Texas Education Agency
Department of School Finance

Texas Public School Finance Overview

August 2017

Texas Education Agency

Acknowledgements

The following Texas Education Agency staff members from the Department of School Finance and the State Funding Division, listed in alphabetical order, were involved in the development of this publication.

Mike Birnstiehl, Technical Writer

Amy Copeland, Assistant Director of State Funding

Rochelle Kingsley, Manager of FSP Support

Leo Lopez, Associate Commissioner for School Finance / Chief School Finance Officer

Al McKenzie, Director of State Funding

Nora Rainey, Manager of FSP Operations

This document is intended to provide readers with a general overview of the Foundation School Program (FSP) funding received by Texas public schools. Although the FSP constitutes most of the funding received by public schools, they receive other funding, such as state and federal grant funds which are not covered here. This document is not intended to provide legal advice, nor is it intended to conflict with the provisions of the Texas Education Code and the Texas Administrative Code that define and regulate the FSP. Individual school districts may experience funding changes from specific characteristics or circumstances that are different from the general descriptions in this document.

Please be aware that both statutes and administrative rules may change after the publication of this document. This document will be revised and updated in future editions to include additional information and to reflect changes that occur in statute and in rule but may not always reflect recent changes. We welcome your comments and suggestions.

Texas Education Agency
Department of School Finance

Texas Public School Finance Overview
Contents

Introduction

Funding for Texas public schools comes from three main sources: local school district property taxes, state funds, and federal funds. Most funding comes from local property taxes, which are collected by school districts, and state funding. This document explains state and local funding of Texas public schools, as it is administered through the state's Foundation School Program.

There are three broad categories of local education agencies: independent school districts (further broken down into Chapter 41 and Chapter 42 classifications), open-enrollment charter schools, and “special” schools (unique legislative districts and state schools, such as the Texas School for the Blind and Visually Impaired and the Texas School for the Deaf). This document focuses on funding for school districts and charter schools.

Overview: What Is the Foundation School Program (FSP)?

The FSP is the state program that establishes the amount of state and local funding due to school districts under Texas school finance law and that provides the state share of this funding to districts. The program is administered by the Texas Education Agency (TEA). The FSP is meant to ensure that all school districts, regardless of property wealth, receive "substantially equal access to similar revenue per student at similar tax effort, considering all state and local tax revenues of districts after acknowledging all legitimate student and district cost differences."[1]

The FSP has two main components, **operations funding** and **facilities funding**, each of which is tied to the tax efforts of school districts. These components provide funding for school district operations and for school facilities. This overview briefly describes the main components of the FSP. Detailed information about the calculations involved in these components follows this overview.

- The **operations funding component** of the FSP assists school districts in financing their maintenance and operations (M&O) through the following two formulas:
    - **Tier I** of the FSP provides school districts a basic level of funding through several allotments, including those for regular basic education, special education, career and technical education, bilingual/English as a Second Language education, compensatory education, gifted and talented education, public education grants, transportation, new instructional facilities, and the high school allotment.
    - **Tier II** of the FSP is intended to supplement the basic funding provided by Tier I. Tier II guarantees a specific level of funding per student in weighted average daily attendance, or WADA, (to be discussed later) for each penny of tax effort above a school district’s compressed M&O tax rate (CTR). The funding provided by this additional tax effort is also referred to as enrichment.

[1] Texas Education Code, §42.001(b)

- **The facilities funding component** of the FSP provides school districts with assistance for debt service related to funding school facilities through the following two programs:

    - The Instructional Facilities Allotment (IFA) program provides funding to school districts for debt service payments on debt associated with the purchase, construction, renovation, and expansion of instructional facilities. Districts use this funding to make annual debt service payments on qualifying bonds and lease-purchase agreements.

    - The Existing Debt Allotment (EDA) program provides funding to school districts for debt service payments on eligible bonded debt.

What Are M&O and I&S Tax Rates, and How Do They Relate to the FSP?

A school district's property tax rate is made up of an M&O tax rate and, if applicable, an interest and sinking (I&S) tax rate. As its name suggests, the M&O tax rate provides funds for the maintenance and operations costs of a school district. The I&S tax rate provides funds for payment on the debt that districts issue to finance facilities and other capital expenditures. The calculation of both Tiers I and II and the revenue at the compressed tax rate is tied to a district's M&O tax rate. The calculation of facilities funding is tied to a district's I&S tax rate.

What Is a District's Compressed Tax Rate?

To provide property tax relief, the Texas Legislature established a "compressed" tax rate beginning with the 2006 tax year. Currently, a district's CTR is its 2005 M&O tax rate multiplied by the state compression percentage, which is 0.6667. If, for example, a district had a 2005 M&O tax rate of $1.50, then its CTR would be $1.00. A school district must adopt a tax rate at least equal to its CTR to maximize revenue related to its revenue target.

What Are "Golden" Pennies?

Golden pennies are the first six pennies of tax effort a district assesses above its CTR. These pennies are called golden because they are the pennies of tax effort for which a district can generate the highest level of enrichment funding. (See the What Is Tier II? section for a more detailed discussion.)

What Are "Copper" Pennies?

Copper pennies are any pennies of tax effort a district assesses above its CTR plus six cents. These pennies are called copper because they generate a lower level of enrichment funding than golden pennies. (See the What Is Tier II? section for a more detailed discussion.)

What Is Tier I?

Tier I of the FSP is made up of several allotments, including those for regular basic education, special education, career and technical education, bilingual/English as a Second Language education, compensatory education, gifted and talented education, Public Education Grants, transportation, new instructional facilities, and the high school allotment.

What Is the Basic Allotment?

The **basic allotment** is the basis of funding for most of the allotments making up a district's Tier I entitlement. The amount of the basic allotment varies depending on a school district's CTR (see What Is a District's Compressed Tax Rate? in the Overview section).

For the 2017–2018 and 2018–2019 school years, the basic allotment is $5,140. A district with a CTR below $1.00 receives a basic allotment that is reduced proportionately to the degree that the district's CTR falls short of $1.00. This is known as "fractional-funding", and, beginning in the 2017–2018 school year, affected districts will automatically have any eligible copper pennies moved over to the compressed tax rate in Tier I, allowing them to realize the benefit of the entire basic allotment to the extent they have enough copper pennies to convert to Tier I.

The basic allotment amount and the number of students in **average daily attendance** are used to calculate a district's Tier I entitlement. The following sections explain how these figures are used to calculate the entitlement.

What Is Average Daily Attendance (ADA)?

A simple calculation can find the number of students in ADA by dividing the total number of students who are in attendance each day of the school year for the entire school year by the number of instructional days in the school year.

The actual calculation of the number of students in ADA is slightly more complex. In this calculation, which produces a number known as "refined ADA," the sum of the number of days attended by all students in a six-week period (sum of all students' days of attendance) is divided by the number of days taught in the six-week period. The results for all six-week periods in a school year are then summed, divided by six, and rounded to three decimal places.

Refined ADA =

	(Total eligible days present in 1st six weeks)	÷	(days taught for 1st six weeks)
	(Total eligible days present in 2nd six weeks)	÷	(days taught for 2nd six weeks)
	(Total eligible days present in 3rd six weeks)	÷	(days taught for 3rd six weeks)
	(Total eligible days present in 4th six weeks)	÷	(days taught for 4th six weeks)
	(Total eligible days present in 5th six weeks)	÷	(days taught for 5th six weeks)
+	(Total eligible days present in 6th six weeks)	÷	(days taught for 6th six weeks)
	Result		

Result ÷ 6 = refined ADA

Refined ADA can then be adjusted to account for significant declines in enrollment and to change any prekindergarten attendance that was reported as full-day attendance to be half-day attendance.[2] This further-adjusted ADA figure is known as "adjusted refined ADA." In the following sections, for simplicity's sake, the term "ADA" will be used instead of the term "adjusted refined ADA." **In addition, ADA can be proportionally reduced if a district operates on a calendar that provides fewer minutes of operation than required under statute or rule.**

[2] With limited exceptions, only half-day prekindergarten is eligible to generate FSP funding.

How Are the Basic Allotment and ADA Used to Calculate a District's Tier I Entitlement?

A district's Tier I entitlement is calculated in the following way.

Adjusting the Basic Allotment

For each district, the basic allotment is adjusted based on:

- **the cost to educate students in that region of the state**

  To adjust for varying economic conditions, the state assigned a cost of education index (CEI) to each school district in 1991. The CEI assigned to a school district was based mainly on the size of the district, the teacher salaries of neighboring districts, and the percentage of low-income students in the district in 1989–1990.

- **whether the school district is small or mid-sized and thus suffers a hardship because of diseconomies of scale (the cost of educating a single student increases as the number of students in a district decreases)**

  Small districts are defined as those with fewer than 1,600 students in ADA. Mid-sized districts are defined as those with fewer than 5,000 students in ADA.

- **the sparsity of the district's population**

  An additional adjustment to ADA is made for districts with sparse student populations. This adjustment allows an inflated ADA figure to be used in calculations of a sparsely populated district's funding if that district meets certain requirements, as shown in the following table.

An ADA figure of:	if the district offers:	and either:	
		the prior or current year ADA is at least:	*or* the number of miles to the nearest district with a high school is at least:
130 ADA is used	grades K–12	90	30
75 ADA is used	grades K–8	60	30
60 ADA is used	grades K–6	40	30
130 ADA is used	grades K–4*	75	30

**K-4 sparsity adjustment is only available if district meets additional requirements as laid out in TEC Chapter 42*

Making these adjustments to the basic allotment produces a district's **adjusted allotment** (AA).

Calculating the Tier I Allotments

Regular Program Allotment

To calculate a district's regular education program allotment, the district's AA is multiplied by the district's number of students in ADA who are not receiving special education services or career and technical education.

Regular program allotment = AA x regular education ADA

Other Program Allotments

To calculate a district's allotment for each of the following programs, the AA is first weighted using a multiplier set in statute and then multiplied by the number of ADA or the number of full-time equivalent students (FTEs) participating in the program. The use of weighting provides for increased funding for the education of students in special populations, who may require more expensive, specialized services.

Special Education (SPED)

Students who have a disability as defined by federal law are eligible to receive SPED services. A student receiving SPED services is assigned to an instructional arrangement or setting depending on the type of services required.

To calculate a district's SPED allotment, the district's AA is multiplied by a multiplier ranging from 1.1 to 5.0, depending on the instructional arrangement, and the result is then multiplied by the number of FTEs in that instructional arrangement.

Note: The number of SPED FTEs is subtracted from the ADA figure that is used to calculate the regular program allotment.

Examples:

homebound SPED allotment = AA x 5.0 × homebound SPED FTEs

off-home-campus SPED allotment = AA x 2.7 × off-home-campus SPED FTEs

What Is an FTE?

An FTE is defined as 30 contact hours per week between a student participating in an eligible program and applicable program personnel. For instance, one SPED FTE is equal to 30 hours of contact per week between a student with a disability and SPED program personnel.

Special Education Weights

A student with a disability is assigned one of 12 SPED instructional arrangements/settings, each with a varying weight (from 1.1 to 5.0), that is based on the duration of the daily service provided and the location of the instruction.

Funding is based on the amount of time that students with disabilities are served in their instructional arrangements/settings. Students with disabilities assigned to the mainstream instructional arrangement/setting also generate funding based on ADA.

Instructional Arrangement	Weight
homebound	5.0
hospital class	3.0
speech therapy	5.0
resource room	3.0
self-contained mild/ moderate	3.0
self-contained severe	3.0
off home campus	2.7
vocational adjustment class	2.3
state schools	2.8
nonpublic contracts	1.7
residential care and treatment	4.0
mainstream	1.1

Career and Technical Education (CTE)
CTE courses and programs are designed to enable students to gain entry-level employment in high-skill, high-wage jobs, to continue their education, or both.

To calculate a district's CTE allotment, the district's AA is multiplied by 1.35 and then multiplied by the number of CTE FTEs.

Note: The number of CTE FTEs is subtracted from the ADA figure that is used to calculate the regular program allotment.

CTE allotment = AA x 1.35 × CTE FTEs

A district is also entitled to $50 for each CTE FTE enrolled in:
- at least two advanced CTE classes for a total of at least three credits or
- an advanced course as part of a tech-prep program.

Weights Applied for Other Programs
The following weights are applied for other special student populations.

Program	Weight
CTE	1.35
bilingual/ESL	0.1
SCE	0.2
SCE PRS	2.41
GT	0.12
PEG	0.1

Bilingual/English as a Second Language (ESL)
Bilingual education and special language programs are designed to help students whose primary language is other than English to master basic English and participate effectively in the state's educational program.

To calculate a district's bilingual/ESL allotment, the district's AA is multiplied by 0.1 and then multiplied by the number of bilingual/ESL students in ADA.

bilingual/ESL allotment = AA x 0.1 × bilingual or ESL ADA

State Compensatory Education (SCE) and Pregnancy-Related Services (PRS)
SCE is defined in law as programs and services designed to supplement the regular education program for students identified as at risk of dropping out of school. The goal of SCE programs is to reduce any disparity in performance on assessments or in rates of high school completion between students at risk of dropping out of school and all other district students.

The SCE allotment is based on the number of educationally disadvantaged students in a district. The number of educationally disadvantaged students is determined by averaging the highest six months of student enrollment in the National School Lunch Program for free or reduced-price lunches for the prior federal fiscal year.

To calculate a district's SCE allotment, the district's AA is multiplied by 0.2 and then multiplied by the number of SCE educationally disadvantaged students from the prior federal fiscal year minus PRS FTEs.

SCE allotment = AA × 0.2 x SCE enrollment

PRS are SCE services provided specifically to SCE students who are or who have recently been pregnant to help them adjust to parenthood academically, mentally, and physically and to help them stay in school.

To calculate a district's PRS allotment, the district's AA is multiplied by 2.41 and then multiplied by the number of PRS FTEs and multiplied by a factor of 0.2936.

PRS allotment = AA × 2.41 x (PRS FTEs x 0.2936)

Gifted and Talented (GT)
GT programs ensure that GT students develop and demonstrate skills in self-directed learning, thinking, research, and communication.

A district may not generate GT funding for more than 5 percent of its students in ADA.

To calculate a district's GT allotment, the district's AA is multiplied by 0.12 and then multiplied by the number of GT students or by 5 percent of total ADA, whichever is less.

GT allotment = AA × 0.12 x GT enrollment

Public Education Grant (PEG)
Under the PEG program, a student is eligible to attend another school in his or her district or another district if 1) 50 percent or more of the students at the student's school failed the required state tests in any two of the past three years or 2) the student's school was considered academically unacceptable at any time in the past three years.

A district is eligible to receive PEG allotment funding, in addition to regular program allotment funding, for each district student who has been transferred to the district through the PEG program. To calculate a district's PEG allotment, the district's AA is multiplied by 0.1 and then multiplied by the number of PEG students in ADA.

PEG allotment = AA × 0.1 × PEG ADA

Fewer than 100 students participate in the PEG program annually. Charter schools are not eligible for the PEG allotment.

New Instructional Facility Allotment (NIFA)
The NIFA is provided for operational expenses associated with the opening of a new instructional facility. It is available to all school districts and open-enrollment charter schools that build new instructional facilities that meet the requirements of statute and rules, including school districts subject to the provisions of the Texas Education Code (TEC), Chapter 41, (see the What Is Recapture? section). School districts and charter schools must apply to receive the NIFA.
The NIFA provides support for opening a new campus through a reimbursement of $1,000 per student in ADA in the first year of operation of the new campus, plus $1,000 for each additional student in ADA in the second year of operation. Special one-year funding is available for facilities that were occupied for the first time in the previous school year but did not receive NIFA funds because of the district's failure to apply for funding before opening the campus. Only completely new facilities are eligible for funding. Renovations and additions to existing facilities are not eligible.

The total amount appropriated for the program is limited by statute to $23.75 million per year, subject to a direct appropriation by the legislature.

Transportation Allotment

The transportation allotment provides funding assistance to school districts that provide student transportation. Basic funding is for home-to-school transportation provided to regular eligible students who live more than two miles from their campus of regular attendance and for students receiving special education services who require special transportation to attend school. Limited funding is available to provide transportation to regular eligible students who live fewer than two miles from their campus if they live in an area designated as a hazardous traffic area by the school board.[3] Additionally, if a district establishes that an extreme hardship case exists and a student needs to be transported to or from school by a parent, the district is eligible for funding of mileage if it reimburses the parent for providing the transportation.

A district's transportation allotment is based on a set rate per mile that is based on the linear density of the district's eligible school bus route miles. The more eligible riders there are per route mile, the higher the rate per eligible route mile. The current legislative funding rates were established in 1984.

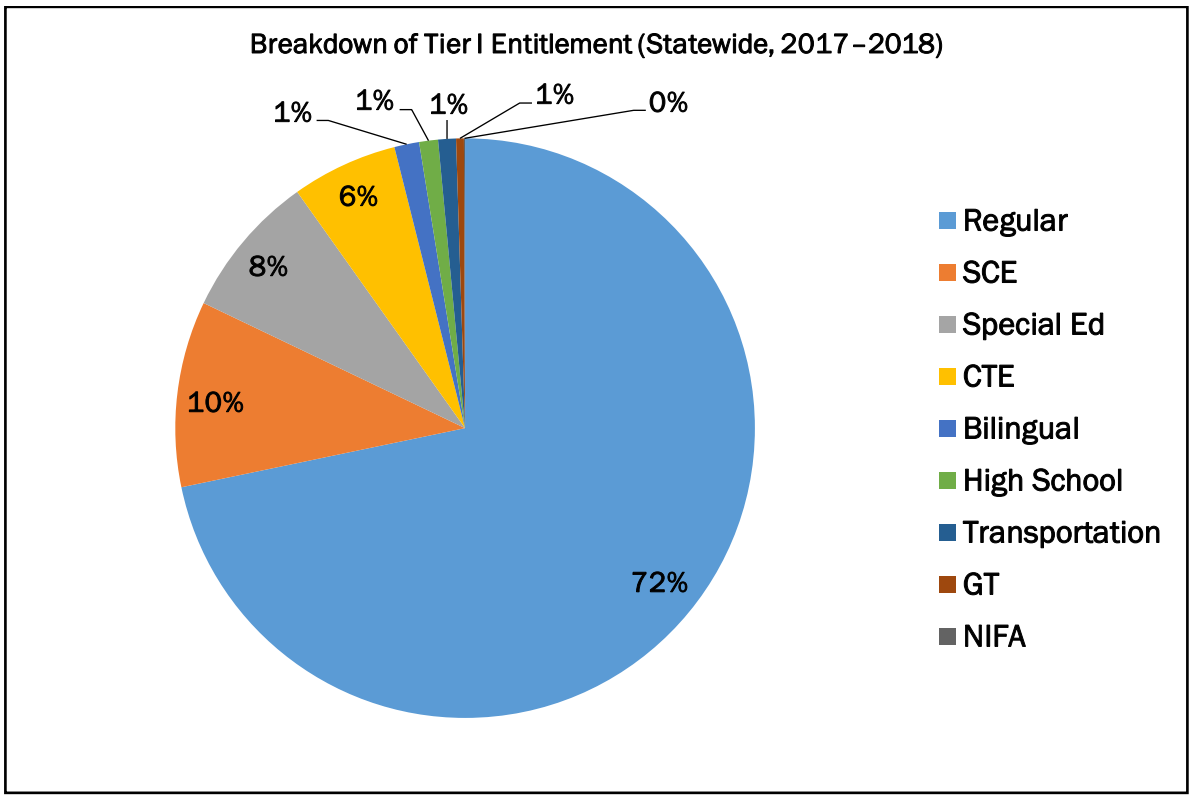
High School Allotment

The high school allotment provides school districts and open-enrollment charter schools with $275 for each student in ADA in grades 9 through 12. Any school district, including a district subject to the provisions of the TEC, Chapter 41, may receive the benefit of the allotment.

[3] Hazardous route funding is limited to 10 percent of the regular transportation funding for students who live more than two miles from their campus.

Summing the Allotment Amounts to Arrive at the Tier I Entitlement

The sum of the Tier I amounts (regular program allotment, all other program allotments, NIFA, transportation allotment, and high school allotment) represents a district's Tier I entitlement.



Source: 2017–2018 Statewide Summary of Finance, June 2017

How Are the State and Local Shares of the Tier I Entitlement Calculated?

A school district is responsible for funding a portion of its Tier I entitlement. The portion of the Tier I entitlement that the district is responsible for is called the local fund assignment, or LFA. It is also commonly referred to as the **local share.**

The local share is the amount of tax collections generated by assessing the CTR or a tax rate of $1.00, whichever is lower, for each $100 of property valuation, using the property value for the preceding tax year.

The total Tier I entitlement minus the local share equals the state's share of the Tier I.

Local Share = PTAD prior year property value × the lesser of the district's CTR, or $1.00

Where PTAD prior year property value = the district's prior year property values as determined by the Property Tax Assistance Division of the Texas Comptroller of Public Accounts

state share of Tier I = Tier I entitlement – local share

What If the Local Share Is Greater Than the Tier I Entitlement?

If a district's local share exceeds its Tier I entitlement, the district is said to be "budget balanced." A budget-balanced district, however, is still constitutionally entitled to receive the Available School Fund apportionment (discussed later) as part of the state share of Tier I.

Are Charter Schools Eligible to Receive a Tier I Entitlement?

Just like a school district, a charter school is entitled to Tier I funds. However, the Tier I entitlement is calculated slightly differently for a charter school than for a school district. Because charter schools do not have an adjusted allotment, a charter school's Tier I entitlement is calculated using a state average adjusted allotment. Also, because charter schools do not have taxable property values and cannot raise a local share, the state share of Tier I is equal to the total Tier I entitlement.

What Is Tier II?

Tier II provides a "guaranteed yield," or guaranteed level of funding, to school districts to supplement the basic funding provided for by Tier I. The guaranteed yield ensures that school districts generate a specified level of funding per student in **weighted average daily attendance** (WADA) for each cent of tax effort above the district's CTR. The funding provided by this additional tax effort is also referred to as enrichment.

What Is WADA?

WADA is the weighted average daily attendance figure used in several state funding formulas to calculate the amount of state and local funds a district is entitled to.

How Is WADA Calculated?

A district's WADA is calculated by first subtracting from a district's Tier I entitlement any funding the district is due for transportation, NIFA, high school allotment, and 50 percent of the CEI adjustment. The resulting amount is then divided by the district's basic allotment amount to arrive at a district's WADA.

+ Tier I entitlement
-- transportation allotment
-- NIFA
-- high school allotment
-- 50% of CEI adjustment
= adjusted Tier I entitlement
↓
adjusted Tier I entitlement ÷ district's basic allotment amount = WADA

How Is a District's Tier II Entitlement Calculated?

Tier II is comprised of two levels of guaranteed yield funding on the pennies of tax effort that exceed a district's CTR or $1.00, whichever is less.

The two different guaranteed levels of combined state and local funding are calculated as follows:

- Level 1 (L1) = an amount set by the General Appropriations Act that is the greater of:
    - Austin ISD's property wealth per WADA
      or
    - the amount of district tax revenue per WADA per penny of tax effort generated for this level of guaranteed yield funding for the last school year.

  For the 2017–2018 school year, the L1 amount is **$99.41** per WADA per penny of tax effort, and then the L1 amount increases to **$106.28** per WADA per penny of tax effort for the 2018–2019 school year.

  A district may generate L1 funding for only six pennies of tax effort above its CTR. These pennies are sometimes called golden pennies because they are the pennies of tax effort for which a district can generate the highest level of enrichment funding. In addition, golden pennies are not subject to recapture. Most school districts can access four of the

six pennies at the discretion of the local school board. Because of restrictions in the Texas Tax Code, access to the fifth and sixth golden pennies usually requires voter approval.

- Level 2 (L2) = a fixed amount set by statute.

  Per statute, the L2 amount is **$31.95** per WADA per penny of tax effort.

  A district may generate L2 funding for any pennies of tax effort above its CTR plus six cents. The L2 pennies of tax effort are sometimes called copper pennies because they generate a lower level of enrichment funding than the golden pennies do. Enrichment at this level typically requires voter approval.

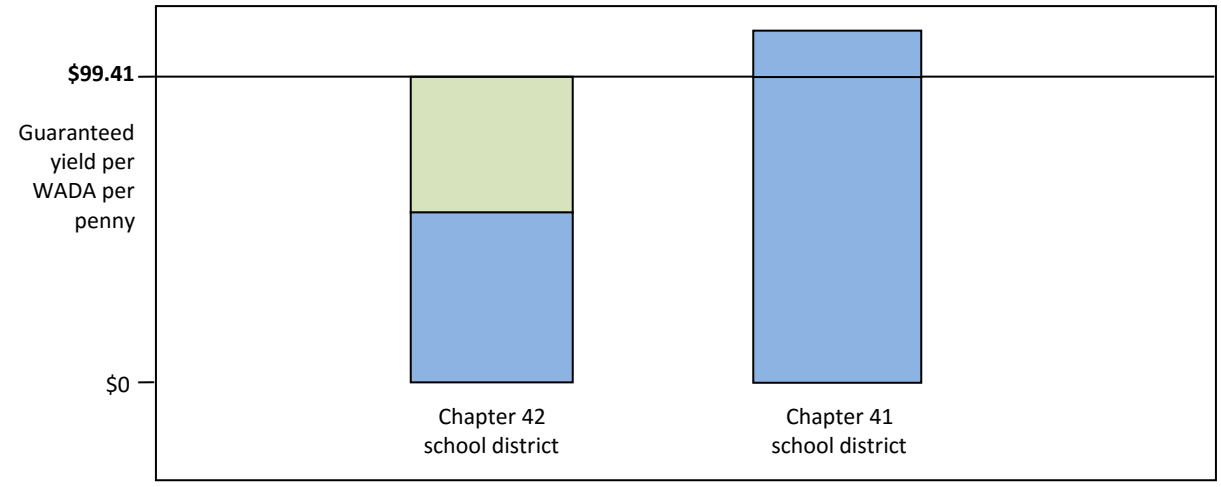
Example for Determining a District's Tier II Entitlement

Say that Example ISD had a 2005 M&O tax rate of $1.50 and a CTR of $1.00. It has a current M&O tax rate of $1.07, or seven pennies above its CTR. Example ISD has WADA of 3,200.

Example ISD's Tier II entitlement would be calculated as follows:

L1 = $99.41 × 3,200 × 6 pennies = $1,908,672
L2 = $31.95 × 3,200 × 1 penny = $102,240
L1 + L2 = $1,917,120 + $102,240 = **$2,010,912**

Example of Tier II Level 1



= Local share of Tier II L1

= State share of Tier II L1

What Is the District Enrichment Tax Rate (DTR)?

The DTR is the tax effort that exceeds the district's CTR or $1.00, whichever is lower. The DTR is limited to the difference between the maximum M&O rate cap of $1.17 and the district's Tier I M&O tax rate. The DTR limit for a district with a CTR of $1.00 (2005 M&O tax rate of $1.50) is calculated as follows:

DTR limit = $1.17 - $1.00 = $0.17

Because Tier II operates on a guaranteed yield per penny of tax effort basis, the DTR is necessary to determine the level of Tier II state aid a district is due. A DTR component is associated with each level of enrichment.

How Are the DTR Components Calculated for Each Level of Tier II Enrichment?

The DTR component for each level of enrichment is determined by evaluating the district's total M&O tax effort to determine the tax effort that exceeds the district's Tier I M&O tax rate. The DTR for the first level of Tier II (DTR1) is limited to the first six pennies of tax effort that exceed the Tier I M&O tax rate. The DTR for the second level of Tier II is based on any tax effort that exceeds the Tier I M&O tax rate plus six cents. For example, a district with a current year M&O tax rate of $1.11 and a CTR of $1.00 would have the following DTR components applied to its Tier II entitlement.

DTR1 = lesser of ($1.11 – $1.00) or $0.06 = $0.06

DTR2 = $1.11 – $1.00 – $0.06 = $0.05

How Are DTR Tax Collections Calculated?

DTR tax collections are calculated as shown in the following formulas:

DTR1 tax collections = L1 tax collections ÷ PTAD prior year property value

DTR2 tax collections = L2 tax collections ÷ PTAD prior year property value

Where PTAD prior year property value = the district's prior year property values as determined by the Property Tax Assistance Division of the Texas Comptroller of Public Accounts and

Where L1 and L2 tax collections are the portions of the total M&O tax collections associated with the portion of the M&O tax rate at each level of Tier II.

How Are the State and Local Shares of the Tier II Entitlement Calculated?

The state share of a district's Tier II entitlement, or the amount of Tier II funding the district receives from the state, depends on the local revenue (LR) associated with the Tier II tax effort. The LR for each level of Tier II is determined using the following calculation:

LR = (PTAD prior year property value ÷ 100) x DTR

The guaranteed yield amount (GYA) for each level of Tier II is determined by subtracting the LR from the Tier II entitlement as follows:

GYA = (Tier II rate x WADA x DTR x 100) – LR

Example for Determining State and Local Shares of Tier II

Example ISD has:

- a CTR of $1.00 (2005 M&O tax rate of $1.50)
- Current year M&O tax rate of $1.07
  - DTR1 = 6 pennies
  - DTR2 = 1 penny
- WADA of 3,200
- PTAD prior year property value of $10,000,000

Example ISD's State Share of Tier II would be calculated as follows:

L1 = $99.41 × 3,200 × 6 pennies = $1,908,672
LR1 = ($10,000,000 ÷ 100) × 6 = $600,000
GYA1 = ($99.41 × 3,200 × $0.06 × 100) – $600,000 = $1,308,672

L2 = $31.95 × 3,200 × 1 penny = $102,240
LR2 = ($10,000,000 ÷ 100) × 1 = $100,000
GYA2 = ($31.95 × 3,200 × $0.01 × 100) – $100,000 = $2,240

Are Charter Schools Eligible to Receive a Tier II Entitlement?

Just like a school district, a charter school is entitled to Tier II funds. However, the Tier II entitlement is calculated slightly differently for a charter school than for a school district. Because charter schools do not have tax rate, a charter school's Tier II entitlement is calculated using a state average DTR. Also, because charter schools do not have taxable property values and cannot raise the local share, the state share of Tier II is equal to the total Tier II entitlement.

What Is Recapture?

Recapture is a mechanism in state funding formulas that ensures that a district's property wealth per WADA 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 the TEC, Chapter 41.

How Does the State Determine Whether a District Is Subject to the Provisions of Chapter 41?

A district is subject to the provisions of Chapter 41 if its property wealth per WADA exceeds certain equalized wealth levels set in statute.

What Are the Equalized Wealth Levels (EWLs)?

There are three equalized levels of property wealth per WADA that limit the access of school districts to the tax revenue generated by local M&O tax effort.

What Is the First EWL?

The first EWL for 2017–2018 and 2018–2019 is $514,000 per WADA. This level is indexed to the level of funding provided by the basic allotment ($5,140). This level applies to the tax effort that is equivalent to a school district's CTR. A district with property wealth per WADA that exceeds the first EWL will have the excess M&O tax collections at its CTR recaptured.

What Is the Second EWL?

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 pennies. If the state's equalization program for Chapter 42 school districts is funded to provide tax revenue equivalent to that raised by the Austin ISD on the first six pennies of tax effort that exceed the CTR, then Chapter 41 school districts are allowed to keep all the revenue on the equivalent tax effort. Because funding at the Austin ISD level is currently being provided to Chapter 42 school districts, no recapture is currently associated with the second EWL.

What Is the Third EWL?

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. A district whose property wealth per WADA exceeds $319,500 will have the excess tax collections associated with this tax effort recaptured.

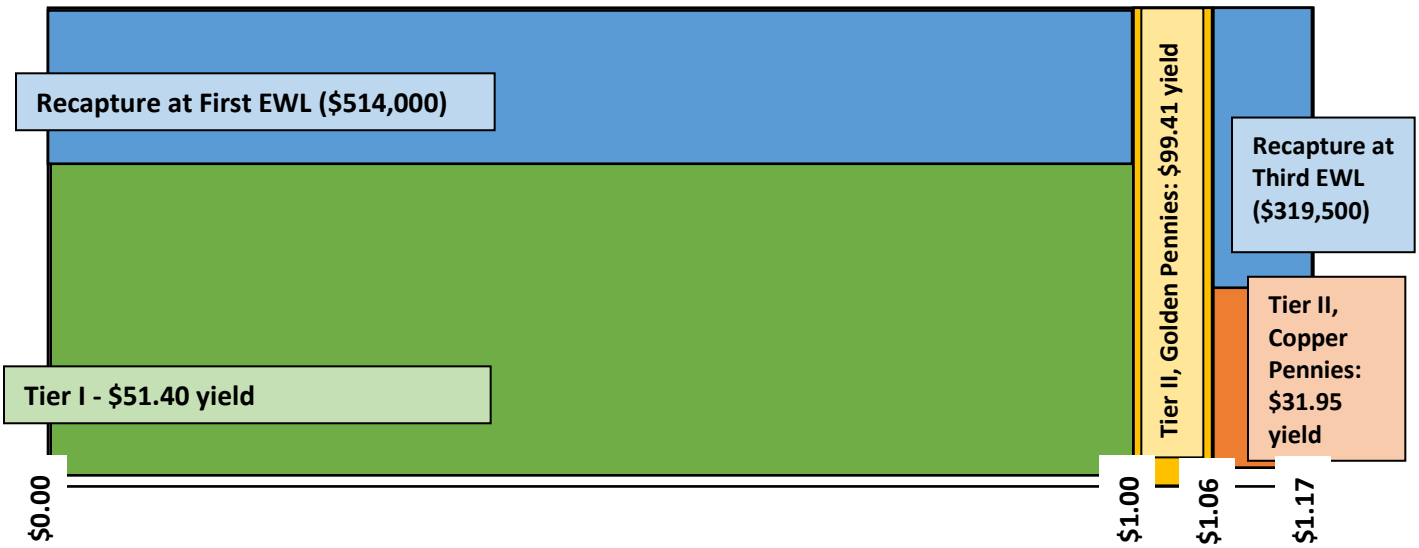
Example of M&O tax rates and their relationship to EWLs

2005 M&O tax rate = $1.50
CTR = $1.50 × 66.67% = $1.00
2016 M&O tax rate = $1.17

	Tax Rate	2017–2018 Wealth per WADA
First EWL	$1.00	$514,000
Second EWL	$0.06	Unlimited*
Third EWL	$0.11	$319,500
Total tax rate	$1.17	

*Requires legislature to fund guaranteed yield on equivalent tax rate at yield of Austin ISD.

Each year, the TEA notifies school districts in which property wealth per WADA meets or exceeds the EWL of $319,500. However, the final determination of whether a school district will be required to make recapture payments is based on the district's tax effort and the extent to which the district's wealth per WADA exceeds the first EWL, or the third EWL, if the district is assessing copper pennies.



How Does a District Equalize Wealth?

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

Option 1: Consolidate with another district
Option 2: Detach property
Option 3: **Purchase attendance credits from the state**
Option 4: Contract to educate nonresident students from a partner district
Option 5: Consolidate tax bases with another district

A district may exercise these options singly or in combination. In the past, most Chapter 41 districts have chosen Option 3 or Option 4, or a combination of these options. Both of these options must be approved in an election by local taxpayers.

Option 3 requires a district to reduce its wealth by sending money to the state. These funds are used to help finance the FSP payments that are made to Chapter 42 school districts. A district that is subject to Chapter 41 wealth equalization requirements for the first time in 2006–2007 or later may choose to offset its recapture costs against its state aid, if the state aid exceeds the amount owed for recapture.

Option 4 requires a district to reduce its wealth by sending money directly to one or more Chapter 42 districts. The FSP payments from the state to the Chapter 42 districts are reduced to reflect the receipt of this revenue from the Chapter 41 district. The amount of this reduction in state aid is calculated by multiplying the number of WADA sold to the Chapter 41 district by the amount of the Chapter 42 district's revenue per WADA. This reduction is shown as a separate line item ("State Aid Reduction for WADA Sold") on the Chapter 42 district's state aid report (called the *Summary of Finances*).

What Was the Revenue Target, and How Was the Revenue Target and ASATR Determined?

Property-tax-relief legislation passed as HB 1 (79-3) in 2006 reduced property tax rates and held districts harmless for the tax rate reduction by replacing the lost tax revenue with state funds. Funding levels at the old tax rates were called revenue targets, and the hold harmless state aid that paid for the lost tax revenue was called Additional State Aid for Tax Reduction (ASATR).

What Was the Revenue Target?

The revenue target, also referred to as target revenue or minimum revenue, was a specific amount of funding per WADA, that the state guaranteed to a school district in exchange for the mandatory reduction of the district's M&O tax rate. The revenue target amount was different for each school district and was based on the state and local M&O revenue a district would have earned had it not lowered its tax rate.

The revenue target was created in 2006 with HB 1. The target revenue formula was modified in 2009 with HB 3646 (81-1), and then again in 2011 with SB 1 (82-1), which created a target revenue adjustment factor (TRAF) that, beginning with the 2012–2013 school year, reduced a district's revenue target. SB 1 also eliminated revenue targets and ASATR effective at the end of the 2016–2017 school year.

Beginning with the 2017–2018 school year, there is no more ASATR.

How Does the State Assist School Districts in Funding Facilities?

The facilities funding component of the FSP consists of the Instructional Facilities Allotment (IFA) program and the Existing Debt Allotment (EDA) program. These programs assist school districts in funding facilities by equalizing I&S tax effort.

State aid under the IFA program provides a guaranteed yield of $35 per penny of tax effort per refined ADA, within certain limitations. State aid under the EDA program provides a guaranteed yield per penny of tax effort per refined ADA not to exceed the lesser of $40, or an amount that would result in additional state aid of $60 million more than the amount of state aid that would be delivered at a guaranteed yield of $35. The yield for the 2017–2018 school year is estimated to be less than $37.

A district is required to levy sufficient taxes *or* to access the reserve of un-equalized M&O or I&S tax collections from the 1999–2000 school year or later (collections that have not been equalized by state funding formulas) to cover the local share of the allotment. A district may not allocate the same collections as its local share for both the IFA program and the EDA program.

What Is the IFA Program?

The IFA program provides funding to school districts for debt service payments on debt associated with the purchase, construction, renovation, and expansion of instructional facilities. Districts use this funding to make annual debt service payments on qualifying bonds and lease-purchase agreements. **Charter schools are not eligible to receive IFA funding.**

To receive IFA program assistance, a district must apply to the TEA. The TEA determines a biennial maximum allotment based on the annual debt service payment or $250 per student in ADA, whichever is less.[4] IFA-supported debt must support the construction of instructional facilities. State aid is reduced for expenditures on non-instructional facilities.

How Is an Eligible District's IFA State Aid Calculated?

The IFA state aid an eligible district is due is calculated using the following formula:

IFA state aid =
($35 × ADA × bond tax rate × 100) – (bond tax rate × [PTAD prior year property value ÷ 100])

Where "bond tax rate" = the district's current year I&S tax rate applicable to the payment of eligible bonds

Example for Determining IFA State Aid and Local Share

Example ISD has:

- PTAD prior year property value of $100,000,000
- ADA of 1,000
- annual debt service payments of $100,000

Example ISD's IFA state aid and IFA local share are calculated as follows:

1. Taxable property value = $100,000,000 property value ÷ $100 assessed valuation = $1,000,000
2. Tax yield per penny of bond tax rate = $1,000,000 taxable property value × 0.01 = $10,000
3. Tax yield per penny per student = $10,000 ÷ 1,000 ADA = $10.00 local revenue
4. State aid per penny = $35.00 guaranteed yield – $10.00 local revenue = $25.00 state aid
5. Percentage debt service assistance paid as state aid = ($25 ÷ $35) × 1 = 71.43%
6. Amount of IFA state assistance = $100,000 annual debt service × 71.43% state share = $71,429
7. Amount of IFA local share* = $100,000 annual debt service – $71,429 state share = $28,571

* A district may not allocate the same collections as its local share for both the IFA program and the EDA program.

What Is the EDA Program?

The EDA program provides funding to school districts for debt service payments on eligible bonded debt. Eligibility is determined by the date of first payment made on general obligation bonds issued by a school district. Bonds for which the first payment was made before the end of a state biennium are eligible to receive EDA funding beginning with the following biennium. The amount of funding is determined by the district's I&S tax effort during the last year of the preceding state biennium.

A school district does not need to apply to receive EDA funding, and there is no award cycle, as there is for the IFA program.

[4] The minimum IFA allocation is based on 400 ADA or $100,000.

Payments to establish eligibility must be included in the debt service schedule reported to the Municipal Advisory Council of Texas (MAC of Texas).

The TEA determines the final amount of EDA funds to which a school district is entitled based on I&S tax collection and bond data that the agency receives through the district's annual financial report and from the MAC of Texas, respectively.

Just like a school district, a charter school is entitled to EDA funds. However, the EDA entitlement is calculated slightly differently for a charter school than for a school district. Because charter schools do not have tax rate, a charter school's EDA entitlement is calculated using a state average debt tax rate. Also, because charter schools do not have taxable property values and cannot raise the local share, the state share of EDA is equal to the total EDA entitlement. In addition, the state average debt tax rate is capped at the rate that would produce $60 million in total EDA funds to charter schools statewide.

How Is an Eligible District's EDA State Aid Calculated?

The EDA state aid an eligible district is due is calculated using the following formula:

EDA state aid =

($35 × ADA × existing debt tax rate × 100) – (existing debt tax rate × [PTAD prior year property value ÷ 100])

Where "existing debt tax rate" = the district's current year I&S tax rate applicable to the payment of eligible bonds. Statute limits the tax rate for which a district may receive EDA assistance to $0.29.

Example for Determining EDA State Aid and Local Share

Example ISD has:

- PTAD prior year property value of $100,000,000
- ADA of 1,000
- annual debt service payments of $100,000

Example ISD's EDA state aid and EDA local share are calculated as follows:

1. Taxable property value = $100,000,000 property value ÷ $100 assessed valuation = $1,000,000
2. Tax yield per penny of existing debt tax rate = $1,000,000 taxable property value × 0.01 = $10,000
3. Tax yield per penny per student = $10,000 ÷ 1,000 ADA = $10.00 local revenue
4. State aid per penny = $35.00 guaranteed yield – $10.00 local revenue = $25.00 state aid
5. Percentage debt service assistance paid as state aid = ($25 ÷ $35) × 1 = 71.43%
6. Amount of EDA state assistance = $100,000 annual debt service × 71.43% state share = $71,429
7. Amount of EDA local share* = $100,000 annual debt service – $71,429 state share = $28,571

* A district may not allocate the same collections as its local share for both the IFA program and the EDA program.

What Other FSP State Aid Is Available to School Districts?

In addition to the FSP state aid already discussed, school districts are also due the following funding.

Available School Fund (ASF) Payments

Each Texas school district and charter school is entitled, under the Texas Constitution, to receive payments from the ASF for each eligible student enrolled. The ASF is primarily made up of revenue generated by the state's fuel tax and by the Permanent School Fund.

ASF payments are based on a district's or charter school's prior year ADA. The payment rate per ADA (the distribution rate) is adopted each year by the State Board of Education. This payment is referred to as a "per capita" payment.

The ASF serves as a method of finance for the FSP. This means that this source of revenue is used to help pay the state's FSP payments to school districts and charter schools. (In other words, for most districts, ASF funding is not received in addition to the funding making up the districts' FSP state aid, but as a part of the funding making up that state aid.)

All districts, regardless of property wealth, are eligible to receive ASF funds.

Staff Allotment (Additional State Aid for Staff Salary Increases)

School districts, including Chapter 41 districts, are also entitled to receive funding known as Additional State Aid for Staff Salary Increases. School districts receive $500 for each full-time employee who is not an administrator or subject to the minimum salary schedule (MSS) (employees subject to the MSS are classroom teachers and full-time librarians, counselors, and nurses). Districts receive $250 for each part-time employee who is not an administrator or subject to the MSS.

Eligible charter schools and education service centers are also entitled to receive this funding.

How Does the TEA Collect the Data Necessary to Calculate FSP State Aid and Pay Out That Aid?

As explained in preceding sections, the TEA determines the amount of a district's FSP state aid using district property value, tax, attendance, and staff data. Other state agencies, school districts, and charter schools submit these data to the TEA. Districts and charter schools submit the data required of them primarily through two online systems, the Public Education Information Management System (PEIMS) and the FSP System.

Property Value and Tax Rate Information

The TEA gets information on district property values and tax rates from the Property Tax Assistance Division of the Texas Comptroller of Public Accounts. The TEA gathers tax collection information from districts through an annual online FSP System survey and through the district's submission of the Annual Financial Report.

Attendance Projections Information

In the fall before each state fiscal biennium (i.e., the fall of each even-numbered year), the TEA calculates an estimate of the enrollment in each school district and charter school, based on attendance trends for the past four years. These projections are used to meet the statutory requirement for the TEA to submit initial estimates to the Texas Legislature by October 1 of even-numbered years. Each district and charter school is responsible for reviewing its attendance projections data and making any needed corrections using the FSP System. The TEA reviews and makes any needed adjustments to these data before submitting the final enrollment estimates by March 1 of each odd-numbered year, as required by law. This submission of final estimates occurs during the budget writing process of the biennial legislative sessions.

Attendance Information

Districts and charter schools are required to submit attendance data to the TEA throughout the school year using the PEIMS. These data become available to the TEA division responsible for state funding in March and after the school year ends.

Charter School Attendance Estimate Information

Before each school year, each existing charter school has the option of providing the TEA with an estimate of the number of students in ADA it will have and an estimate of the number of students it will have in various educational programs, using the FSP System.

If a charter school does not submit these estimates, the TEA uses prior year attendance information to estimate the number of students in ADA and the amount of state aid the school is due for the coming year.

Because a brand-new charter school does not have any prior year data for the TEA to use, each new charter school is required to provide an estimate of its number of students.

The TEA has access to changing charter school attendance data during the school year through the FSP System, and it uses this revised attendance data to modify charter school allocations and the payments based on them throughout the year. At the end of the school year, these data are compared to data submitted by charter schools through the PEIMS. Significant discrepancies are subject to investigation.

Staff Information

Districts and charter schools are required to submit staff data (number of staff in certain categories) to the TEA monthly using the FSP System. These data are compared to data submitted through the PEIMS, and significant discrepancies are investigated and resolved.

The TEA uses all these data to produce a report, the *Summary of Finances*, which describes the annual FSP state aid for a school district or charter school.

What Is the *Summary of Finances* (*SOF*)?

The *SOF* is a report that the TEA produces for each district and charter school describing funding elements and FSP state aid. The *SOF* section on funding element information includes the number of students in ADA and WADA, the number of students making up special student populations, property values, tax rates, and tax collection amounts. The *SOF* also describes the Tier I and Tier II entitlements, and a variety of other FSP allotments, including facilities allotments, if any. For each district, the TEA produces several *SOF* reports throughout the school year, updating the information in the report as new data become available.

How Is the *SOF* Related to Payment of State Aid to School Districts?

The *SOF* report for school districts reflects two calculations of FSP state aid, one based on legislative payment estimates (LPEs) and one based on district planning estimates (DPEs). The data elements of the LPE are adopted during the biennial appropriations process. The data elements of the DPE reflect updates to the data as they become available.

The TEA produces a preliminary *SOF* for the school year in the summer before that school year begins. The *SOF* shows information in two columns, one for the LPE data elements and one for the DPE data elements. In a district's preliminary *SOF*, the figures in the "DPE" column match those in the "LPE" column.

A district's FSP state aid, and a schedule of payments to distribute that aid to the district, are initially based on the figures in the preliminary *SOF*. As the school year progresses and more current data are reported to the TEA, the agency updates the information in the "DPE" column and produces revised *SOF*s. The updated information in the "DPE" column of each revised *SOF* is intended to provide a school district with a more accurate indication of its actual FSP earnings for the fiscal year. As each updated *SOF* is made available, a district is expected to compare the most-recent estimate of its state aid to the initial estimate (which its payments continue to be based on) and budget accordingly. The difference between the payments and the actual amount the district is due is reconciled in two “settle-up” processes that occur after the close of the state fiscal year.

How Is the *SOF* Related to Payment of State Aid to Charter Schools?

As with school district *SOF*s, the *SOF*s for charter schools reflect both LPE and DPE calculations of FSP state aid. Also, as with school district *SOF*s, charter school *SOF*s are updated throughout the year to reflect updated information, and a charter school is expected to compare its most recent estimate of state aid to earlier estimates.

However, because TEA has access to changing charter school attendance data during the school year through the FSP System, charter school allocations and the payments based on them are modified throughout the year based on the revised attendance data.

In addition to being revised throughout the year, charter school allocations are revised again after the end of the year in the settle-up processes that occur once PEIMS attendance data and district tax data are available.

What Is Settle-Up?

Settle-up = actual earnings – payments made during the school year

Settle-up is the reconciliation between the payments made to districts and charter schools and the actual earnings of districts and charter schools. Settle-up occurs in a two-step process after the close of the state fiscal year.

The first step, or "near-final" settle-up, typically occurs in September for the prior school year. At this time, actual attendance data become available and revised estimates of tax collections are also reported through the FSP System. These updated figures are used to produce a "near-final" *SOF*, showing the actual amount of state aid each district or school was due.

The second step, or "final" settle-up, typically occurs during the following April or May timeframe. This settle-up incorporates school district tax collection data from the annual financial audit as well as any changes to other data elements that have occurred since the "near-final" settle-up.

Following each settle-up process, the TEA pays out additional aid to any districts and charter schools that were underpaid and recovers aid from districts and charter schools that were overpaid. Usually, overpayments are recovered from a district's or charter school's remaining FSP payments from the current state fiscal year.

How Is State Aid Paid to School Districts and Charter Schools?

The state aid owed to a school district or charter school is broken up into multiple payments that are made throughout the school year. A school district's schedule of payments is determined by statutory criteria that are based on which payment class the district falls into. For school districts, there are three payment classes that are defined in statute and based on property wealth per pupil.

Districts in payment class 1 have property wealth per pupil that is less than half the statewide average. Districts in payment class 2 have property wealth per pupil that is between half the statewide average and the statewide average. Districts in payment class 3 have property wealth per pupil that is greater than the statewide average. Because charter schools do not have property values, a charter school's schedule of payments is comprised of 12 equal monthly payments.

Payment classes are assigned at the beginning of each state fiscal year and do not change during the year. The schedules of payments for districts in the three payment classes and the schedule of payments for charter schools are shown in the following table.

Payment Schedule by Payment Category

Month	Payment Class 1	Payment Class 2	Payment Class 3	Charter Schools
	Percent of Annual FSP State Aid	Percent of Annual FSP State Aid	Percent of Annual FSP State Aid	Percent of Annual FSP State Aid
September	15	22	45	8.3
October	10	18	35	8.3
November	10	9.5	--	8.4
December	10	--	--	8.3
January	10	--	--	8.3
February	5	--	--	8.4
March	10	--	--	8.3
April	--	7.5	--	8.3
May	10	5	--	8.4
June	10	10	--	8.3
July	10	13	--	8.3
August	--	15	20	8.4

Class 1: Wealth per pupil that is less than ½ the statewide average
Class 2: Wealth per pupil that is between ½ the statewide average and the statewide average
Class 3: Wealth per pupil that is above the statewide average

Note: Payments from the Available School Fund (per capita) are made monthly on a per ADA basis (except in January and February, when payments are based on a set percentage for payment classes 1 and 2) if funds are available to be distributed. The amount per ADA paid each month is not known until that month.

Where Can I Find More Information?

You can find more information related to state and local funding of Texas public schools at the following websites.

TEA School Finance web page
http://tea.texas.gov/Finance_and_Grants/State_Funding/

TEA School District State Aid Reports web page
https://tea4avfawcett.tea.state.tx.us/Fsp/Reports/ReportSelection.aspx

Texas Legislature Online website (Look up specific bills or statute)
http://www.legis.state.tx.us/

Texas Comptroller of Public Accounts website (Find property value information)
http://comptroller.texas.gov/

Index

T

W

Texas Education Agency
Austin, Texas
August 2017