

May 2, 2016

Subject: Preliminary Notification of Potential Chapter 41 Status for 2016–2017

To the Administrator Addressed:

This letter is preliminary notification of your district's Chapter 41 status for the 2016–2017 school year. It allows your district to move forward with election preparation, if necessary.

Based on the district's preliminary property value for tax year 2015, as provided by the Texas Comptroller's Property Tax Assistance Division (PTAD), and the projected number of resident students in weighted average daily attendance (WADA) for the 2016–2017 school year, the Texas Education Agency (TEA) estimates that your district's wealth per resident WADA will exceed the equalized wealth level (EWL) of \$319,500 per WADA as established by the Texas Education Code (TEC), §41.002(a)(3).

There are three EWLs currently in effect. The first EWL is applied to the tax effort associated with a district's compressed tax rate (CTR). A district's CTR is its 2005 adopted maintenance and operations (M&O) tax rate multiplied by the state compression rate. For 2016–2017, the state compression rate is **66.67** percent. The first EWL is \$514,000 per WADA, which is equivalent to the yield provided by the basic allotment.

The second EWL is determined by the funding provided to property-poor school districts for their tax effort that exceeds their CTRs. If the state's equalization program for property-poor school districts is funded to provide tax revenue equivalent to that raised by the Austin Independent School District on the first six pennies of tax effort that exceed the CTR, then property-wealthy school districts are allowed to retain all of the revenue on the equivalent tax effort.

The third EWL is set in statute at \$319,500 per WADA, and it applies to any tax effort that exceeds a district's CTR plus six cents. Final determination of whether a school district will be required to make recapture payments on the third EWL is based on the district's actual tax effort and the extent to which it exceeds the district's CTR. A district whose identified wealth level falls between \$319,500 and \$514,000 per WADA will not pay recapture unless the district's adopted M&O tax rate exceeds the CTR plus six pennies, but the district is still considered a Chapter 41 district because its EWL exceeds the statutory limit of \$319,500.

Districts whose wealth per WADA exceeds the EWL will be required to reduce their wealth per WADA for the 2016–2017 school year using one or more of the statutory options available. In accordance with the TEC, §41.004, the TEA will officially notify your district of its Chapter 41 status by July 15, 2016, after final property values for tax year 2015 are certified by the PTAD.

At that time, the TEA will provide the *Manual for Districts Subject to Wealth Equalization (Chapter 41) 2016–2017* and other administrative details.

This preliminary notification is informational only and does not require a response by the district. **The official notification in July, however, does require a response by the district informing the TEA of the option the district intends to exercise to equalize the district's wealth level and whether the district charges tuition to nonresident students. Only after the TEA has approved the district's plans may the district proceed with adopting a tax rate for the coming school year.**

Estimates for 2016–2017

The enclosed printout provides information about the calculations affecting your district. The printout calculates wealth per WADA assuming no tuition is charged to educate nonresident students, and calculates wealth per WADA assuming tuition is charged. If tuition is charged, the WADA of those students for whom tuition is charged is subtracted from the district's Chapter 42 WADA to derive Chapter 41 WADA. You are receiving this letter because at least one of these calculations of wealth per wada exceeds \$319,500 based on current estimates.

A printout is enclosed: "tuition" and "no tuition" at the third EWL of \$319,500 per WADA.

Districts New to Chapter 41 Status

Under current law, a district with property wealth per WADA above the EWL has the following five options available to reduce its wealth per resident student:

- 1) Consolidate with another district,
- 2) Detach property,
- 3) Purchase attendance credits from the state (Option 3),
- 4) Contract to educate nonresident students (Option 4), and/or
- 5) Consolidate tax bases with another district.

In the past, most districts have selected Option 3 or Option 4 or a combination of both options. An election is required when exercising any form of Option 3 or Option 4. In 2006, the Texas Legislature authorized Chapter 41 districts to offset their costs of recapture against new state funding, which is provided for the purposes of property tax relief (see the TEC, §42.2516). Subsequently, the legislature passed additional provisions that allow a Chapter 41 district to forgo the requirement to conduct an election to authorize one or more options if the Chapter 42 funding for the school year exceeds the recapture costs for that same year (see the TEC, §42.2516[f]). These provisions allow a district to offset its recapture costs against its Chapter 42 funds. As a result, if your district is notified of its Chapter 41 status for the first time in the 2006–2007 school year or later, it can take advantage of these offset provisions without the need to conduct an election.

Additional information about elections, as well as sample ballot proposition language, is provided in the *Manual for Districts Subject to Wealth Equalization 2016–2017 School Year*. You may also wish to call the Office of the Texas Secretary of State at 1-800-252-8683 or visit

that office's website at <http://www.sos.state.tx.us/> for assistance with election calendars and procedures.

Final Determination Regarding Payment of Recapture Costs

The TEA will make a final determination regarding the payment of recapture costs based on the 2016 tax rate levied by your district, the amount of local M&O taxes collected by your district in 2016–2017, your district's final property value for tax year 2015, and its final 2016–2017 WADA.

For additional information, please see the Chapter 41 Wealth Equalization web page at <http://tea.texas.gov/index2.aspx?id=25769817562>, or contact Kim Wall in the State Funding Division by telephone at (512) 463-4809 or by email at kim.wall@tea.texas.gov.

Sincerely,

Amanda Brownson
Director of State Funding

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Enclosures