



# *School Finance 101*

NALEO Education Leadership Initiative

March 8, 2014  
San Diego, California



# *Agenda*

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- How are schools funded?
- What is a Chapter 41 school?
- How do I pay for facilities?
- How do I find out more about my school district's finances?



# *How are schools funded?*

Foundation School Program	Other State	Other Local	Federal
<ul style="list-style-type: none"> <li>▪ <i>Tier 1</i></li> <li>▪ <i>Tier 2</i></li> <li>▪ <i>Facilities</i></li> <li>▪ <i>State aid for tax reduction</i></li> </ul>	<ul style="list-style-type: none"> <li>▪ Instructional materials</li> <li>▪ Teacher retirement</li> <li>▪ Other</li> </ul>	<ul style="list-style-type: none"> <li>▪ <i>Taxes</i></li> <li>▪ Investment income</li> <li>▪ Fees</li> <li>▪ Bond proceeds</li> </ul>	<ul style="list-style-type: none"> <li>▪ Child nutrition</li> <li>▪ NCLB/IDEA</li> <li>▪ Other</li> </ul>



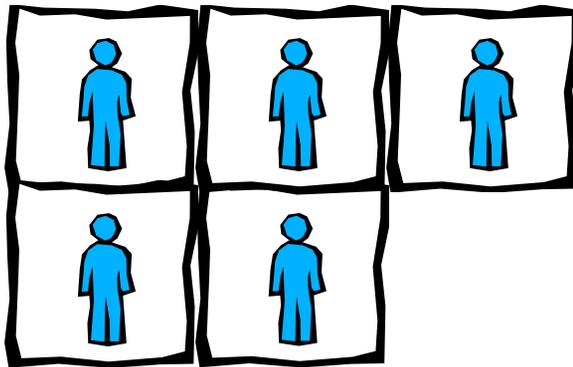
## *How are schools funded?*

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- The total cost of the system is a shared state and local responsibility
- The marginal cost of the system falls on the state:
  - Funding is guaranteed per student; therefore, the cost of student growth is borne by the state
  - Property value decreases result in costs to the state



# *How are schools funded?*

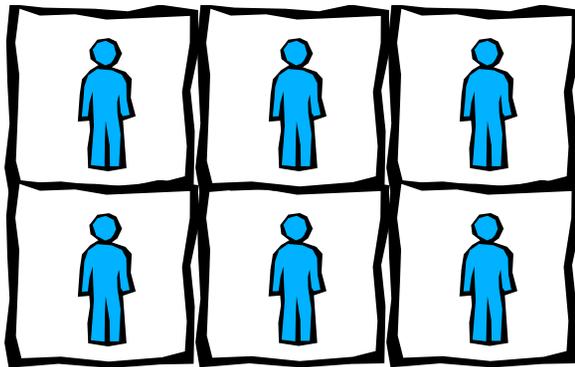


- System Guarantee = \$100/Student
- 5 Students x \$100 = \$500
- Minus Local Tax Collections (\$300)
- State Aid \$200



# *How are schools funded?*

## ➤ Add a student

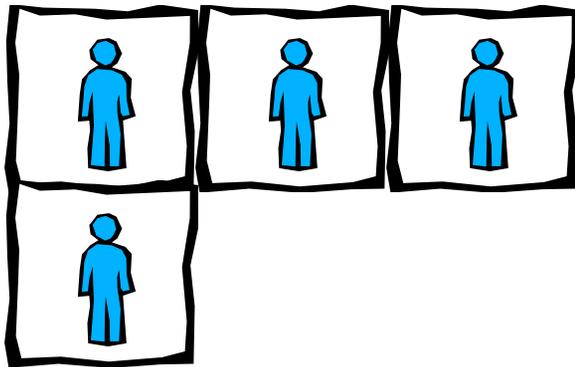


- 6 Students x \$100 = \$600
- Minus Local Tax Collections (\$300)
- State Aid = \$300
- The full cost of the additional student is paid in state aid



# *How are schools funded?*

## ➤ Subtract a student



- 4 Students x \$100 = \$400
- Minus Local Tax Collections (\$300)
- State Aid \$100
- The full cost of the departed student is subtracted from state aid



# *How are schools funded?*

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## ➤ Three basic variables

### ■ Number of students

- ✓ More students increase state cost
- ✓ Fewer students decrease state cost

### ■ Property values

- ✓ Higher values save the state general revenue (GR)
- ✓ Lower values cost the state GR

### ■ Tax rates

- ✓ Higher tax rates increase state cost & local budgets
- ✓ Lower tax rates decrease state cost & local budgets



# *How are schools funded?*

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## ➤ Foundation School Program (FSP)

- Tier 1 — Nine allotments for programs, with local share determined by tax base and fixed tax rate
- Tier 2 — Equalized enrichment of M&O tax effort
- ASATR — Additional state aid for tax reduction; determines target revenue
- Facilities — Equalized enrichment of I&S tax effort



# *How are schools funded?*

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## ➤ Tier I

- Includes the basic allotment and special program allotments
- Shared state and local responsibility
- Local contribution is based on compressed maintenance and operations (M&O) tax rate
  - ✓ 2005 M&O tax rate x 0.6667
  - ✓  $\$1.50 \times 0.6667 = \$1.00$
- Uses average daily attendance (ADA) and full-time equivalents (FTEs) to calculate entitlements



# *How are schools funded?*

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## ➤ Basic allotment

$$A = \$4,950 \times (\text{DCR}/\text{MCR})$$

A = allotment to which a district is entitled

DCR = district's compressed tax rate

MCR = maximum compressed tax rate (\$1.00)



# *How are schools funded?*

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## ➤ Tier I funding formula

$$\text{LFA} = \text{TR} \times \text{DPV}$$

LFA = local fund assignment = district contribution to Tier I

TR = tax rate = compressed tax rate

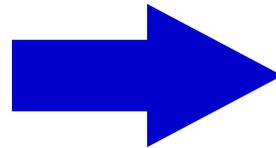
DPV = district property value



# *How are schools funded?*

$$\begin{array}{ccccccc} \text{Basic} & & \text{Cost of} & & \text{Small and mid-} & & \text{Adjusted} \\ \text{allotment} & \times & \text{education} & \times & \text{size adjustment} & = & \text{allotment} \\ & & \text{index} & & & & \\ (\$4,804 & & (\$273 \text{ avg.}) & & (\$1,075 \text{ avg., if applicable}) & & (\$6,152 \\ \text{avg.}) & & & & & & \text{avg.}) \end{array}$$

**Adjusted  
allotment used for**



**Regular program**

**Special education**

**Career and technology**

**Compensatory education**

**Bilingual/ESL**

**Gifted and talented**

**Public education grant**



# *How are schools funded?*

## ➤ Financing Tier I

### ***Local Share of Tier I:***

$$\begin{array}{r} \text{Comptroller's Certified Taxable Value for} \\ \text{Preceding Year} \\ \times \quad \text{compressed tax rate} \\ \hline \text{Local Fund Assignment} \end{array}$$

### ***State Share of Tier I:***

$$\begin{array}{r} \text{Tier I Total Cost} \\ \text{(Sum of all Allotments)} \\ - \quad \text{Local Fund Assignment} \\ \hline \text{State Share*} \end{array}$$

\*State share cannot be less than the sum of the per capita allocation from the Available School Fund, the New Instructional Facilities Allotment, and the high school allotment.



## *How are schools funded?*

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- Formula adjustments adopted in 2011
  - Regular program adjustment factor (RPAF) –  
Reduces funding by multiplying regular program allotment by factor

2011–2012	2012–2013	2013–2014	2014–2015
0.9239	0.9800	1.0000	1.0000



# *How are schools funded?*

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- Tier 2 guarantees equalized access to enrichment
  - Applies to tax effort that exceeds the compressed tax rate (CTR)
  - Produces guaranteed yield based on students in weighted average daily attendance (WADA)
  - Different yields for different levels of tax effort



# *How are schools funded?*

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## ➤ Guaranteed yield

- Provides guaranteed revenue per WADA/penny of tax effort above CTR
  - ✓ First 6 pennies above CTR = \$59.97
  - ✓ Tax effort in excess of CTR + 6 pennies = \$31.95
- District A
  - ✓ Local yield per penny per WADA = \$20.00
  - ✓ State share per penny per WADA = \$39.97
- District B
  - ✓ Local yield per penny per WADA = \$40.00
  - ✓ State share per penny per WADA = \$15.97



# *How are schools funded?*

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## ➤ Tier 2 funding formula

$$\mathbf{GYA = (GL \times WADA \times DTR \times 100) - LR}$$

GYA = guaranteed yield amount

GL = guaranteed level

WADA = students in weighted average daily attendance

DTR = district enrichment tax rate

= current-year M&O collections/prior-year values/100

LR = local revenue

= DTR x prior-year value



# *How are schools funded?*

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## ➤ Calculation of WADA

$$\begin{aligned} & \text{Sum of Tier I allotments} \\ & - \text{Transportation allotment} \\ & - \text{New Instructional Facilities Allotment} \\ & - 50\% \text{ of Cost of Education Index (CEI)} \\ & \quad \text{adjustment} \\ \hline & = \text{Adjusted Tier I allotments} \\ & \quad \div \text{Basic allotment} \\ \hline & = \text{WADA} \end{aligned}$$



# *How are schools funded?*

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## ➤ Additional State Aid for Tax Reduction (ASATR)

- Original calculations established by House Bill 1, 79<sup>th</sup> Legislature, Third Called Session (79-3) in May 2006
- Provisions found in Education Code, §42.2516
  - ✓ Amended in 2009 — added \$120/WADA
  - ✓ Amended in 2011 — created adjustment to ASATR



# *How are schools funded?*

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## ➤ Calculation of revenue targets

### ▪ Originally set in 2006–2007

✓ 2005–2006 revenue per WADA

– Based on law prior to HB I (79-3)

✓ 2006–2007 revenue per WADA

– Based on law prior to HB I (79-3)

✓ 2006–2007 revenue per WADA

– Based on law prior to HB I (79-3), but using HB I (79-3) effective tax rates



# *How are schools funded?*

## ➤ How is ASATR calculated?

+ 2009–2010 Target revenue per WADA × current-year WADA

+ \$120 × WADA

+ Tuition adjustment

= **Minimum Revenue**

+/- Adjustments for NIFA, transportation

+ \$23.63/WADA × 2009–2010 WADA

= **Adjusted minimum revenue**

- Tier I state aid

- M&O collections at compressed tax rate

- Recapture at compressed tax rate, if applicable

= **State and local revenue**

**Adjusted revenue – state and local revenue = ASATR, if positive (if negative, no ASATR is owed)**



# *How are schools funded?*

## ➤ Calculation of revenue targets — *continued*

- 2009 — ASATR revised and reset
  - ✓ Based on 2009–2010 revenue/WADA
  - ✓ Added \$120/WADA to revenue target
- 2013 — Established ASATR adjustment factor
- 2015 — Revised ASATR adjustment factor

2011–2012	2012–2013	2013–2014	2014–2015
0.0000	0.9328	0.9263	0.9263



## *What is a Chapter 41 district?*

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- A district with wealth per weighted student (CH41 WADA) that exceeds the equalized wealth level (EWL)
  - First EWL = \$495,000 (equivalent to basic allotment)
  - Second EWL = no recapture
  - Third EWL = recapture at \$319,500/WADA (equivalent to Tier 2 yield)
- Districts subject to Chapter 41 must exercise at least 1 of 5 available options



# *What is a Chapter 41 district?*

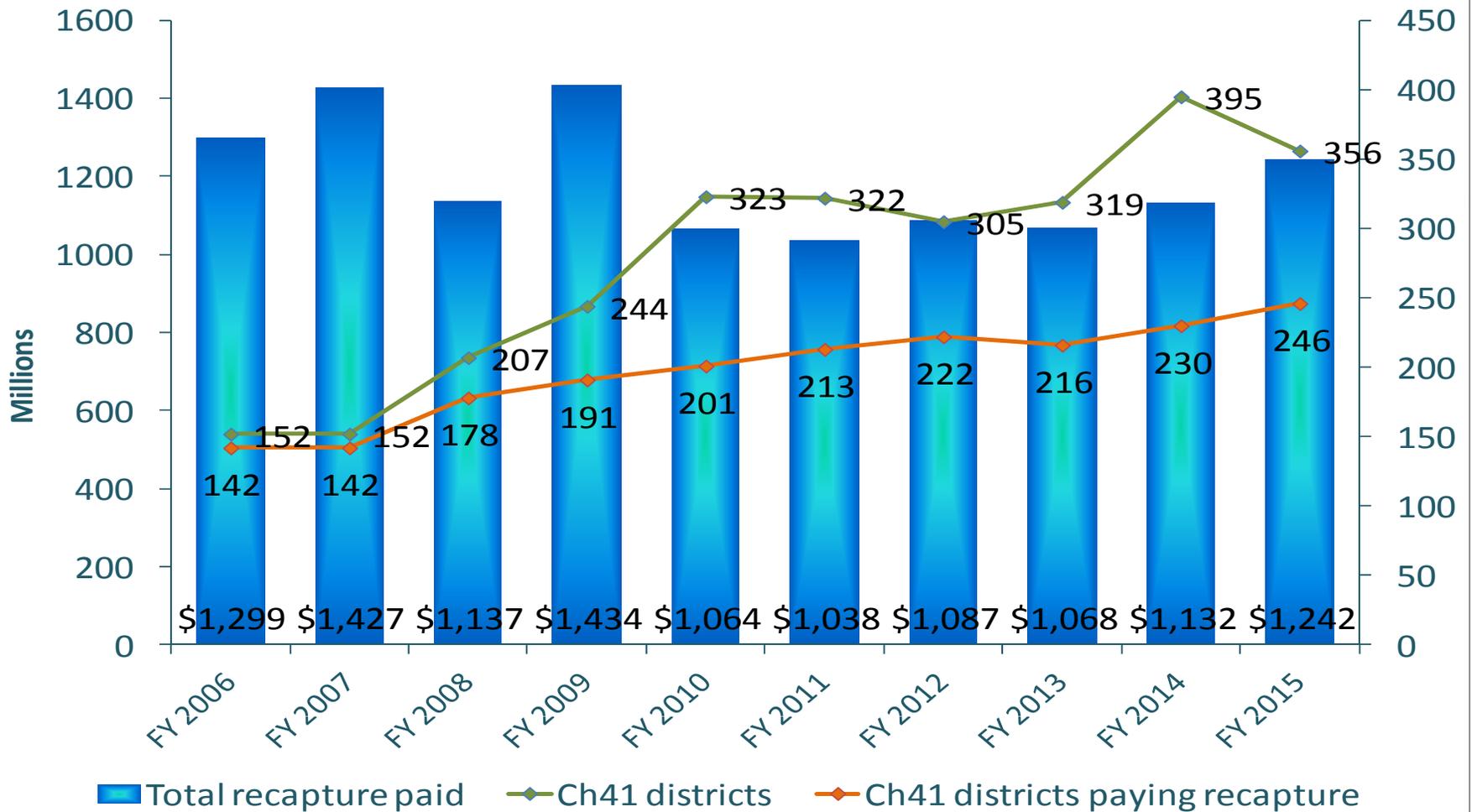
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- Options for wealth equalization
  - Option 1 — Voluntary consolidation
  - Option 2 — Detachment/annexation
  - Option 3 — Purchase of attendance credits from state
  - Option 4 — Education of nonresident students (purchase of credits from other district(s))
  - Option 5 — Tax base consolidation



# What is Chapter 41 district?

## Chapter 41 Districts and Recapture





# *Facilities Funding*

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- State facilities programs provide
  - Equalized funding for interest and sinking fund (I&S) tax effort
    - ✓ \$35/penny/ADA
      - Local revenue = \$15.00/penny/ADA
      - State revenue = \$20.00/penny/ADA
- No. of districts with I&S rates  $\geq$  \$0.40 in 2013 = 95
- Average 2013 I&S tax rate = \$0.2231\*

\*Includes only districts with I&S levies

# *Instructional Facilities Allotment*



BTR = bond tax rate, calculated by dividing the district's tax collections for eligible debt by the property value divided by 100

$$(\$35 \times \text{ADA} \times \text{BTR} \times 100) - (\text{BTR} \times (\text{Property Value} / 100))$$

- ✓ Awards of greater of \$250 per ADA in debt service per year (about 7 cents of tax effort) or \$100,000, in a biennium, with no limit across biennia
- ✓ Application required
- ✓ Bond debt or lease purchases under Local Govt. Code, §271.004 for instructional facilities



# *Existing Debt Allotment*

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$$(\$35 \times \text{ADA} \times \text{EDTR} \times 100) - (\text{EDTR} \times (\text{Property Value} / 100))$$

EDTR = existing debt tax rate, calculated by dividing the district's tax collections for eligible debt by the property value divided by 100.

- ✓ Up to \$0.29 of tax effort, or \$1,015 per ADA per year
- ✓ Bond debt only
- ✓ Bonds with debt service paid in 2012–2013 qualify
- ✓ No application



## *Questions?*

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