

Texas School Finance Basics

Texas schools educate approximately 5.4 million students across more than 1200 school districts and charter schools.¹ The school finance system in Texas is known as the Foundation School Program (FSP). The annual cost to the FSP for maintenance and operations exceeds \$50 billion. The annual cost to support debt service on voter-approved bonds for construction and renovation approaches \$9 billion. The responsibility for these costs is shared between the state and the local school district. The local share is funded by local property taxes with state aid providing what the district cannot generate in taxes.²

State lawmakers have struggled for many years to create a system that works equally well across the vastly different contexts in which Texas students are educated. How, for example, can we create a single formula that provides the right level of resources for a small district with very few students as well as a very large urban district with nearly 200,000 students? Or for a district with relatively low taxable property wealth per student and a district with extremely high taxable property wealth per student? Or for a district where virtually no students participate in the free and reduced-price lunch program and a district where virtually all do?

Underlying Principles

The Texas Constitution mandates the support and maintenance of a free public school system:

A general diffusion of knowledge being essential to the preservation of the liberties and rights of the people, it shall be the duty of the Legislature of the State to establish and make suitable provision for the support and maintenance of an efficient system of public free schools.³

Over the decades, policymakers have developed three key principles, rooted in this constitutional requirement, that guide the evolution of the state's funding formulas:

- **Adequacy** is the principle of enough resources to provide for students' educational needs.
- **Equity** is the principle of ensuring similar access to resources at similar levels of tax effort given similar costs, regardless of districts' relative levels of property wealth per student.
- **Efficiency** is the principle that seeks to ensure that resources are productive of educational outcomes, with little waste.

¹ The FSP is the primary source of funding for open-enrollment charter schools in Texas, but charter schools do not generate local tax revenue. This paper focuses on funding of independent school districts.

² Most school districts also receive federal funds that are generally designated for a specific purpose, such as school nutrition. These funds are subject to additional requirements and limitations.

³ Tex. Const. art. VII, § 1.

The requirement for *adequacy* is generally associated with the requirement for the state to make **suitable provision** for a public school system to enable the **general diffusion of knowledge**. The constitutional characterization of a general diffusion of knowledge as essential to the preservation of liberties and rights clearly signals the importance of education in our state, but how much knowledge is required and how we determine if it is sufficiently diffused within the population has become a challenging legal question. The principle of *equity* derives from the constitutional requirement that the state provide for the support and maintenance of an *efficient* system. Courts have agreed with the argument that a system that allows some districts to tax at low rates while providing a relatively highly resourced education while others must tax at higher rates to provide a relatively lower-resourced education is inherently inefficient.

The Texas Education Code expands and codifies these principles:

It is the policy of this state that the provision of public education is a state responsibility and that a thorough and efficient system be provided and substantially financed through state revenue sources so that each student enrolled in the public school system shall have access to programs and services that are appropriate to the student's educational needs and that are substantially equal to those available to any similar student, notwithstanding varying local economic factors.

The public school finance system of this state shall adhere to a standard of neutrality that provides for 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.⁴

Foundation School Program

Shared Responsibility

As indicated in the Education Code, the school finance system is a shared responsibility. The FSP is a system of formulas that determine an individual district's total funding amount. A district is then responsible for generating a state-assigned local share through local ad valorem property taxes. The state makes up any difference between the district's entitlement and local property tax revenue with state aid. If a district has sufficient property wealth to generate more than its state-determined funding amount, then the district must return the excess to the state (recapture).

FSP Components

The part of the FSP that supports school district maintenance and operations consists of two tiers. Tier 1 is designed to provide funding for a basic, or foundation, educational program for all students. Tier 2 provides funding for an enrichment program.

⁴ Tex. Educ. Code § 48.001.

Tier 1

Tier 1 funding is based primarily on student counts and student attributes. Each district has a basic entitlement under Tier 1. Most of this amount is determined by applying various funding weights to student counts and multiplying that by the basic allotment of \$6,160.⁵ The weights are applied to account for differences in the cost of educating students in different educational programs or settings or with different characteristics.

Tier 1 has over 20 different allotments, most of which are calculated based on a specific student count. The largest allotment is the regular program allotment, which is determined simply by multiplying regular program ADA by the basic allotment with no additional weights or adjustments.⁶ Depending on the specific allotment, the student count used is average daily attendance (ADA), enrollment, or full-time equivalent students (FTEs). Average daily attendance is the number of students, on average, who attend school each day. Enrollment is the number of students enrolled, regardless of attendance. FTE is a count of students adjusted to reflect time being split between two or more settings. Several allotments, such as bilingual education, early education, school safety, and public education grants, use ADA. Allotments for dyslexia, compensatory education (not pregnancy related services [PRS]), and gifted and talented are based on enrollment. Special education (other than mainstream) and career and technology education are based on FTEs. Adjustments are also made for district size (small and mid-sized district allotment) and sparsity. These calculations use ADA. All these allotments comprise the student-based allotments. [See attached *Student-Based Allotment* chart.]

Tier 1 also includes additional funding, such as the transportation allotment based on mileage in a district's transportation system and the new instructional facility allotment based on the number of students attending a new facility in the first two years. [See attached *Additional Funding* chart.]

State and Local Share

All the allotments are added together to arrive at a district's **basic entitlement**. The district's **local share** is determined by multiplying the district's Tier 1 tax rate by the state property value for the district.⁷ The local share is sometimes referred to as the **local fund assignment**. Any part of the entitlement that is not covered by the local share becomes the state share covered by state aid. Any excess local share is returned to the state through recapture.

Tier 2

Tier 2 is funded through a **guaranteed yield** program, which means that the state guarantees that each penny of tax effort beyond the district's Tier 1 tax rate will generate a specific amount

⁵ The basic allotment may be adjusted down if a district does not levy its maximum Tier 1 tax rate. Tex. Educ. Code § 48.051(a).

⁶ Regular program ADA excludes special education (other than mainstream) and career and technology FTEs. Tex. Educ. Code § 48.051(a).

⁷ State property values come from the School District Property Value Study (PVS) conducted by the Comptroller's Property Tax Assistance Division (PTAD).

of revenue per student in **weighted average daily attendance** (WADA).⁸ If a district's tax base cannot generate this guaranteed revenue, the state provides the rest. Districts are limited to a maximum of 17 cents of tax effort in Tier 2. Because of the varying yields, the 17 cents are divided into **golden pennies** and **copper pennies**. A district must get voter approval before it can levy more than 5 cents in Tier 2. [See *Voter-Approval Tax Rate* below.]

Golden Pennies

The first eight cents of Tier 2 tax effort are known as **golden pennies** because they have a higher guaranteed yield and are not subject to recapture. Each penny is guaranteed to yield at least the amount of tax revenue per WADA as a district in the 96th percentile of wealth per WADA. In 2024, the yield increased from \$98.56 to \$126.21. This will increase again in 2025 to \$129.52.

Copper Pennies

The next nine cents of Tier 2 tax effort are known as **copper pennies** because they have a lower guaranteed yield of \$49.28 per penny and are subject to recapture if a district generates revenue in excess of its local share. This yield is tied to the basic allotment, but if the basic allotment is increased, these pennies are compressed automatically by the amount necessary to maintain the same level of state and local funds the district had before the increase.

Recapture

If a district's property wealth is high enough to generate **revenue in excess of entitlement**, the district must take steps to **reduce excess local revenue**. This is often referred to as **recapture**. There is no recapture on the golden penny portion of Tier 2 or on interest and sinking fund taxes levied to repay bonded debt.

Texas Education Code Chapter 49 provides five options for a district to reduce excess revenue:

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

Virtually all districts choose the option to purchase attendance credits. An election is required for district voters to approve the option selected. If voters fail to approve the option, the commissioner of education will order detachment of district property.

Facilities Funding

Instructional Facilities Allotment (IFA)

The IFA provides a guaranteed yield on the tax effort needed to cover payments on approved debt issued by a district to finance a new **instructional facility** or to renovate an existing one.

⁸ The number of students in weighted ADA is calculated by dividing the sum of the district's basic entitlement and student-based allotments by the basic allotment. Tex. Educ. Code § 48.202(a).

The IFA is calculated similarly to a district's Tier 2 entitlement in that the legislature sets a guaranteed yield (currently \$35) that is multiplied by a tax rate and a student count, and then split into a state and local share. The IFA requires that a district file an application with the commissioner of education. If approved, IFA assistance is based on the amount needed to service the debt and is limited to the lesser of the actual debt service payment or the greater of \$250 per ADA or \$100,000.

Existing Debt Allotment (EDA)

Debt not covered by the IFA is eligible for the EDA if the district made a payment in the second year of the prior biennium. The EDA formula is similar to the IFA, but the EDA is not limited to instructional facilities. The current yield is \$40 per penny per ADA up to a maximum tax rate of \$0.29. These funds are automatically available to help service qualifying debt in eligible districts; there is no application requirement.

Property Taxes

Each school district generates its local share through property taxes. School boards are authorized to levy taxes by the Texas Constitution and the Texas Education Code. Ad valorem (Latin for "according to value") taxes are based on property value. In most districts, school boards adopt two tax rates, expressed as a dollar amount per \$100 of assessed property value, each year. The **maintenance and operations (M&O) tax rate** is used to support district operations, such as compensation, supplies, and material. A district may not adopt a rate above its Tier 1 tax rate plus \$0.17 in Tier 2. The **interest and sinking fund (I&S) tax rate** generates funds to service voter-approved bonded debt. Although the I&S tax rate is not limited, districts must demonstrate they can meet debt obligations with a rate of \$0.50 or less before issuing new debt.

Tier 1 Tax Rate (Maximum Compressed Tax Rate)

A district's Tier 1 tax rate is the number of cents levied by the district for M&O that does not exceed the district's maximum compressed tax rate (MCR). A district's MCR is the tax rate at which the district must levy an M&O tax to receive the full amount of Tier 1 allotment. TEA calculates each district's MCR no later than August 5 each year based on local property values submitted by the district after receipt of its certified appraisal roll or certified estimate of values in July. A district's MCR is the lesser of the following:

- the district's prior year MCR;
- the state compression percentage multiplied by \$1.00; or
- the rate determined by a statutory formula if the district's taxable property value for the current year exceeds the district's prior year value by at least 2.5 percent.

No district's MCR can be lower than 90% of the highest MCR of any other district in the state.

Tier 2 Tax Rate (Enrichment Tax Rate)

As discussed above, a district's Tier 2 tax rate consists of up to eight golden pennies and nine copper pennies for a total of \$0.17. A district can levy up to \$0.05 without voter approval, but voter approval is required for a district to levy the remaining \$0.12. Each year, as part of the tax rate adoption process, a district calculates its **voter-approval tax rate**.

Voter-Approval Tax Rate (VATR)

A school district's VATR is the maximum tax rate the board may adopt without requiring voter approval in a **voter-approval tax rate election (VATRE)**. A district's VATR is the sum of its current debt rate, MCR (Tier 1 tax rate), and the greater of its enrichment (Tier 2) tax rate for the preceding tax year or \$0.05.⁹

If a school board adopts a tax rate that exceeds its VATR, it must, with extremely limited disaster exception, hold an election for the voters to approve the adopted tax rate.

Property Value Study

The Comptroller's Property Tax Assistance Division (PTAD) conducts the School District Property Value Study (PVS) annually to help ensure equitable distribution of state funding for public education by ensuring that local appraisal districts appraise property at market value. Local property tax revenue is based on local property value determined by the chief appraiser. State funding is based on taxable property value as determined by the PVS. The PTAD value used for state funding will differ from the local value for several reasons. For instance:

- PTAD excludes certain local tax exemptions (such as the local optional homestead exemption [often referred to as LOHE]) from the PVS value.
- There are often changes to the appraised value after the submission of local data to the PTAD due to the settlement of taxpayer protests of value.
- The PVS may determine that a district's local value is invalid because it is too far below the state-determined value. A district may receive a grace period of two years if certain criteria are met. During the grace period, local value is used. Otherwise, if a district's local value is invalid and the district is not entitled to a grace period, PTAD will certify state value for the district for purposes of state funding.

Conclusion

The school funding system in Texas is a complex system of weights, values, and formulas that strives to achieve adequacy, equity, and efficiency in a vast state with an extremely varied student population. As the economy and the composition of the state change, future

⁹ If copper pennies are compressed in a particular year, that compression is deducted from the district's prior year Tier 2 pennies in calculating its VATR for the current year.

legislatures will inevitably face the challenge of modifying and adapting the system to keep pace with those changes while adhering to the guiding principles.

This information is provided for educational purposes to facilitate a general understanding of the law. This information is neither an exhaustive treatment on the subject nor is it intended to substitute for the advice of an attorney or other professional advisor. Consult your attorney or professional advisor to apply these principles to specific fact situations.

Published March 2024.

Student-Based Allotments

Allotment	Weight or Calculation	Student Count	Other Information
Regular Program (RP)	RPADA X District Basic Allotment (DBA)	ADA	
Small / Mid-Sized District (SD / MD)	<ul style="list-style-type: none"> • SD allotment / student: $((1600 - \text{RPADA}) \times .0004) \times \text{DBA}$ • MD allotment / student: $((5000 - \text{RPADA}) \times .000025) \times \text{DBA}$ • Allotment for only district in county and < 300 ADA: $((1600 - \text{RPADA}) \times .00047) \times \text{DBA}$ 	ADA	<ul style="list-style-type: none"> • Compensate for cost differences to operate schools with fewer students • K-12 districts with < 5000 ADA get the greater of the SD or MD allotments
Compensatory Education (not PRS)	Various weights based on degree of student's economic disadvantage	Enrollment	Subject to 55% spending requirement
Compensatory Education (PRS)	2.41 X DBA	FTEs	
Special Education (mainstream)	1.15 X (DBA + SD / MD Allotment, if any)	ADA	Subject to 55% spending requirement
Special Education (not mainstream)	Several different weights based on FTEs in various instructional settings	FTEs	<ul style="list-style-type: none"> • Subject to 55% spending requirement • Weighted FTEs multiplied by DBA + SD / MD Allotment, if any
Career and Technology Education (CTE)	Various weights for students in 7-12 th grades taking CTE courses; weight depends on course	FTEs	<ul style="list-style-type: none"> • Weighted FTEs multiplied by DBA + SD / MD Allotment, if any • Additional \$50 for each student in ADA at P-Tech school or campus in New Tech Network • Subject to 55% spending requirement
Gifted & Talented (GT)	.07	Enrollment	<ul style="list-style-type: none"> • Funds must be spent on programs for GT students • Limited to 5% of ADA
Early Education	K-3 rd grade students: <ul style="list-style-type: none"> • .1 for educationally disadvantaged • .1 for emergent bilingual 	ADA	Funds must be spent on early education programs

Allotment	Weight or Calculation	Student Count	Other Information
Bilingual Education	<ul style="list-style-type: none"> .1 for emergent bilingual (EB) student in bilingual education or special language program .15 for EB student in dual language immersion program .05 for non-EB student in dual language immersion two-way program 	ADA	Subject to 55% spending requirement
Fast Growth	Various weights depending on the district's percentile rank for growth	Difference in Enrollment (Prior year enrollment – enrollment 6 years prior – 250)	Total statewide allotments may not exceed \$315 million in school year 2023-24 and \$320 million thereafter
CCMR Outcomes Bonus	Graduate who is: <ul style="list-style-type: none"> Educationally disadvantaged: \$5,000 Not educationally disadvantaged: \$3,000 Special education: \$2,000 	Per qualified graduate	<ul style="list-style-type: none"> Available for students who satisfy criteria in excess of a threshold number of students set by the commissioner Students must satisfy performance standards on assessments AND enroll in college, earn an industry certificate, or enlist Subject to 55% spending requirement
Dyslexia	.1	Enrollment	District can use up to 20% to contract with a private service provider
School Safety	<ul style="list-style-type: none"> \$10 per student in ADA \$15,000 per campus 	ADA	Funds must be used to improve school safety and security
Teacher Incentive Allotment	Various amounts for teachers who have achieved a certain designation	Per qualified teacher	At least 90% of funds must be used for teacher compensation at the qualified teacher's campus
Mentor Program	Commissioner determines formula		
Public Education Grant (PEG)	.1 for students using a PEG to attend school in another district		Available to students attending a campus assigned an unacceptable performance rating

Additional Funding

Funding	Other Information
Transportation Allotment	<ul style="list-style-type: none"> • Allotment for transportation costs based on rate per mile per regular eligible student who lives more than 2 miles from campus or in an area designated as a hazardous traffic or high risk area. • Funding to transport special education and CTE students
New Instructional Facility Allotment	<ul style="list-style-type: none"> • Assists with operating costs of opening a new school • \$1,000 per student in the first year a school is open • \$1,000 per additional student in the second year • Appropriation for allotments limited to \$100 million
Dropout Recovery and Residential Placement Facility	\$275 per student in ADA who resides in a residential placement facility or attends a district campus designated as a dropout recovery school
Tuition Allotment for Districts Not Offering All Grade Levels	Reimbursement for part of tuition paid to another district to educate the sending district's students
College Preparation Assessment and Certification Examination Reimbursement	Reimbursement for fees paid for students to take the SAT, ACT, or TSIA once in their junior or senior year or for one industry certification fee if the student passes the assessment.