



# Texas Public School Finance Overview 2020–2021 Biennium

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TEXAS EDUCATION AGENCY

FEBRUARY 2021

# Agenda

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Foundation School Program

Tax Compression under HB 3

Tier One and Tier Two Entitlements

Local Revenue Level in Excess of Entitlement

Charter School Funding

Facilities Funding

Appendix

# Foundation School Program

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## TEXAS PUBLIC SCHOOL FINANCE OVERVIEW

# Foundation School Program (FSP)

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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**).

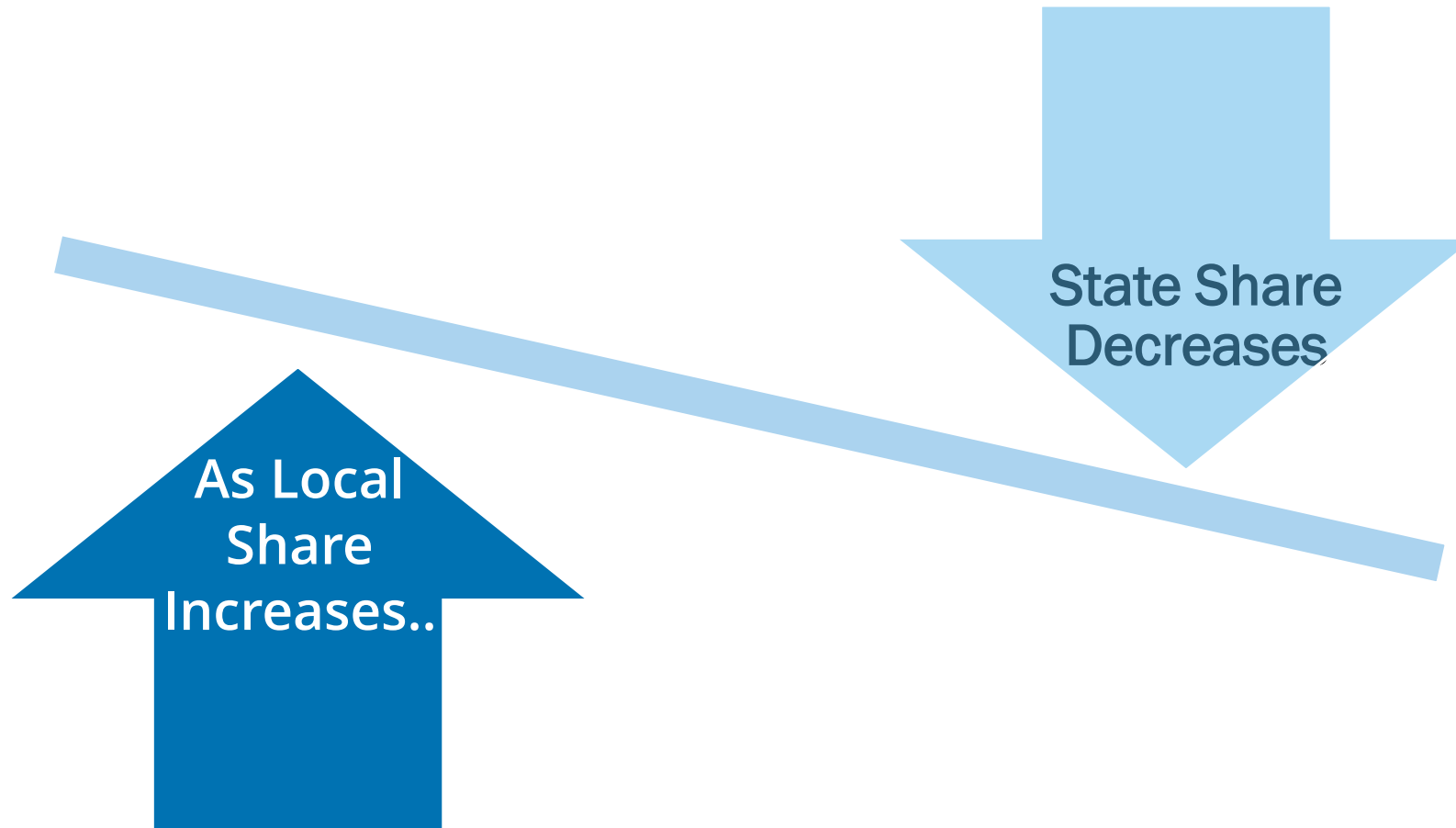
# State FSP Appropriation breakdown for the 2020–2021 Biennium (in millions)

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.
<b>Total Appropriated State FSP</b>	<b>\$51,872.0</b>	<b>The FSP is a sum-certain appropriation and the mix of component revenue streams may fluctuate.</b>

# A balancing act:

## State Share vs. Local Share

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# Total Statewide FSP Entitlement in FY2021

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



**\$50.1 billion** (state & local) for FSP **M&O**  
*M&O = maintenance & operations -> salaries, utilities, etc.*



**\$8.5 billion** (state & local) for FSP **I&S**  
*I&S = interest & sinking -> debt service payments on voter approved bonds*

# Maintenance and Operations Tiers

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## 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 (varies, but State MCR is \$0.9164 per \$100 of local school district property value).

## TIER TWO

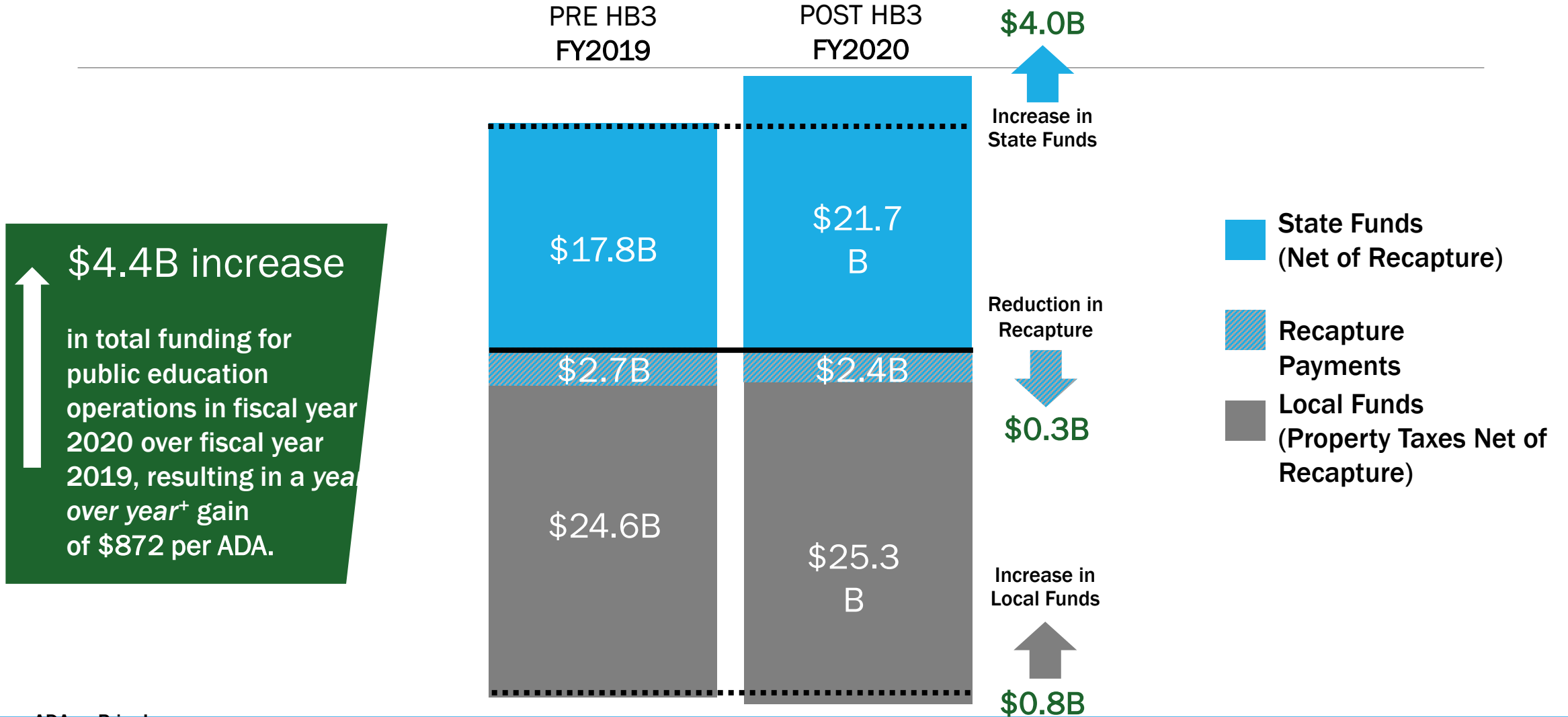
Refers to the district's "enrichment" entitlement.

### The calculation is based upon:

- Number of students in weighted average daily attendance (WADA).
- Number of pennies of tax effort above MCR.
- 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 MCR and \$1.0864\* per \$100 of local school district property value).



# HB 3 infused \$4.4 billion of net new revenue (year over year) into district budgets



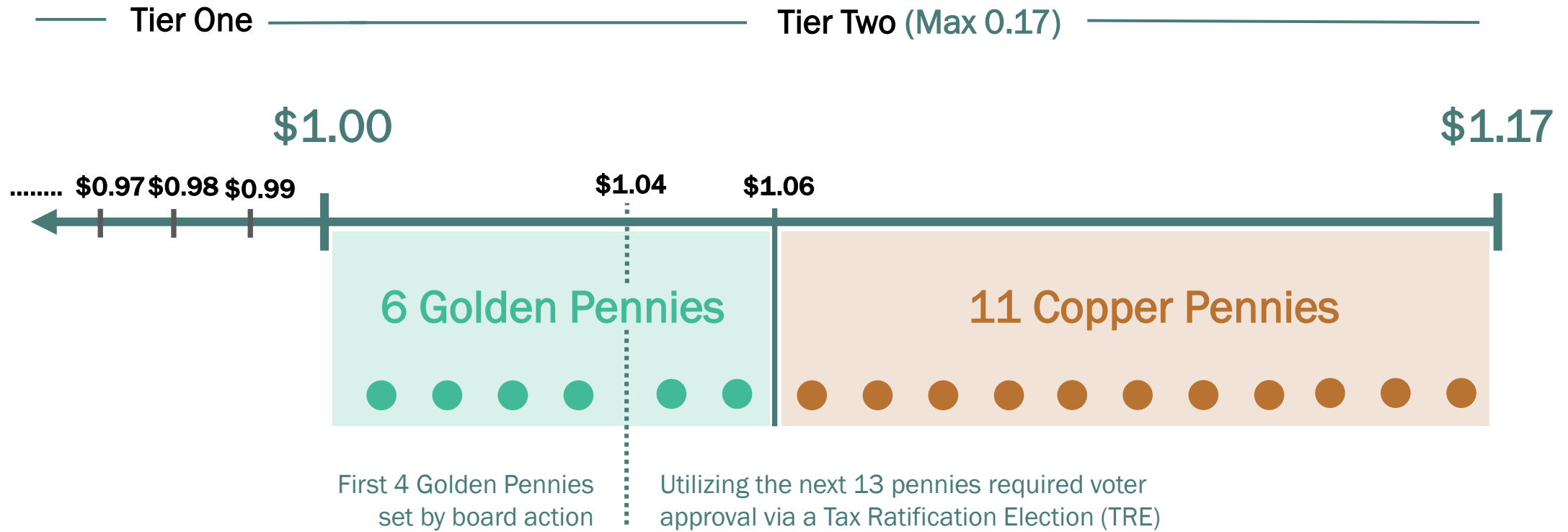
+ \$530 per ADA vs Prior Law

# Tax Compression under HB 3

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## TEXAS PUBLIC SCHOOL FINANCE OVERVIEW

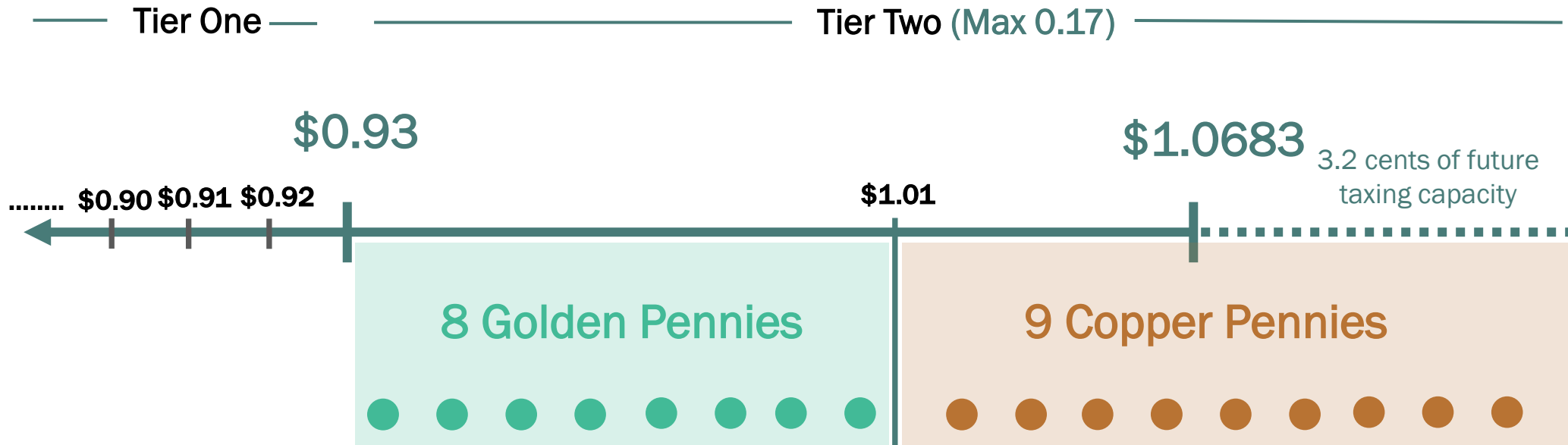
# Refresher: M&O Taxes before HB 3 under Prior Law



# HB 3 Year One: Max M&O Tax Rates Dropped From \$1.17 to \$1.0683

## HB 3 Year One (FY2020)

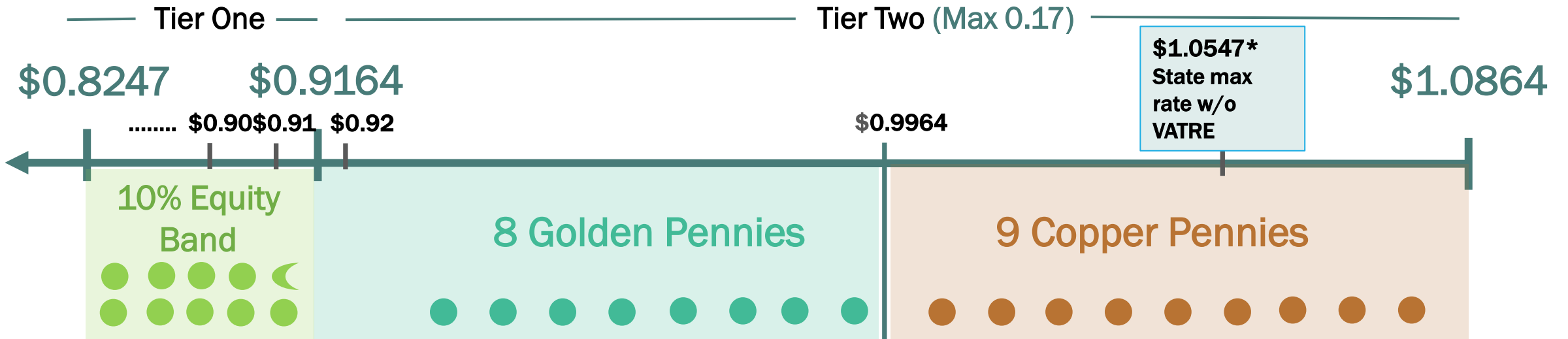
1. Tier One max rate reduced by 7%
2. First two Copper Pennies become Golden Pennies
3. Remaining Copper Pennies are cut in ~ half
4. Rates in most cases cannot be raised for year 1



# HB 3 Year Two: Max M&O Tax Rates Dropped to \$1.0864 (17 cents above state compression of \$0.9164)

## HB 3 Year Two (FY2021)

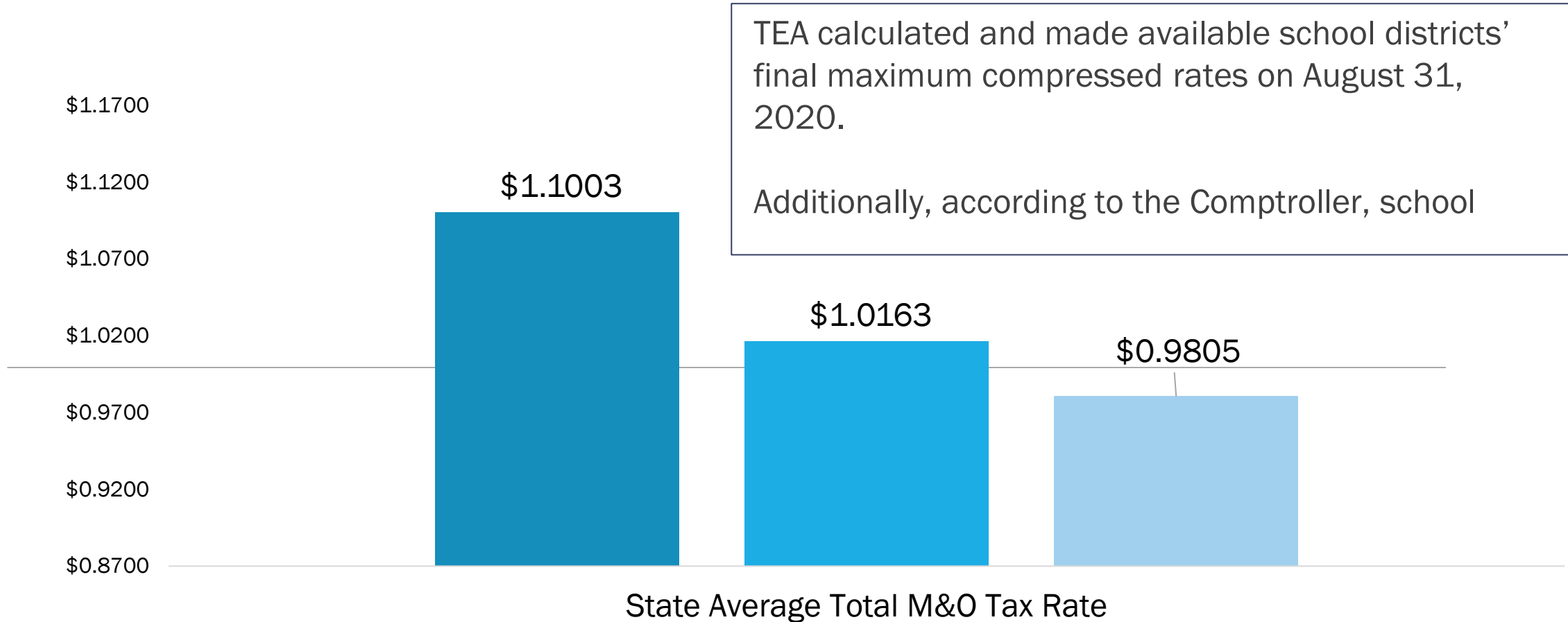
1. Tier One State Compression moved from \$0.93 to \$0.9164
2. Tier One minimum MCR established at \$0.8247
3. Each district now has their own maximum total rate.
4. All districts would need a Voter Approval Tax Rate Election (VATRE) in order to exceed [MCR + \$0.1383].
5. \*Tier One MCR of \$0.9164 + \$0.1383 = \$1.0547, which is the new state maximum M&O tax rate w/out VATRE).



# M&O tax rates continued to compress under HB 3 by an average of 3.6 cents in TY2020



■ 2018 Tax Year ■ 2019 Tax Year ■ 2020 Tax Year



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

## Tier One



**Compressed  
M&O Tax  
Rate  
(\$0.9164)**

**Excess Local Revenue  
Above Entitlement  
LEVEL 1**

## Tier Two

LEVEL 1



**Eight Golden  
Pennies\*  
(\$0.9164 -  
\$0.9964)**

**No Excess Local  
Revenue**

## Tier Two

LEVEL 2



**Nine Copper  
Pennies\*  
(\$0.9964 -  
\$1.0864)**

**Excess Local Revenue  
Above Entitlement  
LEVEL 2**

\*The specific tax rate where the golden and copper pennies begin will vary by district because each district can have different MCRs.

# Tier One Entitlement

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## TEXAS PUBLIC SCHOOL FINANCE OVERVIEW



# How is Tier One funding determined?

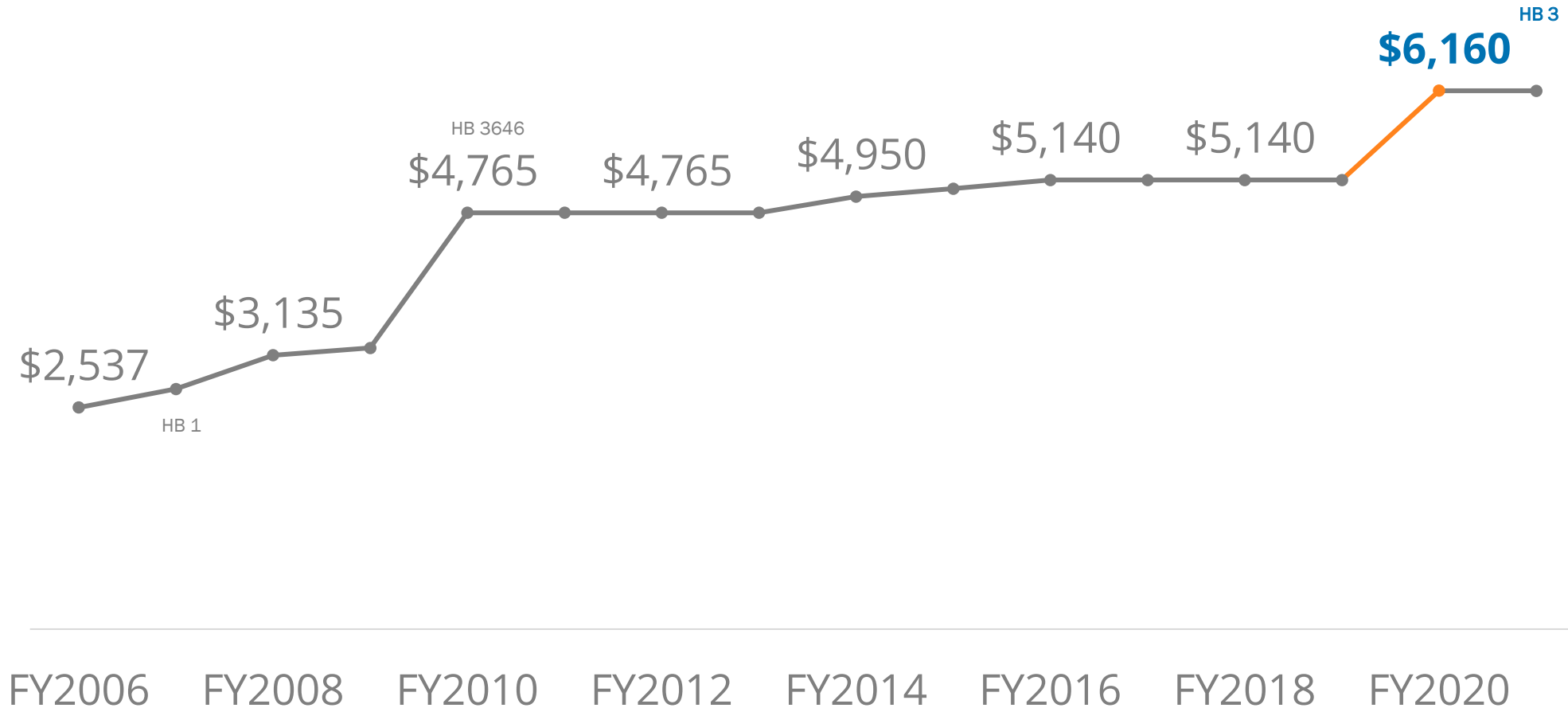
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The Basic Allotment (BA) is \$6,160 per student for the 2020–2021 biennium and is set in Chapter 48 of the Texas Education Code, and it can be increased through the General Appropriations Act (GAA).

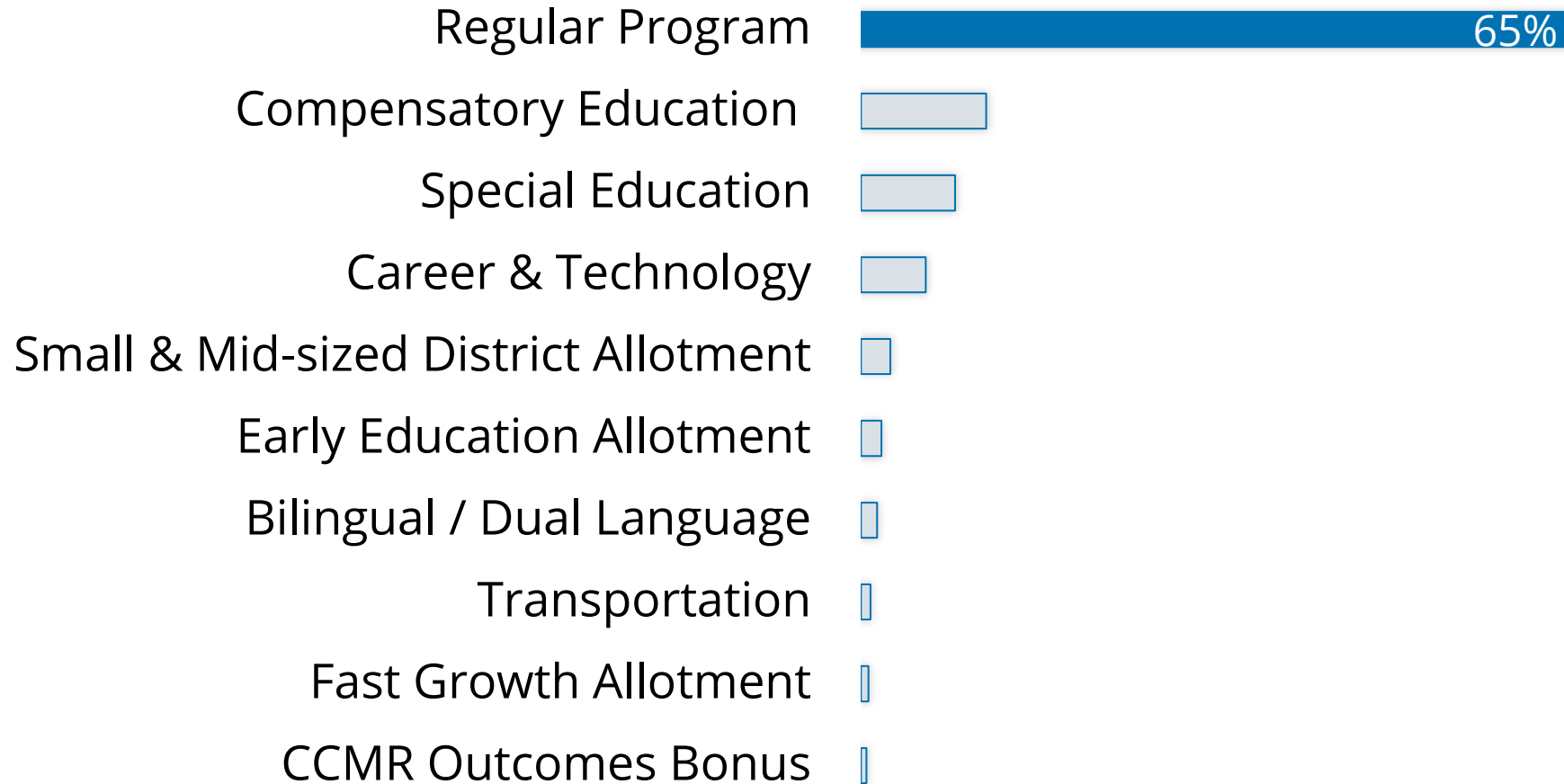
The BA is then used in a series of formulas that apply specific weights and adjustments based on student and district characteristics.

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 (HB 3 increased Mainstream from 1.10 to 1.15)
- 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 – \$1,800 for each beginning teacher with a qualified mentor teacher

# 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

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

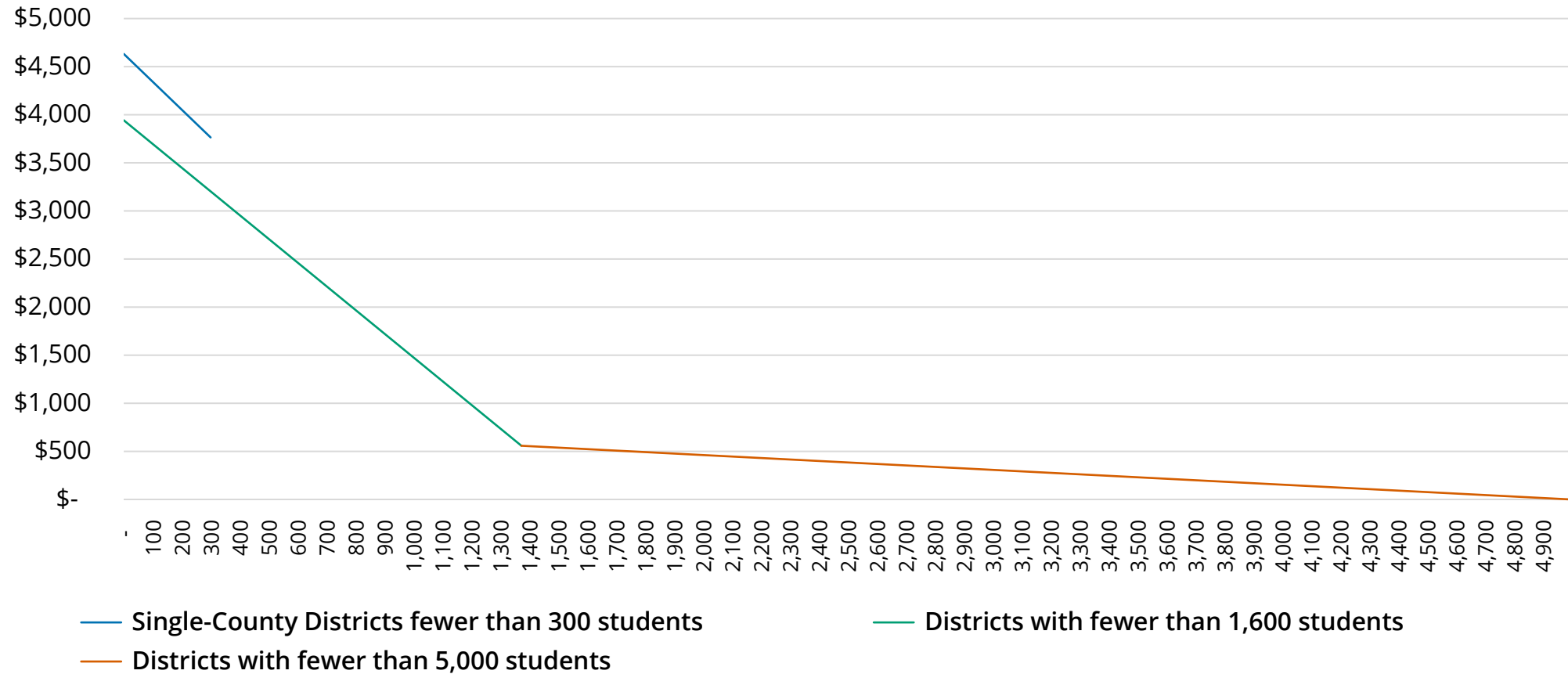
The small district allotment (SDA) applies to districts with fewer than 1,600 students and provides the formula that results in the highest level of funding:

- 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

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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

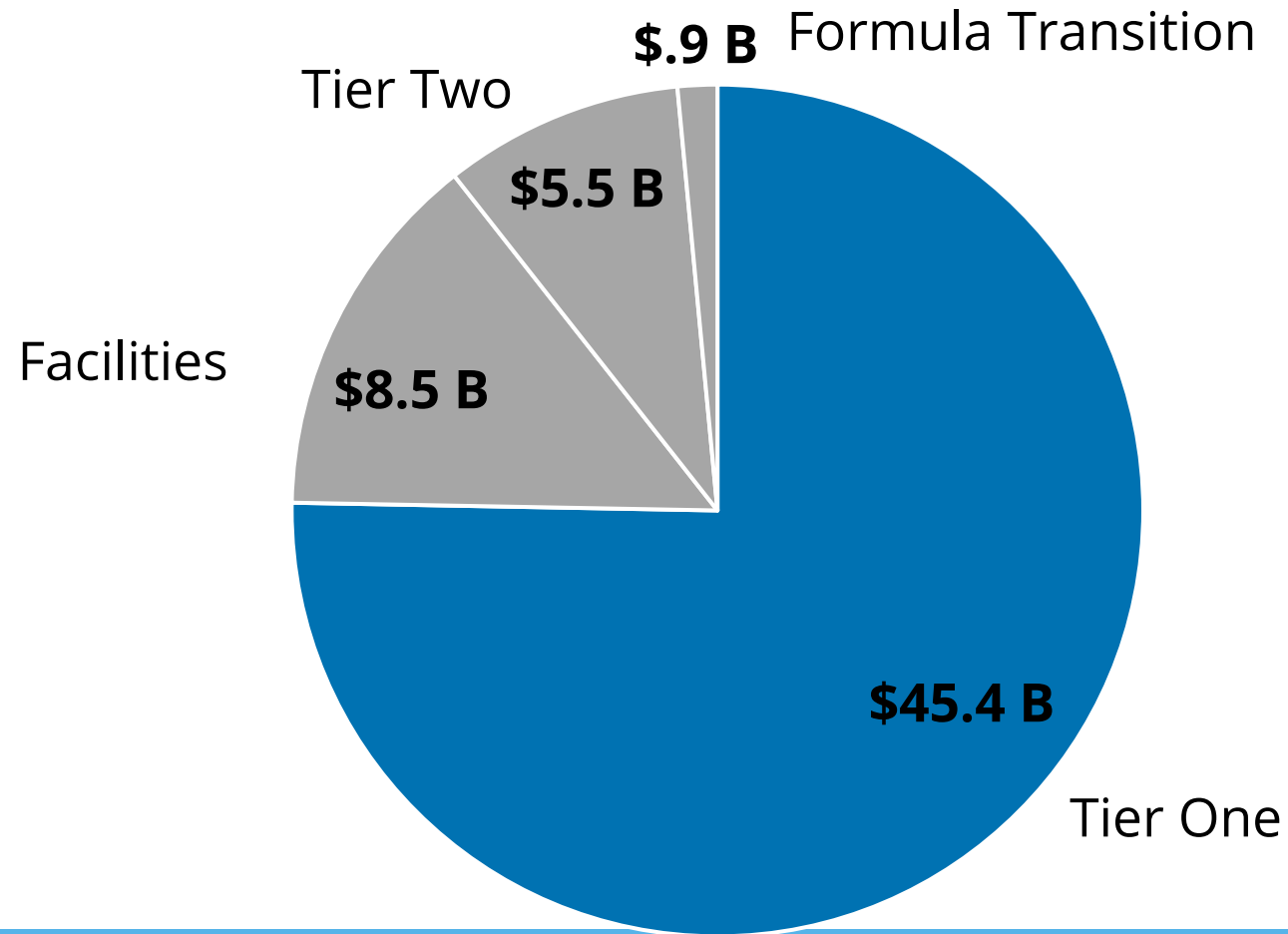
## CHAPTER 48 DISTRICT RECEIVING STATE AID

<b>Tier One Total Cost</b>	<b>\$12,000,000</b>
Current Tax Year District Property Value	\$700,000,000
Local Share at \$0.9164 MCR	\$6,414,800
<b>State Share of Tier One</b>	<b>\$5,585,200</b>

## CHAPTER 48 DISTRICT WITH LOCAL REVENUE IN EXCESS OF ENTITLEMENT

<b>Tier One Total Cost</b>	<b>\$12,000,000</b>
Current Tax Year District Property Value	\$1,400,000,000
Local Share at \$0.9164 MCR	\$12,829,600
<b>Excess Local Revenue</b>	<b>(\$829,600)</b>

# Tier one makes up the vast majority (75%) of the Foundation School Program (FY21).



# Tier Two Entitlement

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## TEXAS PUBLIC SCHOOL FINANCE OVERVIEW

# Tier Two Overview

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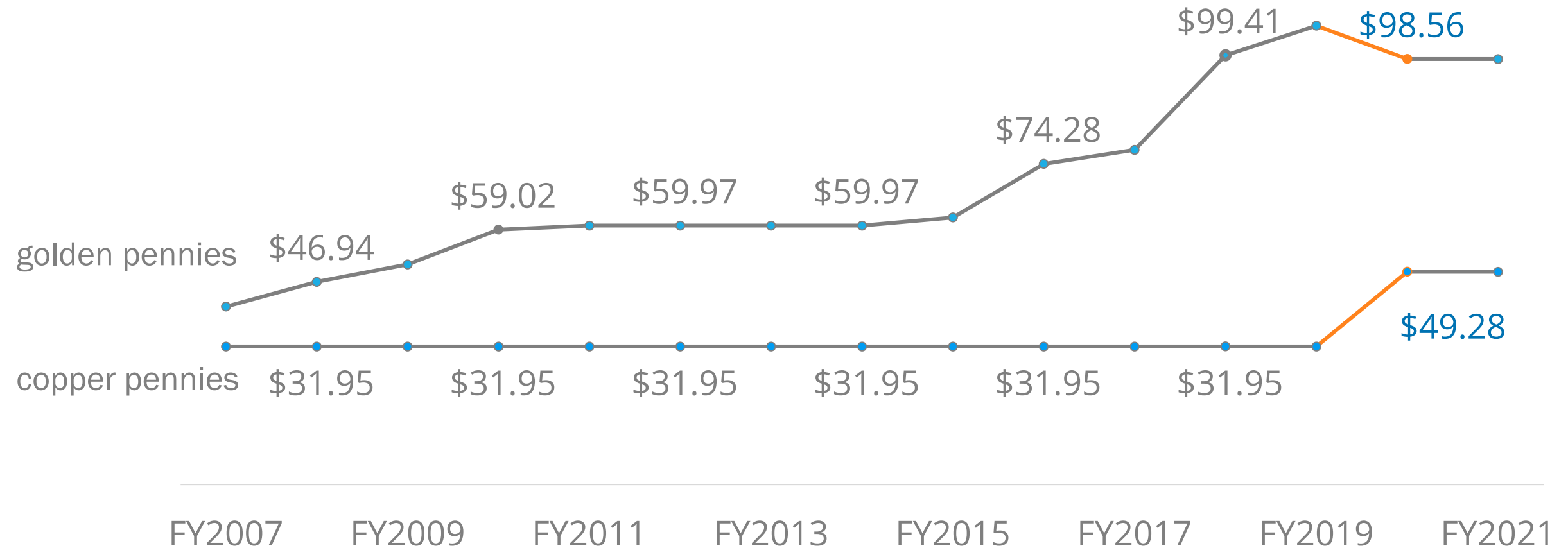
A district's Tier Two allotment provides for enrichment funding which is intended to supplement the basic funding provided by Tier One funds.

To receive Tier One funding, school districts must tax at their individual maximum compressed tax rate (MCR) per each \$100 of local district property value. However, districts have local discretion to set a tax rate that is \$0.17 above their individual MCR.

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 MCR 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

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## 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.

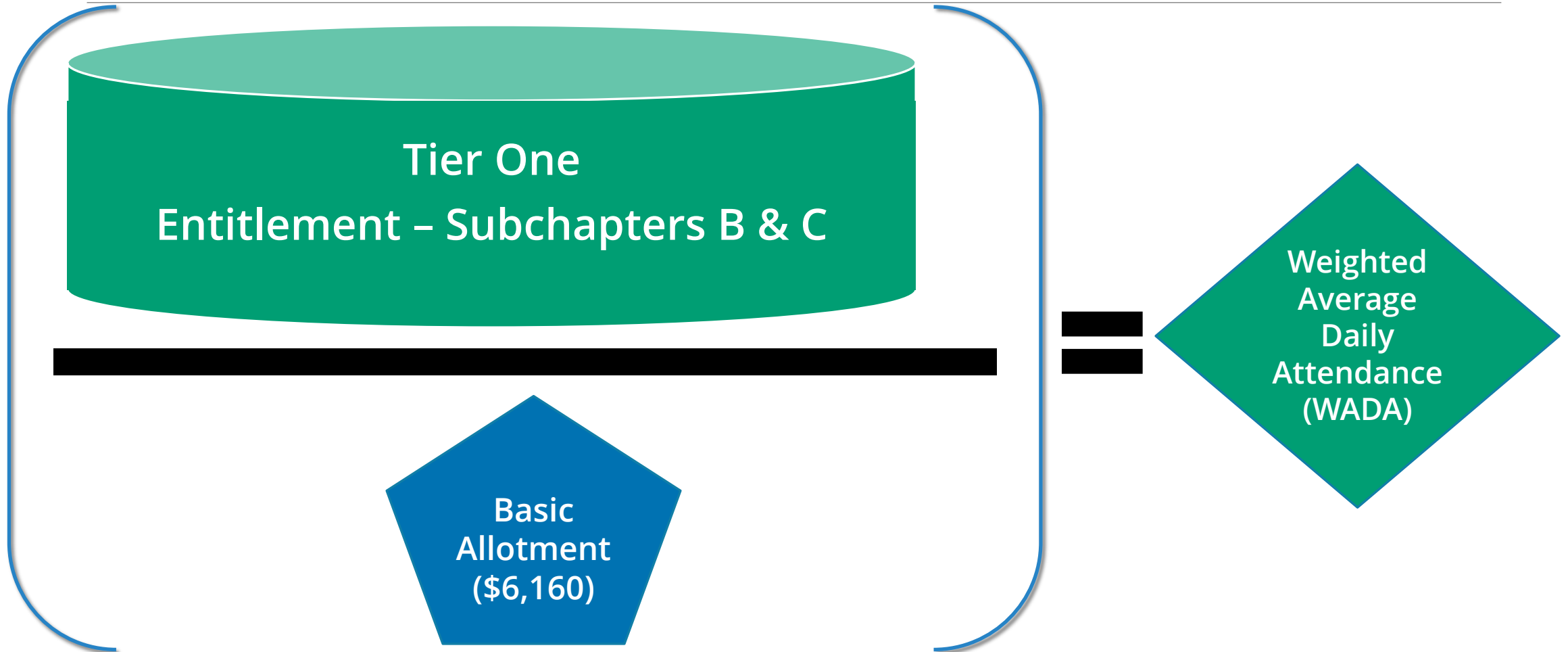
## WEIGHTED AVERAGE DAILY ATTENDANCE (WADA)

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

Districts with large populations of students with special characteristics (i.e. compensatory education students) will have more WADA than similar districts with small populations.

Used to calculate Tier Two allotments.

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



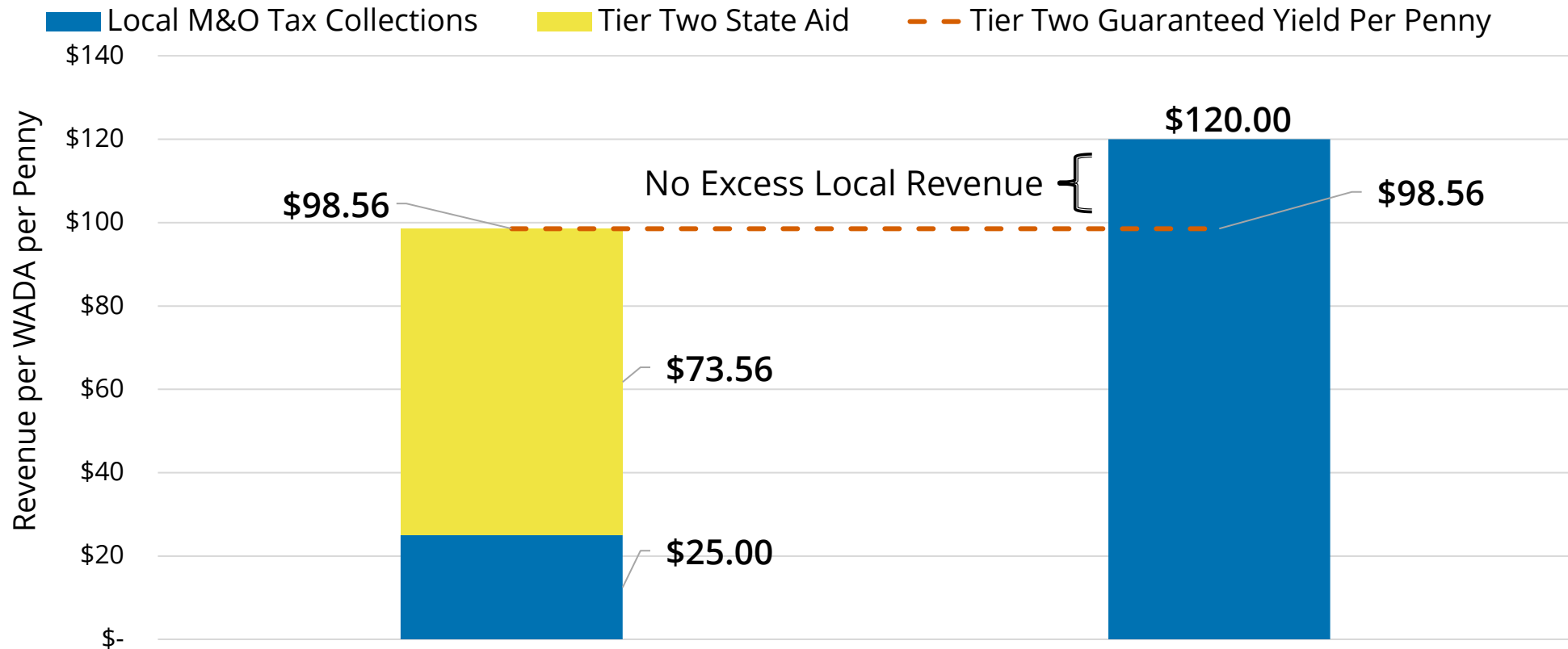


# Revenue generated by a penny of tax effort can vary greatly between districts



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.

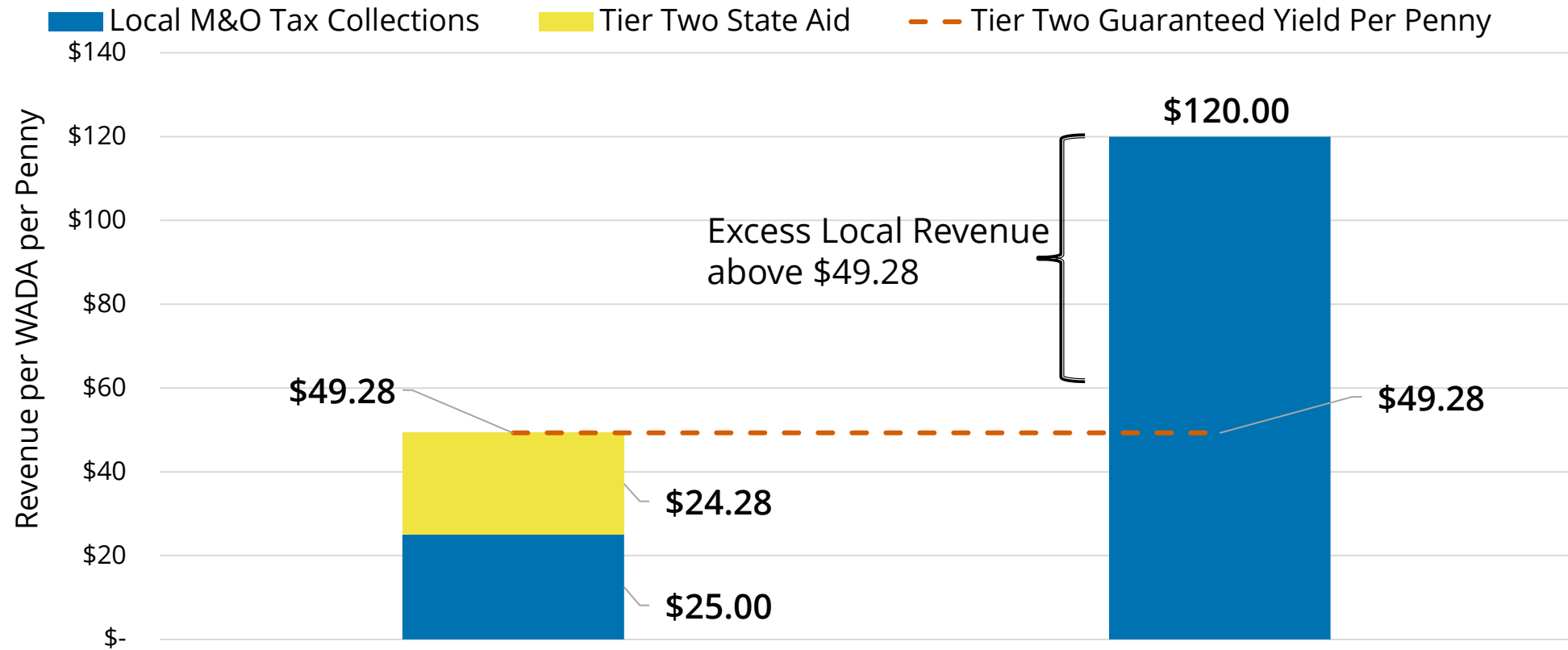
# Districts are equalized up to 160% of the Basic Allotment for the golden pennies



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 2 State Share	(\$205,760)
(Line 4 – Line 5, floor of \$0)	Excess revenue

# Local Revenue Levels in Excess of Entitlement

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TEXAS PUBLIC SCHOOL FINANCE OVERVIEW

# What are local revenue levels in excess of entitlement?

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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

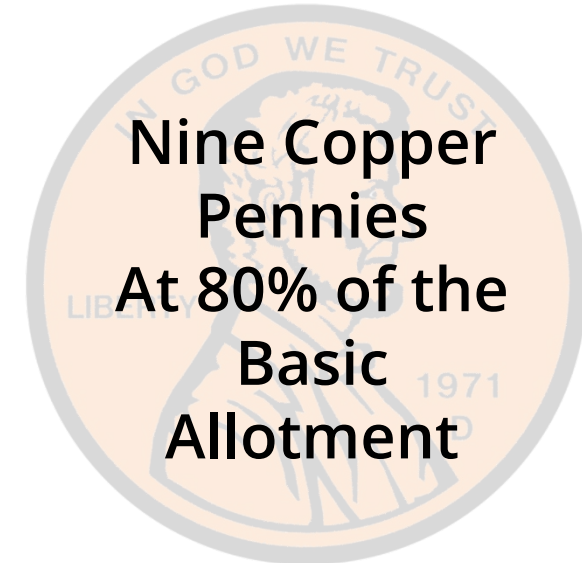
LEVEL 1



No Excess Local Revenue

## Tier Two

LEVEL 2



Excess Local Revenue Above Entitlement

LEVEL 2

# How does a district reduce excess local revenue levels?

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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?

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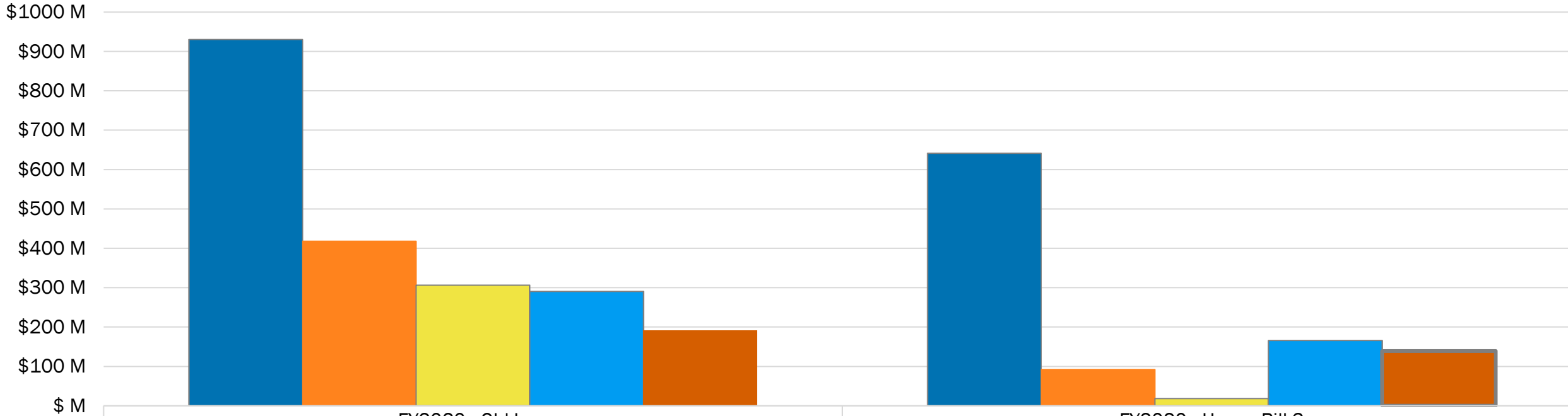
The most commonly chosen method of reducing excess local revenue levels is Option 3 (paying directly to the state).

Payments historically were made in seven equal installments from February through August of every fiscal year, although HB 3 allows for one August payment, and most districts now choose this option.

Funds received by the state, which will total **\$5.0 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).

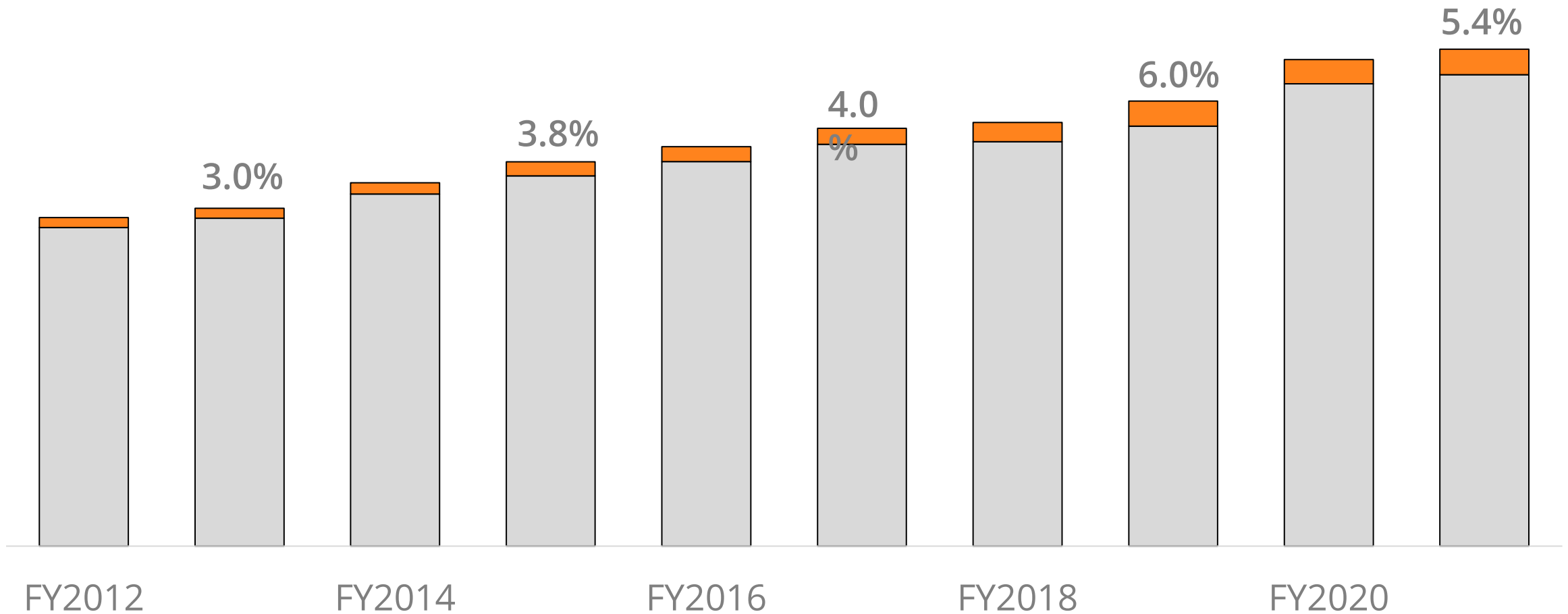
\*Recapture was estimated at \$4.1 billion in the GAA.

# In FY2020, HB 3 reduced the combined recapture for the top five recapture districts (under prior law) by 50%.



	FY2020 - Old Law	FY2020 - House Bill 3
■ Austin ISD	\$930 M	\$641 M
■ Houston ISD	\$418 M	\$92 M
■ Dallas ISD	\$306 M	\$18 M
■ Plano ISD	\$291 M	\$166 M
■ Midland ISD	\$191 M	\$139 M

# HB 3 slowed the trend of recapture growing as a percentage of total M&O revenue in the system.



# Charter School Funding

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## TEXAS PUBLIC SCHOOL FINANCE OVERVIEW

# Charter School Funding Overview

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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

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

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 FY2021 this amount averages to **\$1,058** per student in average daily attendance and is subject to change.

# Charter School Funding – Tier Two

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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 (\$0.0613 and \$0.0265, respectively in FY2021).

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

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Eligible charter schools will receive a facilities allotment calculated using the state average debt service tax rate for school districts (estimated at 22 cents), limited to \$60 million in additional statewide funding.

Funding is currently estimated at approximately **\$178** per student in average daily attendance (ADA), and is subject to change.



# Facilities Funding

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## TEXAS PUBLIC SCHOOL FINANCE OVERVIEW

# Facilities Funding

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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.

# 2020 I&S Adopted Tax Rates

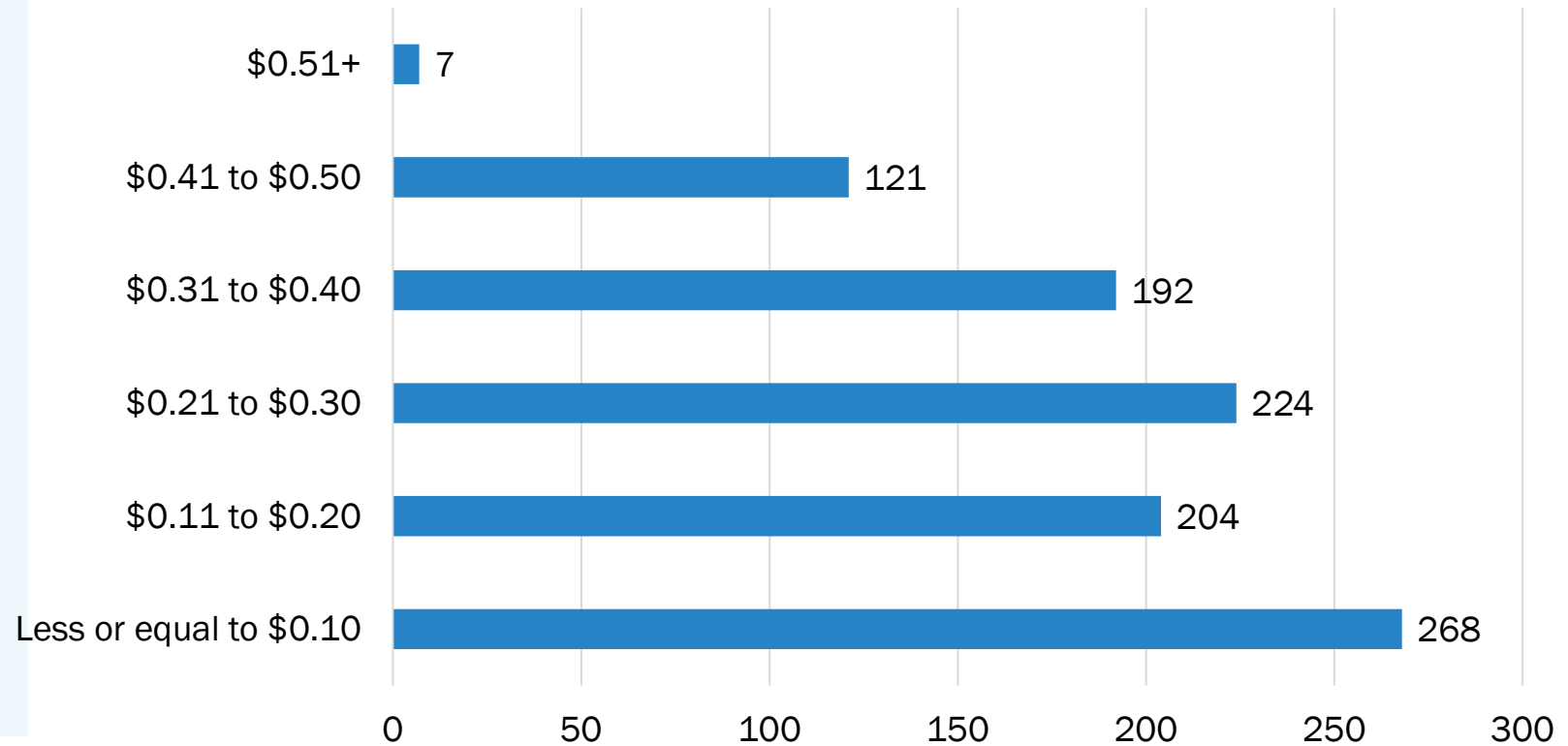
I&S tax rates range from **\$0.00 to \$0.625 cents**

**165** districts have adopted a \$0.00 tax rate

**31** districts have adopted a \$0.50 tax rate

**8** 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)

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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 2020–2021 school year is estimated at \$39.

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

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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 \$39 in 2020–2021, and EDA funding is currently limited to \$0.29 cents of tax effort.

# Contact information

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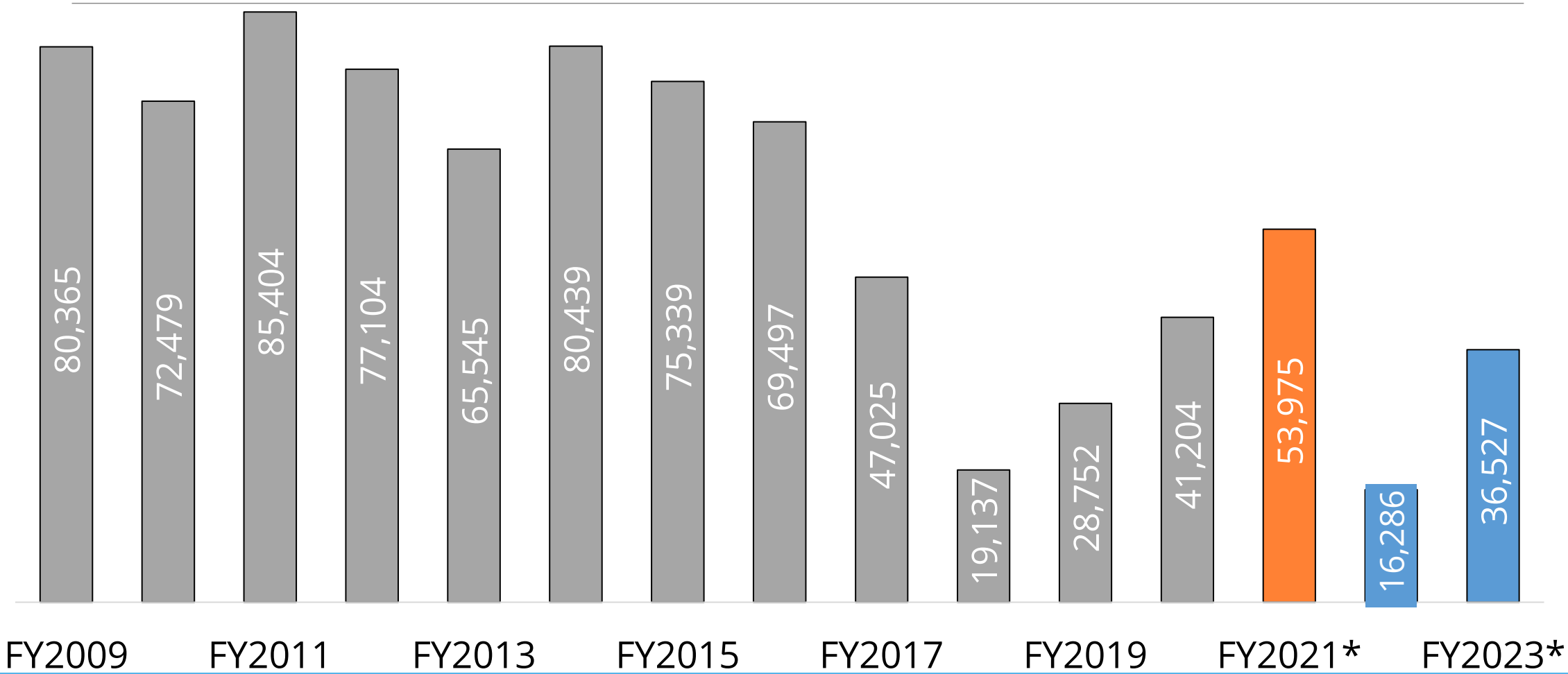
# Appendix

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## TEXAS PUBLIC SCHOOL FINANCE OVERVIEW

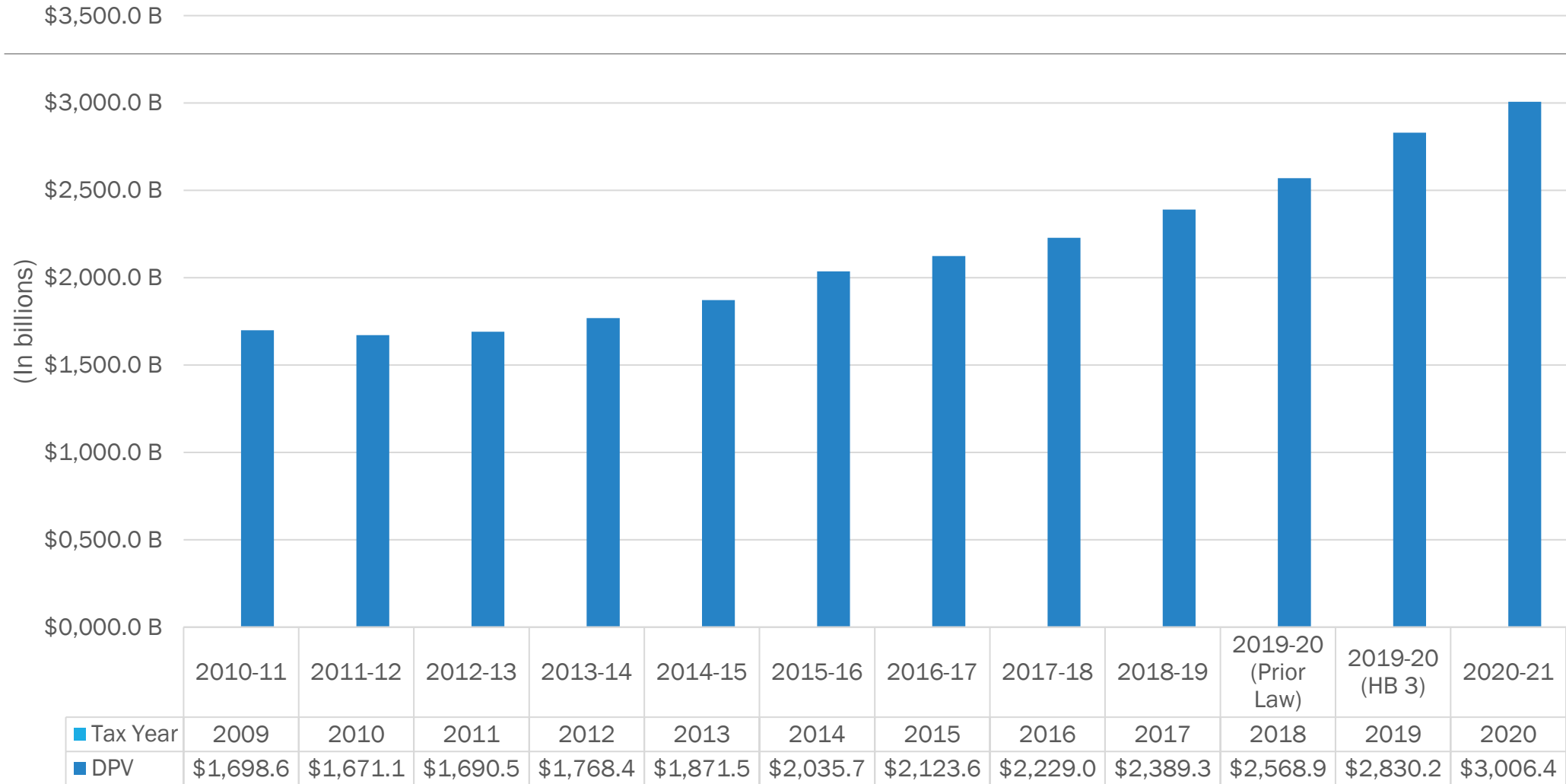


# Annual growth in enrollment (ADA) has dramatically slowed

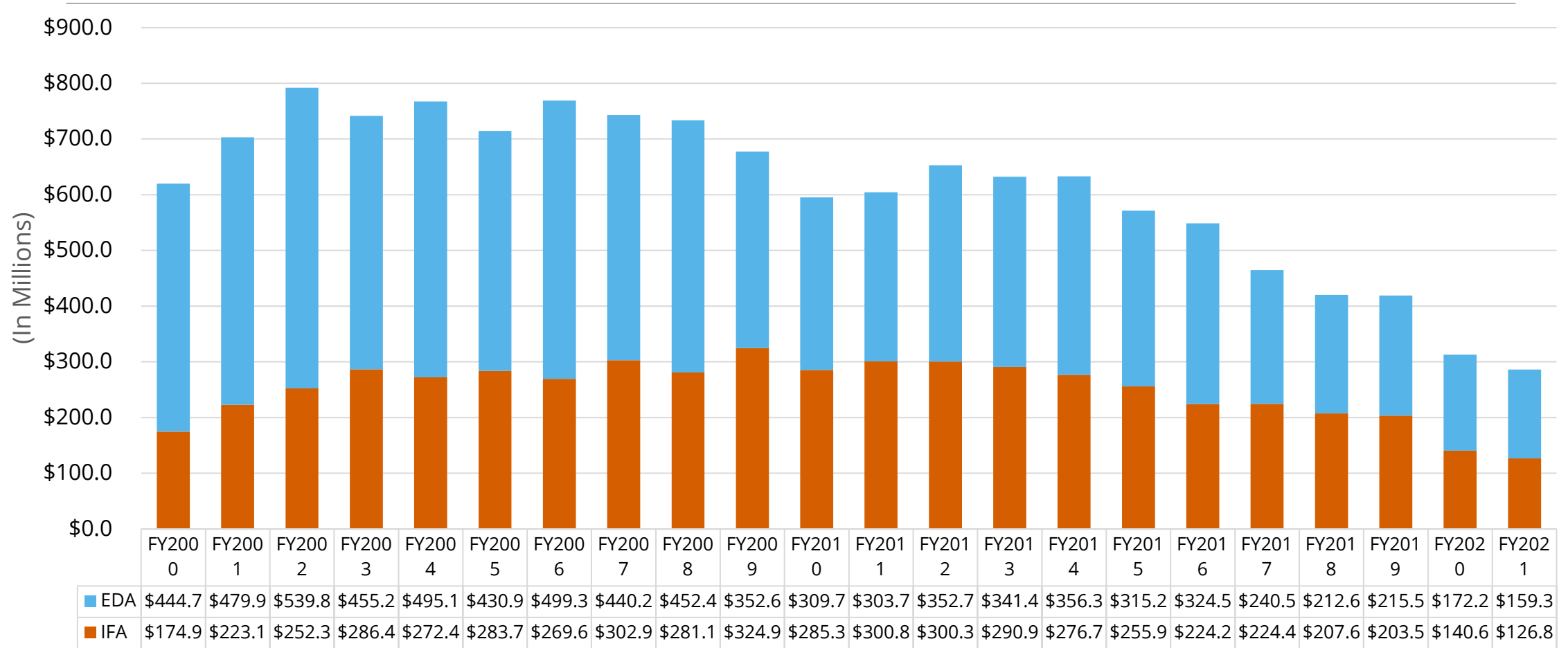


FY2021 assumes projected ADA pre COVID declines

# Significant growth in property values drove up local share pre-HB 3; results in ongoing rate compression post-HB 3



# The state has contributed \$13.4 billion to public school facilities funding since the inception of IFA and EDA.



# 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

# Formula Transition Grant (HB 3)

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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)

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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.