

An Introduction to School Finance in Texas

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Texas Public Education System

- **1,300** school districts (#1 in the nation)
 - 1,025 Independent School Districts
(Size ranges from 17 – 200,000 students)
 - 275 charter schools, military, special districts

- **8,322** campuses



Texas Public Education System (cont.)

- **4.7 million** enrolled students (#2 in nation)
 - 4.6 million in ISD's (98%)
 - 0.1 million in charter schools (2%)
 - Enrollment increases 2% per year
- **646,815** school employees (#1 in nation)
 - **327,663** teachers



Student Population

	1999	2009	Growth/ Decline
African American	14%	14%	0%
Hispanic	39%	48%	+9%
White	44%	34%	-10%
Other	3%	4%	+1%
	100%	100%	

Source: TEA Snapshot



Student Population (cont.)

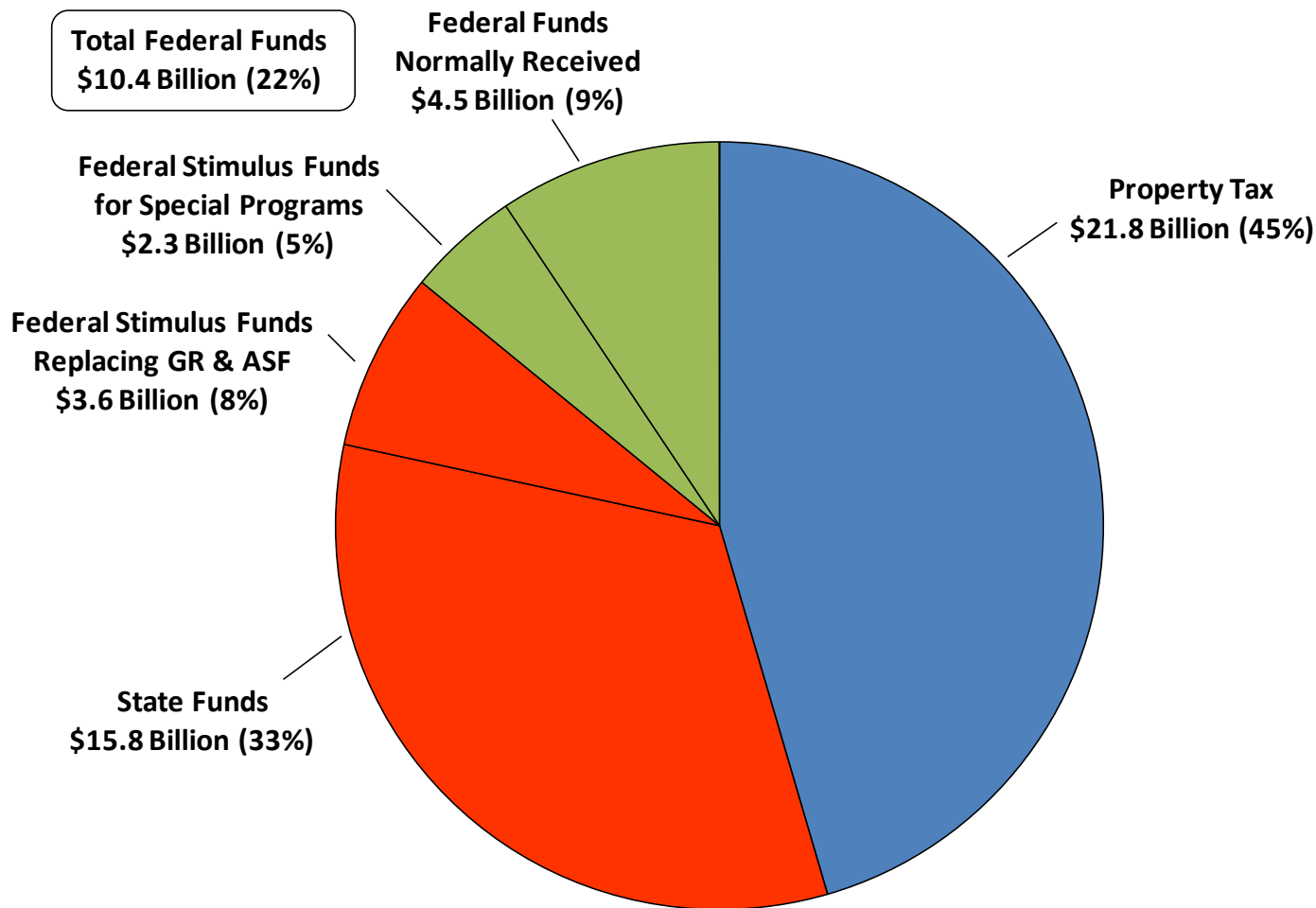
	Percent of Total
Economically Disadvantaged	57%
Limited English Proficient	17%

Economically disadvantaged is defined as eligible for the free and reduced price lunch program. Eligibility income requirements are between \$28,665-\$40,793 annual income for a family of four.

Source: TEA Snapshot 2009

Total Funding \$48 Billion

2009-10 School Year



Recaptured property taxes are included in Property Tax total rather than State Funds total.
Source: General Appropriations Act and School District Self Report Data



Percent of 2010-11 Biennial Budget

- \$55.3 Billion State and Federal Funds
30% of All Funds Budget
(\$182.2 Billion)

- \$31.2 Billion State Funds
39% of General Revenue Budget
(\$80.6 Billion)



Dedicated State Funding Sources

	Billions
Oil & natural gas production taxes and electric utility tax	\$1.0
Lottery (net profit)	\$1.0
Recaptured property taxes	\$1.3
Property Tax Relief Fund (franchise & cigarette tax)	\$2.7
Available School Fund	<u>\$1.5</u>
(includes ¼ of motor fuels tax = \$760 million)	
Total	\$7.5
General Revenue makes up the remaining state portion	



Expenditures Outside of Formulas

	Billions \$
Teacher Retirement System Contribution and Expenses	\$1.69
Textbooks	.54
District Incentive Pay Programs	.20
Student Success Initiative	.15
Pre-kindergarten grants	.10
TEA Administrative Costs	.14
State Assessments	.05
Regional Service Centers, Windham School District, Day Schools for the Deaf	.12
Schools for the Blind and Deaf	.08
All Other	.33
Total	\$3.40



School Finance System

The majority of money each school district is entitled to every year is determined by two “layered” systems:

1. Formulas in the **Foundation School Program**.
2. “**Target Revenue**” system implemented in 2006 when school district M&O rates were compressed.



Foundation School Program

- Divided into two “tiers” + facilities
 - **Tier 1:** Basic tier that determines the majority of a school district’s entitlement through formulas.
 - **Tier 2:** Enrichment tier to be accessed at the discretion of a school district.
 - **Facilities** component.



Tier 1

- Each school district is entitled to a **base amount** called the “**adjusted allotment**” for every student in average daily attendance (ADA). Amount is different for every district.
- Calculations begin with **\$4,765 (basic allotment)**
 - \$4,765 is reduced if the district’s compressed rate is lower than \$1.00.
- 3 adjustments are made to the basic allotment.
- The **largest** of the three is the adjusted allotment.



Tier 1 – Adjusted Allotment

Adjusted Allotment is the **largest** of:

1. \$4,765 x **CEI** (1 1/2% - 14% increase)
2. Result from #1 adjusted for **small/sparse district (up to 63% increase)**
Small = 1,600 or fewer students
675 small districts (66%) [9% of students]
3. Result from #1 adjusted for **mid-size district (up to 8½% increase)**
Mid-size = more than 1,600 but less than 5,000 students
188 mid-size districts (18%) [12% of students]

Adjusted Allotments range from **\$3,697 to \$8,322.**



Tier 1 - Weights

- Some students are more expensive to educate so the state compensates by assigning “weights” to those students to generate more funding.
- Three Main Groups of Students:
 - **Regular Program** 1.0 (100%)
 - **Career and Technology*** 1.35 (135%)
 - **Special Education*** 1.1 – 5.0 (110% - 500%)

* Funded on FTE's = 30 hours of contact



Tier 1 - Weights (cont.)

Regular Program Students – AA plus an **additional:**

- Bilingual **10%**
(Limited English proficiency)
- Compensatory Education **20%**
(At risk of dropping out)
- Pregnant **241%**
- Gifted and Talented **12%**
(Capped at 5% of ADA)
- Public Education Grant **10%**
(Transfers due to low campus rating)



Additional Allotments

- High school student **\$275** per ADA
- Students at a new campus **\$250** per ADA
- Students completing a virtual course **\$400** each
- Students w/parent on active duty **\$650** each
- Staff Allotment **\$500/Fulltime**
\$250/Part-time
- Technology Allotment **\$29.66** per ADA
- Available School Fund **\$262** per ADA
- Transportation Allotment **\$0.68-\$1.43** per mile



Tier 1 Entitlement

	AA	x	# spec. ed.	x	1.1 – 5.0
+	AA	x	# career/tech	x	1.35
+	AA	x	# regular	x	1.0
+	AA	x	# bilingual	x	.10
+	AA	x	# comp ed	x	.20
+	AA	x	# pregnant	x	2.41
+	AA	x	# gifted/talented	x	.12
+	AA	x	# PEG	x	.10

+ Other Allotments (high school, transportation etc.)

Tier 1 Entitlement



Determine State and Local Share of Tier 1 Entitlement

- District's share of Tier 1 entitlement =
District's Assigned Taxable Value
x District's Compressed Rate
- State pays the remaining portion.
- If a district generates more than the total entitlement, the district pays the total amount and the excess may be recaptured.



Tier 2: Enrichment Tier

- District can levy tax above the compressed rate:
 - **\$0.04** without voter approval
 - Up to **\$1.17** with voter approval
- * Compressed rates range from \$0.64 - \$1.09
- * 7 districts have an M&O cap higher than \$1.17

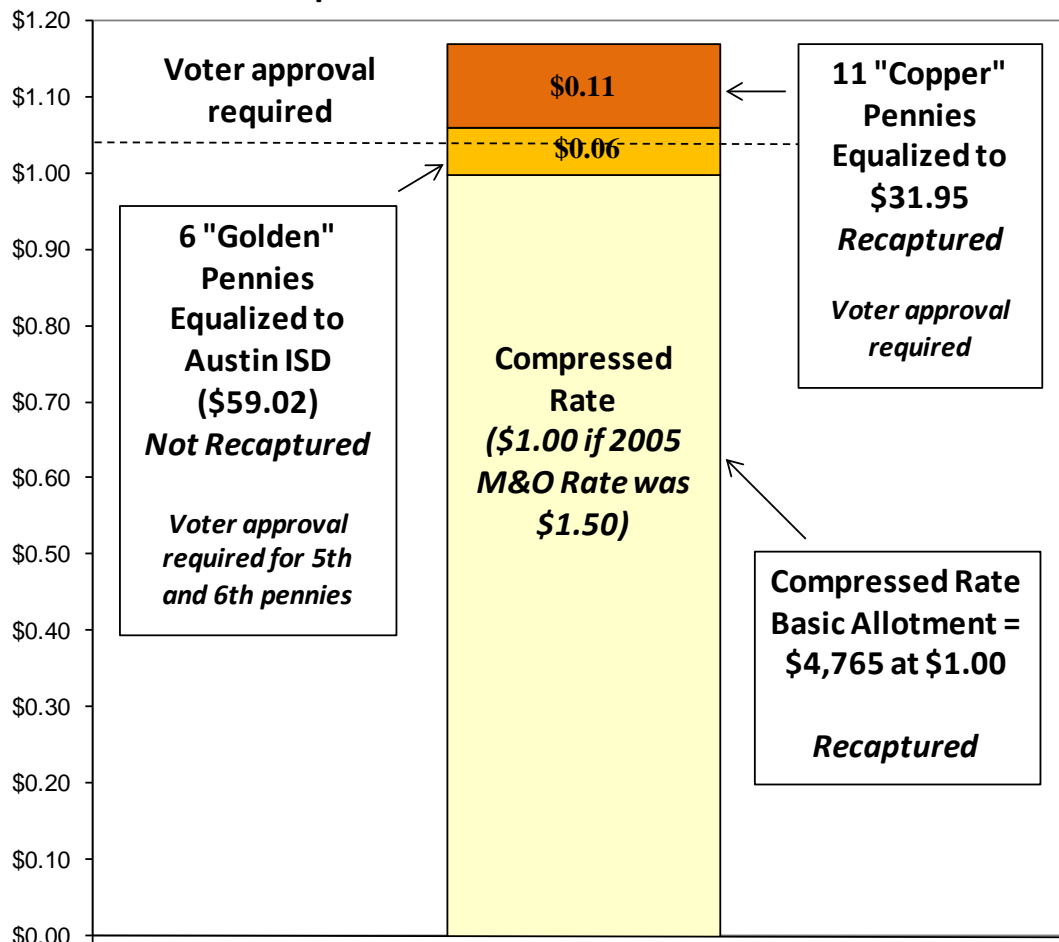


Tier 2: Enrichment Tier

- **“Golden Pennies”** – First **\$0.06** above compressed rate are equalized to the level of **Austin ISD (\$59.02** per penny per weighted student) and revenue above that level **is not recaptured**. **5th and 6th pennies require voter approval to access.**
- **“Copper Pennies”** – Remaining pennies up to \$1.17 are equalized to **\$31.95** per penny per weighted student and revenue above that level **is recaptured**.

Equalization/Recapture Levels

Equalization Levels for \$1.17 Tax Rate





Facilities

- **Existing Debt Allotment (EDA):** State equalizes to \$35 per ADA for up to \$0.29 for bonds on which payments were made in the last year of the previous biennium.

- **Instructional Facilities Allotment (IFA):** School districts must apply for funds; state equalizes to \$35 per ADA.
 - Limited to the **lesser** of:
 - (1) Actual debt payment
 - (2) \$250 per ADA or \$100,000 (whichever is greater)



Facilities (cont.)

- **\$696 million** state aid budgeted in the 2009-2010 school year.
- 803 districts levied **\$4.2 billion** for facilities payments in 2009-10 school year.
- Total of **\$4.9 billion** paid for school facilities in 2009-10 school year.



“Target Revenue” System

- In 2005 Supreme Court ruled \$1.50 M&O rate cap was an unconstitutional state property tax because school districts did not have **“meaningful discretion”** in setting rates (West Orange Cove vs. Neeley).
- Legislature responded in a 3rd called special session in 2006 by passing HB 1 and HB 2.
- Compressed M&O tax rates to **66.67% of the 2005 M&O rate** and provided a minimum of \$0.17 in discretionary pennies above that level.



Compressed M&O Tax Rates

Compressed Rate	# Districts	% of Districts
\$0.64	2	0%
\$0.65 - \$0.69	4	0%
\$0.70 - \$0.74	3	0%
\$0.75 - \$0.79	7	1%
\$0.80 - \$0.84	16	2%
\$0.85 - \$0.89	48	4%
\$0.90 - \$0.94	141	14%
\$0.95 - \$0.99	254	25%
\$1.00	543	53%
\$1.03 - \$1.09	7	1%
	1,025	100%

Source: Texas Education Agency data; TTARA calculations



“Target Revenue”

- To ensure that no district lost money, each was guaranteed the **greater of:**
 1. State & local revenue per weighted student that the district received in the **2005-2006 school year.**
 2. State & local revenue per weighted student that the district would have received in the **2006-2007 school year at the district’s adopted 2005 M&O tax rate.**
 3. State & local revenue per weighted student that the district would have received in the **2006-2007 school year at the district’s effective rate.**



“Target Revenue” (cont.)

- The following were added to reach the final adjusted target revenue amount:

Target Revenue

+ \$2,500 per employee for pay raise

+ \$275 per High School student

Adjusted Target Revenue Amount



“Target Revenue” (cont.)

- In 2009, Legislature passed HB 3646 to bring more districts back onto formulas:
 - Linked the basic allotment to the statewide average taxable value per weighted student, establishing the \$4,765 level.
 - Guaranteed districts a **minimum of \$120** per weighted student more than they would have received, but limited gains to a **maximum of \$350** per weighted student per year.



“Target Revenue” (cont.)

- If formulas generate **less than \$120** more per weighted student than the district would have received under previous law, the state contributes the difference.
- If formulas generate between **\$121-\$350** more per weighted student than the district would have received under previous law, the district receives formula funding.
- If formulas generate **more than \$350** per weighted student more than the district would have received under previous law, the excess is withheld from the district’s state aid or recaptured.
- New revenue amounts range from **\$2,561** to **\$13,092** per weighted student.



“Target Revenue” (cont.)

HB 3646 Revenue Amounts at Compressed Rates

HB 3646 Revenue	# Districts	% of Districts	# ADA	% of ADA
\$4,500 or Less	6	1%	1,543	0%
\$4,501-\$4,750	28	3%	24,096	1%
\$4,751-\$5,000	242	23%	589,868	13%
\$5,001-\$5,250	346	34%	1,777,158	41%
\$5,251-\$5,500	122	12%	787,870	18%
\$5,501-\$5,750	70	7%	509,218	12%
\$5,751-\$6,000	65	6%	381,867	9%
\$6,001-\$6,500	68	7%	238,378	5%
\$6,501-\$7,000	25	2%	39,241	1%
\$7,001-\$7,500	23	2%	18,196	0%
\$7,501-\$8,000	9	1%	9,207	0%
\$8,001-\$8,500	6	1%	2,103	0%
\$8,501-\$13,092	15	1%	4,579	0%
	1,025	100%	4,383,324	100%

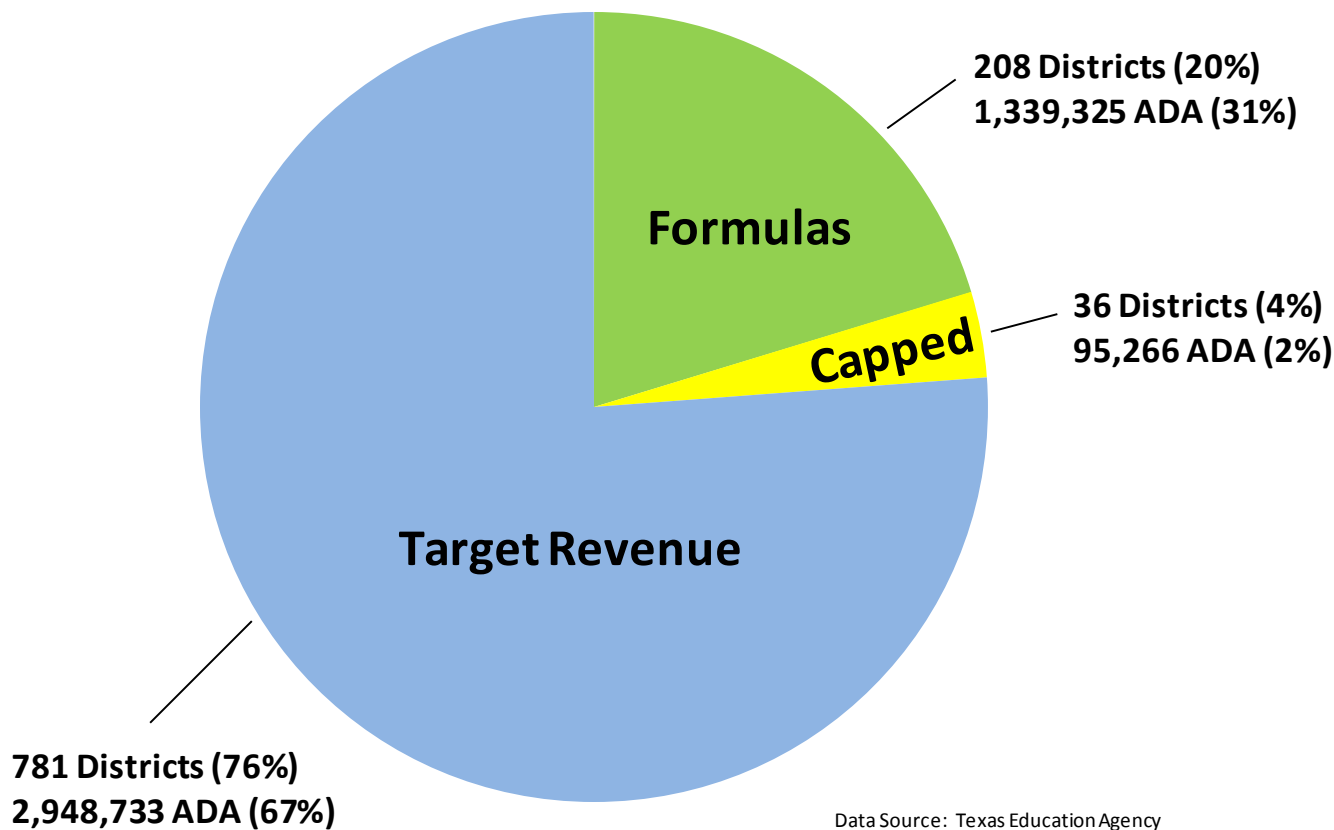
89% of Districts

98% of Students

Source: Texas Education Agency data; TTARA calculations

“Target Revenue” (cont.)

School Districts Funded through Target Revenue vs. Formulas



Data Source: Texas Education Agency



Recapture (“Robin Hood”)

- “Recapture” first became a part of our system in **1991** when the Legislature created **188 County Education Districts (CED’s)** in response to a Supreme Court ruling that mandated inclusion of property wealthy districts into the system.
 - Consolidated the tax base of property wealthy school districts with the tax bases of other school districts in the county and surrounding counties if necessary.
 - **State set the tax rate** levied by the CED’s, and revenue was shared by districts within the CED. School districts levied a rate on top of CED rate.



Recapture (“Robin Hood”) cont.

- Current system was put in place in 1993 in response to CED’s being ruled unconstitutional.
- Districts have five options to attain EWL:
 1. **Consolidate** with another school district
 2. **Detach property** to another school district
 3. **Purchase “attendance credits”** from the state *
 4. **Contract with another district** to send money *
 5. **Consolidate tax bases** with another district

* Voter approval required for options 3 & 4



Recapture (“Robin Hood”) cont.

- Equalized wealth level (EWL) was **\$280,000 taxable value** per weighted student. EWL is the amount of taxable value a district has unrestricted access to. Revenue generated from taxable value above this level is recaptured.
- Hold Harmless provision so districts could retain access to enough taxable value to generate the same amount of revenue at \$1.50 rate.
- 104 recaptured districts at that time.



Recapture (“Robin Hood”) cont.

- Currently have two equalized wealth levels per weighted student:

	EWL (per WADA)
Tier 1 (District’s Compressed M&O Rate)	\$476,500
Tier 2 “Golden Pennies” (Maximum of \$0.06)	N/A
Tier 2 “Copper” Pennies (Remaining Pennies)	\$319,500



Recapture (“Robin Hood”) cont.

- **46** school districts have “Hold Harmless” wealth levels above \$476,500.
- Hold Harmless (HH) levels range from **\$477,711** to **\$924,308** per weighted student.



Recapture (“Robin Hood”) cont.

- Amount Recaptured =
Tax Collections
x % of Taxable Value Above EWL or HH
- Percent of tax collections recaptured ranges from less than **1% to 88%**.
- Estimated that **\$1.1 - \$1.3 billion** will be recaptured from a total of **211 school districts** in the 2009-10 school year. 155 in Tier 1 and 56 more in Tier 2.



Recapture (“Robin Hood”) cont.

- In the 2009-10 school year, taxable values range from **\$18,000 to \$6.8 million** per weighted student.
- Average taxable value per weighted student is **\$284,859**.



Tax Rate Ratification (“Rollback”) Elections

- If a school board adopts a tax rate that exceeds its rollback rate, they must call an election so that voters can approve or reject **the adopted rate**.
 - Election must be held at least 30 days, but not more than 90 days after the rate was adopted.
- If voters reject the rate, the **rollback rate** is the school district’s tax rate for that year.

Ratification (“Rollback”) Elections (cont.)

- A school district located in a **disaster area** is exempt from having to schedule a rollback election in the year following the year in which the disaster occurs.
- In the following year they must either reduce the rate to the rollback rate or hold an election to maintain the higher rate.*

* AG opinion pending



Ratification (“Rollback”) Elections (cont.)

Rollback Rate Equals the **Lesser** of:

1. \$1.50 x compression percentage (66.67%)
 - + \$0.04
 - + voter approved pennies
 - + debt rate

2. Effective rate
 - + \$0.06 x compression percentage (66.67%)
 - + debt rate

Effective rate is the rate necessary to maintain the same amount of state and local M&O revenue per weighted student.



Ratification (“Rollback”) Elections (cont.)

Year	Number of Elections	Number Successful	Percent Successful
2007	119	93	78%
2008	116	70	60%
2009	42	26	62%
Total	277	189	68%

M&O Tax Rates (2009 Tax Year)

M&O Rate	Number of Districts	Percent of Districts
Above \$1.17	3	0%
\$1.17	181	18%
\$1.05 - \$1.16	48	5%
\$1.04	684	67%
\$1.01 - \$1.03	41	4%
\$1.00	12	1%
Below \$1.00	56	5%
Total	1,025	100%