



# Financial Futures Committee

Orientation  
March 27, 2018



## FFC Focus

*Long-range financial planning*





## **Example FFC Topics**

- Enrollment trends
- Staffing
- Strategic plan activities
- Compensation
- Legislative issues impacting school finance
- Property value trends and tax rates
- Capital needs (facilities, furnishings, equipment, etc.)
- Fund balance
- Operational efficiencies



## **FFC Operations**

- 18 committee members and four alternates
- Approximately six meetings per year
- Report to Board annually or more frequently, as necessary
- Board appoints committee chairperson
- Board Finance & Academics Committee will serve as Board liaisons to the FFC



## **FFC Meeting Schedule**

- March 27 - Orientation
- April 12
- May 29
- August 7
- October 23
- December 11



***Texas School Finance System***



## Texas School Finance System

- Two sources of revenue for all Texas school districts
  - Property Taxes
  - State Aid
- “Shared” Funding System – in concept



## Foundation School Program

- Formulas are set in state law
- The dollars used in the formulas are determined through the state budget process
- There is no adjustment for inflation in the FSP formulas





## State Aid System

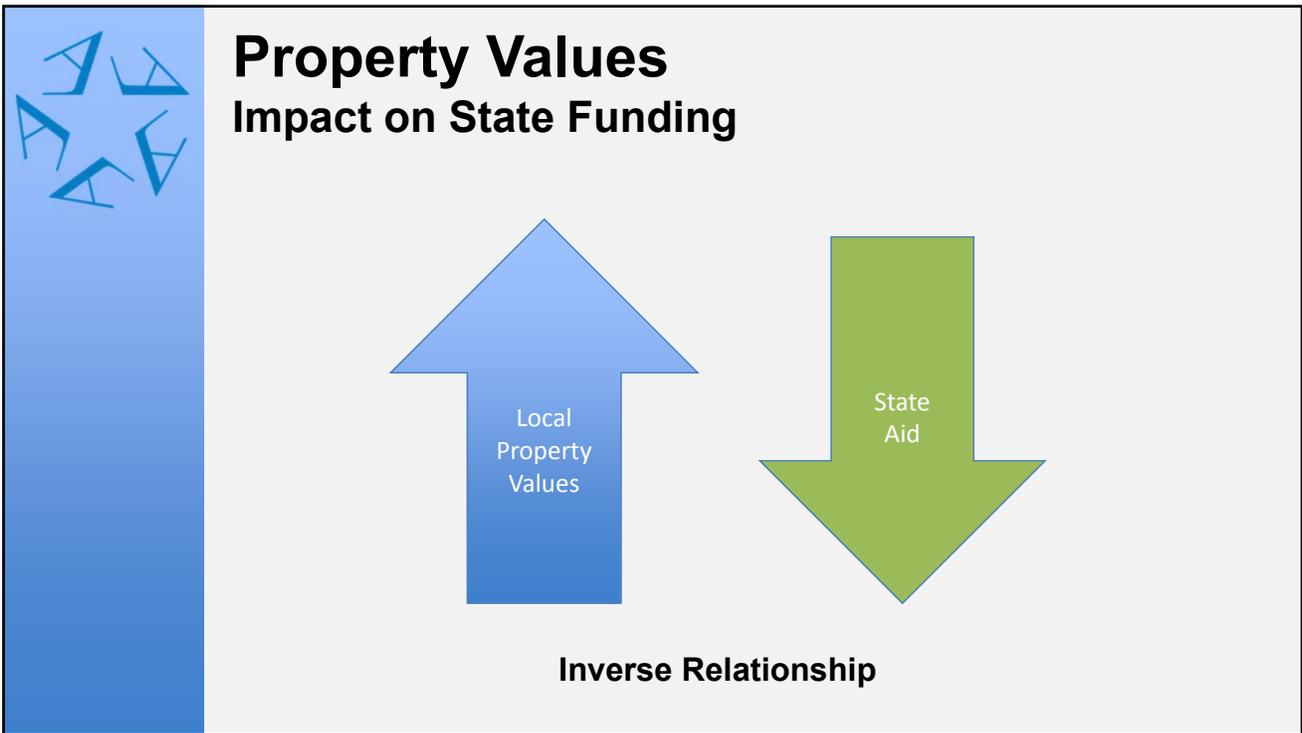
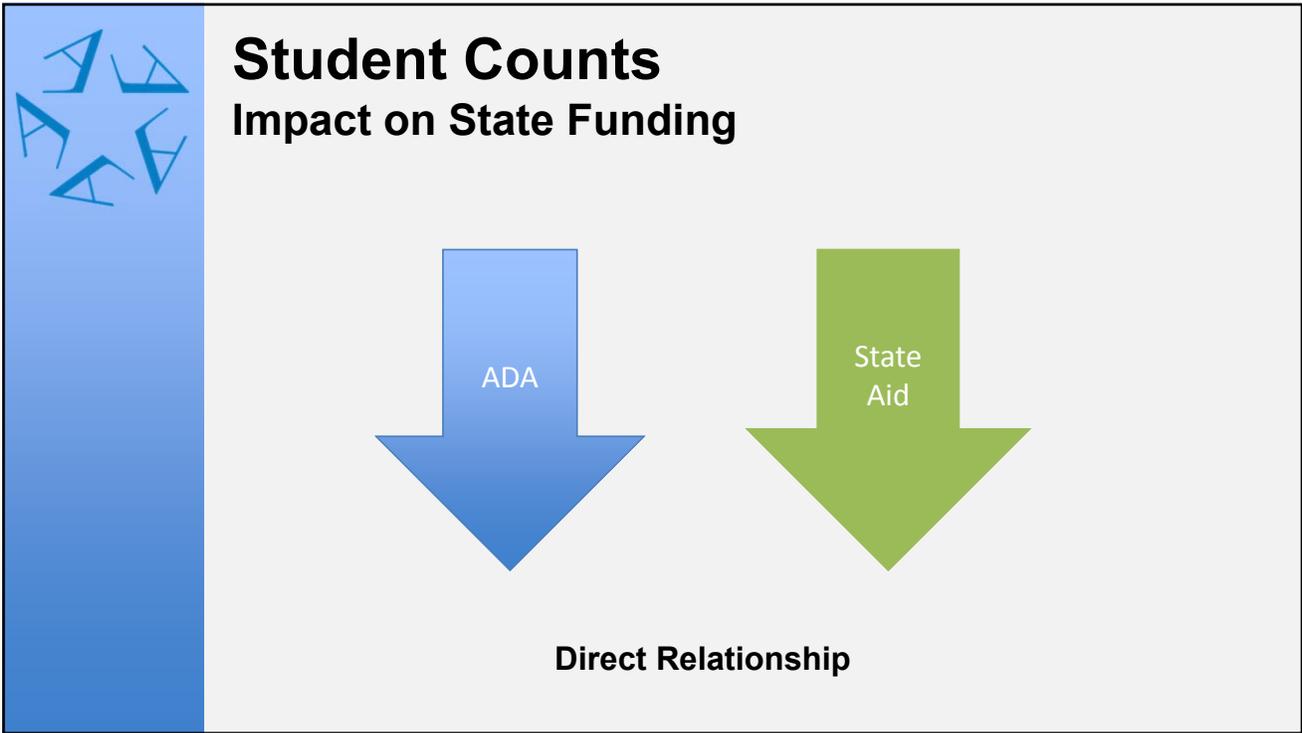
- Key data elements:
  - Student counts
    - Average Daily Attendance (ADA)
    - Special program participation
  - Prior year property values
  - Current year tax rate & tax collections



## Student Counts Impact on State Funding



**Direct Relationship**



Tier/Allotment	Amount
<b>Tier I (program entitlements)</b>	
Regular Program Allotment	\$291,600,540
Special Ed Allotment	\$29,508,224
Career Tech Allotment	\$24,717,743
Gifted & Talented Allotment	\$1,894,263
Compensatory Education Allotment	\$50,325,990
Bilingual Education Allotment	\$8,351,326
Public Education Grant	\$0
New Instructional Facilities Allotment	\$13,748
High School Allotment	\$4,558,222
Transportation Allotment	\$3,642,148
<b>Total Tier I Allotment</b>	<b>\$414,612,203</b>
<b>Local Share (prior year prop values x \$1.00 tax rate)</b>	<b>\$(233,503,338)</b>
<b>Tier II (enrichment for tax rate &gt; \$1.00)</b>	<b>\$21,765,642</b>
<b>Other Programs</b>	<b>\$2,168,984</b>
<b>Total Foundation Program Aid</b>	<b>\$205,043,492</b>

**AISD  
FSP Revenue  
2017-18**



## Tier I: Calculation of State Share

### “PROPERTY POOR” DISTRICT

<b>Tier I Total Cost</b>	<b>\$414,612,203</b>
Local Taxable Property Value	\$23,350,333,823
Local Share at \$1.00 M&O tax rate	(\$233,503,338)
State Share of Tier I	\$181,108,865

### “PROPERTY WEALTHY” DISTRICT

<b>Tier I Total Cost</b>	<b>\$414,612,203</b>
Local Taxable Property Value	\$45,000,000,000
Local Share at \$1.00 M&O tax rate	(\$450,000,000)
State Share of Tier I	\$0



## Texas School Finance System

- **As local property values rise, the school district share of public education funding increases and the state share decreases**
  - Saves the state money
  - The burden of funding public education shifts more to local property owners as property values increase



## Tier I: Calculation of State Share

2017-18

<b>Tier I Total Cost</b>	<b>\$414,612,203</b>
Prior Year Local Taxable Property Value	\$23,350,333,823
Local Share at \$1.00 M&O tax rate	(\$233,503,338)
State Share of Tier I	\$181,108,865

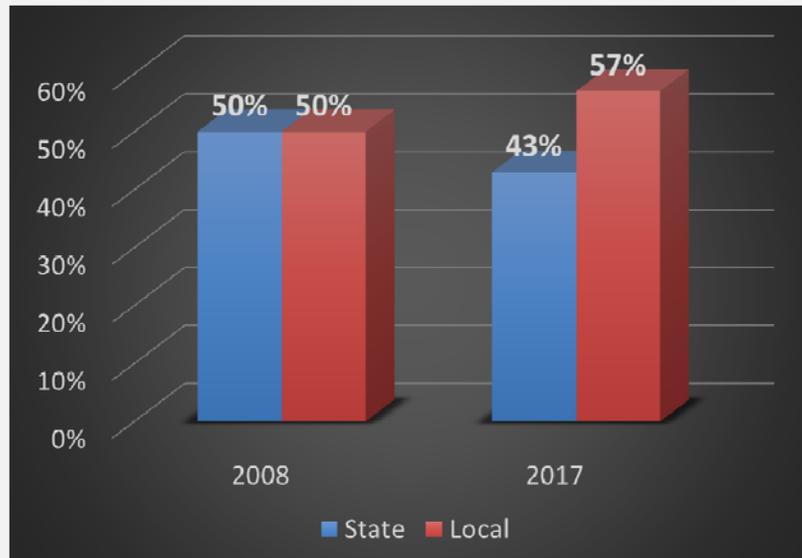
2018-19

<b>Tier I Total Cost</b>	<b>\$414,612,203</b>
Prior Year Local Taxable Property Value	\$25,213,620,564
Local Share at \$1.00 M&O tax rate	(\$252,136,206)
State Share of Tier I	\$162,475,997

As property values increase, more of the Tier 1 cost is being borne by local property owners



## State Funding Contributions



## School Finance System

- Max M&O tax rate permitted by state law is \$1.17
- ***Any increase above \$1.04 must be approved by voters through a tax ratification election (TRE)***
- 49% of districts have an M&O rate of \$1.04
- 45% of districts have an M&O rate above \$1.04

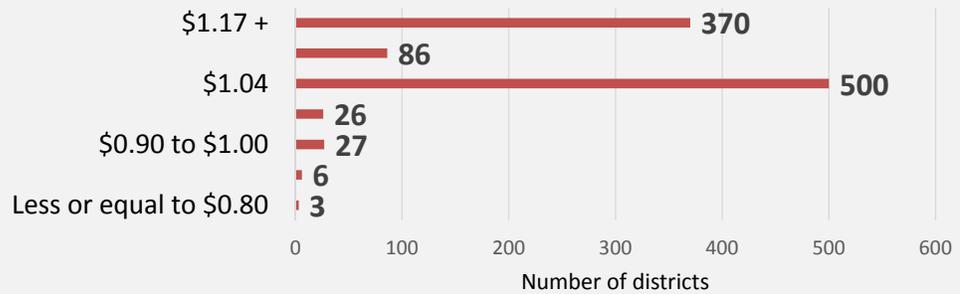
## 2016 M&O Adopted Tax Rates

M&O tax rates range from **\$0.70 cents to \$1.24** (certain Harris county districts are able to tax above \$1.17)

**500** districts have adopted a \$1.04 tax rate

**370** districts have adopted the maximum 1.17 or above

**Number of Districts at Varying M&O Tax Rates**



## School Finance Lawsuit

- More than 600 school districts sued the state over the school finance system in 2011
- District Court ruled the system unconstitutional in Aug. 2014
- State appealed that ruling to the Texas Supreme Court
- It was widely expected that the Texas Supreme Court would rule in favor of the plaintiff school districts & require the legislature to modify the funding system.
- Texas Supreme Court ruled the school finance system **constitutional** on May 13, 2016



***What does all of this mean for Texas public schools?***



*Legislature had no mandate & no money to change the funding system when the 85<sup>th</sup> Legislature convened in January 2017*



## State Revenue Est. for 85<sup>th</sup> Legislature

- Revenue estimates for the 17-18 biennium were flat
  - Sales taxes
  - Oil & gas taxes
  
- Property values have been increasing across the state
  - As property values go up, state aid goes down
  - Results in a savings to the state
  - Shifts the funding burden to local property owners
  - State diverts the savings to fund other budget priorities



## 85<sup>th</sup> Texas Legislature

- The anticipated increase in property values over the upcoming biennium will save the state an estimated **\$3.5 billion** under the current school finance formulas.
  
- After covering the cost of enrollment growth, required increases in other parts of the finance system, and a new way of calculating recapture for wealthy districts, the state will have approximately **\$1.5 billion** more revenue due to rising property values and higher recapture.



## 85<sup>th</sup> Legislature

- **Regular Session:**
  - No increase in education funding
  - No changes to funding system
  - No changes to TRS-Active Care health plan
- **First Called Session:**
  - No change in basic allotment; no formula changes
  - Authorized Public School Finance Commission



## Public School Finance Commission

- Purpose
  - Develop and make recommendations for improvements to the current public school finance system or for new methods of financing public schools
- Composition: 13 members
  - 4 appointed by the Governor
  - 4 appointed by the Lieutenant Governor
  - 4 appointed by the House Speaker
  - 1 member of the State Board of Education

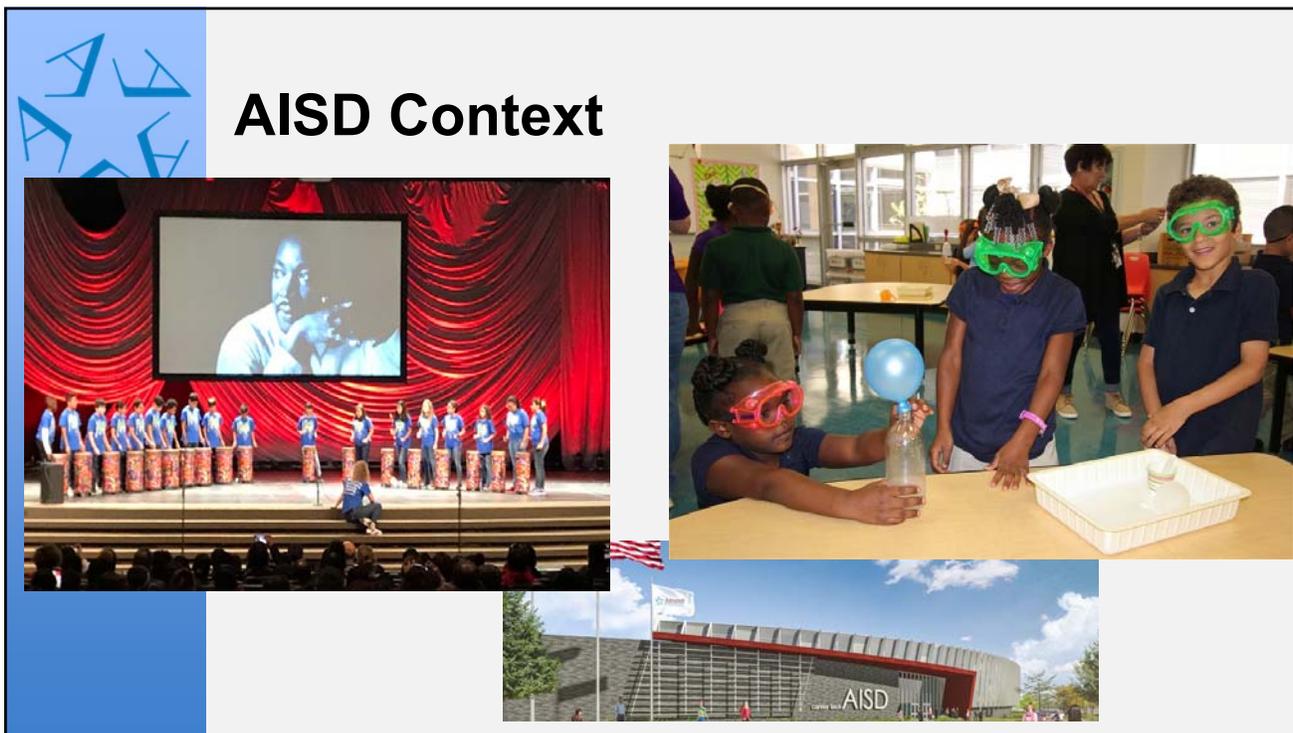


*There is a general sense that no substantive changes will result from the work of the Public School Finance Commission.*



## **Budget Implications**

- Absent additional funding from the state, districts will be forced to make difficult budget choices:
  - Raise their M&O tax rate
    - For the vast majority of districts, raising the tax rate will require a tax ratification election (TRE)
    - 36% of school districts are already taxing at the \$1.17 maximum rate
  - Spend fund balance
  - Make budget reductions
    - May reduce opportunities for students

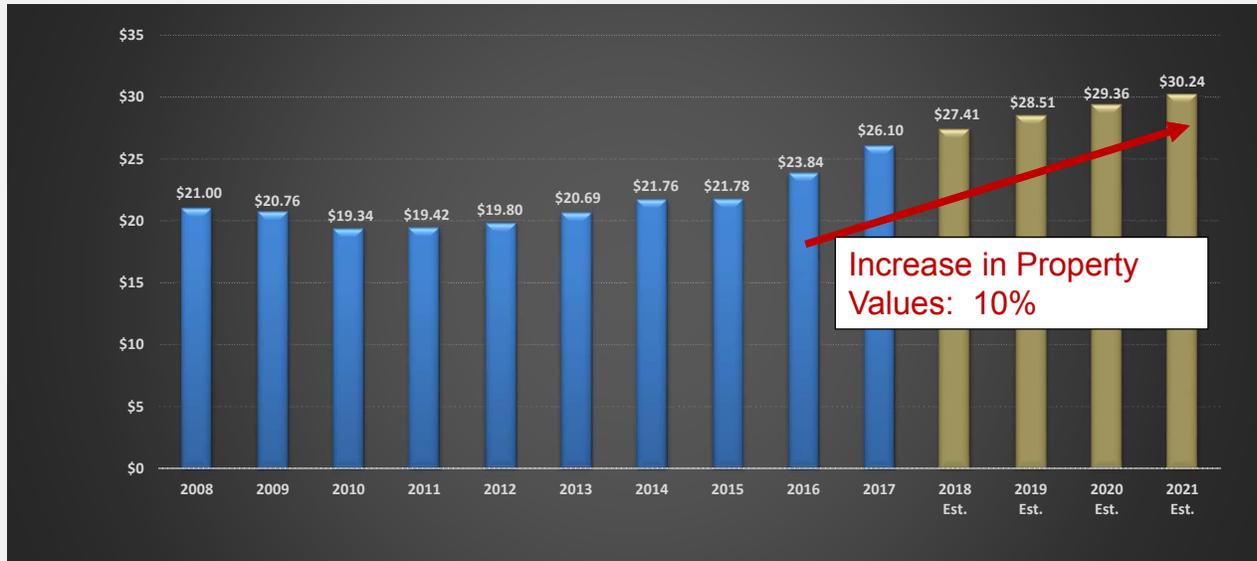


## AISD Student Enrollment History



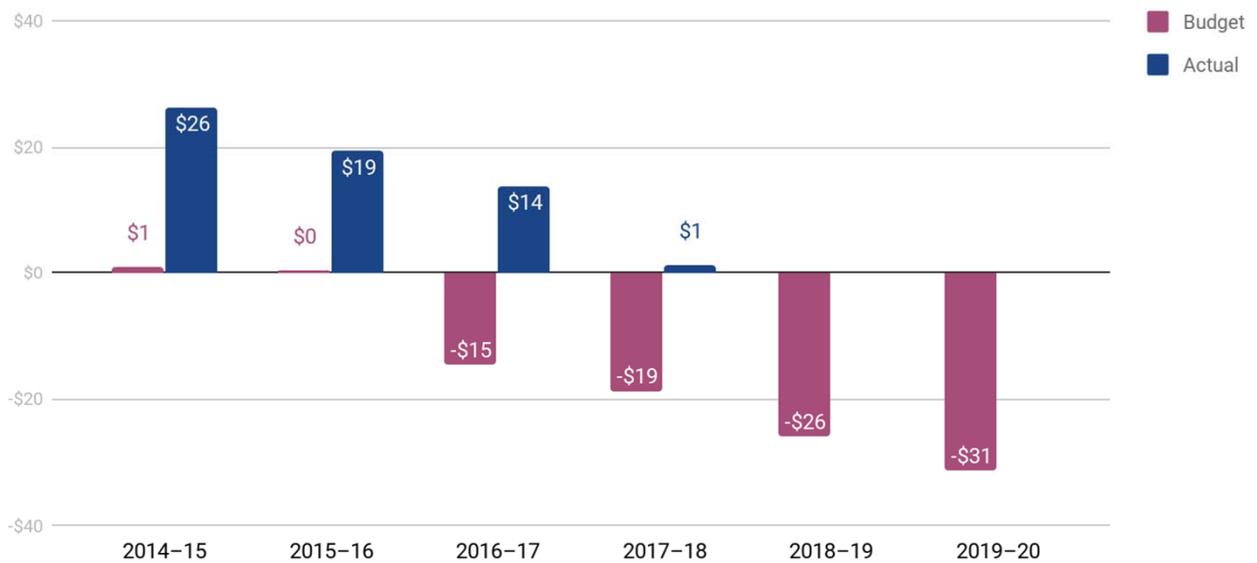
Data Source: Fall PEIMS submissions & Templeton Demographics estimates

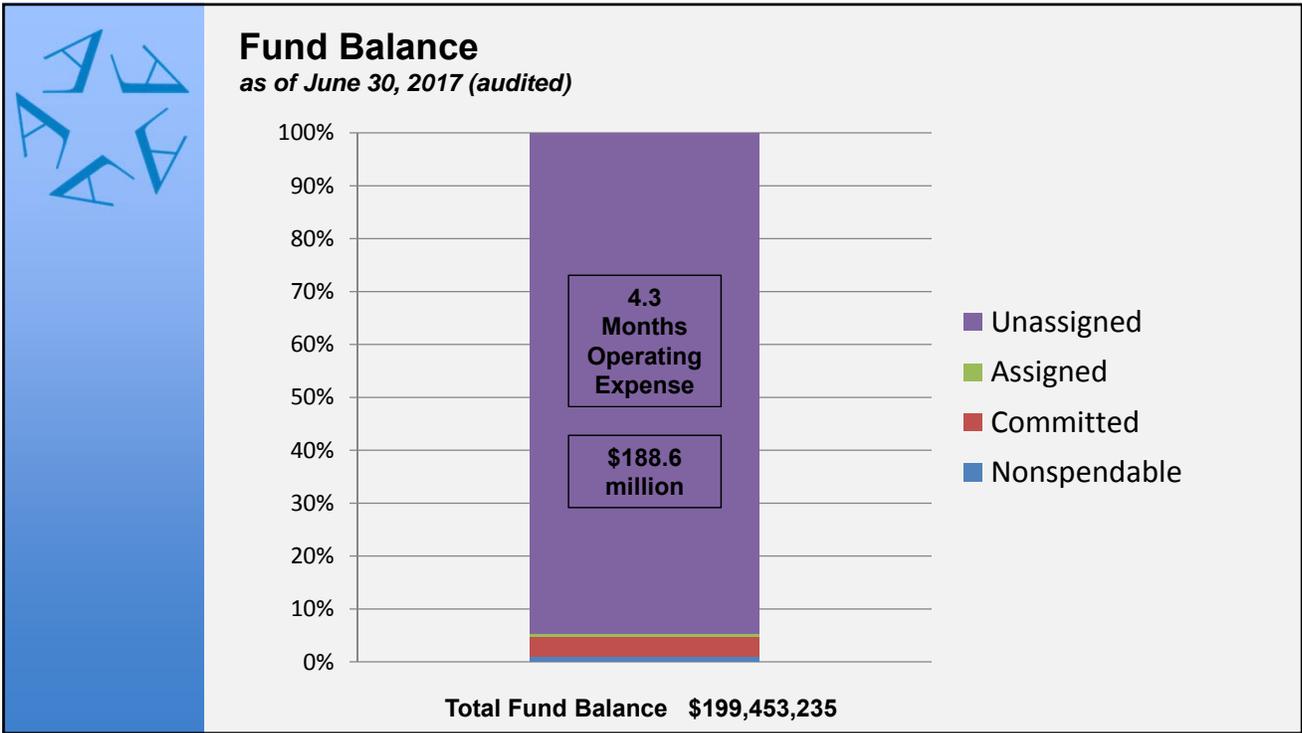
## AISD Property Value History & Forecast



Source: TAD Certified Values and AISD Forecasts

## Operating Surplus/Deficit





**Fiscal Year**

***July 1 – June 30***



## Key Considerations

- Legislative Mandates & Funding
- Demographics
  - enrollment & program participation
- Strategic Plan Priorities
- Student Performance
- Competitive Compensation
- Capital Needs
- Inflation
- Property Values



## Keys to Success

- Prioritize needs
- Return on investment
- Staffing
  - Set formulas & stick with them
  - Equity
- Community input
- Conservative estimates
- Operational efficiencies





## FFC Purpose

to provide findings and recommendations from community stakeholders to the Board of Trustees relating to **budgets and long-range financial planning** to support the District's Strategic Plan.



***Questions?***