

Chapter 41 Wealth Equalization Options and Procedures

Texas Education Code (TEC) References

TEC, Chapter 41, Equalized Wealth Level

History and Relevant Background Information

Chapter 41 of the Texas Education Code (TEC) makes provisions regarding the equity of public education funding. The law requires school districts designated as Chapter 41 districts to share their local tax revenue with Chapter 42 districts. The wealth of a school district is calculated by dividing the taxable value of property located within the district by the weighted average daily attendance (WADA) of that district. According to the TEC, §42.302(a), WADA is calculated by adding the Tier I allotments, making some adjustments, and dividing that sum by the amount of the basic allotment.

The Chapter 41 provisions reflect a long history of school finance litigation regarding disparities in education resources among school districts. They provide all school districts with substantially equal access to similar revenue per student for a similar tax effort (73rd Texas Legislature, 1993, Senate Bill 7). Providing districts with this equal access was achieved through a system that both provides a guaranteed yield on each penny of maintenance and operations (M&O) tax levied by Chapter 42 districts *and* recaptures revenue on the tax collections of districts whose wealth per student exceeds the equalized wealth level.

Summary of Recapture

Year	C41 Districts	Option 3	Option 4	Total:
2012-2013	319	\$1,045,367,648	\$21,225,514	\$1,066,593,162
2013-2014	332	\$1,185,793,458	\$23,819,572	\$1,209,613,030
2014-2015	356	\$1,473,312,891	\$19,034,651	\$1,492,347,542
2015-2016	380	\$1,590,321,830	\$1,292,251	\$1,591,614,081
2016-2017	379	\$1,719,339,406	\$23,490	\$1,719,362,896
2017-2018*	347	\$2,087,588,027	\$0	\$2,087,855,027
2018-2019**	371	\$2,685,560,076	\$0	\$2,685,560,076

*Near Final

**Legislative Payment Estimate

Description of the Program and Funding Element

The provisions for Chapter 41 designation are based on the TEC, §41.002, which establishes three equalized wealth levels. Each level represents the maximum property tax base that a school district is allowed to retain at various levels of tax effort. Once district personnel are notified of Chapter 41 status in mid-July, they must select an option for paying recapture costs by mid-January. Most either purchase attendance credits from the state (Option 3) or contract to educate nonresident students from a partner district (Option 4). Both of these options require voter approval.

Before 2006–2007, school districts typically conducted elections to request voter authorization to exercise Option 3, Option 4, or both options. In 2006, the Texas Legislature authorized Chapter 41 districts to offset their costs for recapture against their state funding for *Additional State Aid for Tax Reduction (ASATR)*, which is provided for property tax relief (see the TEC, §42.2516). Subsequently, the legislature passed additional provisions that allow a Chapter 41 district to forgo an election to authorize one or more options if the district received its first notification of Chapter 41 status in 2006–2007 or later *and* the state aid under Chapter 42 for the school year exceeds the recapture costs for that same year (see the TEC, §41.0041).

The first of seven payments from Chapter 41 districts, either to the state (Option 3) or to their partner districts (Option 4), is due in mid-February, and the last payment is due in mid-August. During April, the commissioner evaluates the status of all recapture payments owed from prior school years. Districts with unpaid balances from prior school years are considered delinquent unless the amount due is received by May 31 of that year. If a district fails to fully comply with all wealth reduction requirements according to the contract submitted to and approved by the commissioner for a school year requiring wealth equalization, the commissioner must take action to ensure that wealth equalization occurs (see the TEC, Chapter 41, Subchapter G, and the TEC, §41.203). The commissioner's action(s) to achieve wealth equalization for prior years becomes effective July 1 of the current school year.

The commissioner evaluates the status of Chapter 41 districts for the current school year. Districts are considered delinquent for any of the following reasons:

- failure to submit the required documentation,
- lack of compliance with the payment schedule as determined by statute under Option 3,
- failure to make the minimum recapture payments identified in the notification of delinquency.

Districts that have not met the requirements and provisions of Chapter 41 are not allowed to adopt a tax rate until wealth equalization has been achieved.

Contact for More Information

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