School Finance Made Easy
Part 1: Educational Instruction and Operation

Chandra Villanueva
Policy Analyst
villanueva@cppp.org
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.
Property Tax Relief Fund is funded with revenue from the Franchise Tax, Motor Vehicle Sales and Use Tax, and taxes on Tobacco.

Available School Fund Sources of Revenue:
- Investment returns from the Permanent School Fund
- Transfers up to $300m from GLO
- 25% of Motor Fuels Tax revenue

Portion of ASF goes to the Instructional Materials Allotment

Local Property Tax revenue is not appropriated. ($42.8 B)

51.4% of total FSP funding is local tax revenue

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....
Cost of Education Index (CEI) – based on 1989-1990 district characteristics such as size of district, teacher salaries of neighboring districts, % of low-income students in the district. The CEI has not been updated since 1991

Multiplier ranges from 1.02 to 1.20

Basic Allotment – amount that every school district is guaranteed to receive in state and local funds for each student in Average Daily Attendance (ADA)
- $4,950 for FY2014
- $5,040 for FY2015

Step 1: Adjustments are made based on district characteristics

Adjusted Allotment (AA)

Small or Mid-Size District Adjustment

Sparsity Adjustment

Adjustments are made
Step 2: Adjustments are made for student characteristics

Start with the Regular Program Allotment

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:

\[
\text{Adjusted Allotment} \times 0.20 = \text{Compensatory Education Allotment}
\]

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

\[
\text{Adjusted Allotment} \times 275 = \text{High School Allotment}
\]

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:

- **Compressed Tax Rate** ($1.00 for each $100 of property value for most districts)
- **Prior year property value** as determined by the Comptrollers Office
- **Local Fund Assignment (LFA)** – The portion of the Tier I Entitlement that the district is responsible for

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

- **Tier I Entitlement**
- **Local Fund Assignment (LFA)**
- **State Share of Entitlement**

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

-----------------------------------------------------

Adjusted Tier I Entitlement

\[ \text{Adjusted Basic Allotment} = \frac{\text{Adjusted Tier I Entitlement}}{\text{WADA}} \]
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.

Yield per Penny of Tax Effort – amount of revenue generated for each additional penny of tax effort per WADA

Yield per Golden Penny – $61.86 per penny per WADA

Yield per Golden Penny – However much the property wealth generates; not subject to recapture

Revenue from Golden Pennies:

Revenue from Golden Pennies = Number of Golden Pennies (Max of 6) × Yield per Golden Penny × WADA
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.

The revenue from the golden pennies and copper pennies are added together to reach the Tier II Entitlement.

Yield per Penny of Tax Effort
amount of revenue generated for each additional penny of tax effort per WADA

$31.95

Yield per Copper Penny $31.95 per penny per WADA

Yield per Penny of Tax Effort
amount of revenue generated for each additional penny of tax effort per WADA

$31.95

Yield per Copper Penny $31.95 per penny per WADA (Subject to Recapture)

Revenue from Copper Pennies....

Revenue from Copper Pennies

Number of Copper Pennies (Max of 11)

$31.95 (Yield per Copper Penny)

WADA

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 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 implementing a **Hold Harmless Reduction Factor** to ease districts off this revenue source.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Hold Harmless Reduction Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>92.35 multiplied by a district’s revenue target</td>
</tr>
<tr>
<td>2014 &amp; 2015</td>
<td>92.63 multiplied by a district’s revenue target</td>
</tr>
</tbody>
</table>

**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

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

Source: Based on Equity Center 2010 – 2011 District Funding Footprint
### Examples of Inequity

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

Source: Equity Center
School Funding is Still Below Pre-Recession Levels

Per-student spending, in 2014 $

2002: $10,714
2003: $10,778
2004: $10,573
2005: $10,335
2006: $10,618
2007: $10,490
2008: $11,550
2009: $10,647
2010: $10,647
2011: $10,481
2012: $10,049
2013: $9,777
2014: $10,079
2015: $10,321

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.