

HOW ARE SCHOOL DISTRICTS FUNDED?

TAKEAWAYS

- Transparency.
- Better awareness of how school financing works.
- The impact the Foundation Schools Program (FSP) has on our district.
- The complexity of the FSP.
- The dependency this system creates on local property taxes.
- The reality is that school districts are not in control of appraisal districts, property values, or the tax rate.
- The reality that school districts may be collecting more in taxes based on increased property values does not equate to more revenue for the district as the state cuts its portion.
- This allows the state to put that money back into the Rainy-Day Fund, approximately \$2 billion annually.

FOUNDATION SCHOOLS PROGRAM (FSP)

- The system is established by the state and monitored through Texas Education Agency (TEA).
 - Funds are allocated to districts by TEA through a tiered funding system.
 - Tier 1 creates allotments (Basic, weighted, and other) that are subject to compressed tax rates.
 - Tier 2 is based on “gold and copper pennies,” which may or may not be subjected to compression and Weighted Average Daily Attendance (WADA).
 - **Which creates a very complex and confusing funding formula.**
- The system is based on districts collecting property taxes (local school taxes) to fund education in local communities.
- School taxes are based on property values established by the local (county) appraisal district (for us, this is TAD or Tarrant Appraisal District). The school district does not establish these values **in any way.**
 - What are property values used for?
 - To determine tax compression- districts report to TEA each July.
 - To determine state aid based on Comptroller T values.
 - To determine tax collections based on the tax rate.
 - **This forces school districts to set tax rates each school year in August, however these rates are already determined by the state based on compression.**

TIERS

- The Tier One portion of a district's M & O rate is subject to ongoing compression due to HB 3 (2019).
 - Before HB 3, most districts had a Tier One rate of \$1.00.
 - After HB 3, the district's Tier One rate is determined by various formulas that depend on the Comptroller's estimated statewide property value growth and local property value growth.
 - Projected growth above 2.5% results in statewide compression.
 - Local property value growth accounting for Local Option Homestead Exemption (LOHE) over 2.5% could result in additional compression, which affects individual districts differently.
 - TEA notifies districts of the highest Tier One rate they can adopt each summer through the Local Property Value Survey.
- Tier Two
 - Districts have more discretion over pennies in Tier Two or the "enrichment tier".
 - The first eight pennies of Tier Two are referred to as "golden pennies" because they have a higher level of guaranteed state aid.
 - The first 5 pennies can be adopted with a simple majority of the board
 - There is no compression for golden pennies
 - The remaining Tier Two pennies are referred to as "copper pennies" because they come with less state aid than golden pennies (i.e., a lower guaranteed yield).
 - HB 3 did compress the district's copper pennies.
 - Future compression will occur if the Legislature increases school funding through the basic allotment.

TWO PARTS TO THE TAX RATE

- Maintenance and Operations (M & O)
 - Larger portion of the rate.
 - Funds the general operations of the district.
 - Payroll
 - Utilities
 - Supplies
 - KISD's current (2022-2023) M&O rate is 0.9447.
- Interest and Sinking (I & S)
 - Established to pay for bond debt
 - Much smaller portion of the rate
 - KISD's current (2022-2023) I&S rate is .2817.
- KISD's total current (2022-2023) tax rate is \$1.2264.
 - Three years ago, KISD's total tax rate was 1.4517.
 - **KISD has dropped its total tax rate 0.2253 or .23 cents in the last three years.**

IMPLICATIONS

- Current state legislation has required school districts to compress their tax rates down.
 - KISD's M&O tax rate three years ago was \$1.17
 - Statewide Compression
 - Tax Year 2019 | 93 cents set by HB3
 - Tax Year 2020 | 91.64 cents | Comptroller est. 4.01%
 - Tax Year 2021 | 1.34 cents | Comptroller est. 1.84%
 - Tax Year 2022 | 89.41 cents | Comptroller est. 4.36%
- This is a highly complex funding system based on multiple factors, weights, and variables.
- The State of Texas has decreased the percentage of funding in the FSP from 50% to 33% in the last 15 years.
- As tax revenues continue to rise due to increased property values, the legislature cuts back state spending on education.
- The state takes away the extra revenue gained from property taxes from districts which go into the general fund and not back to districts or education.
- This makes school districts more dependent on local property tax revenue.
- The legislature increased homeowners' exemption from \$25,000 to \$40,000 to provide property tax relief. Currently, legislation is being proposed to increase this exemption to \$65,000.
- **This complex system, unfortunately, pits school districts against their stakeholders as taxpayers believe school districts are driving up their taxes.**

BUDGET PROCESS AND TIMELINE

- Comparative analysis of last year to this year
 - What was budgeted?
 - What was spent?
 - What are our additional needs?
- Evaluate additions or subtractions in programs, materials, and equipment.
- Present tentative budget to campuses and department heads for input.
- Enrollment estimates (2850) are submitted to TEA in December every other year.
- Conduct payroll comparison and rollover projections as personnel make up 78-82% of the General Fund budget.
- Preliminary Tax valuations released by TAD in April-residential; updates to these valuations released by TAD in May-commercial.
- Certified values were released by TAD on July 25, pending the remaining protest.
- The local Property Value Survey is submitted to TEA on the first of August after receiving these values.
- From this survey, the state sets KISD's Maximum Compressed Rate (MCR).
- The district must conduct a public hearing on the tax rate and budget, tentatively set for August 28, which must be advertised for 10-30 days in The Commercial Recorder.



- This notice is posted after the Certified Values and Truth in Taxation release, usually by July 25.
- Adopt tax rate and budget at the August Board meeting.

BOARD ADOPTION

- Three areas of budget board adopt
 - General Fund (M&O)
 - In reality the tax rate is not determined by the district but the state.
 - Larger share of the total tax rate.
 - This is the operating budget for the district.
 - Debt Service (I & S)
 - Smaller share of the total tax rate.
 - This is a stand-alone budget dedicated for capital improvements.
 - Food Service
 - Stand-alone budget as our Food Service is self-sufficient.
 - Total budget for all three is \$38 million.
- Tax rate
 - Based on Certified Values
 - Comptrollers Truth in Taxation
 - Maximum Compressed Rate
- Two computed tax rates
 - No New Revenue Tax Rate
 - Calculated on last year's assessment compared with this year's values which change daily.
 - This is the rate it would need to be to collect the same amount of taxes as the prior year.
 - Usually lower than the voter-approved tax rate.
 - The rate this year is \$0.8384.
 - Voter-approved Tax Rate
 - This was approved in a 2008 Tax Ratification Election (TRE).
 - This is the rate districts historically use.
 - HB 3 compression forced the M & O rate down from \$1.17 in 2018 to \$0.9447 over the last four years.
 - The difference between these two rates causes confusion.
 - **Districts and municipalities are required to report that they are raising the tax rate because of the difference between these two rates**

REVENUE

State Funding

- Based on projections of Average Daily Attendance (ADA) and Full Time Equivalents (FTEs)
- This equates to \$9,572,666 for this year.
- Teachers' Retirement System on behalf payment \$1,824,800
- Total state contribution is \$11,396,966

Federal Funding

- Special programs, School Health and Related Services (SHARS) based on Medicare Cost Report.



- This equates to approximately \$400,000 for this year.

EXPENDITURES

General Fund (M & O)

- Payroll costs 78-82% of the budget; this year 82.34%
 - Salaries
 - Benefits
 - Subs
- Professional and Contract services makes up 10.76% of the budget
 - Utilities
 - Technology
 - Region 11 Contracted Services
 - Repairs/Maintenance
- Supplies and materials 4.01% of the budget
- Other Operating Costs 2.60% of the budget
 - Insurance
 - staff development
 - etc.
- Debt Services 0.29% of M & O budget
 - Capital leases-copiers and postage machines
 - Not part of the I & S budget
- Total M & O budget equals \$31,205,566