ISSUE PAPER

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School Finance

BACKGROUND

State funding for public school facilities is a relatively recent development in Texas school finance. Prior to 1997, school districts financed facilities using only local tax dollars without state assistance. In 1997, the Texas Legislature authorized the Instructional Facilities Allotment (IFA), a program of state financial assistance to help eligible districts make debt service payments on qualifying bonds and lease – purchase agreements. In 1999, the Texas Legislature approved another state aid program, the Existing Debt Allotment (EDA), to assist districts in paying for existing bonded debt. During the same session, the Legislature approved the New Instructional Facilities Allotment (NIFA), a smaller program of state aid to pay for operating expenditures associated with opening a new school.

INSTRUCTIONAL FACILITIES ALLOTMENT

To receive Instructional Facilities Allotment (IFA) funding, districts first make application to the Texas Education Agency (TEA) after voters give authorization through a successful bond election but before the district prices the bonds or the board passes an order authorizing a lease – purchase program. IFA grant funds must be used only for construction or renovation of instructional facilities. Bonds must have an unweighted average maturity of at least eight years and lease – purchase programs must have a term of at least eight years. After the IFA grant applications are submitted, TEA ranks them according to school district property wealth, placing property – poor districts at the top of the list. The agency also gives priority to qualified districts that applied in a prior cycle but did not receive funds because there were insufficient appropriations. TEA then calculates an upper limit for each IFA grant application and determines how many of the applications can be funded. When an application is approved and funded, state aid to the district is calculated using a guaranteed yield formula of $35 per student per penny of debt service tax needed for the project. Districts raise the local share with a debt service tax and state aid provides the additional funds up to the $35 guarantee. Law requires districts to levy and collect enough taxes to meet the local share requirements as a condition of receiving state IFA aid.[1]

For the 2010-11 biennium, the legislature appropriated $75 million to fund new IFA awards for the second year of the biennium. The Legislature did not appropriate funding for new IFA awards for the 2012-13 biennium.

[1] Texas Education Code Chapter 46, Subchapter A.

EXISTING DEBT ALLOTMENT

The Existing Debt Allotment (EDA) is a program of state assistance to school districts for bonded debt that is paid through local debt service taxes. The district must have made a payment on the bonds on or before August 31 prior to the start of a new biennium in order to receive EDA funding in the new biennium. Lease – purchase arrangements are not eligible for EDA. State aid for EDA is equalized using a guaranteed yield formula of $35 per student per penny of debt service tax effort, up to a total of 29 cents. There are no applications or award cycles. In 2009, the 81st Legislature amended the statute to automatically extend EDA funding every biennium. School district debt supported with IFA does not qualify for EDA funding as well.[2]

NEW INSTRUCTIONAL FACILITIES ALLOTMENT

The New Instructional Facilities Allotment (NIFA) provides operating funds to help districts equip new campuses. The funds may be used for operating expenses such as equipment, furniture and other start-up costs.[3] Legislation provides up to two years of funding. In the first year, the district receives $250 per student on the eligible campus. (A lesser amount may be calculated if applications exceed appropriated funding.) In the second year, $250 is provided for any additional students on the eligible campus. In 2011, the Legislature did not appropriate funds for NIFA for the 2012-13 biennium.

ISSUES

For many years, the annual Texas enrollment increase has been about 80,000 students, and facilities needs continue to grow as student enrollment rises. In recent years, voters approved more than $20 billion in school district bonding authority. The pace of growth and the needs of non-growing districts as well will represent a cost to Texas at both the local and state level.

Charter schools have joined plaintiffs in the school finance case that will be tried in the fall and winter of 2012-13. They argue that the system is inefficient and inequitable because there is no state program of facilities support and they lack access to property tax funds for facilities.

School district property wealth per student has risen dramatically since 1999. The current level of equalized support, a guarantee of $35 per penny per student in average daily attendance, now leaves many districts ineligible for EDA support because their wealth is greater than $350,000 per ADA. In short, EDA now helps fewer districts. If the yield were increased to $50 per ADA per penny of tax effort, 80 percent of students would attend districts that are eligible for some state assistance for facilities. The estimated cost for such a yield increase would have been about $1.2 billion for the 2010 - 2011 biennium. The level of equity in the facilities funding system is compromised because of the stagnant $35 yield.

TASB promotes educational excellence for Texas schoolchildren through advocacy, visionary leadership, and high-quality services to school districts. Visit tasb.org for more information about TASB and its mission.

[2] Texas Education Code Chapter 46, Subchapter B.
[3] Texas Education Code Chapter 42, Section 42.158.