

# Texas Public School Finance: Glossary of Terms

**Disclaimer** – This document is intended to supplement the TEA Texas Public School Finance Overview (December 2017) presentation, and therefore only focuses on defining concepts and terms introduced and explained in the presentation. For more detailed information please contact the TEA School Finance Department.

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**Additional State Aid for Tax Reduction (ASATR)** – Established in 2006, ASATR was the amount of “hold harmless” funding that the state delivered to school districts whose state and local revenue at the compressed M&O tax rate (CTR) did not equal or exceed their target revenue amounts. A school district’s state and local revenue at the CTR is defined as the sum of Tier I State Aid and M&O tax collections (less recapture) at the CTR. ASATR expired at the end of fiscal year 2017.

**Adjusted Allotment (AA)** – The AA reflects adjustments (increases) made to a district’s adjusted basic allotment (ABA) from the small district and mid-size district adjustments, if applicable. The AA is used to calculate most of the Tier I allotments.

**Adjusted Basic Allotment (ABA)** – The ABA reflects adjustments (increases) made to a district’s basic allotment (BA) from the cost of education index (CEI) adjustment. The ABA is used when calculating further increases from the small district and mid-size district adjustments.

**Austin ISD Yield** – Refers to the level of funding provided per weighted student (WADA) per penny of tax effort under Tier II, for the first six (golden) pennies of tax effort above a district’s compressed M&O tax rate (CTR). This guaranteed yield is indexed to the level of Austin ISD, and is currently \$99.41 for fiscal year 2018 (and \$106.28 for FY2019).

**Available School Fund (ASF)** – The ASF serves as a method of finance for the Foundation School Program, and the ASF is primarily made up of revenue generated by the state’s fuel tax and by the Permanent School Fund. ASF payments are based on a district’s or charter school’s prior year average daily attendance (ADA). The distribution rate is adopted each year by the State Board of Education. This rate is also referred to as the “per capita” rate.

**Average Daily Attendance (ADA)** – Simply put, the number of students in ADA is found by dividing the total number of students who are in attendance each day of the school year for the entire school year by the number of instructional days in the school year.

**Basic Allotment (BA)** – The BA is the basis of funding for most of the allotments making up a district’s Tier I entitlement. The BA for fiscal year 2018 is \$5,140. A district with a compressed M&O tax rate (CTR) below \$1.00 receives a basic allotment that is reduced proportionately to the degree that the district’s CTR falls short of \$1.00. This is known as “fractional-funding”, and beginning in fiscal year 2018, affected districts will automatically have any eligible copper pennies moved over to the CTR in Tier I, allowing them to realize the benefit of the entire basic allotment. The BA amount is set in the General Appropriations Act.

**Chapter 41 District** – A district that is subject to recapture is often referred to as a Chapter 41 district because the provisions governing recapture are found in the TEC, Chapter 41.

**Chapter 42 District** – A district that is eligible to receive state aid under the FSP is often referred to as a Chapter 42 district because the provisions governing state aid are found in the TEC, Chapter 42.

**Charter School** – Charter schools are entitled to Tier I and Tier II state aid, but because they cannot generate a local share through a property tax base, the state funds 100% of the entitlements. Charters are funded using state average funding variables for Tier I and Tier II.

**Compressed M&O Tax Rate (CTR)** – To provide property tax relief (see ASATR), the Texas Legislature established a "compressed" M&O tax rate beginning with the 2006 tax year. Currently, a district's CTR is its 2005 M&O tax rate multiplied by the state compression percentage, which is 0.6667. If, for example, a district had a 2005 M&O tax rate of \$1.50, then its CTR would be \$1.00.

**Copper Pennies** – Copper pennies are any pennies of tax effort above a district's compressed M&O tax rate (CTR) plus six cents. These pennies are called copper because they generate a guaranteed yield of \$31.95 in Tier II, which is lower than that of golden pennies.

**Cost of Education Index (CEI)** – To adjust for varying economic conditions, the state assigned a cost of education index (CEI) to each school district in 1991. The CEI assigned to a school district was based mainly on the size of the district, the teacher salaries of neighboring districts, and the percentage of low-income students in the district in 1989–1990. The CEI has not been updated since.

**Equalized Wealth Level (EWL)** – EWLs refers to certain thresholds established by Chapter 41, TEC dealing with property wealth per WADA which determine whether a district is subject to recapture. The first EWL is tied to the basic allotment and is \$514,000 per WADA in fiscal year 2018. The second EWL is tied to the Austin ISD wealth level and districts are not currently recaptured at this level because Tier II state aid is equalized up to the Austin ISD yield. The third EWL is tied to the copper penny yield in Tier II and is \$319,500 per WADA per statute.

**Existing Debt Allotment (EDA)** – EDA provides funding to school districts for debt service payments on eligible bonded debt. To qualify for EDA, at least one payment on eligible debt must be made before the end of the previous state biennium. The amount of funding is also determined by the district's I&S tax effort during the last year of the preceding state biennium. State aid under the EDA provides a guaranteed yield of up to \$40 per penny of tax effort per ADA, within certain limitations.

**Foundation School Program (FSP)** – The FSP is the state program that establishes the amount of state and local funding due to school districts under Texas school finance law and that provides the state share of this funding to districts. The FSP is meant to ensure that all school districts, regardless of property wealth, receive substantially equal access to similar revenue per student at similar tax effort, considering all state and local tax revenues of districts after acknowledging all legitimate student and district cost differences.

**Full-Time Equivalent (FTE)** – An FTE is defined as 30 contact hours per week by a student participating in an eligible program.

**Golden Pennies** – Golden pennies are the first six pennies of tax effort above a district's compressed M&O tax rate (CTR). These pennies are called golden because they generate the highest guaranteed yield provided under Tier II (\$99.41 in fiscal year 2018) and are not subject to recapture.

**Guaranteed Yield** – Is an amount of revenue guaranteed per penny of tax effort. This amount varies depending on the funding element being discussed. See Tier II, Golden Pennies and Copper Pennies.

**High School Allotment** – The high school allotment provides school districts and charter schools with \$275 for each student in average daily attendance (ADA) in grades 9 through 12. This allotment was added to the formulas in fiscal year 2007.

**I&S (Interest & Sinking) Tax Rate** – The I&S tax rate provides funds for payment on the debt that districts issue to finance facilities and other capital expenditures. The calculation of state facilities funding (see IFA and EDA) is tied to a district's I&S tax rate.

**Instructional Facilities Allotment (IFA)** – The IFA program provides funding to school districts for debt service payments on debt associated with the purchase, construction, renovation, and expansion of instructional facilities. Districts use this funding to make annual debt service payments on qualifying bonds and lease-purchase agreements. State aid under the IFA provides a guaranteed yield of \$35 per penny of tax effort per ADA, within certain limitations. The guaranteed yield of \$35 has not been updated since inception.

**Local Share** – A school district is responsible for funding a portion of its Tier I entitlement. The portion of the Tier I entitlement that the district is responsible for is called the local share. The local share is the amount of tax collections generated by assessing the compressed M&O tax rate (CTR), using the property value for the preceding tax year.

**M&O (Maintenance & Operations) Tax Rate** – A school district's property tax rate is made up of an M&O tax rate and, if applicable, an interest and sinking (I&S) tax rate. As its name suggests, the M&O tax rate provides funds for the maintenance and operations costs of a school district. The calculation of Tiers I and II and ASATR is tied to a district's M&O tax rate.

**Mid-Size District Adjustment (MDA)** – Mid-size districts are defined as those with fewer than 5,000 students in ADA. These districts receive increases to the basic allotment via the MDA to compensate for diseconomies of scale (the cost of educating a single student increases as the number of students in a district decreases). Districts cannot receive both the MDA and the Small District Adjustment.

**New Instructional Facility Allotment (NIFA)** – NIFA is provided for operational expenses associated with the opening of a new instructional facility. It is available to all school districts and charter schools that build new instructional facilities (renovations and additions to existing facilities are not eligible). NIFA provides \$1,000 per student in average daily attendance (ADA) in the first year of operation of the new campus, plus \$1,000 for each additional student in ADA in the second year of operation.

**Per Capita Rate** – The Per Capita Rate is the distribution rate for the Available School Fund (ASF) and is adopted each year by the State Board of Education. Payments are based on a district's or charter school's prior year ADA. See Available School Fund (ASF).

**Recapture** – Recapture is a mechanism in state funding formulas that ensures that a district's property wealth per weighted student in average daily attendance (WADA) does not exceed certain levels, known as equalized wealth levels. Districts subject to Chapter 41 must equalize their wealth by choosing one of five options. Nearly 100% choose equalize their wealth by sending excess local

M&O tax revenue back to the state for redistribution as part of the FSP. This is also commonly referred to as “Robin Hood”.

**Revenue Target** – Another term for Target Revenue. See Target Revenue.

**Small District Adjustment (SDA)** – Small districts are defined as those with fewer than 1,600 students in ADA. These districts receive increases to the basic allotment via the SDA to compensate for diseconomies of scale (the cost of educating a single student increases as the number of students in a district decreases). Districts cannot receive both the SDA and the mid-size district adjustment.

**State Share** – A school district is responsible for funding a portion of its Tier I entitlement. The portion of the Tier I entitlement that the district is responsible for is called the local share. The state share is the remaining portion of the entitlement that the local share did not pay for.

**Target Revenue** – Target revenue is a specific amount of funding per WADA that the state guaranteed to a school district in exchange for the mandatory reduction of the district's M&O tax rate in 2006. The target revenue amount is different for each school district and is based on the state and local M&O revenue a district would have earned had it not lowered its tax rate due to tax rate compression in 2006. See Compressed M&O Tax Rate (CTR) and ASATR. Target revenue expired at the end of fiscal year 2017.

**Tier I** – Tier I provides school districts a basic level of funding through several allotments, including those for regular basic education, special education, career and technical education, bilingual/ESL education, state compensatory education, gifted and talented education, public education grants, transportation, new instructional facility allotment, and the high school allotment. Funding for Tier I is tied to the district's compressed M&O tax rate (CTR) which is typically \$1.00 for most districts.

**Tier II** – Tier II provides a "guaranteed yield," or a guaranteed level of funding, to school districts to supplement the basic funding provided for by Tier I. The guaranteed yield ensures that school districts generate a specified level of funding per student in weighted average daily attendance (WADA) for each penny of tax effort above the district's compressed M&O tax rate (CTR) up to a maximum M&O tax rate of \$1.17. The funding provided by this additional tax effort is also referred to as enrichment.

**Transportation Allotment** – The transportation allotment provides funding assistance to school districts that provide student transportation. Basic funding is for home-to-school transportation provided to regular eligible students who live more than two miles from their campus of regular attendance and for students receiving special education services who require special transportation to attend school. This allotment is based on a set rate per mile that increases with the number of eligible riders per route mile. Funding rates have not been updated since inception in 1984.

**Wealth Equalization** – Another term for Recapture. See recapture.

**Weighted Students in Average Daily Attendance (WADA)** – WADA is calculated by subtracting the following from a district's Tier I entitlement: transportation allotment, NIFA, high school allotment, and 50 percent of the CEI adjustment. The resulting amount is then divided by the district's basic allotment amount to arrive at a district's WADA. WADA is used in calculations for Tier II, and Chapter 41 Recapture.