



## Formula Transition Grant Prevents Funding Losses

*May 2021*

*The House Bill 3 school finance legislation passed in 2019 invested billions of new dollars in public education, but the new law's changes to funding formulas left some districts with less revenue to educate their students. The Legislature put Formula Transition Grants in place to ensure districts received a minimum increase.*

### **The Formula Transition Grant is a critical, but short-term, source of school funds**

- Under the grant, school districts and open-enrollment charter schools are entitled to receive the lesser of 103% of the maintenance & operations funding they would have received under old law, or 128% of the state average M&O funding under old law.
- In the 2019-2020 school year, 284 school districts and charter schools received the FTG.
- This grant saved many school districts from a funding loss under House Bill 3.
- The FTG expires after five years, setting up school districts for a funding loss in fall 2024.
- One of the reasons the Legislature included the FTG in House Bill 3 was to ensure school districts could afford to give pay raises to teachers. Taking the FTG away would imperil districts' ability to maintain those raises.

### **Growth in property values has driven the cost of the FTG higher than projected**

- Districts and charters received \$430 million in FTG for 2019-2020 – much higher than the \$40 million cost projected during the 2019 legislative session.
- In Tax Year 2019, property values grew by slightly over 10%, while estimates made during the legislative session were based on estimated property value growth of 5.76%.
- This higher-than-projected property value growth drove the cost of the Formula Transition Grant higher, but it reduced the state's overall funding obligation to public schools well below what lawmakers were planning to spend through House Bill 3. This is part of the \$5.5 billion in state savings currently recognized in House Bill 2.
- The cost of the FTG is expected to remain well above the projections made in the 2019 legislative session and is a reflection of the fact that old law resulted in higher revenue for many districts with growing values, and that House Bill 3 formulas may have produced lower-than-expected gains but for the protection offered through these grants.

### **Altering the FTG would cause significant funding losses for school districts**

- Legislators have touted the need to "clean up" unintended consequences of HB 3.
- Changing the FTG to further reduce the state's cost would create new unintended consequences because districts would lose funding at a faster rate than HB 3 intended.
- Schools have confronted considerable challenges and unexpected costs over the last year. Taking away FTG funding would add to the distress educators are facing.
- Changing the FTG would undermine and negate the oft-touted benefits of the 2019 reforms for hundreds of school districts, leaving them worse off than before.
- FTGs make the law adopted in 2019 better than the law we had before; without it (or with it at a reduced amount), that isn't the case.