Public School Finance Overview

Texas Education Agency
July 2011

Big Picture of School Finance

- The system is huge
  - Annual state aid and local taxes exceed $40 billion
  - A 1% error in projecting state cost is worth more than $400 million in a biennium
  - It takes large amounts of money to make meaningful change in a system this large

Big Picture of School Finance

- Wealth is tax base per student, not absolute
  - *A penny of tax rate in Houston ISD generates $10.5 million*
  - *A penny of tax rate in Divide ISD generates $5,394*
- *BUT,*
  - *At $1.00 tax rate, Houston ISD produces $5,879 per ADA*
  - *At $1.00 tax rate, Divide ISD produces $32,490 per ADA*

Big Picture of School Finance

- Putting local property taxes into perspective
  - Current state formulas and local tax revenue deliver about $7,750 per student
  - At a $1.00 tax rate, it takes $800,000 in taxable property value to generate $8,000 in local property taxes

Three Basic Variables

- Number of students
  - More students increase state cost
  - Fewer students decrease state cost
- Property values
  - Higher values save the state general revenue (GR)
  - Lower values cost the state GR

Three Basic Variables

- Tax rates
  - In general
    - ✓ Higher tax rates increase state cost & local budgets
    - ✓ Lower tax rates decrease state cost & local budgets
- *BUT*,
  - Rate compression costs the state
    - ✓ A one penny reduction in local tax effort costs the state about $155 million

The Effect of Inflation

- Increased costs are borne by the district (unless the formulas increase)
- The benefit of increased values goes to the state budget (less general revenue is needed to fund the formulas)
- The state pays the cost of declining values (more general revenue is needed to fund the formulas)

Components of Public Education Programs

Foundation ram	Other State	Other Local	Federal
[illegible]	▪Instructional materials	▪Taxes	▪Child nutrition
▪Tier 2	▪Teacher retirement	▪Investment income	▪NCLB
▪Facilities	▪Technology	▪Fees	▪IDEA
▪Property tax relief	▪Other	▪Bond proceeds	▪Other

Foundation School Program

Tier 1	Special allotments for programs, with local share determined by tax base and compressed tax rate*
Tier 2	Equalized enrichment of M&O tax effort exceeding compressed tax rate
Facilities	Equalized enrichment of I&S tax effort

*Compressed tax rate = 2005 adopted M&O rate x .6667

Tier 1 Structure

- Tier 1 provides districts with access to the
  lation School Program

LFA = $1.00* x DPV

LFA = local fund assignment = district contribution to Tier 1

DPV = district property value

*The basic allotment is prorated for compressed tax rates less than $1.00

- Uses average daily attendance (ADA) or full-time equivalent (FTE) student counts

Tier 1 Structure

Basic | Cost of | Small and mid- | Adjusted

Adjusted allotment used for

- Regular program
- Special education
- Career and technology
- Compensatory education
- Bilingual/ESL
- Gifted and talented

Tier 2 Structure

- Tier 2 guarantees equalized access to enrichment
- Applies to tax effort that exceeds the compressed tax rate
- Produces guaranteed yield based on students in weighted average daily attendance (WADA)
- Example =
  - Guaranteed yield = $59.97
  - Local yield per penny per WADA = $40.00
  - State share per penny per WADA = $19.97

Additional State Aid for Tax Reduction (ASATR)

- Revenue target per WADA = the greatest of these three amounts:
  - 2005-06 revenue per WADA
    - ✓ Based on law prior to HB 1
  - 2006-07 revenue per WADA
    - ✓ Based on law prior to HB 1
  - 2006-07 revenue per WADA
    - ✓ Based on law prior to HB 1, but using HB 1 effective tax rates

ASATR

- First, calculate the revenue target:
  - \+ Target revenue per WADA x current-year WADA
  - \+ Salary allotment
  - \+ High school allotment
  - = **Revenue target**

- Next, calculate the difference between the target and current law state and local formula revenue
  - \+ Revenue target
  - \- Current law state and local revenue
  - = **ASATR, if positive, (OR dragback, if negative)**

What is a Chapter 41 district?

- A district with wealth per WADA that
  ds the equalized wealth level (EWL)
  - o First EWL = based on basic allotment = $476,500
  - o Second EWL = no recapture
  - o Third EWL = recapture at $319,500/WADA
- Districts subject to Chapter 41 must exercise at least 1 of 5 available options

Chapter 41 - What options can uce property wealth per WADA?

- Option 1 – Voluntary consolidation
- tion 2 – Detachment/annexation
- Option3 – Purchase of attendance credits from state
- Option 4 – Education of nonresident students (purchase of credits from other district(s))
- Option 5 – Tax base consolidation

Facilities Funding

- Instructional Facilities Allotment (IFA)
  - Requires application for funds
  - Provides funding for bonds and lease-purchase agreements
  - Limited to $250/ADA in debt service/biennium
- Existing Debt Allotment (EDA)
  - Bonds sold and paid on as of 08/31/2009
  - Limited to $0.29 of I&S tax effort

Facilities Funding

- State facilities programs provide
  - Equalized funding for interest and sinking fund (I&S) tax effort
  - Guaranteed yield per penny per student in ADA of $35
  - Example
    - Guaranteed yield = $35.00
    - Local yield per penny per WADA = $15.00
    - State share per penny per WADA = $20.00

Senate Bill 1

- Applies regular program adjustment factor (RPAF) in both years of biennium
  - AA x ADA = regular program allotment
  - RPAF x regular program allotment = reduced regular program allotment
  - The RPAF expires on September 1, 2015

Senate Bill 1

- Reduces ASATR funds in second year of biennium
  - Target revenue – state formulas – local taxes @ compressed tax rate = ASATR
  - ASATR x applicable percentage
    - 100% in FY 2012
    - 92.35% in FY 2013
  - Repeals ASATR on September 1, 2017

Budget reductions

- Overall FSP reductions
  - Approximately $2 billion less each year than current law formulas would have delivered
  - The average cut per student ≈ 6%
  - Printouts from Legislative Budget Board reflect smaller in cuts in first year due to inclusion of Education Jobs Funds

Budget reductions

- Other funding cuts
  - $1.7 billion in other program cuts, including preK, teacher performance pay awards, student success initiatives, high school initiatives, etc.
  - Defers August payment beginning with August 2012
  - The Texas Education Agency administrative budget is reduced by $48 million (40%)
    - Reduction in force of 32% (343 full-time equivalents) since January 2011

Instructional Materials Allotment

- ges the method of providing instructional materials
- School districts will choose from a list of available options or request permission to purchase items not on the list
- A school board must certify that students have instructional materials that cover all of the essential elements in the grades and subjects tested
- Uses unds previously used or technology allotment

Questions?

Lisa Dawn-Fisher

Deputy Associate Commissioner for School Finance

512.463.9179 phone

512.305.9165 fax

email:

Lisa.Dawn-Fisher@tea.state.tx.us

School Finance homepage:

http://www.tea.state.tx.us/index2.aspx?id=6957&menu_id=645&menu_id2=789