



Texas Public School Finance Overview

TEXAS EDUCATION AGENCY

JANUARY 2019

Presentation disclaimer

This presentation introduces and explains basic concepts of public school finance in Texas. It provides a high-level and simplified overview.

This presentation uses generalizations that are accurate for most school districts that have a compressed M&O tax rate of \$1.00. More information about tax rate compression will be covered later in the presentation.

All formula calculations are based on fiscal year (FY) 2019 law. For any concept, there may be a significant exception in statute.

The descriptions, amounts, and formulas described in this presentation are derived from publicly available TEA documents, the General Appropriations Act, and the Texas Education Code (TEC) and are cited for reference.

Agenda

Public education funding

Foundation School Program

Tier One and Tier Two Funding

Facilities Funding (Chapter 46)

Charter School Funding

Wealth Equalization (Chapter 41)

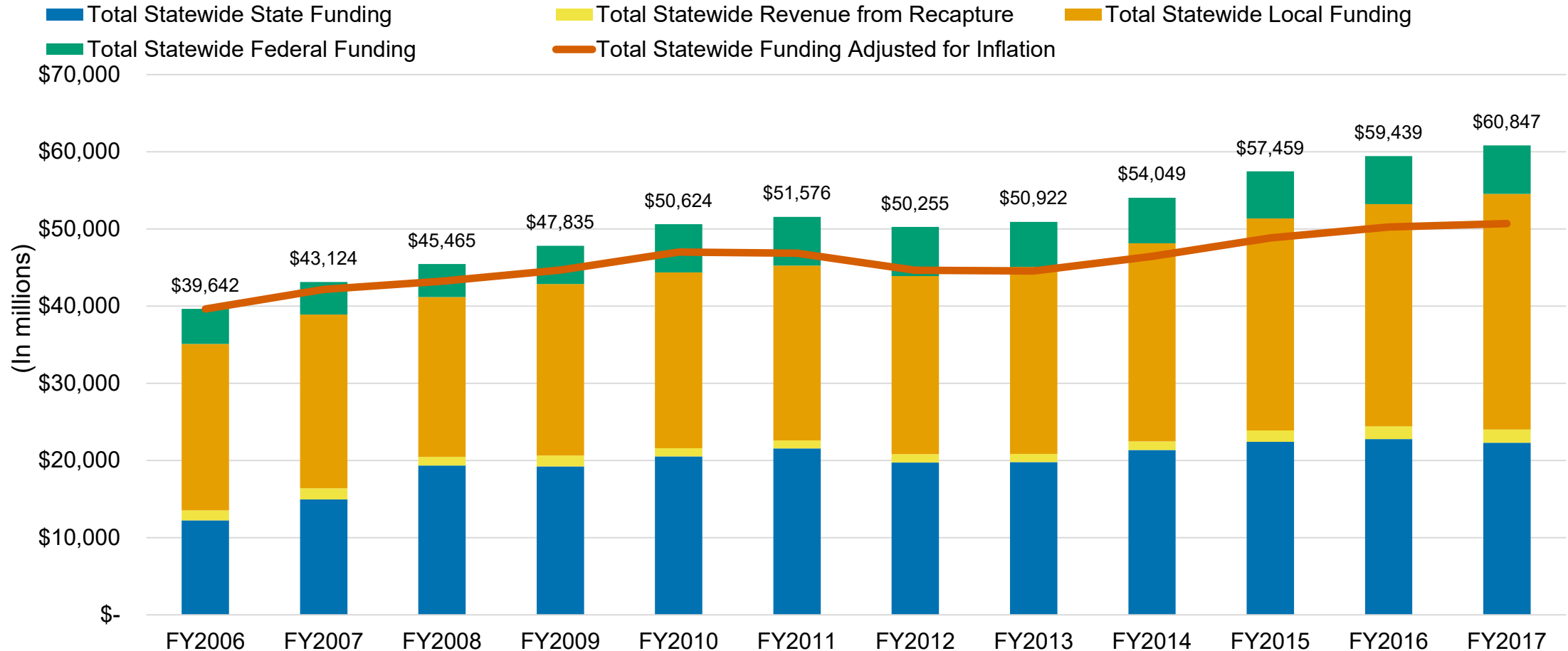
Special Topics

- Hurricane Harvey
- Financial Hardship Transition Program (HB21, 85-1)
- Districts with rapidly declining local property values
- Additional State Aid for Tax Reduction (ASATR)

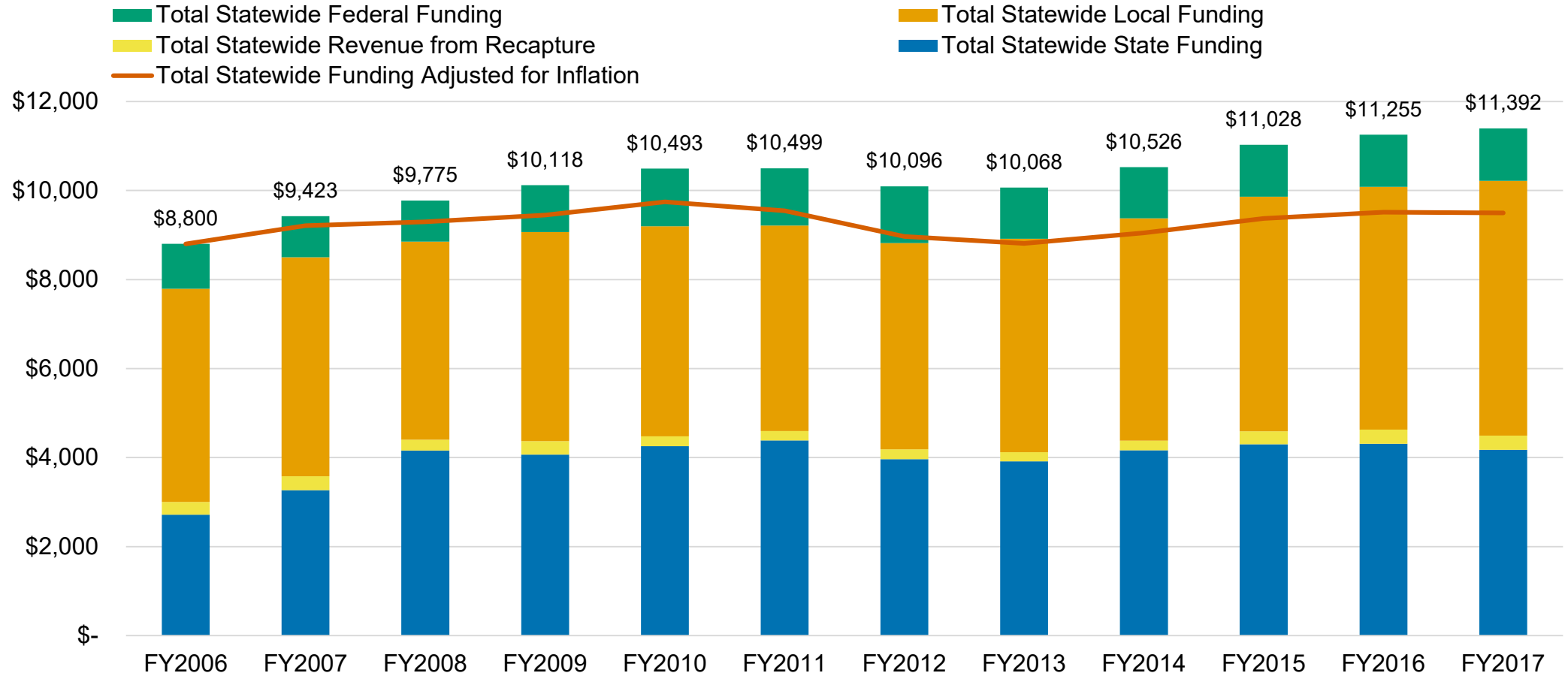
Public education funding

TEXAS PUBLIC SCHOOL FINANCE OVERVIEW

Total annual funding has increased 53% (from \$39.6 billion in FY2006 to \$60.8 billion in FY2017)

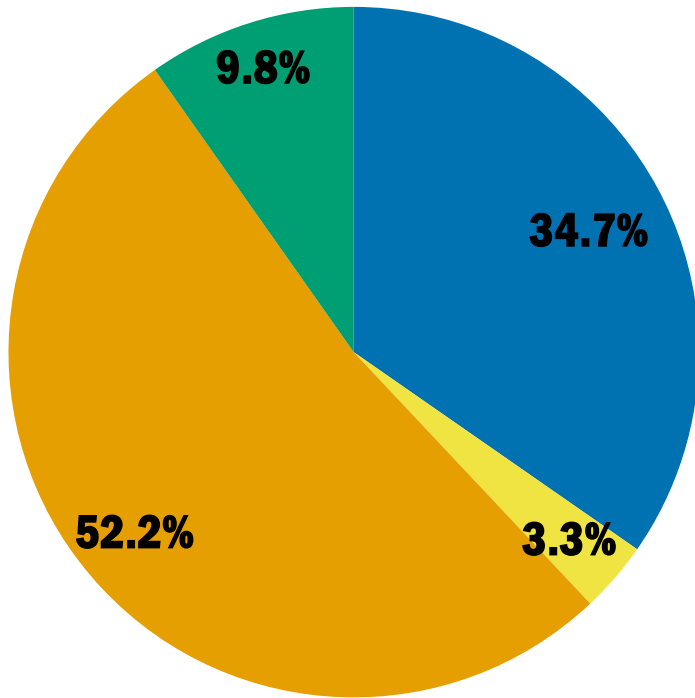


Total funding per enrolled student has increased 29% (from \$8,800 in FY2006 to \$11,392 in FY2017)



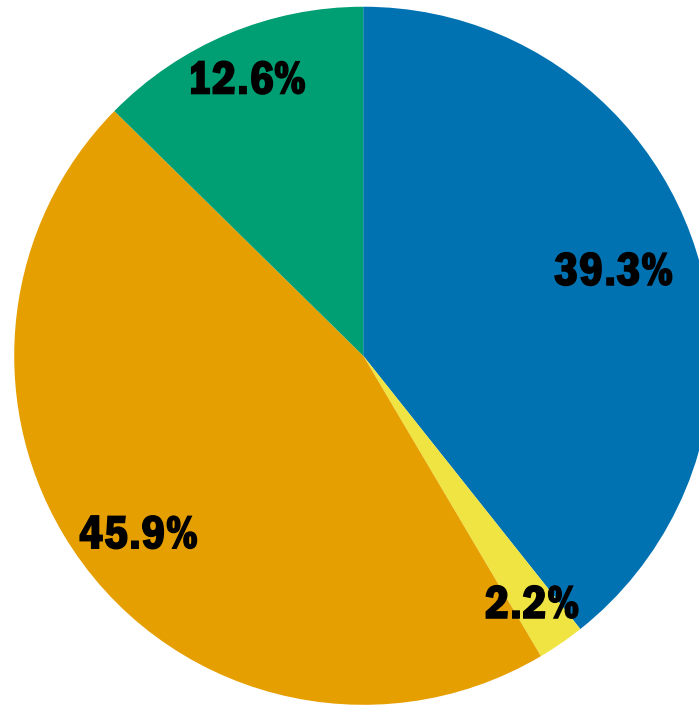
Comparison of the percentage breakdown of funding sources between FY2007 and FY2017

FY2007



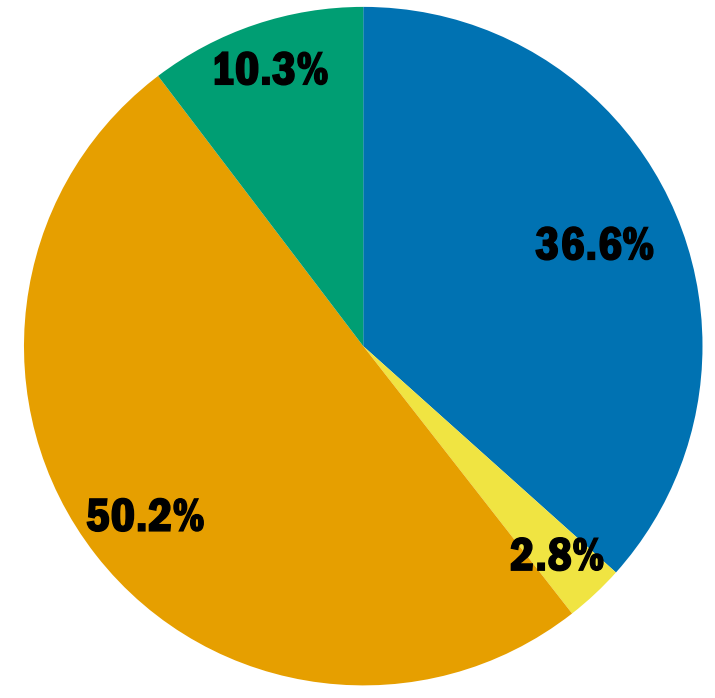
■ State ■ Recapture ■ Local ■ Federal

FY2012



■ State ■ Recapture ■ Local ■ Federal

FY2017



■ State ■ Recapture ■ Local ■ Federal

What is included in each category?

Total Statewide State Funding reflect amounts from:

- (1) PEIMS Financial Actual Reports (revenues);
- (2) State receipts and State vendor payments (expenditures);
- (3) Windham School District (State appropriations);
- (4) Regional Education Service Centers (State appropriations);
- (5) Teacher Retirement System (State appropriations);
- (6) TEA administration costs, including certification, assessment fees and interagency contracts (expenditures).
- (7) Instructional Materials Allotment (average annual State appropriation)

Total Statewide Revenue from Recapture reflect amounts from:

- (1) PEIMS Financial Actual Reports and includes total recapture amounts from property taxes.

Total Statewide Local Funding reflect amounts from:

- (1) PEIMS Financial Actual Reports (revenues) and includes total local tax revenue (net of recapture) and other local and intermediate revenue

Total Statewide Federal Funding reflects amounts from:

- (1) PEIMS Financial Actual Reports (revenues);
- (2) Federal receipts and Federal vendor payments (expenditures).

Foundation School Program

TEXAS PUBLIC SCHOOL FINANCE OVERVIEW

Foundation School Program (FSP)

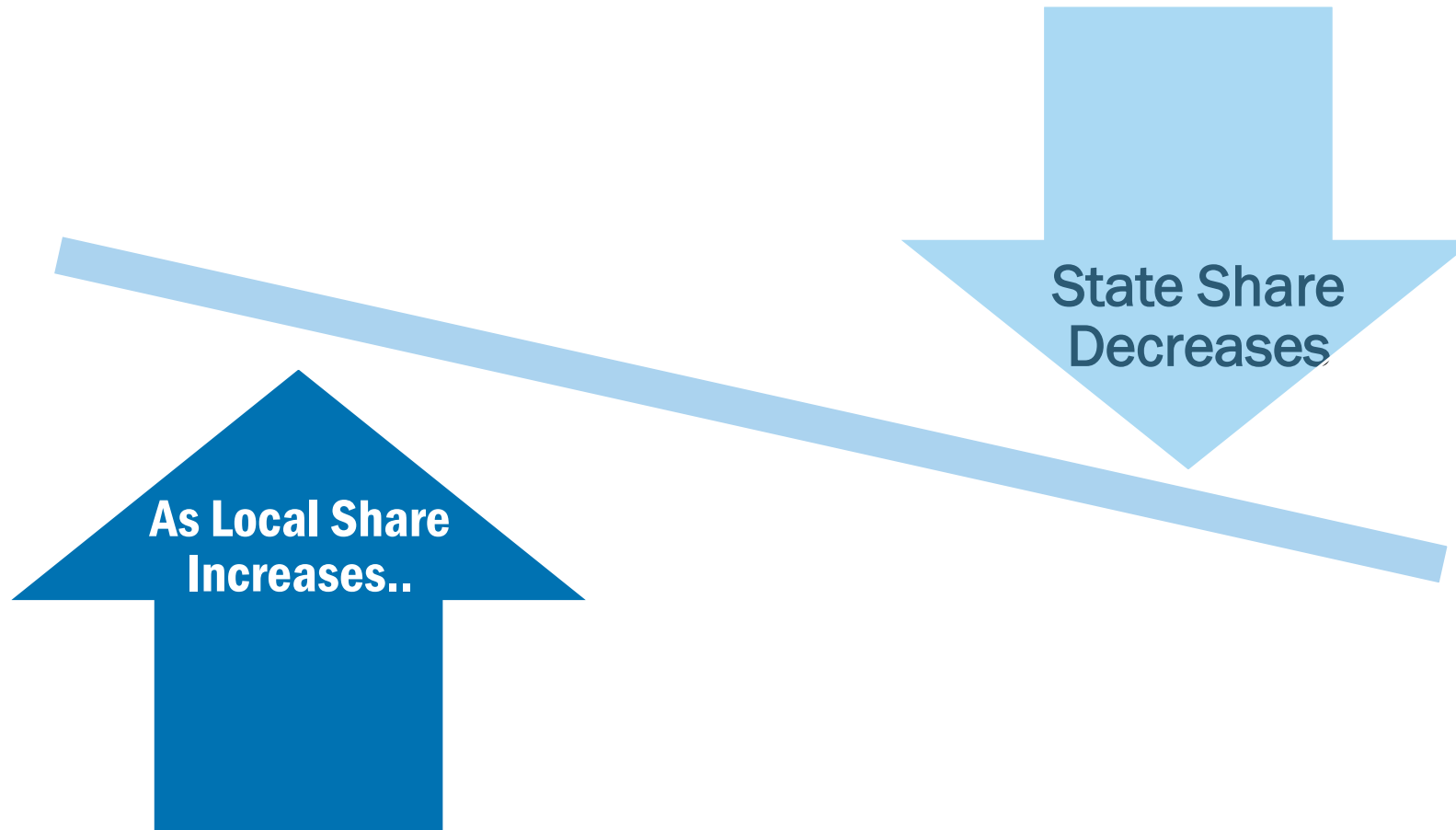
The FSP establishes how much state funding school districts and charter schools are entitled to receive.

Formulas are set in statute (Chapters 41, 42, and 46), and they consider both student and district characteristics including the number and type of students enrolled, district size and geographic factors, and local taxable property values and tax rates.

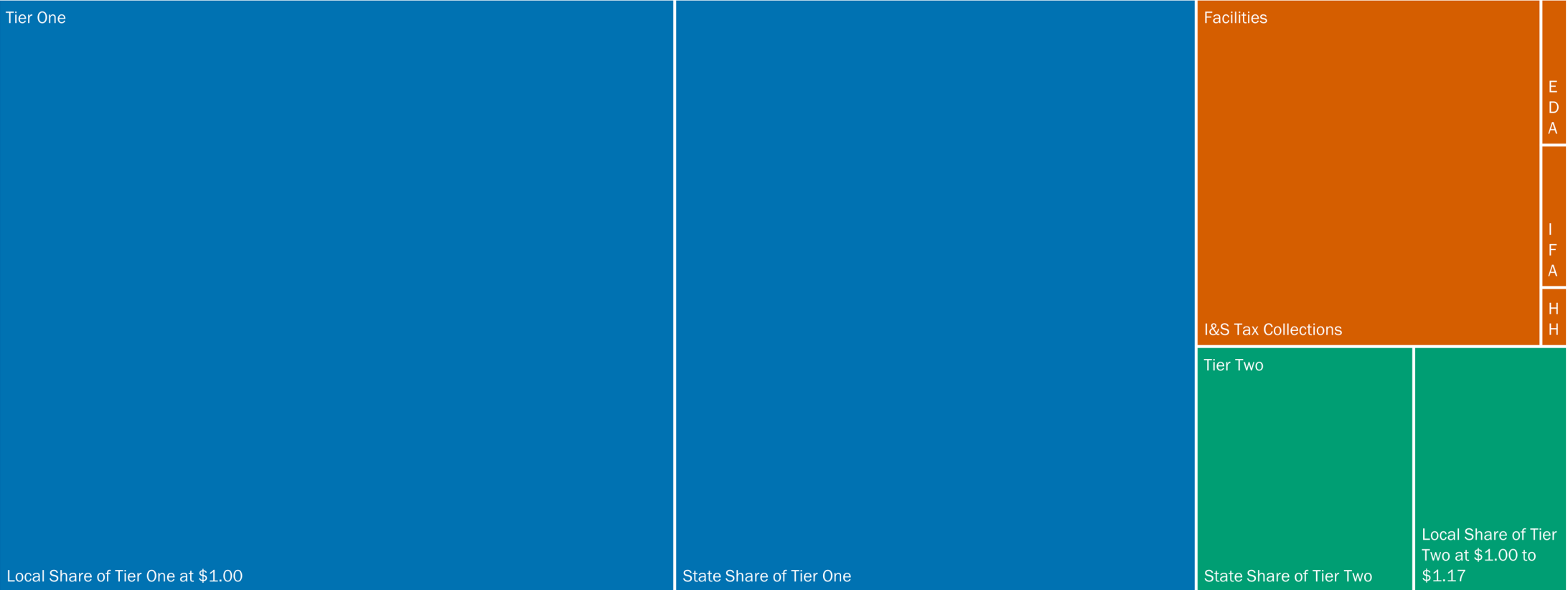
Generally, once entitlements are established, the formulas are used to determine how much a district can generate locally (**local share**) through property taxes before making up the difference with state funds (**state share**).

A balancing act:

State Share vs. Local Share



Total Statewide FSP Entitlement in FY2018



■ Tier One ■ Tier Two ■ Facilities

State FSP Appropriation breakdown

for the 2018–2019 Biennium (in millions)

Item	Amount	Notes
Foundation School Fund (Fund 193)	\$28,749.4	The Foundation School Fund is an account within the General Revenue Fund used exclusively for the purpose of funding public education, largely funded by sales taxes, and occupation taxes and revenue.
Appropriated Receipts (Recapture)	\$4,570.9	Appropriated Receipts (Recapture) is authorized by Chapter 41 of the Texas Education Code.
Property Tax Relief Fund	\$3,594.2	Primarily funded through the franchise tax but also includes vehicle and tobacco sales taxes.
Available School Fund	\$3,443.9	Primarily, funded from returns on the Permanent School Fund, 25% of state's motor fuels tax revenue, and transfers from the General Land Office (GLO).
Lottery Proceeds	\$2,613.5	Approximately 60% of net lottery proceeds from the sale of Texas Lottery games is transferred to the FSP.
Total Appropriated State FSP	\$42,972.0	The FSP is a sum-certain appropriation and the mix of component revenue streams may fluctuate.

Total Statewide FSP Entitlement in FY2019



5.13 million students in average daily attendance
and that number is projected to grow by more than 65,000 each year



\$47.64 billion (state & local) for FSP **M&O**
M&O = maintenance & operations -> salaries, utilities, etc.

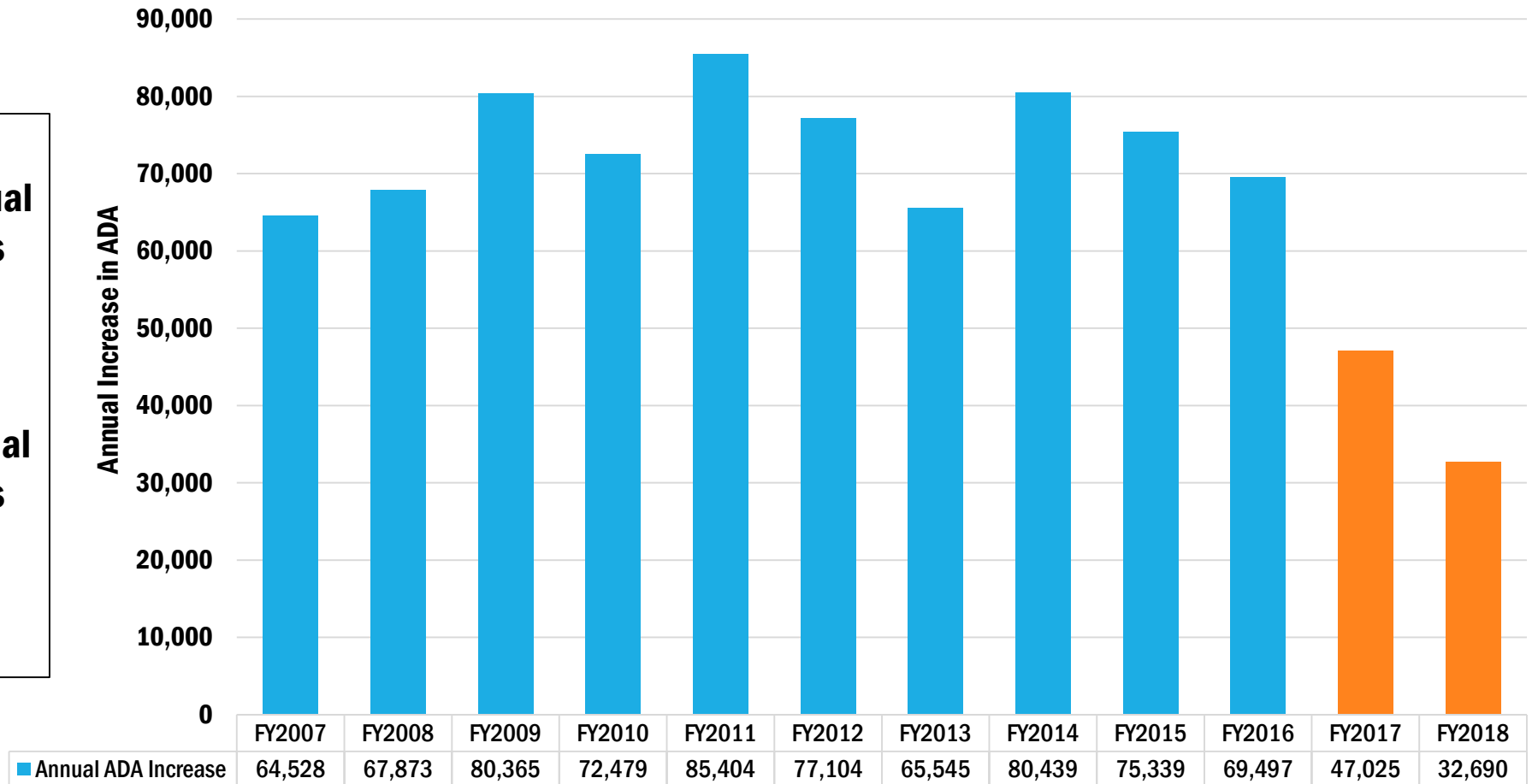


\$6.94 billion (state & local) for FSP **I&S**
I&S = interest & sinking -> debt service payments on bonds

Student population is still growing but at a slower rate than the previous decade

For the 10-year period from FY2007 to FY2016, the annual average increase in ADA was 73,857.

For the 2-year period from FY2017 to FY2018, the annual average increase in ADA was 39,857.



FSP Key Concepts: M&O local property tax rate contribution to each Tier

Tier One



RECAPTURE

LEVEL 1

Tier Two

LEVEL 1



NO RECAPTURE

Tier Two

LEVEL 2



RECAPTURE

LEVEL 2

Maintenance and Operations Tiers

TIER ONE

Refers to the district's foundation entitlement.

The calculation is based upon:

- District characteristics.
- Student characteristics.
- Number of students in average daily attendance (ADA).
- **Basic allotment** per student in ADA, which is set in the General Appropriations Act (\$5,140 in FY2018 and FY2019).
- School district tax rate (generally, \$1.00 per \$100 of local school district property value).

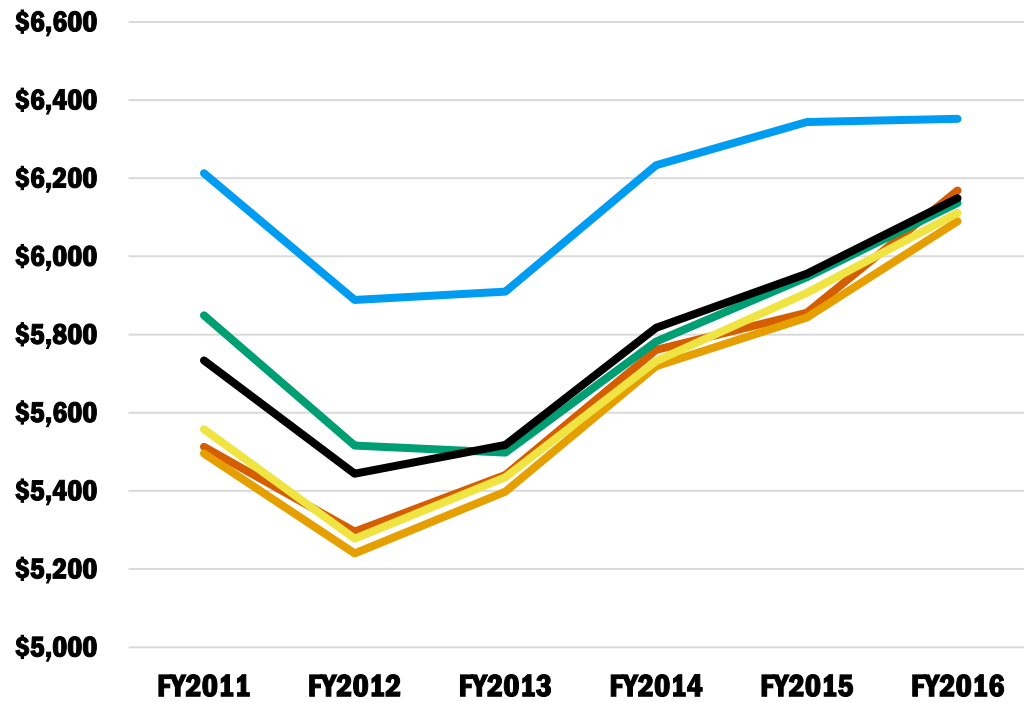
TIER TWO

Refers to the district's "enrichment" entitlement.

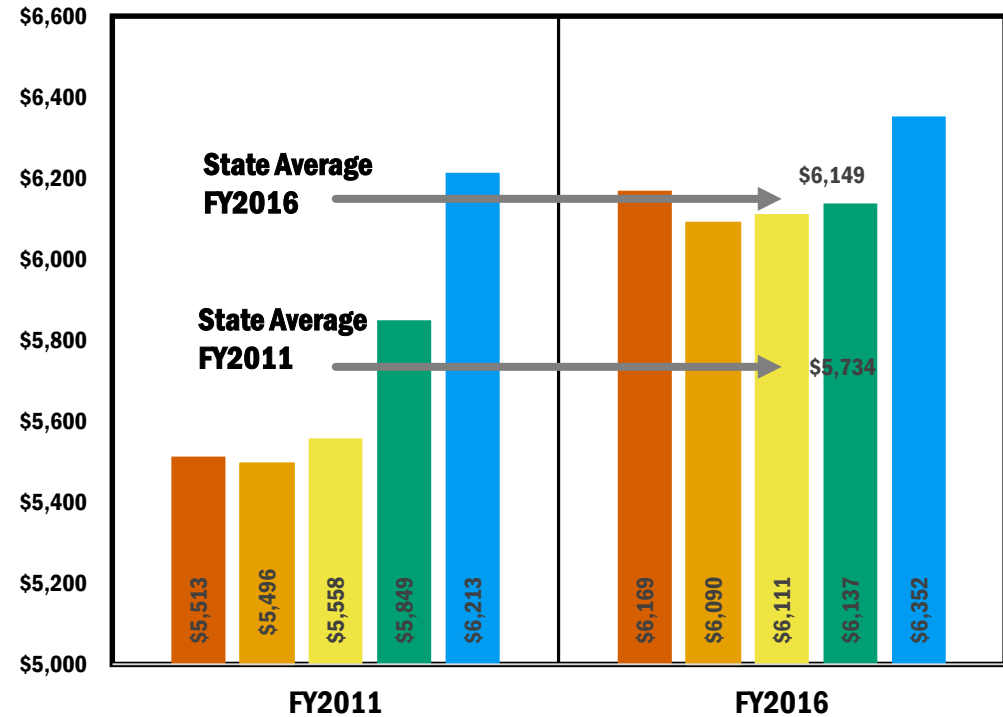
The calculation is based upon:

- Number of students in weighted average daily attendance (WADA).
- Number of pennies of tax effort above \$1.00.
- Guaranteed amounts for pennies of tax effort are set in statute and/or General Appropriations Act called the **Guaranteed Yield Per Penny**.
- School district tax rate (based on local decision to have optional tax rate between \$1.00 and \$1.17 per \$100 of local school district property value).

FY2011 through FY2016 M&O Revenue per WADA by Percentile of Wealth



- Less than 20th Percentile
- 20th to 39th Percentile
- 40th to 59th Percentile
- 60th to 79th Percentile
- 80th Percentile & Higher
- State Average



- Less than 20th Percentile
- 20th to 39th Percentile
- 40th to 59th Percentile
- 60th to 79th Percentile
- 80th Percentile & Higher
- State Average 2011
- State Average 2016

Tier One Funding

TEXAS PUBLIC SCHOOL FINANCE OVERVIEW

How is Tier One funding determined?

The Basic Allotment (BA) is \$5,140 per student for the 2018–2019 biennium and is set in the General Appropriations Act (GAA).

The \$5,140 BA per student is increased for school characteristics:

- Increased for the school districts' cost of education index (CEI);
- Increased if the school district qualifies as small district or mid-size district

Once the BA has been increased for school characteristics, it is used in a series of formulas that take into account student characteristics.

The Basic Allotment has more than doubled since FY2006



Cost of Education Index (CEI)

The CEI is assigned to each district to adjust for the cost of educating students in the district's particular region of the state.

The CEI is based upon the principle that it is more expensive to provide education in some school districts than others.

Each school district was assigned a unique CEI in 1991. The CEI values have not changed since their assignment in 1991.

CEI values range from a low of 1.02 to a high of 1.20. The average CEI is 1.12.

The average funding increase produced is \$620 for each student in ADA in each district, and the total formula amount produced for all school districts by the CEI is estimated to be \$2.8 billion for FY2019.

Impact of different CEI values on the Basic Allotment

ABC ISD (CEI = 1.08)

XYZ ISD (CEI = 1.17)

$$ABA = BA \times (((CEI - 1) \times 0.71) + 1)$$

$$ABA = BA \times (((CEI - 1) \times 0.71) + 1)$$

$$ABA = \$5,140 \times (((1.08 - 1) \times 0.71) + 1)$$

$$ABA = \$5,140 \times (((1.17 - 1) \times 0.71) + 1)$$

Adjusted Basic Allotment (ABA) =
\$5,432 per student in average daily attendance

Adjusted Basic Allotment (ABA) =
\$5,760 per student in average daily attendance

Small district and mid-size district adjustments

The small district and mid-size district adjustment provide for additional funding for some school districts.

The small district adjustment (SDA) applies to districts with less than 1,600 students and has two formulas that provide differing levels of funding:

- **For districts < 300 square miles, $SDA^1 = (1 + ((1,600 - ADA) \times 0.00025)) \times \text{Adjusted Basic Allotment}$**
- **For districts > 300 square miles, $SDA^2 = (1 + ((1,600 - ADA) \times 0.00040)) \times \text{Adjusted Basic Allotment}$**

The mid-size district adjustment (MDA) applies to districts with less than 5,000 students.

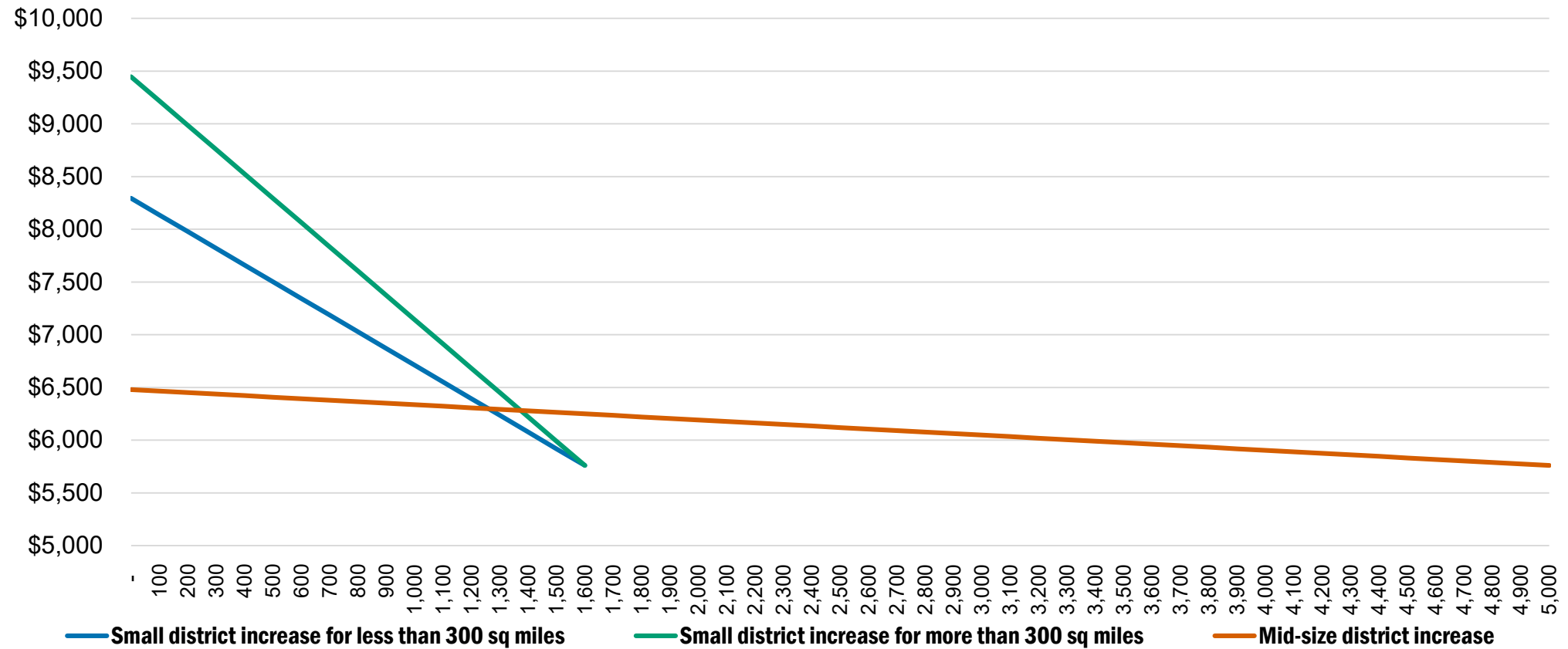
- **$MDA = (1 + ((5,000 - ADA) \times 0.000025)) \times \text{Adjusted Basic Allotment}$**

Small district adjustment and HB 21

In 2017, House Bill 21 (85-1) created a six-year transition period to merge the two adjustments together. The transition period begins in FY2019 and by FY2024, there will only be one formula to govern all small-size districts, regardless of the number of square miles in the district. For districts with less than 300 square miles, the adjustment factor will increase from 0.00025 (FY2018) to 0.00040 (FY2024).

Fiscal Year	SDA Factor		Fiscal Year	SDA Factor
FY2019	0.000275		FY2022	0.000350
FY2020	0.000300		FY2023	0.000375
FY2021	0.000325		FY2024	0.000400

“Per student” funding generated by the SDA and MDA formulas decreases as ADA increases



SDA and MDA Statistics

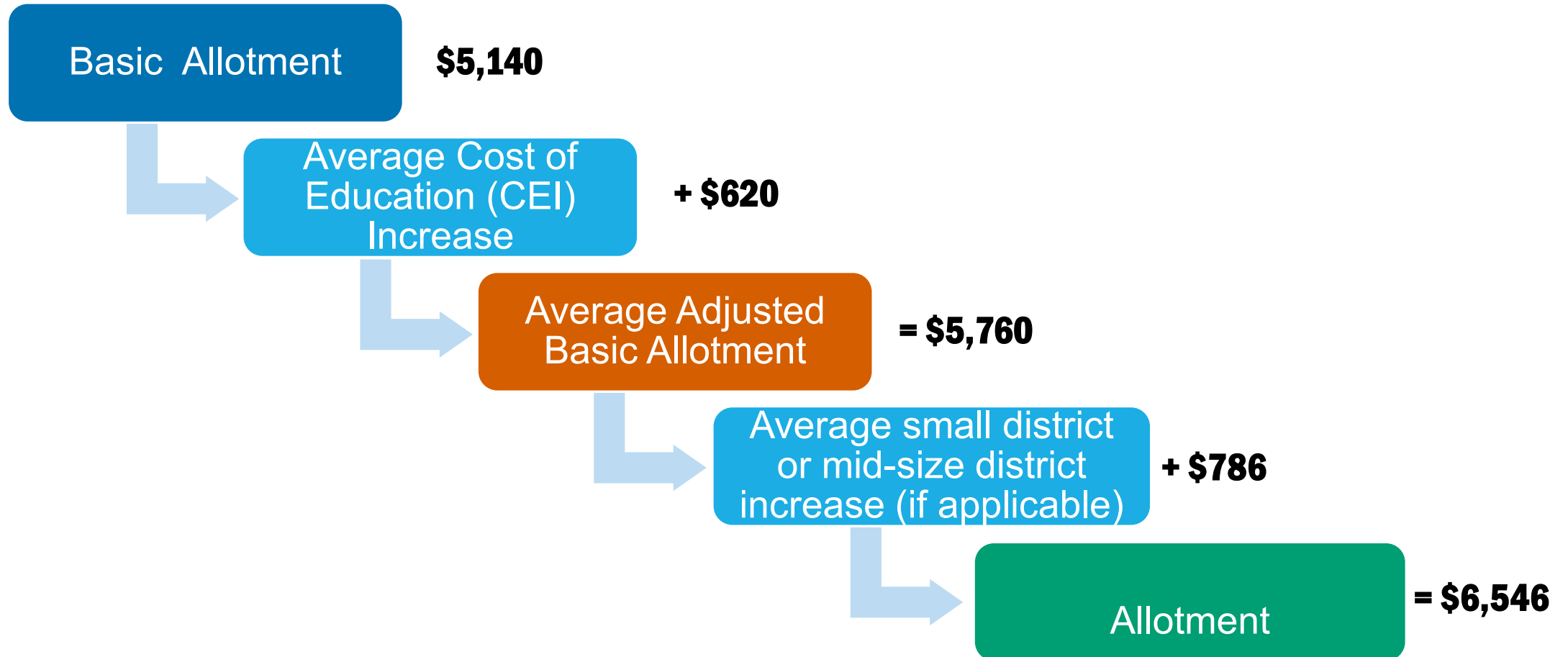
There are 626 districts receiving the **SDA**, with an **average increase of \$1,758 –or 33%** over each district's Adjusted Basic Allotment (ABA).

There are 242 districts receiving the **MDA**, with an **average increase of \$340 –or 6.3%** over each district's Adjusted Basic Allotment (ABA).

As a reminder, the Adjusted Basic Allotment is the dollar amount after the Cost of Education Index (CEI) adjustment is made but before the SDA and MDA are incorporated.

Statewide annual investment in the SDA and MDA is approximately \$1.5 - \$1.6 billion annually, including the funds flowed through the state average charter formulas.

In Summary: How the Basic Allotment becomes the Adjusted Allotment



Tier One includes funding weights to deliver additional funding for student characteristics

Program	Funding Weight
Regular Program (ADA)	1.00
Special Education (FTE)	various weights (subtracted from regular program)
Career and Technology (FTE)	1.35 (subtracted from regular program)
Advanced CTE	\$50 per each eligible CTE course
Gifted & Talented	0.12 (capped at 5% of district ADA)
Compensatory Education (FTE)	0.20
Pregnancy Related Services (FTE)	2.41 (part of compensatory education)
Bilingual Education (ADA)	0.10
Public Education Grant (ADA)	0.10
New Instructional Facility Allotment	\$1,000 per student in ADA in the new facility
High School Allotment	\$275 per high school student in ADA

History of Funding Weights

Special Allotment / Weights	Created	Last Updated	Notes
Special Education	1984	1993	Various Weights
Compensatory Education	1984	1989	Updated for Pregnancy Related Services
Bilingual Education	1984	1984	No change
Career and Technology	1984	2003	Reduced to 1.35
Gifted and Talented	1984	1991	Gradual increase to current weight
Public Education Grant	1995	1995	
High School Allotment	2006	2009	Moved to Tier One but no change to \$275

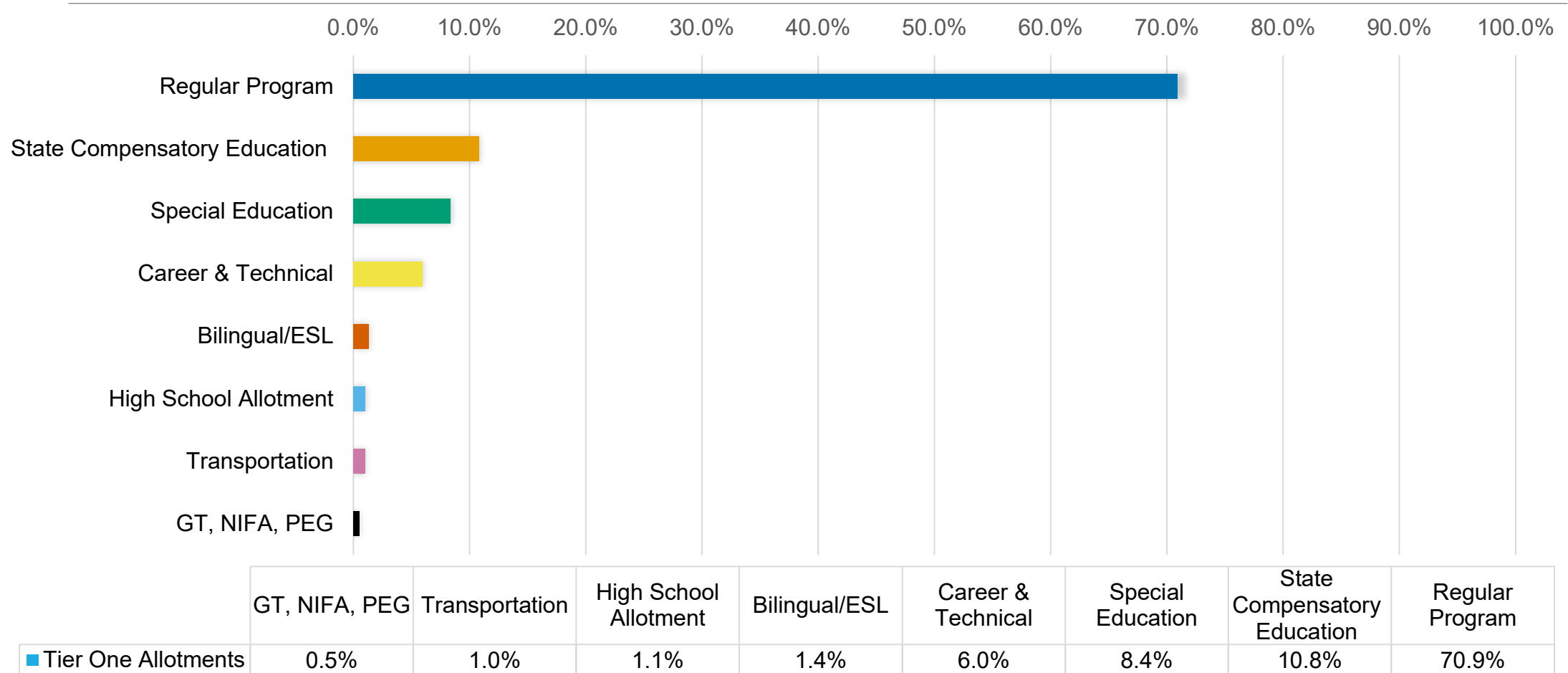
Tier One Bilingual / ESL Allotment example

In general, Tier One allotments are calculated by multiplying the number of students in each instructional setting by the applicable funding weight and by the district's adjusted allotment:

Bilingual/ESL ADA × Funding Weight × Adjusted Allotment

2,000 bilingual/ESL ADA × 0.10 × \$6,546 = \$1,309,200 in additional funding

The Regular Program Allotment comprises majority of Tier One funding (\$26.4 billion out \$37.3 billion)



Tier One formula amounts for a typical district

Program	Formula Amount	Percent of Total Tier One Funding
Regular Program Allotment	\$9,050,000	72.4%
Special Education Adjusted Allotment	\$880,000	7.0%
Career and Technology Allotment	\$775,000	6.2%
Gifted & Talented Adjusted Allotment	\$60,000	0.5%
Compensatory Education Allotment	\$1,275,000	10.2%
Bilingual Education Allotment	\$40,000	0.3%
Public Education Grant	\$0	0.0%
New Instructional Facility Allotment	\$0	0.0%
Transportation Allotment	\$280,000	2.2%
High School Allotment	\$140,000	1.1%
Total Cost of Tier One	\$12,500,000	100.0%

Tier One: Local Share calculated at \$1.00

Tier One



RECAPTURE
LEVEL 1

Tier One: Calculation of State Share

CHAPTER 42 DISTRICT

Tier One Total Cost	\$12,500,000
Prior Tax Year District Property Value	\$650,000,000
Local Share at \$1.00 M&O tax rate	\$6,500,000
State Share of Tier One	\$6,000,000

CHAPTER 41 DISTRICT

Tier One Total Cost	\$12,500,000
Prior Tax Year District Property Value	\$1,350,000,000
Local Share at \$1.00 M&O tax rate	\$13,500,000
State Share of Tier One	\$0

Tier Two Funding

TEXAS PUBLIC SCHOOL FINANCE OVERVIEW

Tier Two Overview

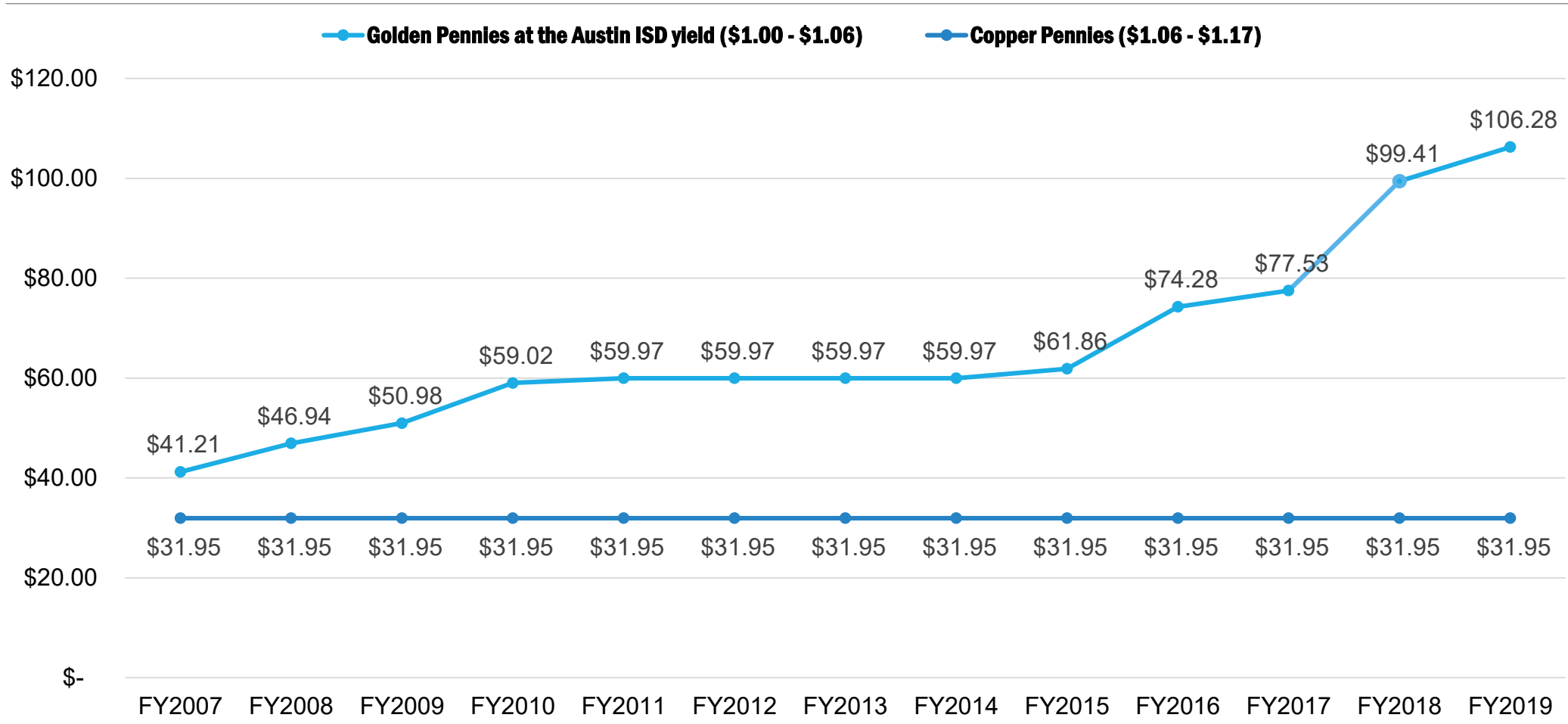
A district's Tier Two allotment provides for enrichment funding which is intended to supplement the basic funding provided by Tier One funds.

To receive Tier One funding, school districts generally must tax at \$1.00 per each \$100 of local district property value. However, districts have local discretion to set a tax rate that is between \$1.00 and \$1.17.

Tier Two focuses on taxpayer equity by ensuring that school districts receive a guaranteed amount of funding for each penny of tax effort between \$1.00 and \$1.17 for each student in their weighted average daily attendance (WADA).

This guaranteed amount per WADA is called the **guaranteed yield**.

Tier Two Guaranteed Yield History



Tier Two: Golden and Copper Pennies



Tier Two

LEVEL 1

**Golden Pennies:
Local discretion
to tax between
\$1.00 & \$1.06**

NO RECAPTURE

Voter Approval needed to tax above \$1.04

Tier Two

LEVEL 2

**Copper Pennies:
Local discretion
to tax between
\$1.06 & \$1.17**

RECAPTURE

LEVEL 2

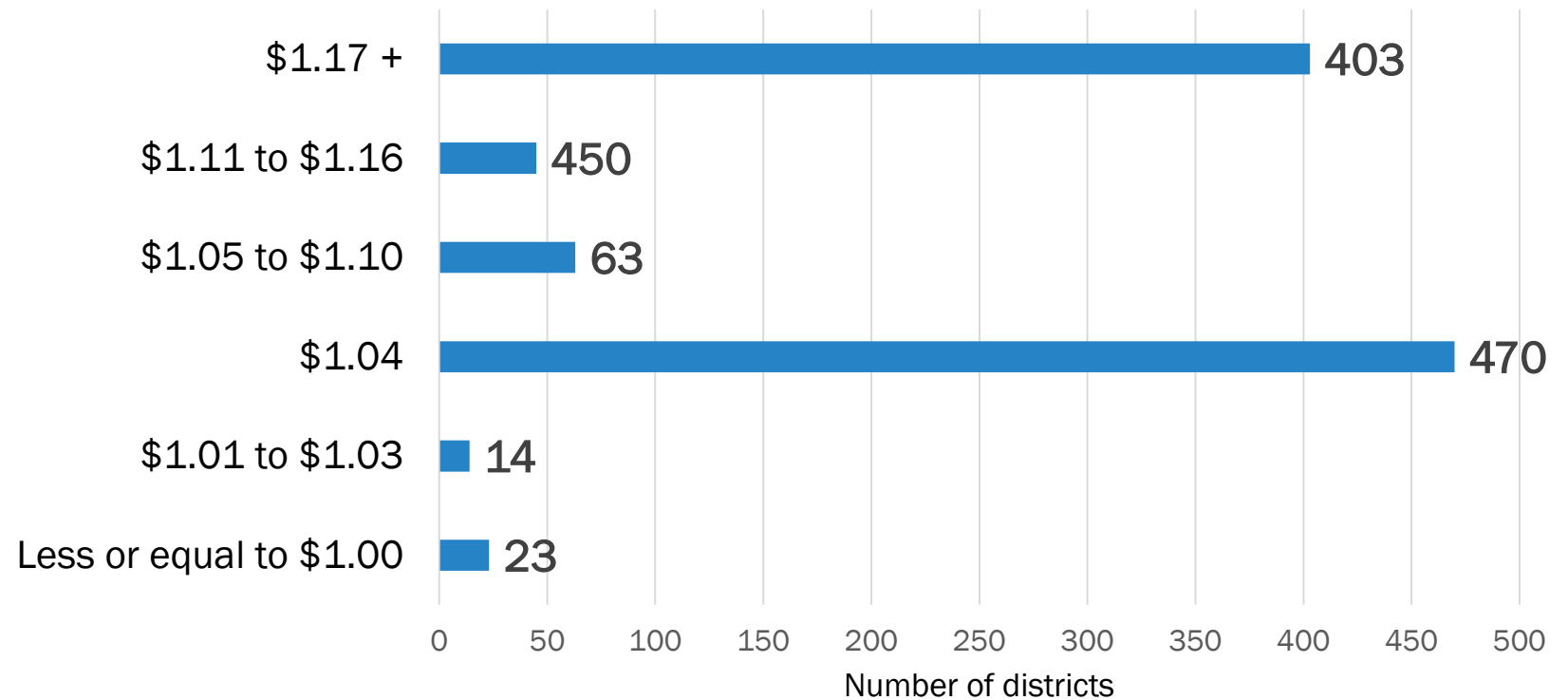
2017 M&O Adopted Tax Rates

M&O tax rates range from **\$0.05 cents to \$1.24** (certain Harris county districts are able to tax above \$1.17)

470 districts have adopted a \$1.04 tax rate

403 districts have adopted the maximum 1.17 or above

Number of Districts at Varying M&O Tax Rates



The difference between ADA and WADA in FY 2019

AVERAGE DAILY ATTENDANCE (ADA)

The number of actual students in attendance on the average school day.

There are 5.13 million ADA in Texas but there are 6.98 million WADA.

There will always be less ADA than WADA.

Used to calculate Tier One allotments.

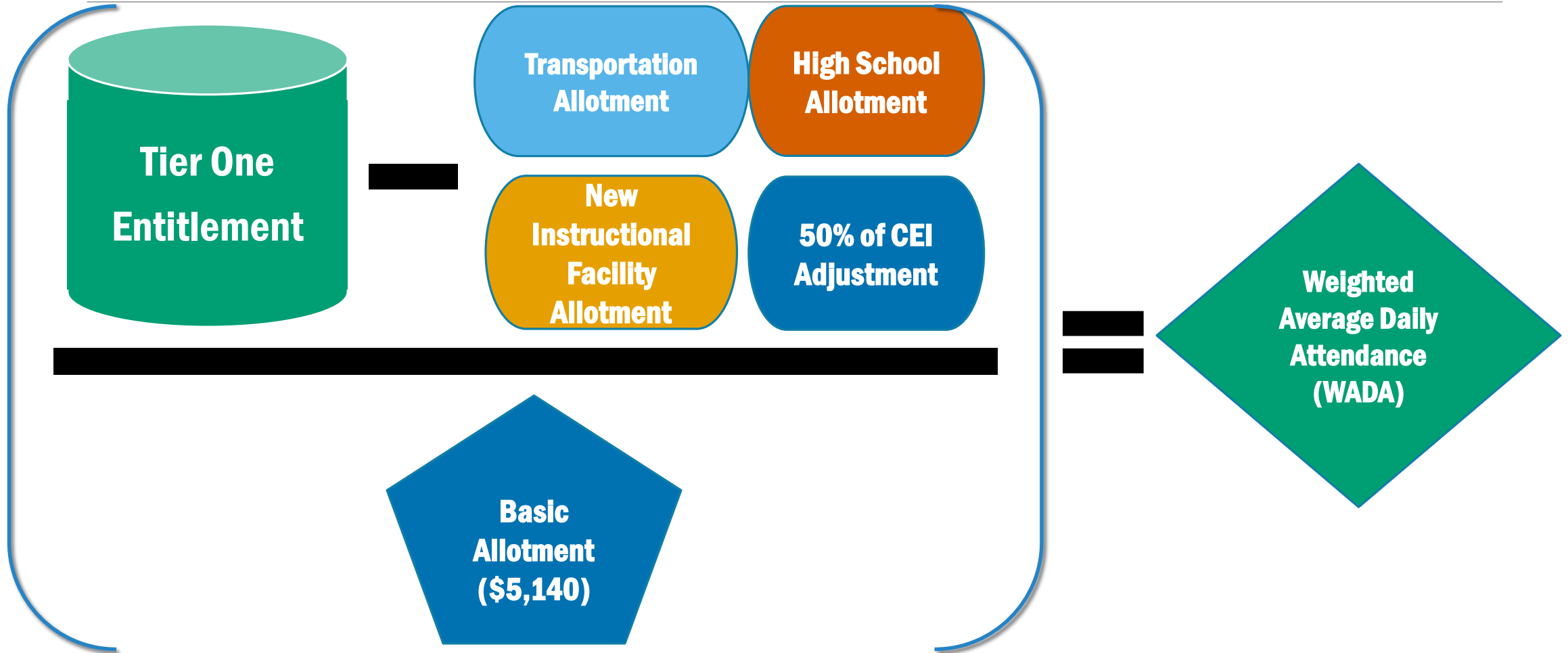
WEIGHTED AVERAGE DAILY ATTENDANCE (WADA)

Calculated using Tier One allotments (not the number of actual students in attendance).

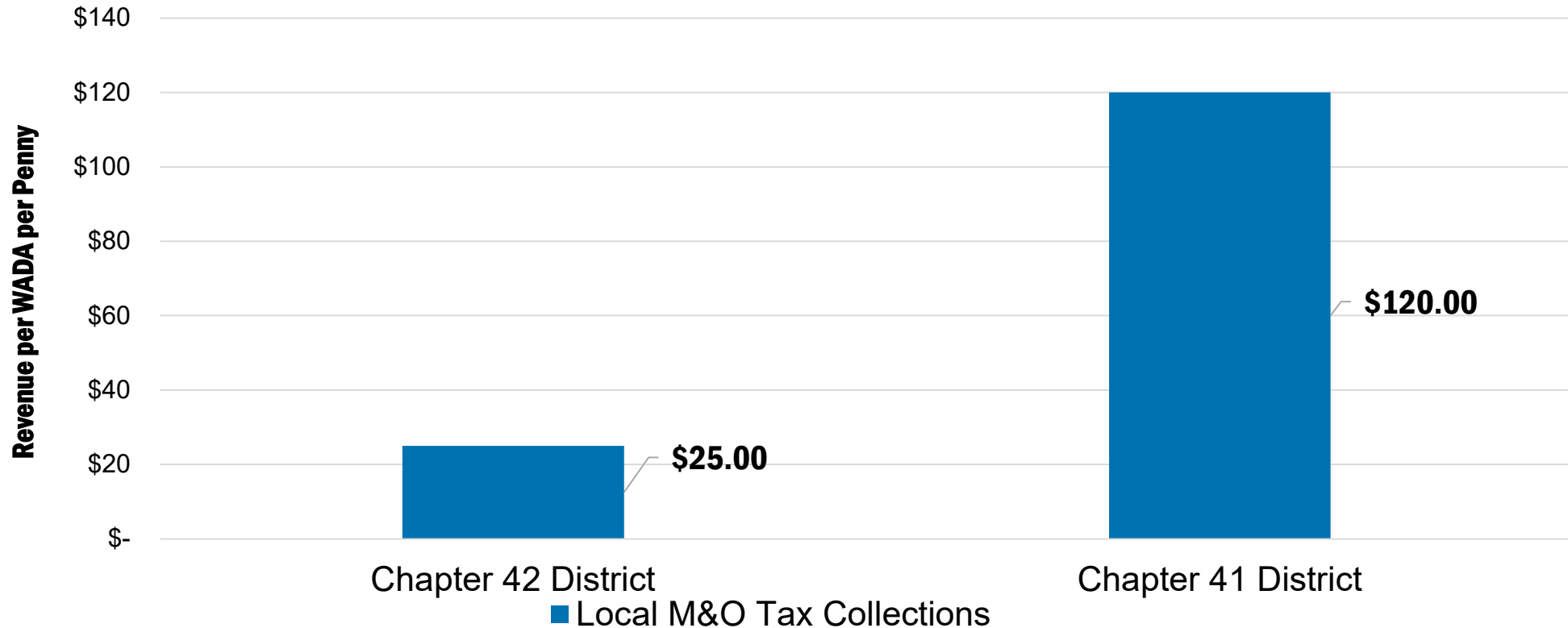
Generally, districts with large populations of students with special characteristics (compensatory education students) will have more WADA.

Used to calculate Tier Two allotments.

Tier Two: How are the number of weighted students (WADA) in a district calculated?



Revenue generated by a penny of tax effort can vary greatly between districts



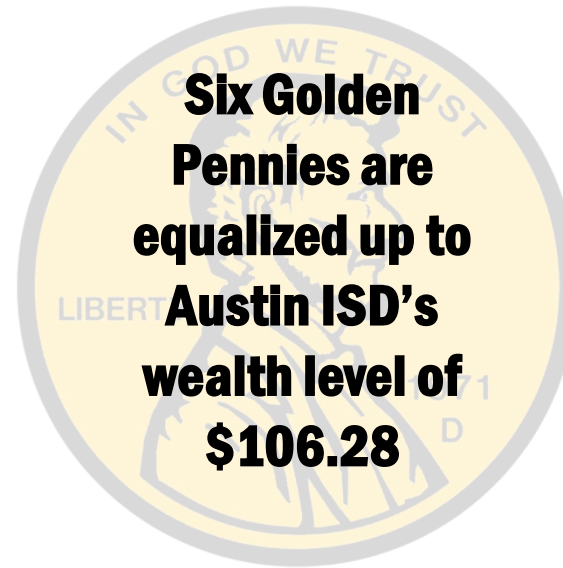
Disparities in local taxable property values directly affect how much a penny of M&O tax effort can generate at the local level.

Tier Two introduces the concept of the GUARANTEED YIELD (GY) formula on a “PER PENNY PER WADA” basis to help close the gap.

Tier Two: Golden Pennies in FY2019

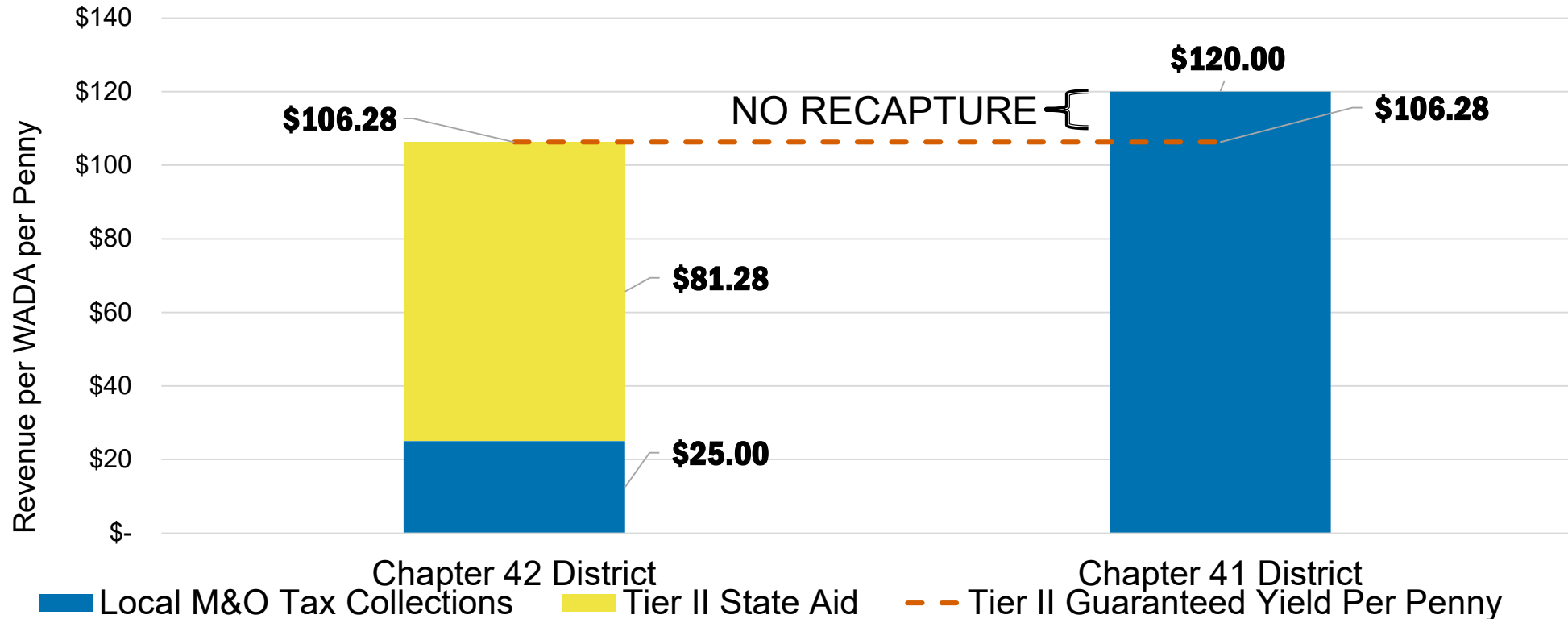
Tier Two

LEVEL 1



NO RECAPTURE

Chapter 42 districts are equalized up to AISD wealth level for the golden pennies



Golden Pennies equalized up to \$106.28 per penny of tax effort per WADA (up to Austin ISD Wealth Level).

No recapture of M&O tax collections from districts that have a wealth per WADA greater than Austin ISD.

Tier Two: Copper Pennies in FY2019

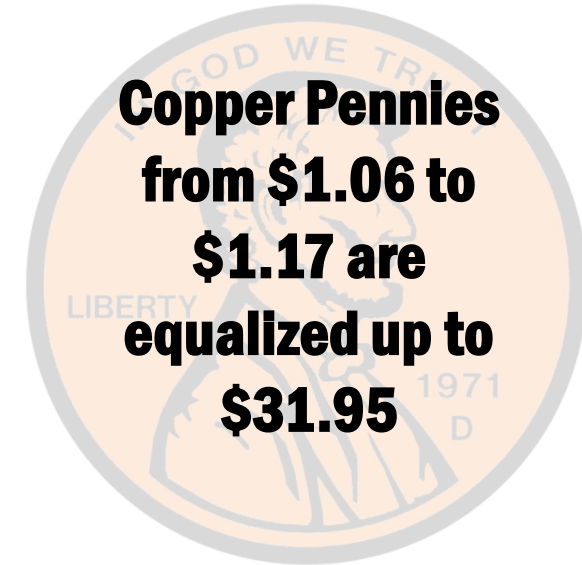
Tier Two

LEVEL 2

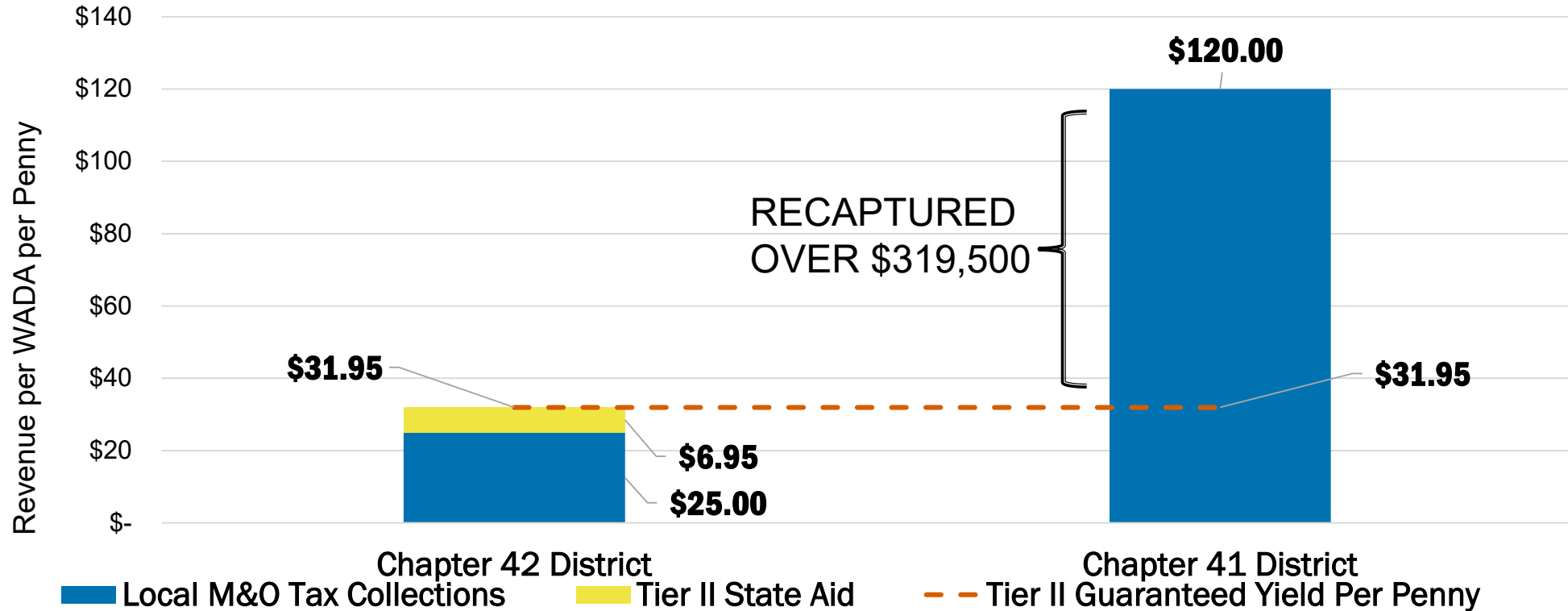
**Copper Pennies
from \$1.06 to
\$1.17 are
equalized up to
\$31.95**

RECAPTURE

LEVEL 2



Chapter 42 districts are equalized up to \$31.95 per WADA for the copper pennies



Copper pennies are equalized up to \$31.95 per penny of tax effort for WADA

M&O tax collections from districts that generate more than \$31.95 per penny per WADA are subject to recapture

Tier Two example of a district with an M&O tax rate of \$1.12 and a local yield of \$50

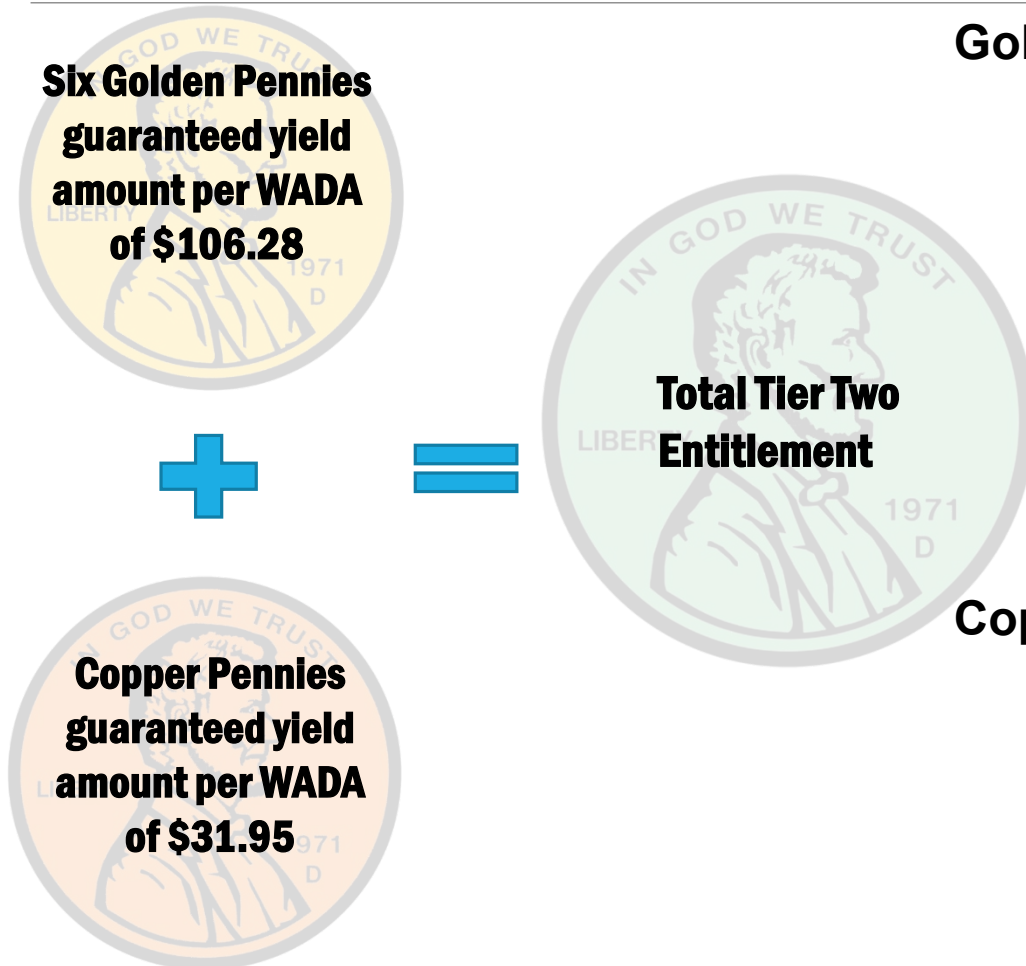
TIER TWO, LEVEL 1 (GOLDEN PENNIES)

WADA	1,000
Number of Golden Pennies	6
Guaranteed Yield	\$106.28
Tier Two, Level 1 Entitlement	\$637,680
(Line 1 x Line 2 x Line 3)	
Local Share	\$300,000
(Line 1 x Line 2 x \$50)	
Tier Two, Level 1 State Share	\$337,680
(Line 4 – Line 5, floor of \$0)	

TIER TWO, LEVEL 2 (COPPER PENNIES)

WADA	1,000
Number of Copper Pennies	6
Guaranteed Yield	\$31.95
Tier Two, Level 2 Entitlement	\$191,700
(Line 1 x Line 2 x Line 3)	
Local Share	\$300,000
(Line 1 x Line 2 x \$50)	
Tier Two, Level 1 State Share	\$0
(Line 4 – Line 5, floor of \$0)	

Tier Two Summary for FY2019



Golden Pennies

- Based on the six pennies above \$1.00 (\$1.00 to \$1.06)
- Local election needed to tax above \$1.04
- For Chapter 42 districts, the state will fund up to the Austin ISD yield per penny (\$106.28) of tax effort per WADA
- **For property rich districts, there is no recapture on these six pennies**

Copper Pennies

- Based on pennies above \$1.06 up to \$1.17
- For Chapter 42, the state will fund up to the \$31.95 yield per penny of tax effort per WADA
- Chapter 41 districts with tax effort in this zone will be recaptured at the \$319,500 equalized wealth level

Facilities Funding

TEXAS PUBLIC SCHOOL FINANCE OVERVIEW

Facilities Funding

In Texas, school districts can adopt interest & sinking (I&S) tax rates up to **\$0.50** cents to generate revenue used to fund the annual debt service payments associated with bonds that are typically issued for the construction of facilities as well as for other legal, voter-approved purposes.

I&S tax collections are **not** used to pay directly for construction costs.

2017 I&S Adopted Tax Rates

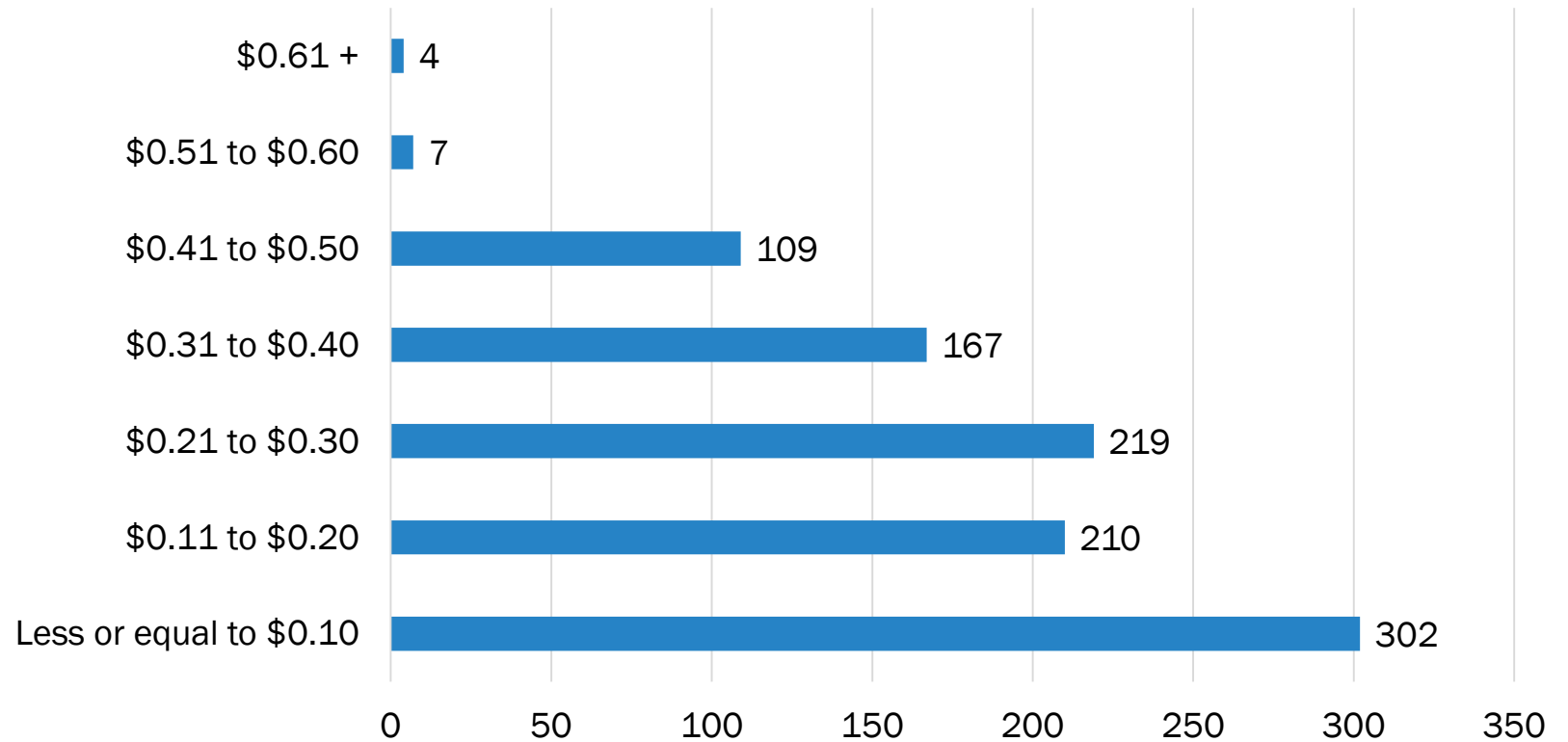
I&S tax rates range from **\$0.00 to \$0.87 cents**

173 districts have adopted a \$0.00 tax rate

29 districts have adopted a \$0.50 tax rate

11 districts have adopted a tax rate greater than \$0.50 tax rate

Number of Districts at Varying I&S Tax Rates



Facilities Funding: Instructional Facilities

Allotment (IFA)

This program was enacted by House Bill 1 of the 75th Legislature (1997).

The IFA program provides assistance to school districts in making debt service payments on qualifying bonds.

Proceeds must be used for the construction or renovation of an instructional facility only.

The program operates through applications (**prior to bond issuance**) and has award cycles. The IFA is **NOT** used to pay directly for construction costs.

History of IFA awards

Round	Fiscal Year	Funding for Previous Awards (excluding new money)	Amount designated for new debt
1	FY1998	NA	Initial appropriation for all new debt
2	FY1999	NA	Initial appropriation for all new debt
3	FY2000	\$124.9 million	\$50 million
4	FY2001	\$173.1 million	\$50 million
5	FY2002	\$202.3 million	\$50 million
6	FY2003	\$236.4 million	\$50 million
-	FY2004	\$272.4 million	NA
7	FY2005	\$263.7 million	\$20 million
-	FY2006	\$269.6 million	NA
8	FY2007	\$252.9 million	\$50 million
-	FY2008	\$281.1 million	NA
9	FY2009	\$237.4 million	\$87.5 million
-	FY2010	\$285.3 million	NA
10	FY2011	\$225.8 million	\$75 million
-	FY2012	\$300.3 million	NA
-	FY2013	\$290.9 million	NA
-	FY2014	\$276.7 million	NA
-	FY2015	\$255.9 million	NA
-	FY2016	\$224.2 million	NA
11	FY2017	\$185.2 million	\$55.5 million

Facilities Funding: Existing Debt Allotment (EDA)

Created by the Texas Legislature in 1999, and the roll-forward provision was made permanent in 2009 (HB 3646).

House Bill 21 (2017, First Called Session) increased the EDA guaranteed yield from \$35 to the **lesser of** \$40 per ADA per penny on interest and sinking fund (I&S) taxes levied by school districts to pay the principal of and interest on eligible bonds, **or** an amount that would result in a \$60 million increase in state aid from the previous yield of \$35. The yield for the 2018–2019 school year is estimated to be \$36.65.

EDA can be used to help pay for debt on both instructional and non-instructional facilities. EDA is **NOT** used to pay directly for construction costs.

The program operates without applications and has no award cycles but, **to be eligible, payment of existing bonds must have been made during the final year of the previous biennium.**

Eligibility, guaranteed yields, and limits on IFA and EDA

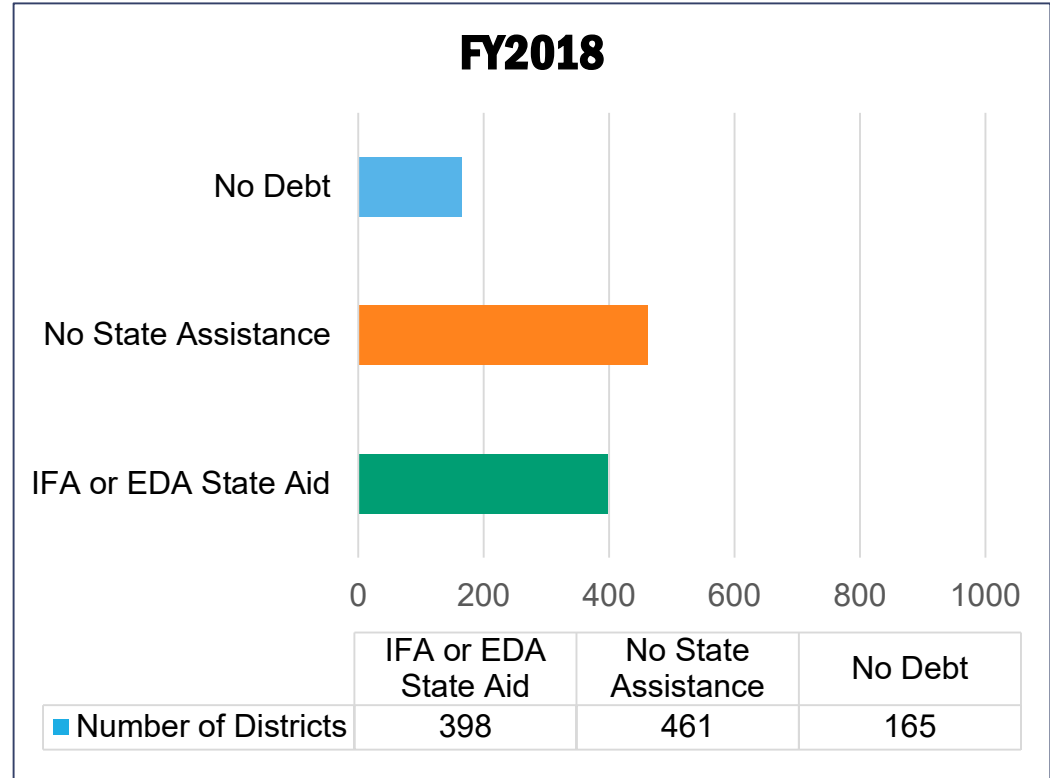
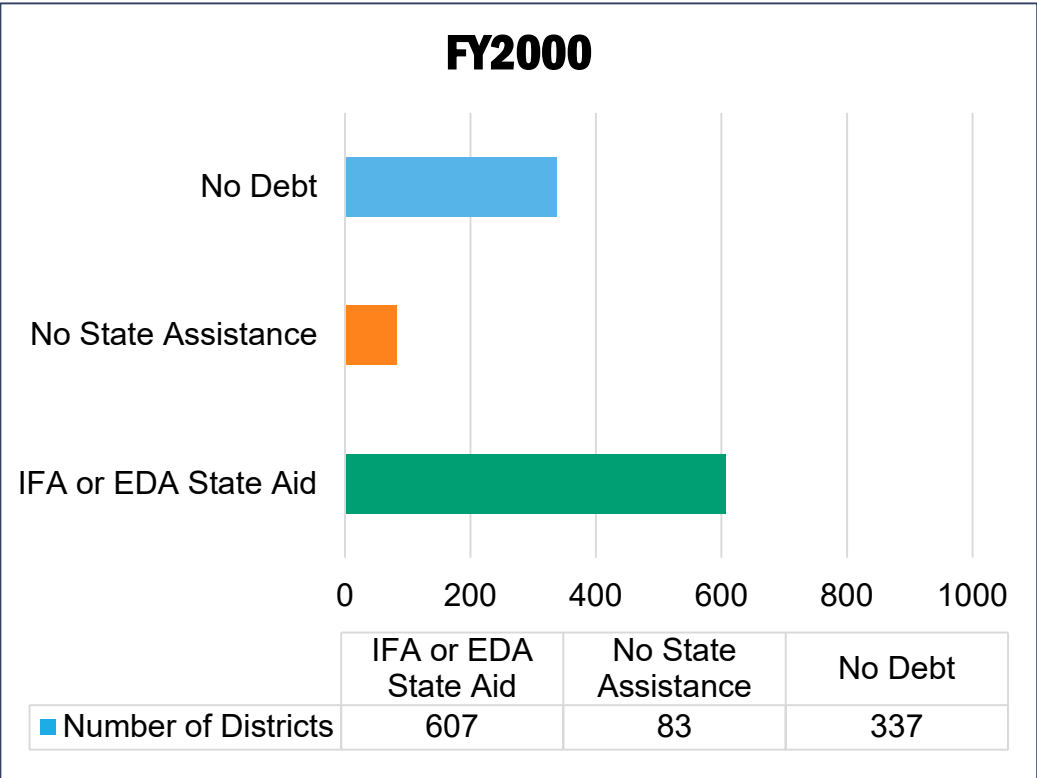
Funding formulas for facilities are similar to Tier Two because they work on a **guaranteed yield per penny of tax effort per student**. However, facilities funding formulas use ADA instead of the WADA used in Tier Two.

IFA has a guaranteed yield of \$35 per student in ADA per penny of tax effort, while EDA has a floating guaranteed yield, currently estimated to be approximately \$36.65, and EDA funding is currently limited to \$0.29 cents of tax effort.

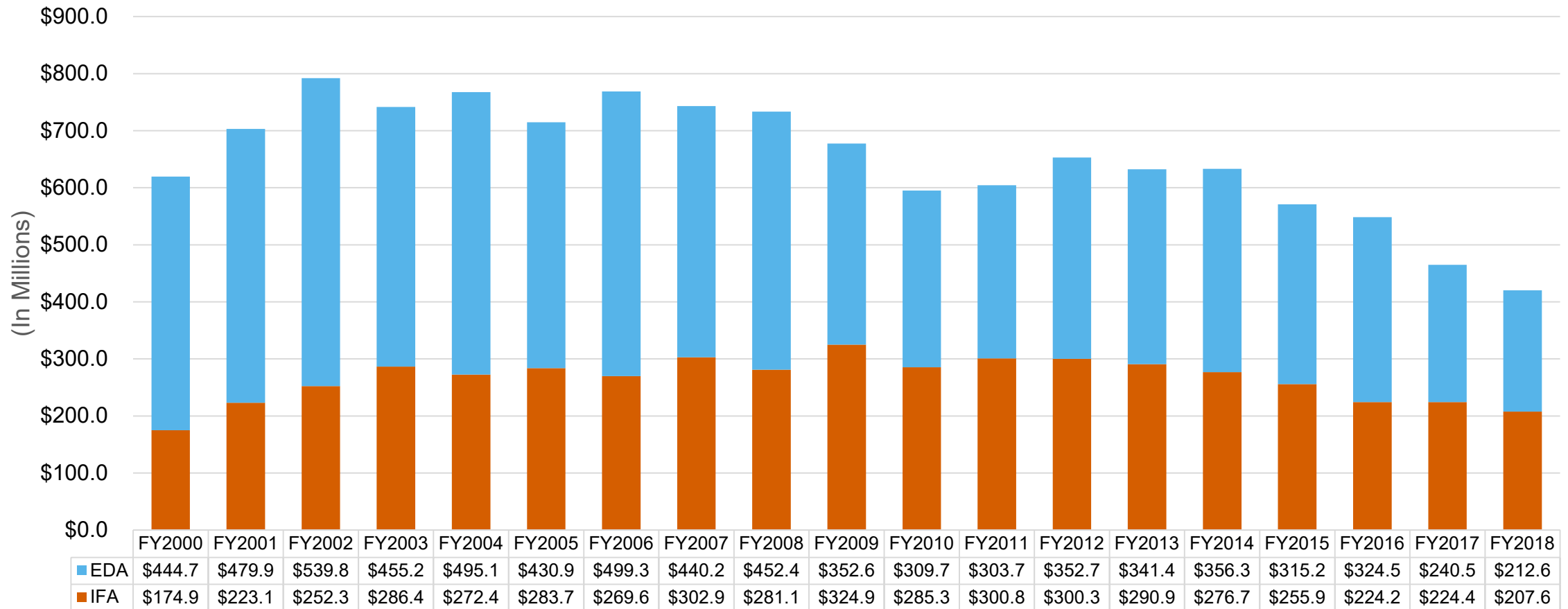
How many districts receive IFA and EDA?

IN FY2000, 607, OR 59% OF SCHOOL DISTRICTS RECEIVED EITHER IFA OR EDA.

IN FY2018, 398, OR 39% OF SCHOOL DISTRICTS RECEIVED EITHER IFA OR EDA.



The state has contributed nearly \$12.4 billion to public school facilities funding since the inception of IFA and EDA.



Charter School Funding

TEXAS PUBLIC SCHOOL FINANCE OVERVIEW

Charter School Funding Overview

Open enrollment charter schools (charter schools) are entitled to Tier One and Tier Two state aid, but, because they do not have the ability to generate the local share through a property tax base, the state funds 100% of their entitlements.

Charters schools are funded using state average funding variables for Tier One, and state average tax rates for Tier Two.

Charter schools are not eligible for facilities funding under IFA or EDA but do qualify for NIFA as part of the Tier One calculation and will qualify for facilities funding beginning in FY2019.

Charter School Funding – Tier One

At an adjusted allotment of \$6,546, charter schools are funded like a “small-size” school district with a regular program ADA of 824, a CEI of 1.0795, and with fewer than 300 square miles.

While 66% (116) of charter schools *individually* have fewer than 824 ADA, *combined* they only account for 16% of total charter ADA (40,000 ADA).

The nine largest charter schools have 114,000 ADA (44% of total charter ADA) but are still funded at the “small-size” state average level.

It is worth noting that over 95% of students enrolled in school districts attend a school district with an adjusted allotment below \$6,546.

Charter School Funding – Tier Two

Charter schools do not have the authority to levy a tax rate, therefore they cannot raise local property taxes.

Therefore, charter schools' Tier Two allotments are calculated using the state average M&O tax rates for the golden and copper pennies (\$0.0573 and \$0.0490, respectively in FY2019).

Charter schools benefit as more districts hold elections to increase their M&O tax rates above \$1.04.

Charter Facilities Funding: HB 21 (85-1)

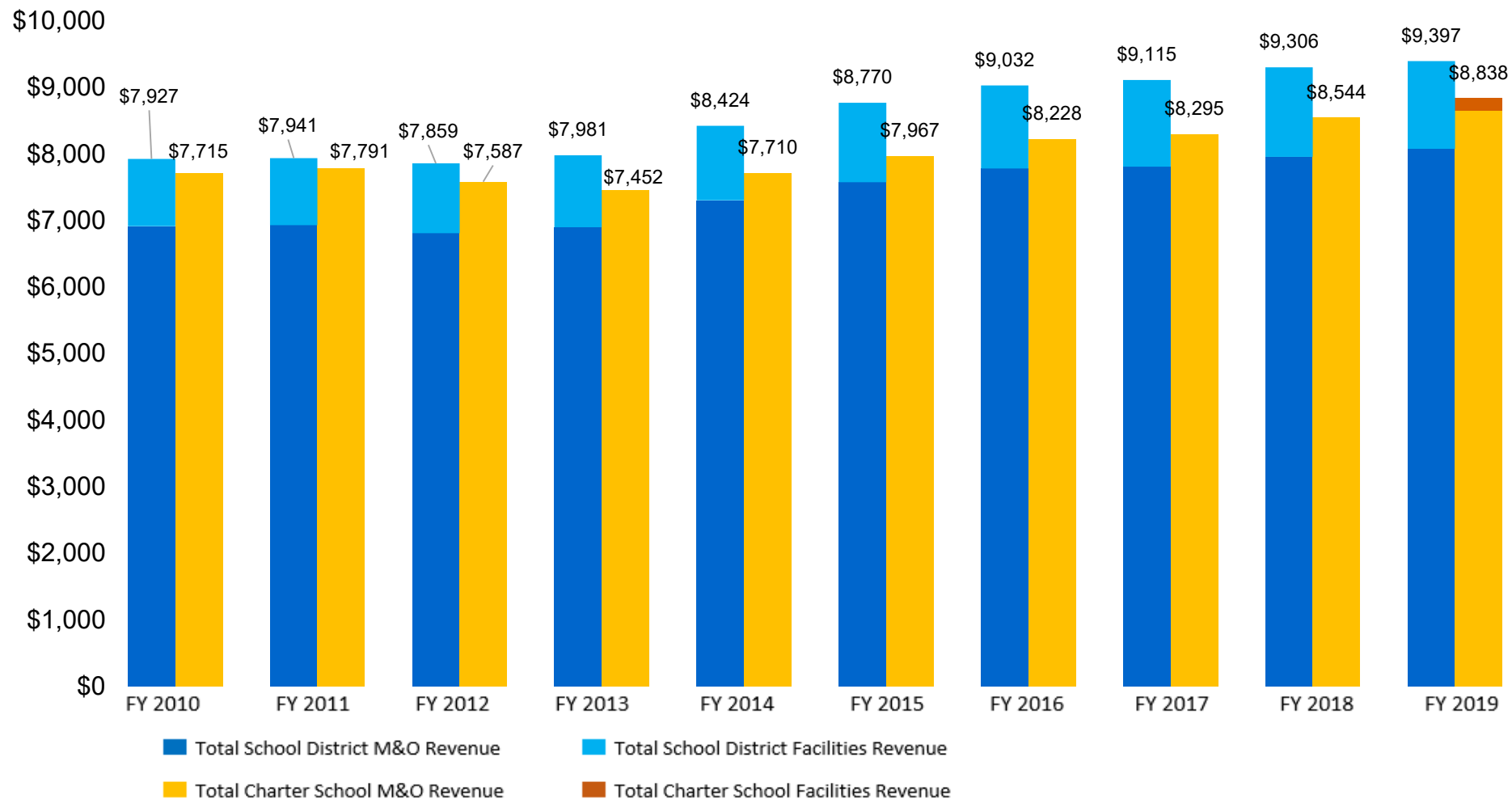
Beginning in FY2019, certain charter schools will be eligible to receive a facilities allotment calculated using the state average debt service tax rate for school districts (estimated at 21 cents), limited to \$60 million in additional statewide funding.

Funding is currently estimated at approximately **\$202** per student in average daily attendance (ADA), and is subject to change.

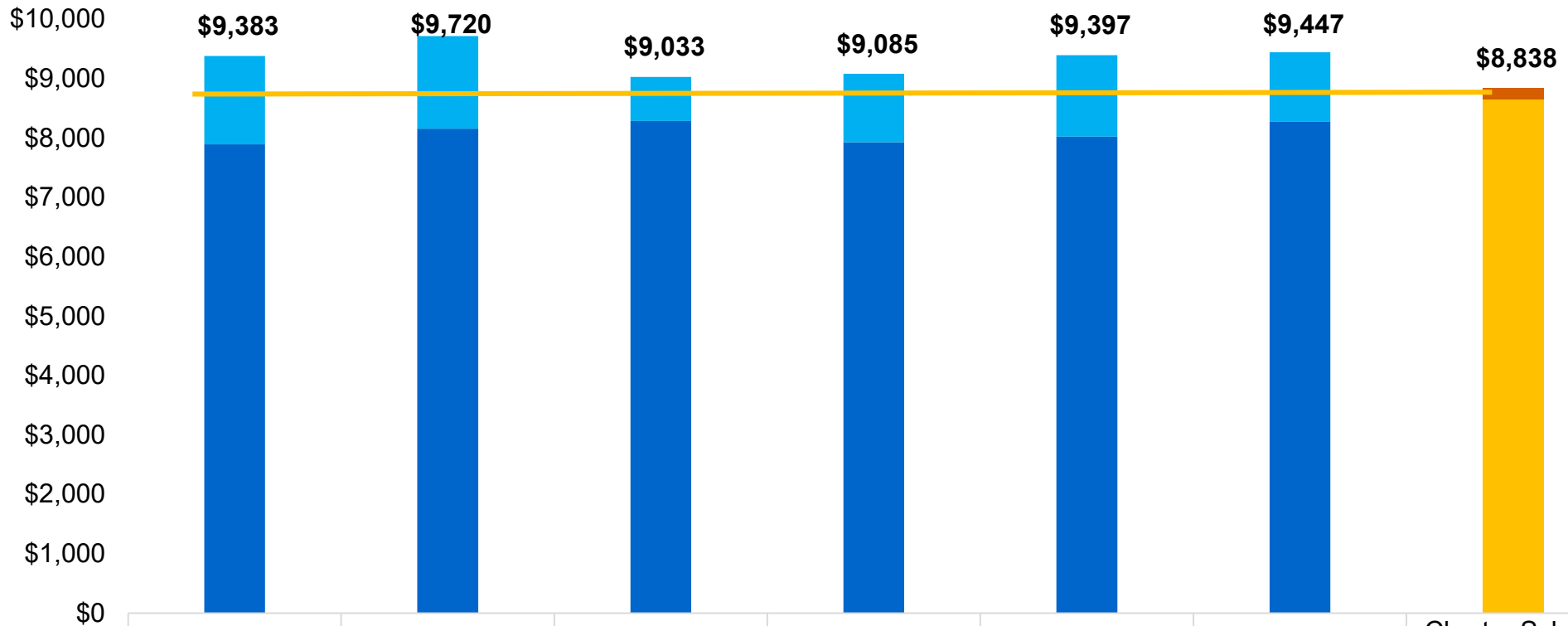
FSP Trends: M&O and Facilities revenue per enrolled student for districts and charters

Since FY2010, school district M&O and facilities revenue per student has grown by 19%. Meanwhile, charter school revenue per student has grown by 15%.

For FY2019, it is projected that on the aggregate, school districts will have \$559 more than charter schools, per enrolled student.

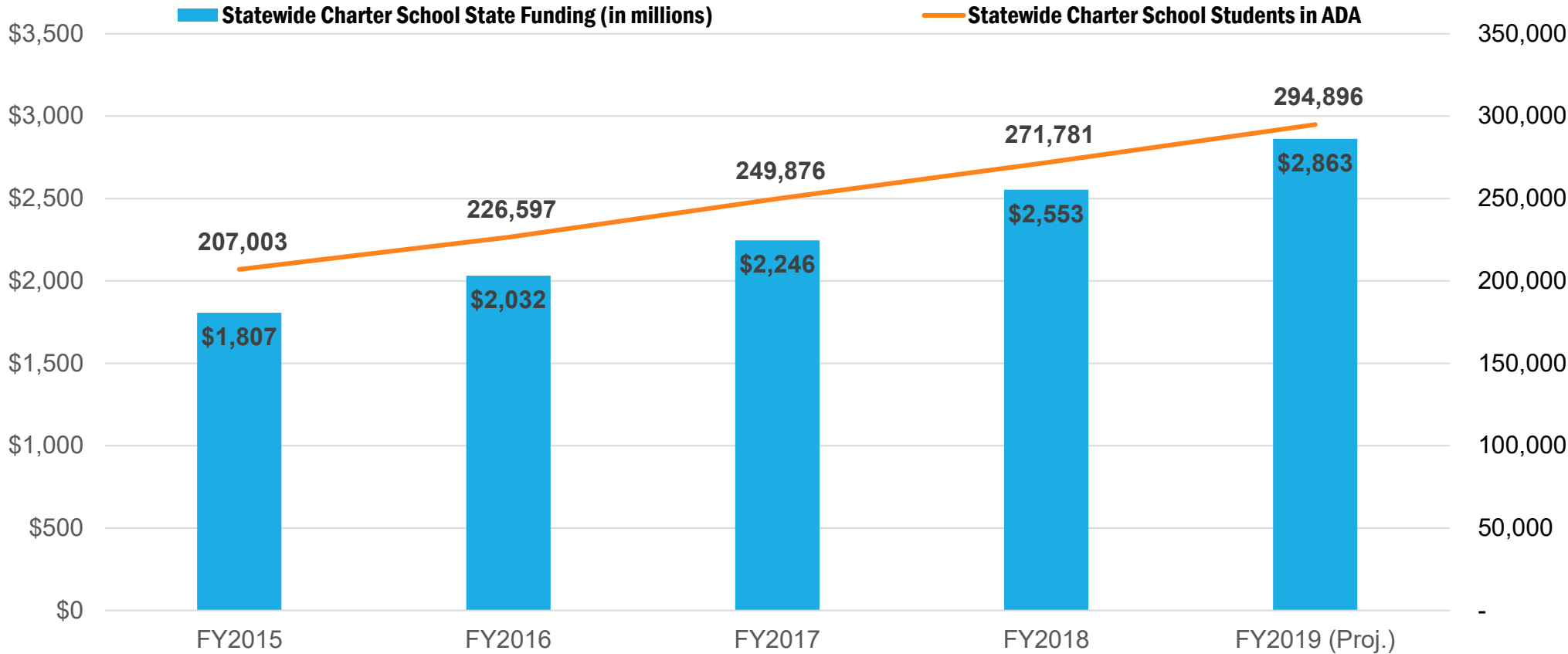


FY2019 comparison of M&O and Facilities Revenue per enrolled student between charter schools and some of the larger districts across the state



	Austin ISD	Dallas ISD	El Paso ISD	Fort Worth ISD	Houston ISD	San Antonio ISD	Charter School Average
Facilities Revenue per Student	\$1,488	\$1,558	\$745	\$1,154	\$1,372	\$1,171	\$184 *
M&O Revenue per Student	\$7,895	\$8,161	\$8,288	\$7,931	\$8,025	\$8,275	\$8,654
Total FSP Revenue per Student	\$9,383	\$9,720	\$9,033	\$9,085	\$9,397	\$9,447	\$8,838

In the last five years, charter school ADA has increased by 42%, driving increases to statewide charter school funding by 58%



Wealth Equalization (Chapter 41)

TEXAS PUBLIC SCHOOL FINANCE OVERVIEW

What is a Chapter 41 district? Recapture?

Recapture ensures that a district's property wealth per student does not exceed certain levels, known as equalized wealth levels.

A district that is subject to recapture is often referred to as a Chapter 41 district because the provisions governing recapture are found in Chapter 41 of the Texas Education Code (TEC). Districts not subject to recapture are called Chapter 42 districts.

Districts subject to the provisions of recapture must choose a method to reduce their wealth per WADA below the equalized wealth level.

Why do we have recapture?

The Texas Supreme Court has held that:

- at similar tax rates, Chapter 41 school districts should not have significantly more money per student in weighted average daily attendance (WADA) than Chapter 42 school districts, and
- recapture is constitutional noting that recapture helps to fund the amount of money available to equalize revenue per WADA for school districts across the state taxing at similar levels.

What are the equalized wealth levels (EWLs)?

The first EWL is equal to the maximum school district property wealth per WADA provided by the basic allotment. This level applies to the tax effort up to a school district's compressed tax rate (CTR) and is currently \$514,000, which is tied to the basic allotment (\$5,140, which is **set in the General Appropriations Act (GAA)**).

The second EWL is determined by the funding provided to Chapter 42 school districts for their tax effort that exceeds the CTR, up to six golden pennies (which there is no recapture on) that are used in Tier Two. This EWL is tied to the Austin Independent School District's yield per WADA per penny (\$106.28 in FY2019, **also set in the GAA**).

The third EWL is set in **statute** at \$319,500 per WADA, and it applies to any tax effort that exceeds the "CTR plus six cents" and is tied to the copper pennies that are also used in Tier Two.

Equalized wealth levels (EWLs) per penny of tax effort

Tier One

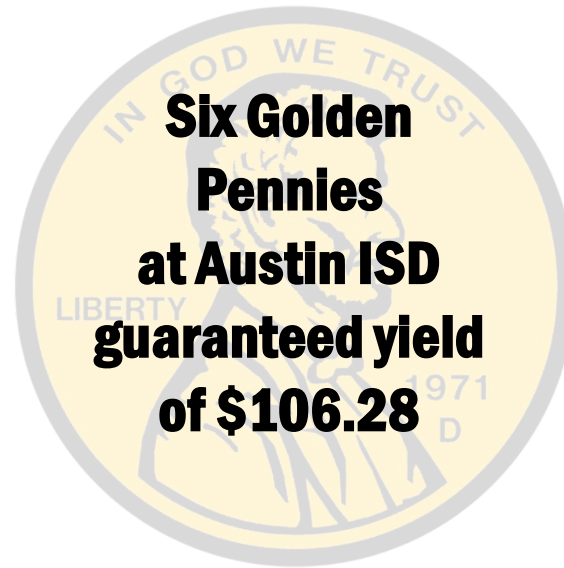


RECAPTURE

LEVEL 1

Tier Two

LEVEL 1



NO RECAPTURE

Tier Two

LEVEL 2



RECAPTURE

LEVEL 2

How does a district reduce its wealth down to the equalized wealth level?

A district has five options available to reduce its property wealth per WADA (pay recapture):

- Consolidation with another district (TEC, §41.031)
- Detachment and annexation of property (TEC, §41.061)
- **Purchase attendance credits from the state (TEC, §41.091) ← This is 100% of recapture.**
- Education of nonresident students from a partner district (TEC, §41.121)
- Tax base consolidation with another district (TEC, §41.151)

If a district fails or refuses to exercise Option 1, 3, 4 or 5, the commissioner is required to achieve wealth equalization through detachment and annexation or consolidation (Option 2).

How does the state use recapture revenue?

The most commonly chosen method of paying recapture is Option 3 (paying directly to the state). **This option represents 100% of recapture.**

Payments are made in seven equal installments from February through August of every fiscal year.

Funds received by the state from recapture, which will total \$2.7 billion in FY2019, are appropriated in the General Appropriations Act as a method of finance to help pay for the Foundation School Program (FSP).

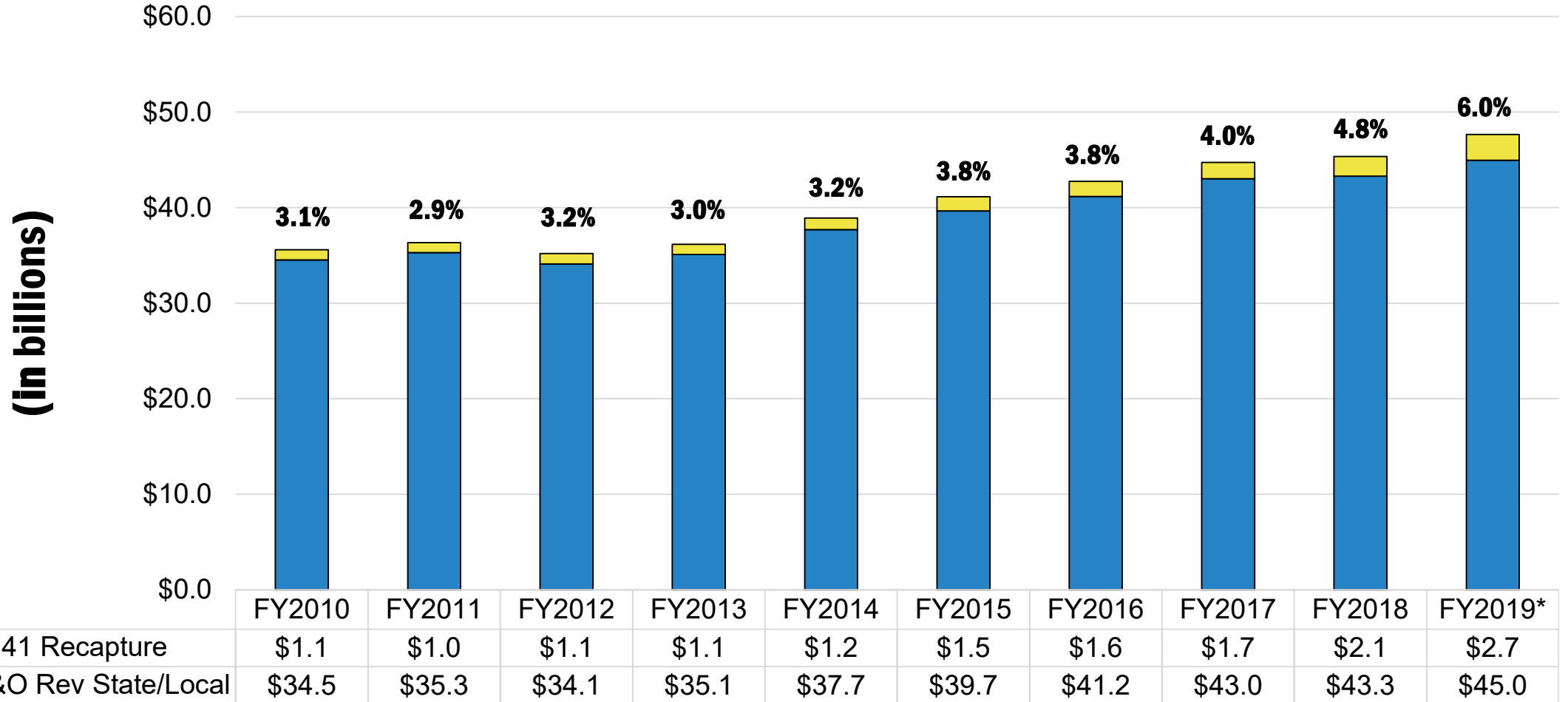
How is recapture calculated? Below is a simplified example

DESCRIPTION	RECAPTURE AT \$1.00
1. District Property Value (Prior Tax Year)	\$1,350,000,000
2. Number of Weighted Students in Average Daily Attendance (WADA)	2,500
3. District Wealth per WADA (Line 1 ÷ Line 2)	\$540,000
4. State's Equalized Wealth Level (EWL) per WADA	\$514,000
5. Excess Wealth per WADA (Line 3 – Line 4)	\$26,000
6. Excess Property Value (Line 5 × Line 2)	\$65,000,000
7. Recapture Percentage (Line 6 ÷ Line 1)	4.8%
8. M&O Tax Collections at Compressed M&O Tax Rate (\$1.00)	\$13,500,000
9. Recapture before discounts (Line 8 × Line 7)	\$650,000

Top payers of recapture in FY2018 vs what they paid in FY2009 (in millions)

District	FY2009	FY2018 (Near Final)	Percent Change
Austin ISD	\$174.4	\$544.6	212%
Houston ISD	-	\$215.1	-%
Plano ISD	\$89.3	\$154.6	73%
Highland Park ISD	\$71.9	\$94.0	31%
Eanes ISD	\$57.9	\$93.8	62%
Spring Branch ISD	\$5.1	\$77.0	1,410%
Lake Travis ISD	\$30.5	\$43.5	43%
Grapevine-Colleyville ISD	\$35.0	\$44.2	26%

Recapture as a percentage of total available M&O state/local revenue has nearly doubled over the last decade



Contact information

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Special Topic:

Hurricane Harvey – FSP Impact

**HURRICANE HARVEY IMPACT TO STUDENT ATTENDANCE AND
DISTRICT PROPERTY VALUES**

Hurricane Harvey School Finance Supplemental Appropriation Decision Points

■ Already Committed
 ■ For Legislative Consideration
 ■ No Impact

	FY2018	FY2019
ADA Hold Harmless	\$89 Million	No Impact
M&O Property Value Decline	Est: \$300 Million	Est: \$150 Million
		Est: \$500 Million - \$1 Billion
Facilities Repair	No Impact	Est: \$30 Million*
		Est: \$60 Million
Student Weights (State Compensatory Education)	\$110 Million	Est: \$44 Million

*Ch. 41s guaranteed funding from recapture offsets

Special Topic:

Financial Hardship Transition Program

HARDSHIP GRANTS UNDER HOUSE BILL 21

(85TH LEGISLATURE, 1ST CALLED SESSION)

Hardship Grants (HB 21)

Created a two-year hardship grant program to provide transitional aid for districts experiencing a loss of M&O revenue relative to statute in place for FY2017.

Transition grants were available for FY2018 and FY2019

All eligible districts under the legislation received a grant award automatically and did not need to apply to TEA to receive a grant.

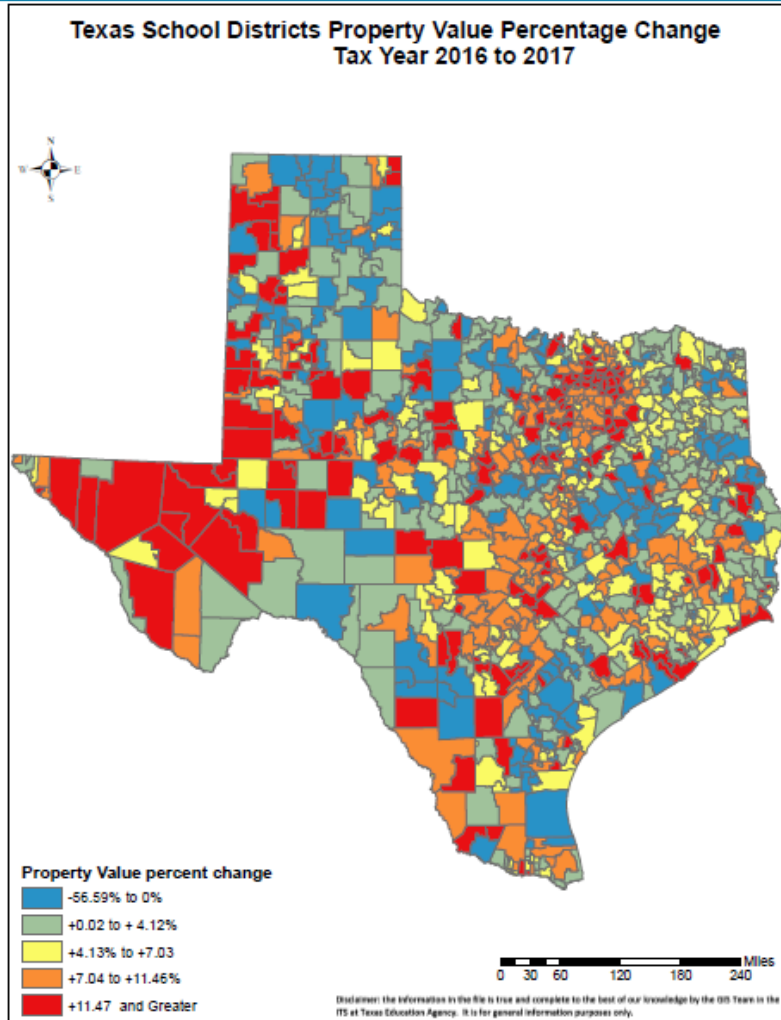
Final grants were awarded in October 2017.

Grant program was limited to \$100 million in FY2018 and \$50 million in FY2019.


Special Topic: Districts with rapidly declining local property values

TEXAS PUBLIC SCHOOL FINANCE OVERVIEW

Districts with rapidly declining property values: a statewide perspective



 **Districts marked in blue** had declining property values

 **Districts marked in red and orange** still had increasing values and include the major urban areas of the state

 Overall the state had increasing property values in 2017

Hardships caused by decreasing values

1

Districts with declining values are disadvantaged because **the state uses prior year property values in calculating the local share of the FSP (see next slide)**. In these cases, prior year values don't fully reflect the decline and exaggerate the district's ability to raise local tax revenue.

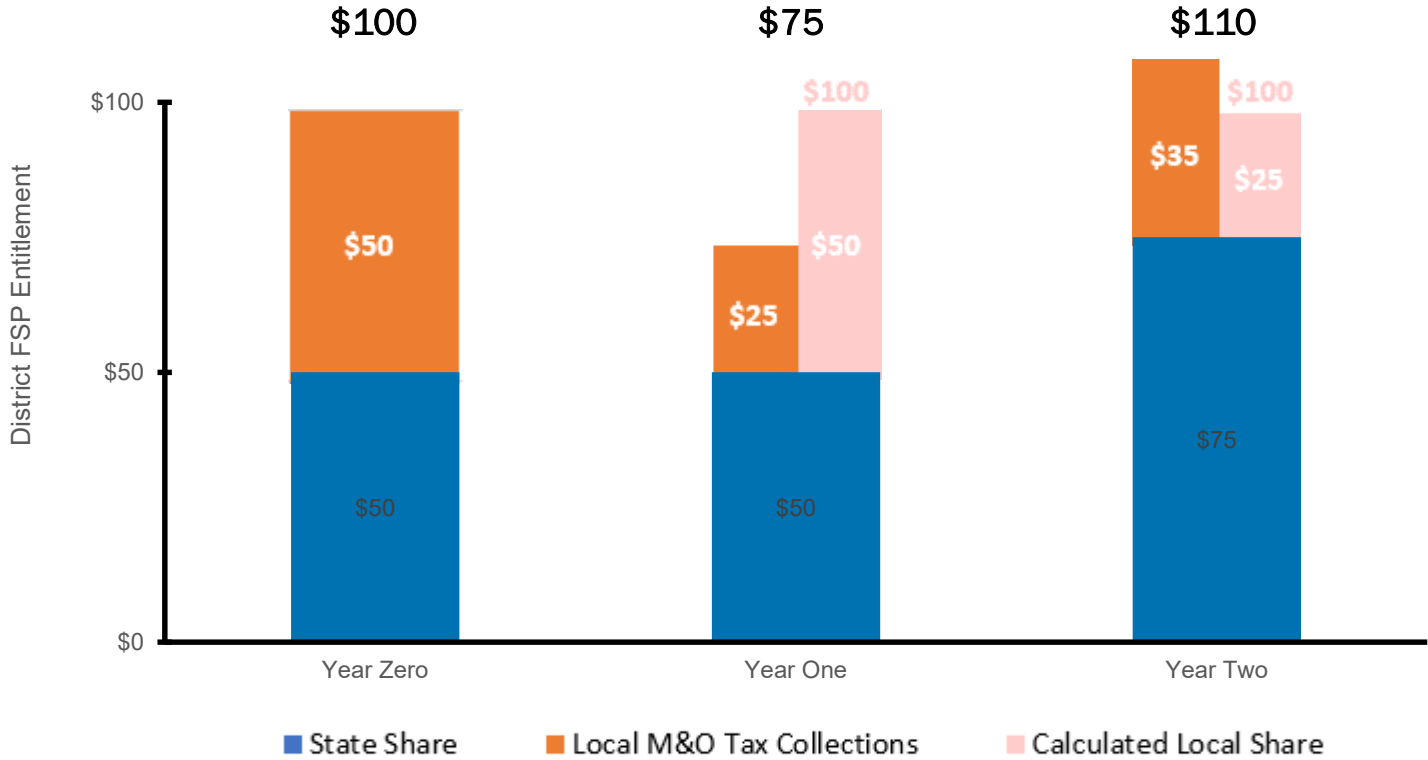
2

When making payments to districts during the fiscal year, **the state is required to assume the same estimated percentage increase** in property values for all districts.

3

Districts with declining values therefore experience significant under-payments which can negatively impact cash flow and overall funding levels.

Fluctuations in local property values impact FSP funding (because *local share* calculation uses prior year values)



Funding Adjustments for school districts with rapidly declining property values

The 85th Legislature appropriated \$75 million in the 2018-2019 biennium to be spent on providing funding for school districts with rapidly declining property values.

Districts with declines in excess of four percent were eligible to receive funding adjustments.

\$50 million in adjustments were made as part of “near-final” settle-up for the 2016-2017 school year in September 2017.

\$25 million in adjustments were made as part of “near-final” settle-up for the 2017-2018 school year in October 2018.

Appendix: Additional State Aid for Tax Reduction

TEXAS PUBLIC SCHOOL FINANCE OVERVIEW

What was ASATR?

In 2006, the legislature compressed (reduced) local M&O tax rates by 1/3. This reduced most local M&O tax rates down from \$1.50 to \$1.00 resulting in school districts having 1/3 less local tax revenue to fund their local share.

To ensure districts did not lose funding as a result of the tax compression, the legislature increased the basic allotment to help offset some of the loss.

In addition, the Legislature created Additional State Aid for Tax Reduction (ASATR). Under ASATR, a “target revenue” amount per WADA was established for each school district, ensuring districts had as much funding in 2007 as they did in 2006, prior to the tax rate compression.

What was ASATR?

SB 1 (2011) set an expiration date for ASATR of August 31, 2017.

Over time, as the basic allotment and local property values increased, school districts began receiving more money through the Tier One FSP formulas, thus needing less ASATR funding.

However, in FY2017 (the last year before the expiration of ASATR) there were still approximately 267 districts receiving approximately \$420.2 million in ASATR.

Districts that received ASATR generally had high target revenue amounts, and have more funding available than other comparable school districts (on a per WADA basis).

History of ASATR funding

