An Introduction to School Finance in Texas

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Executive Summary

The public education system in Texas is one of the largest in the nation, with 1,300 school districts and 8,322 campuses employing 646,815 people to educate 4.7 million enrolled students. Texas has more school districts than any other state and is second only to California in the number of students enrolled in its schools. Funding for the system totaled $48 billion in the 2009-10 school year, which includes $15.8 billion in state funds (33%), $21.8 billion in local property taxes (45%), and $10.4 billion in federal funds (22%). The amount of federal funding is unusually high because of a one-time infusion of $5.9 billion in federal stimulus funds sent to Texas through the American Recovery and Reinvestment Act (ARRA).

This $48 billion is used to fund the basic school finance program as well as a variety of other initiatives including a teacher incentive pay program, the Student Success Initiative – a grant program that focuses on college readiness, a pre-kindergarten grant program, the High School Completion and Success Initiative, and many others. Other areas of funding include textbooks, state assessments, Regional Education Service Centers, adult literacy programs, schools for deaf and blind students, and schools for students incarcerated in the Department of Corrections. In addition, the state contributed $1.7 billion to the Teacher Retirement System in the 2009-10 school year.

The state's school finance system is currently operating as two "layered" systems – one based on the equalizing calculations of the Foundation School Program (FSP), and the other based on historical district funding levels known as the "target revenue system."

The statutory goals of the Foundation School Program (FSP) are to guarantee that each school district in the state has adequate and equalized resources to provide a basic instructional program that meets state standards (as measured by the state's accountability system), provide equalized access to "enrichment" funds for those districts that choose to supplement their basic funding and provide facilities suitable to the student's educational needs. Statutory formulas are used to calculate basic aid under "Tier 1," enrichment funding under "Tier 2," and facilities funding under an additional set of calculations. Once these costs are calculated, shares are apportioned between the state and local districts with the state sending funds to the districts for the state's share, and districts raising their share through the local property tax.

Superimposed on top of the formulas is a "target revenue system" that the Legislature adopted in 2006 as a part of the property tax relief initiative. Districts were required to reduce their tax rates for maintenance and operations to two-thirds of their 2005 tax rate. To ensure that no district lost money due to the tax relief effort, the Legislature guaranteed that each district would receive no less than the amount of state and local revenue per "weighted" student (i.e. student counts adjusted for certain higher cost educational factors) that they had received in the 2005-06 school year or would have received in the 2006-07 school year, whichever was greater (plus a few adjustments for funds added for high school students and teacher salaries). The resulting amount was the district's "adjusted revenue target," and essentially incorporates any historical funding discrepancies that were allowed in previous school finance packages. Further target revenue adjustments were added by the 2009 Legislature.

Through the 2009-10 school year, Texas' formula-based system has been dwarfed by the target revenue system. Over three-fourths of all school districts receive their funding not based on the state's traditional Foundation School Program formulas, but through the target revenue system.

This publication explains both sets of calculations used to calculate school aid, as well as appendices that examine tax rate ratification elections, a history of school finance litigation and resulting legislation, and comparisons of how Texas public education ranks relative to other states.

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An Introduction to School Finance in Texas

In the 2008-09 school year, public education in Texas was provided to 4.7 million enrolled students by 1,300 school districts — 1,025 independent school districts and 275 special districts, state-administered districts and open-enrollment charter schools. School districts range in size from less than 20 enrolled students in Grandview-Hopkins ISD to over 200,000 students in Houston ISD, although 84 percent of all school districts (containing 21 percent of the state's students) have less than 5,000 students. Texas has more school districts than any other state — 8 ½ percent of the nation's 15,350 districts — and is second only to California in the number of students that are enrolled in public primary and secondary schools. Texas school districts employ 646,815 people and encompass 8,322 campuses.

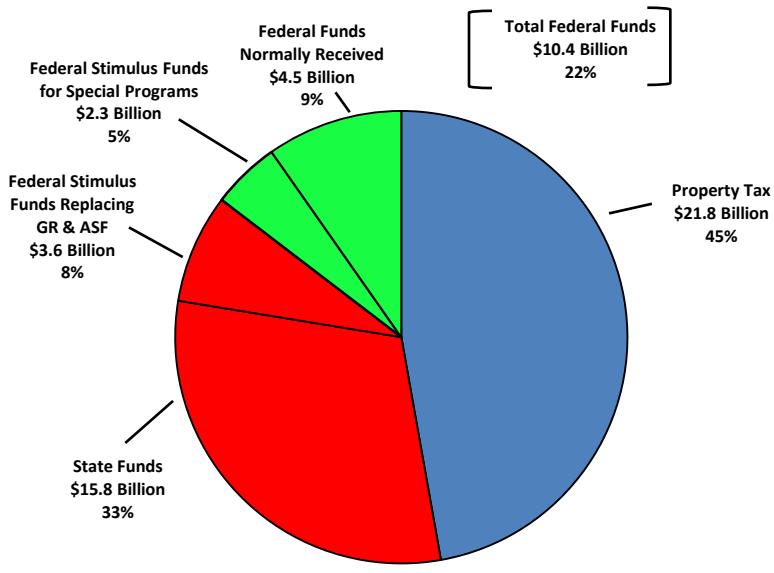
Total Funding (The Revenue Side)

Funding for public education in the 2009-10 school year totaled $48 billion. This included local schools, Regional Education Service Centers, the State School for the Blind, State School for the Deaf, and state payments of $1.5 billion to the Teacher Retirement System (Figure 1). The total is comprised of $15.8 billion in state funds (33%), $21.8 billion in local property taxes (45%), and $4.5 billion in federal funds (9%) for child nutrition programs, education for economically disadvantaged students, special education, and vocational and adult education programs. An additional $5.9 billion in federal stimulus funds (13%) was received through the American Recovery and Reinvestment Act (ARRA), bringing total federal funds to $10.4 billion, or 22 percent of the total. Upon receipt of these stimulus funds, the Legislature replaced approximately $1.9 billion in state general revenue and $1.7 in available school fund revenue (used to pay for textbooks and a per student allotment) with federal funds. The remaining $2.3 billion in stimulus funding was specifically earmarked to assist disadvantaged and disabled students.

Public Education in the State Budget. State and federal funding for public education in the 2010-11 biennial state budget totals $55.3 billion and encompasses 30 percent of the "All Funds" biennial state budget, while state funding of $31.2 billion for the biennium comprises 39 percent of the "General Revenue" biennial budget (Figure 2).

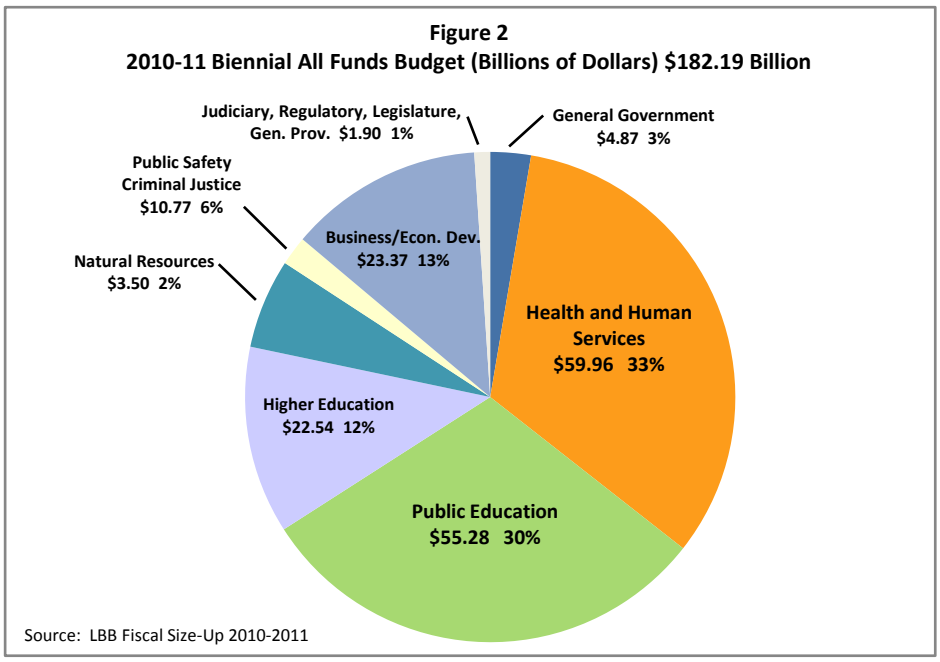
The Foundation School Fund, the Property Tax Relief Fund, the State Textbook Fund, the General Revenue Fund and the Available School Fund interact to provide basic state support for maintenance and operations and school facility costs. Total state aid to schools is primarily formula driven, with general revenue making up the difference for what the other funds do not generate. Other state funds in support of public education include the Permanent School Fund – an endowment fund generating investment income that is deposited into the Available School Fund – and two other funds that are used to allocate federal funds for health,

Figure 1
Public Education Funding 2009-10 School Year
$48.0 Billion



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

education and welfare and the school lunch program.



Foundation School Fund. The Foundation School Fund is the mechanism through which most of the state revenue used to fund public education flows from the state to local districts. Expenditures from this fund totaled $11.3 billion in the 2009-10 school year. One-quarter of all "occupation taxes" such as the oil production tax, natural gas production tax, and the gas, water, and electric utility tax are constitutionally dedicated to public education and are deposited into the FSF (approximately $1 billion per year). Net profits from the state's lottery (approximately $1 billion per year) are statutorily dedicated to public education and are also deposited into this fund. In addition, approximately $1.3 billion of local property taxes that are "recaptured"[1] from property wealthy school districts each year are deposited into this fund — labeled "Appropriated Receipts" — and treated as state revenue. These dedicated revenues are not sufficient to meet the full cost of public education as determined by state formulas; therefore the Comptroller transfers the remaining required revenue to this fund from the General Revenue Fund.

Property Tax Relief Fund. The Legislature established a "Property Tax Relief Fund" in 2006 into which is deposited the revenue needed to provide tax relief to taxpayers that pay school district maintenance and operations taxes. The net revenue gain from a revamped corporate franchise tax, increased cigarette and tobacco taxes and a change in the method of calculating the tax on the sale of used motor vehicles is deposited into this fund. Any additional funds necessary to maintain the level of tax relief determined by the Legislature are transferred to the fund at the Legislature's discretion. Appropriations from this fund totaled $2.7 billion for the 2009-10 school year.

Permanent School Fund. The Permanent School Fund (PSF) is an endowment fund established by the Constitution that consists of state land and mineral rights, royalty earnings, and stocks and bonds currently valued at $23 billion. Earnings from the PSF are deposited into the Available School Fund (ASF) for the purchase of textbooks and to provide funding to school districts. The amount of the transfer is determined by a rate of total return set by the State Board of Education and is currently 2.5 percent of a rolling average value of the fund. However, the Constitution prohibits a distribution from the PSF to the ASF if distributions over the previous 10 year period exceeded the total return of the PSF for that period. Due to losses on investments and this prohibition, only $61 million was distributed from the PSF to the ASF in 2009, compared to $716 million in 2008, so federal stimulus funds were used to replace ASF funds for textbooks and the per student distribution in the 2009-10 school year. The corpus of the PSF is also used to guarantee school district bonds, which affords districts a higher bond rating than they would receive on their own accord. Through 2009, the total amount of bonds guaranteed by the fund were

[1] Recapture is a term used to describe the process by which property wealthy school districts send excess revenue to either the state or to a property poor district in order to achieve equity in the school finance system.

restricted to 250 percent of the cost value of the fund by Internal Revenue Service arbitrage rules governing tax exempt bonds, and the bond guarantee program was suspended in March 2009 because the limit had been reached. The IRS has since increased the bonding capacity limit to 500 percent of the cost value of the fund, and the bond guarantee program has resumed.

Available School Fund. Earnings from the Permanent School Fund are transferred to the Available School Fund. In addition to the PSF earnings, one-fourth of motor fuel tax revenue is constitutionally dedicated to the ASF. Those funds the Legislature does not set aside for textbooks are distributed to schools on a per student basis, and these distributions are charged against the amount of state aid a district is to receive. Therefore, only school districts that do not receive state aid payments receive these funds as a true per student distribution.

Textbook Fund. A portion of the revenue from the Available School Fund is transferred to the Textbook Fund by legislative appropriation to purchase textbooks, electronic textbooks and other instructional materials that are ordered by school districts.

Public Education Programs (The Spending Side)

The state provides funding for a wide variety of education programs. The majority of state funds are distributed to school districts through the Foundation School Program which determines school districts' entitlements through a series of formulas based on the types of students in the district, the size of the district, and the district's taxable value and tax rate. In the 2009-10 school year, $17.7 billion was appropriated for Foundation School Program equalized operations, and an additional $3.4 billion was sent to school districts for other programs, for a total of $21.1 billion (Table 1).

In addition to formula funding, the Texas Education Agency made distributions in the amount of approximately $766 million to school districts for a variety of educational programs through grants and direct funding. These include $197.8 million for the District Awards for Teacher Excellence program — a grant program for districts that develop teacher incentive pay and mentoring initiatives, $152 million for the Student Success Initiative — an instructional grant program that provides funds to districts for initiatives that focus on reading, math and college readiness programs, and $104.3 million for the Pre-kindergarten grant program, which provides funds to districts that identify 15 or more children who are at least three years of age and cannot speak and comprehend the English language, are educationally disadvantaged, homeless, or in the conservatorship of the Department of Family and Protective Services, or have a parent who is an active duty member of the U.S. armed forces or was injured or killed while on active duty.

Other expenditures made by TEA include $538 million for textbooks and other instructional materials ordered by school districts, $44.6 million for the development and administration of state assessments, $21 million for the operation of 20 Regional Education Service Centers that provide services and assistance to school districts, and $56 million for the operation of the Windham School District to provide educational services to prison inmates.

Appropriations for public education made to agencies other than TEA include $1.7 billion to the Teacher Retirement System to provide retirement and health benefits to retired public school teachers, $56 million to the School for the Blind and Visually Impaired, and $26 million to the State School for the Deaf. In addition to these state programs, $1.46 billion in federal funds was distributed to school districts for the Free and Reduced Price Meal Program, $3 billion for federal education and welfare programs, and $2.3 billion in federal stimulus funds was distributed in the form of grants for special education and disadvantaged students.

Table 1
Public Education Programs in the 2009-10 School Year (Millions)

Foundation School Program Equalized Operations	**$17,696**
District Programs Funded Through the Texas Education Agency	
District Awards for Teacher Excellence (incentive pay program)	198
Student Success Initiative (instructional grant program focusing on college readiness)	152
Technology Allotment	129
Pre-Kindergarten Grants (children 3 years old who don't speak English or are disadvantaged)	104
High School Completion and Success Initiative	51
Advanced Placement Initiative	14
Reading, Math and Science Initiatives	25
Communities in Schools (youth dropout prevention programs)	21
Extended Year Program	15
Alternative Education Programs (disciplinary programs)	22
Virtual School Network	10
Miscellaneous Other Programs	25
Subtotal District Programs Funded Through TEA	**766**
Non-District Programs Funded Through the Texas Education Agency	
Textbooks	537
TEA Administrative Costs	139
State Assessments	45
Adult Education and Family Literacy	14
Regional Education Service Centers	21
Regional Day Schools for the Deaf	33
Windham School District (at the Department of Corrections)	64
Early High School Graduation Scholarship	20
Subtotal Non-District Programs Funded Through TEA	**873**
Programs Funded Outside of the Texas Education Agency	
Teacher Retirement System	1,687
School for the Blind and Visually Impaired	56
School for the Deaf	26
Subtotal Programs Funded Outside of TEA	**1,769**
Total State Funded Public Education Programs	**$21,104**
* $3.6 billion in federal stimulus funds is included in these totals to replace general revenue funding, ASF distribution funds, and textbook funding. Additional federal funds are used to supplement some programs.	

Source: General Appropriations Act, 2010-11 Biennium

Foundation School Program

The state's school finance system is currently operating as two "layered" systems. As previously mentioned, the majority of the money sent to school districts is appropriated through the Foundation School Program (FSP). The statutory goals of the FSP are to guarantee that each school district in the state has adequate resources to provide a basic instructional program that would be considered acceptable under the state's accountability system, provide facilities suitable to the student's educational

needs, and provide access to a substantially equalized enrichment program. The first "layer" of the system determines funding through a complex system of formulas that adjust for cost differentials and differences in the local resources available to each school district. The FSP consists of two tiers for maintenance and operations and a facilities component. "Tier 1" is the basic tier which determines the bulk of a school district's entitlement while Tier 2 allows school districts to generate supplemental funding for enrichment at the discretion of the district. There is also a separate tier that provides low wealth districts with revenue for facilities. The second "layer" of the school finance system that determines a school district's entitlement is the "target revenue" system put in place in 2006, which is described later in this publication.

The Formula System

Tier 1. A school district's entitlement in Tier 1 is determined by the various types of students that attend school in the district and the size of the district. Districts are entitled to a certain amount of revenue for each student, with those that are more expensive to educate generating more money through a series of "weights." The total cost is divided between the state and the school district, with the district's share determined by applying the district's compressed maintenance and operations (M&O) tax rate ($1.00 in most districts)[2] to its taxable value, and the state paying the remaining portion. The district's share remains the same regardless of how many additional students there are or what the total cost is, and property wealthy districts pay a larger percentage of their total entitlement than less wealthy districts. Outlined below are the steps taken to determine a school district's entitlement in Tier 1.

Step 1: Calculate the "Adjusted Allotment" (AA)

The basic building block for the calculations in Tier 1 is the *adjusted allotment,* which is used in the formulas to determine the amount of state and local revenue a district is entitled to receive. The adjusted allotment for a district is the largest of the following amounts: 1) Adjusted Basic Allotment, 2) Adjusted Basic Allotment modified for a small district, or 3) Adjusted Basic Allotment modified for a mid-size district. The amount of the adjusted allotment varies by school district and ranges from $3,697 to $8,322, depending on the characteristics of the district, with the average amount being $5,933.

1) **Adjusted Basic Allotment.** The adjusted basic allotment is calculated by multiplying the basic allotment by the cost of education index (CEI).[3] Definitions of these two elements are as follows:

   Basic Allotment. The starting point to determine how much revenue a school district will receive is the *basic allotment*, which is an amount that every school district is guaranteed to receive in state and local funds for each student in average daily attendance (ADA).[4] One of the changes the Legislature made in 2009 was to link the basic allotment to average statewide property values. Through the 2012-2013 school year, this amount is set in statute as the greater of (1) $4,765 or (2) the average statewide property value per

[2] The Legislature passed HB 1 in 2006, which required every school district to compress the district's M&O tax rate to 66.67% of the district's 2005 M&O rate. The resulting rate is known as the district's "compressed tax rate" above which a district can enrich.

[3] The CEI is adjusted so that only 71% of the increase is recognized to reflect the percentage of total operating costs expended on professional salaries at the time it was adopted.

[4] Average Daily Attendance (ADA) is calculated by summing the attendance for each instructional day and dividing by the number of instructional days offered by the district. This number is less than total enrollment.

weighted student (WADA)[5] multiplied by 0.0165. Based on preliminary estimates of average statewide values and student counts, the basic allotment is estimated to be $4,765 for the 2009-10 and 2010-11 school years. It may or may not be higher than that for the following two years depending on property values. State law directs that in subsequent years the basic allotment be set at $4,765. The basic allotment is reduced proportionately for districts that levied a 2005 M&O rate below $1.50.

Cost of Education Index (CEI). Each school district is assigned a "multiplier" to compensate the district for geographic and cost differences beyond the control of the district. All districts are assigned a value greater than 1.0, and they range from 1.02 to 1.20 with an average of 1.08. This multiplier is called the Cost of Education Index (CEI). Components used in the calculation of the CEI are the average beginning salary of teachers in contiguous districts, the percent of economically disadvantaged students in the district, the size of the district, and whether or not the district is located in a rural county. CEI values have not been re-calculated since 1991, but a provision in state law authorizes an increase if excess funds are available.

2) **Small District Adjustment.** Because small school districts are more expensive to operate due to diseconomies of scale, districts with 1,600 or fewer students in average daily attendance (ADA) receive an increase in funding through the *small district adjustment*. The calculation for this adjustment can result in an increase to the adjusted basic allotment of up to 63 percent, with the smallest districts receiving the largest increase. Districts with over 300 square miles in area receive an increase that is 10 percent larger than comparable districts with less than 300 square miles in area to compensate for greater transportation costs. In the 2009-10 school year, 675 school districts (66%) containing 9 percent of the state's students qualify for the small district adjustment, with 46 of those districts having less than 100 students in average daily attendance.

Sparsity Adjustment. Small districts with less than 130 students in average daily attendance that are 30 miles or more by bus route from the nearest high school, are guaranteed funding for 130 ADA if the district offers a K-12 program and has at least 90 ADA in the current or prior year, 75 ADA if the district offers a K-8 program and has at least 50 ADA in the current or prior year, and 60 ADA if the district offers a K-6 program and has at least 40 ADA in the current or prior year. There are 77 school districts with less than 130 students in average daily attendance.

3) **Mid-size District Adjustment.** Districts with more than 1,600 ADA but fewer than 5,000 ADA receive an increase in funding through the *mid-size district adjustment*. The calculation for this adjustment can result in an increase to the adjusted basic allotment of up to 8½ percent. Currently there are 188 (18%) school districts containing 12 percent of the state's students with between 1,600 – 5,000 ADA.

Adjusted Allotment is the Greater of:

1) Adjusted Basic Allotment
2) Adjusted Basic Allotment increased for a small district
3) Adjusted Basic Allotment increased for a mid-size district

[5] WADA (weighted average daily attendance) is a calculated number that represents the number of students for which a district receives funding after adjusting for special needs. It is calculated by dividing the cost of tier one (adjusted) by the basic allotment. WADA is interchangeable with the term "weighted students" throughout this publication.

Step 2: Calculate the Tier 1 Entitlement

Once the adjusted allotment is determined, it is multiplied by the number of students in each of the different groups of a district's student population and by the "weight" for that particular category of student, to arrive at the district's cost to provide an education for that group of students. Because some students are more expensive to educate than others, the school finance formulas incorporate a series of "weights" (a multiplier of 1 or more to reflect the cost for students in a distinct program; i.e. regular program, special education and career and technology), "add-on weights" (an additional percentage received for a particular type of student), and "allotments" (a set amount given for a particular category of expense) to compensate for the differences. Students in categories that generate additional funds through the "add-on weights" are also in the regular program, but generate additional funds due to special characteristics. Once the allotments are calculated for each group of students, they are added together to arrive at the district's total Tier 1 cost. In addition to the student allotments, school districts receive funds for transportation and to supplement staff salaries.

Listed below and summarized in Table 2 are the various types of students that school districts receive funding for, and allotments that districts are entitled to in addition to formula funding.

Regular Program Students. Districts are entitled to the adjusted allotment for every student in average daily attendance (ADA) enrolled in the regular program that is not enrolled in special education or career and technology programs. The total statewide regular program allotment was approximately $21.4 billion in the 2009-10 school year for the educational needs of 4.2 million regular program ADA. School districts are guaranteed funding for at least 98 percent of prior year's ADA.

Special Education Students. Districts are entitled to up to five times more funding for a student in a special education program to reflect the cost of different instructional arrangements for special education students. The allotment is distributed based on full-time equivalent students (FTE's)[6] enrolled in special education programs. There are an estimated 129,991 FTEs in special education programs in the 2009-10 school year for a total statewide allotment of $2.7 billion. These students are not included in the regular program student count.

Career & Technology Students. Districts are entitled to 35 percent more for each full-time equivalent student (FTE) enrolled in a career & technology program (geared towards acquiring skills for the workforce) in grades 8-12 – or in grades 7- 12 if the student is disabled. Districts also receive an additional $50 for each student in average daily attendance (ADA) that takes two or more advanced career and technology courses for a total of three or more credits or an advanced course as part of a tech-prep program. An estimated 176,818 FTEs will enroll in career and technology programs in the 2009-10 school year for a total statewide allotment of $1.24 billion. These students are not included in the regular program count.

Bilingual Students. In addition to regular program funding, districts receive an additional 10 percent for students of "limited English proficiency" — students whose primary language is not English and whose English language skills are such that the student has difficulty performing ordinary class work in English. This allotment provided an additional $359 million to school districts for special programs for an estimated 702,636 ADA.

Compensatory Education Students. In addition to regular program funding, districts receive 20 percent more to pay for intensive or accelerated instructional services for students who are performing below grade level or are at risk of dropping out of school. Funding is distributed to school districts based

[6] Full-time equivalent student (FTE) is defined as 30 hours of contact per week between a student and program personnel.

on the number of students eligible for the federal free and reduced-price meal program.[7] This distribution method has been controversial in the past because the students that draw down the funding are not necessarily the students that are served by the programs funded by the revenue. An estimated 2.8 million students met the eligibility criteria for the free and reduced price meal program in the 2009-10 school year, for a total statewide allotment of $2.9 billion. School districts receive almost 2½ times more revenue for students that are at risk of dropping out of school due to pregnancy.

Gifted and Talented Students. In addition to regular program funding, districts receive 12 percent more for programs that benefit students who perform at a remarkably high level of accomplishment or show the potential to do so. The number of students for which funds are distributed is capped at 5 percent of a district's average daily attendance. An estimated 219,482 students qualify for gifted and talented programs in the 2009-10 school year for a total statewide allotment of $137 million.

Public Education Grants. In addition to regular program funding, districts receive 10 percent more for students who transfer to another campus within their district or to a different school district because their campus was rated "low performing" during the previous three years or if 50 percent or more of the students at their campus failed a TAKS test in two of the previous three years. Approximately 450 students statewide take advantage of this option.

High School Students. Districts receive an additional $275 for each student in average daily attendance (ADA) in grades 9-12 to be used by the district to enhance educational programs in its high schools. There are 1.2 million high school students in the 2009-10 school year for a total statewide allotment of $337 million.

Students in New Instructional Facilities. Districts receive an additional $250 per student in average daily attendance (ADA) for every student who attends a newly built campus in the first year, and for additional students who attend that campus in the second year, to help with operational costs associated with opening a new campus. The total statewide appropriation for this purpose is limited to $26 million per year. An estimated 90,934 students met this criteria in 2009-10 for funding of $23 million.

Students with a Parent in the Military. Districts receive an additional $650 for each student in average daily attendance (ADA) who has a parent serving in the military on active duty in a combat zone or who was reassigned to another military base due to a base closure. This allotment is dependent on a dedicated appropriation and is limited to $9.9 million per year.

Students in a Virtual School Network. Districts that offer a course through a virtual network receive $400 for each student that successfully completes the course. The student's "home" school district will receive $80 for administrative expenses. It is estimated that 13,000 students will complete one of these courses in the 2009-10 school year for a total statewide cost of $6.24 million.

Staff Allotment. School districts receive funds to supplement staff salaries in the amount of $500 for each full time teacher, librarian, nurse, and counselor employed by the district and $250 if they are part-time. This allotment totaled $132 million for 346,394 employees in the 2009-10 school year.

Transportation Allotment. Districts receive from $0.68 to $1.43 per mile of approved bus route based on the number of students per square mile for transportation purposes. These reimbursement rates have not been changed since 1984. The total statewide transportation allotment for the 2009-10 school year is approximately $305 million.

[7] Annual Income eligibility for the federal free and reduced price meal program for a family of four is $28,665 for the free program, and $40,793 for the reduced price program.

Table 2: Weights and Allotments in the School Finance Formulas (2009-10)

(Includes Charter Schools)

Type of Student/ Program	Definition	Weight	Number of Students	Total Amount (Billions)
Regular Program	Students enrolled in the regular program. Does not include special education students or students enrolled in career and technology programs.	1.00	4,190,486	$21.445
Special Education	There are 12 special education weights ranging from 1.1 to 5.0 to reflect the cost of different instructional arrangements for special education students.	1.1 – 5.0	129,991	$ 2.740
Career & Technology	FTE's enrolled in career & technology programs in grades 8-12 or disabled students in grades 7-12.	1.35	176,818	$ 1.245
Career & Technology Advanced Course	Students that take two or more advanced career and technology courses for a total of three or more credits or an advanced course as part of a tech-prep program.	$50 per ADA	27,000	$0.001
Bilingual	Students of limited English proficiency.	.10 Add-on	702,636	$ .359
Compensatory Education	Students that are educationally disadvantaged — performing below grade level or are at risk of dropping out of school. Funding is distributed to school districts based on the number of students eligible for the federal free and reduced-price meal program.	.20 Add-on	2,828,170	$ 2.896
Compensatory Education Pregnant	Pregnant students at risk of dropping out.	2.41	1,854	$ 0.022
Gifted and Talented	Students that perform at a remarkably high level of accomplishment. Capped at 5% of a district's ADA.	.12 Add-on	219,482	$ 0.137
Public Education Grant	Students who transfer to another school district or campus because their campus was rated "low performing" during the previous three years or 50% or more of the students at their campus failed a TAKS test in two of the previous three years.	.10 Add-on	450	$0.000
High School Students	Students in grades 9-12.	$275 per ADA	1,225,268	$0.337
New Instructional Facility	Students that attend a newly built campus in the first year, and for additional students who attend in the second year. Total appropriation is limited to $26 million per year.	$250 per ADA	90,934	$ 0.023
Students with a Parent in Military	Students with a parent serving in a combat zone or who have been reassigned due to a base closure. Subject to appropriation and limited to $9.9 million per year.	$650 per ADA	15,230	$ 0.010
Virtual School Network	Students that successfully complete a course in a virtual network.	$400 or $80 per student	13,000	$ 0.006
Staff Allotment	$500 for each full time teacher, librarian, nurse, and counselor and $250 if they are part time.	$500 or $250 per qualified employee	346,394	$ 0.132
Transportation Allotment	$0.68 - $1.43 per mile of approved bus route based on the number of students per square mile.	$0.68 - $1.43 per mile	N/A	$ 0.305
Technology Allotment	Funding given to school districts to help with technology needs.	$29.66 per ADA	4,497,295	$ 0.133
Available School Fund	Earnings from the Permanent School Fund are distributed to school districts based on prior year ADA.	$262 per ADA	4,303,647	$ 1.127

Technology Allotment. School districts receive $29.66 per ADA to assist them in meeting technology infrastructure needs. This allotment is estimated to be $133 million in the 2009-10 school year based on an estimated 4.5 million ADA.

Available School Fund Distribution. The Texas Constitution requires that earnings from the Permanent School Fund be distributed to school districts on a per student basis. These funds are distributed on the basis of the number of students in average daily attendance (ADA) in the previous year. In the 2009-10 school year the amount distributed is estimated to be $262 per ADA. For school districts that receive state funding from the Foundation School Fund, the Available School Fund distribution replaces Foundation School Fund aid on a dollar for dollar basis. The Available School Fund distribution in the 2009-10 school year is estimated to be $1.1 billion based on 4.3 million prior year ADA.

Total Entitlement for Each Group of Students =

Adjusted Allotment x # Students in Group x Weight for Group

Step 3: Determine the State and Local Shares

The total cost of Tier 1 is arrived at by summing all of the allotments for the various groups of students and adding the transportation allotment. Once this cost is calculated, it is apportioned between the state and the school district. The school district's share of the cost is determined by applying the district's compressed M&O rate to the district's "assigned" taxable value[8] and dividing by 100 (because the rate is per $100 of value). The district's share is then subtracted from the total cost to determine the state share. The staff salary and technology allotments are then added to the state's share to determine total state aid for that school district.[9]

Because of this method of apportionment, school district property values play a crucial role in determining the level of state expenditures for public education. If property values increase, school districts pay a larger portion of the total cost, and the state portion goes down. Inversely, if property values decrease, school districts pay a lesser amount while the cost to the state increases. If the school district's share of the cost is larger than the total, the district is said to be "budget balanced" and the district pays the total amount. The district may also be required to reduce its accessible taxable value by purchasing attendance credits from the state or educating students in another district (see "Recapture"). Because Texas budgets on a two-year basis, values for the second year of a biennium are estimated by the Legislative Board. If the LBB over-estimates value growth it results in an appropriation lower than what it should have been, and the state pays the additional money to school districts in the following year.

Local Share = Compressed M&O Rate x Assigned Taxable Value ÷ 100

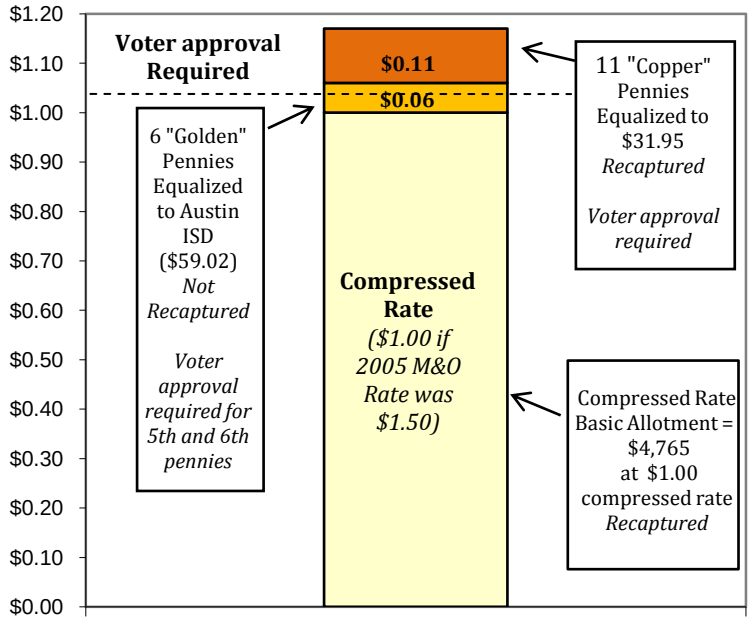
State Share = Total Tier 1 Cost – Local Share

[8] A district's assigned taxable value is the school district's prior year taxable value as adjusted by the Comptroller of Public Accounts in the school value study. The Comptroller conducts a property value study using comparable sales and generally accepted auditing and sampling techniques to determine the total taxable value of all property in each school district at least every two years.

[9] Charter schools and special districts receive funding for operations based on a statewide average received by school districts. In addition, the Commissioner of Education is authorized to establish an open-enrollment charter school facilities credit enhancement program to assist charter holders in obtaining financing for facilities.

Tier 2. Tier 2 is known as the "enrichment" or "guaranteed yield" tier and is used by school districts to supplement the revenue received in Tier 1 at the district's discretion. School districts are authorized to tax above the district's compressed rate for enrichment — the first $0.04 at the school board's discretion, and the remaining pennies up to the statutory $1.17 M&O cap with voter approval. A school district with a compressed rate of $1.00 has access to a total of $0.17 for enrichment purposes, while a school district with a compressed rate of less than $1.00 has access to more than $0.17 additional pennies. In the 2009-10 school year, 913 districts had levied the $0.04 that do not require voter approval, and 229 of those districts had also received approval from the district's voters to levy some or all of the remaining pennies. The state equalizes the revenue raised by each penny of tax rate levied above the compressed rate[10] so that every school district in the state is guaranteed a minimum amount of state and local revenue per WADA, no matter what the district's property value or student makeup. So a school district that generates very little revenue with a penny of tax rate will receive state revenue to bring the total amount raised to the minimum guarantee. There are two different levels of equalized funding from the state.

Figure 3: Equalization Levels for $1.17 Tax Rate



"Golden" Pennies. For each of the first six pennies levied above the compressed rate, the state supplements the amount generated to bring the total to the level generated by the Austin Independent School District (per WADA), which is estimated to be $59.02 in the 2009-10 school year. Therefore, if a school district's taxable value generates $30.00 per penny per WADA, the state will send the district an additional $29.02 per penny per WADA. This level was chosen because it is equivalent to the 95th percentile of wealth, which means that it is above the level generated by districts containing 95 percent of the state's students. These six pennies are not subject to "recapture" by the state, and as a result, property wealthy districts are allowed to retain all revenue generated by them, even if the amount is greater than the state's guarantee to other school districts. Because of the high level of equalization by the state and the exemption from recapture, these pennies are widely known as "golden" pennies. A district must seek voter approval to access the 5th and 6th golden pennies.

"Copper" Pennies. The remaining pennies up to the statutory M&O rate cap of $1.17 are equalized by the state to $31.95 per penny for each weighted student. Due to the lower guarantee, and because the state recaptures revenue generated from these pennies that exceeds the guarantee, these are known as "copper" pennies.

[10] The number of pennies equalized by the state could differ slightly from the rate actually levied because TEA calculates the rate equalized by dividing estimated tax collections for the current year by the certified value.

Tier 2 Funding

"Golden" Entitlement = # "Golden" Pennies x Austin ISD Yield x # WADA
Local Share ="Golden" Rate x Assigned Value/100
State Share = "Golden" Entitlement – Local Share
+
"Copper" Entitlement = # "Copper" Pennies x $31.95 x # WADA
Local Share ="Copper" Rate x Assigned Value/100 (Excess is recaptured)
State Share = "Copper" Entitlement – Local Share

School Facilities. School districts are authorized to issue bonds to pay for the purchase of property, the construction, acquisition and equipment of a building or for the purchase of school buses. Before the bonds may be issued, the district is required to hold an election in order to obtain voter approval of the tax rate necessary to re-pay the principal and interest on the bonds. The state assists school districts in paying for facilities by sending them equalization aid through two separate programs.

The *Instructional Facilities Allotment (IFA)* is a guaranteed yield program authorized in 1997 to assist school districts with debt payments on new instructional facilities. The state guarantees that every school district will receive $35 per student in average daily attendance (ADA) for each penny levied for these facilities, although school districts must apply to the Texas Education Agency for these funds. After all applications are received, the applying districts are ranked from lowest property wealth per ADA to the highest, and the applications are then funded in that order. Funding is limited to the lesser of (1) the actual debt payment or (2) $250 per student or $100,000 (whichever is greater), and school districts are required to levy sufficient taxes to pay the local share.

The *Existing Debt Allotment (EDA)* is a guaranteed yield program authorized by the Legislature in 1999 to assist school districts with debt payments for existing bonds on which a school district made payments in the last year of the previous biennium, and for which the district does not receive aid through the IFA. The state guarantees that every school district will receive a total of $35 per ADA in combined state and local revenue for every penny levied up to $0.29.

The state appropriation for these two programs in the 2009-10 school year was $696 million. When added to the 2009-10 school district I&S levy of $4.2 billion, a combined $4.9 billion in total debt payments were made by school districts in that year.

Facilities Funding

Facilities Entitlement = # I&S Pennies x $35 x # ADA
Local Share = I&S Tax Rate x Assigned Value/100
State Share = Facilities Entitlement – Local Share

* Subject to limitations listed above

Calculations for an Actual School District

Now that we have examined the calculations involved in determining how much money a school district will receive, it may be helpful to see how the calculations apply to a real school district. The following table outlines the costs for a large school district in Texas with approximately 50,000 enrolled students and almost $12 billion in certified taxable value. The adjusted allotment for this school district is $5,239.

Calculation of State and Local Revenue for District X

Tier 1

AA		# Students in Group		Weight		Total
$5,239	x	44,693	Regular Program ADA	x 1.00	=	$234,146,627
$5,239	x	4,763	Special Ed Regular FTE	x 1.00	=	24,953,357
$5,239	x	1,954	Special Ed Mainstream FTE	x 1.10	=	11,260,707
$5,239	x	83	Special Ed Residential Care FTE	x 4.00	=	1,739,348
$5,239	x	1,939	Career and Technology FTE	x 1.35	=	13,713,868
$5,239	x	47,772	Compensatory Education ADA	x 0.20	=	50,055,502
$5,239	x	44	Compensatory Ed Pregnant ADA	x 2.41	=	555,544
$5,239	x	2,413	Gifted & Talented ADA	x 0.12	=	1,517,005
$5,239	x	7,497	Bilingual ADA	x 0.10	=	3,927,678
$5,239	x	0	PEG ADA	x 0.10	=	0
$275	x	11,740	High School ADA		=	3,228,500
$250	x	285	ADA attending new high school		=	71,250
$50	x	0	ADA taking advanced Career & Tech. courses		=	0
$650	x	0	ADA with parents in a combat zone		=	0
$400	x	0	ADA successfully completing virtual course		=	0
$80	x	0	students from this district taking virtual course		=	0
Transportation Allotment					=	1,824,227

TIER 1 TOTAL		**$346,993,613**
School District's Share Tier 1	***$1.00 x 11,937,217,827/100***	**- $119,372,178**
State's Share Tier 1		$227,621,435
Supplemental Staff Salary Allotment	*$500 x 3,433; $250 x 0*	+ 1,716,500
Technology Allotment	*$29.66 x 48,255*	+ 1,431,243
State Aid, Tier 1		**$230,769,178**

Tier 2

M&O Rate = $1.04	"Golden" Pennies = $0.04	WADA = 68,492	Wealth per WADA = $174,286
Tier 2 Guarantee	*$59.02 x 4 x 68,492*		$ 16,169,591
Less Local Revenue	*11,937,217,827/100 x $0.04*		- 4,774,887
State Aid, Tier 2			11,394,704

	Tier 1	Tier 2	Total
State	$230,769,178	$ 11,394,704	$242,163,882 (66%)
Local	$119,372,178	4,774,887	124,147,065 (34%)
Total	**$350,130,259**	**$16,169,591**	**$366,310,947**

Recapture of Local Property Taxes ("Robin Hood")

The majority of past court cases challenging the school finance system were filed due to the disparity in the amount of taxable value encompassed within the boundaries of Texas school districts and the inability of state aid to equalize those disparities. A school district that contained a nuclear power plant or a great deal of oil and gas, industrial property or highly-valued homes was able to raise more revenue for each penny of tax rate than a district that did not have these types of property in its tax base. These school districts were commonly called "wealthy" districts even though in many cases the residents within the district were not high income earners. Because the amount of state aid needed to equalize all school districts to the level of the wealthiest district was prohibitive, the Legislature put in place a system to limit a wealthy district's access to its tax base.

Under the current system, school districts deemed "property wealthy" are required by Chapter 41 of the Education Code to reduce their taxable value to a threshold set in statute called the "equalized wealth level" (EWL). Property wealthy districts are commonly called "Chapter 41" districts, reflecting the Chapter in the Education Code that applies to them. Chapter 41 districts can utilize one of five options to reduce the level of taxable value to which they have access:

1) Consolidate with a school district with less property wealth.
2) Detach property to a school district with less property wealth.
3) Purchase "attendance credits" from the state which provides the district with a sufficient number of students to divide into its taxable value to get down to the equalized wealth level.
4) Contract with another less wealthy district to educate a sufficient number of non-resident students to provide the district with a sufficient number of students to divide into its taxable value to get down to the equalized wealth level.
5) Consolidate tax bases with a school district with less property wealth.

In order to avoid permanently losing access to a portion of their tax base as required by options 1, 2 and 5, virtually all Chapter 41 school districts choose option 3 or 4, or a combination of the two, each of which requires approval by the voters of the district. Interest and Sinking Fund (I&S) tax revenue — revenue used to pay for school facilities — is not subject to recapture.

In the 2009-10 school year, the equalized wealth level varies for the different increments of a district's M&O tax rate. For each penny of a district's compressed tax rate, the district must remit any amount generated by property wealth above $476,500 per weighted student. The next 6 pennies of the district's M&O rate are not subject to recapture. For the remaining pennies up to the statutory M&O rate cap, districts must remit all revenue generated from property wealth above $319,500 per weighted student.

The Texas Education Agency determines the amount of recapture owed by a district by calculating the percentage of the district's taxable value that is above the equalized wealth level and then applying that percentage to the taxes generated by the district's tax rate[11]. Therefore, if 30 percent of a school district's tax base is above the equalized level, the district must remit 30 percent of the property taxes raised. The percentages for the 2009-10 school year range from a low of 0.23 percent to a high of 88.89 percent. Based on preliminary values, it is estimated that approximately $1.1 billion will be recaptured from a total of 211 school districts in the 2009-10 school year (155 school districts at $476,500 and an additional 56 districts at $319,500).

When this system was enacted in 1993, there were 104 school districts that were considered property wealthy because their property value exceeded $280,000 per WADA, the equalized wealth level

[11] School districts can qualify for a credit for option 3 and option 4 early agreements, and for a portion of CAD costs, which are deducted from the amount owed.

established at that time. So that those districts weren't forced to drastically reduce spending immediately, districts that chose to detach property or chose to purchase attendance credits from the state were protected by a temporary 3-year "hold harmless" provision that allowed them to retain access to a sufficient level of taxable value to maintain their 1993 level of spending per weighted student (minus the available school fund distribution) at a tax rate of $1.50. This hold harmless provision was made permanent in 1999 and 46 school districts continue to participate in the system under a hold harmless wealth level in the 2009-10 school year. These hold harmless wealth levels range from a low of $477,711 to $924,308 per WADA.

Calculation of Recapture in 2009-10

Property Taxes Recaptured =
% of Taxable Value Above Equalized Wealth Level (EWL) x Tax Collections

	EWL
Tier 1 (District's Compressed M&O Rate)	$476,500
Tier 2 "Golden Pennies" (Maximum of $0.06)	Not Recaptured
Tier 2 "Copper" Pennies (Remaining Pennies)	$319,500

The "Target Revenue" System and Property Tax Relief

The second "layer" of the school finance system is the "Target Revenue" System, which was put in place in 2006. On November 22, 2005, the Texas Supreme Court ruled in *West Orange Cove vs. Neeley* that the school finance system in Texas violated Article VIII, Section 1-e of the Texas Constitution which prohibits a state property tax. The court said that the state's control of local taxation for education amounted to a state property tax because two-thirds of all school districts were at or within five cents of the statutory cap of $1.50 for maintenance and operations and districts did not have "meaningful discretion" over the tax rate levied.

The Legislature responded by passing HB 1 and HB 2 in a third called special session in 2006 that required school districts to compress their M&O rates to 88.67 percent of the 2005 rate in the 2006-2007 school year, and to 66.67 percent of the 2005 rate in the 2007-08 school year. While most descriptions of the tax reduction effort focused on $1.50 tax rate being compressed to $1.00, rates varied widely which resulted in compressed M&O rates between $0.64 and $1.09. At the present time, 475 school districts have compressed rates of less than $1.00, 543 districts have compressed rates of exactly $1.00, and 7 "special law" districts [12] have compressed rates of over $1.00 because they were authorized to levy M&O rates above $1.50 in 2005. Districts can tax $0.04 above the compressed rate without voter approval, but must obtain voter approval in order to access the remaining pennies up to the statutory M&O rate cap of $1.17. This provides a minimum of $0.17 in "meaningful discretion" during the tax setting process to school districts.

[12] A law passed by the 53rd Legislature in 1953 authorized any school district in a county of 700,000 or more to levy a combined M&O and I&S rate of up to $2.00 if approved by the voters in the district. In all other districts, the M&O and I&S rates have separate caps.

Table 3
School District Compressed M&O Rates

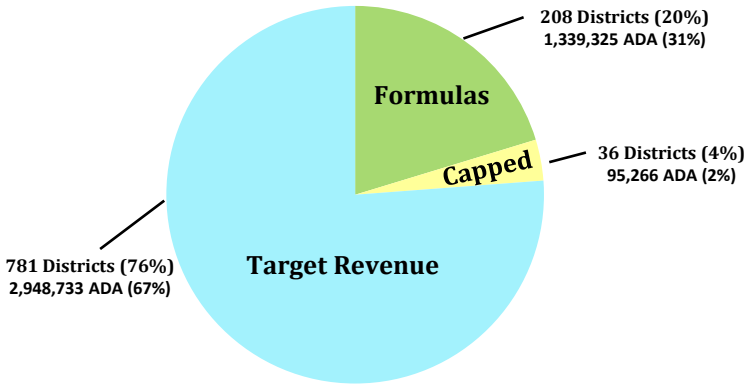
Compressed Rate	# Districts	Percentage
$0.64	2	0%
$0.65 - $0.69	4	0%
$0.70 - $0.74	3	0%
$0.75 - $0.79	7	1%
$0.80 - $0.84	16	2%
$0.85 - $0.89	48	4%
$0.90 - $0.94	141	14%
$0.95 - $0.99	254	25%
$1.00	543	53%
$1.03 - $1.09	7	1%
	1,025	100%

Source: Texas Education Agency data; TTARA calculations

In order to reimburse school districts for the revenue lost due to the compression of the M&O tax rate, the Legislature established the Property Tax Relief Fund into which was deposited the net revenue gain from a re-vamped franchise tax, increased cigarette and tobacco taxes and revenue from a change in the method of calculating the taxable price of a used motor vehicle. Any additional funds necessary to maintain the compression percentage are appropriated at the Legislature's discretion from general revenue. It is estimated that approximately $2.7 billion will be sent to school districts from the Property Tax Relief Fund in the 2009-10 school year, with an additional $3 billion from general revenue to maintain the 66.67 percent rate compression. The compression percentage to be attained each year is not set in statute, but is instead contained in a rider (Rider 77) to Article III of the appropriations bill.

Furthermore, to ensure that no district lost money due to the tax relief effort, the Legislature guaranteed that for the district's compressed tax rate, every school district would receive the highest of the following three amounts: (1) the amount of state and local revenue per "WADA" that the district received in the 2005-2006 school year, (2) the amount of state and local revenue per WADA that the district would have received in the 2006-2007 school year at the district's adopted M&O rate, or (3) the amount of revenue per WADA that the district would have received in the 2006-2007 school year at the district's effective M&O rate. This was known as a district's "target revenue" to which was added the high school allotment of $275 per ADA in grades 9-12 and $2,500 per employee on the state salary schedule (for an employee salary increase mandated by the legislature) to arrive at the level of funding available to the district. The resulting amount was known as the district's "adjusted target revenue," and any revenue generated above this amount was subject to a "claw back" provision and had to be remitted to the state.

Figure 4
School Districts Funded through Target Revenue vs. Formulas



Data Source: Texas Education Agency

The adjusted target revenue amounts ranged from $2,441 to $12,972 per WADA and have been the object of much controversy among school officials and legislators because they so easily illustrate differences in funding levels between neighboring school districts, while at the same time constraining the revenue available to them. Adjusted target revenue amounts for the 543 school districts with a compressed M&O rate of $1.00 ranged from $3,892 to $12,418 per WADA, illustrating that even at the same tax rate, the discrepancy in the amount of funding available to different school districts is large. This is in part caused by elements in the funding formulas such as the cost of education index, the small district adjustment, and the Chapter 41 hold harmless provision – all of which increase the amount of revenue available to certain types of school districts and continue to be part of the formulas. The disparity has always been there, but the process of listing the amount available to every school district and making the list available for comparisons has substantially increased scrutiny of these numbers.

In 2009, the Legislature passed HB 3646 which guaranteed that every school district would receive at least an additional $120 per WADA in the 2009-10 school year over what the district would have received under the old target revenue system. A school district's funding cannot increase more than $350 per WADA per year. If a district's state and local entitlement under the school finance formulas in Tier 1 is less than the old adjusted target revenue number plus $120 per WADA, the state contributes the difference. If the formulas generate more than the old number plus $350 per WADA, the excess is withheld from the district's state aid. These amounts are referred to as the "new target revenue."

Out of 1,025 school districts, 781 districts (76%) with 2.9 million ADA (67%) are receiving the minimum guarantee of $120 per WADA more than their old target revenue, which means they are being funded through the target revenue system. There are 36 districts (4%) with 95,266 ADA (2%) that are generating the maximum guarantee of $350, and therefore operating at the revenue cap imposed by HB 3646. Only 208 school districts (20%) with 1.3 million ADA (31%) are being funded through the formulas.

These new target revenues range from $2,561 to $13,092 per WADA, with 89 percent of the districts (educating 98 percent of the students) receiving between $4,751 - $6,500. Table 4 summarizes the number of districts in various ranges and the number of students in average daily attendance in each range.

Table 4
HB 3646 "New Target Revenue" Amounts at a School District's Compressed Tax Rate
(Does Not Include Charter Schools)

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

89% of Districts

98% of Students

Source: Texas Education Agency data; TTARA calculations

Appendix 1
Tax Rate Ratification ("Rollback") Elections

Taxpayers have had more direct input into the setting of a school district's tax rate during the last three years than at any other time in recent history. Prior to 1993, school districts were authorized to adopt a tax rate that exceeded the previous year's rate by up to $0.08 without any taxpayer input. If a school district adopted a rate that exceeded the prior year's rate by more than $0.08, taxpayers had to gather the required number of signatures and present a valid petition to the school board to require the board to schedule a rollback election to limit the tax rate in the following year to the rollback rate.

Beginning in 1994, the requirement for a petition was repealed and school districts were required to automatically schedule a rollback election if the district adopted a tax rate that exceeded the rollback rate and the voters could vote to "roll back" the rate in the current year. In 1998, the purpose of the election was changed from an election called to allow voters to *limit* the district's tax rate to an election called to *ratify* the tax rate that had already been adopted by the school board. If the voters did not ratify the adopted rate, the rollback rate became the adopted rate for that school year.

In order to try to preserve the tax relief afforded by the compression of rates in 2006, the Legislature tightened up the law to allow school districts to add an overall total of $0.04 to their compressed M&O rates without voter approval. A district must obtain voter approval to access the remaining pennies up to the new statutory M&O rate cap of $1.17 (for all except special law districts).

School districts are required to calculate a "rollback tax rate" every year. The district must determine *the lesser of* (1) ($1.50 x compression percentage) + $0.04 + additional pennies previously approved by voters + debt rate or (2) the district's effective M&O rate[13] + ($0.06 x compression percentage) + debt rate. The lesser of these two rates equals the district's rollback rate. For those special law districts that levied an M&O rate in excess of $1.50 in 2005, the district's 2005 M&O rate is substituted for $1.50 in calculation #1. If a school board adopts a rate higher than the rollback rate, the district must schedule an election to seek voter approval of the higher rate. If the voters approve the higher rate, it becomes the official adopted rate for the district. If the voters don't approve the higher rate, the rollback rate becomes the adopted rate for the year. School districts that are located in a county that has been designated a disaster area by the Governor are exempt from having to schedule a rollback election in the year following the year in which the disaster occurs.

Rollback Rate Equals the Lesser of:

1. ($1.50 x compression percentage) + $0.04 + voter approved pennies + debt rate
2. Effective rate + ($0.06 x compression percentage) + debt rate

Because of the tighter restrictions placed on the adoption of tax rates in current law, the number of ratification elections has increased dramatically, providing taxpayers with a much higher degree of involvement in the setting of a district's tax rate. Between 2007 and 2009 school districts held 277 elections, with 68 percent of those elections resulting in the approval of the higher rate. In the 2009-10 school year, 181 school districts (18%) had an M&O rate of $1.17, while 684 districts (67%) had an M&O rate of $1.04.

[13] The effective M&O rate is the rate that would provide the same amount of state and local M&O funds per WADA that were available to the district in the preceding year.

Table 5
Evolution of Tax Rate Ratification Elections

Tax Year	Purpose of Election	Affected Year	Petition/ Automatic	Permitted Increase Without Election	Number of Elections	Number (percent) Successful
1993	Limit Rate	Following Year	Petition	$0.08 per year	3	0 (0%)
1994	Limit Rate	Current Year	Automatic	$0.06 per year	2	1 (50%)
1995	Limit Rate	Current Year	Automatic	$0.06 per year	2	0 (0%)
1996	Limit Rate	Current Year	Automatic	$0.08 per year	3	1 (33%)
1997	Limit Rate	Current Year	Automatic	$0.08 per year	0	0 (0%)
1998	Ratify Rate	Current Year	Automatic	$0.08 per year	4	2 (50%)
1999	Ratify Rate	Current Year	Automatic	$0.03 per year	11	3 (27%)
2000	Ratify Rate	Current Year	Automatic	$0.06 per year	11	2 (18%)
2001	Ratify Rate	Current Year	Automatic	$0.06 per year	30	2 (7%)
2002	Ratify Rate	Current Year	Automatic	$0.06 per year	5	3 (60%)
2003	Ratify Rate	Current Year	Automatic	$0.06 per year	4	0 (0%)
2004	Ratify Rate	Current Year	Automatic	$0.06 per year	23	2 (9%)
2005	Ratify Rate	Current Year	Automatic	$0.06 per year	17	2 (12%)
2006	Ratify Rate	Current Year	Automatic	$0.04 total	15	1 (7%)
2007	Ratify Rate	Current Year	Automatic	$0.04 total	119	93 (78%)
2008	Ratify Rate	Current Year	Automatic	$0.04 total	116	70 (60%)
2009	Ratify Rate	Current Year	Automatic	$0.04 total	42	26 (62%)

Appendix 2
How Our System Evolved – Litigation and Legislation

Article VII, Section 1 of the Texas Constitution states, *"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."* Article VIII, Section 1-e of the Texas Constitution states, *"No State ad valorem taxes shall be levied upon any property within this State."* The school finance system has been challenged numerous times on the basis of these two provisions, and those challenges have shaped the school finance system that we have today.

In the 1980's school district property tax rates ranged from $0.18 to $1.50. Quite often, districts with the lowest tax rates raised the most money due to the type of property located in the district. School districts with a great deal of oil & gas property, industrial property, a nuclear power plant, or even high-end residential property were able to raise substantially more money at a lower tax rate than other districts were able to generate at high tax rates. This was one of the major legal challenges in the *Edgewood ISD vs. Kirby* lawsuit filed in 1984 by the Mexican American Legal Defense and Education Fund.

In October of 1989, the Texas Supreme Court ruled in the *Edgewood* case that the system was unconstitutional and in order for the Texas public education system to be "efficient" as mandated in the Texas Constitution, school districts must have "substantially equal access to similar revenue per pupil at similar levels of tax effort" — no matter how much property value the district has *(Edgewood I)*. In response to this ruling, the Legislature passed a bill that provided for an increase in the basic allotment and guaranteed yield to achieve the 95th percentile of wealth by 1995, but they excluded the wealthiest districts from the equalized system. The system was ruled unconstitutional again by the Supreme Court on January 22, 1991 *(Edgewood II)* with the court stating that the wealthiest school districts cannot be excluded from the system and that tax base consolidation could be considered as an option to include them.. Two weeks later, in response to a motion for rehearing, the Supreme Court issued an advisory opinion stating that once the Legislature provides an "efficient" system of school finance, it may authorize unequalized local enrichment if property owners approve an additional local property tax.

In response to these rulings, the Legislature passed SB 351 which created 188 county education districts (CED's), consolidating the tax bases of property wealthy school districts with other districts in the county and neighboring counties if necessary, until the tax bases of the CED's were substantially equal. School districts could tax above the "shared" CED tax. This system was challenged in court by a group of wealthy school districts and was ultimately ruled unconstitutional by the Texas Supreme Court stating that the tax levied by the CED's was a state property tax because the rate was set in statute and was controlled by the state *(Edgewood III)*. A constitutional amendment was put before the voters on May 1, 1993 to authorize the re-creation of the CED's and the tax being levied by them, but the voters rejected the amendment.

Following the failed election, the Legislature passed SB 7 – "The Local Option Plan" that we operate under today — which directed property wealthy school districts to choose one of five methods to limit the amount of taxable value the district could access. This system was challenged by both property wealthy and property poor school districts, and was deemed to be constitutional by the Texas Supreme Court on January 30, 1995 *(Edgewood IV)*. The Court also found that the state's accountability system meets the Legislature's constitutional obligation to provide suitably for a general diffusion of knowledge.

In April 2001, four wealthy school districts filed suit charging that the $1.50 cap on the M&O tax rate constituted a statewide property tax because so many districts were at the cap and had no local discretion on how to raise funds. That suit was dismissed by the district and appeals courts, but in 2003 the Texas Supreme Court remanded the case back to the district court for trial. At that time, almost 300 school districts joined the suit complaining that funding for education was not equitable or at an adequate level.

On November 22, 2005, the Texas Supreme Court ruled the school finance system unconstitutional once again, agreeing with the plaintiffs that the $1.50 cap constituted a state property tax and that school districts did not have discretion over the rate that they levied. The Legislature responded in 2006 with HB 1 which compresses school district M&O rates by one-third and provides them with a minimum of $0.17 of tax rate capacity above the compressed rate that can be accessed at a district's discretion, thereby providing "meaningful discretion" when setting tax rates. The court case was dissolved by agreement between the parties in response to this new legislation.

Litigation	TX Supreme Court Ruling	Legislative Action
6/10/68. *Demetrio Rodriguez v. San Antonio ISD*. Claimed that the state's school finance system discriminated against students in poor districts.	March 21, 1973 U.S. Supreme Court rules that education is not a fundamental right and that a state system of school finance must be judged on the state's constitution, and not on the U.S. Constitution. Urged Texas legislators to create a more equitable system but did not mandate it.	(1975-1977) Increased teacher salary schedule and increased the number of instructional days to 175. HB 72 (6/30/84) – Created a guaranteed yield system, implemented a teacher career ladder, established a 22-1 student/teacher ratio, implemented the "No Pass, No Play" rule.
5/23/84. *Edgewood ISD v. Kirby*. Filed by MALDEF. Charged that the state's school finance system was inequitable.	***Edgewood I*** Oct. 2, 1989 **Unconstitutional.** The Supreme Court stated that an efficient system must provide "substantially equal access to similar levels of revenue per pupil at similar levels of tax effort."	SB 1 (6/7/90) – Provided for an increase in the basic allotment and guaranteed yield to achieve 95th percentile of wealth by 1995. Excluded the wealthiest districts from the equalized system.
Sept. 1990. *Edgewood ISD v. Kirby*. Districts go back to court to challenge the revised system.	***Edgewood II*** Jan. 22, 1991 **Unconstitutional.** Wealthiest school districts cannot be excluded from the system. Court stated that tax base consolidation could be considered as an option to include them. ***Edgewood IIa*** Feb. 5, 1991 **Advisory Opinion**. The Supreme Court stated that once the Legislature provides an "efficient" system of school finance, it may authorize unequalized local enrichment if property owners approve an additional local property tax.	SB 351 (4/15/91) – Created 188 County Education Districts to consolidate tax bases of property wealthy districts with other districts in the county and if necessary, in neighboring counties.
6/17/91. *Carrollton Farmers Branch ISD v. Edgewood ISD*. Charged that the CED tax was an unconstitutional state property tax and violated Love v. Dallas because tax revenue was transferred from one school district to another.	***Edgewood III*** Jan. 30, 1992 **Unconstitutional.** The CED tax constitutes a state property tax because the rate is set in statute and is controlled by the state.	5/1/93 Legislature passes a constitutional amendment to authorize the re-creation of the CEDs, levy of a tax by the CEDs, and recapture of up to 2.75% of total revenue. Voters reject the amendment. SB 7 (5/31/93) – The Local Option Plan which mandates that property wealthy districts choose one of 5 options to limit access to property value in excess of the equalized wealth level.
6/1/93. *Edgewood ISD v. Meno*. Many poor and wealthy districts challenged the system under SB 7 charging that it was not an equitable system and that the recapture of local taxes was unconstitutional.	***Edgewood IV*** Jan. 30, 1995 **Constitutional.** The system established by SB 7 is financially efficient and meets the Legislature's constitutional obligation to provide suitably for a general diffusion of knowledge statewide. Linked a "general diffusion of knowledge to the state's accountability system.	
4/9/2001. *West Orange Cove ISD v. Neeley*. Four wealthy districts file suit claiming the $1.50 statutory M&O rate cap constitutes an unconstitutional state property tax.	***West Orange Cove*** Nov. 22, 2005 **Unconstitutional.** The Court agrees that the $1.50 M&O rate cap constitutes an unconstitutional state property tax because school districts do not have meaningful discretion in setting their local M&O tax rates.	HB 1 (5/31/06) – Compressed school district M&O tax rates by one-third and provided a minimum of $0.17 taxing authority that school districts can access at their discretion. **May 2006. Court Case was dissolved by agreement in response to HB 1 being passed.**

Appendix 3
How Texas Compares to Other States

It seems that in any discussion pertaining to school finance or education in Texas, people always want to know how Texas compares to other states on certain benchmarks. The following table illustrates how Texas compared on a number of benchmarks in the 2008-09 school year. The first column is the benchmark being compared, with the second column being the ranking assigned to Texas for that benchmark. The third column is the data attributed to Texas for that benchmark with the fourth and fifth columns listing the high and low data points and the state associated with it. The last column shows the US average for the benchmark if an average is warranted.

Texas Rankings in the 2008-09 School Year

Benchmark	Texas Rank	Texas	High (#1)	Low (#50)	US Average
Number of Districts *	1	1,235	1,235 (TX)	1 (HI)	n/a
Enrollment	2	4,728,204	6,252,031 (CA)	86,519 (WY)	n/a
% Change in Enrollment, 1 yr.	2	1.6%	2.0% (CO)	-1.1% (RI)	0.1%
Average Daily Attendance	2	4,455,191	6,046,551 (CA)	72,110 (VT)	n/a
Number of Teachers	1	327,677	327,677 (TX)	6,978 (WY)	n/a
Average Teacher Salary	33	$47,157	$69,118 (NY)	$35,070 (SD)	$54,319
Total Staff **	1	616,155	616,155 (TX)	15,157 (ND)	n/a
Student to Teacher Ratio	30	13.6 to 1	8.1 to 1 (VT)	20.2 to 1 (CA)	14.4 to 1
Student to Staff Ratio **	23	7.5 to 1	5.0 to 1 (VT)	12.5 to 1 (NV)	8.0 to 1
State, Local, Federal Revenue per ADA	36	$11,185	$21,379 (VT)	$7,792 (NV)	$12,307
% State Revenue	28	46,4%	86.5% (HI)	27.5% (IL)	47.1%
% Local Revenue	22	44.1%	65.0% (IL)	3.2% (HI)	43.5%
% Federal Revenue	20	9.4%	16.8% (LA)	3.2% (NJ)	9.4%
Average Freshman Graduation Rate **	37	71.9%	88.5% (VT)	52.0% (NV)	73.9%
% of Graduating Seniors Taking SAT	21	50%	87% (ME)	3% (IA,MS,ND,SD)	45%
2008 Mean SAT Math Score (out of 800)	39	505	612 (IA)	466 (ME)	515
2008 Mean SAT Reading Score (out of 800)	48	488	603 (IA)	469 (ME)	502
2008 Mean SAT Writing Score (out of 800)	46	480	584 (MO)	461 (ME)	494
2008 Mean SAT Total Score (out of 2,400)	46	1,473	1,797 (IA)	1,396 (ME)	1,511

* Includes charter schools which are considered school districts in Texas
** 2006-07 school year
Note: States with a low percentage of graduating seniors taking the SAT test tend to have higher scores
Sources: National Education Association, *Rankings & Estimates, December 2009*
National Center for Educational Statistics, *2008 Digest of Educational Statistics*
College Board, *2008 Mean SAT Scores by State*

Notes

The TTARA Research Foundation is a non-profit educational entity organized to make factual analyses and studies related to economic, fiscal and public policy in Texas. The TTARA Research Foundation has been providing high quality information and analytical services to the state's citizens and policymakers for more than 50 years. Its work has been cited by both public and private sources as instrumental in helping promote efficiency and economy in the provision of governmental services in Texas. The Foundation has won numerous national awards for the quality, effectiveness and presentation of its research.

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