Texas Education Agency
Office of School Finance

Texas Public School Finance Overview

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

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

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Introduction

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

There are three broad categories of local education agencies: independent school districts, open-enrollment charter schools, and “special” schools (unique legislative districts and state schools, such as the Texas School for the Blind and Visually Impaired and the Texas School for the Deaf). This document focuses on funding for independent school districts and open-enrollment charter schools. When this document uses the term “district” or “districts” it is referring to both independent school districts and open-enrollment charter schools unless noted otherwise.

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

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

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

- The **operations funding component** of the FSP assists school districts in financing their maintenance and operations (M&O) through the following two formulas:
    - **Tier One** of the FSP provides school districts (and open-enrollment charter schools) with a basic level of funding through several allotments, including those for regular basic education, special education (SPED), dyslexia, compensatory education, bilingual education (including dual language programs), career and technology education (CTE), public education grants, early education, college, career, or military readiness, fast growth, small and mid-sized districts, teacher incentives, transportation, and new instructional facilities.
    - **Tier Two** of the FSP is intended to supplement the basic funding provided by Tier One. Tier Two guarantees a specific level of funding per student in weighted average daily attendance, or WADA, (to be discussed later) for each penny of tax effort above a school district’s maximum Tier One tax rate (also referred to as the state maximum compressed tax rate, or MCR). The funding provided by this additional tax effort is also referred to as enrichment.

[1] Texas Education Code (TEC), §48.001(b)

- **The facilities funding component** of the FSP provides school districts (excluding open-enrollment charter schools) with assistance for debt service related to funding school facilities through the following two programs:

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

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

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

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

To provide property tax relief, the Texas Legislature established a Tier One tax rate (MCR) beginning with the 2019 tax year. Currently, a district's MCR is $1.00 multiplied by the state compression percentage, which is 0.93. For example, if a district had a 2018 Tier One M&O tax rate of $1.00, then its MCR would be $0.93. A school district must adopt a tax rate at least equal to its MCR to maximize revenue related to Tier One.

What Are Golden Pennies?

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

What Are Copper Pennies?

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

What Is Tier One?

Tier One of the FSP is made up of several allotments, including those for regular basic education, special education (SPED), dyslexia, compensatory education, bilingual education (including dual language programs), career and technology education (CTE), public education grants, early education, college, career, or military readiness, fast growth, small and mid-sized districts, teacher incentives, transportation, and new instructional facilities.

What Is the Basic Allotment (BA)?

The **basic allotment (BA)** is the basis of funding for most of the allotments that make up a district's Tier One entitlement. The amount of the BA varies depending on a school district's adopted Tier One tax rate (see What Is a District's Tier One Tax Rate? in the Overview section).

For the 2020–20201 biennium, the BA is $6,160. For the 2019–2020 school year, a district with an adopted Tier One tax rate below $0.93 receives a BA that is reduced proportionately to the degree that the district's adopted Tier One tax rate falls short of $0.93. All districts have the ability to generate 100 percent of the BA.

The BA amount and the number of students in **average daily attendance** (ADA) are used to calculate a district's Tier One entitlement. The following sections explain how these figures are used to calculate the entitlement.

What Is Average Daily Attendance (ADA)?

A simple calculation can determine the number of students in ADA. In this calculation, the total number of students who are in attendance each day of the school year for the entire school year is divided 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 the "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.

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

[2] Only half-day prekindergarten is eligible to generate FSP funding, even though full-day prekindergarten is required for eligible students. The other half of the day is paid for by the early education allotment.

How Are the BA and ADA Used to Calculate a District's Tier One Entitlement?

As mentioned earlier, a district's Tier One entitlement is calculated using the basic allotment, student attendance (ADA). These figures are used along with student funding "weights" in a series of computations to arrive at a total funding amount, as described below.

Adjusting the BA

Prior to the 2019-2020 school year, the small and mid-sized district formulas were used to increase the BA for all Tier One allotments. Under current law, for each district, the BA of $6,160 is used for all Tier One allotments, except for the SPED allotment. The small and mid-sized formulas provide a school district (excluding charter schools[3]) with additional funding whether the 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. Making these adjustments to the BA produces a district's **adjusted allotment** (AA) for use in the SPED allotment. The difference between the AA and the BA is used to calculate the district's small and mid-sized district allotment (*discussed below*).

Minimum 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. For each category of district (based on highest grade taught), they must meet either the current or prior year ADA *or* nearest miles threshold.

Minimum ADA	Highest Grade Taught	**the prior or current year ADA is at least:**	***or* the number of miles to the nearest district with a high school is at least:**
130 ADA is used	grades K–12	90	30
75 ADA is used	grades K–8	60	30
60 ADA is used	grades K–6	40	30
130 ADA is used	grades K–4*	75	30

**K–4 sparsity adjustment is only available if district meets additional requirements as laid out in the TEC, Chapter 48.*

[3] Open-enrollment charter schools receive an allotment that reflects the state average of the additional funds provided to small and mid-sized school districts. For the 2019-2020 school year, this amount is approximately $1,058 per Regular Program ADA.

Calculating the Tier One Allotments

Regular Program Allotment

To calculate a district's regular education program allotment, the district's BA is multiplied by the district's number of students in ADA who are not receiving SPED services or in a career and technology instructional arrangement.

regular program allotment = BA x regular education ADA

Other Program Allotments

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

Special Education (SPED)

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

What Is an FTE?

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

SPED Weights

A student with a disability is assigned one of 12 SPED instructional arrangements/settings. Each arrangement/setting has a weight (from 1.15 to 5.0) that is based on the duration of the daily service provided and the location of the instruction.

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

Instructional Arrangement	Funding 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	1.15

To calculate a district's SPED allotment, the district's AA is multiplied by a multiplier ranging from 1.15 to 5.0, depending on the instructional arrangement. The result is then multiplied by the number of FTEs in that instructional arrangement.

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

Example: homebound SPED allotment = AA x 5.0 × homebound SPED FTEs

Dyslexia Allotment

Districts are entitled to an annual allotment equal to the basic allotment multiplied by 0.10 for each eligible student with dyslexia or a related disorder who is receiving dyslexia services.

Dyslexia allotment = BA × 0.10 × enrolled students receiving dyslexia services

State Compensatory Education (SCE) and Pregnancy-Related Services (PRS)

SCE is defined in law as programs and services designed to supplement the regular education program for students identified as being at risk of dropping out of school. The goal of SCE programs is to reduce any disparity in performance on assessments or 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 using census block group data to assign individual students to five tiers with funding weights ranging from 0.225 to 0.275 in equal increments.

To calculate a district's SCE allotment, the district's BA is multiplied by a number ranging from 0.225 to 0.275 and then multiplied by the number of SCE educationally disadvantaged students.

Example: *SCE allotment = BA × 0.225 x SCE enrollment in census block group 1st tier*

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

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

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

Bilingual Education Allotment

Bilingual education and special language programs are designed to help students whose primary language is not English to master basic English and participate effectively in the state's educational program.

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

bilingual education allotment = BA x 0.1 × bilingual ADA

Students who are English learners in eligible dual language programs are eligible for a higher weight of 0.15. Native English-speaking students in these same programs are eligible for a weight of 0.05.

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

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

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

$$CTE\ allotment = BA\ x\ 1.35 \times CTE\ FTEs$$

A district is also entitled to $50 for each CTE FTE enrolled in at least two advanced CTE classes for a total of at least three credits, and for each student in average daily attendance enrolled at a P Tech or New Tech campus.

Gifted and Talented (GT)
GT programs ensure that GT students develop and demonstrate skills in self-directed learning, thinking, research, and communication. Beginning with the 2019–2020 school year, a district's GT program is funded through the BA, and is no longer flowed as a stand-alone allotment. However, districts are still required to offer the GT program or risk a financial penalty. Open-enrollment charter schools are exempt from this requirement.

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

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

$$PEG\ allotment = BA \times 0.1 \times PEG\ ADA$$

Fewer than 100 students participate in the PEG program annually. **Open-enrollment charter schools are not eligible for the PEG allotment.**

Early Education Allotment
Districts are entitled for additional weighted funding of 0.10 multiplied by the basic allotment for each student in ADA in grades K-3, *and,* who is educationally disadvantaged or limited English proficient (LEP). A student who is *both* educationally disadvantaged, and LEP is eligible to receive double weighted funding of 0.20.

$$Early\ education\ allotment = BA \times 0.1 \times Early\ Education\ ADA$$

CCMR Outcomes Bonus
College, Career, or Military Readiness (CCMR) Outcomes Bonuses are paid for each annual graduate above a certain threshold percentage as follows:

- $5,000 for each CCM-Ready economically disadvantaged annual graduate above threshold, or

- $3,000 for each CCM-Ready non-economically disadvantaged annual graduate above threshold, and
- $2,000 for each CCM-Ready annual graduate enrolled in special education

Fast Growth Allotment

The 86th Legislature created a Fast Growth Allotment (FGA) to recognize that fast-growing districts had extra one-time expenses associated with rapid student enrollment growth. For each school district **(open-enrollment charter schools are not eligible for the FGA)** in the top quartile of student enrollment growth in the state over the preceding three school years, the formula delivers a funding weight of 0.04 multiplied against the district's basic allotment for each student in ADA.

$$\textit{Fast growth allotment} = BA \times 0.04 \times ADA$$

Teacher Incentive Allotment

The Teacher Incentive Allotment is a new optional program. Districts, if they choose to, can develop a local designation system and designate high- performing teachers (Master, Exemplary, or Recognized). Districts will receive additional funding ($3,000 - $32,000 per year) for every designated teacher they employ. Districts will receive greater funding for designated teachers who work on rural and/or high- needs campuses.

Mentor Program Allotment

The Mentor Program Allotment (MPA) is another new optional program. If districts choose to follow the best practices in TEC §21.458, they could qualify for MPA funds. The Mentor Program Allotment funding formula will provide districts $1,800 per mentee, which can be used on mentor stipends, scheduled release time, and mentor training. Funding begins in the 2020-2021 school year.

School Safety Allotment

Senate Bill 11 (86th Legislature) created the School Safety Allotment, which is allocated in order to improve school safety and security. This allotment, which is funded through direct appropriations in Article III of the General Appropriations Act, was set at $9.72 per ADA for the 2020-2021 biennium.

New Instructional Facility Allotment (NIFA)

The NIFA is provided for operational expenses associated with the opening of a new instructional facility. It is available to all school districts and open-enrollment charter schools that build new instructional facilities that meet the requirements of statute and rules. School districts and open-enrollment charter schools must apply to receive the NIFA.

The NIFA provides support for opening a new campus through a reimbursement of $1,000 per student in ADA in the first year of operation of the new campus, plus $1,000 for each additional student in ADA in the second year of operation. Special one-year funding is available for facilities that were occupied for the first time in the previous school year but did not receive NIFA funds because of the district's failure to apply for funding before opening the campus. Only completely new facilities are eligible for funding. Renovations and additions to existing facilities are not eligible.

The total amount appropriated for the program is limited by statute to $100 million per year, subject to a direct appropriation by the legislature.

Transportation Allotment

The transportation allotment provides funding assistance to school districts that provide student transportation. Basic funding is for home-to-school transportation provided to regular eligible students who live more than two miles from their campus of regular attendance and students

receiving SPED services who require special transportation to attend school. Limited funding is available to provide transportation to regular eligible students who live fewer than two miles from their campus if they live in an area designated as a hazardous traffic area by the school board.[4] 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 of $1.00 per mile.

Dropout Recovery and Residential Placement Facility Allotment
Districts are entitled to $275 for each student in ADA who resides in a residential placement facility or is at a district or school or a campus of the district or school that is designated as a dropout recovery school under TEC §39.0548.

Tuition Allotment
A school district that contracts for students residing in the district to be educated in another district under TEC §25.039(a) is entitled to receive an allotment equal to the total amount of tuition required to be paid by the district under, not to exceed the amount specified by commissioner rule.

College Preparation Assessment Reimbursements
Funding formulas now include a reimbursement to districts to offer one free college preparation exam (SAT/ACT/TSIA) per student before they graduate.

Certification Examination Reimbursement
Funding formulas now include a reimbursement to districts to offer one free industry-based certification exam (in A-F accountability) per student before they graduate.

Summing the Allotment Amounts to Arrive at the Tier One Entitlement

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

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

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

For the 2019–2020 school year, the local share is the amount of tax collections generated by assessing the district's adopted Tier One tax rate or $0.93, whichever is lower, for each $100 of property valuation, using the property value for the current tax year.

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

local share = PTAD current year property value × the lesser of the district's Tier One tax rate or $0.93

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

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

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

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

If a district's local share exceeds its Tier One entitlement, the district is said to have local revenue in excess of entitlement, which is described in detail below.

Are Charter Schools Eligible to Receive a Tier One Entitlement?

Just like a school district, a charter school is entitled to Tier One funds. However, the Tier One entitlement is calculated slightly differently for a charter school than for a school district. Because charter schools do not have taxable property values and cannot raise a local share, the state share of Tier One is equal to the total Tier One entitlement.

What Is Tier Two?

Tier Two provides a "guaranteed yield," or guaranteed level of funding, to school districts to supplement the basic funding provided for by Tier One. The guaranteed yield ensures that school districts generate a specified level of funding per student in WADA for each cent of tax effort above the district's Tier One rate. The funding provided by this additional tax effort is also referred to as enrichment.

What Is WADA?

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

How Is WADA Calculated?

A district's WADA is calculated by taking the Tier One components listed in the TEC, Chapter 48, Subchapters B and C, and then dividing by the district's BA.

How Is a District's Tier Two Entitlement Calculated?

Tier Two is comprised of two levels of guaranteed yield funding on the pennies of tax effort that exceed a district's Tier One tax rate ($0.93).

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

- Level 1 (L1) = an amount set by the General Appropriations Act that is the greater of:
  - 160 percent of the BA, on a per penny of tax effort basis
    or
  - the guaranteed level equivalent to the 96th percentile of wealth per WADA.

  For the 2020–2021 biennium, the L1 amount is $**98.56** per WADA per penny of tax effort.

  A district may generate L1 funding for only eight pennies of tax effort above its Tier One tax rate. These pennies are sometimes called golden pennies because they are the pennies of tax effort for which a district can generate the highest level of enrichment funding. In addition, golden pennies are not subject to excess local revenue (recapture). Most school districts can access four of the eight pennies at the discretion of the local school board. Because of restrictions in the Texas Tax Code, access to the fifth golden penny requires unanimous board vote beginning with tax year 2020. The remaining three golden pennies require voter approval.

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

  Per statute, the L2 amount is **$49.28** per WADA per penny of tax effort.

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

Example for Determining a District's Tier Two Entitlement

Say that Example ISD had a 2019 Tier One M&O tax rate of $0.93. It has a current M&O tax rate of $1.03, or 10 pennies above its Tier One tax rate. Example ISD has WADA of 3,200.

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

L1 = $98.56 × 3,200 × 8 pennies = $2,523,136
L2 = $49.28 × 3,200 × 2 pennies = $315,392
L1 + L2 = $2,523,136 + $315,392 = **$2,838,528**

$98.56

d yield per
WADA per
penny

$

School district that
receives state aid

Districts with excess local
revenue above

Example of Tier Two Level 1

= local share of Tier Two L1

= state share of Tier Two L1

What Is the District Enrichment Tax Rate (DTR)?

The DTR is the tax effort that exceeds $0.93. The DTR is limited to the difference between the maximum M&O rate cap of $0.17 plus the district's Tier One M&O tax rate. The DTR limit for a district with a Tier One M&O rate of $0.93 (2018 Tier One M&O tax rate of $1.00) is calculated as follows:

DTR limit = $0.93 + $0.17 = $1.10

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

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

The DTR component for each level of enrichment is determined by evaluating the district's total M&O tax effort to determine the tax effort that exceeds the district's Tier One M&O tax rate. The DTR for the first level of Tier Two (DTR1) is limited to the first eight pennies of tax effort that exceed the Tier One M&O tax rate. The DTR for the second level of Tier Two is based on any tax effort that exceeds the Tier One M&O tax rate plus eight cents. For example, a district with a current year M&O tax rate of $1.03 and a Tier One rate of $0.93 would have the following DTR components applied to its Tier Two entitlement.

DTR1 = lesser of ($1.03 – $0.93) or $0.08 = $0.08

DTR2 = $1.03 – $0.93 – $0.08 = $0.02

How Are DTR Tax Collections Calculated?

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

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

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

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

and

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

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

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

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

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

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

Example for Determining State and Local Shares of Tier Two

Example ISD has:

- An MCR of $0.93 (2018 Tier One tax rate of $1.00)
- Current year M&O tax rate of $1.03
  - DTR1 = 8 pennies
  - DTR2 = 2 pennies
- WADA of 3,200
- PTAD current year property value of $10,000,000

Example ISD's state share of Tier Two would be calculated as follows:

L1 = $98.56 × 3,200 × 8 pennies = $2,523,136
LR1 = ($10,000,000 ÷ 100) × 8 = $800,000
GYA1 = ($98.56 × 3,200 × $0.08 × 100) – $800,000 = $1,723,136

L2 = $49.28 × 3,200 × 2 pennies = $315,392
LR2 = ($10,000,000 ÷ 100) × 2 = $200,000
GYA2 = ($49.28 × 3,200 × $0.02 × 100) – $200,000 = $115,392

Are Open-enrollment Charter Schools Eligible to Receive a Tier Two Entitlement?

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

What Is Local Revenue in Excess of Entitlement?

TEC makes provisions for certain districts with excess local revenue to pay funds into the Foundation School Program for distribution to other districts. The funds that are distributed by district's with local revenue in excess of entitlement are "recaptured" by the school finance system to assist with the financing of public education for all school districts. Because open-enrollment charter schools do not have local tax collections, they are not subject to the provisions of excess local revenue.

How Does the State Determine Whether a District Is Subject to the Provisions of Excess Local Revenue?

Districts with local revenue that exceed the levels provided by Section 48.257 are subject to the provisions in TEC, Chapter 49.

What Are the Entitlement Levels?

There are two entitlement levels that limit the access of school districts to any excess tax revenue generated by local M&O tax effort.

What Is the First Entitlement Level?

The first entitlement level is Tier One. This level applies to the tax effort that is equivalent to a school district's MCR. A district with local revenue that exceeds the Tier One entitlement will have the excess M&O tax collections at its MCR recaptured.

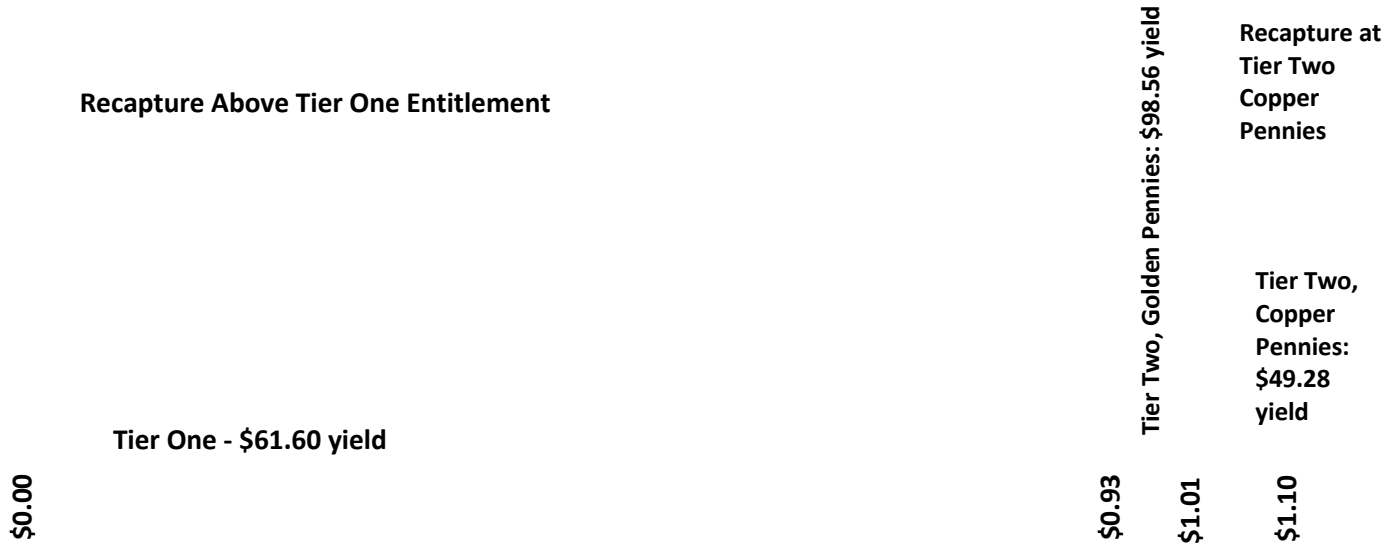
What Is the Second Entitlement Level?

The second entitlement level is determined by the funding provided to school districts for their tax effort that exceeds the MCR, up to eight pennies. If the state's equalization program for "excess revenue" school districts is funded to provide tax revenue equivalent to 160 percent of the basic allotment (on a per-penny basis) on the first eight pennies of tax effort that exceed the MCR, then "excess revenue" school districts are allowed to keep all the revenue on the equivalent tax effort. Because funding at second entitlement level is currently being provided to school districts, no recapture is currently associated with this level of funding.

What Is the Third Entitlement Level?

The third entitlement level is determined by the funding provided to school districts for their tax effort that exceeds the eight golden pennies, up to 17 cents above the MCR. This funding level is provided to a level equivalent to 80 percent of the basic allotment (on a per-penny basis) on up to nine pennies above the eight pennies of tax effort that exceed the MCR.

Each year, TEA notifies school districts in which local revenue level is estimated to exceed the guaranteed yield of $49.28. 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 local revenue level exceeds the Tier One entitlement or the Tier Two Copper Penny guaranteed Yield of $49.28, if the district is assessing copper pennies.



How Does a District Reduce Excess Local Revenues?

A district has five options available to reduce its excess local revenues. The district may choose to do one of the following:

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 districts have chosen Option 3 or Option 4, or a combination of these options. Both options must be approved in an election by local taxpayers.

Option 3 requires a district to reduce its excess local revenue by sending money to the state. These funds are used to help finance the FSP payments that are made to other school districts. A district that is subject to a reduction in excess local revenue may choose to offset its obligations against its state aid.

Option 4 requires a district to reduce its wealth by sending money directly to one or more other districts. The FSP payments from the state to these districts are reduced to reflect the receipt of this additional revenue. The amount of this reduction in state aid is calculated by subtracting the amount of revenue received from the district's state aid. This reduction is shown as a separate line item ("State Aid Reduction for Excess Revenue Received") on the receiving district's state aid report (called the *Summary of Finances*, or SOF).

How Does the State Assist School Districts in Funding Facilities?

The facilities funding component of the FSP consists of the IFA program and the EDA program. These programs assist school districts in funding facilities by equalizing I&S tax effort. **Open-enrollment charter schools are not eligible for IFA or EDA.**

State aid under the IFA program provides a guaranteed yield of $35 per penny of tax effort per refined ADA, within certain limitations. State aid under the EDA program provides a guaranteed yield per penny of tax effort per refined ADA not to exceed the lesser of $40 or an amount that would result in additional state aid of $60 million more than the amount of state aid that would be delivered at a guaranteed yield of $35. The preliminary yield for the 2019–2020 school year is estimated to be $38.58.

A district is required to levy sufficient taxes *or* 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.

What Is the Instructional Facilities Allotment (IFA) Program?

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

To receive IFA program assistance, a district must apply to TEA. TEA determines a biennial maximum allotment based on the annual debt service payment or $250 per student in ADA, whichever is less.[5] 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 × ADA × bond tax rate × 100) – (bond tax rate × [PTAD current year property value ÷ 100])

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

Example for Determining IFA State Aid and Local Share

Example ISD has:

- PTAD current year property value of $100,000,000

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

- ADA of 1,000
- annual debt service payments of $100,000

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

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

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

What Is the Existing Debt Allotment (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).

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

Charter Schools

An open-enrollment charter school is not entitled to EDA funds. However, charter schools are entitled to a facilities allotment that is tied to the guaranteed yield for the EDA program for school districts. Because charter schools do not have tax rate, a charter school's facility allotment is calculated using a state average debt tax rate. Also, because charter schools do not have taxable property values and cannot raise the local share, the state share of total facilities entitlement. In addition, the state average debt tax rate is capped at the rate that would produce $60 million in total facilities funds to charter schools statewide.

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

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

EDA state aid =

($38.58 × ADA × existing debt tax rate × 100) – (existing debt tax rate × [PTAD current 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 current year property value of $100,000,000
- ADA of 1,000
- annual debt service payments of $100,000

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

1. taxable property value = $100,000,000 property value ÷ $100 assessed valuation = $1,000,000
2. tax yield per penny of existing debt tax rate = $1,000,000 taxable property value × 0.01 = $10,000
3. tax yield per penny per student = $10,000 ÷ 1,000 ADA = $10 local revenue
4. state aid per penny = $*38.58* guaranteed yield – $10 local revenue = $28.58 state aid
5. percentage debt service assistance paid as state aid = ($28.58 ÷ $*38.58*) × 1 = 74.08%
6. amount of EDA state assistance = $100,000 annual debt service × 74.08% state share = $74,080
7. amount of EDA local share* = $100,000 annual debt service – $74,080 state share = $25,920

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

What are Available School Fund Payments?

Available School Fund (ASF) Payments

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

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

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

All districts are eligible to receive ASF funds.

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

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

Property Value and Tax Rate Information

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

Attendance Projections Information

In the fall before each state fiscal biennium (i.e., the fall of each even-numbered year), TEA calculates an estimate of the enrollment in each school district and charter school, based on attendance trends for the past four years. These projections are used to meet the statutory requirement for TEA to submit initial estimates to the Texas Legislature by October 1 of even-numbered years. Each district and charter school is responsible for reviewing its attendance projections data and making any needed corrections using the FSP System. 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 TEA throughout the school year using PEIMS. These PEIMS Fall Snapshot data become available to the TEA division responsible for state funding in March. The final PEIMS attendance data becomes available after the school year ends.

Charter School Attendance Estimate Information

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

If a charter school does not submit these estimates, 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 TEA to use, each new charter school is required to provide an estimate of its number of students.

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

TEA uses all these data to produce the SOF report, which describes the annual FSP state aid for a school district or charter school.

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

The SOF is a report that 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 One and Tier Two entitlements, and a variety of other FSP allotments, including any facilities allotments. For each district, TEA produces several SOF reports throughout the school year, updating the information in the report as new data become available.

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

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

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

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

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

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

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

What Is Settle-Up?

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

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

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

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

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

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

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

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

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

Payment Schedule by Payment Category

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

Class 1: wealth per pupil that is less than half of the statewide average
Class 2: wealth per pupil that is between half of the statewide average and the statewide average
Class 3: wealth per pupil that is above the statewide average

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

Where Can I Find More Information?

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

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

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

Texas Legislature Online website (Look up specific bills or statutes.)
https://capitol.texas.gov/

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

Texas Education Agency
Austin, Texas
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