Foundation School Program

November 2017

MOAK, CASEY & ASSOCIATES
SCHOOL FINANCE & ACCOUNTABILITY EXPERTS
One in 5 Texans is directly served or employed

- 5.4 million students
  - 1.5 million in high school grades
  - 250,000 in PK or early education
  - Early grade cohorts about 400,000 at each grade level
  - Average growth of 72,000, about 1.4%, in past 5 years

- 700,000 employees
  - Over 350,000 teachers
  - 100,000 other professionals (principals, counselors, librarians, nurses, therapists, etc.)
  - 70,000 paraprofessionals
  - 170,000 other employees
Scope of Public Education

- **Operating Funds**
  - $49.5 billion all funds, $42.6 billion general fund in 2015-16 (last completed year)

- **Non-Operating**
  - $7.3 billion debt service
  - $7.6 billion capital outlay
Scope of Public Education

2015-16 Revenue Sources, General Fund

- Local Tax, $22.383
- Federal, $1.158
- Other Local and Intermediate, $0.994
- State, $21.083

Amounts in billions

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Scope of Public Education

2015-16 Revenue Sources, All Funds

- Local Tax, $28.115
- Federal, $5.990
- Other Local and Intermediate, $2.349
- State, $22.342

Amounts in billions
Scope of Public Education

2015-16 Expenditures, General Fund

- Payroll, $35.496
- Debt Service, $0.271
- Capital Outlay, $1.108
- Other Operating, $7.176

Amounts in billions

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Scope of Public Education

2015-16 Expenditures, All Funds

- Payroll, $38.908
- Debt Service, $7.301
- Capital Outlay, $7.603
- Other Operating, $10.956

Amounts in billions

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Scope of Public Education

2015-16 Non-Revenue Receipts, All Funds
- Issuance of Bonds, $15.806
- Premium or Discount on Bonds, $2.130
- All Other, $0.684

2015-16 Non-Expenditure Disbursements, All Funds
- Other, $0.041
- Non-Operating Expenses, $0.371
- Other Uses, $9.505

Amounts in billions
• Over 8,000 Campuses
• No current statewide inventory of space
• Square footage likely in excess of 1 billion SQF
Financing Public Education

Combined State, Local, and Federal Funding

- Real Dollars
- Constant Dollars

Adapted from LBB Fiscal Size-up, Figure 169

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Financing Public Education

Local and State Funding for Public Education

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Adapted from LBB Fiscal Size-up, Figure 169
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FIGURE 172
STATE AND LOCAL FOUNDATION SCHOOL PROGRAM FUNDING AND STATE SHARE PERCENTAGE
FISCAL YEARS 2005 TO 2017

Source: Legislative Budget Board, Fiscal Size-up, 2016-17

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Financing Public Education

<table>
<thead>
<tr>
<th></th>
<th>% State</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017*</td>
<td>39.21%</td>
</tr>
<tr>
<td>2018*</td>
<td>36.86%</td>
</tr>
<tr>
<td>2019**</td>
<td>36.61%</td>
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</tbody>
</table>

* From TEA’s payment files; includes debt service funds, charter schools included
** From MCA model for 2018-19 school year; includes debt service funds and charter schools
Federal funds are significant, but use is generally restricted
- Supplement v. supplant
- Maintenance of effort

<table>
<thead>
<tr>
<th>Federal Grant</th>
<th>2018-19 Appropriation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Child Nutrition</td>
<td>$4.344 Billion</td>
</tr>
<tr>
<td>IDEA, Title Programs</td>
<td>$6.105 Billion</td>
</tr>
<tr>
<td>Other Federal</td>
<td>$0.019 Billion</td>
</tr>
<tr>
<td>Total</td>
<td>$10.467 Billion</td>
</tr>
</tbody>
</table>
Foundation School Program

- Multi-Tier structure
- Tier 1 Program Allotments
  - Regular or Basic Education
  - Special Education
  - Compensatory Education
  - Career and Technical Education
  - Bilingual / ESL Education
  - Gifted / Talented Education
  - Public Education Grant
  - New Instructional Facilities Allotment
  - Transportation
  - High School Allotment
Foundation School Program

2017-18 FSP Tier 1 Allotments

- Career and Tech
- Bilingual
- High School
- Transportation
- Gifted/Talented
- New Instr. Facilities
- Public Education Grant
- Special Ed
- Compensatory
- Regular
Foundation School Program

• Basic Allotment $5,140
• Adjustments
  • Cost of Education Index
  • District Size Adjustments
• Weights for Special Program Allotments
  • 18 different weights applied to the adjusted allotment
  • NIFA, Transportation, High School do not use the adjusted allotment
Foundation School Program

- Tier 1 financed by state and local sharing of allotment costs
- Local share determined by property values and compressed tax rate
- State aid is remainder, but not less than ASF, NIFA, and High School
Foundation School Program

- Tier 2
  - Two levels of “enrichment” above Tier 1
    - Austin yield ($99.41/$106.28)
    - $31.95 yield
  - Entitlement based on simple equation:
    - yield × tax effort × student count
  - WADA - Weighted Average Daily Attendance
  - State aid determined by entitlement minus taxes attributed to tax effort
Foundation School Program

- Recapture
- Two equalized wealth levels
  - $514,000 per WADA for Tier 1
  - $319,500 per WADA for taxes attributed to the $31.95 yield zone of Tier 2
- Percentage of taxes to be paid by property-wealthy district is based on excess tax base per student
Foundation School Program

- Facilities Funding
  - Existing Debt Allotment
  - Instructional Facilities Allotment
  - Operate as guaranteed yield programs
  - $35 per ADA per penny of debt tax (a little below state average)
  - Types of facilities limited for IFA
  - State pays about 10% of debt service on average
Litigation History

- Edgewood and Equity
- First ruled unconstitutional in 1989
  - “Sec. 1. SUPPORT AND MAINTENANCE OF SYSTEM OF PUBLIC FREE SCHOOLS. A general diffusion of knowledge being essential to the preservation of the liberties and rights of the people, it shall be the duty of the Legislature of the State to establish and make suitable provision for the support and maintenance of an efficient system of public free schools.” - Texas Constitution, Article 7, Section 1
Litigation History

• “There must be a direct and close correlation between a district’s tax effort and the educational resources available to it; in other words, districts must have substantially equal access to similar revenues per pupil at similar levels of tax effort.” – Edgewood I decision
Litigation History

• Legislative response to raise the bottom up ruled unconstitutional in 1991

• Subsequent legislative response to create County Education Districts ruled unconstitutional in 1992

• Constitutional amendment proposed in 1993 to validate CEDs, but failed to get voter support
Litigation History

• 5 voluntary options adopted in 1993, including direct recapture, allow school districts to reduce wealth per student
  • Commissioner given authority to detach and annex property or consolidate districts if districts failed to act
• System declared constitutional in January 1995
Litigation History

• West Orange-Cove
• “Sec. 1-e. ABOLITION OF AD VALOREM PROPERTY TAXES. No State ad valorem taxes shall be levied upon any property within this State.” - Texas Constitution, Article 8, Section 1-e
“The state cannot provide for local supplementation, pressure most of the districts by increasing accreditation standards in an environment of increasing costs to tax at maximum rates in order to afford any supplementation at all, and then argue that it is not controlling local tax rates.” – West Orange-Cove II decision

Tax compression as a solution
Litigation History

• Texas Taxpayer and Student Fairness Coalition
• Argued the adequacy question as part of Article 7, Section 1
  • “Suitable provision”
“Judicial review, however, does not license second guessing the political branches’ policy choices, or substituting the wisdom of nine judges for that of 181 lawmakers. Our role is much more limited, as is our holding: Despite the imperfections of the current school funding regime, it meets minimum constitutional requirements.” – Texas Taxpayer decision
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