

# THE BASICS OF TEXAS SCHOOL FINANCE – Part 2

Everything you wanted to know about school  
finance but were afraid to ask

May 1, 2019

# ■ School Finance in General

- Called the **Foundation School Program**
- It has 2 purposes: (TEC 42.002)
  - (1) to guarantee that each school district has “...**adequate resources** to provide each student a **basic** instructional program and facilities **suitable** to the student’s educational needs...”
  - (2) to guarantee that each school district has “...access to a **substantially equalized program** of financing in excess of basic costs for certain services....”

# ■ School Finance in General

The Foundation School Program has 2 tiers  
+ a facilities component:

1) Tier I – the **basic program**

2) Tier II – the **enrichment program**

+ the **facilities programs (EDA & IFA)**

# ■ Tier I – The Basic Program

Comprised of 6 instructional programs:

- 1) Regular Ed
- 2) Special Ed
- 3) Career & Technology Ed
- 4) Bilingual Ed
- 5) Compensatory Ed
- 6) Gifted & Talented Ed

# ■ Tier I – The Basic Program

The formulas used to compute each of the 6 program allotments have **3 things in common**:

- 1) All use some count of students
- 2) All use an **Adjusted Allotment (AA)** dollar amount as a multiplier
- 3) All have an assigned program weight

# ■ Tier I – The Basic Program

Regular Ed: ADA x AA x 1

Special Ed: FTEs x AA x Various Weights

C&T Ed: FTEs x AA x 1.35

Bilingual Ed: ADA x AA x .1

Comp Ed: Enroll x AA x .2

Pregnant: FTEs x AA x 2.41

G&T Ed: Enroll x AA x .12

# ■ Tier I – The Basic Program

“AA” is a dollar amount and is likely to be different from district to district

Starts with a Basic Allotment of \$5,140 (currently)

- Will be lower if district's compressed rate is less than \$1.00
- Penalty imposed:
  - $\$5,140 \times (\text{District's compressed rate} / \$1.00)$

# ■ Tier I – The Basic Program

- The Basic Allotment gets adjusted by the **Cost of Education Index (COEI)**
  - COEI is almost **30 years old!!**
  - COEI ranges from 1.01 to 1.20
  - The higher the COEI, the greater the adjustment
- Result is known as the **Adjusted Basic Allotment (ABA)**

BA ----> ABA



# ■ Tier I – The Basic Program

The ABA formula:

$$ABA = BA \times (((COEI - 1) \times .71) + 1)$$

Example:

$$ABA = \$5,140 \times (((1.12 - 1) \times .71) + 1)$$

$$ABA = \$5,140 \times ((.12 \times .71) + 1)$$

$$ABA = \$5,140 \times (.0852 + 1)$$

$$ABA = \$5,140 \times 1.0852$$

$$ABA = \$5,578$$

# ■ Tier I – The Basic Program

If district is small or mid-size, the following size adjustment then further increases the ABA:

- A **small district** (< 1,600) adjustment, if applicable, OR
  - A **mid-size district** (< 5,000) adjustment, if applicable
- The result is known as the **Adjusted Allotment (AA)**

**BA ----> ABA ----> AA**

# ■ Tier I – The Basic Program

The **Small District Adjustment** formula:

$$\text{SDA} = (1 + (1,600 - \text{Reg Prog ADA}) \times \text{Weight}) \times \text{ABA}$$

$$\text{Reg Prog ADA} = \text{Total Refined ADA} - \text{Sp.Ed. FTEs} - \text{C\&T FTEs}$$

Weight = .000275 (2019-20) if less than 300 sq miles or .0004 if more than 300 sq miles – being phased out thru 2022-23....will be .0004 beginning in 2023-24

# ■ Tier I – The Basic Program

The **Mid-size District Adjustment** formula:

$$\text{MDA} = (1 + (5,000 - \text{Reg Prog ADA}) \times .000025) \times \text{ABA}$$

- Districts less than 1,600 (**SDA**) are also considered for **MDA**
- Greater of SDA or MDA becomes “**AA**”
- If district is not small or mid-size, “**AA**” = **ABA**

# ■ Tier I – The Basic Program

Using 2018-19 state average Cost of Education Index and average size adjustment:

\$5,140(BA)---->\$5,392(ABA)---->\$6,545(AA)

# ■ Tier I – The Basic Program

2018-19 formulas, **on average**:

Regular Education: ADA x \$6,545 x 1.00

Special Education: FTEs x \$6,545 x Various Weights

C & T Education: FTEs x \$6,545 x 1.35

Bilingual Ed: ADA x \$6,545 x .1

Compensatory Ed: Enroll x \$6,545 x .2

Pregnant: FTEs x \$6,545 x 2.41

G & T Education: Enroll x \$6,545 x .12

# ■ Tier I – The Basic Program

## “Other” Tier I programs

- Transportation
  - Based on how many students ride bus and how far the bus travels (‘linear density’ – 30+ years old)
- Public Education Grant (PEG) Allotment
  - Allows students to transfer from low-performing home campus
  - If transfer is out-of-district, receiving district gets the following allotment:

$$\text{PEG ADA} \times \text{AA} \times .1$$

# ■ Tier I – The Basic Program

## “Other” Tier I programs, cont’d

- New Instructional Facilities Allotment (NIFA)
  - Two-year allotment designed to help with the start-up costs of opening a new campus
  - 1<sup>st</sup> year:  
 $\$250 \times \text{New Campus ADA}$
  - 2<sup>nd</sup> year:  
 $\$250 \times (1^{\text{st}} \text{ Yr ADA} - 2^{\text{nd}} \text{ Yr ADA})$



# ■ Tier I – The Basic Program

## “Other” Tier I programs, cont’d

- Advanced C&T Allotment
  - Additional C&T funds for students taking “advanced” C&T courses (including tech-prep courses)

**\$50 x Advanced C&T FTEs**

- High School Allotment
  - Directed towards certain high school programs/initiatives (college readiness, curriculum alignment, rigorous coursework, etc)

**\$275 x HS ADA**

# ■ Tier I – The Basic Program

## “Rake-offs” or “Set-asides”

- Each district’s (except for Ch 41 district’s) **GT allotment is reduced** to pay for the statewide cost of Advanced Placement testing
- Each district’s (except for Ch 41 district’s) **Special Ed allotment is reduced** to pay for the statewide cost of the Early Childhood Intervention Program
- Amount of set-aside is based on each district’s relative wealth per student

# ■ Tier I – The Basic Program

The “**Total Cost of Tier I**” – the sum of all of these allotments

- Regular Ed Allotment
- + Net Special Ed Allotments
- + Career & Tech Ed Allotments
- + Bilingual Ed Allotment
- + Comp Ed Allotments
- + Net G&T Ed Allotment
- + “Other” Program Allotments

**Total Cost of Tier I**

# ■ Tier I – The Basic Program

So how is this Total Cost funded?

- One of the fundamental principles of the school finance system is that cost is a **shared responsibility** between the state and the district
  - The district's share is based on its **prior-year property value** (determined by the Comptroller's Office) multiplied by its **compressed rate**

Comptroller Value x Comp Rate = **Local Share**

(Some refer to the Local Share as the **Local Fund Assignment**)

# ■ Tier I – The Basic Program

What's left becomes the **state's share** or the district's **Tier I state aid**

- Determination of Tier I State Aid:

Total Cost of Tier I	\$1,000,000
Less: Local Share	<u>\$ 300,000</u>
<b>Tier I State Aid</b>	<b>\$ 700,000</b>

# ■ Tier I – The Basic Program

The **Equalizing Concept**: The goal is to neutralize property value – make it not matter to the system

	“Poor”	“Not so Poor”
Tier I Cost	\$1,000,000	\$1,000,000
Less: LFA	<u>\$ 300,000</u>	<u>\$ 800,000</u>
State’s Share	\$ 700,000	\$ 200,000

# ■ Tier I – The Basic Program

**EXCEPTION:** If the district is “rich” enough, it wouldn’t get any Tier I state aid except for a minimum set in law - High School Allotment, NIFA (if any), & Available School Fund Allotment

Total Cost of Tier I	\$1,000,000
Less: Local Share	<u>\$1,500,000</u>
Tier I Allotment	<b>\$ - 500,000</b>

District might be subject to recapture

# ■ Tier II – The Enrichment Program

Tier II – a “**guaranteed yield**” program designed to supplement / “enrich” the basic Tier I program

- How much ‘enrichment’ depends on the district’s M&O tax rate
- The more a district taxes above its compressed rate, the more local revenue that is generated for ‘enrichment’
- The more local revenue that is generated, the more matching additional/enrichment state aid



# ■ Tier II – The Enrichment Program

There are 2 levels of Tier II:

- The 1<sup>st</sup> level (“golden” pennies):

The state “guarantees” that each penny taxed above the district’s compressed rate, up to 6 pennies, will “yield” no less than **\$106.28 per penny per WADA** (2018-19) in some combination of local & state dollars

- The 2<sup>nd</sup> level (“copper” pennies):

The state “guarantees” that each penny taxed above the district’s compressed rate + the golden pennies, will “yield” no less than **\$31.95 per penny per WADA** (2018-19) in some combination of local & state dollars

# ■ Tier II – The Enrichment Program

- The Golden Penny formula (2018-19):

$$(\$106.28 \times WADA \times DTR \times 100) - LR$$

WADA = Weighted Average Daily Attendance (discussed later)

DTR = District's Tax Rate (@ Compressed Rate):

$$(M\&O \text{ taxes @ Compressed Rate} / \text{Comptroller Value}) * 100$$

LR = Local Revenue (District's Local Share)

$$DTR \times (\text{Comptroller's Value} / 100)$$

# ■ Tier II – The Enrichment Program

The **Equalizing Concept**: Just like Tier I, the goal is to **neutralize property value** – make it not matter

	“Poor”	“Not so Poor”
Guarantee	\$106.28	\$106.28
\$.01 Raises (LR)	<u>\$ 10.00</u>	<u>\$ 60.00</u>
State’s Share	\$ 96.28	\$ 46.28
	(Ratio: 1-to-9.6	1-to-.77)

If district raises more than the guaranteed \$106.28, no consequence, as there is no recapture on the golden pennies

# ■ Tier II – The Enrichment Program

- The Copper Penny formula (2018-19):

$$(\$31.95 \times WADA \times DTR \times 100) - LR$$

WADA = Weighted Average Daily Attendance (discussed later)

DTR = District's Tax Rate (@ Compressed Rate + Golden Pennies):

$$(M\&O \text{ taxes above Compressed Rate} + \text{Golden Pennies} / \text{Comptroller Value}) * 100$$

LR = Local Revenue (District's Local Share)

$$DTR \times (\text{Comptroller's Value} / 100)$$

# ■ Tier II – The Enrichment Program

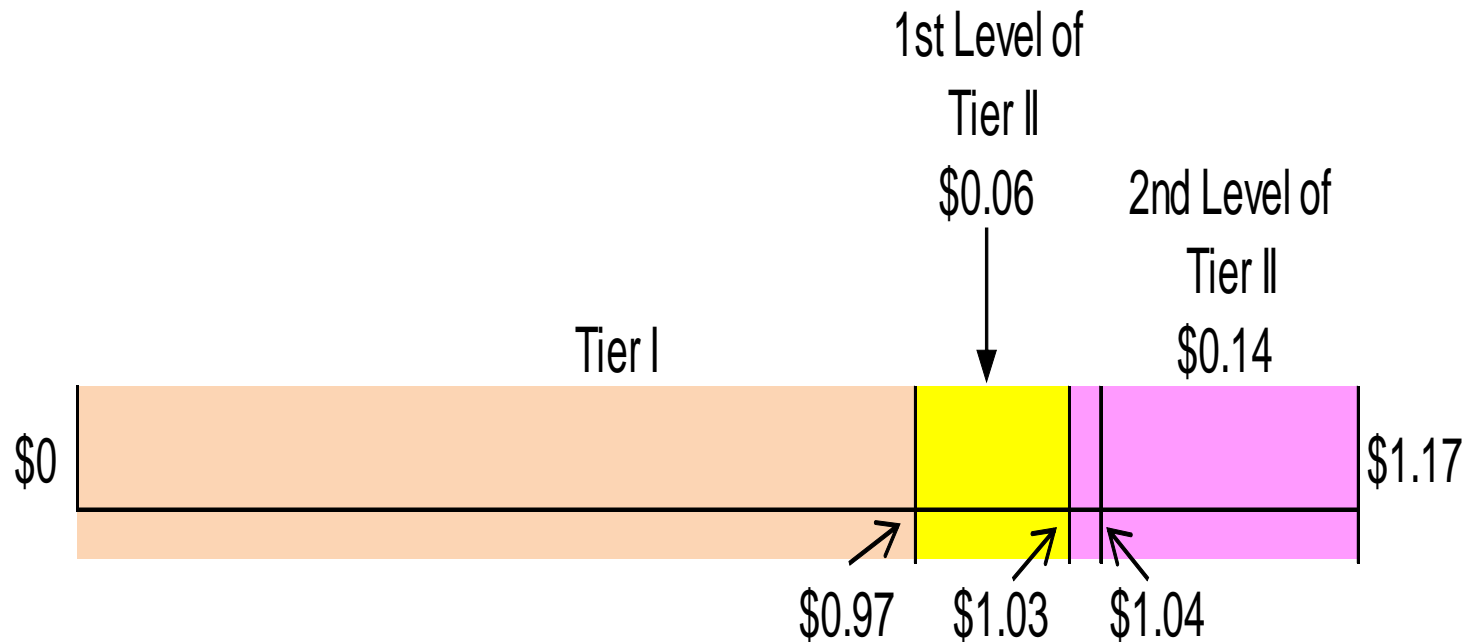
The **Equalizing Concept**: Just like Tier I and 1<sup>st</sup> Level of Tier II, the goal is to **neutralize property value** – make it not matter

	“Poor”	“Not so Poor”
Guarantee	\$31.95	\$31.95
\$.01 Raises (LR)	<u>\$ 5.00</u>	<u>\$30.00</u>
State’s Share	\$26.95	\$ 1.95
(Ratio:	1-to-5.39	1-to-.07)

# ■ Tier II – The Enrichment Program

- There is **recapture** on the 2<sup>nd</sup> Level pennies
  - If a penny produces more than \$31.95 per WADA, district has to give up excess thru Chapter 41 (recapture)
- \$31.95 yield is fixed in law
- In most cases, voter authorization (TRE) is needed to access this level of Tier II (exception on next slide)

# ■ Tier II – The Enrichment Program



compressed rate = \$.97; when the maximum, without-voter-approval \$1.04 is reached, district would have \$.01 in 2nd Level of Tier II

# ■ The 'Other' Programs

- Staff Allotment
  - \$500 x # of Full-time 'staff'
  - \$250 x # of Part-time 'staff'
- Additional State Aid for Homestead Exemption (ASAHE) – on M&O side
- Additional State Aid for Homestead Exemption (ASAHE) for Facilities – on I&S side and paid as if EDA
  - Hold Harmless allotments to cover the difference, if any, between local revenue lost as a result of the additional \$10K homestead exemption and the state aid gained as a result of lower values running thru the formulas



# ■ Chapter 41 – “Robin Hood”

2 levels of recapture (Robin Hood)

- 1) For taxes collected **up to the district’s compressed rate**, the Equalized Wealth Level (the wealth per WADA a district can keep before recapture sets in) is **\$514,000 per WADA (2018-19)**
  - $\$5,140 \text{ Basic Allotment} \times 100 = \$514,000$
  
- 2) For taxes collected on pennies **beyond the district’s compressed rate plus \$.06**, the Equalized Wealth Level is **\$319,500 per WADA**
  - $\$31.95 \text{ Tier II yield} \times 100 = \$319,500$

# ■ Chapter 41 – “Robin Hood”

The way Level 1 of recapture works:

Example:

Wealth per WADA	\$614,000
Equalized wealth level (1 <sup>st</sup> Level)	<u>\$514,000</u>
Excess wealth per WADA	\$100,000
Percent excess	16.29%

So what does this mean? - For every \$1 of M&O taxes collected up to the compressed rate, district must give up about \$.16 and therefore gets to keep about \$.84

# ■ Chapter 41 – “Robin Hood”

The way Level 2 of recapture works:

Example:

Wealth per WADA	\$614,000
Equalized wealth level	<u>\$319,500</u>
Excess wealth per WADA	\$294,500
Percent excess	47.96%

So what does this mean? - For every \$1 in M&O taxes collected above **the compressed rate + the golden pennies**, district must give up about **\$.48** and therefore gets to keep about **\$.52**

# ■ Chapter 41 – “Robin Hood”

The way Level 2 of recapture works:

Example2:

Wealth per WADA	\$914,000
Equalized wealth level	<u>\$319,500</u>
Excess wealth per WADA	\$594,500
Percent excess	65.03%

So what does this mean? - For every \$1 in M&O taxes collected above **the compressed rate + the golden pennies**, district must give up about **\$.65** and therefore only gets to keep about **\$.35**

# ■ The Facilities Component

Two programs to assist districts with the financing of their facilities

- **Instructional Facilities Allotment (IFA)** – began in 1997-98 and was for “new debt”
- **Existing Debt Allotment (EDA)** – began in 1999-00 and was for debt not covered by the IFA program

# ■ The Facilities Component

Both **Debt Equalization Programs** – “**Guaranteed Yield**” programs that work just like Tier II and both have limitations on how much assistance can be provided

For IFA, the state **guarantees** that each penny of I&S tax will **yield** no less than \$35 per **ADA** (not WADA) – the EDA guarantee is **\$40 per ADA**

District **must** collect its local share (or use unequalized taxes (excess M&O or I&S taxes from prior years starting way back in 1999-00) to get full state share

# ■ The Facilities Component

## Restrictions:

- Number of IFA awards contingent on how much the Legislature appropriates for IFA – districts are ranked according to wealth and awards are granted starting with the poorest until funds are no longer available
- There has been times when no new money was appropriated, thus no new awards could be granted and thus, districts had to wait until debt qualified for EDA (1 or 2 years depending on when debt was issued and when payments began)
- The state guarantee for EDA is only up to \$.29

# ■ The Facilities Component

The IFA Equalizing Concept:

	“Poor”	“Not so “Poor”
Guarantee	\$35.00	\$35.00
\$.01 Raises/ADA	<u>\$ 5.00</u>	<u>\$30.00</u>
State’s Share	\$30.00	\$ 5.00
State Percent	(86%)	(14%)



# ■ The Facilities Component

IFA Example: “Poor” district:

Annual Debt Payment	\$1,00,000
State Share @ 86%	<u>\$ 860,000</u>
Local Share @ 14 %	\$ 140,000

- Good incentive for voters to approve and bond proposal!

# ■ The Facilities Component

The EDA Equalizing Concept:

	“Poor”	“Not so “Poor”
Guarantee	\$40.00	\$40.00
\$.01 Raises/ADA	<u>\$ 5.00</u>	<u>\$30.00</u>
State’s Share	\$35.00	\$10.00
State Percent	(88%)	(25%)

# ■ The Financing of State Aid

- Summary:

$$\begin{aligned} & \text{Tier I State Aid} \\ + & \text{ Tier II State Aid} \\ + & \text{ “Other” Programs} \\ + & \text{ EDA State Aid} \\ + & \text{ IFA State Aid} \\ = & \text{ Total State Aid} \end{aligned}$$

# ■ The Financing of State Aid

Total state aid is paid from 2 funds:

General Fund (Fund 199)

Foundation School Fund (FSF)

Available School Fund (ASF)

Debt Service Fund (Fund 599)

# ■ The Financing of State Aid

- The ASF amount is sometimes referred to as your 'per capita' money
  - Earnings from the Permanent School Fund (PSF) get deposited into the ASF
  - 2 main draws are made from the ASF to pay for IMA and TEA administration of the PSF
  - What is left gets distributed on a prior-year ADA basis ('per capita')
  - Per capita rate per prior-yr ADA is set each year by the State Board of Education

# ■ The Financing of State Aid

Fund 199: 1<sup>st</sup> draw from Available School Fund (ASF):

$$\begin{aligned} & \text{Tier I State Aid} \\ + & \text{ Tier II State Aid} \\ + & \text{ Staff Allotment + M\&O ASAHE} \\ = & \text{ Total M\&O State Aid} \\ - & \text{ ASF} \\ = & \text{ Foundation School Fund} \end{aligned}$$

# ■ The Financing of State Aid

Why it doesn't matter what the ASF amount (**the per capita rate**) is (except for Ch 41 districts):

Total State Aid	\$1,000,000
<u>- ASF Portion</u>	<u>\$ 100,000</u>
= FSF Portion	\$ 800,000

Total State Aid	\$1,000,000
<u>- ASF Portion</u>	<u>\$ 600,000</u>
= FSF Portion	\$ 200,000

# ■ FSP Conclusion

If you need a break from all of this, you should do what I did when I got that way – **few people around and NO PHONE SERVICE OF ANY KIND....**

So here's what I did (next slide)





*Internal use only*