

TEXAS

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I. GENERAL BACKGROUND

State

For fifty years, the Texas public school funding system has been a shared arrangement between the state government and local school districts. Current law governing school finance was passed by the Texas Legislature in 1993 in response to judicial mandates in the *Edgewood* school finance lawsuit. Texas determines state and local funding levels for public education through a system of formulas known, collectively, as the Foundation School Program (FSP). In 1997, Texas added a new instructional facilities allotment to the state system of school finance and, in 1999, the Texas Legislature augmented this program to help districts pay for old debt as well as debt for new instructional facilities.

The basic structure of public education finance in Texas is a multi-tiered system that permits local determination of tax rates, and provides revenue to school districts in inverse proportion to school district wealth in order to promote revenue equity. The system's first tier is a foundation program that provides a base funding level for all students at a local tax rate of \$0.86 per \$100 of property value. The second tier is a guaranteed yield mechanism in which the state guarantees school districts a yield of \$21 per student for each penny of tax above \$0.86. The yield rises to \$24.70 in the 1999–2000 school year. Texas also incorporates a unique wealth recapture mechanism limiting school district wealth to an established equalized wealth level. Recapture of revenue from districts with the highest property wealth per student further promotes equity.

There were 1,042 public school districts in Texas as of October 1998. Texas also has 24 state school districts including Windham Department of Corrections schools. As of 1998–1999, 66 charter schools were in operation. Another 80 are chartered to open in 1999 and 2000.

Throughout the 1990s, the Texas legislature has increased funding beyond what is required to support enrollment growth and local tax rate changes. Most recently (1999) the state has increased funding by \$3.86 billion. Among the things this increase supports is a \$3,000 salary increase for every teacher, counselor, nurse, and librarian. It also provides additional support for construction of instructional

facilities and aid to school districts that are building new schools to accommodate enrollment growth.

Local

Local funding for 1,042 public school districts comes almost exclusively from the property tax. Five percent of funding comes from other local sources: co-curricular revenue, interest income, and miscellaneous other local funds. Texas law requires an equal and uniform taxation of property at full market value. An appointed chief appraiser in each county is responsible for maintaining the property roll for each school district within the county and for re-appraising property at least every four years. Law mandates school district homestead exemptions of \$15,000 and provides taxpayers age 65 and older with a limit or “freeze” on the tax levy for a residence homestead.

Funding Summary 1998–1999

Total State School Aid (All Programs)		\$ 10,477.4 million
Grants in Aid	9,522.0 million	
Teacher Retirement Contributions	955.4 million	
FICA	0 million	
Total Local School Revenue		\$ 10,927.0 million
Property Tax	10,381.0 million	
Other local source tax revenue	0 million	
Local source non-tax revenue	546.0 million	
Total Combined State and Local School Revenue		\$ 21,404.4 million
State Financed Property Tax Credits		
Attributable to School Taxes		0

II. LOCAL SCHOOL REVENUE

Property tax

Forty-nine percent of the \$22 billion in K–12 public education revenue for 1998–1999 comes from the local property tax. All real property and business personal property is subject to tax. The levy is the result of the local tax base times the tax rate. Texas does not have a state property tax.

The tax base includes all taxable property within a school district. Real property (business and residential) as well as business personal property is taxable. In addition to real property improvements, land and natural resources (e.g., oil, gas, and minerals) are taxable property. Agricultural land is valued, for tax purposes, at productivity value.

County appraisal districts determine the market value of property, which is the basis for taxation. Reappraisal is required at least every four years. Texas does not use assessment ratios. Taxable value may differ from market value if the property is subject to an exemption.

Districts adopt two tax rates each year, a maintenance and operations tax rate (M&O rate) and a debt service or interest and sinking fund tax rate (I&S rate), if the district has debt. Property taxes are levied on all real property, including business personal property, based on the total property tax rate (the sum of the two parts). Tax rates are expressed in dollars and cents per \$100 of taxable property value. The average adopted 1998 property tax rate is about \$1.44 per \$100 of value. The average M&O tax rate is \$1.339 and the average I&S tax rate is \$0.199.

Each year the state comptroller conducts a property value study to determine the accuracy of local appraisals. At this time, appraisals among the 254 county appraisal offices are substantially uniform, with the average appraisal ratio being close to 100.

In the 1997 legislative session, the tax code was changed to permit appraisal of homesteads to be limited to the lesser of market value or the last appraised value plus 10% per year, plus the market value of any improvements. This adjustment in the law limits appraisal increases to 10% per year for most homeowners.

The following property is exempt from taxation by school districts: public property, federal property, tangible personal property not used to produce income, family supplies, farm products, and implements of farming or ranching, \$15,000 of the appraised value of a residence homestead, \$10,000 of the appraised value of a residence homestead for a person age 65 or older or a disabled adult, property of charitable organizations, cemeteries, youth associations, schools, religious associations, disabled veterans qualify for an exemption based on disability rating. The maximum exemption is \$3,000.

School districts may offer these optional homestead exemptions. An exemption of a fixed amount of a residence homestead for individuals who are disabled or age 65 or older. The school board would determine the fixed amount, and it must be at least \$3,000.

An exemption of a percentage of the appraised value of a homestead. The value of the exemption must be at least \$5,000 and may not be more than 20% of the appraised value.

The school board may exempt part or all of the appraised value of an historic site.

Freeport property is exempt unless the school district takes action to tax it.

The tax levy on residence homesteads of persons age 65 and older is limited to the amount of property tax imposed on the residence the first year the individual qualifies for the limit.

Income tax

Texas does not impose either a personal or a business income tax. Law requires any legislative proposal for an income tax to be placed before the voters in a referendum. If, in the future, citizens approve an income tax, the state must provide offsetting property tax reductions.

Sales tax

Texas school districts may not impose a sales tax.

Tax credits

Texas does not have a system of tax credits for school districts. Individual taxpayers and business taxpayers do not receive tax credits for education related expenditures.

III. TAX AND SPENDING LIMITS

School district property tax rates have two components: a maintenance and operations tax rate (M&O) that funds administrative and operational costs and an interest and sinking rate (I&S), also known as a debt service rate, that is used for facilities construction and renovation. The M&O rate is limited to \$1.50 per \$100 assessed valuation. Districts are permitted (in most circumstances) to adopt up to

\$0.50 of I&S taxes at the time bonds are issued. The debt limit is imposed on all debt issues after September 1, 1992, except in special circumstances. There is no cap on debt that was issued before September 1, 1992.

The tax rate limits are essential components of the state's funding formulas. The state's guaranteed yield of revenue per local tax effort (Tier 2) exists only for tax rates within the \$1.50 M&O limit. With 1999 changes, tax rates above \$1.50 can receive state support. Up to \$0.12 of tax effort for old debt may be equalized. Debt service taxes no longer are considered for Tier 2 purposes. Tax effort for debt that is not covered by the \$0.12 limit for old debt or that is not funded as new debt is unequalized.

Starting in 1997–1998, school districts were permitted to access state funding for new debt incurred as of September 1997 and for both new and old debt starting September 1999. The state and local funds that are generated under the state facilities funds are equalized through a guaranteed-yield formula in which a penny of tax yields \$28 per student in the 1998–1999 biennium. (The yield rises to \$35 per student in 1999–2000.)

School districts with wealth in excess of \$280,000 per weighted student must reduce district wealth to that level. (Beginning in 1999–2000, the equalized wealth level will be \$295,000 per weighted student.) While not technically a tax or spending limit, the wealth equalization level limits the ability of very high wealth districts to raise and spend money. High-wealth districts are allowed to retain as much local wealth in excess of the equalized wealth level as is necessary to maintain revenue at the 1992–1993 level at a tax rate of \$1.50, minus the annual distribution per weighted student from the available school fund (roughly \$300 per student).

Rollback (or tax rate ratification) is a taxpayer relief mechanism that permits local voters in a school district to contravene the decision of the school board in setting the tax rate. If the school board adopts a tax rate that exceeds a calculated rollback tax rate, the district must hold an election so that voters can determine whether to ratify the adopted rate. In 1998–1999 the rollback tax rate was equal to (1) the greater of the district's M&O rate in the prior year, plus 8 cents, plus the debt service tax rate, or (2) the rate necessary to generate the same amount of state and local funds per weighted student as was available to the district in the prior year, plus 8 cents, plus the debt rate. In 1999–2000, the rollback tax rate is limited to a rate for M&O that maintains revenues per student for operations plus the debt service tax rate plus 3 cents. In 2000–2001, the limit is M&O, plus debt, plus 6 cents.

IV. STATE EARMARKED REVENUE

The state's share of the education budget, totaling \$18.5 in the 1998–1999 biennium, is financed primarily through General Revenue funds. These funds, in turn, are supported by many different taxes and fees. The sales tax provides 55% of General Revenue funds. The remaining 45% of the General Revenue Fund comes from the corporate franchise tax, the motor fuels tax, natural gas and oil taxes, “sin” taxes, insurance and utility taxes, and others. The lottery proceeds are dedicated to public education. These revenues go into the general fund. The lottery is expected to generate about \$2.2 billion in the 1998–1999 biennium.

The state appropriates funds for education through various categories or “methods of finance.” The separate funding categories are differentiated by source or application. The largest is the Foundation School Fund. It accounts for \$14.8 billion of 1998–1999 K–12 public education budget. The Available School Fund is also a key method of finance. It accounts for almost \$2 billion of the budget in the 1998–1999 biennium. It is comprised of interest from the Permanent School Fund and 25% of the collections from the motor fuels tax. A portion of the Available School Fund monies is set aside to fund the State Textbook Fund (\$546 million in 1998–1999) which pays for textbooks (\$326 million), and the technology allotment (\$110 million per year). The technology allotment, used to purchase computers, other technology, and teacher training, is distributed at a rate of \$30 per pupil. The remainder of the Available School Fund is distributed based on the number of students in a school district. This per capita allotment for 1998–1999 was \$277 per student.

V. BASIC SUPPORT PROGRAM

Funding in 1998–1999: Not reported.

Percentage of Total State Aid: N/A

Nature of Program: Foundation.

The Texas public school funding system is a shared arrangement between the state and local school districts. In order to offset variation in local capacity to fund schools through the property tax, the state provides funding to school districts in inverse relation to district wealth. State and local funds for public education in Texas are allocated through a system of formulas known collectively as the Foundation School Program (FSP). The system consists of two tiers: Tier 1 is a

foundation program that includes adjustments and weights designed to distribute funding according to the characteristics of the school district and its students; and Tier 2 is a guaranteed yield program that guarantees school districts the equivalent of \$210,000 in taxable property wealth per weighted student.

Allocation Unit: Students in average daily attendance are the allocation unit within Tier 1 of the FSP. Students in weighted average daily attendance are the allocation unit within Tier 2 of the FSP.

Local Fiscal Capacity: Taxable value of property within each school district is the only measure of local fiscal capacity within the Texas FSP.

How the Formula Works: Tier 1 is the base or “foundation” funding level in the Texas FSP. Calculation of Tier 1 funding begins with the Basic Allotment, which is the base level of funding for each student in average daily attendance (ADA). For the 1998–1999 school year, the Basic Allotment is set at \$2,396 per student. The formula calls for the Basic Allotment to be multiplied by district adjustments that include the Cost of Education Index (CEI), the Small and Mid-Size District Allotments, and the Sparsity Adjustment. (These mechanisms are explained below under “Adjustments for Factors Affecting School Districts.”)

Adjusting the Basic Allotment by all the district adjustments results in the Adjusted Allotment. Instructional program weights are applied to the Adjusted Allotment, based on the numbers of students enrolled in or served by various special programs. The program weights are applied for special education, compensatory education, bilingual education, career and technology education (vocational programs), gifted and talented education, and students participating in the Public Education Grant (PEG) program.

For special education and vocational education programs, weights are calculated on a full-time equivalent (FTE) student basis. For other programs, weights are applied to ADA served in the program, or to the school lunch count for compensatory education, on an add-on basis.

Transportation funds are also included in Tier 1, but are not calculated on a per-pupil basis. Transportation funds for each school district are computed according to the number of students and bus route miles in the district.

The total Tier 1 allotment (state and local) for 1998–1999 averaged \$3,300 per student (ADA). In order to participate in the school finance system, school districts are each required to levy a tax rate of \$0.86. The distribution of

responsibility (between the state and the district) for funding Tier 1 is a function of the district's local property value. The Local Fund Assignment (LFA), the district's share of the Tier 1 cost, is the amount of revenue that can be raised at the \$0.86 tax rate. State aid makes up the difference between the LFA and the total Tier 1 allotment.

Tier 2 provides equalized funding to school districts beyond the base funding level in Tier 1. While districts are required to levy the LFA tax rate in order to receive state funds, the Tier 2 tax rate is discretionary. Districts may levy up to \$0.64 of tax rate in Tier 2, but they are not required by law to do so.

The Tier 2 tax rate generates resources for education in the form of a guaranteed yield. That is, one penny of tax rate will generate \$21 per student in weighted average daily attendance (WADA) from a combination of local and state sources. (In 1999–2000, the guarantee rises to \$24.70 per WADA.) In 1998–1999 districts with property wealth below \$210,000 generate local revenue, and the state provides the remaining funding up to \$21 per weighted pupil per penny of tax rate. Districts with wealth above \$210,000 per WADA and up to \$280,000 per WADA will generate their Tier 2 yield entirely with local taxes. It should be noted that districts with wealth above \$210,000 per WADA generate more than \$21 per penny per pupil guarantee. Districts with property values greater than \$280,000 per WADA must take action to reduce their property value to \$280,000 or less. In 1999–2000, the equalized wealth level rises to \$295,000 per WADA. The Tier 2 allotment (state and local) per student (ADA) averaged \$1,708 in 1998–1999.

Local Share and State Share in Funding: The local share of Tier 1 is determined by multiplying a tax rate of \$0.86 times the prior year property tax value as determined by the Texas Comptroller of Public Accounts (in the annual property value study). The state share is determined by subtracting the local share from the calculated foundation program allotment.

The local share of Tier 2 is the amount of property tax revenue raised above Tier 1 (up to the \$1.50 tax rate limit). The state provides revenue sufficient to guarantee that the district has \$21 per weighted pupil per penny of Tier 2 tax.

Weighting Procedures: Instructional program weights are applied to the FSP calculations for each school district based on the numbers of students enrolled in or served by various special programs. Texas has program weights for special education, compensatory education, bilingual education, career and technology

education (vocational programs), gifted and talented education, and students participating in the PEG program.

For special education and vocational education programs, weights are calculated on a full-time equivalent (FTE) student basis. For other programs, weights are applied to ADA served in the program (or to the school lunch count for compensatory education) on an add-on basis. Sections below describe the weights in more detail.

Adjustments for Special Factors:

The Cost of Education Index. The Cost of Education Index (CEI) is designed to reflect geographic cost variations in known resource costs and costs of education that are beyond the control of the district. The index for each district is based primarily on teacher salaries of neighboring districts, school district size (student enrollment), and concentration of low-income students. The Basic Allotment adjusted by the CEI is the Adjusted Basic Allotment (ABA) for the district.

Small and Mid-Size District Adjustments. Small and Mid-Size District Adjustments are designed to help smaller districts compensate for diseconomies of scale encountered in serving smaller student populations. Districts with fewer than 1,600 students in ADA receive the Small District Adjustment. It is calculated using the following formula.

$$\text{Adjustment} = (1 + ((1600 - \text{ADA}) \times .00025)) \times \text{ABA}.$$

Districts with low enrollment and more than 300 square miles are eligible for the following adjustment:

$$\text{Adjustment} = (1 + ((1600 - \text{ADA}) \times .0004)) \times \text{ABA}$$

The Mid-Size District Adjustment for 1998–1999 is calculated using the following formula:

$$\text{Adjustment} = (1 + ((5000 - \text{ADA}) \times .000015)) \times \text{ABA}.$$

Sparsity Adjustment. Texas provides a sparsity adjustment for certain school districts. If a district has fewer than 130 students in ADA, it has an ABA based on 130 students (for K–12 districts with at least 90 students or a distance of 30 miles by bus from the nearest high school district), or on 75 students (for K-8 districts with at least 50 students or a distance of 30 miles by bus from the nearest

high school district), and on 60 students (for K-6 districts with 40 students or 30 miles by bus from the nearest high school district).

Recapture: Chapter 41 Wealth Equalization. Districts with wealth above the equalized wealth level of \$280,000 per WADA in 1998–1999 (and above \$295,000 in 1999–2000 and beyond) are subject to wealth reduction provisions of Chapter 41 of the Texas Education Code. Affected districts choose one of five wealth sharing options. For the 1998–1999 school year there were 93 districts subject to the wealth sharing provisions of Chapter 41. All of these districts chose either Option 3, the purchase of attendance credits, or Option 4, education of non-resident students. The state estimates \$397 million in attendance credit revenues for 1998–1999. Options 3 and 4 recapture revenue from high-wealth districts. Some people refer to this as the “Robin Hood mechanism.”

Option 1—Consolidation by Agreement. The school boards of two or more districts may agree to consolidate in order to create a new district with wealth per pupil of less than the equalized wealth level.

Option 2—Detachment and Annexation by Agreement. The school boards of two or more districts may agree to detach property from one school district and attach it to one or more school districts. The wealth of the district from which property was detached may not exceed the equalized wealth level. The wealth of any district to which property was attached may not exceed \$210,000 per WADA.

Option 3—Purchase of Attendance Credits. A district may purchase attendance credits from the state. One attendance credit is equal to one student in WADA.

Option 4—Contract for Education of Nonresident Students. A district with wealth above the equalized level may enter into an agreement with a qualifying district to pay the cost of educating students in that district. The paying district provides the receiving district with revenue per weighted pupil equal to the amount spent in the paying district. Weighted pupils from the receiving district are added to paying district's student count. Under this option, the state deducts the average entitlement from the receiving district, and any excess funds from the sending district are left for the receiving district.

Option 5—Tax Base Consolidation. The school boards of two or more districts may agree to conduct an election to create a consolidated taxing district for the maintenance and operations of the two school districts. The resulting taxing district may not have a property wealth per pupil above the equalized level.

There are two exceptions to the recapture of funds in high-wealth districts. Debt service taxes (I&S) are not subject to recapture. These revenues remain in the high-wealth district for use in debt service only. The second exception applies to districts that are eligible under a hold-harmless provision to maintain their total revenue per pupil for the 1992–1993 school year. Recapture is reduced (though usually not eliminated) by the hold-harmless provision.

Aid Distribution Schedules: TEA distributes funds to school districts according to three schedules. One schedule is for school districts with wealth per student of less than one half the statewide average, another schedule is for districts with wealth of at least one half of the statewide average but not more than the statewide average, and the third schedule is for districts above the state average wealth. The flow of state funds is timed to reduce the need to carry large cash balances into a new school year. Most property taxes are paid in December or January.

The aid distribution process takes into account certain changes. The state recomputes the amount to which a district is entitled if the district's tax rate is less than that which was used for the estimate. The funding not sent to the school district is placed in a reserve account.

If a school district demonstrates to the satisfaction of the commissioner of education that the estimate of the district tax rate, student enrollment, or taxable value of property used to determine the amount of state funds to which the district is entitled are so inaccurate as to result in undue financial hardship on the district, the commissioner may adjust funding to the district.

By March 1 each year, the state determines actual state aid entitlements and compares the amount already sent out with the amount that should be sent based on current data. If the amount sent out differs from the amount to which the district is entitled, the state will adjust the district's entitlement for the next fiscal year. This process is referred to as "settle up."

Districts Off Formula: A few laws and policies erode school finance equalization. Beginning in the 1997–1998 school year, high-wealth districts subject to Chapter 41 provisions may keep all of their local I&S tax revenue. In addition, a hold-harmless provision for Chapter 41 school districts is in effect.

Higher wealth school districts with total tax rates in excess of \$1.50 can raise and keep more local property tax revenue than lower wealth districts with the same tax rates.

VI. TRANSPORTATION

Funding in 1998–1999: \$288.8 million in state and local funding combined.

Percentage of Total State Aid: N/A.

Description: Each district is entitled to allotments for transportation costs based on the daily cost per regular eligible student of operating and maintaining the regular transportation system and the linear density of that system. Linear density refers to the number of students riding buses divided by the approved route miles. A formula accounts for the cost differences in various geographic areas of Texas. The maximum rate per mile allowable is set by appropriation.

A school district or county that provides special transportation services for disabled students is entitled to a state allocation paid on a previous year's cost-per-mile basis.

Extent of Participation: Not reported.

VII. SPECIAL EDUCATION

Funding in 1998–1999: \$1,512.6 million in state and local funding combined.

Percentage of Total State Aid: N/A.

Description: The number of FTE special education students estimated for 1998–1999 is 162,720. For each student in a mainstream instructional arrangement for special education, the school district is entitled to an annual allotment equal to the ABA multiplied by 1.1 and multiplied by the ADA for mainstreamed students. For each student in the following special education arrangements, the school district is entitled to an annual allotment equal to the ABA multiplied by the weight for the arrangement, multiplied by the number of full-time equivalent students in that arrangement.

<u>Arrangement</u>	<u>Weight</u>
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
Nonpublic day school	1.7
Vocational adjustment class	2.3

Extent of Participation: Not reported.

VIII. COMPENSATORY EDUCATION

Funding in 1998–1999: \$929.9 in state and local funding combined.

Percentage of Total State Aid: N/A.

Description: For each student who is educationally disadvantaged or who is a student who does not have a disability and resides in a residential placement facility outside the home district, the district is entitled to an annual allotment equal to the ABA multiplied by 0.2. For each full-time equivalent student who is pregnant, the district is entitled to an annual allotment equal to the ABA multiplied by 2.41. The number of educationally disadvantaged students is determined by the number of students eligible for the free or reduced-price lunch program. Eighty-five percent of the funds must be used to provide compensatory and accelerated education programs that supplement the regular education program. School districts have some flexibility in determining the best way to serve students who need compensatory or accelerated instructional services. The number of educationally disadvantaged students was approximately 2 million in 1998–1999

Extent of Participation: Not reported.

IX. GIFTED AND TALENTED EDUCATION

Funding in 1998–1999: \$57.0 million in state and local funding combined.

Percentage of Total State Aid: N/A.

Description: For each identified student served in a program for gifted and talented students, the district receives an annual allotment equal to the ABA multiplied by 0.12. Not more than 5% of the district's students in ADA are eligible for funding under this section. School districts may serve more than 5% of the students, but do not receive state program support beyond the 5% limit. State rules spell out district requirements for identifying and serving gifted and talented students. The number of gifted and talented students is estimated to be 181,820 in 1998–1999.

Extent of Participation: Not reported.

X. BILINGUAL EDUCATION

Funding in 1998–1999: \$115.1 million in state and local funding combined.

Percentage of Total State Aid: N/A.

Description: For each student in ADA in bilingual education, a district is entitled to an allotment equal to the ABA multiplied by 0.1. The number of bilingual education students is estimated to be 443,139 in 1998–1999.

Extent of Participation: Not reported.

XI. EARLY CHILDHOOD EDUCATION

Funding in 1998–1999: Included in basic support program.

Percentage of Total State Aid: N/A.

Funding for early childhood and kindergarten students comes through the FSP allotment for regular education. These students are not “weighted.” Students age 5 and older receive the benefits of the FSP.

Texas school districts may offer half-day or full-day kindergarten. Pre-kindergarten is funded only on a half-day basis. In 1999, a new grant funded program is available for those school districts that wish to expand their pre-kindergarten and kindergarten programs and receive funding for those expanded services.

School districts must offer prekindergarten education if 15 or more eligible students are identified. Students age three and older are eligible if they are unable to speak and comprehend English, if they are educationally disadvantaged, or if they are homeless. Prekindergarten is half-day and districts that provide transportation may include that cost as part of the regular transportation program. Prekindergarten students are entitled to the benefits of the foundation program for the half-day program.

Students younger than age 5 placed in kindergarten or a higher grade are eligible for the benefits of the foundation program if the district adopts a policy for admitting students younger than age 5 and if the student performs satisfactorily on a state test given to students in third grade.

XII. OTHER CATEGORICAL PROGRAMS

Public Education Grant Allotment

Students may use a Public Education Grant (PEG) to attend school in a district other than the district in which the student resides if the public school the student is assigned to has 50% or more of the students not performing satisfactorily on the state assessment in any two of the preceding three years or if the school was, at any time in the preceding three years, rated as low performing. The district receiving students with PEGs is entitled to an annual allotment equal to the ABA multiplied by 0.1 multiplied by the number of students with grant. The student must use the PEG at a school that does not meet the criteria for generating such grants. In other words, students cannot take a PEG to attend another low-performing school.

Career and Technology Education

For each full-time equivalent student in an approved career and technology education program in grades 9 through 12 (or in programs for students with disabilities in grades seven through 12) a district is entitled to an allotment equal to the ABA multiplied by a weight of 1.37. Full-time equivalent student means 30 hours of contact a week between a student and career and technology education program personnel.

XIII. TEACHER RETIREMENT AND BENEFITS

Funding in 1998–1999: \$955.4 million.

Percentage of Total State Aid: 9.1%.

Description: School districts make state teacher retirement system contributions directly to the Texas Teacher Retirement System (TRS). The rate of contribution for each member of the retirement system is 6.4% of annual compensation. Districts that pay salaries above the state minimum salary schedule are required to pay the retirement portion on the amount of the salary that exceeds the minimum. All districts and charter schools are required to participate in TRS.

The state does not provide social security coverage for public school employees. A few school districts have chosen to participate in the social security system. Teacher retirement funds are not part of the FSP but are a sizeable components of state funding.

Extent of Participation: Not reported.

XIV. TECHNOLOGY

Beginning in 1992–1993, the FSP included a technology allotment of \$30 per ADA. The technology allotment provides for the purchase of electronic textbooks or technology equipment for instruction and it pays for training instructional personnel in the appropriate use of technology equipment and electronic textbooks. An “electronic textbook” means computer software, interactive videodiscs, CD-ROM, computer courseware, on-line services.

The state also funds other technology initiatives such as the Texas Center for Educational Technology (TCET) located at the University of North Texas, the preview centers and training programs at the regional education service centers, the T-STAR telecommunications system, and the Texas Educational Telecommunications Network (TETN) that provides interactive video conferences, facsimile transmission, and two-way transmission of data.

The Telecommunications Infrastructure Fund (TIF) was established in 1995 with the Public Utility Regulation Act. The Act was intended to generate \$150 million each year to provide telecommunications access to schools, hospitals, libraries, and institutions of higher education. A TIF Board is charged with disbursing the funds. The mission of the TIF Board is to help Texas deploy an advanced

telecommunications infrastructure by stimulating universal connectivity. In addition, the TIF Board funds training programs. During the 1996–1997 biennium, the TIF Board awarded \$52 million to help schools implement Internet connections. In 1998–1999, the Texas Education Agency received \$14.6 million in TIF funds for various technology projects. Although the TIF was structured to collect \$150 million a year over 10 years, lower assessments on commercial mobile telecommunications lowered anticipated collections by \$25 million per year. Legislation passed in 1997 removed the 10-year limit on deposits to the fund and placed a \$1.5 billion cap on the fund, excluding interest and loan repayments. Half of the revenue is dedicated to public school projects, and the remaining half is available for other qualifying projects.

XV. CAPITAL OUTLAY AND DEBT SERVICE

Funding in 1998–1999: Not reported.

Percentage of Total State Aid: N/A.

Description: Beginning in the 1997 school year, districts have been able to apply for state funds from a new guaranteed yield program for facilities to be used either for construction or lease-purchase of instructional facilities. The new program is called the Instructional Facilities Allotment (IFA). For the 1997–1998 biennium, the legislature appropriated \$200 million for facilities through a guaranteed yield funding arrangement. Two hundred and sixty-seven applications from 228 districts were funded in the first two years.

Districts whose voters have granted authority to sell bonds to pay for instructional facilities may apply for assistance to the state. Assistance is based on the amount needed to service the debt and is limited to the lesser of the annual debt service payment or \$250 per ADA. Districts with 400 students or fewer are eligible for the lesser of \$100,000 per year or their actual debt payment. If the district participated in the IFA in the 1998–1999 biennium, the district debt service property tax levy and state aid combined to yield \$28 per penny per unweighted pupil of debt service tax. Because the state funds help pay debt service, the district may adopt a lower tax rate and levy fewer taxes than it would if there were no state assistance. State assistance for facilities funding is equalized, meaning that low-wealth districts receive more IFA state aid per penny of tax than higher wealth districts. Districts with wealth above \$280,000 per WADA do not qualify for IFA assistance, but their debt service tax rates are exempt from the wealth sharing provisions of Chapter 41 of the Texas Education Code.

I&S taxes must be used to fund debt service under the new IFA. The IFA uses a “compressed” tax rate for calculating the amount of state aid that a district is to receive under this program. A “compressed” tax rate is defined as the I&S rate required to make debt service payments based on the total yield of \$28 per penny from a combination of state and local revenues in 1998–1999. It is “compressed” or lower because state aid is helping support district debt service payments. Without state aid, districts would need to set a higher I&S tax rate to cover the cost of principal and interest on their debt service.

Extent of Participation: Not reported.

XVI. STANDARDS AND ACCOUNTABILITY

In May 1993, the Texas Legislature established the current Texas public school accountability system. Key elements include academic standards, accurate measurement of student achievement, benchmarks for standardized test performance, standardized data collection systems, and accreditation guidelines for districts and schools using the Academic Excellence Indicator system (AEIS).

In 1998–1999 the state appropriated \$50 million for testing and \$2.5 million for implementing elements of the accountability system. Accountability operations at the state education agency totaled more than \$9.6 million in 1998–1999.

The guiding principals of the accountability system are (1) the system provides a predictable and stable system for measuring performance of schools and districts, (2) the system stimulates schools to focus on student learning by holding them accountable for achieving pre-established standards using an assessment system that accurately reflects student academic progress, (3) the system holds all students and schools accountable for the same results, (4) establishes reasonable standards and identifies high- and low-performing schools. Low performing schools receive interventions to help elevate student academic performance.

AEIS (Indicators). AEIS is composed of numerous academic indicators (aggregated for each school and school district) including attendance rate, dropout rate, student performance on a criterion-referenced test called the Texas Assessment of Academic Skills (TAAS), percent taking college entrance examinations, performance on college entrance examinations, results on state-developed end-of-course examinations, school completion statistics, percent of students completing the recommended high school program, and the percent of students exempted from the TAAS.

Accountability Ratings.

	1998 Standards	1999 Standards
Percent passing TAAS		
Exemplary	90% or higher	90% or higher
Recognized	80% or higher	80% or higher
Acceptable	40% or higher	45% or higher
Unacceptable or low performing	less than 40%	less than 45%
Dropout rate (grades 7–12)		
Exemplary	1.0% or lower	1.0% or lower
Recognized	3.5% or lower	3.5% or lower
Acceptable	6.0% or lower	6.0% or lower
Unacceptable or low performing	lower than 6.0%	lower than 6.0%
Attendance	94% or higher	94% or higher

Public Information. District and campus accountability ratings are announced in early August each year. TEA prepares the AEIS summaries for districts and campuses in October and school report card in November. Schools must distribute the school report cards to parents. Educators and site-based decision-making committees use the AEIS summary to guide campus and district planning.

XVII. REWARDS/SANCTIONS

Funding in 1998–1999: \$2.5 million state and local funding combined.

Percentage of Total State Aid: N/A

Description: The Texas Successful Schools Awards System (TSSAS) rewards progress or success in achieving the education goals of the state. Schools may receive financial awards, certificates, or proclamations. Each year the commissioner of education determines the criteria to select successful schools and districts. Awards may not be used for athletics and may not replace funds already in the regular budget. Based on 1997–1998 performance, 823 (out of 6,079 schools) received awards ranging from \$500 to \$5,000

Texas imposes sanctions on schools and districts for low performance. If a school district does not satisfy the accountability criteria (the accreditation criteria) the commissioner of education must take action to the extent deemed necessary. These actions, in order of severity, are: issue public notice of deficiency to the

board of trustees; order a board hearing to notify the public of unacceptable performance and improvements that are expected; order preparation of a student achievement improvement plan; order a hearing before the commissioner to explain low performance; arrange an on-site investigation; appoint a TEA monitor for the district; appoint a TEA master to oversee operations of the district; appoint a management team to direct the district; appoint a board of managers; order the district to be annexed to another district

If an individual school has performance below the standard, the commissioner of education must act take action to the extent deemed necessary. These actions, in order of severity, are: issue public notice of deficiency to the board of trustees; order a board hearing to notify the public of unacceptable performance and improvements that are expected; order preparation of a student achievement improvement plan; order a hearing before the commissioner to explain low performance; appoint a special campus intervention team to conduct an on-site evaluation, recommend actions, assist in development of a campus plan, and assist in monitoring progress on the campus; appoint a board of managers for the campus; if the school has been low-performing for two or more years, order closure of the school program on the campus.

Extent of Participation: Not reported.

XVIII. FUNDING FOR NON-TRADITIONAL PUBLIC SCHOOLS

Texas has granted 168 charters to independent public schools to operate as open-enrollment charter schools. The state provides funding to charter schools through the FSP. A charter school receives the full amount of FSP funds that each of its students would have generated in the public school district of residence. The FSP funds depend on student attendance and rates of participation in special programs. Public schools and charter schools measure attendance in terms of average daily attendance (ADA). Students who are identified for and served by special programs generate different levels of FSP funds as well.

At this time, the state funds the full cost of FSP support for charter schools. Public school districts do not remit the property tax portion of FSP funding to the state for distribution to charter schools.

XIX. STATE AID TO PRIVATE SCHOOLS

No state aid provided.

XX. RECENT LITIGATION

On February 16, 1995, the Texas Supreme Court held that the school finance system (developed during the 1993 legislative session in Senate Bill 7) is constitutional in all respects (*Edgewood ISD v. Meno* 893 S.W.2d 498 (Tex. 1995)). In May 1998, plaintiff Intervenors in the *Edgewood* lawsuit returned to court claiming that the system has implemented new inequities to the system allowing the gap between property-rich and property-poor districts to grow. Their lawsuit specifically charges that the following practices have reduced equity: Extension of hold harmless protection for the very high wealth districts that are subject to recapture; Exception of the high-wealth districts from bearing a portion of the costs of funding “set asides” or skims; Absence of equalization support for old debt; Exemption of revenue raised for construction and renovation of facilities from the recapture provisions for high wealth school districts.

The trial court abated the case until the end of the 1999 Texas legislative session and instructed the plaintiffs to amend their pleadings or dismiss the case within 60 days of the end of the session. The court also ruled that the class of plaintiffs would have to be re-certified.

XXI. SPECIAL TOPICS

Administrative cost limits

The commissioner of education develops an administrative to instructional cost ratio for five district size groups. Each district’s ratio is compared to the allowable ratio for the appropriate size group using prior-year expenditure data. Administrative costs are defined as operating expenses from funds other than federal funds associated with managing, planning, directing, coordinating, and evaluation the district. Instructional costs are defined as operating expenses from funds other than federal funds associated with instruction. This includes instructional resources, media services, curriculum development, instructional staff development, and guidance and counseling.

The commissioner notifies districts by February 1 of the requirements and standards for the ratios and by May 1 if the district has exceeded the ratio. Districts that exceed their allowable standard must reduce their administrative costs to the level of the standard the following year. If a district fails to reduce its administrative costs, the commissioner deducts the excess amount from the district’s Tier I entitlement (or if the district does not get Tier I funds, the district must remit the amount to the Comptroller to be credited to the Foundation School Fund).

Set Asides

“Set aside” programs are those that are funded with revenue appropriated for another purpose under the FSP. The largest single set aside program is the Optional Extended- Year Program. Monies from the compensatory education allotment are set aside and used to fund school district applications to offer Optional Extended Year Programs. Another set aside from the compensatory education allotment is that used by TEA to administer the state TAAS testing program. Other set asides provide funding for programs such as those for pregnant students, Communities in Schools, and juvenile justice alternative education programs. Set asides totaled \$126 million in fiscal year 1998 and \$130 million in fiscal year 1999.

Lagged Tax Rates

In order to avoid end-of-the year adjustments to state funding (if calculated needs exceed appropriated funds) the state uses tax rates from a prior year (also called “lagged” tax rates) in calculating state aid. Specifically, FSP calculations for the state fiscal biennium are based on the district tax rate in the second year of the preceding biennium. For example, FSP allotments for the 1999–2000 and 2000–2001 school years are based on the district tax rate calculated for the 1998–1999 school year.

Weighted ADA

Many components of school funding and finance are expressed on a “per WADA” basis. The 1998–1999 equalized wealth level is expressed as \$280,000 per WADA. The 1998–1999 Tier 2 guaranteed yield is expressed as \$21 per penny per WADA, and of course, funding per pupil may be expressed as dollars per WADA. WADA is determined by taking the total FSP allotment for a district and subtracting the transportation allotment and half of the adjustment attributable to the CEI. This result is then divided by the Basic Allotment, resulting in the WADA for a district. WADA will be higher in districts with more students in special programs, in districts with higher numbers of students who qualify for the federal school lunch program, and in districts with higher CEI adjustments.

For the 1997–1998 school year, regular or unweighted ADA was approximately 3.6 million students, compared to a WADA of approximately 4.9 million students. That is, there were one-third more weighted students in the funding system than students enrolled in the state’s public schools. Because many local wealth and

funding calculations are based on WADA and not on ADA, weighted students have a huge impact on the calculations for school finance in Texas.

Textbook Funding

The State Textbook Fund consists of transfers from the Available School Fund as well as receipts from the sale of used textbooks and interest earned on fund deposits. The State Board of Education (SBOE) determines the amount of funds transferred to the State Textbook Fund based on textbooks that were ordered, the cash balance of the fund, and the purchase of “nonconforming” textbooks (state reimbursement is limited to a percentage of the cost of textbooks that do not conform to the Texas Essential Knowledge and Skills). The state provides the actual textbooks to districts for distribution to students. It does not provide an allotment or textbook funds to districts.

Teacher Pay

Texas maintains a 20-step minimum teacher salary schedule. The schedule is developed by multiplying a salary factor times the amount appropriated for the fiscal year for the Foundation School program divided by total ADA. If the state increases its share of funding (beyond increases to fund enrollment growth) the minimum salary schedule automatically increases. In addition to the salary “driver,” Texas instituted a formula for determining the minimum days of service in a 10-month contract. It, too, is keyed to state funding increases. In 1998–1999, teachers under a 10-month contract provide a minimum of 187 days of service.