



LEGISLATIVE BUDGET BOARD

Summary of Foundation School Program:

2018-19 Biennial Base and 2020-21 House Bill 1 Recommendations

PRESENTED TO HOUSE COMMITTEE ON APPROPRIATIONS

LEGISLATIVE BUDGET BOARD STAFF

JANUARY 2019

Foundation School Program (FSP) Purpose and Structure

The Foundation School Program (FSP) is the principal vehicle for distributing state aid to school districts.

The FSP is a shared funding model, depending on contributions from state and local revenue sources to fund the level of entitlement in the school finance system.

Additional \$9.0 Billion in General Revenue Funds Above Current Law FSP Entitlement

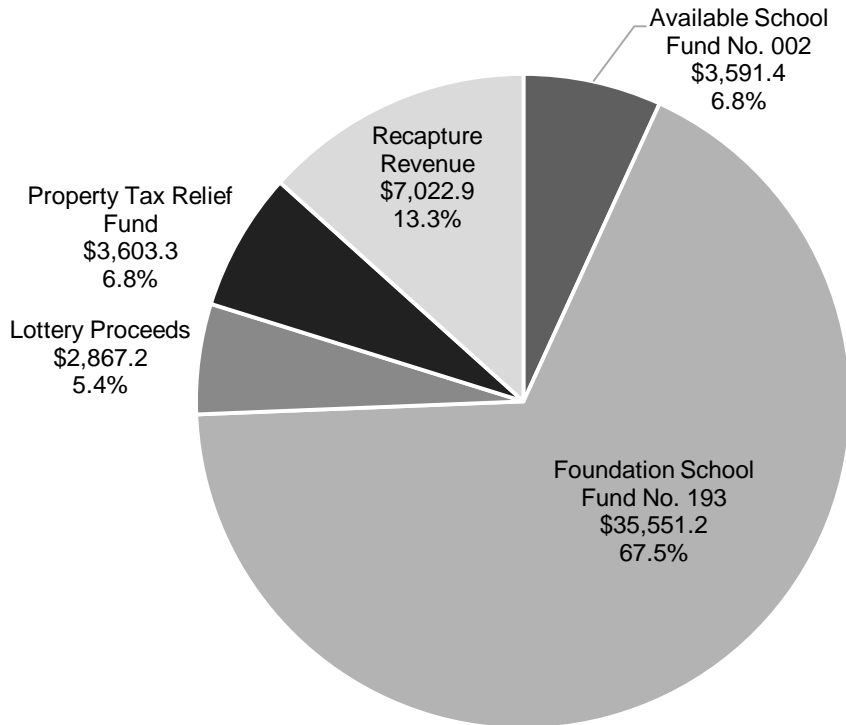
House Bill 1 as Introduced appropriates \$9.0 billion in additional General Revenue Funds for the FSP above amounts estimated to be required for current law FSP entitlement, contingent on enactment of legislation that:

- supports school districts and charter schools by increasing 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.

Funding for current law FSP entitlement includes an estimated \$2.4 billion for student enrollment growth and \$2.2 billion in additional state aid greater than the 2018-19 biennial funding level for Tier 2 enrichment funding guaranteed yield associated with the Austin Independent School District.

Current law FSP entitlement is estimated to require an estimated \$1.6 billion decrease in General Revenue Funds compared to the 2018-19 biennium. The \$9.0 billion increase over current law results in a net \$7.4 billion GR increase for the FSP compared to 2018-19.

2020-21 FSP Methods of Finance (MOFs) in House Bill 1 (in millions)



All Funds: \$52,636 million

General Revenue Funds Dedicated for Public Education

- Available School Fund (ASF)**- Permanent School Fund distribution, 25 percent motor fuels tax, General Land Office 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 the Foundation School Fund (General Revenue)

Key FSP Formula Funding Elements

FSP Funding Elements		House Bill 1 Amounts
Tier 1 Funding Elements		
Basic Allotment	<ul style="list-style-type: none"> •Primary formula element in Tier 1 •Statute sets the Basic Allotment at \$4,765 or higher by appropriation 	\$5,140
Equalized Wealth Level	<ul style="list-style-type: none"> •Level of property wealth per WADA above which school districts are subject to recapture in Tier 1 •Tied in statute to Basic Allotment 	\$514,000 per Weighted Average Daily Attendance (WADA)
Tier 2 Funding Elements		
Austin ISD Yield	Yield associated with first 6 enrichment pennies levied above compressed tax rate (Golden Pennies)	\$126.88 per penny per WADA in 2020 and \$135.92 per WADA in 2021

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	Current CPA Projection	Budget Years Affected
Tax Year 2017	+ 7.11% (actual)	Fiscal Years 2018 & 2019
Tax Year 2018	+ 7.04%	Fiscal Years 2019 & 2020
Tax Year 2019	+ 6.19%	Fiscal Years 2020 & 2021
Tax Year 2020	+ 4.07%	Fiscal Years 2021 & 2022

2018-19 General Appropriations Act

+ 7.04%

+ 6.77%

District Tax Effort

Assumption: On a statewide level, about 40 school districts will successfully pass Tax Ratification Elections (TREs) each year for a 2020-21 biennial state cost of \$120 million.

Currently, 430 school districts (42 percent) have adopted the statutory maximum tax rate of \$1.17. About 41 percent of taxing districts (419) have adopted M&O tax rates of \$1.04.

Major FSP Budget Drivers, cont'd

Student Growth

TEA projects an overall average daily attendance (ADA) growth rate of 1.28% annually in the 2020-21 biennium.

Fiscal Year	Number of Students	Rate of Growth
FY2016	69,392 ADA	1.43%
FY2017	47,096 ADA	0.96%
FY2018	32,741 ADA	0.66%
FY2019	64,647 ADA	1.25% (projected)
FY2020	65,045 ADA	1.28% (projected)
FY2021	65,880 ADA	1.28% (projected)

TEA projects higher growth for certain populations, including compensatory education (1.94%), bilingual education (3.34%), career and technical education (5.64%), FTEs served in special education settings (3.6%), and special education mainstream ADA (4.7%).

2018-19 FSP Base Compared to HB 1

New Costs/(Savings) (in millions)	GR	All Funds
Enrollment Growth	\$2,400	\$2,400
DPV Growth	(\$5,050)	(\$5,050)
Increase in Austin ISD Yield Growth	\$2,200	\$2,200
Ongoing Cost of 2018-19 Formula Changes, Settle-Up, Enrichment Tax Effort, and Prior Year and Other Adjustments	\$85	\$85
Increased state costs attributable to Hurricane Harvey	\$365	\$365
Special Education Student Growth	\$882	\$882
Total 2020-21 Cost Adjustments	\$882	\$882
Method of Finance Shifts		
Property Tax Relief Fund – increase over base	(\$172)	\$0
Recapture – increase over base	(\$2,354)	\$0
Total 2020-21 Costs Over 2018-19 Base	(\$1,644)	\$882
Additional FSP Changes in HB 1		
FSP appropriations in addition to funding needed for anticipated enrollment growth and all other statutory obligations.	\$9,000	\$9,000
2020-21 GR Cost Over 2018-19 GR Base	\$7,356	\$9,882

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.

In addition, House Bill 1 adds \$9.0 billion in General Revenue Funds above the amount estimated to be required to fund the 2020-21 current law FSP entitlement, 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.



LEGISLATIVE BUDGET BOARD

Contact the LBB

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