Texas Education Agency
Office of School Finance

School Finance 101:
Funding of Texas Public Schools

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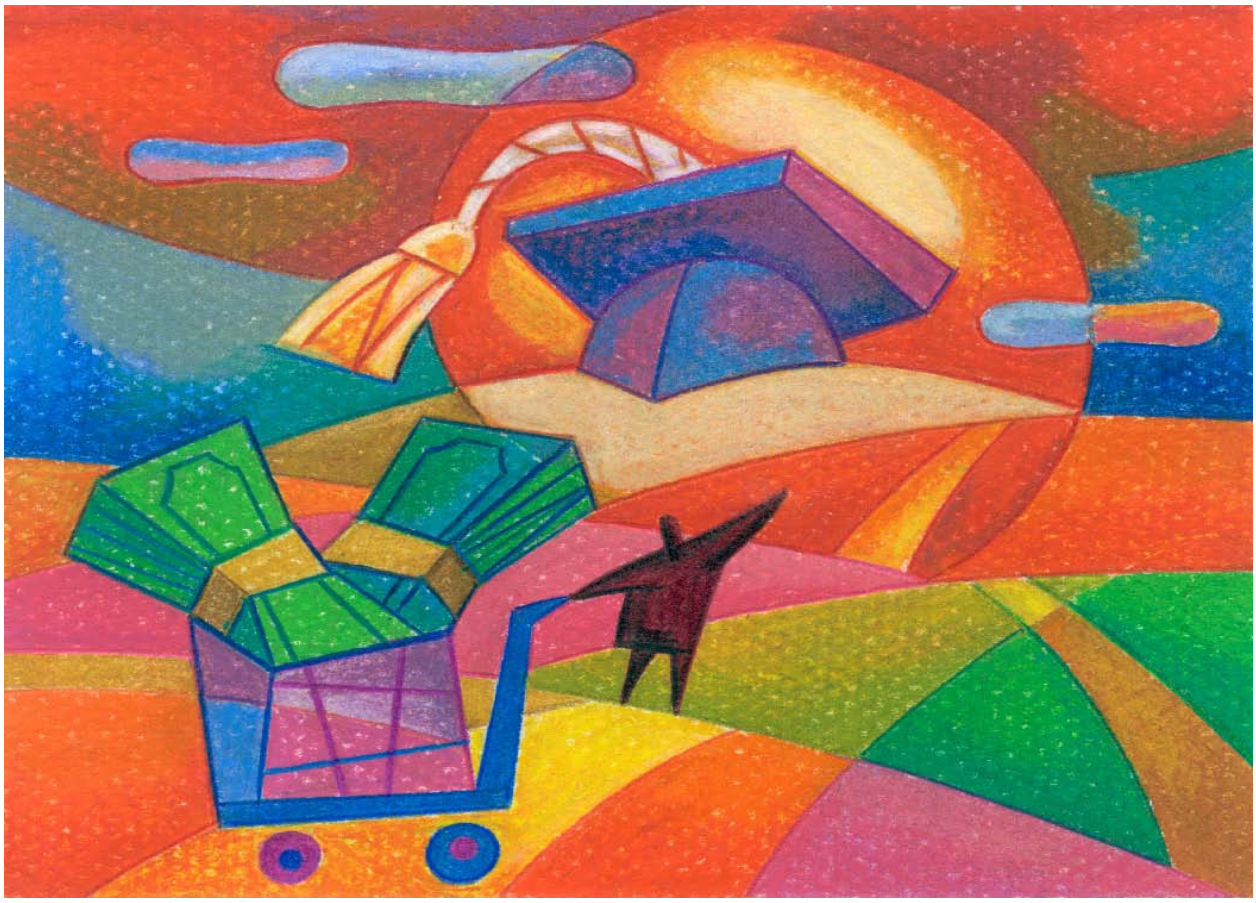

Acknowledgements

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This manual 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 a majority of the funding received by public schools, this manual does not describe all of the sources of funding received by public schools, such as state and federal grant funds. The manual 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 manual.

Please be aware that both statutes and administrative rules may change after the publication of this manual. This manual 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.

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Introduction

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

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

The Foundation School Program (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, in its current form, 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 provides school districts with assistance in financing their maintenance and operations based on the following three components:
    - **Tier I** of the FSP provides school districts a basic level of funding with allotments for regular education; special education; compensatory education, including Pregnancy Related Services; career and technical education; bilingual / English as a Second Language education; gifted and talented education; and public education grants. This tier also includes allotments for transportation, new instructional facilities, and the Texas Virtual School Network as well as an allotment for specialized programs at the high school level. Additional compensatory education funds may be available to serve students who are military dependents.
    - **Tier II** of the FSP is intended to supplement the basic funding provided by Tier I. Tier II guarantees a specific amount of funding per student in weighted average daily attendance (to be discussed later) for each penny of a school district's tax effort above a specified level. The funding provided by this additional tax effort is also referred to as enrichment.
    - **Revenue at the compressed tax rate,** provided for in the property-tax-relief law that was passed in 2006 and modified in 2009, guarantees school districts a set amount of funds per student in weighted average daily attendance (to be discussed later) to compensate for a mandatory reduction in, or compression of, their local maintenance and operations (M&O) tax rates from rates that were adopted in 2005. A district's revenue at the compressed (tax) rate is based on the state and local M&O revenue a district

[1] Texas Education Code, §42.001(b)

would have earned had it not lowered its tax rate. It is the sum of the state share of a district's Tier I entitlement and the revenue from the district's (compressed) M&O tax rate, adjusted for statutory minimum or maximum hold harmless provisions.

- **The facilities funding component** of the FSP provides school districts with assistance for debt service related to school facilities through the following two programs, which assist school districts in funding facilities by equalizing interest and sinking fund (I&S) tax effort:

    - The Instructional Facilities Allotment 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 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 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 payments on the debt that finances a district's facilities. 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 2006–2007 tax year. Per House Bill 3646 (HB 3646), passed by the 81st Texas Legislature, Regular Session, 2009, for the 2009–2010 tax year and beyond, a district's compressed tax rate (DCR) 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 compressed tax rate would be $1.00.

To receive funding related to revenue at the compressed tax rate, a district must adopt a tax rate at least equal to its DCR.

What Are "Golden" Pennies?

Golden pennies are the first six cents of tax effort a district assesses above its DCR. These pennies are called golden because they are the pennies of tax effort for which a district is able to generate the highest level of supplemental funding. (See the "What Is Tier II?" section for a more detailed discussion.)

What Are "Copper" Pennies?

Copper pennies are any cents of tax effort a district assesses above its DCR plus six cents. These pennies are called copper because they generate a lower level of supplemental funding than the golden pennies do. (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, and new instructional facilities. Tier I also includes allotments for the Texas Virtual School Network and an allotment for specialized programs at the high school level, the high school allotment. Additional compensatory education funds may be available to serve students who are military dependents.

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 DCR (see "What Is a District's Compressed Tax Rate?" in the "Overview" section).

A district's basic allotment amount is the lesser of —

1) the greater of —

   a) $4,765 or

   b) the product of 0.0165 multiplied by the average statewide property value per weighted student (student in weighted average daily attendance [WADA][2])

   or

2) $4,765 multiplied by the quotient that results from dividing the district's DCR by the state maximum compressed tax rate (MCR), which is $1.00

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.

[2] WADA is a weighted average daily attendance figure. See "What Is WADA?" in the "What Is Tier II?" section for a detailed discussion of how WADA is calculated.

What Is Average Daily Attendance (ADA)?

A simple calculation of the number of students in ADA can be found by adding the number of students who are in attendance each day of the school year for the entire school year and then dividing that number 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

A district's refined ADA is further adjusted to account for certain significant declines in enrollment and to change any prekindergarten attendance that was reported as full-day attendance to be half-day attendance.[3] This further-adjusted ADA figure is known as "adjusted refined ADA." In following sections, for simplicity's sake, the term "ADA" will be used instead of the term "adjusted refined ADA."

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 —

- **how much it costs 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. The index has not been updated since that time.

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

- **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 —	**<u>or</u> 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

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

Calculating the Tier I Allotments

<u>Regular Education Allotment</u>
To calculate a district's regular education 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.

AA x regular education ADA = regular education allotment

<u>Program Allotments</u>
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.

What Is an FTE?
An FTE is defined as 30 contact hours per week between a student participating in a particular program and applicable program personnel. For instance, one special education FTE is equal to 30 hours of contact per week between a special education student and special education program personnel.

-Special Education (SE)
Students who have a disability as defined by federal law are eligible to receive SE services. A student receiving SE services is assigned to a particular instructional arrangement or setting depending on the type of services required.

To calculate a district's SE 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 SE FTEs is subtracted from the ADA figure that is used to calculate the regular education allotment.

Examples:

AA x 5.0 x homebound SE FTEs = homebound SE allotment

AA x 2.7 x off-home-campus SE FTEs = off-home-campus SE allotment

-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 and/or to continue their education.

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 education allotment.

AA x 1.35 x CTE FTEs = CTE allotment

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

-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.

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

Funding is based on the amount of time that special education students are served in their instructional arrangements/settings. Special education students 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

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

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.

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

-State Compensatory Education (SCE), Military Allotment, 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.

AA x 0.2 x SCE enrollment = SCE allotment

The military allotment, which is included in SCE statutory provisions, provides for a district to receive, beginning with the 2009–2010 school year, $650 for each student in ADA who —

- has a parent or guardian serving on active duty in a combat zone as a member of the armed forces *or*
- has a parent or guardian serving on active duty as a member of the armed forces and has transferred to the district during the school year because of an action taken under the Defense Base Closure and Realignment Act of 1990

Districts receive military allotment funding only if funds are specifically appropriated for the allotment or if excess FSP funds are available to fund the allotment.

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.

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

-Gifted and Talented (GT)

GT programs provide educational experiences beyond those normally provided by the regular school program to students who have been determined to need them.

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.

AA x 0.12 x GT enrollment = GT allotment

-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 education 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.

AA x 0.1 x PEG ADA = PEG allotment

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 and is available to all school districts that build new instructional facilities that meet the requirements of statute and rules. Charter schools are not eligible to receive NIFA funding.

The NIFA provides support for opening a new campus through a reimbursement of $250 per student in ADA in the first year of operation of the new campus, plus $250 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 $25 million per year, with an additional $1 million[4] for high school facilities.

Any school district, including a district subject to the provisions of the Texas Education Code (TEC), Chapter 41, (see the "What Is Recapture?" section) may receive the benefit of the allotment.

School districts must apply to receive the NIFA.

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 special education students 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

[4] added by House Bill 2237, 80th Texas Legislature, 2007

hazardous traffic area by the school board.[5] 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 is. The current legislative funding rates were established in 1984 and have not been raised since that time.

Texas Virtual School Network (TxVSN) Allotment

The TxVSN provides students throughout the state with access to online courses that are reviewed to ensure they meet the Texas Essential Knowledge and Skills and national standards. The TxVSN allotment provides funding to school districts and charter schools that provide TxVSN courses (provider districts) as well as to districts and charter schools whose students receive instruction through TxVSN courses (resident districts). Funding for students in grades 9 through 12 is based on successful course completion (a provider district receives $400 for each successfully completed course, and a resident district receives $80). Funding for students in grades 3 through 8 is based on ADA. Provider districts that provide TxVSN courses that exceed a student's normal course load may be entitled to additional funding. Any school district, including a district subject to the provisions of the TEC, Chapter 41, may receive the benefit of the allotment.

TxVSN courses first became available with the 2008–2009 school year. However, funding for the TxVSN only became a Tier I allotment beginning with the 2009–2010 school year as a result of the passage of HB 3646 by the 81st Texas Legislature, Regular Session. This bill expanded the TxVSN program and made changes in the way districts and charter schools receive TxVSN funding.

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.

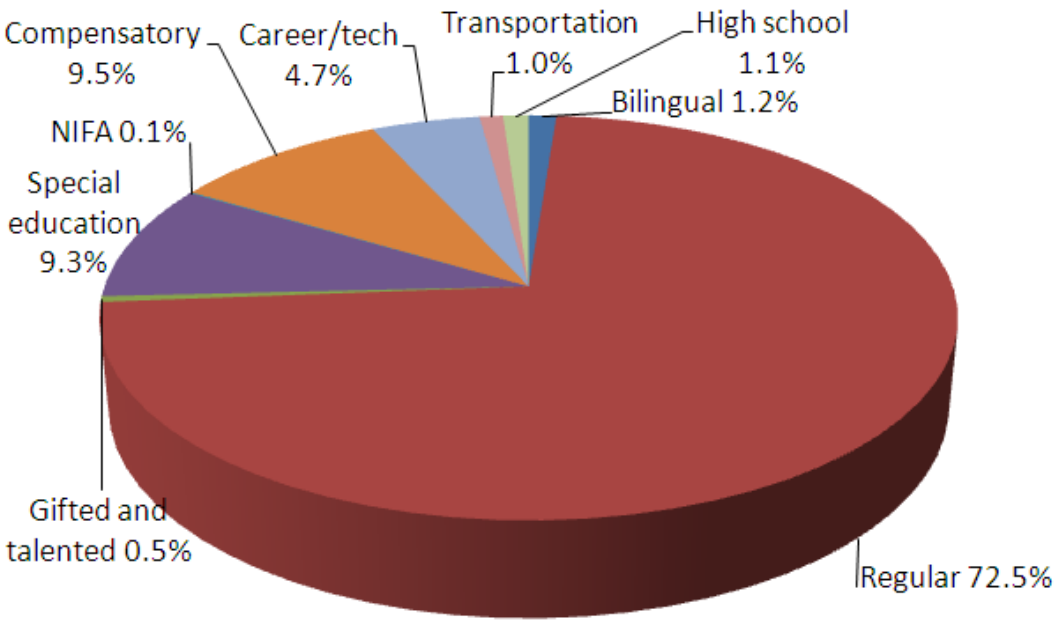
Before the 2009–2010 school year, the high school allotment was not a part of Tier I but was instead provided as part of a district's additional state aid for tax relief (the district's revenue at the compressed tax rate funding). HB 3646 moved the authorization for the high school allotment to Tier I.

Summing the Allotment Amounts to Arrive at the Tier I Entitlement

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

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

Breakdown of Tier I Entitlement (Statewide, 2009-2010)



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**.

The LFA is the amount of tax collections generated by assessing the DCR or a tax rate of $1.00, whichever is lower, for each $100 of property valuation, using the preceding school year's property values.

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

LFA = lesser of DCR or district tax rate of $1.00 x PTAD prior year property value

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

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

What If the LFA Is Greater Than the Tier I Entitlement?

If a district's LFA exceeds its Tier I entitlement, the district is said to be "budget balanced." A budget-balanced district, however, is still constitutionally entitled to its Available School Fund (ASF) entitlement (discussed later) and must receive at least its ASF entitlement in Tier I state aid.

Before the provisions of HB 3646 went into effect, it was possible for a district to be budget balanced without being subject to the provisions of the TEC, Chapter 41 (subject to having part of its DCR tax collections recaptured). Now, however, a district that is budget balanced will also necessarily be subject to the provisions of the TEC, Chapter 41.

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 amount is calculated somewhat 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.

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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 will generate a specified amount of state and local funds per student in weighted average daily attendance (**WADA**) for each cent of tax effort above the tax effort required to meet the LFA, up to an amount set by statute.

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 transportation funding the district is due, any funding the district is due for new instructional facilities, the district's TxVSN allotment, the district's 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
– TxVSN allotment
– 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 Allotment Calculated?

Originally, Tier II provided one level of guaranteed yield funding on the pennies of tax effort exceeding a district's LFA. The passage of House Bill 1 by the 79th Texas Legislature, Third Called Session, (HB 1 [79-3]) in 2006 expanded Tier II to provide three different levels of guaranteed yield funding on the pennies of tax effort exceeding a district's LFA. The passage of HB 3646 in 2009 further modified Tier II to provide for two (instead of three) levels of guaranteed yield funding.

Before Passage of HB 1 (2006)

Before the passage of HB 1 (79-3), Tier II provided a single guaranteed yield for the pennies of tax effort above the LFA (then $0.86), up to a maximum M&O tax effort of $1.50.

After Passage of HB 1 (2006)

As a result of HB 1 (79-3), Tier II was expanded to provide three levels of guaranteed yield funding on the pennies of tax effort that exceeded the LFA (then $0.86), up to a maximum M&O tax effort of $1.17. A district's Tier II allotment was determined in part by the pennies of M&O tax effort that exceeded the district's DCR (district's 2005–2006 tax rate multiplied by 0.6667). Under HB 1 (79-3), a district was limited in the number of pennies of tax effort it could assess in excess of its DCR.

The three different guaranteed levels of combined state and local funding provided for by HB 1 were calculated as follows:

- Level 1 (L1) = the district tax revenue per WADA per penny of tax effort available to a district that was at the 88th percentile in property wealth per student.
  For 2008–2009, this amount was **$37.42** per WADA.

  A district generated L1 funding for the M&O tax effort making up its compressed M&O tax rate that exceeded the district's LFA.

- Level 2 (L2) = Austin ISD's property wealth per student.
  For 2008–2009, this amount was **$50.98** per WADA.

  A district could generate L2 funding for only six pennies of tax effort above its DCR. Most school districts could access four of these six pennies at the discretion of the local school board. Because of restrictions in the Texas Tax Code, access to the fifth and sixth pennies of enrichment usually required voter approval.

- Level 3 (L3) = a fixed amount set by statute.
  This amount was **$31.95** per WADA.

  A district could generate L3 funding for any pennies of tax effort above its DCR plus six pennies. Enrichment at this level typically required voter approval.

After Passage of HB 3646 (2009)

HB 3646 modified Tier II to provide two (instead of three) levels of guaranteed yield funding on the pennies of tax effort that exceed the LFA (modified by HB 3646 to be the lesser of $1.00 or a district's DCR).

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

- Level 1 (L1) = the greater of —
    - Austin ISD's property wealth per student:
      for 2009–2010, this amount is **$59.02**[6] per WADA
      or
    - the amount of district tax revenue per WADA per cent of tax effort generated for this level of guaranteed yield funding for the last school year

  A district may generate L1 funding for only six pennies of tax effort above its DCR. These pennies are sometimes called golden pennies because they are the pennies of tax effort for which a district is able to generate the highest level of enrichment funding. 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 pennies of enrichment usually requires voter approval.

- Level 2 (L2) = a fixed amount set by statute.
  This amount is **$31.95** per WADA.

  A district may generate L2 funding for any pennies of tax effort above its DCR plus six pennies. 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 (State and Local) Allotment
Say that Example ISD had a 2005–2006 M&O tax rate of $1.50, and so has a DCR of $1.00. It has an M&O tax rate of $1.07, or seven pennies above its DCR. Example ISD has WADA of 3,200.

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

L1 = $59.02 x 3,200 x 6 pennies = $1,133,184

L2 = $31.95 x 3,200 x 1 penny = $102,240

L1 + L2 = $1,133,184 + $102,240 = **$1,235,424**

[6] The L1 amount will be different for 2010–2011.

What Is the District Enrichment Tax Rate?

The district enrichment tax rate (DTR) is the tax effort that exceeds the tax rate used to produce the LFA. The DTR is limited to the difference between the maximum M&O tax rate permitted and the tax rate that produces the LFA. The DTR limit for a district with a DCR of $1.00 (2005 M&O rate of $1.50) is calculated as follows:

DTR limit = $1.17 – $1.00 = $0.17

The DTR determines the level of Tier II enrichment a school 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 tax rate used to produce the LFA. The DTR for the first level of Tier II (DTR1) is limited to the first six cents of tax effort that exceeds the tax rate that produces the LFA. The DTR for the second level of Tier II is based on the tax effort, if any, that exceeds the tax rate that produces the LFA plus six cents. For example, a district with a current year M&O tax rate of $1.11 and a DCR of $1.00 would have the following DTR components applied to its Tier II allotment.

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 Office of the Texas Comptroller

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

The state share of a district's Tier II allotment, 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 state share of the guaranteed yield amount (GYA) for each level of Tier II is determined by subtracting the LR from the Tier II allotment 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 —

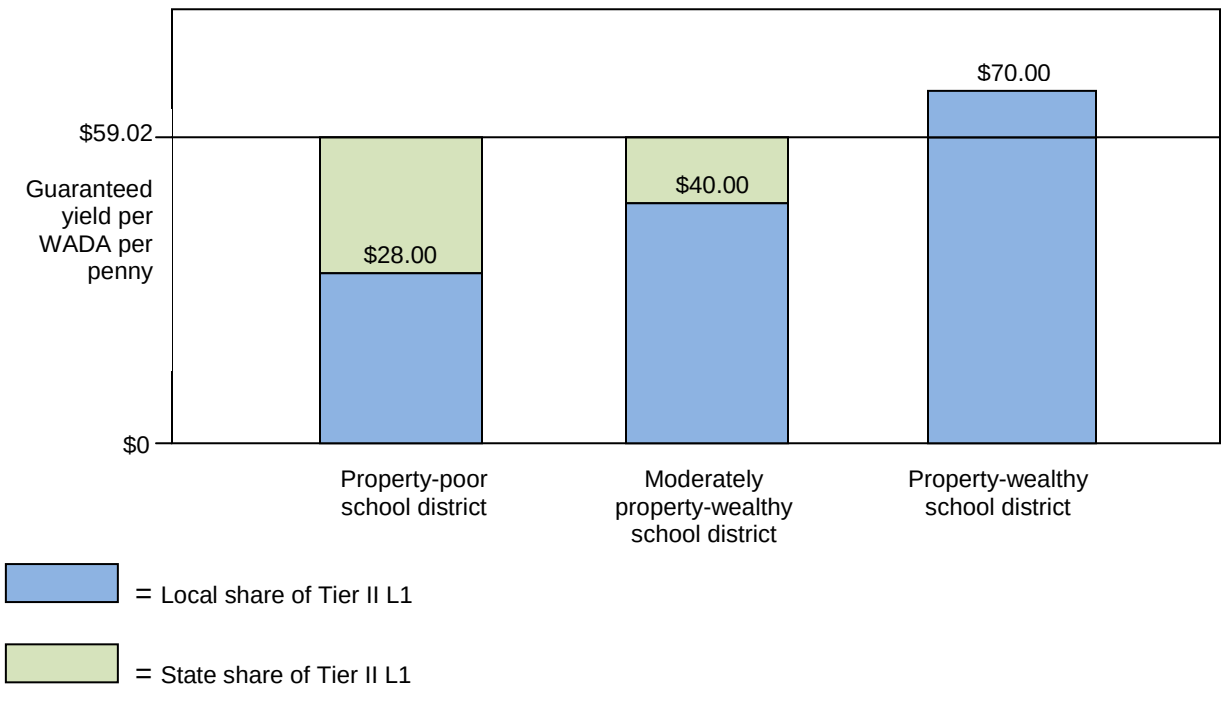
- a DCR of $1.00 (2005–2006 M&O tax rate of $1.50)
- M&O tax effort of $1.07
  - DTR1 = 6 pennies
  - DTR2 = 1 penny
- WADA of 3,200
- PTAD prior year property value of $10,000,000

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

L1 = $59.02 x 3,200 x 6 pennies = $1,133,184
LR1 = ($10,000,000 / 100) x 6 = $600,000
GYA1 = ($59.02 x 3,200 x $0.06 x 100) – $600,000 = $533,184

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

Example of Tier II Level 1



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What Is Recapture?

Recapture is a mechanism in state funding formulas that ensures that a district's property wealth per student does not exceed certain levels, known as equalized wealth levels. A district that is subject to recapture is often referred to as a **Chapter 41** district because the provisions governing recapture are found in 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 is equal to the maximum school district property wealth per WADA provided by the basic allotment. This level applies to the tax effort that is equivalent to a school district's DCR (district's 2005 M&O tax rate multiplied by the state compression rate). The state compression rate is 66.67 percent, and the first EWL for 2009–2010 is $476,500 per WADA. A district with property wealth per WADA in excess of $476,500 will have the excess tax collections associated with its DCR recaptured.

What Is the Second EWL?

The second EWL is determined by the funding provided to property-poor school districts for their tax effort that exceeds the DCR, up to six pennies. If the state's equalization program for property-poor 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 DCR, then property-wealthy 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 property-poor 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 DCR 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.

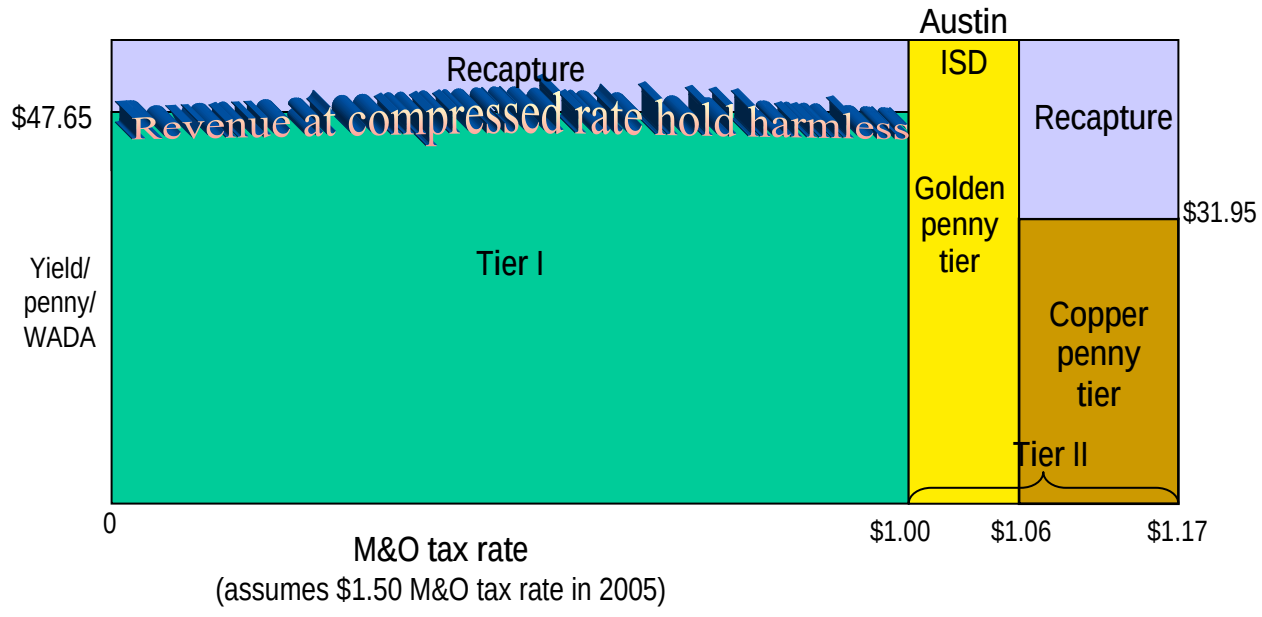
Example of Tax Effort Related to EWLs

2005 M&O tax rate = $1.50
DCR = $1.50 x 66.67% = $1.00
2009 M&O tax rate = $1.17

	Tax Rate	2009–2010 Wealth per WADA
1st EWL	$1.00	$476,500
2nd EWL	$0.06	Unlimited[1]
3rd EWL	$0.11	$319,500
Total tax effort	$1.17	

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.

M&O Taxes and State Funding



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 property-poor 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 for tax reduction, if the state aid exceeds the amount owed for recapture (see the "What Is the Revenue Target, and What Is a District's 'Revenue at the Compressed Tax Rate'?" section for more details).

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

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What Is the Revenue Target, and What Is a District's "Revenue at the Compressed Tax Rate"?

Property-tax-relief legislation passed as House Bill 1 in 2006 reduced property tax rates and held districts harmless for the tax rate reduction by replacing the lost tax revenue with state funds. Subsequent legislation passed as House Bill 3646 in 2009 modified the funding related to a district's DCR. Collectively, these bills introduced two new concepts in the determination of this funding: the revenue target and revenue at the compressed tax rate.

What Is the Revenue Target?

The revenue target is a specific amount of funding, based on a certain amount of money per WADA, that the state guarantees to a school district in exchange for the mandatory reduction of the district's M&O tax rate. The revenue target amount is different for each school district and is 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 by the property-tax-relief provisions in House Bill 1, 79th Texas Legislature, Third Called Session, 2006 (HB 1 [79-3]). The revenue target formulas were modified by the 81st Texas Legislature in 2009 with HB 3646.

What Is Revenue at the Compressed Tax Rate?

HB 3646 also created a new funding component, based on the revenue target, known as revenue at the compressed (tax) rate, or RACR. The RACR amount is the sum of the state share of a district's Tier I entitlement and the revenue from the district's compressed tax rate, both as calculated under HB 3646, adjusted as necessary based on certain minimum and maximum hold harmless provisions of HB 3646. For the 2009–2010 school year, the RACR provisions of HB 3646 guarantee that as long as a district levies at least its DCR as its M&O tax rate, the district will be entitled to a RACR amount equal to at least the sum of the following:

- the revenue per WADA (also called target revenue per WADA) the district would have been entitled to in 2009–2010 under the school finance laws that existed before HB 3646,
- $120 per WADA, and
- adjustments to reflect current year funding for the district’s transportation allotment, NIFA, educator salary increase allotment, aid for certain tax credits, and tuition paid, if applicable.

For the 2009–2010 school year, HB 3646 provisions limit increases in district funding provided by the RACR to the amount the district would have been entitled to in 2009–2010 based on prior law (HB 1 [79-3]) formulas, plus $350 per WADA.

In 2010–2011 and beyond, a district levying at least its DCR as its M&O tax rate will be entitled to a RACR amount equal to at least the sum of the following:

- the revenue per WADA the district was entitled to in 2009–2010 and
- adjustments to reflect current year funding for the district’s transportation allotment, NIFA, educator salary increase allotment, aid for certain tax credits, and tuition paid, if applicable.

Also, beginning with the 2010–2011 school year, revenue increases are limited to $350 per WADA more than the prior school year.

The following sections provide a more detailed explanation of the calculations involved in determining a district's revenue target and RACR.

How Is a District's Revenue per WADA Amount Determined?

As described in the previous section, the first component of a district's RACR amount, and of its HB 3646 revenue target, is the (target) revenue per WADA the district would have been entitled to in 2009–2010 under the school finance law that existed before HB 3646.

Under the school finance law that existed before HB 3646, a district's **target revenue per WADA** was the greatest of three amounts determined by formulas, sometimes referred to as scenarios, that were set in statute.

The **scenario 1 (S1)** revenue per WADA amount is based on the amount of state and local funds per WADA that a school district received in 2005–2006.

The **scenario 2 (S2)** revenue per WADA amount is based on the amount of state and local funds per WADA that a school district would have been entitled to receive in 2006–2007, based on the district's 2005 M&O tax rate, assuming the law had not been changed by HB 1 (79-3).

The **scenario 3 (S3)** revenue per WADA amount is based on the amount of state and local funds per WADA that a school district would have been entitled to receive in 2006–2007, as the law existed before the passage of HB 1 (79-3), but using the effective tax rate authorized by HB 1 (79-3).

For 2009–2010, the highest of the target revenue per WADA amounts produced by these scenarios is used in the calculation of both a district's revenue target under the provisions of HB 3646 (also called HB 3646 adjusted target revenue) and a district's RACR.

How Is a District's HB 3646 Adjusted Target Revenue Determined?

The HB 3646 adjusted target revenue a district is due is determined in two steps. The first step of the calculation determines the total target revenue that the district would have received in 2009–2010 based on prior law (HB 1 [79-3]), using the target revenue per WADA amount discussed in the last section. This calculation reflects the school finance formulas that were in place before the changes authorized in HB 3646. The second step of the HB 3646 adjusted target revenue calculation is based on the changes in the formulas that were authorized in HB 3646.

What Is the First Step in Determining a District's HB 3646 Adjusted Target Revenue?: Determining a District's Adjusted HB 1 Target Revenue

As stated before, the first step in determining a district's HB 3646 adjusted target revenue amount is to determine the total target revenue that a district would have received under HB 1 (79-3).

To determine the adjusted HB 1 target revenue amount, first the target revenue per WADA amount for each scenario (lines 1, 7, and 13 in the following screen shot of a district's *Calculation of ASATR* report[7]) is multiplied by the district's current year WADA. Adjustments are then made to this amount to reflect current year allotments for the transportation allotment and the NIFA. The result of this calculation is an adjusted target revenue amount for each of the three scenarios.

The maximum of the three adjusted target revenue amounts (lines 6, 12, and 18) is used as the base for the adjusted HB 1 target revenue amount. This base (line 19) is adjusted for the current year teacher salary allotment (a district receives $2,500 for each employee subject to the minimum salary schedule [classroom teachers and full-time librarians, counselors, and nurses]) and the current year high school allotment (a district receives $275 for each grade 9–12 student in ADA) and for the current year tuition paid by those districts that must pay tuition to another district because they do not offer all 12 grades. The resulting amount will be proportionally reduced for school districts that levy an M&O tax rate that is less than their compressed tax rate.

Note: In step one, the calculation of WADA is based on the statutory provisions authorized by HB 1 (79-3). In a district's *Calculation of ASATR* report, this data element is referred to as "HB 1 WADA."

The step one calculations produce an adjusted HB 1 target revenue amount (line 24) that is used as the basis of the step two calculations.

***Summary of Finances Calculation of ASATR* Report (Excerpt)**

01. S1 Target Revenue per WADA	$4,598
02. 2009-2010 HB1 WADA	6,364.813
03. S1 Target Revenue (Line1 * Line2)	$29,267,912
04. NIFA Adjustment (2009-2010 vs 2005-2006)	$191,274
05. Transportation Adjustment (2009-2010 vs 2005-2006)	$-28,130
06. Adjusted S1 Target Revenue (Line3 + Line4 + Line5)	$29,431,056
07. S2 Target Revenue per WADA	$4,644
08. 2009-2010 HB1 WADA	6,364.813
09. S2 Target Revenue (Line7 * Line8)	$29,558,315
10. NIFA Adjustment (2009-2010 vs 2006-2007)	$191,274
11. Transportation Adjustment (2009-2010 vs 2006-2007)	$-61,304
12. Adjusted S2 Target Revenue (Line9 + Line10 + Line11)	$29,688,285
13. S3 Target Revenue per WADA	$4,675
14. 2009-2010 HB1 WADA	6,364.813
15. S3 Target Revenue (Line13 * Line14)	$29,755,633
16. NIFA Adjustment (2009-2010 vs 2006-2007)	$191,274
17. Transportation Adjustment (2009-2010 vs 2006-2007)	$-61,304
18. Adjusted S3 Target Revenue (Line15 + Line16 + Line17)	$29,885,603
19. Max of (Line6, Line12, and Line18)	$29,885,603
20. 2009-2010 Teacher Salary Allotment	$975,000
21. 2009-2010 High School Allotment	$345,025
22. 2009-2010 Tuition Paid Adjustment (Old Law 2009-2010 Tuition Paid Minus Target Year Tuition Paid)	$0
23. HB1 Penalty for M&O Tax Rate Levied Below Compressed Rate	$0
24. Adjusted HB1 Target Revenue (Sum of Lines 19,20,21,22,23)	$31,205,628

[7] The *Calculation of ASATR* report is included within a larger state aid report called the *Summary of Finances*.

What Is the Second Step in Determining a District's HB 3646 Adjusted Target Revenue?

In the second step of the HB 3646 adjusted target revenue calculation, the adjusted HB 1 target revenue amount is divided by the number of HB 1 WADA to produce a 2009–2010 revenue per WADA amount based on prior law (HB 1 [79-3]) (line 26 in the following screen shot). This amount is multiplied by the number of WADA produced by the current law calculations, a data element referred to as "HB 3646 WADA." The product of this calculation forms the base of the HB 3646 adjusted target revenue amount.

The base is adjusted for tuition paid in the current school year, for payments to tax increment financing (TIF) arrangements, and for the current year transportation and NIFA allotments. The funding received by districts in 2008–2009 for the educator salary increase authorized in Rider 86 of the General Appropriations Act for the 2008–2009 biennium is added to this amount to produce the HB 3646 adjusted target revenue amount (line 34).

***Summary of Finances Calculation of ASATR* Report (Excerpt)**

25. 2009–2010 HB1 WADA	6,364.813
26. Adjusted HB1 Revenue per HB1 WADA (Line24 / Line25)	$4,903
27. 2009–2010 HB3646 WADA	6,364.984
28. HB3646 Base Target Revenue (Line26 * Line27)	$31,206,466
29. 2009–2010 Tuition Adjustment per HB3646	$0
30. Supplemental TIF Payment	$0
31. NIFA Adjustment	$0
32. Transportation Adjustment	$0
33. 2008–2009 Educator Salary Increase Allotment	$150,552
34. HB3646 Adjusted Target Revenue (Sum of Lines 28,29,30,31,32,33)	$31,357,018

How Are a District's RACR and Per WADA RACR Determined?

To determine the total RACR a district is due, first the total HB 3646 state and local RACR before adjustments for minimum and maximum hold harmless (line 38 in the following screen shot) must be determined. This amount (total HB 3646 state and local revenue) is found by adding the state share of the Tier I entitlement the district is due under HB 3646 to the district's M&O tax collections at the DCR and subtracting any amount the district owes for recapture at the compressed rate.

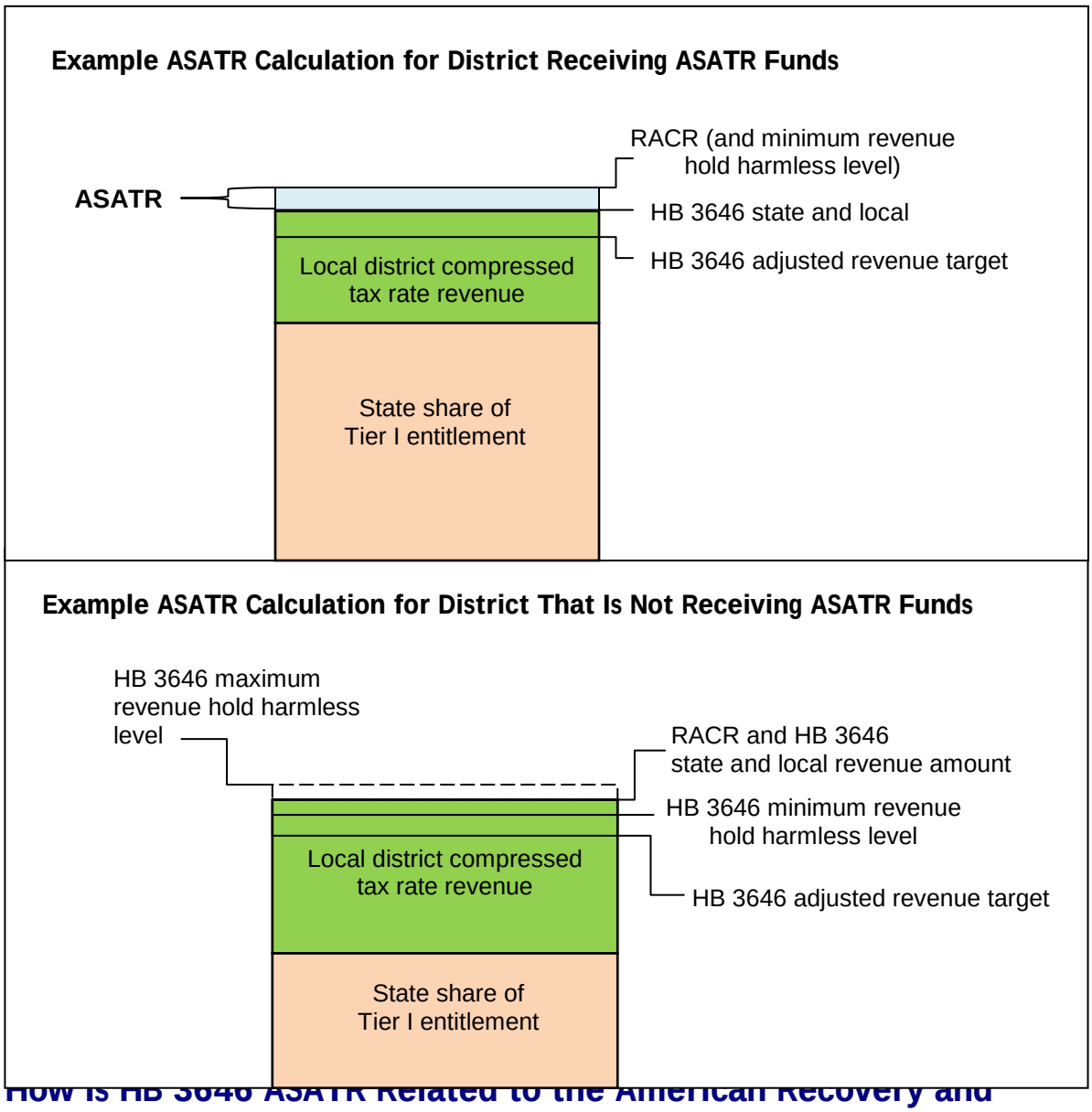
The HB 3646 state and local revenue amount (line 38) is then compared to the minimum and maximum revenue hold harmless levels under HB 3646 (lines 39 and 40, respectively). If the state and local revenue amount (line 38) is less than the minimum hold harmless level (line 39), the district receives the difference in funding known as **additional state aid for tax reduction (ASATR)** (line 41). If the state and local revenue amount (line 38) is greater than the minimum hold harmless level (line 39) but less than the maximum hold harmless level (line 40), the district gets to keep all the revenue. If the state and local revenue amount (line 38) exceeds the maximum hold harmless level (line 40), the district's funding is reduced to the maximum hold harmless level.

The district's total RACR amount, then, (line 43) is the HB 3646 state and local revenue amount plus any ASATR the district is due or minus any revenue that exceeds the maximum hold harmless level (line 38 + line 41 + line 42). To find a district's per WADA RACR amount (line 44), the total RACR amount is divided by the district's current year HB 3646 WADA.

Note: For a district that is entitled to ASATR funds, the district's total RACR amount will equal its minimum revenue hold harmless level.

***Summary of Finances Calculation of ASATR* Report (Excerpt)**

35. Tier I State Aid (HB3646)	$21,793,698
36. M&O Collections at the Compressed Rate	$10,152,525
37. Less Recapture at the Compressed Rate	$-0
38. Total HB3646 State & Local Revenue	$31,946,223
39. Minimum Revenue Hold Harmless Level ([Line27 * $120] + Line34)	$32,120,816
40. Maximum Revenue Hold Harmless Level ([Line27 * $350] + Line34)	$33,584,763
41. ASATR (If Line38 < Line39, Then Line39 – Line38)(Else 0)	$174,593
42. Reduction of Excess Revenue (If Line38 > Line40, Then Line40 – Line38)(Else 0)	$-0
43. Revenue @ Compressed Rate (Line38 + Line41 + Line42)	$32,120,816
44. Revenue per WADA @ Compressed Rate ([Line38 + Line41 + Line42] / Line27)	$5,046
45. SFSF - Foundation School Fund Grant Frozen ASATR Detail Report	$763,112



How is HB 3646 ASATR Related to the American Recovery and Reinvestment Act of 2009 (ARRA)?)

During the 2010–2011 state biennium, the additional ASATR revenue delivered to school districts and charter schools as a result of the passage of HB 3646 will be funded with a portion of the State Fiscal Stabilization Fund funds that were authorized by the ARRA. (Additional ARRA funds will fund a portion of the per capita payments from the Available School Fund [see the section entitled "What Other Funding Are School Districts Due?"].)

Are Charter Schools Eligible to Receive ASATR?

Because they do not collect local taxes, charter schools do not directly receive ASATR. However, they do receive an entitlement that is based on the state average ASATR amount.

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 and EDA programs provides a guaranteed yield of $35 per penny of tax effort per unweighted ADA, within limitations prescribed for each program.

A district is required to levy sufficient taxes *or* to access the reserve of unequalized 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.

Charter schools are not eligible to receive facilities funding.

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.

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.[8] IFA-supported debt must support the construction of instructional facilities. State aid is reduced for expenditures on noninstructional 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 x ADA x bond tax rate x 100) – (bond tax rate x [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

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

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 x .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) x 1 = 71.43%
6. Amount of IFA state assistance = $100,000 annual debt service x 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.

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 EDA funds to which a school district is entitled based on I&S tax collection and bond data that the agency receives from the MAC of Texas and through Public Education Information Management System reporting.

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 x ADA x existing debt tax rate x 100) – (existing debt tax rate x [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 x .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) x 1 = 71.43%
6. Amount of EDA state assistance = $100,000 annual debt service x 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.

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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 Payments

Each Texas school district is entitled, under the Texas Constitution, to receive payments from the Available School Fund (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 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. In other words, this source of revenue is used to help pay the state's FSP payments to school districts. (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. However, charter schools are not eligible to receive them.

For the 2009–2010 and 2010–2011 school years, a portion of the per capita payment will be funded with State Fiscal Stabilization Fund (SFSF) funds provided by the American Recovery and Reinvestment Act of 2009. The portion of a school district’s per capita payment that will be paid with SFSF funds is included in the district's notice of grant award for SFSF funds. As a result, the district will receive some of its per capita payment in its regularly scheduled FSP payments and will draw down some of its per capita payment as part of the district's federal grant.

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.

Additional Aid for Frozen Levy Lost (HB 5 Hold Harmless Aid)

School districts are also entitled to aid for M&O tax revenue lost as a result of the further lowering of the tax rates for homeowners who are elderly or disabled as required by the Texas Tax Code. This aid was originally provided for by House Bill 5, 80th Texas Legislature, 2007.

A district's HB 5 aid is calculated in several steps. It is based on a district's PTAD property value for the prior year and on its M&O tax rate for the current year. First, the amount of M&O tax revenue lost is determined by multiplying —

1) the amount by which the district's PTAD property value for the prior year was lowered by lowering certain homeowners' tax rates as required by HB 5 and
2) the difference between the district's current year adopted M&O tax rate and its current year compressed M&O tax rate.

Next, the gain the district realized from having its HB 5 adjusted property values used in the calculation of its FSP state aid is found by adding —

1) the gain in Tier II state aid that the district realized and
2) any savings in recapture the district realized.

Finally, the amount of HB 5 aid the district is due is found by subtracting any gain the district realized from the amount of M&O tax revenue lost.

Amount of M&O tax revenue lost as a result of the application of HB 5 provisions
– Gain realized from having HB 5 adjusted property values used in FSP calculations
= HB 5 hold harmless aid

Technology Allotment

In addition to the previous allotments, school districts are entitled to a technology allotment.

The technology allotment, described in the TEC, §32.005, provides school districts with up to $30 per student in ADA for the purchase of electronic textbooks or technological equipment for student learning. The actual rate is based on available funds. Allotment funds may also be used to pay for training educators in the use of electronic textbooks or to pay for providing access to technological equipment for student learning.

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

As explained in previous sections, the TEA determines the amount of a district's FSP state aid using district property value, tax, attendance, and staff data. These data are submitted to the TEA by other state agencies and by school districts and charter schools themselves. 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 Office of the Texas Comptroller. The agency gathers tax collection information from districts themselves through an annual online survey and through PEIMS reporting.

Pupil 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, 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 is responsible for reviewing its pupil projections data and making any needed corrections. 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.

Because charter school attendance is less stable than school district attendance, charter schools must follow an additional attendance data reporting requirement. Charter schools are required to submit attendance data through the online FSP System every six weeks. The TEA division responsible for state funding has access to these data immediately and uses the data to modify charter school allocations 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.

Until the TEA receives charter school attendance data for the first six weeks, it relies on attendance data for the previous school year, unless a charter school chooses to submit updated attendance data before the start of the school year (see the following paragraph "Charter School Aid Estimate Information"). 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 attendance using a template provided by the TEA (see the following paragraph "Charter School Aid Estimate Information").

Charter School Aid Estimate Information

Each existing charter school has the option of providing the TEA with an estimate of the state aid it should receive for the coming school year based on 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. Charter schools calculate these estimates using a template that they submit to the TEA.

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 state aid to the TEA using the template.

Staff Information

Districts and charter schools are required to submit staff data (number of staff in certain categories) to the TEA monthly using the online 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 *Summary of Finances* 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 entitlement, the Tier II allotment, 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 LPE 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 are 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?

The *SOF* report for charter schools reflects a single calculation of FSP state aid, since charter schools' FSP state aid is not based on the pupil projections used for legislative payment estimates. However, 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. Just as with school districts, the difference between payments to charter schools and the actual amount the charter schools are due is reconciled in settle-up processes that occur after the close of the state fiscal year.

What Is Settle-Up?

The reconciliation of the difference between the payments made to districts and charter schools and the actual earnings of districts and charter schools occurs after the close of the state fiscal year in a process known as settle-up. Settle-up takes place in two steps.

The year-end, or “near-final,” settle-up occurs when PEIMS attendance data become available. At this time, estimates of tax collections reported through the FSP System are used to update tax collection data used to estimate the FSP state aid for school districts. The updated attendance and tax collection data are used to produce a “near-final” *SOF*, showing the actual amount of state aid each district or school was due.

The postaudit, or “final,” settle-up occurs after the release of data from school district and charter school audits. This settle-up uses the final audited tax collections and any other updates or changes to the data elements that have occurred since the year-end settle-up.

Following each settle-up process, the TEA pays out additional aid to any districts and schools that were underpaid and recovers aid from districts and schools that were overpaid. Usually, overpayments are recovered from a district's or school's scheduled FSP payments over the remainder of 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 charter school's schedule of payments is simply broken up into twelve equal monthly payments. A school district's schedule of payments is determined by statutory criteria that are based on which payment class the district falls into. There are three payment classes defined in statute.

The three payment classes are 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. Payment classes are assigned at the beginning of each state fiscal year.

The schedule of payments for districts in the three payment classes and the schedule of payments for charter schools are shown in the following tables.

Payment Schedule by Payment Category

Month	Payment Category 1			Payment Category 2			Payment Category 3		
	% of Annual FSP State Aid	% Remaining	% of Unpaid Balance	% of Annual FSP State Aid	% Remaining	% of Unpaid Balance	% of Annual FSP State Aid	% Remaining	% of Unpaid Balance
Sept.	15	100	15.0	22	100	22.0	45	100	45.0
Oct.	10	85	11.8	18	78	23.1	35	55	63.6
Nov.	10	75	13.3	9.5	60	15.8	--	--	--
Dec.	10	65	15.4	--	--	--	--	--	--
Jan.	10	55	18.2	--	--	--	--	--	--
Feb.	5	50	10.0	---	--	--	--	--	--
March	10	40	25.0	--	--	--	--	--	--
April	--	--	--	7.5	50.5	14.9	--	--	--
May	10	30	33.3	5	43	11.6	--	--	--
June	10	20	50.0	10	38	26.3	--	--	--
July	10	10	100.0	13	28	46.4	--	--	--
Aug.	--	--	--	15	15	100.0	20	20	100.0

Category 1: Wealth per pupil that is less than ½ the statewide average
Category 2: Wealth per pupil that is between ½ the statewide average and the statewide average
Category 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.

Payment Schedule for Charter Schools

Month	Charter Schools		
	% of Annual FSP State Aid	% Remaining	% of Unpaid Balance
September	8.3	100	8.3
October	8.3	91.7	9.1
November	8.4	83.4	10.1
December	8.3	75	11.1
January	8.3	66.7	12.4
February	8.4	58.4	14.4
March	8.3	50	16.6
April	8.3	41.7	19.9
May	8.4	33.4	25.1
June	8.3	25	33.2
July	8.3	16.7	49.7
August	8.4	8.4	100

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 website
http://ritter.tea.state.tx.us/school.finance/index.html

TEA School District State Aid Reports website
http://ritter.tea.state.tx.us/school.finance/funding/sofweb7.html

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

Office of the Texas Comptroller website (Find property value information)
http://www.window.state.tx.us/

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