



# LEGISLATIVE BUDGET BOARD

## FSP Overview

**PRESENTED TO THE HOUSE APPROPRIATIONS SUBCOMMITTEE ON ARTICLE III  
LEGISLATIVE BUDGET BOARD STAFF**

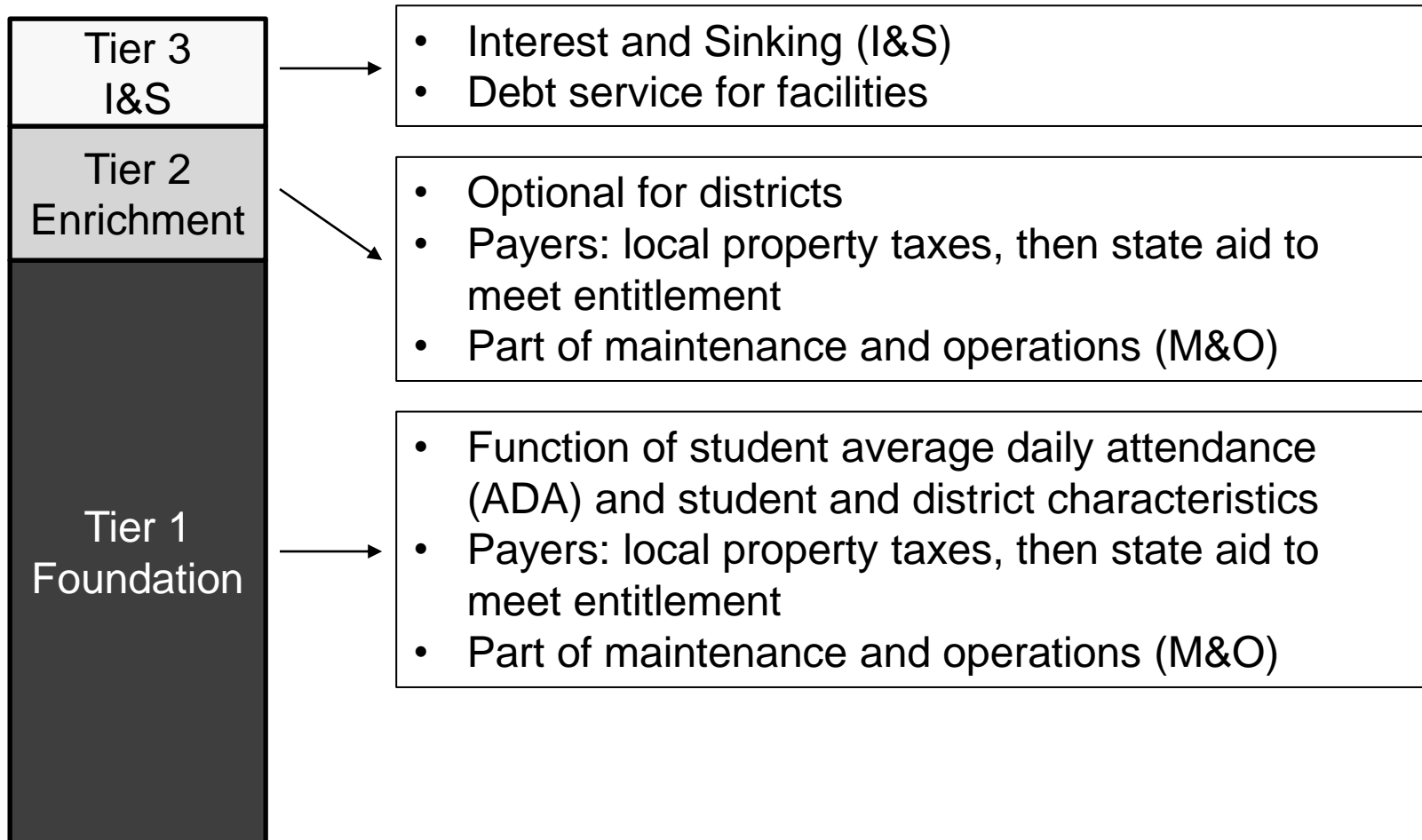
**March 2023**

# Foundation School Program Overview

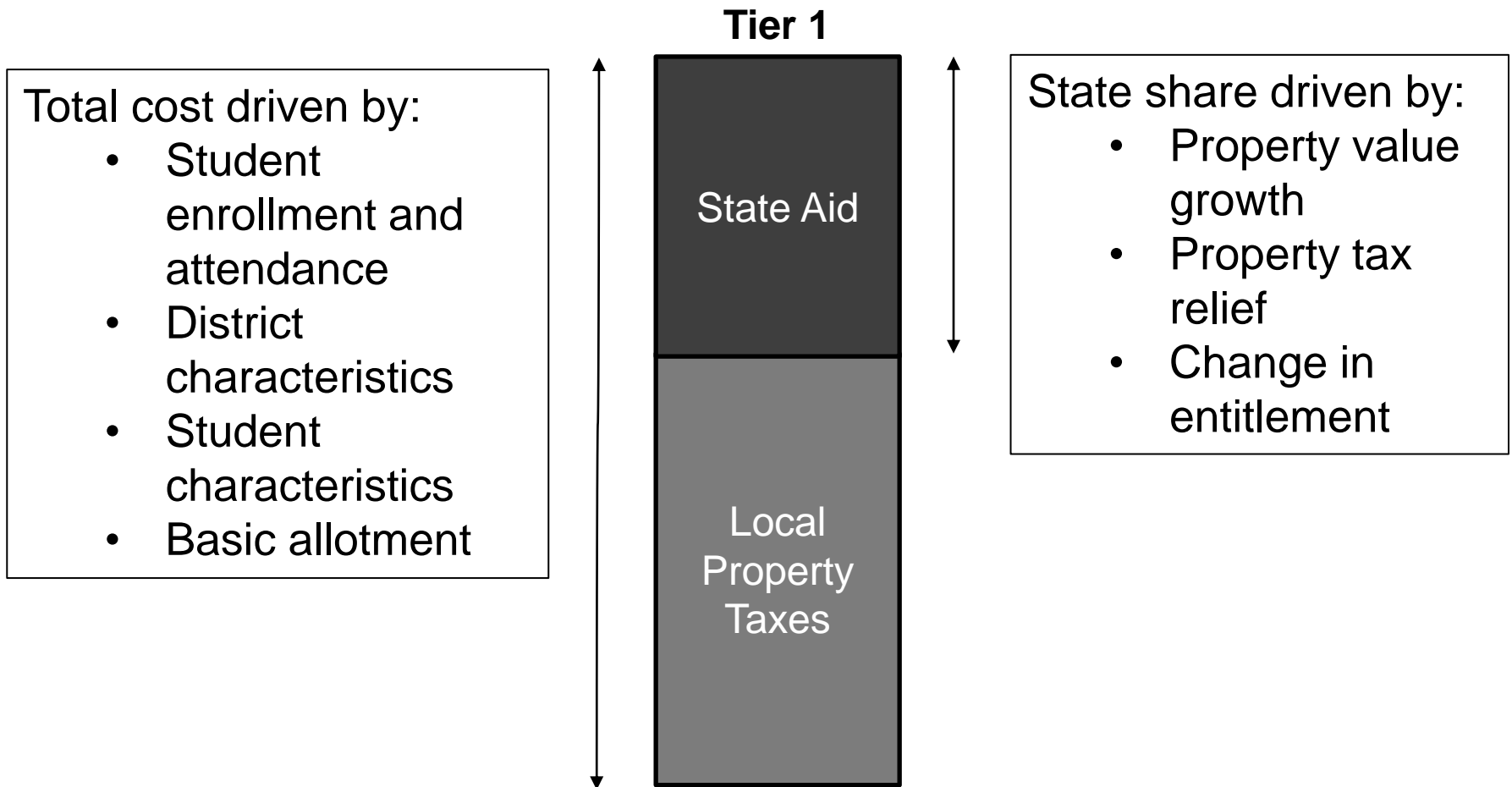
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- The Foundation School Program (FSP) is the principal vehicle for distributing state aid to school districts.
- District maintenance and operations (M&O) entitlement is based on student average daily attendance, student characteristics, and other factors.
- Entitlement is funded with local property taxes, then state aid
- Excess local revenue is recaptured and redistributed

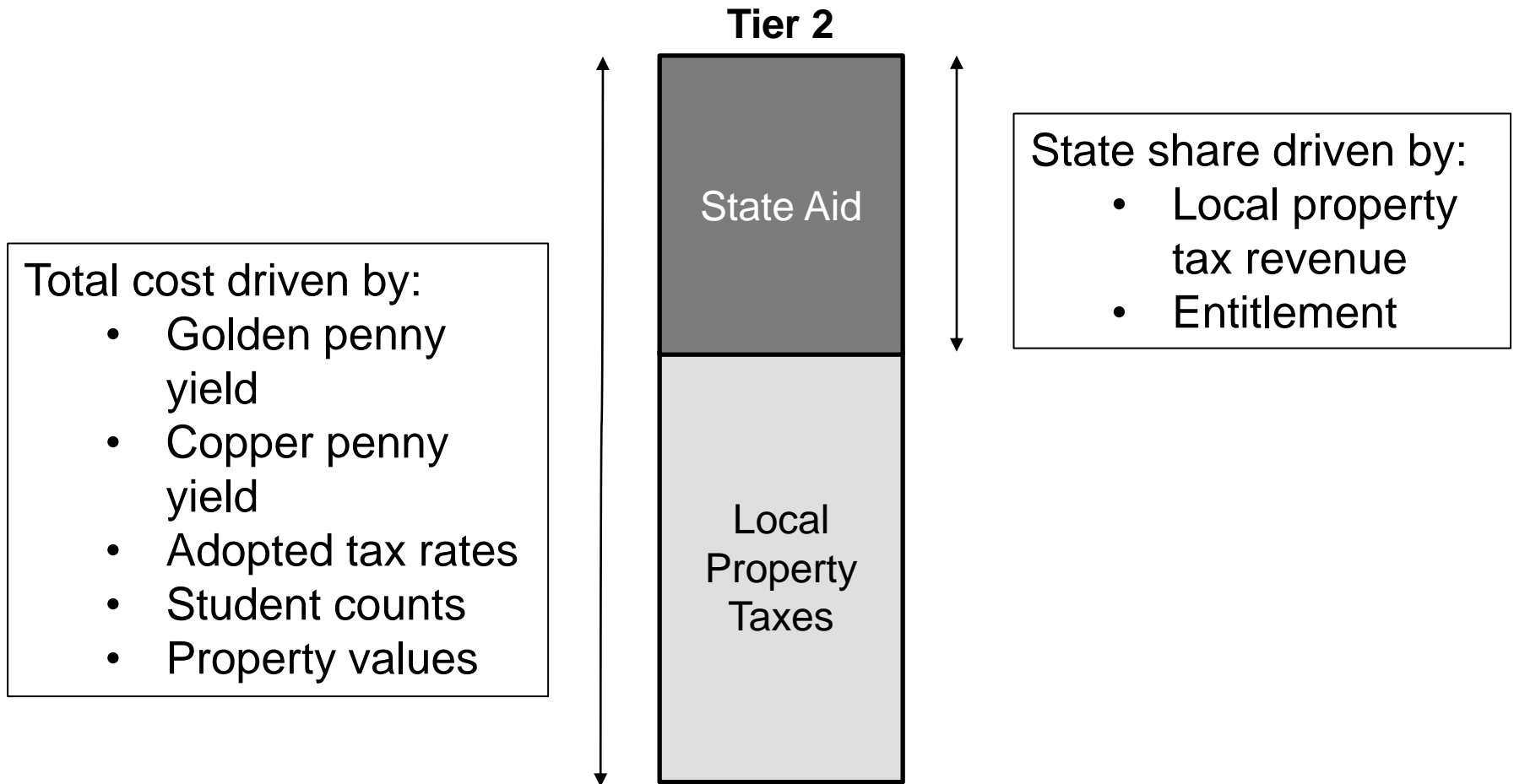
# Foundation School Program Overview



# Tier 1 – Major Cost Drivers (option 2)

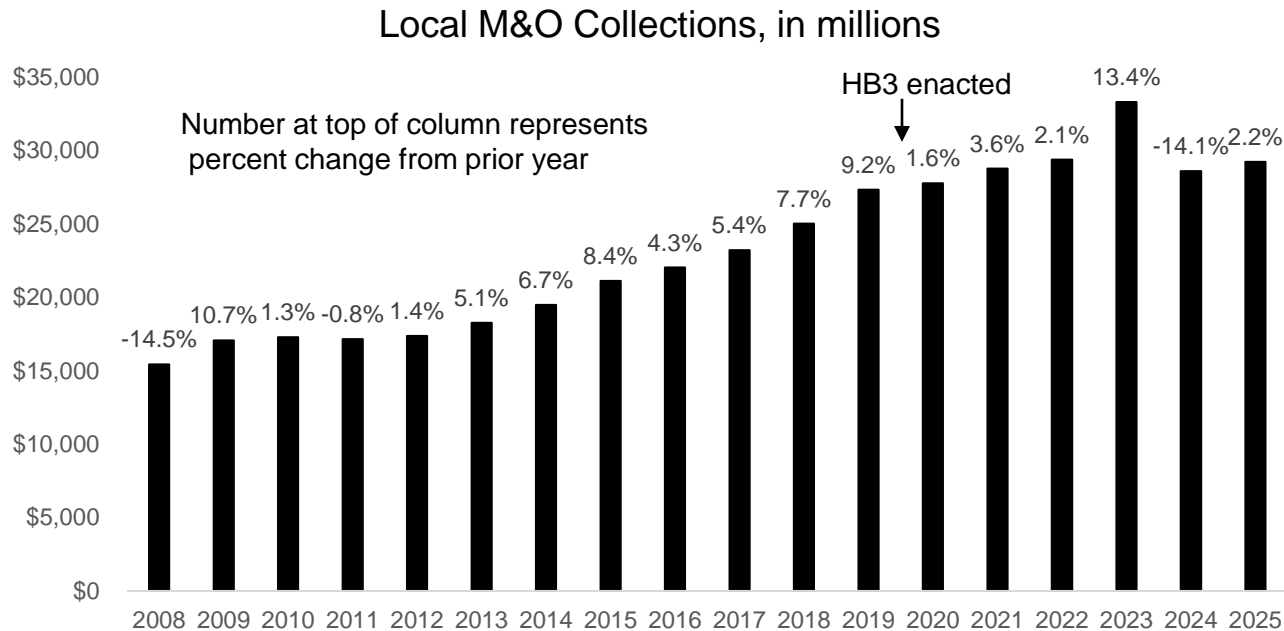


# Tier 2 – Major Cost Drivers (option 2)



# HB3 Impact on Property Taxes

- Most Tier 1 tax rates were \$1.00 per \$100 of property valuation.
- As property values grew, so did local property taxes, which reduced the state share of the FSP.
- House Bill 3 slowed collection growth by reducing district Tier 1 tax rates in proportion to property value growth.



# Rider 81(a): Tier 1 Compression Overview

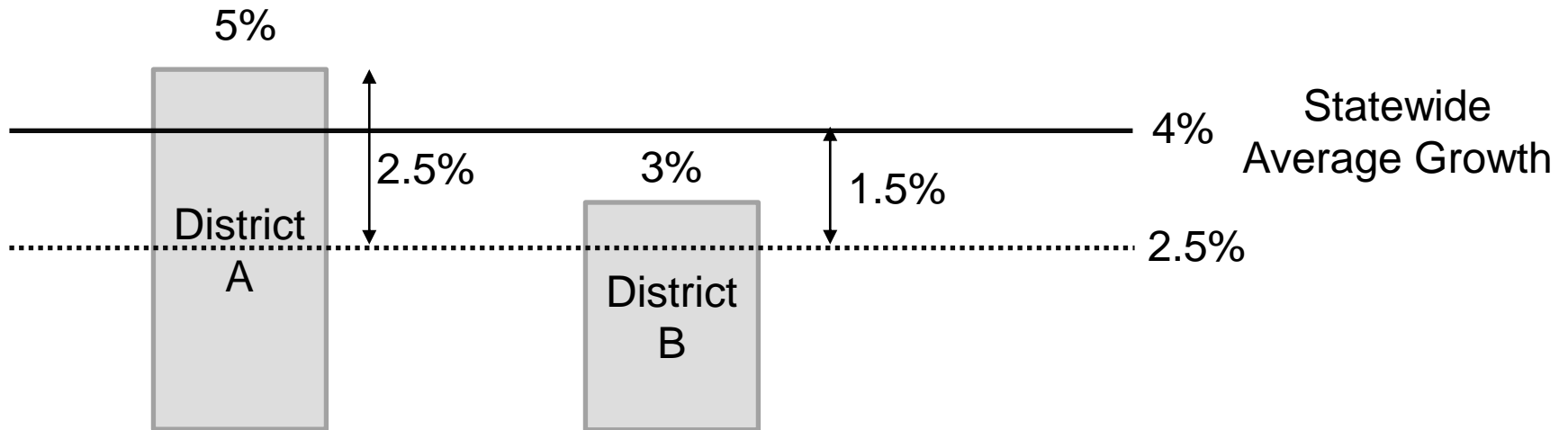
- MCR is the Tier 1 tax rate a district must levy to receive its full Tier 1 FSP funding entitlement.
- In general, district MCRs are compressed annually by the greater of:
  1. The amount that the district’s property value growth rate exceeds 2.5 percent, or
  2. The amount that the statewide average property value growth rate exceeds 2.5 percent
- No district’s MCR can be less than 90% of the highest MCR, which is the State Compression Percentage (SCP).

Rider 81 Section	2024-25 Cost to State*
(a)	\$3.1 billion

*\*Estimates are subject to change based on updated data.*

# Rider 81(a): Example Tier 1 Compression

- District A grows faster than statewide average, compression will be approximately 2.5%
- District B grows slower than statewide average, compression will be approximately 1.5%





# Rider 81(b): TEC 48.2552(c) Compression

- MCR floor is 90% of the SCP
- Education Code, Sec. 48.2552(c) requires SCP reduction using state savings realized in the prior biennium by limiting compression with the MCR floor.
- HB 1 As Introduced reduces the SCP by \$0.0775 in FY 2024.

Rider 81 Section		2024-25 Cost to State*	
(b)		\$2.2 billion	
Rider 81 Sections	2024-25 Cost to State*	SCP FY 2025*	SCP Reduction*
(a) and (b)	\$5.3 billion	\$0.7893	\$0.1048

*\*Estimates are subject to change based on updated data.*



## LEGISLATIVE BUDGET BOARD

# Contact the LBB

Legislative Budget Board

[www.lbb.texas.gov](http://www.lbb.texas.gov)

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