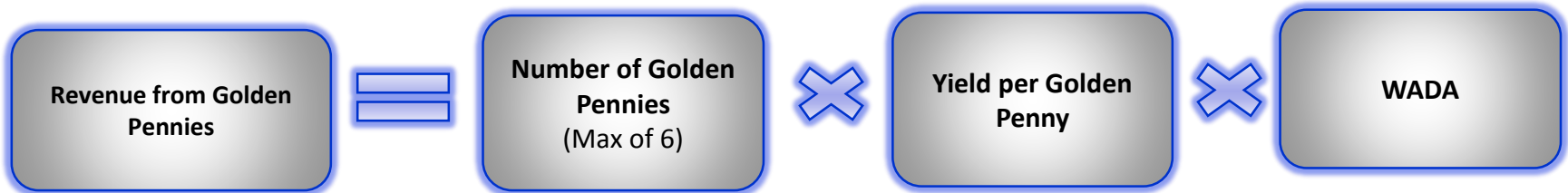
# Tier II funding is divided into two tiers – “golden” pennies and “copper” pennies

## Step 1: Golden Pennies

Golden pennies represent the first six pennies of the maximum 17 pennies of M&O tax rate districts are allowed to levy for Tier II enrichment, this is in addition to the \$1.00 in Tier I. The state equalizes the amount of revenue a district receives for these pennies up to the rate Austin ISD is able to generate: \$59.97 for FY 2014 and \$61.86 for FY 2015. Districts that are able to generate more than the equalized amount are able to keep all revenue without being subject to recapture. The first four pennies, of the six, can be levied without a tax ratification elections.



## Revenue from Golden Pennies....

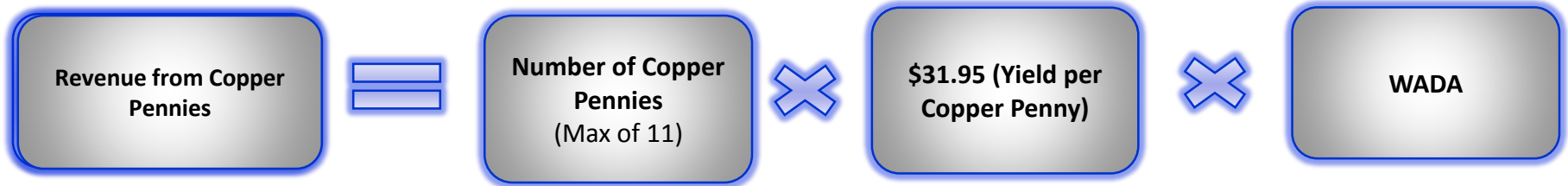


## Step 2: Copper Pennies

Copper pennies represent the final 11 pennies of the maximum 17 pennies of M&O tax rate districts are allowed to levy for Tier II enrichment, this is in addition to the \$1.00 in Tier I. The state equalizes the amount of revenue a district receives for these pennies up to \$31.95. **Districts that are able to generate more than the equalized amount are subject to recapture.**



### Revenue from Copper Pennies....



The revenue from the golden pennies and copper pennies are added together to reach the

**Tier II Entitlement**

# What about Target Revenue?

The **Target Revenue** system was created to ensure that school districts would not lose funding when M&O tax rates were compressed in 2006. This mechanism, often referred to as “hold harmless,” guarantees the same amount of funding per WADA as they would have received in the 2005-2006 or 2006-2007 school year (whichever was greater). If the a district is unable to reach the target amount with state and local funding in Tier I, the state must make up the difference with **Additional State Aid for Tax Relief (ASATR)**.

The Target Revenue system is scheduled to expire at the end of fiscal year 2017. The Legislature is implemented a **Hold Harmless Reduction Factor** to ease districts off this revenue source.

Fiscal Year	Hold Harmless Reduction Factor
2013	92.35 multiplied by a district’s revenue target
2014 & 2015	92.63 multiplied by a district’s revenue target

### Things to know about Target Revenue:

- Chapter 41 Districts (those in recapture) can still receive ASATR, and often become a net recipient of state aid as a result.
- Increases in a district’s property wealth decrease ASATR.
- Increases in the Basic Allotment decrease ASATR.
- Charters receive an entitlement that is based on the state average ASATR amount.

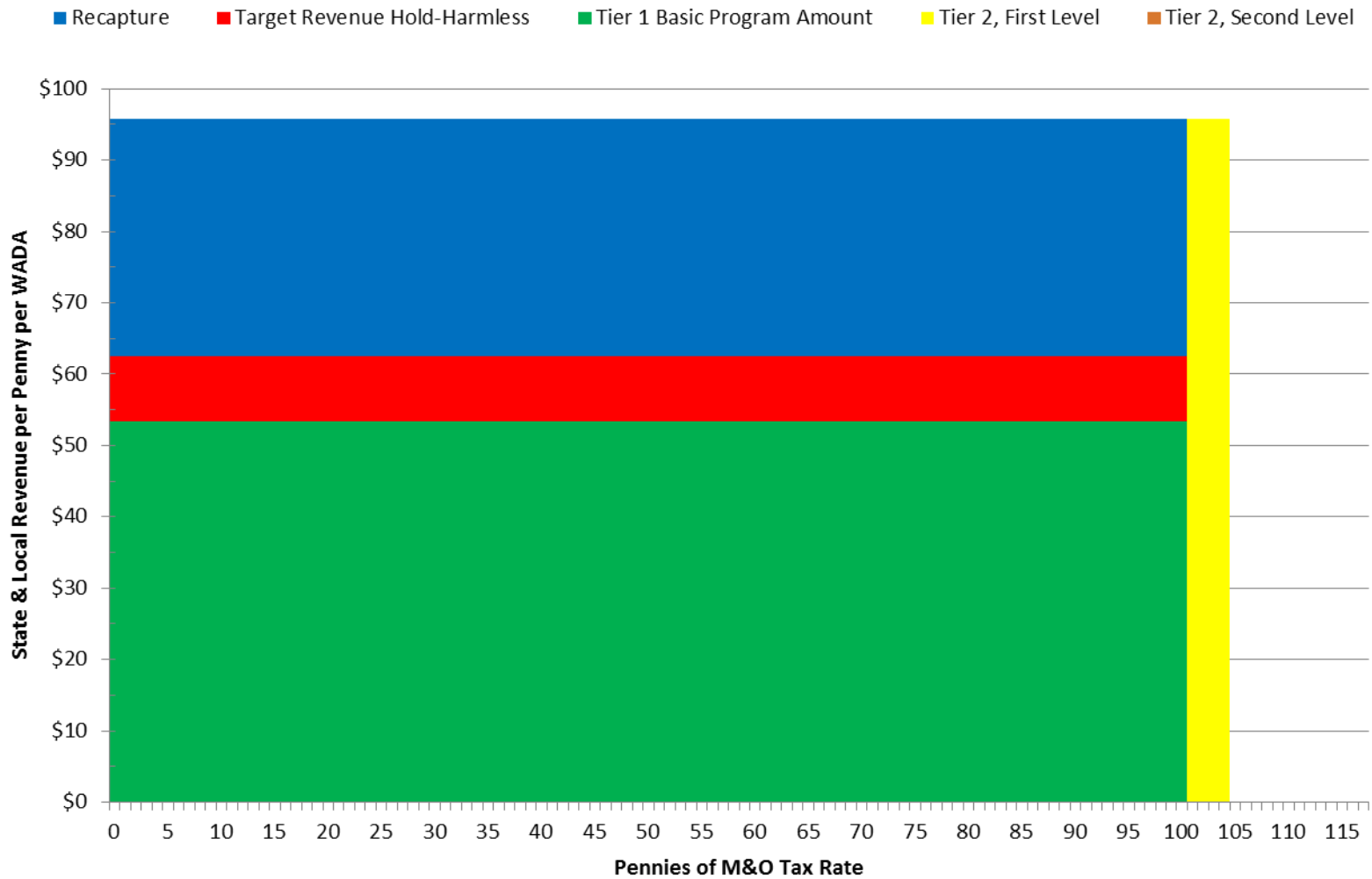
## What about the Available School Fund?

The **Available School Fund** (ASF) is a per-student disbursement that every district receives based on the prior years ADA. Funding for the ASF comes from investment returns from the Permanent School Fund, 25 percent of the Motor Fuels Tax revenue, and transfers from the General Land Office.

For property poor districts that receive state aid, the ASF disbursement is used as a part of that state aid. Property wealthy districts that do not receive state aid are still entitled to the ASF disbursement and those funds are not subject to recapture.

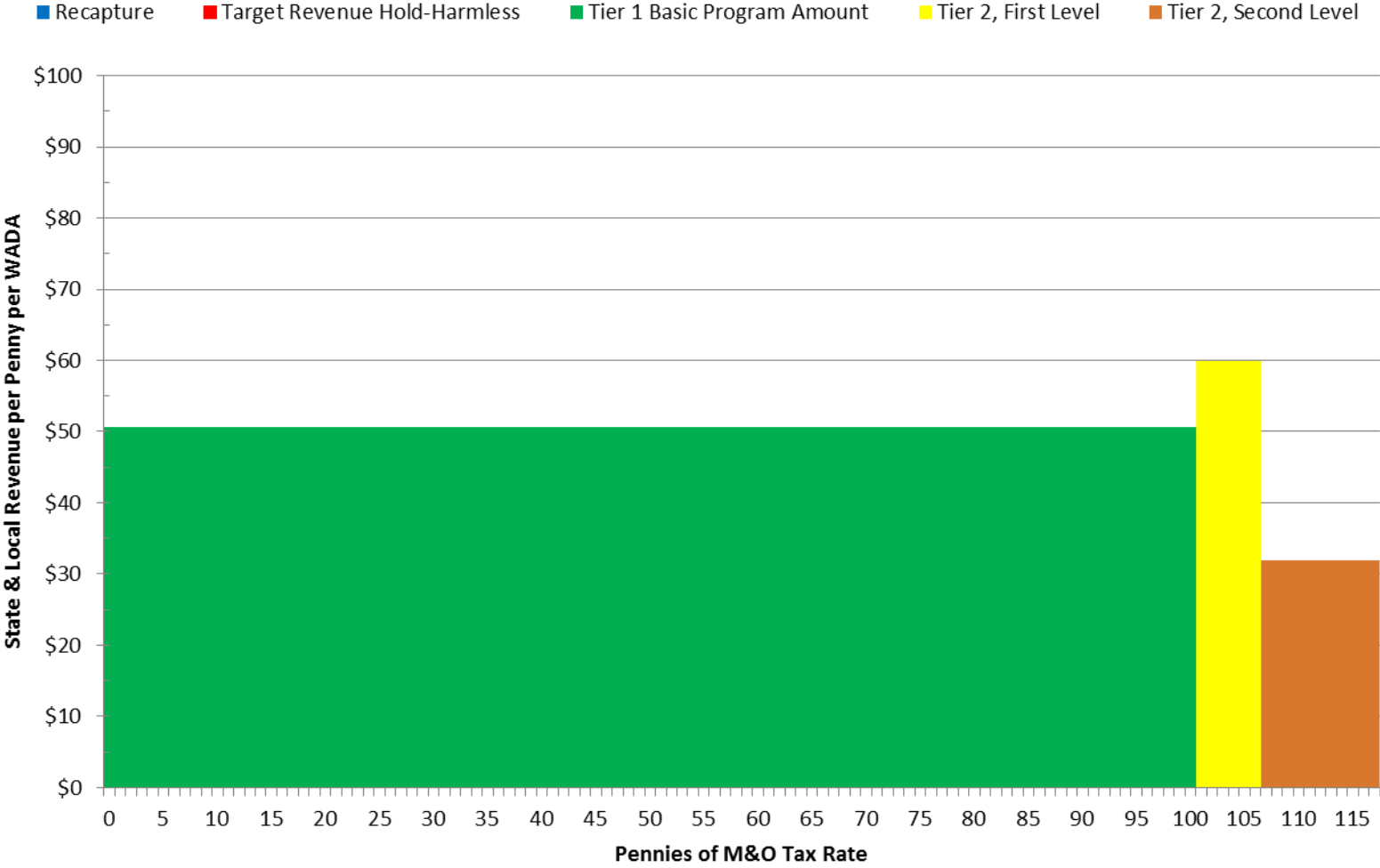
The per capita ASF distribution was set at \$261.27 by the State Board of Education on July 17, 2014.

# District A Funding Footprint: Property Wealthy



Source: Based on Equity Center 2010 – 2011 District Funding Footprint (Alamo Heights)

# District B Funding Footprint: Property Poor



Source: Based on Equity Center 2010 – 2011 District Funding Footprint (Edgewood)

## Property Wealthy vs. Property Poor Funding Footprint

	Property Wealthy	Property Poor
Wealth Level (per WADA 2011)	\$953,659	\$63,278
WADA	5,211	13,978
Compressed Tax Rate	\$1.00	\$1.00
Adopted Tax Rate	\$1.04	\$1.17
M&O Tax Collections per Penny per WADA	\$95.76	\$6.18
Tier 1 Funding (adjusted)	\$5,343	\$5,064
Target Revenue per WADA	\$6,253	\$4,914
Tier 2		
Yield per Golden Penny	\$95.37	\$59.97
Yield per Copper Penny	\$0.00	\$31.95
State & Local M&O Revenue per WADA		
Tier 1	\$5,343	\$5,064
Tier 2	\$383	\$695
Hold Harmless added to Tier 1	\$910	\$0
<b>TOTAL Revenue per WADA</b>	<b>\$6,636</b>	<b>\$5,759</b>

Source: Based on Equity Center 2010 – 2011 District Funding Footprint



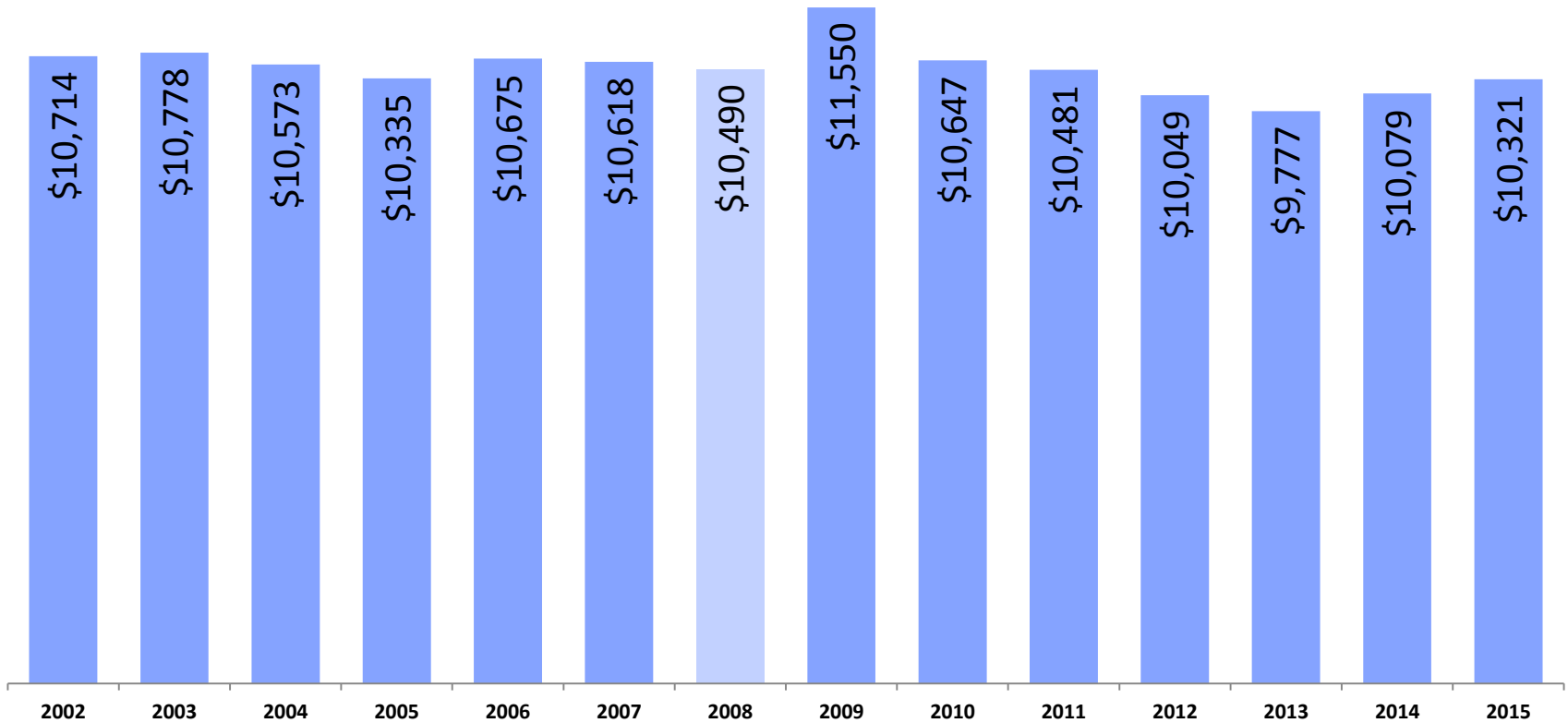
## Examples of Inequity

Same...	District	Tax Rate	Revenue
Location	Alamo Heights (Bexar County)	\$1.04	\$6,243
	San Antonio (Bexar County)	\$1.04	\$5,036
Size	Glen Rose (approx.. 2,000 students)	\$0.825	\$8,424
	Diboll (approx.. 2,000 students)	\$1.04	\$4,881
Tax Rate	Austin	\$1.079	\$6,171
	Amarillo	\$1.08	\$5,094
Revenue	Lamar Cons.	\$1.02	\$5,475
	Calallen	\$1.17	\$5,475

Source: Equity Center

# School Funding is Still Below Pre-Recession Levels

Per-student spending, in 2014 \$



Source: CPPP analysis of TEA appropriations plus local revenue values from LBB.

# How far behind is school spending?

- 2008 total education spending averaged \$10,490 per student
- 2014 -15 per student funding averages \$10,199
  - \$291 per-student drop
  - Need an additional \$2.9 Billion to bring spending back to 2008 levels (biennial number)

## What is the best way to improve adequacy and equity in school funding?

- **Increase the Basic Allotment** – this is the rising tide that lifts all boats. Increasing the basic allotment reduces the number of districts on target revenue and reduces the number of districts subject to recapture in Tier I
- **Update the weights, allotments, and Cost of Education Index** – most of the weights and allotments haven't been adjusted since they were created and most weights were not evidence or cost-based to begin with.
- **Increase the guaranteed yield on the Copper Pennies** – some districts become classified as Chapter 41 once they access the Copper Pennies. An increase in the yield would reduce recapture on those pennies and provide more support to property poor districts who are most likely to access these pennies.
- **Adjust the Basic Allotment for inflation** – districts see their buying power erode each year due to inflation. Making adjustments each budget cycle will help districts keep pace with rising costs.