



Texas Public School Finance Overview 2020–2021 Biennium

TEXAS EDUCATION AGENCY

JANUARY 2020

Agenda

Foundation School Program

Tier One and Tier Two Entitlements

Local Revenue Level in Excess of Entitlement

Charter School Funding

Facilities Funding

Transition Grants

Appendix

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 46 and 48), 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.

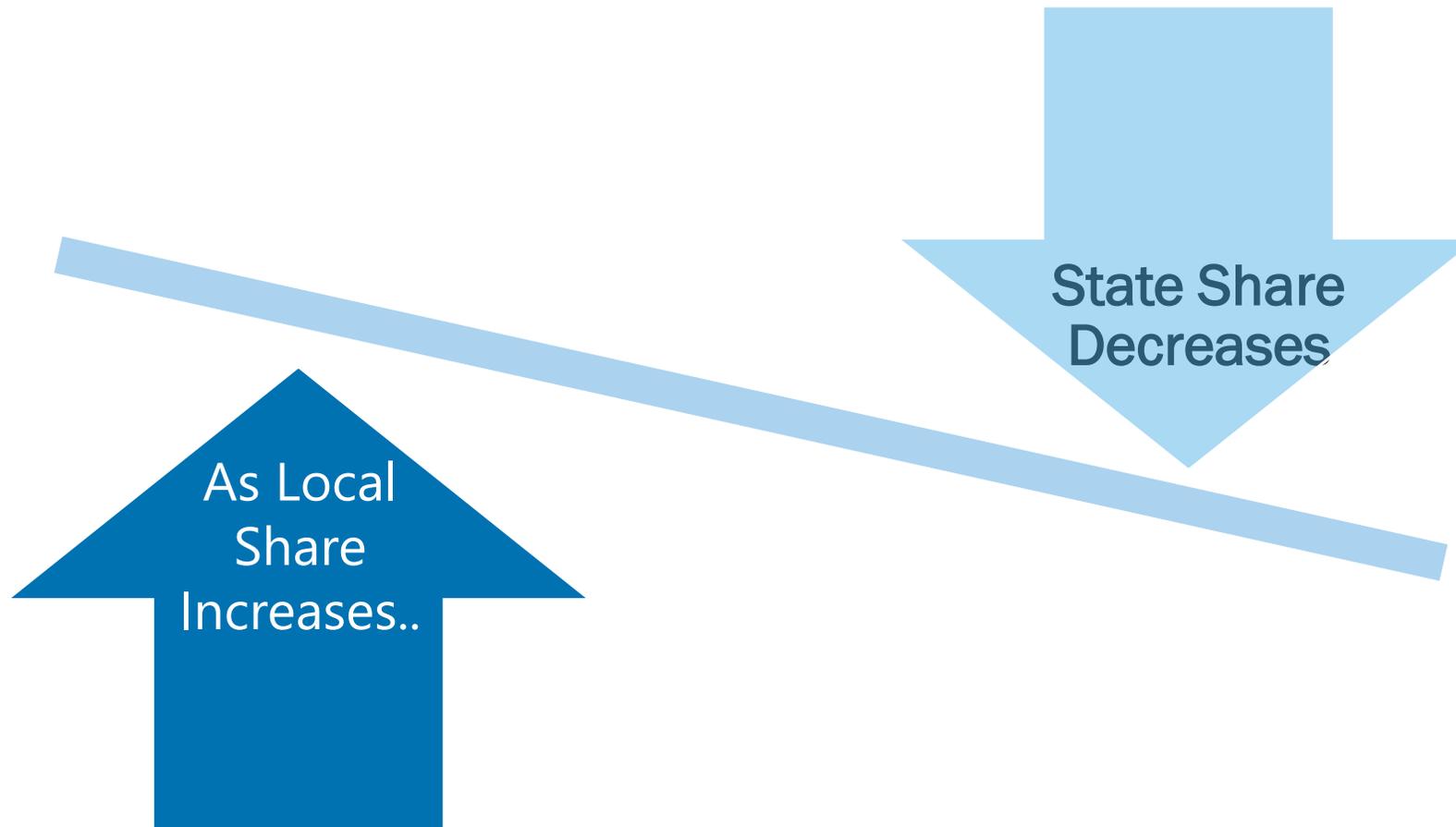
Generally, once entitlements are established, the formulas are used to determine how much a district can generate locally (**local share**) through property taxes before making up the difference with state funds (**state share**).

State FSP Appropriation breakdown for the 2020–2021 Biennium (in millions)

Item	Amount	Notes
Foundation School Fund (Fund 193)	\$35,409.6	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.
Available School Fund	\$4,325.7	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).
Appropriated Receipts	\$4,114.6	Appropriated Receipts is authorized by Chapter 48 of the Texas Education Code.
Property Tax Relief Fund	\$3,801.8	Primarily funded through the franchise tax but also includes vehicle and tobacco sales taxes.
Lottery Proceeds	\$3,034.3	Approximately 60% of net lottery proceeds from the sale of Texas Lottery games is transferred to the FSP.
Economic Stabilization Fund (ESF)	\$636.0	Appropriation from the ESF for FSP costs attributable to Hurricane Harvey.
TREE Fund	\$550.0	HB 3 established a new fund in the state treasury dedicated for the purpose of reducing school district (M&O) tax rates, and to pay the cost of tier one allotments.
Total Appropriated State FSP	\$51,872.0	The FSP is a sum-certain appropriation and the mix of component revenue streams may fluctuate.

A balancing act:

State Share vs. Local Share



Total Statewide FSP Entitlement in FY2020



Nearly **5.1 million students** in average daily attendance and that number is projected to continue to grow each and every year.



\$48.6 billion (state & local) for FSP **M&O**

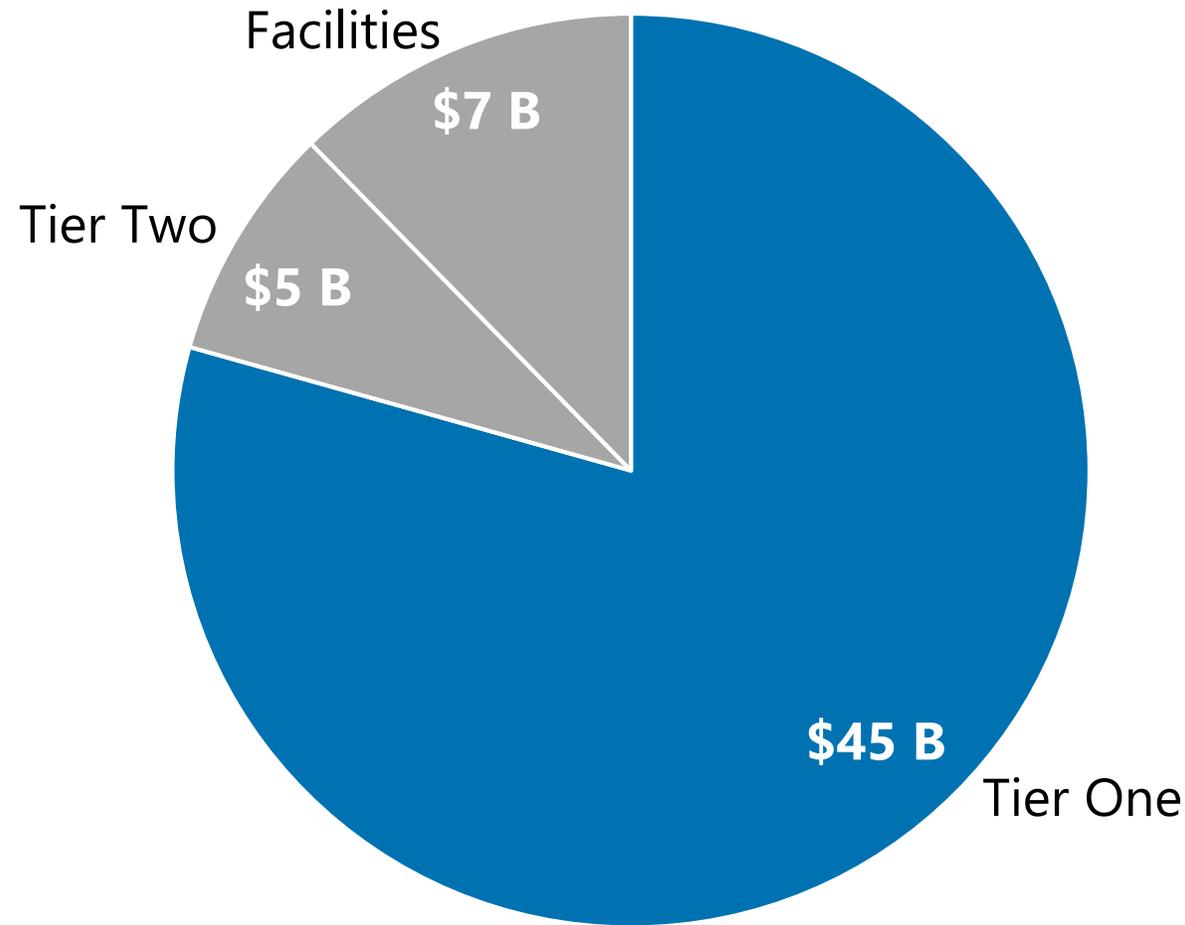
M&O = maintenance & operations -> salaries, utilities, etc.



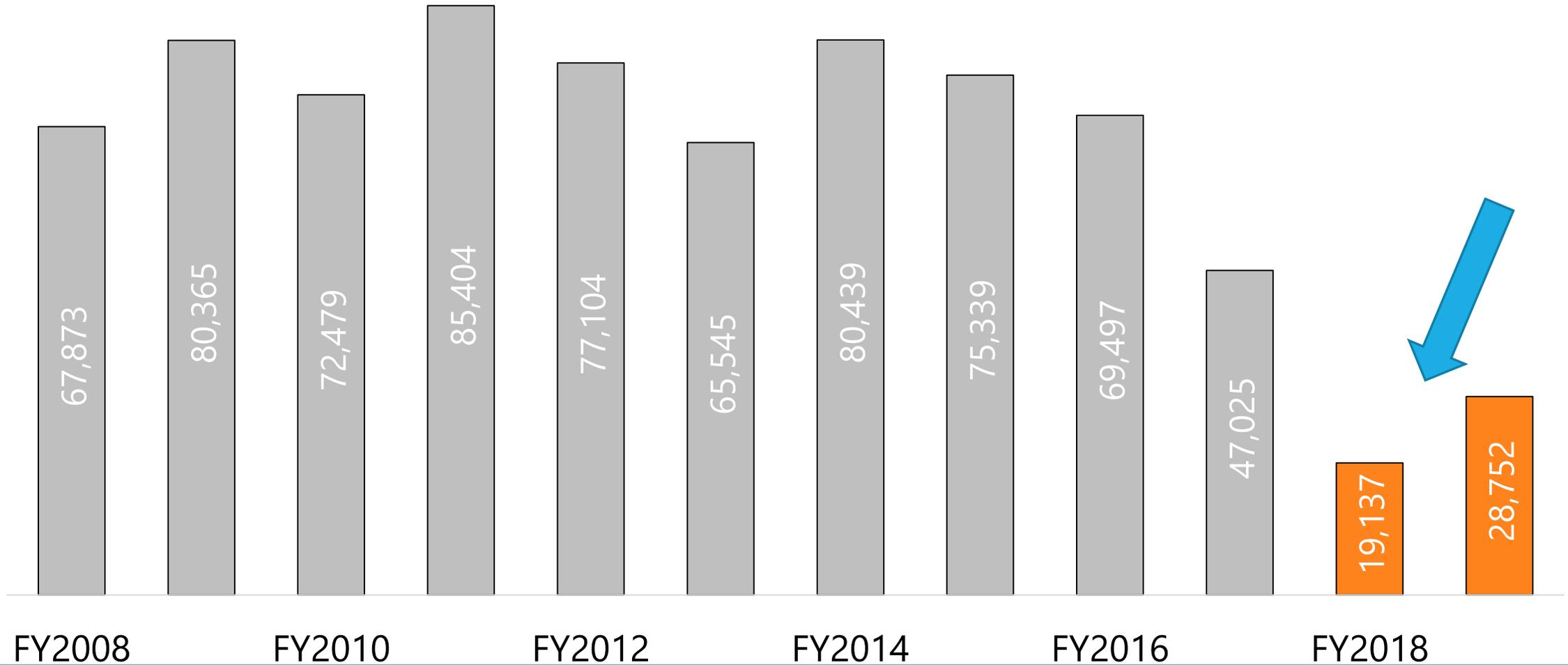
\$7.77 billion (state & local) for FSP **I&S**

I&S = interest & sinking -> debt service payments on voter approved bonds

Tier one makes up the vast majority (79%) of the Foundation School Program.



The rate of student enrollment growth during the previous biennium **slowed by 67%** when compared to the prior decade.



The M&O tax rate is allocated into three portions of the FSP formulas.

Tier One

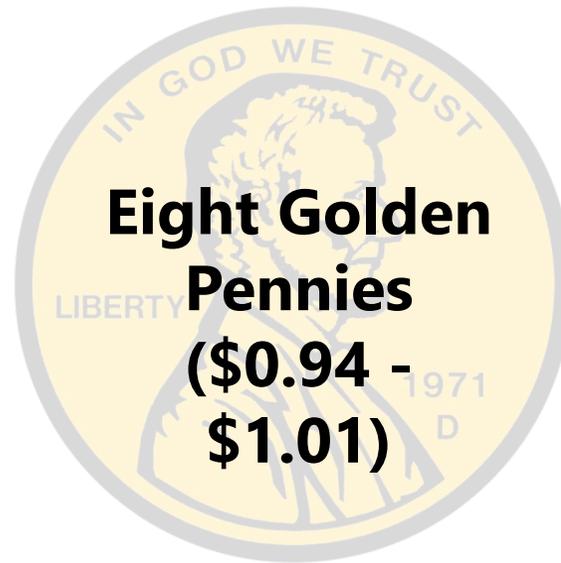


Excess Local Revenue Above Entitlement

LEVEL 1

Tier Two

LEVEL 1



No Excess Local Revenue

Tier Two

LEVEL 2



Excess Local Revenue Above Entitlement

LEVEL 2

*In FY2020, the maximum M&O tax rate is \$1.06835

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 (\$6,160 in FY2020 and FY2021).
- School district tax rate (generally, \$0.93 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 \$0.93.
- 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 \$0.94 and \$1.10* per \$100 of local school district property value).

Tier One Entitlement

TEXAS PUBLIC SCHOOL FINANCE OVERVIEW

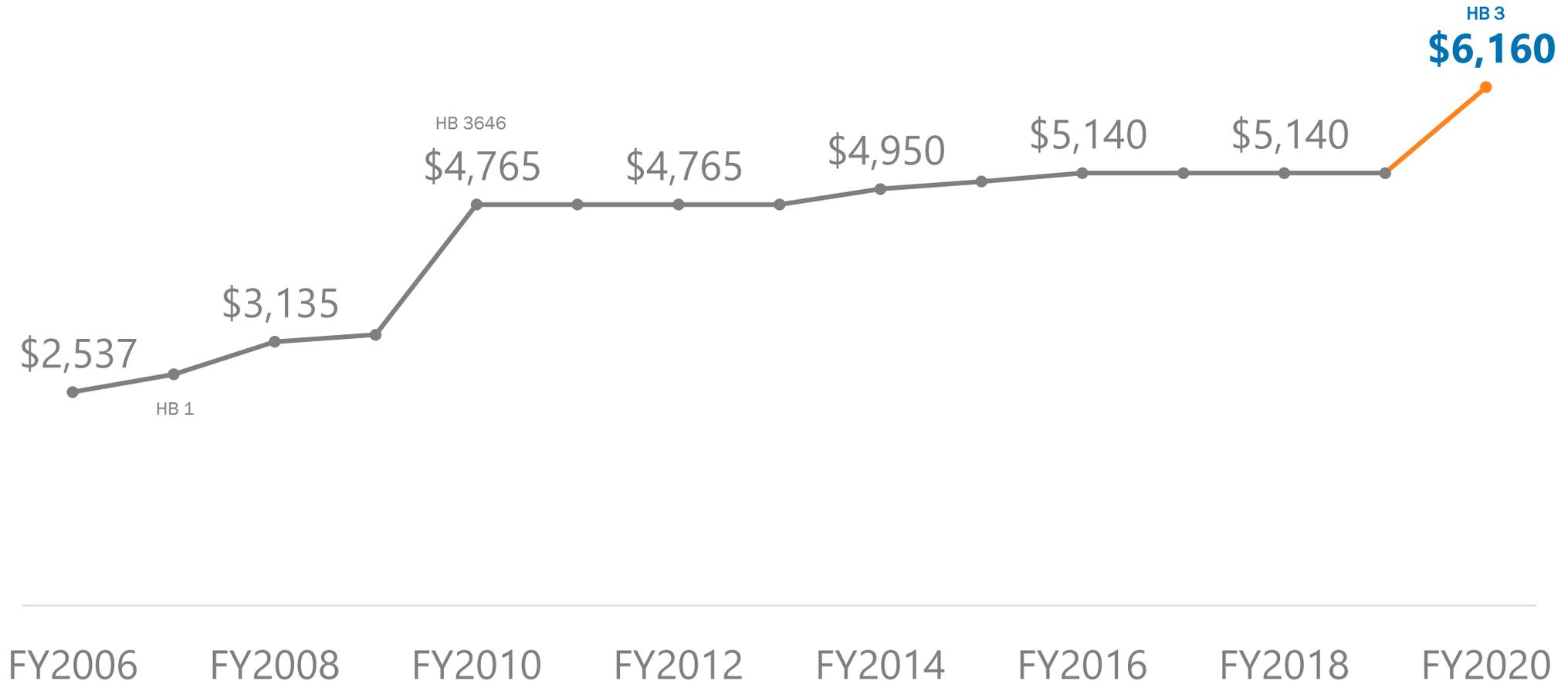
How is Tier One funding determined?

The Basic Allotment (BA) is \$6,160 per student for the 2020–2021 biennium and is set in Chapter 48 of the Texas Education Code, and it can be increased through the General Appropriations Act (GAA).

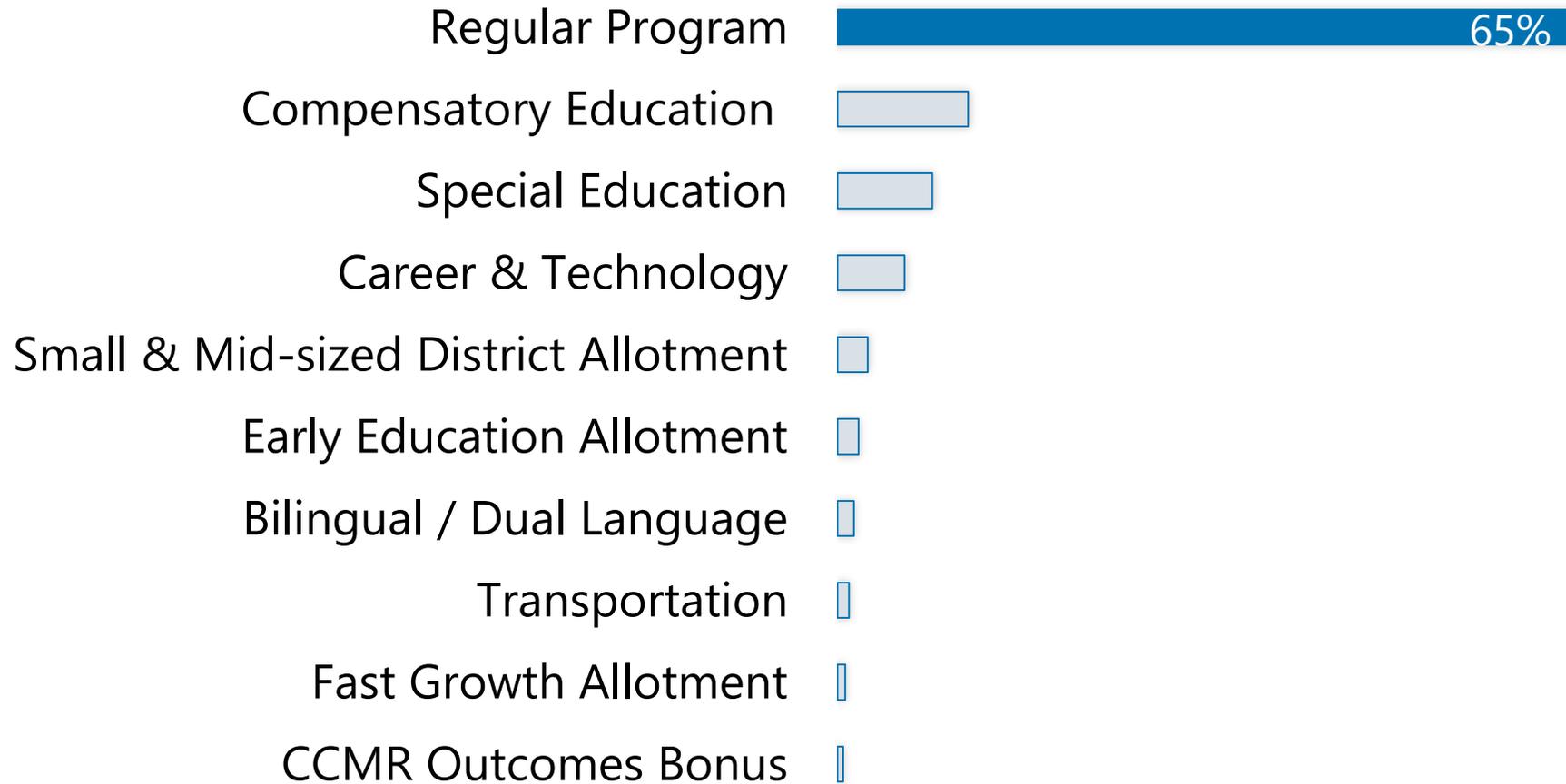
The BA is then used in a series of formulas that apply specific weights and adjustments based on student and district characteristics.

These formulas are known as Tier One.

HB 3 **increased** the basic allotment by **20%** in FY2020.



The regular program allotment is twice as large as the other tier one allotments combined.



Tier One – Subchapters B & C

SUBCHAPTERS B & C (IN WADA FOR TIER TWO PURPOSES)

- Basic Allotment - \$6,160 per student in average daily attendance.
- Small & Mid-Sized District Allotment
- Special Education – various weights
- Allotment for Dyslexia (or related disorder) – 0.10 weight
- Compensatory Education Allotment – 0.225 – 0.275 spectrum of weights
- Bilingual Education Allotment (includes Dual Language) – 0.10 / 0.15 / 0.05 weights
- School Safety Allotment - \$9.72 per student in average daily attendance

Tier One – Subchapters B & C

SUBCHAPTERS B & C (IN WADA FOR TIER TWO PURPOSES)

- Career & Technology Education Allotment – 1.35 weight & \$50
- Public Education Grant Allotment – 0.10 weight
- Early Education Allotment – 0.10 weight
- College, Career, or Military Readiness (CCMR) Outcomes Bonus - \$5,000 / \$3,000 / \$2,000 for educationally disadvantaged / non-educationally disadvantaged / SPED
- Fast Growth Allotment – 0.04 weight (excluding charters)
- Teacher Incentive Allotment - \$12,000 / \$6,000 / \$3,000 ranging to \$32,000 / \$18,000 / \$9,000 for master teachers / exemplary teachers / recognized teachers, respectively
- Mentor Program Allotment – Formula to be determined by the commissioner

Tier One – Subchapter D

SUBCHAPTER D (NOT IN WADA FOR TIER TWO PURPOSES)

- Transportation Allotment - \$1.00 per regular mile for eligible students
- New Instructional Facility Allotment - \$1,000 per ADA up to \$100 million statewide annually
- Dropout Recovery & Residential Placement Facility Allotment - \$275 per ADA
- Tuition Allotment – amount varies, limited by commissioner rule
- College Preparation Assessment Reimbursement
- Certification Examination Reimbursement

Small & mid-sized district allotment

The small and mid-sized district allotment provide for additional funding for some school districts.

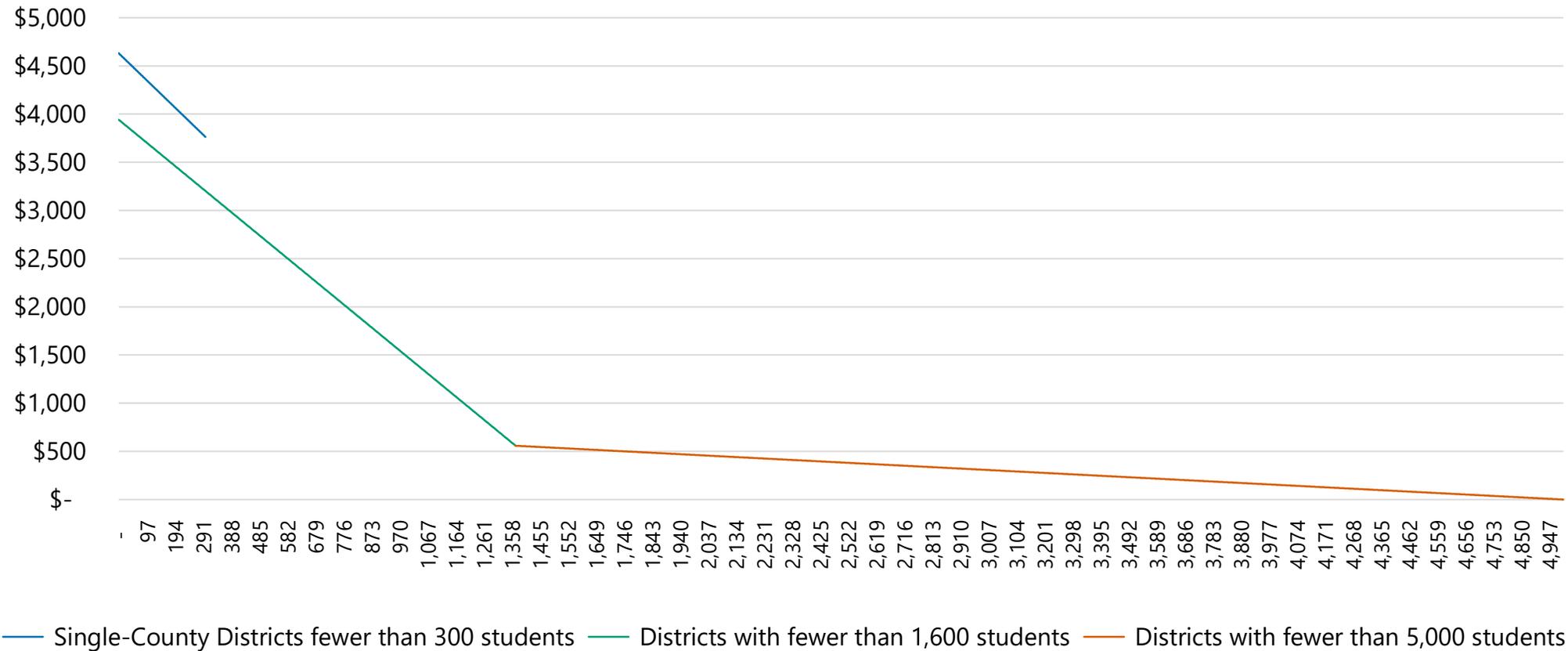
The small district allotment (SDA) applies to districts with fewer than 1,600 students and provides the formula that results in the highest level of funding:

- **Districts with fewer than 1,600 students = $((1,600 - ADA) \times 0.0004) \times \text{Basic Allotment}$**
- **Single county districts with fewer than 300 students = $((1,600 - ADA) \times 0.00047) \times \text{Basic Allotment}$**

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

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

The per-student funding generated by the SDA and MDA formulas decreases as average daily attendance increases



Small & mid-sized district adjustment as used for special education allotment

The (incremental) small and mid-sized district allotment per ADA that is used to calculate the district's small/mid-sized stand-alone allotment is added to the amount of the district's basic allotment for use in calculating the total special education allotment.

Although all charter schools (regardless of enrollment) receive an adjusted average of the small and mid-sized district allotment per ADA, their special education allotment is funded using the basic allotment.

Tier One: Calculation of State Share and Excess Local Revenue

CHAPTER 48 DISTRICT RECEIVING STATE AID

Tier One Total Cost	\$12,500,000
Current Tax Year District Property Value	\$650,000,000
Local Share at \$0.93 M&O tax rate	\$6,045,000
State Share of Tier One	\$6,455,000

CHAPTER 48 DISTRICT WITH LOCAL REVENUE IN EXCESS OF ENTITLEMENT

Tier One Total Cost	\$12,500,000
Current Tax Year District Property Value	\$1,350,000,000
Local Share at \$0.93 M&O tax rate	\$12,555,000
Excess Local Revenue	(\$55,000)

Tier Two Entitlement

TEXAS PUBLIC SCHOOL FINANCE OVERVIEW

Tier Two Overview

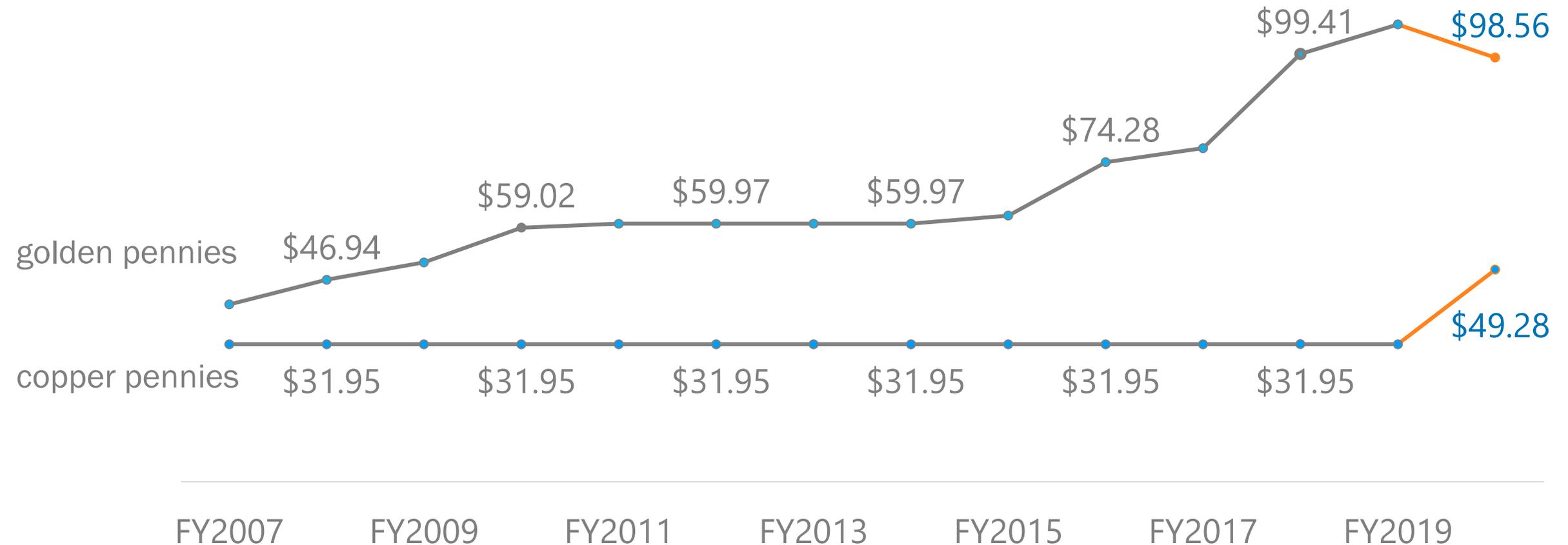
A district's Tier Two allotment provides for enrichment funding which is intended to supplement the basic funding provided by Tier One funds.

To receive Tier One funding, school districts generally must tax at \$0.93 per each \$100 of local district property value. However, districts have local discretion to set a tax rate that is \$0.17 above \$0.93.

Tier Two focuses on taxpayer equity by ensuring that school districts receive a guaranteed amount of funding for each penny of tax effort up to \$0.17 above their Tier One Tax Rate for each student in their weighted average daily attendance (WADA).

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

HB 3 linked the tier two guaranteed yields to the basic allotment beginning in FY2020.



The number of golden pennies have expanded over time from four to six to eight.

The difference between ADA and WADA

AVERAGE DAILY ATTENDANCE (ADA)

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

There are 5.1 million ADA in Texas but there are 7.1 million WADA.

There will always be less ADA than WADA.

Used to calculate Tier One allotments.

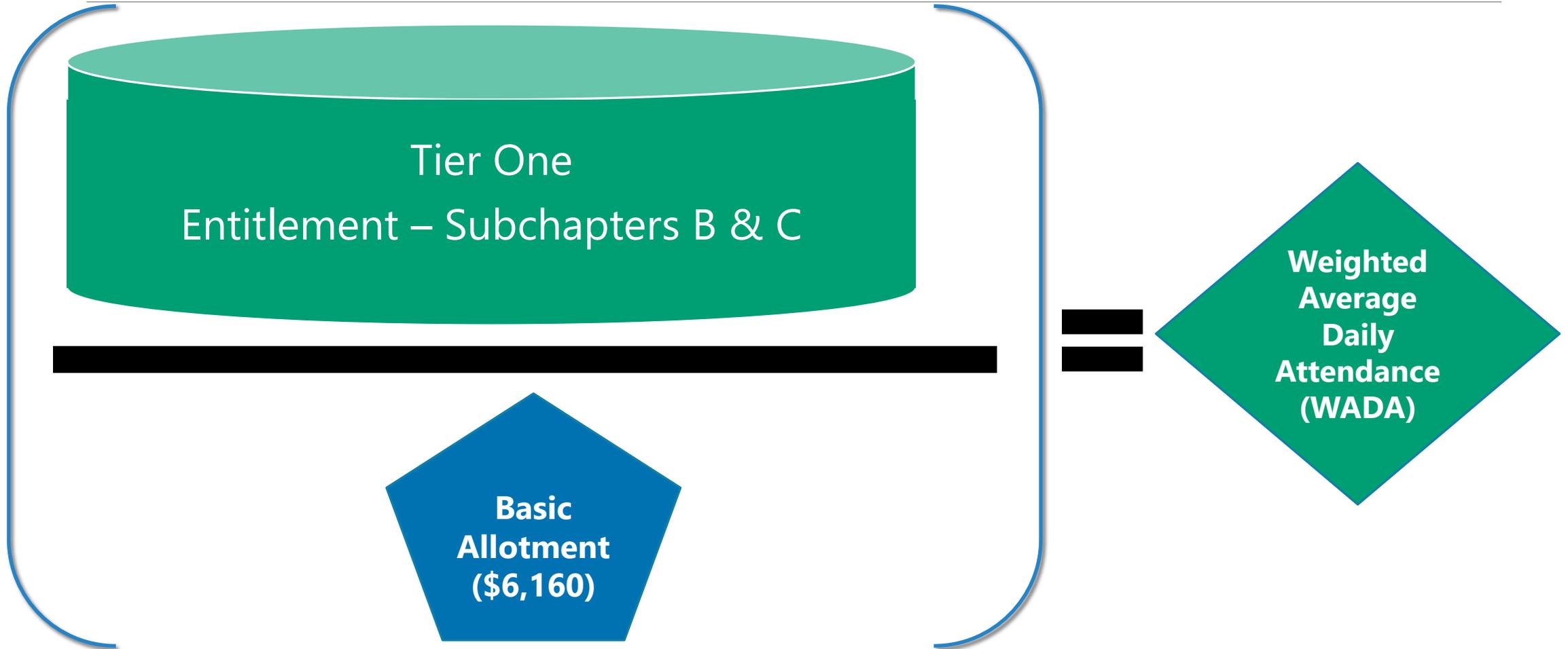
WEIGHTED AVERAGE DAILY ATTENDANCE (WADA)

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

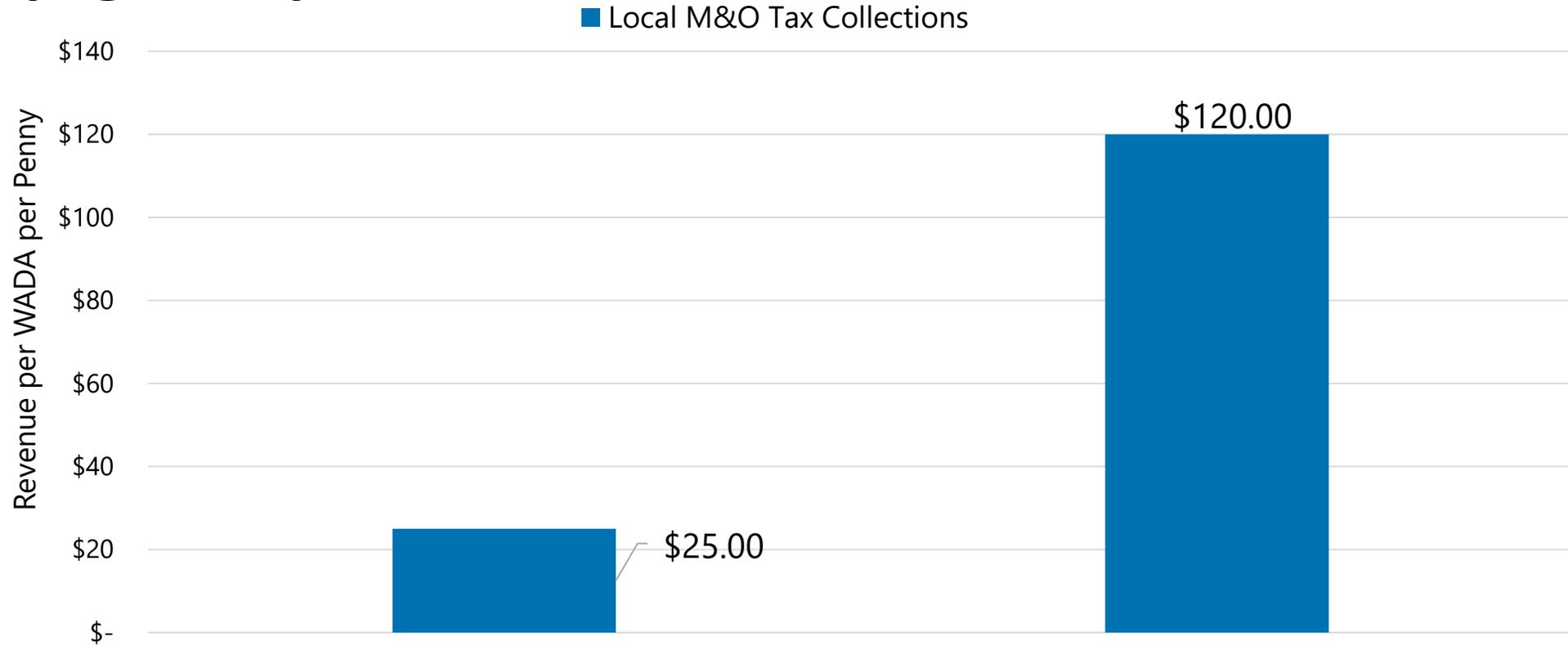
Generally districts with large populations of students with special characteristics (i.e. compensatory education students) will have more WADA.

Used to calculate Tier Two allotments.

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



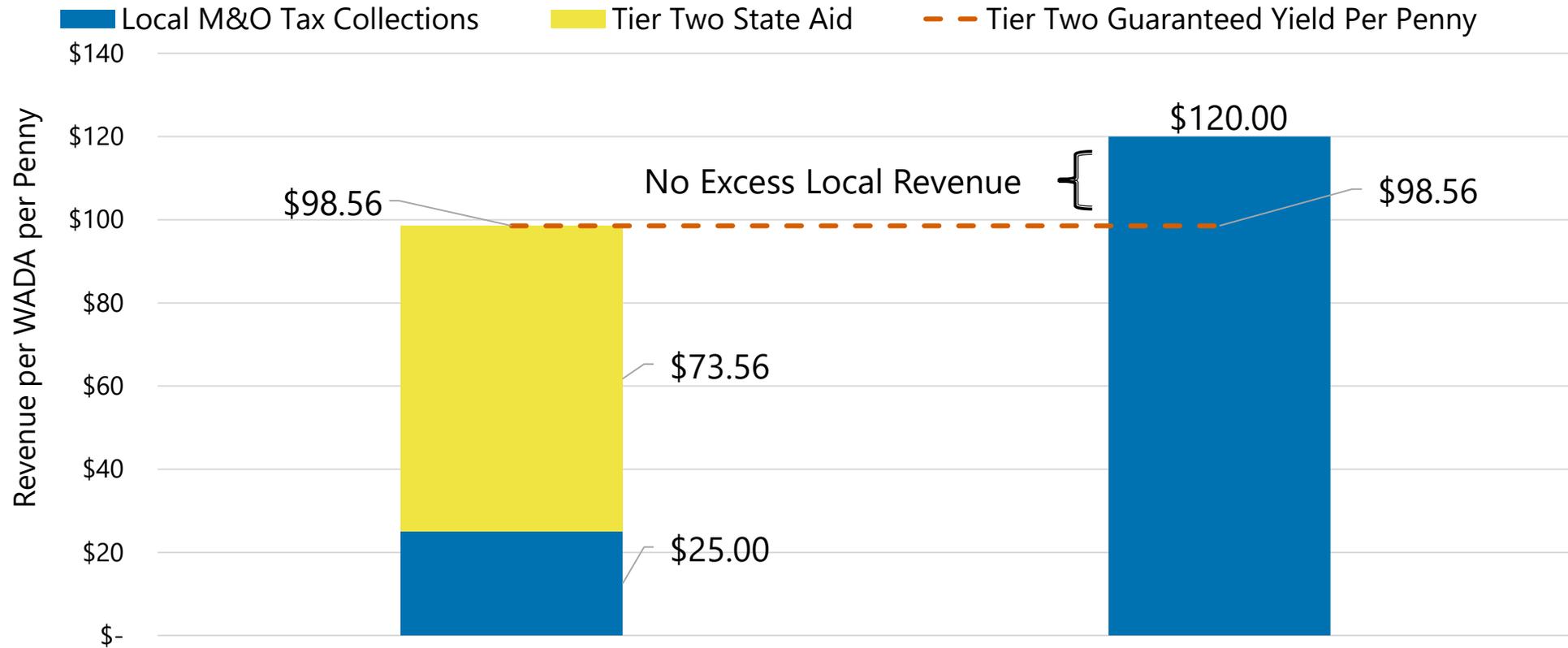
Revenue generated by a penny of tax effort can vary greatly between districts



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.

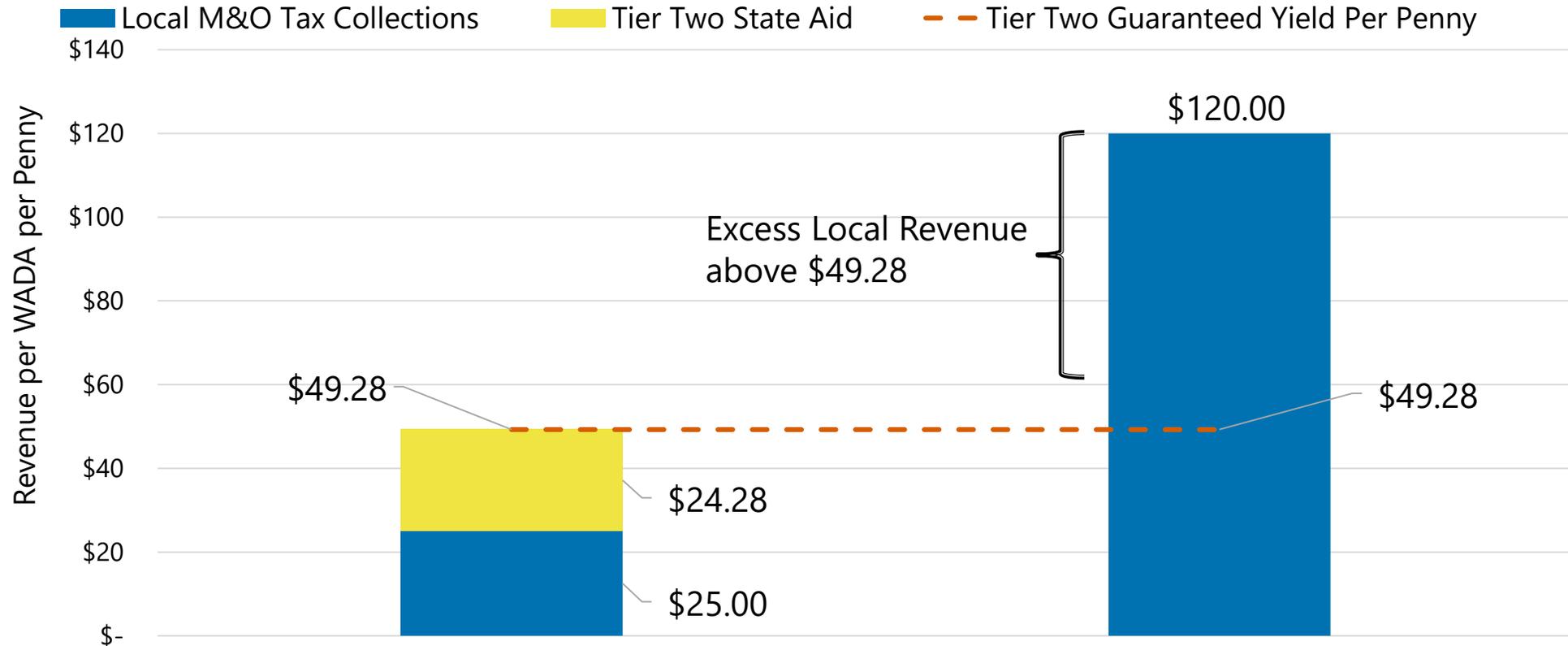
Districts are equalized up to 160% of the Basic Allotment for the golden pennies



Golden Pennies equalized up to \$98.56 per penny of tax effort per WADA.

No excess local revenue from districts that have revenue greater than 160% of the Basic Allotment.

Districts are equalized up to 80% of the Basic Allotment for the copper pennies



Copper Pennies equalized up to \$49.28 per penny of tax effort per WADA.

No excess local revenue from districts that have revenue greater than 80% of the Basic Allotment.

Tier Two example of a district with an M&O tax rate of \$1.09 and a local yield of \$75

TIER TWO, LEVEL 1 (GOLDEN PENNIES)

TIER TWO, LEVEL 1 (GOLDEN PENNIES)	
WADA	1,000
Number of Golden Pennies	8
Guaranteed Yield	\$98.56
Tier Two, Level 1 Entitlement	\$788,480
(Line 1 x Line 2 x Line 3)	
Local Share	\$600,000
(Line 1 x Line 2 x \$75)	
Tier Two, Level 1 State Share	\$188,480
(Line 4 – Line 5, floor of \$0)	

TIER TWO, LEVEL 2 (COPPER PENNIES)

TIER TWO, LEVEL 2 (COPPER PENNIES)	
WADA	1,000
Number of Copper Pennies	8
Guaranteed Yield	\$49.28
Tier Two, Level 2 Entitlement	\$394,240
(Line 1 x Line 2 x Line 3)	
Local Share	\$600,000
(Line 1 x Line 2 x \$75)	
Tier Two, Level 1 State Share	(\$205,760)
(Line 4 – Line 5, floor of \$0)	Excess revenue

Local Revenue Levels in Excess of Entitlement

TEXAS PUBLIC SCHOOL FINANCE OVERVIEW

What are local revenue levels in excess of entitlement?

Chapter 48 of the Texas Education Code (TEC) 48.257 ensures that no district retains local revenues that exceed their Tier One entitlement.

In addition, TEC 48.257 ensure that no district retains local revenues that exceed their Tier Two copper penny entitlement under TEC 48.202(a-1)(2).

Districts subject to this provision must choose a method to reduce their local revenue level below their entitlement level.

Excess Local Revenue Levels for each Tier

Tier One

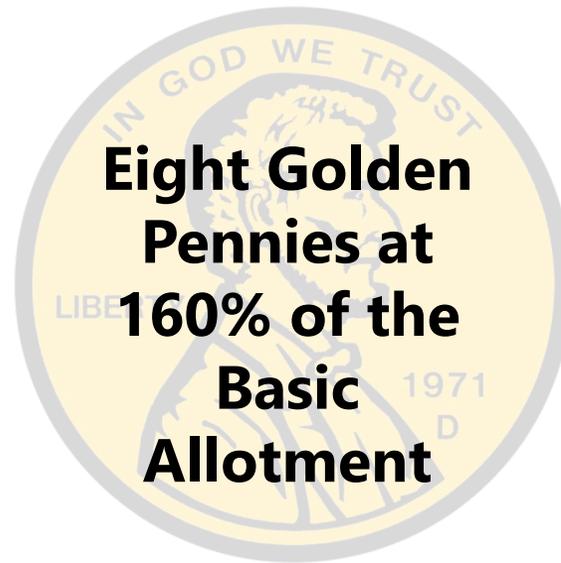


Excess Local Revenue Above Entitlement

LEVEL 1

Tier Two

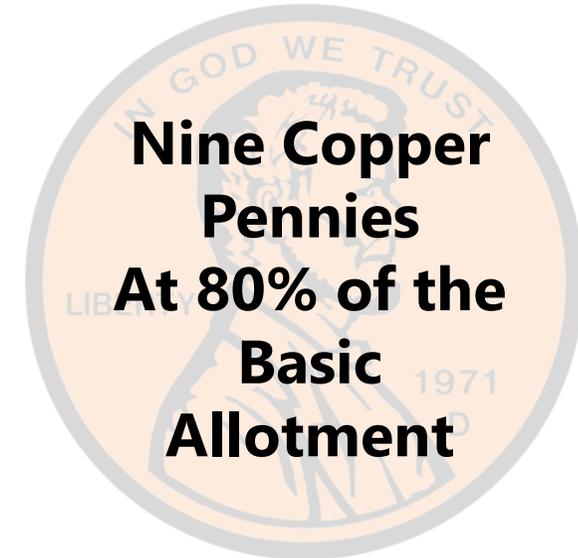
LEVEL 1



No Excess Local Revenue

Tier Two

LEVEL 2



Excess Local Revenue Above Entitlement

LEVEL 2

How does a district reduce excess local revenue levels?

A district has five options available to reduce excess revenue levels:

- Consolidation by agreement [with another district] (TEC, §49.051)
- Detachment and annexation by agreement (TEC, §49.101)
- **Purchase of attendance credit (TEC, §49.151) ← This is 100% of current agreements.**
- Education of nonresident students [from a partner district] (TEC, §49.201)
- Tax base consolidation [with another district] (TEC, §49.251)

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

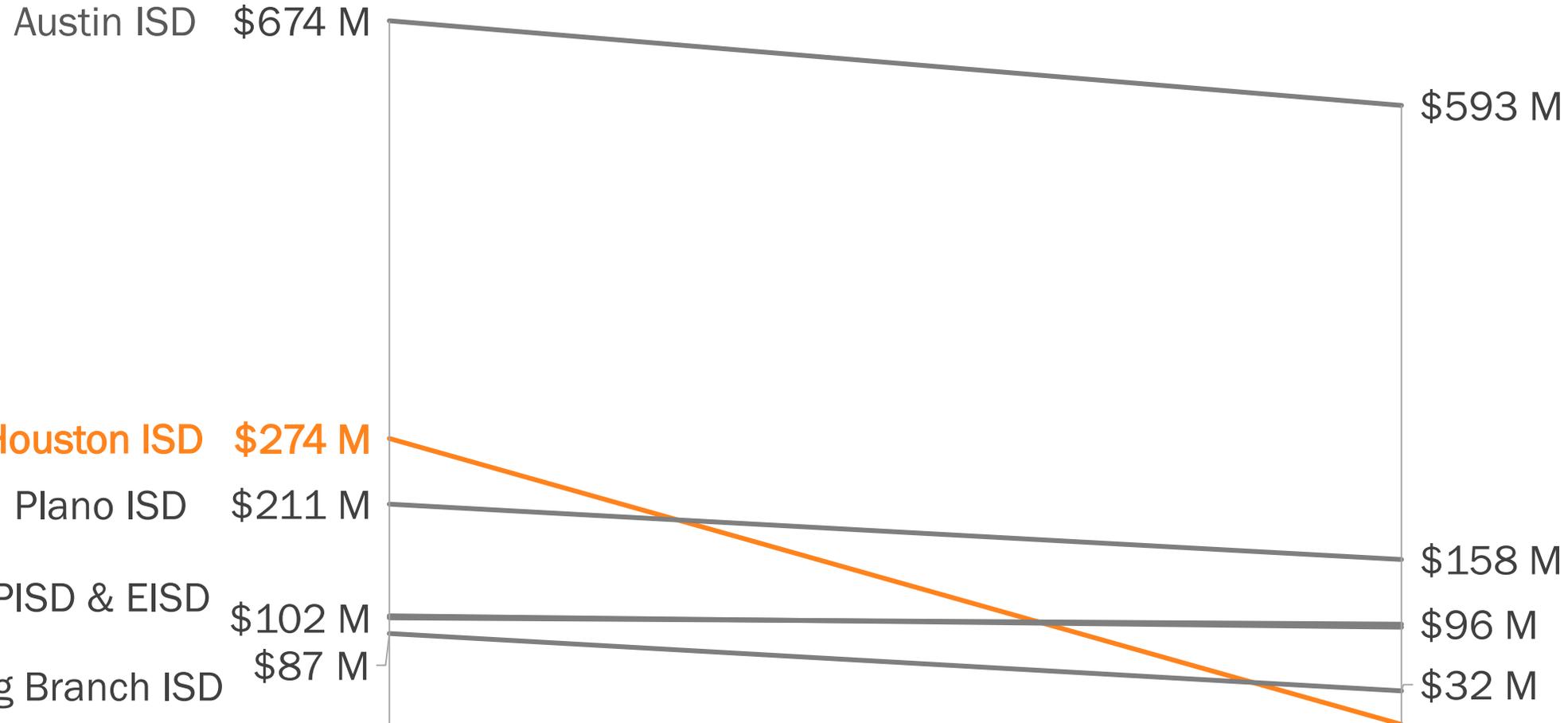
How does the state use excess local revenues?

The most commonly chosen method of reducing excess local revenue levels is Option 3 (paying directly to the state).

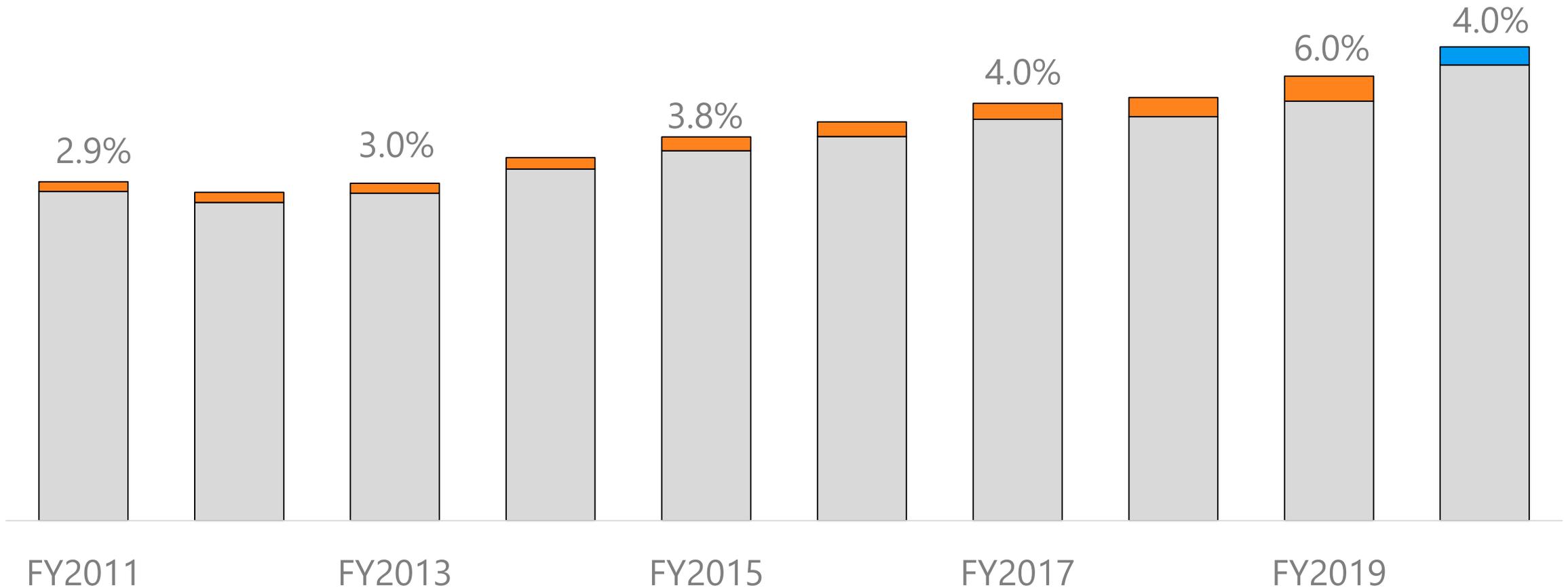
Payments are made in seven equal installments from February through August of every fiscal year, although HB3 (86th Legislature) allows for a new provision for one August payment.

Funds received by the state, which will total \$4.1 billion in the 2020–2021 Biennium, are appropriated in the General Appropriations Act as a method of finance to help pay for the Foundation School Program (FSP).

Year over year, HB 3 reduced recapture by **33%** for the top six districts with excess local revenue.



HB 3 reversed the trend of increasing recapture as a method of financing the FSP system.



Charter School Funding

TEXAS PUBLIC SCHOOL FINANCE OVERVIEW

Charter School Funding Overview

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

Charters schools are also funded using 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 qualified for facilities funding beginning in FY2019.

Charter School Funding – Tier One

Charter schools are funded at the state average basic allotment (\$6,160 for most school districts unless they tax below \$0.93 in FY2020).

All charter schools, regardless of the number of students, receive a stand-alone small & mid-sized district allotment based on an adjusted weighted average of the amounts provided to school districts under TEC, 48.101(b) or (c).

For FY2020 this amount is estimated at **\$1,058** per student in average daily attendance and is subject to change.

Charter School Funding – Tier Two

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

Instead, charter schools' Tier Two allotments are calculated using the state average M&O tax rates for the golden and copper pennies (\$0.0593 and \$0.0265, respectively in FY2020).

The result of this formula is that charter schools benefit as more districts hold elections to increase their M&O tax rates.

Charter Facilities Funding

Eligible charter schools will 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 \$196 per student in average daily attendance (ADA), and is subject to change.

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.

2018 I&S Adopted Tax Rates

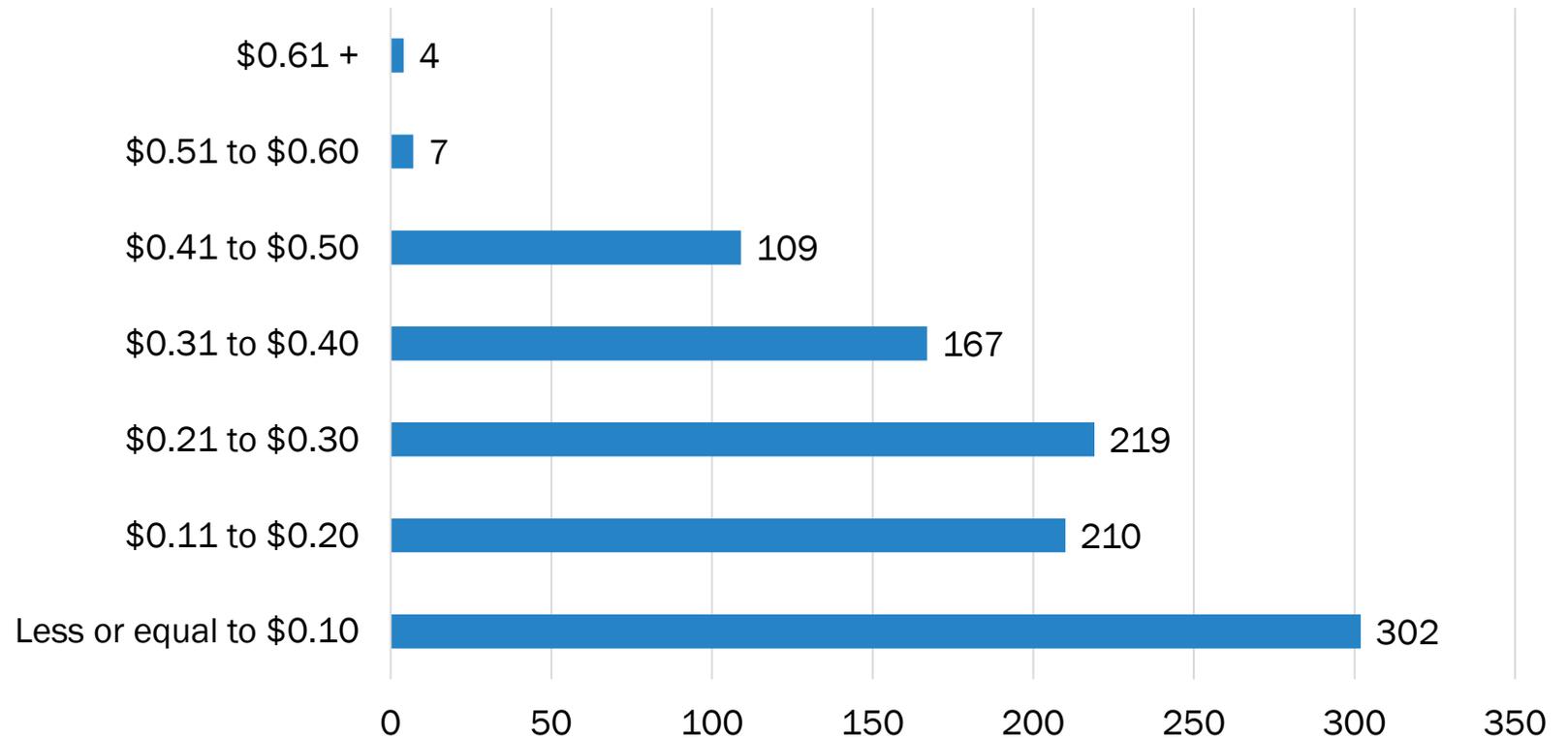
I&S tax rates range from **\$0.00 to \$0.87 cents**

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.

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 2019–2020 school year is estimated at \$38.10.

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

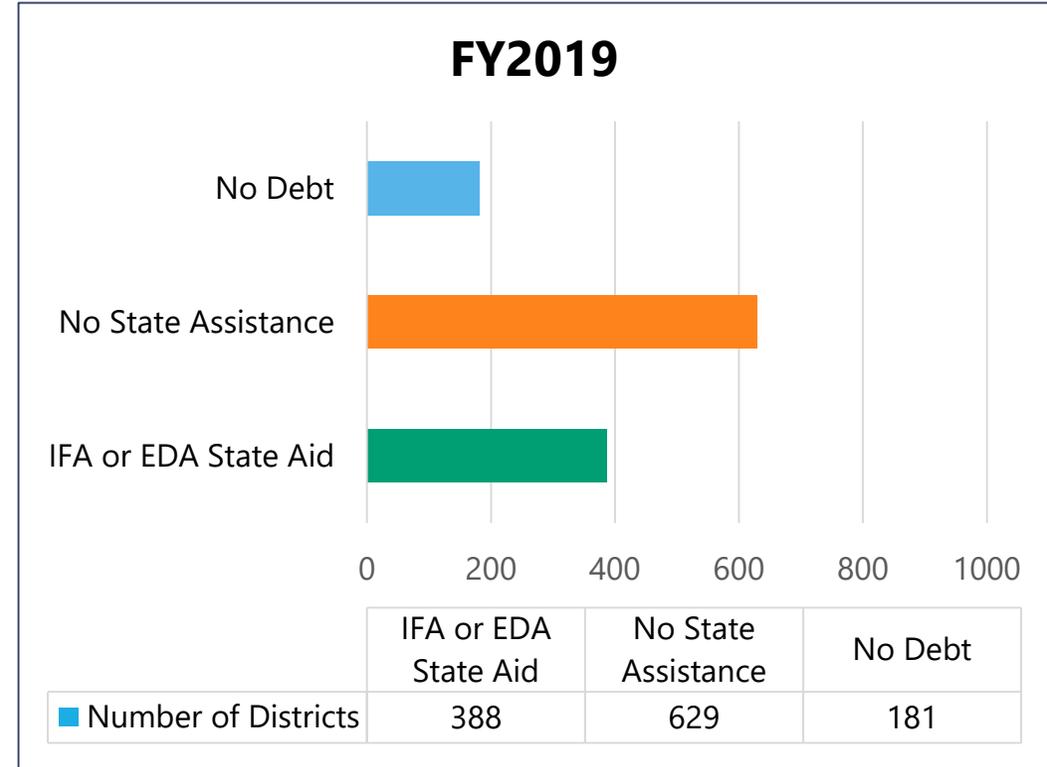
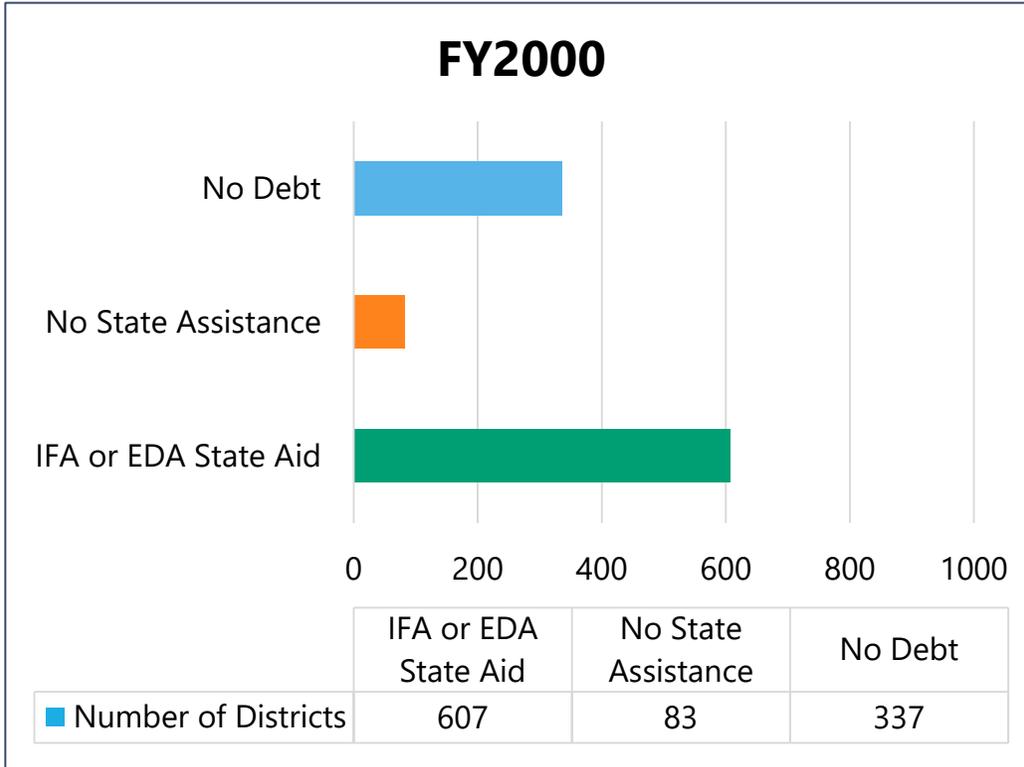
Funding formulas for facilities are similar to Tier Two because they work on a **guaranteed yield per penny of tax effort per student**. However, facilities funding formulas use ADA instead of the WADA used in Tier Two.

IFA has a guaranteed yield of \$35 per student in ADA per penny of tax effort, while EDA has a floating guaranteed yield, and will be \$38.10 in 2019–2020, 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 FY2019, **388, OR 38%** OF SCHOOL DISTRICTS RECEIVED EITHER IFA OR EDA.



Transition Grants

HOUSE BILL 3

(86TH LEGISLATURE)

Formula Transition Grant

HB 3 created a five-year formula transition grant program to provide transitional aid for districts experiencing a loss of M&O revenue relative to prior law.

HB 3 also created a two-year formula transition grant program that guaranteed no districts (except for those discussed in the following slide) would lose revenue relative to prior law.

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

Grant amounts will adjust automatically as updated data is received.

Equalized Wealth Transition Grant

HB 3 created a five-year equalized wealth transition grant program to provide transitional aid for districts experiencing a loss of the 1992-93 Chapter 41 hold harmless calculation.

The amounts of the grants are based on the amount of the benefit these districts received in FY2019 and are stair-stepped down in 20 percent increments over five years.

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

Contact information

Leo Lopez, RTSBA

Associate Commissioner for School Finance and
Chief School Finance Officer

Texas Education Agency

leo.lopez@tea.texas.gov

(512) 463-9179

Appendix: Historical Adjustments and Allotments, and Statistics

TEXAS PUBLIC SCHOOL FINANCE OVERVIEW

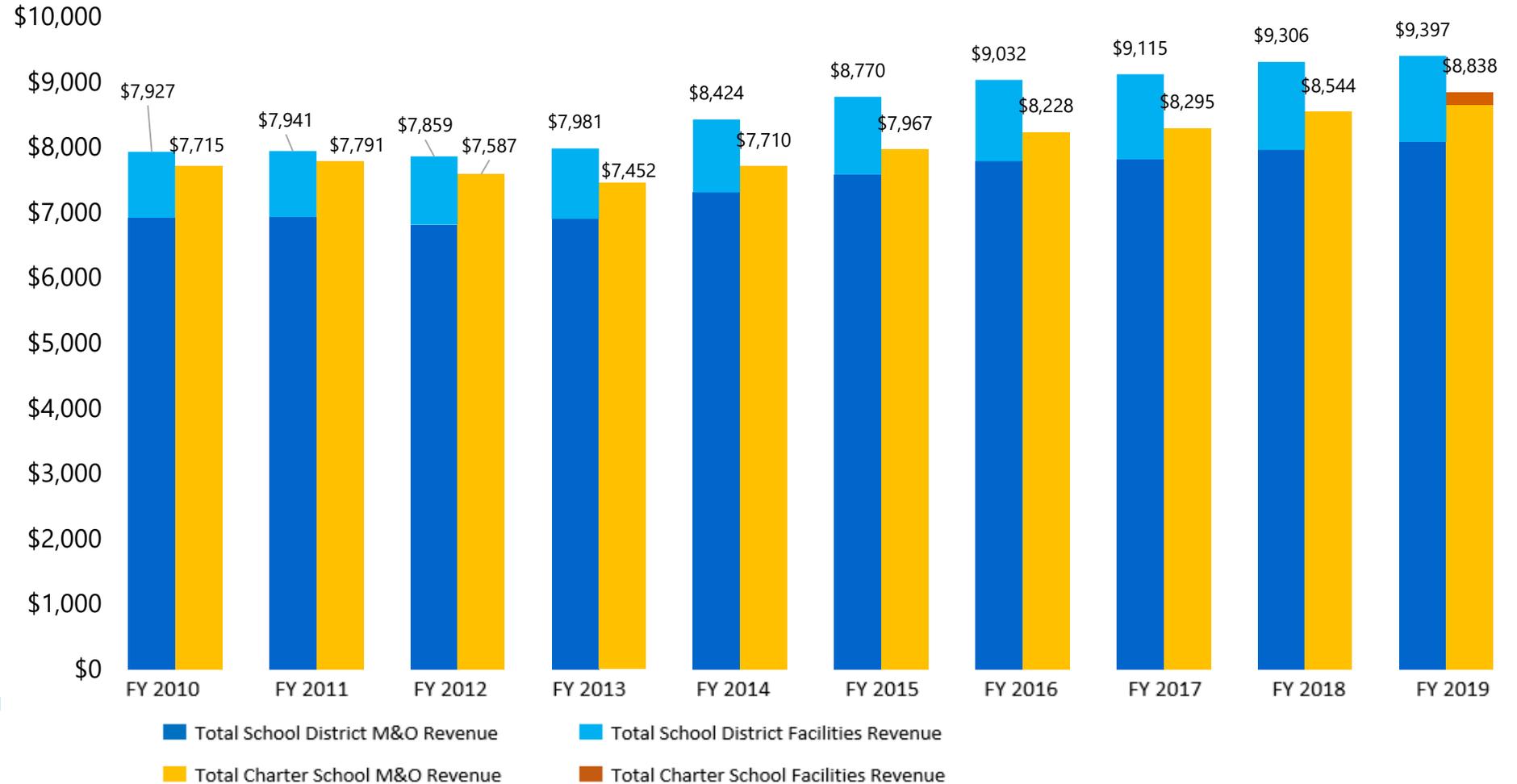
Adjustments and allotments reallocated into the basic allotment

Item	Created	Repealed	Notes
Early Agreement Credit	1995	2019	Provided discount on recapture
Cost of Education Index (CEI)	1991	2019	Adjusted for regional cost differences
Gifted & Talented Allotment	1984	2019	Weighted funding reallocated but program requirements unchanged
High School Allotment	2006	2019	Provided \$275 per High School ADA
Staff Allotment	2006	2019	Provided \$500/\$250 for non MSS staff
1992-93 Ch41 Hold Harmless	1993	2019	Replaced with 5-year transition grant

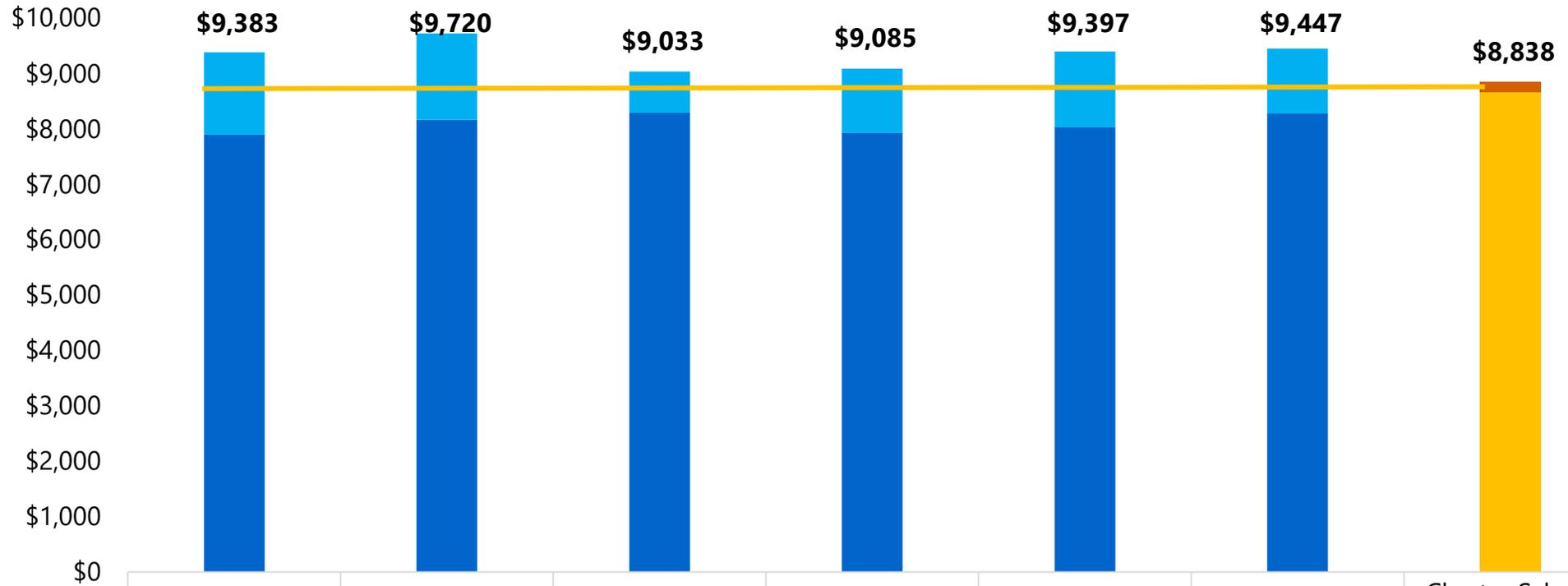
FSP Trends: M&O and Facilities revenue per enrolled student for districts and charters

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

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

The state has contributed nearly \$12.8 billion to public school facilities funding since the inception of IFA and EDA.

