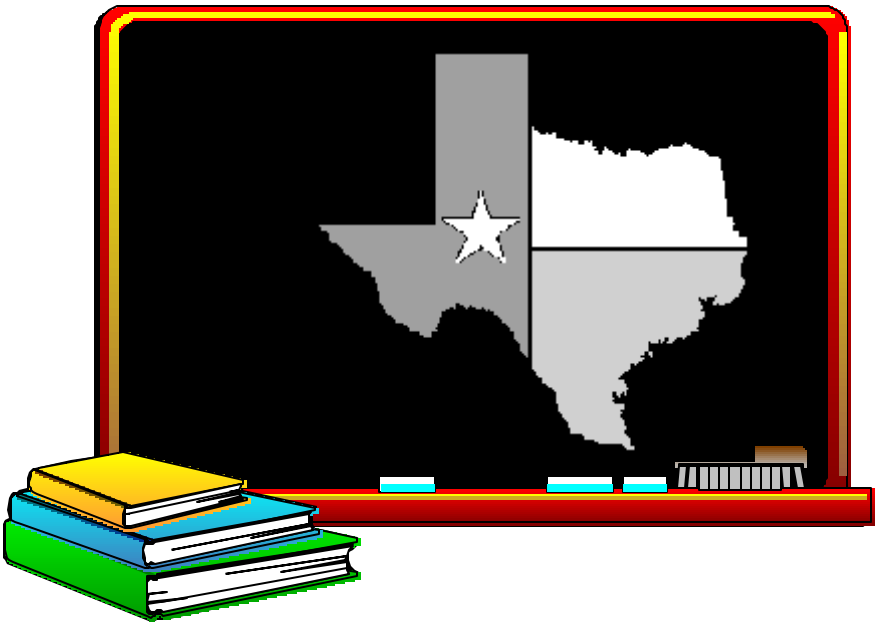
Financing Public Education in Texas
Kindergarten through Grade 12
Legislative Primer

Third Edition



Prepared by Legislative Budget Board Staff
October 2001

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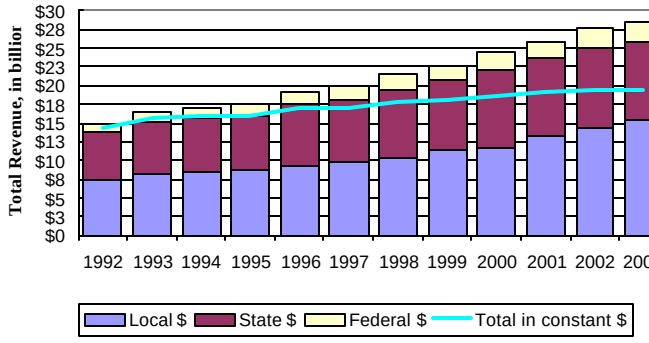
Introduction

This report is an overview of public school finance in Texas. It is intended to serve as a guide to the mechanics of the current funding laws. Appendices include an *Overview of Litigation and Legislative Responses and Equity Measures*, *Frequently Asked Questions*, and a *Glossary*.

In Texas, K-12 public education expenditures will total $56.9 billion in the 2002-03 biennium. Excluding $5.4 billion in federal aid, total state and local education funding will be an estimated $51.5 billion, representing the single largest funding priority in the state and local budgets. This figure has increased from $28.9 billion in the 1992-93 biennium. Figure 1 illustrates the growth in public education funding in Texas, in nominal and constant dollars.

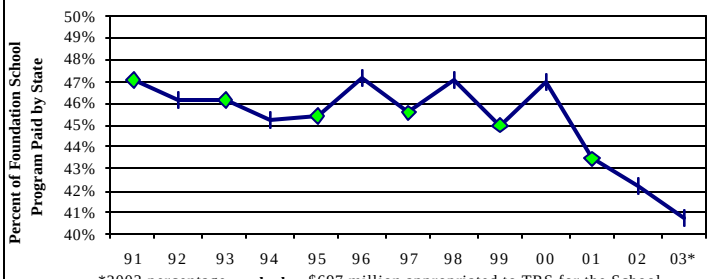
The responsibility for funding public education in Texas is shared by local school districts, the state, and the federal government. For the 2002-03 biennium, state taxes are estimated to provide approximately 38 percent of the total revenue and local school district property taxes 53 percent of the total. The federal government is estimated to provide approximately 9 percent of the revenue, most of it earmarked for specific federal education programs.

Figure 1
Growth in K-12 Public Education Revenue



The state's portion of public education funding decreases in relation to growing local property values. Figure 2 shows the percentage of Foundation School Program costs funded by state vs. local dollars for the last 12 years. The proportion of statewide education costs borne by the state remained in the 45 and 47 percent range from 1991 to 2000; however, it is estimated to fall to 42 percent in 2002 and to 41 percent in 2003.

Figure 2
State Share of the Foundation School Program



*2003 percentage **excludes** $697 million appropriated to TRS for the School District Employee Health Insurance Program. Inclusion would raise 2003 state share to 42.2%.

The state's school funding contribution is driven, in part, by efforts to maintain certain standards of equity within the school finance system. These equity standards are a result of nearly 20 years of litigation (see Appendix A for a more detailed discussion of litigation and equity issues).

There are four fundamental factors that influence the state's public education budget and its growth:

- Local Tax Base (local property values);
- Local Tax Rates;
- Student Enrollment; and
- Student and District Characteristics.

These factors and their interactions are described in this report.

Mechanics of Current School Finance Laws

OVERVIEW

The basic structure of K-12 public education financing in Texas is a three-tiered system that ensures a school district access to revenue based on the district's tax effort. It preserves a balance between state and local funding responsibility and local autonomy. State aid is provided to school districts in inverse proportion to district wealth in order to ensure a high degree of revenue equity.

The three tiers of the system are:

- **Tier 1.** Tier 1 ensures a base or "foundation" funding level for all students at a local tax rate of $0.86 per $100 of property value. All districts are entitled to $2,537 per student in Average Daily Attendance (ADA). This entitlement is increased according to certain district and student "adjustments" (or "weights") that apply to the district and the individual students in the district. If the district cannot generate its entitlement with local revenue, state assistance will make up the difference.

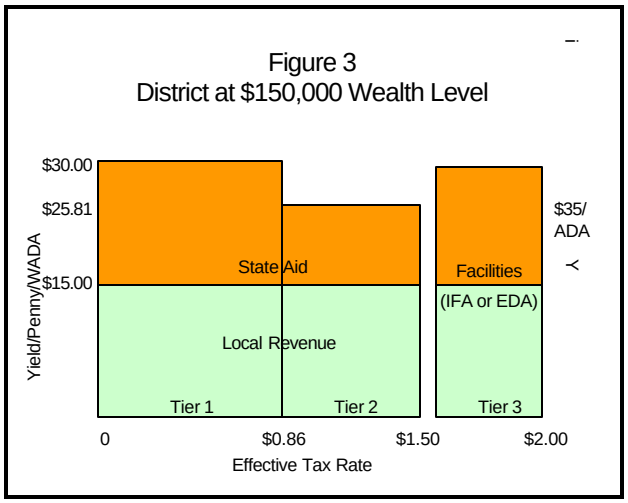
- **Tier 2.** Tier 2 has been referred to as the "enrichment" tier. It delivers state aid to districts based on a district-selected tax rate between $0.86 and $1.50. The mechanism that ensures a high level of equity in the system is the "guaranteed yield," which is a state guarantee of a specific revenue yield per "weighted" student (WADA) per penny of local tax effort, regardless of local property wealth. The guaranteed yield for fiscal year 2002 is $25.81 per weighted student per penny of tax effort in Tier 2. If a district's wealth level generates less than $25.81 per WADA, state assistance will make up the difference.

- **Tier 3.** Tier 3 consists of two state programs that provide financial assistance to districts for debt associated with school facilities. The Instructional Facilities Allotment (IFA), established in 1997, guarantees a specific revenue yield per student per penny of local tax effort for new instructional facilities. Districts that have received voter approval to sell bonds for instructional facilities can apply for assistance through the IFA program. In 1999, the Legislature added the Existing Debt Allotment (EDA) to Tier 3. With the EDA, state assistance is provided through a guaranteed yield system for a certain number of pennies of tax effort related to the debt service on existing school district bonds. For a debt to be eligible, the district must have made a payment on its bonds in the

2000-01 school year.[1] The yield for both of these programs is $35 per student (not "weighted") per penny of tax effort in Tier 3.

The Equalized Wealth Level (referenced in Chapter 41 of the Texas Education Code) is not a "tier" to deliver state funds to school districts. Instead, it serves as a limit on the revenue-generating capacity of wealthy districts. For the 2001-02 school year, any district with property wealth per weighted pupil exceeding $300,000 is required to reduce its wealth. (Because of "hold-harmless" provisions, some school districts can retain access to wealth greater than $300,000 per weighted pupil.) The two most common methods selected by school districts to reduce their wealth are to share revenue with other school districts and to share revenue with the state (which redistributes the funds through the Foundation School Program). This revenue sharing is also known as "recapture." As of 1997, the revenue generated by tax effort associated with debt service is not subject to recapture.

Figures 3, 4, and 5[2] illustrate the mix of state and local revenue for fiscal year 2002 in the three tiers based on the wealth level of the school district. The wealth level of each district is based on its total property value divided by weighted average daily attendance. These graphs demonstrate that state aid makes up a larger portion of overall revenue in lower wealth districts. Conversely, as local property wealth per WADA increases, state aid decreases. The equalizing effect of state aid formulas allows poor districts to generate the same revenue per student at the same tax effort as wealthier districts, *up to the state's maximum yield*.



[1]The eligibility criteria were changed by House Bill 2879, 77th Legislative session. Prior to fiscal year 2002, a debt is eligible for the EDA if the district levied and collected taxes for it during the 1998-99 school year. House Bill 2879 allowed debts to be eligible if the district made a payment on its bonds, regardless of whether the payment came from tax collections or other fund sources, during the 2000-01 school year.

[2]In figures 3 through 6, "ASF" represents the Available School Fund Per Capita Allotment. See page 16-17 for a description.

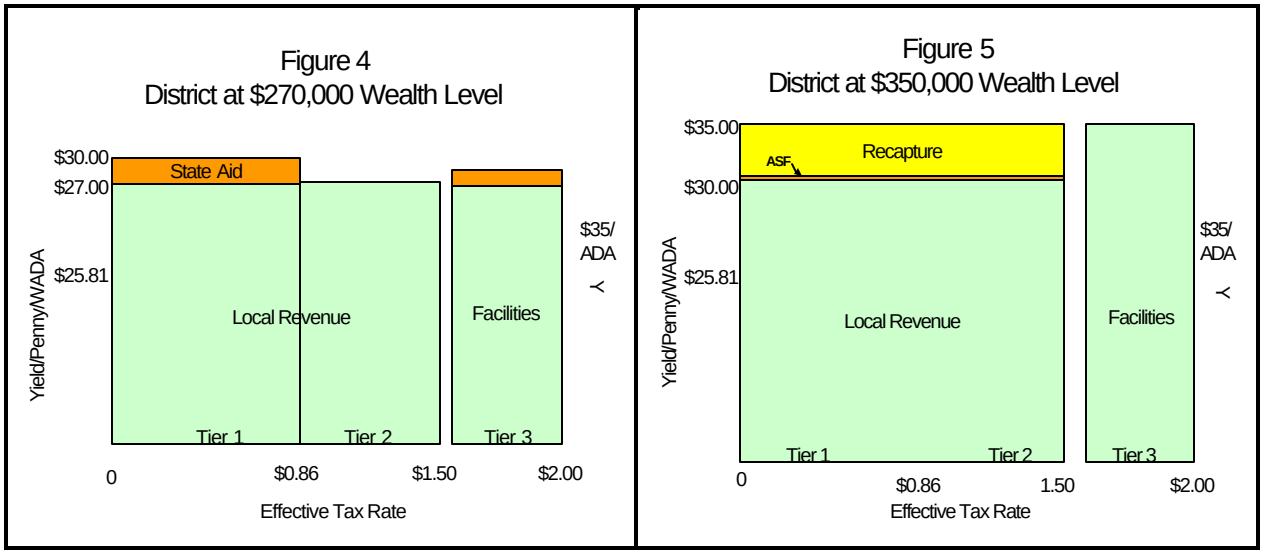
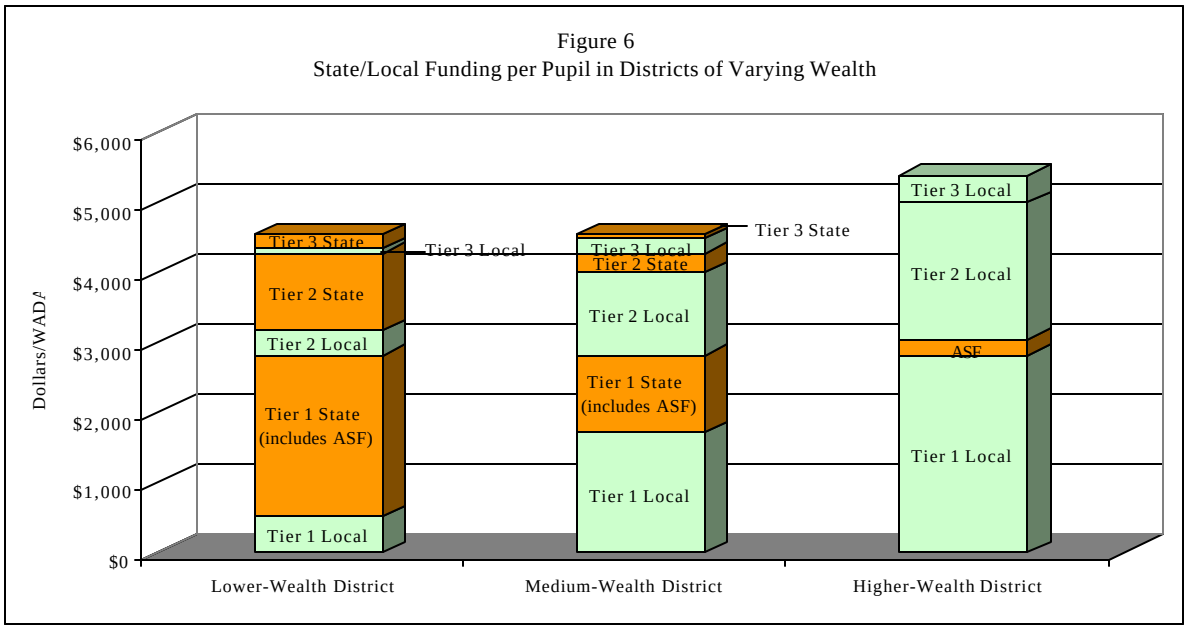


Figure 6 illustrates the difference in per student funding levels in school districts with varying property wealth levels, but similar levels of tax effort (note: the wealth levels in Figure 6 are different from those depicted in Figures 3, 4 and 5). The disparities in revenue among districts have declined significantly over the past 20 years, but revenues are not completely divorced from district wealth.

The next two sections of this report present the mechanics of how revenue is generated within the Texas school finance system by dividing the system into two primary sections: Local Revenue and State Funding. The final section is a short summary of federal funds dedicated to public education.

LOCAL REVENUE



Of the $51.5 billion in state and local revenue for public schools in the 2002-03 biennium, it is projected that between 58 and 59 percent will be generated from local district revenue. While 95 percent of local revenue is generated from the local property tax, a minimal amount of local revenue is generated from interest earnings, revenue from co-curricular activities, tuition, and fees.

Revenue from the property tax is the product of a basic calculation:

Local Revenue	=	local property tax base	x	locally determined tax rate

Tax Base and Appraisals

The tax base is defined as the value of all taxable property within a jurisdiction. "Taxable property" in Texas consists of residential and business properties. Residential property is comprised of "real" property, which includes land, its inherent natural resources, and any improvements thereon. Business property consists of real property plus capital assets, inventories (except in certain cases), and defined intangible goods, such as stocks, bonds, and mortgages.

The property tax base in Texas soared during the mid 1980s, then decreased 7 percent in nominal dollars between 1989 and 1994. It has risen steadily since 1995 (see Figure 7, next page).

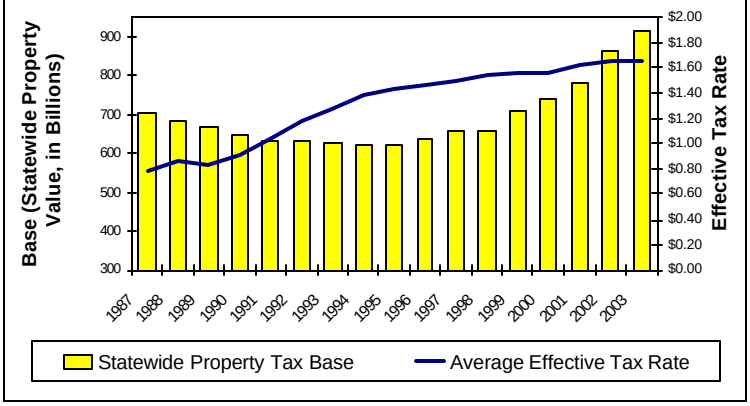
Property value appraisals are executed by county appraisal districts. The Texas Comptroller of Public Accounts conducts a statewide property value study to determine the validity and uniformity of local appraisals.

There are 1,041 school districts in the state. The tax base among these districts varies considerably. Kelton ISD has approximately $ 2.7 million in property wealth per weighted student, while Boles ISD has less than $10,000 in property wealth per weighted student. In general, the wealthiest districts in the state derive most of their wealth from commercial property. The Glen Rose ISD, for example, generates 88 percent of its property value from utility industry property. Excluding commercial property, the wealthiest district in the state is the Highland Park ISD in Dallas County. Nearly 83 percent of its property value is generated from residential property.

Tax Rate

The local school board sets a property tax rate according to the proposed budget of the respective school district. Once a school district's budget is prepared, the board president must call a board meeting to adopt the budget. Notice of the public meeting to adopt a budget and proposed tax rate must appear in the newspaper no later than 10 days nor earlier than 30 days before the date of the meeting.

Figure 7
Statewide Property Tax Base and Rate



The budget must be adopted before the tax rate (Education Code §44.04(g)). The tax rate must be adopted before the later of September 30 or the 60th day after the district received the certified appraisal roll (Tax Code §26.05(a)). If the tax rate is not adopted in time, the rate will be the lower of the effective tax rate for that year or the tax rate for the preceding year.

After adjusting the tax rate for a "rollback election" (see page 12), the rate is applied to the value of the district's property tax base as of January 1 of that year. Tax bills are delivered in October and are due by the following January 31.

Nominal vs. Effective Tax Rates

The tax rate on a property tax bill is the "nominal" tax rate. State funding formulas rely on an "effective" rate, which differs from the nominal rate. The effective rate is calculated by dividing a district's **prior year** property value into its **current year** total property tax receipts, or "collections" (this is a variation of the *local property tax base* x *locally determined tax rate = revenue* formula).[3] Districts receive state assistance according to how much local revenue they actually collect (including delinquent revenue but excluding local exemptions and abatements), rather than how much they levy. The *levy* is simply the amount billed. The differences between the two rates are summarized as follows:

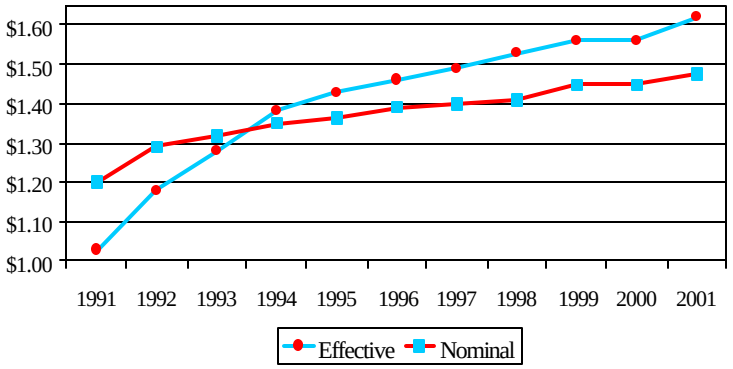
[3] As an example, the state funding formulas in FY 2001 (which roughly corresponds with the 2000-2001 school year) use calendar year 2000 collections divided by 1999 district property values.

Nominal Tax Rates (used by districts)	Effective Tax Rates (used by the state)
Definition: Rate = Local Levy (total billed) / **Current yr.** District Property Value	Definition: Rate = Local Collections (revenue) / **Prior yr.** District Property Value
• Honors state and local exemptions • Honors abatements • Based on locally determined property values and set according to local budget needs.	• Honors state but not local exemptions • Does not honor abatements after May, 1993 • Based on Comptroller-certified property values of the prior year.

The last distinction between the property tax year on which the rates are based, creates a "lag" between the local property valuation and the district's receipt of state funds. Using prior year values may result in districts receiving less or more from the state than current property values would generate (the effective rate may be higher or lower than the nominal rate). This is especially pronounced in districts experiencing rapid growth or declines in population and property values.

In recent years, increasing property values in some districts have produced effective rates that are higher than nominal rates (see Figure 8). This is because the higher property values have yielded more local collections revenue, and this larger amount is divided by prior year property values (which do not reflect the increase) to determine the effective tax rate. Since a portion of state aid increases with greater district tax "effort," the resulting higher effective rate draws more state aid in the current year. This is a one-time benefit for districts, as the higher property values are factored into state aid calculations for the following year.

Figure 8
Comparison of Effective & Nominal Tax Rates



Districts with declining property values have the opposite experience. Effective rates based on prior year values tend to understate the district's actual tax rate and they receive less state aid in the current year than they otherwise would. To offset the revenue loss in districts with rapidly declining property values, the Education Code (§42.2521) grants the Commissioner of Education the discretion to award additional state funds in the current year to such districts.[4] In recent years, this relief has been directed primarily to a number of districts in West Texas which have lost mineral wealth.

While this use of prior year property values has a great influence on the difference between the nominal

[4] Rider 10 of the TEA's bill pattern in the 2002-03 General Appropriations Act allocates $26 million per year, to the extent that such funds are available under the Foundation School Program, to provide for school district losses due to property value declines.

and effective tax rate, the issue of property tax exemptions also has an effect.

The state "recognizes" the following exemptions:

- $15,000 homestead exemption;
- $10,000 school district elderly and disabled homestead exemption; school tax ceiling for elderly, which caps taxes on homesteads by freezing the tax payment of a homeowner at age 65;
- the disabled veteran exemption, which exempts from $5,000 to $12,000 on property owned by a disabled veteran or surviving spouse;
- and the Freeport exemption (for certain tangible personal property that remains in Texas no more than 175 days).

By recognizing these exemptions, the state assumes a school district does not have access to this property value for tax purposes.

Similarly, House Bill 1200, 77th Legislature, allows school districts to approve limitations on the appraised value of certain qualified real and personal property (e.g. commercial buildings and associated capital equipment), and establishes the recognition of such limits by the state.

The state does not "recognize" the following exemptions:

- optional percentage residence homestead exemption (up to 20 percent of the market value of a residential homestead)[5];
- and optional elderly and disabled person homestead exemption, which allows an additional $3,000 exemption on homesteads of the elderly and/or disabled.

Failure to recognize an exemption means the state assumes a school district has access to revenue that would have been generated from the property value that is exempted. The result is an effective tax rate that is less than what it otherwise would be if the exemptions were recognized.
Based on data from the Office of the Comptroller of Public Accounts, the average nominal tax rate for 2000-01 was $1.48. The highest nominal tax rate was levied by Driscoll ISD ($1.91) and the lowest nominal tax rate was levied by Seminole ISD ($0.86).[6] Based on an LBB model prepared in May 2001, the average effective tax rate for 2000-01 was $1.62. The highest effective tax rate was levied by Lefors ISD ($2.34) and the lowest effective rate by Industrial ISD at $0.77.

[5] The Education Code (§42.2522), added by Senate Bill 4 in 1999, authorizes the Commissioner of Education, if funds are available, to fund one-half of this residence homestead exemption. The Commissioner implemented this provision for the 2000-01 school year.

[6] The lowest nominal rates are actually lower than $0.86; state funding formulas impose a “floor” rate of $0.86.

Tax Rate Limits

School district property tax rates in Texas have two functional components: a "maintenance and operations" (M&O) rate that funds all administrative and operational costs, and an "interest and sinking" (I&S) rate, also known as a "debt service" rate, that is used to finance debt associated with construction, renovation, and purchase of property and equipment.

The nominal M&O tax rate is limited by statute (Education Code §45.03(d)) to $1.50 per $100 assessed valuation.[7] State assistance on M&O tax effort is limited to $0.86 in Tier 1 (Education Code §42.252) and $0.64 in Tier 2 (Education Code §42.303), for a maximum of $1.50. Also, the effective tax rate for Tier 2 state aid calculations cannot exceed the district's effective tax rate for the last year of the preceding biennium .

The I&S tax rate is limited to $0.50 on all debt issued after September 1, 1992, except in special circumstances (Education Code §45.003 (e)). There is no cap on the debt that was issued before this date and there have been districts with total tax rates over $2.00. Tier 3 provides a "guaranteed yield" on certain new I&S tax effort and 29 pennies of tax effort related to existing (I&S) debt service. For fiscal year 2002, the 77th Legislature increased the statutory maximum tax rate from 12 to 29 pennies; however, the rate is limited to 12 cents for fiscal year 2003 unless the commissioner of education determines that sufficient surplus funds are available to provide for the higher tax rate.

The M&O tax rate limit has been a subject of the most recent lawsuit challenging the wealth equalization components of the school finance system: West Orange-Cove CISD v. Nelson (2001). The plaintiffs argued that the system is forcing more and more school districts to levy taxes at the maximum rate of $1.50 in order to maintain educational services, particularly those districts subject to recapture. Once a critical mass of districts reach the $1.50 ceiling, they argued, district property taxes become a de facto statewide property tax, which would violate the Texas Constitution (Article VIII, § 1-e). In July 2001, the District Court rejected this argument noting, among other factors, that this critical mass of districts had not yet been reached.

In the 1999-00 school year, 195 of the 1034 (19%) taxing school districts had reached the maximum rate of $1.50, and an additional 191 were between $1.45 and $1.50. Of the 195 districts, 20 are districts subject to recapture (representing 20% of all Chapter 41 districts). Additionally, 64 of the 195 districts at $1.50 (33%) grant the local option homestead exemption, removing a portion of residential value from their tax base and necessitating a higher tax rate to compensate for the resulting lost revenue.

[7] A few school districts have locally adopted tax rate limits that have grandfathered in a higher or lower rate than the $1.50 provided in statute. State aid related to maintenance and operations for these school districts remains limited to a $1.50.

Rollback Rates

Rollback elections provide voters with an opportunity to "roll back" proposed tax increases above a specified limit. So as not to harm a district's ability to pay its debt service, the rollback rate applies to maintenance and operations (M&O) tax effort. Generally speaking, rollback provisions are designed to allow school districts to set a tax rate to generate the same amount of state and local revenue per weighted average daily attendance (WADA) as they had the prior year, plus a certain number of pennies. During the 76th Legislative Session, Senate Bill 4 amended the Tax Code (§26.08(j)) to permit "a school district to adopt a tax rate that maintains the maximum level of state and local revenue per student to which it had access in 1999-00, even if the district did not actually collect sufficient maintenance and operations taxes in that year to earn the maximum state aid."[8] For school year 1999-00, school districts could increase the tax rate $0.03 above this tax rate.[9] For the 2000-01 school year, the $0.03 increased to $0.06, where it remains for the 2002-03 biennium. (Prior to 1999, the limit on increases for school districts was $0.08.)

If a school district sets a tax rate greater than the rollback rate, an election to adopt the rate is automatically triggered. (For other taxing units, setting a tax rate greater that the rollback rate would allow voters to petition for an election to roll back the proposed tax rate.) If a majority of the district's voters approve the tax increase, the adopted tax rate is in effect. If voters disapprove, the current tax rate takes effect.

Of the 10 school district rollback elections in 2000, voters "rolled back" rates in two school districts.[10] Between 1990 and 1999, there were 37 school district rollback elections. Tax rates were rolled back in 15 of these elections.

[8] September 15, 2000 letter from Commissioner of Education Jim Nelson to Texas Legislators.

[9] For the 1999-2000 school year, school districts who participate in Social Security were provided additional rollback protection. For these districts, the rollback rate was increased to allow the district to generate the same amount of revenue as the taxes paid by the district during the 1998-99 school year for Social Security payments.

[10] Comptroller of Public Accounts, Statement, "2000 Tax Rate Rollback Elections: 8 of 10 School Districts Ratify 2000 Adopted Tax Rate," January 2001.

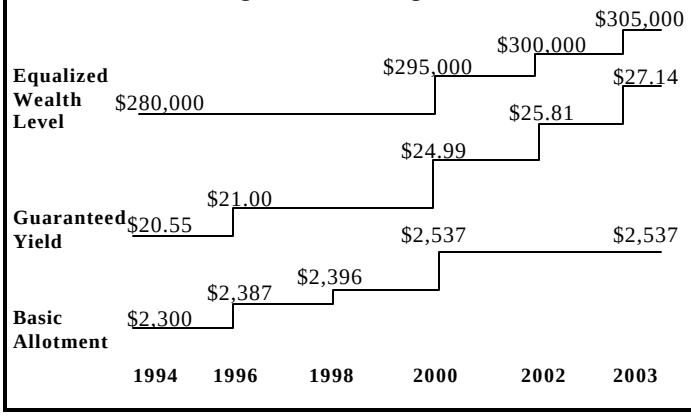
STATE FUNDING

State funding "equalizes" disparate local funding levels across districts. It is allocated in inverse proportion to local property wealth, thus narrowing the gap in per pupil spending between rich and poor districts. Districts with per pupil property wealth above a specific threshold are required to reduce their wealth.

The state formulas consist of the three "tiers" defined earlier. They constitute the Foundation School Program (FSP). The FSP was created in Texas in 1949 to provide an educational "foundation" for all students. For the 2002-03 biennium, the state appropriated $29.9 billion for the public education budget, including TEA's administrative costs.[11] Twenty one billion of this appropriation is distributed through the FSP. There are several non-FSP programs through which a comparatively minor amount of funds are distributed.

Figure 9

Funding Formula Changes, 1994-2003



The state can budget the amount of state aid districts "earn" by adjusting the funding formulas from year to year. Figure 9 illustrates the history of these formula changes from 1994 to the current biennium.

Sources of Revenue

Of the state's $29.9 billion public education appropriation, $23.1 billion, or 77 percent, is General Revenue (GR) funds. General Revenue funds are supported by a multitude of taxes and fees. The largest among these is the sales tax (55 percent of GR).[12] Other significant revenue sources include the corporate franchise tax, the motor fuels tax, natural gas and oil taxes, "sin" taxes, and insurance and utility taxes.

The state appropriates GR funds and non-GR funds to public education through various funding streams, or "methods of finance." The separate funding categories are differentiated by source and/or application. The largest of these is the Foundation School Fund (FSF). This GR fund supports the FSP and accounts for $17.1 billion of 2002-03 public education appropriation. FSF funds are used by school districts to pay teacher salaries, facility construction and renovation, administration, and other educational resource costs.

[11]This amount **includes** $700 million appropriated to the Teacher Retirement System for the implementation of components of the School District Employee Health Insurance Program.

[12] Texas Comptroller of Public Accounts, 2000 Annual Cash Reports, (2000), Austin, TX, p. 36.

Table 1

Sources of Revenue for Public Education

Funding Source	2002-03 Biennial Appropriation (in millions)
Foundation School Fund (General Revenue)	$17,080
General Revenue (TEA Programs)	$513
General Revenue (School Employee Health Insurance)	$700
Available School Fund	$2,365
State Textbook Fund	$806
Lottery Proceeds	$1,606
Appropriated Receipts, Attendance Credits	$1,314
Federal Funds	$5,395
Telecommunications Infrastructure Fund	$38
Miscellaneous Funds and Fees	$49
TOTAL	**$29,866 million**

The Available School Fund (ASF) is also a key method of finance. For the 2002-03 biennium, the ASF amounts to $2.4 billion. It consists of interest and dividends from the Permanent School Fund (PSF)[13] and 1/4 of the collections from the motor fuels tax. A portion of the ASF monies are set aside to fund the "State Textbook Fund" ($806 million in 2002-03 biennium), which is used to purchase all approved textbooks in the state.[14] A portion of the Textbook Fund is allocated for the "technology allotment," which provides every school district $30 per pupil for the purchase of computers, other technology, and for certain teacher training. The technology allotment totaled $232 million in the 2002-03 biennium.

Both the textbook fund and technology allotment are non-FSP expenditures. The remainder of the ASF is distributed through the FSP based on the number of students in the district.[15] This per capita distribution varies from year to year (usually between $250 and $300) based on the income derived from the PSF. ASF allocations offset general revenue funding to school districts that receive FSP funding.

[13] The Permanent School Fund (PSF), established in 1854, is an endowment consisting of land and investment holdings. PSF interest is constitutionally dedicated (Article 7, Section 5) to the Available School Fund, which must be used for public education. As of July 31, 2001 the fair market value of the PSF was $19.6 billion.

[14] The state pays for 100 percent of the textbooks selected by local districts that are on the state adoption list and 70 percent of the textbooks not on the list.

[15] Districts receive the ASF per capita distribution based on their *prior year* ADA count.

In 1997 the legislature dedicated state lottery proceeds to public education. These proceeds are considered GR funds and are expected to generate about $1.61 billion in the 2002-03 biennium.

An "Other Funds" category includes "appropriated receipts," which is primarily "recaptured" funds paid by wealthy districts ($1.31 billion for the biennium) and moneys allocated through the Telecommunications Infrastructure Fund ($38 million for the biennium) for specific technology purposes.

Teacher retirement funds are not part of the FSP, but are a sizeable component of public education funding. The state appropriated $2.7 billion in GR in the 2002-03 biennium to finance its public school Teacher Retirement System retiree pension ($2.08 billion) and health insurance obligations ($607 million).

With the passage of HB 3343, the 77th Legislature created a statewide health insurance program for school district employees, set to start in the 2002-03 school year. Like the funds dedicated for teacher salary increases in the 2000-01 biennium, a large portion of the funds designated to be spent on employee health coverage will be distributed through the Foundation School Program. However, a significant amount of state funds for the health insurance program will flow outside the school finance system, through the Teacher Retirement System ($700 million). See page 29 for a more detailed discussion.

Enrollment

As mentioned in the introduction to this report, student enrollment is one of the driving factors in the state's school finance system. State formulas are not actually based on "enrollment," however. The state uses the following two distinct measures of student counts in its formulas:

- ***Average Daily Attendance (ADA).*** This number is calculated by dividing the aggregate sum of each day's attendance count in the school year by the number of instructional days in the school year. LBB estimates in the General Appropriations Act are 3.84 million in ADA in 2002 and 3.90 million in ADA in 2003.

- ***Weighted Average Daily Attendance (WADA).*** WADA is an adjusted student count that compensates for student and district characteristics as defined by statute. Students with special educational needs, for example, are "weighted" by a factor ranging from 1.7 to 5.0 times the "regular" program weight in order to fund their special needs. The specific weights are explained on page 19. LBB estimates for the General Appropriations Act indicate 5.15 million in WADA in 2002 and 5.24 million in WADA in 2001. As these projections indicate, the statewide WADA count is about 35 percent higher than the ADA count. This ratio varies by district.

For the 2002-03 biennium, the 77th Legislature provided $22 million to assist school districts that experience significant declines in ADA. A district in which ADA declines by more than 2 percent may be allowed to use 98 percent of the previous year's ADA for state funding purposes. This adjusted ADA count is subject to the appropriation limits of $11 million for each year of the biennium.

Tier 1 Basic Allotment

"Tier 1" was originally intended to provide a basic "foundation" level of funding and represents the bulk of the funds distributed through the FSP. Each school district has a Tier 1 funding entitlement based on certain district characteristics (or "adjustments") and the types of students served. School districts are required in Tier 1 to levy a local property tax rate of $0.86 (Education Code §42.252(a)).[16]

For districts that do not have a sufficient local tax base to generate their entitlement per pupil at a $0.86 tax rate, state funds make up the difference.[17] Districts with sufficient property wealth to generate their entitlement on their own receive only Available School Fund revenue, which the Texas Constitution requires to be distributed to all districts. For fiscal year 2002, the per pupil ASF allotment is $250.

[16] LBB funding formulas impose a floor rate of $0.86. The state and local funding shares of a district with a lower effective rate are calculated based on a rate of $0.86.

[17] In the 2001-2002 school year, for example, the state calculation of each district's local share is the Comptroller-certified 2000 property value of the district multiplied by a rate of $0.86.

Table 2: **School District Adjustments and Student Weights**

District Adjustments

Classification	Description	Assigned Weight	2002-03 Biennium Cost ($ millions)
Cost of Education Index (CEI)	Accounts for differences in resource costs that are beyond the control of the district. The five components are: (a) the average beginning salary of teachers in contiguous school districts, (b) the percent of economically disadvantaged students, (c) district size (in terms of ADA), (d) location in a rural county (with a population of less than 40,000), and (e) whether the district is classified as an "independent town" or "rural." The CEI is based on a 1991 regression analysis of factors affecting variation in payroll costs among districts. It is applied to 71% of the Basic Allotment.	1.02 to 1.20	$2,163
Small & Mid-sized Adjustments	Designed to compensate for the higher fixed costs of operating schools in less populated areas. "Small" districts are classified as those with fewer than 1,600 ADA. "Mid-sized" are those with 1,600 to 5,000 ADA.	1.0 to 1.61	$866
Sparsity Adjustment	Eligibility is based on the number of students in the district, the range of grade levels available, and if high school is not available in that district, the distance to a district with a high school. Depending on these factors, the student count in a district is automatically increased to 60, 75, or 130 students for funding purposes.		$13
	Student Weights		
Special Education	There are 12 special education instructional arrangements with varying weights based on duration of the daily service and location of the instruction.	1.7 to 5.0	$3,412
Compensatory Education	Additional funding to assist students performing below grade level. Funding is based on the number of students that are eligible for a free or reduced-price lunch under the national school lunch program. A separate component of the compensatory education program serves pregnant students.	0.2 or 2.41 if pregnant (add on)	$2,345
Career & Technology	Funds pay for materials and salaries, and is based on the amount of time students spend in eligible career technology courses.	1.37	$1,332
Bilingual / ESL	Additional funds are used for salaries and additional resource needs. Funding is based on the number of students that elect to participate in the program.	0.1 (add on)	$275
Gifted / Talented	Additional funding pays for salaries and resources. The number of eligible students for this funding is capped at 5% of each district's ADA.	0.12 (add on)	$130

Each district's entitlement begins with a "basic allotment" of $2,537 per ADA in the 2002-03 biennium. The entitlement is then adjusted according to "district adjustments" if applicable. The product of these adjustments is known as the "adjusted allotment," which is uniform for all students in a district. The average adjusted allotment is $2,849.

The district adjustments used to establish the adjusted allotment are described in Table 2. The adjusted allotment is then modified by the student allotments (or weights) to determine a district's Tier 1 entitlement. The student weights, designed to account for the additional costs of individual student needs or attributes, are also listed in Table 2.

Each district also receives a "transportation allotment" in Tier 1. Transportation funds are distributed to each district based on "linear density," which is the number of students riding buses divided by the approved route miles. This formula accounts for the cost differences between transporting students in an urban and a rural district. A small portion of the state's transportation costs are distributed according to special requirements relating to a student's disabilities or other circumstances. The state provides approximately $642 million for transportation in the 2002-03 biennium, which is about half of the total transportation cost.

A recap of Tier 1 shows that:

- A school district's Tier 1 entitlement is determined by starting with the "basic allotment" and applying the district adjustments to determine the adjusted allotment. The adjusted allotment is multiplied by the student weights and the number of students in each weighted category. The transportation allotment is added to this figure.

- A school district's Tier 1 state aid is determined by subtracting the district's Local Fund Assignment from the Tier 1 Entitlement. The Local Fund Assignment is established by multiplying a district's Certified Taxable Values for the preceding year by a $0.86 M&O tax rate.

Tier 2 Guaranteed Yield

"Tier 2" is a "guaranteed yield" program distributed through the Foundation School Program. As in Tier 1, the state "guarantees" revenue in Tier 2, but unlike Tier 1, districts have tax rate discretion. They may set a maintenance and operations (M&O) tax rate anywhere between $0.86 and $1.50 (Education Code §42.303) and the state ensures that, for the 2001-02 school year, they will generate no less than $25.81 per WADA per penny of tax "effort" (effective rate), regardless of local property wealth. For the 2002-03 school year, the guaranteed yield will increase to $27.14 per WADA per penny of tax effort. This mechanism does not guarantee a minimum per pupil revenue for every district; it guarantees the same minimum per pupil revenue *per tax effort* in the designated range. In this sense, it guarantees revenue while preserving local control of tax rates.

The student weights presented in Tier 1 play an important role in Tier 2, because the guaranteed yield is based on "weighted" ADA (WADA). The use of WADA results in more Tier 2 money to school districts with students in special programs and students who qualify for the federal lunch program than would have been distributed to them using ADA.

Based on changes made by Senate Bill 4 in 1999, state Tier 2 funds may not be used for debt service or capital outlay.[18] Prior to this change, school districts could use state Tier 2 funds for any purpose.

As discussed earlier, total revenue is a product of tax rate and tax base. A home valued, after recognized exemptions, at $258,100 generates $25.81 per penny of tax levied. The guaranteed yield mechanism means state assistance is provided districts with less than $258,100 in per *pupil* property wealth to produce $25.81 per pupil per penny of tax effort.
The illustration on the next page is a conceptual summary of Tiers 1 and 2 of the Foundation School Program calculation.

[18] For these purposes, "capital outlay" is considered purchase made as part of a bond package for facilities and furnishings. Otherwise, a district could use Tier 2 funds to purchase a computer, for example.

Foundation School Program

Tax Rate

Tier 1- Basic Allotment

Basic Allotment $2,537

\+ **District Level Adjustments**

CEI

Small mid-size Adj (≤ 5000 ADA)

Sparsity (≥ 300 □ mi)

\+ **Student Level Adjustments**

pupils in regular program | # pupils in special ed. | # pupils in comp ed. | # pupils in voc. ed | # pupils in bilingual ed. | # pupils in G & T

Weights for special ed. | Weight for comp ed. | Weight for voc. ed | Weight for bilingual ed. | Weight for G & T

\+ **Transportation Allotment**

= **Total Tier 1**

.86 — **Total State and Local Tier 1 Funds**

Tier 2 - Guaranteed Yield

each penny of tax efforts yields

✖

$25.81

$25.81 per weighted ADA

1.50 — **Total State and Local Tier 2 Funds**

Tier 3 Facilities

There are two state programs to provide assistance for debt repayment associated with school facilities. The Instructional Facilities Allotment (IFA) and the Existing Debt Allotment (EDA) are sometimes referred to as Tier 3.

Instructional Facilities Allotment (IFA)

The IFA guarantees receiving districts $35 per unweighted ADA per penny of tax effort to assist in the payment of *new* instructional facility debt obligations.[19] Once a district receives state assistance under the program, the district is entitled to continue receiving the state assistance without reapplying to the commissioner of education. The related guaranteed level of state and local funds per student per penny of tax effort may not be reduced to a level below the level provided for in the year in which the bonds were issued. The state and local share for a district are adjusted annually to reflect changes in property values, ADA, and debt service. For instance, if the property wealth in a participating districts increased, the state share would be reduced to reflect this growth in local wealth. The reverse would happen if property wealth declined in a participating school district.

While the IFA is structured as a guaranteed yield similar to Tier 2, it does not guarantee that all districts that have received voter approval to sell bonds will receive IFA funding. Districts must apply to the Texas Education Agency (TEA) for state aid through the IFA. The IFA is a "sum certain" appropriation, which means when all of the appropriation is claimed (through the application process), no more money can be allocated by the TEA.

District property wealth is the central factor in determining which districts receive IFA funding. If IFA appropriations do not cover the demand in a given year, factors in addition to property wealth are considered in the application process. These additional factors include: whether the district was denied IFA assistance the prior biennium; substantial student growth in the preceding five years; and the absence of other outstanding debt. Each of these factors would allow a school district's wealth, for the purposes of ranking the applications for funding, to be lowered, thus allowing the district to move higher on the list for funding.

In the 2000-01 biennium, 312 school districts were allocated a portion of the $400 million budgeted for the IFA. For the 2002-03 biennium, the 77th Legislature increased IFA funding by $113 million to $513 million, which will allow an estimated 88 additional districts to receive IFA assistance.[20]

[19] The maximum district allotment is $250 per ADA per year, unless ADA is fewer than 400, in which case the maximum is $100,000 per district per year. (Education Code §46.005)

[20] Thirteen million of the $113 million increase is to meet the state's current IFA obligations; the remaining $100 million is for new IFA assistance.

Most of the debt financed through this program is in the form of General Obligation (GO) bonds. The other primary financing arrangement is "lease purchase" agreements, which are a series of payments that are considered installments toward the purchase of a facility.

Existing Debt Allotment (EDA)

Whereas the IFA contributes state assistance for debt payments on new instructional facilities, the EDA helps pay for bonded debt on which the district has already made payments. In the EDA, state assistance is provided through a guaranteed yield system: $35 per penny per ADA for tax effort related to school district bonds. HB 2879, passed by the 77th Legislature, raised the maximum tax rate for which debt is eligible for the Existing Debt Allotment (EDA) from 12 to 29 cents, starting with the 2001-02 school year. However, HB 2879 limits the rate to 12 cents for the 2002-03 school year unless the commissioner of education determines that sufficient surplus funds are available to provide for the higher tax rate.[21]

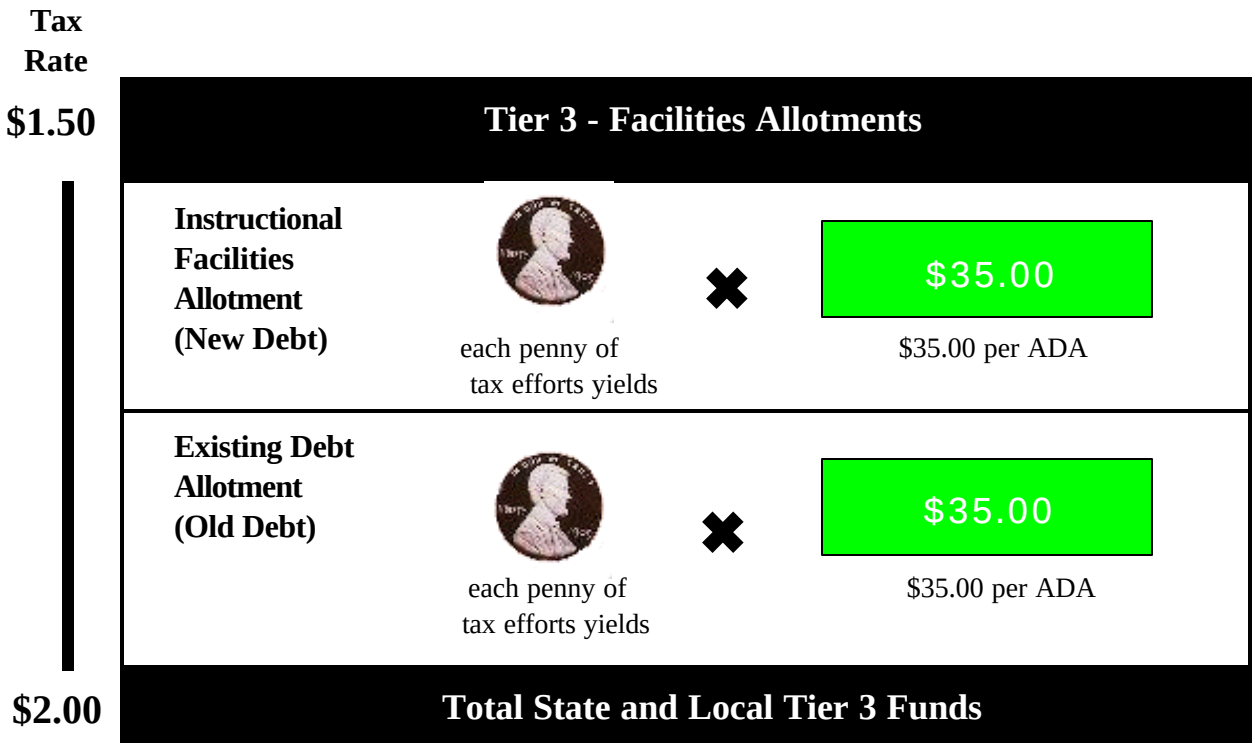
HB 2879 also changed the eligibility requirements for the EDA. Under prior law, only those debts for which districts levied and collected taxes in the 1998-99 school year were considered eligible for funding. Under HB 2879, districts are eligible for EDA assistance if they levied taxes for, or made payments on, bonds in the 2000-01 school year.

In fiscal year 2002, an estimated 544 districts will be receiving EDA assistance. The EDA program was appropriated $941.8 million for the biennium, although actual program costs will depend upon changes in property values.

The following illustration is a conceptual summary of Tier 3 of the Foundation School Program calculation:

[21]If surplus funds are available, $50 million of the surplus must first be allocated to the IFA program before the $0.12 limit can be increased.

Foundation School Program



A different type of allotment, the "New Instructional Facility Allotment" (NIFA), was established in 1999. This $25 million annual allotment is intended to assist districts that experience growth in students. The first year a new school is open, the district would receive $250 per ADA. The second year the facility is open, the district would receive $250 per additional ADA at the school.

"Gap" Funding

Under the current parameters of the school finance system, there is a small group of districts whose property wealth level is too high to receive Tier 2 funding, but too low to be subject to the Chapter 41 recapture provisions. These are districts whose wealth per WADA levels in fiscal year 2002 are between $258,100 (corresponding to the $25.81 Tier 2 Guaranteed Yield) and $300,000 (the Equalized Wealth Level, explained in the following section). The approximately 16 districts who fall into this range are referred to generally as "gap" districts.

These districts receive no funding benefit from the increases in the Tier 2 Guaranteed Yield and Equalized Wealth Level, although such increases may affect which districts fall into the "gap" range. In an effort to ensure that all districts experience some revenue gain from school finance system revisions, the 77th Legislature provided additional state assistance equivalent to the revenue gain experienced by districts receiving Tier 2 funding.[22] The approximately 16 "gap" districts and 20 Tier 2 districts that are

[22]The revenue gain in Tier 2 due to the increase in the Guaranteed Yield was $0.82 per WADA per penny of tax effort. This is simply the previous Guaranteed Yield, $24.99 minus the new Guaranteed Yield, $25.81, established for fiscal year 2002 by HB 3343.

very close to the $25.81 Guaranteed Yield level will qualify for this funding. These districts will receive the "gap" funding in each year of the 2002-03 biennium, although the amount of the funding is limited to $37 million for the biennium. If there are insufficient funds to guarantee districts the full benefit of the Guaranteed Yield increase in 2003, the gap funding allotments will be reduced proportionately.

Equalized Wealth Level

For the 2001-02 school year, districts with per pupil property wealth that exceeds $300,000 are able to generate more than $30.00 per WADA per penny of tax effort without state assistance. These districts are often referred to as "Chapter 41 Districts." This ability to raise more revenue per tax effort is capped, however. In 1993 Senate Bill 7 established the "share the wealth" provision. Statute requires districts with per pupil property values that exceed $300,000 to share their wealth by choosing one of the following five "recapture" options:

1. Consolidate with another (poorer) school district.
2. Detach property to another school district for taxation purposes.
3. Purchase average daily attendance credits from the state. The cost of a credit depends on a calculation that approximates the amount of tax revenue raised per child in the Chapter 41 District.
4. Contract for the education of non-resident students (partner with a poorer district). The cost of educating a non-resident student depends on a calculation that approximates the amount of tax revenue raised per child in the Chapter 41 District.[23]
5. Consolidate its tax base with one or more other districts.

The two most commonly employed choices are buying attendance credits from the state (writing the state a check), or sharing revenue with another district (writing a district a check). In the 2001-02 school year, there are 101 Chapter 41 districts. The associated recapture revenue realized by the state is anticipated to total $1.31 billion in the 2002-03 biennium.

The $300,000 per WADA recapture threshold is referred to as the "Equalized Wealth Level." For the 2002-03 school year, this level will increase again to $305,000.

Since 1997, the equalized wealth limit applies to M&O taxes only. Interest and sinking tax effort (for facilities) is not subject to recapture.

In 1993, wealthy districts that would have faced abrupt decreases in revenue due to the "recapture" provisions were granted "hold harmless" protection. This hold harmless allows them access to a portion of their tax base above the equalized wealth level. The amount of the hold harmless is based on the wealth level necessary, assuming the district set a $1.50 tax rate, to maintain its prior spending level. While the hold harmless was initially included as a transition to the lower wealth level, this hold harmless

[23] Since Chapter 41 districts generate more revenue per WADA than poorer districts, the receiving district benefits from a "premium" per WADA on the difference between the amount the Chapter 41 district pays and the amount the state deducts from the poorer district's FSP assistance.

protection has been made permanent. To qualify for the hold harmless, a district must choose option three – purchasing credits from the state.

In addition to the hold harmless, Chapter 41 includes other "discounts" that allow a recapture district to retain access to more than the $300,000 per WADA wealth level. The various discounts apply if a district has chosen option three or four.

State Funding Calculations

The state's share of funding is determined on a district-by-district basis. The state determines each district's "entitlement" based on the district's number of students, the characteristics of the district (adjustments) and the students (weights), the local tax base, and the local effective tax rate. Each district's local revenue (the product of the district tax base and tax rate up to $1.50) is then deducted from this entitlement to produce the state's funding portion.

It is important to note that the *local* share of funding is based only on the tax rate and the district's property base. Since student count is not part of this calculation, the local share does not increase with an influx of students. In other words, the state fully funds the cost of each additional student.

TEA reconciles the past year's funding with each district's actual entitlement through a "settle up" process. Prior to the start of the school year, TEA establishes the amount to be distributed monthly to each school district, based on **estimates** of the district's ADA, tax collections, and property values. At the end of the year, TEA examines **actual** ADA, tax collections, and property values to retrospectively determine each district's actual entitlement. Districts that were "overpaid" in the previous year are subject to decreased funds throughout the following school year, whereas districts that were "underpaid" are fully reimbursed in September of that year.

For calculating state funding, a district's Tier 2 effective tax rate is limited to the effective rate imposed in the second year of the prior biennium (Education Code §42.253 (e)). This provision is intended to establish predictability in state budgeting. Before this provision was adopted, there was a risk of "proration," which is a reduction in district revenues from the state due to budget shortfalls. Some have argued that this provision encourages school districts, seeking to maximize future state aid, to increase tax effort sooner than they might otherwise.

Set Asides

"Set asides" are a group of specific education programs that are funded with revenue that was appropriated from a particular student allotment (usually the Compensatory Education allotment) under the Foundation School Program. Once these set aside programs are authorized, their funding is deducted from the state allocation to each school district and then redistributed to districts according to the specifications of each set aside program.

This process of "setting aside" appropriated money is a method of funding education programs without seeking additional appropriations. Examples of programs funded in this manner are: the "Extended Year

Program," which is an after-school or summer school remediation program; Texas Assessment of Academic Skills (TAAS) test development and administration; and Communities in Schools.

Set aside programs are expected to reallocate about $356 million in the 2002-03 biennium. The state withholds funds from each district through a proration formula and distributes the funds to districts that operate eligible programs. "Chapter 41" districts receive funding credit for students in set aside programs, but they do not contribute to the set aside funding pool, because they receive no state funds that may be withheld.

Charter Schools

Since the establishment of charter schools in 1995, the State Board of Education has awarded 203 charters. To date, twenty-two charters have been either returned or revoked (20 of these charters have since been issued to other organizations). At the start of the 2001-02 school year, 181 charter schools were in operation.

In 2001, the 77th Legislature passed a charter school reform bill, House Bill 6, which capped the number of charters at 215 and altered the way charter schools are funded. For charter schools currently operating, the same funding mechanism currently in place will continue through the 2002-03 biennium. These schools will be entitled to the same amount of state and local funding that would be spent on a student by the student's district of residence. However, beginning in the 2003-04 school year, there will be a 10-year transition to the use of **state average** funding elements for the calculation of state aid. For new charter schools, funding will be based only on state averages beginning with the 2001-02 school year.

Charter schools do not receive facilities funds, nor do they receive start-up funding from the state. However, the state provides new charter schools with an accelerated payment schedule in their first year of operation to assist in start-up expenses.

Teacher Salaries

Teacher salaries make up more than 50 percent of a school district's operating budget, but they are not explicitly itemized in school finance formulas. Salaries are set by local districts and paid with local and state funds from Tiers 1 and 2. The state does play a role in salary expenditures, however, through the "teacher minimum salary schedule" for school teachers, librarians, counselors, and nurses. State law (Education Code §21.402) sets a minimum salary a teacher could receive based on the number years of experience.

Public School Employee Health Insurance

HB 3343 of the 77th Legislative session created a statewide program for public school employee group health coverage, to start in the 2002-03 school year. School districts with 500 or fewer full-time employees (representing over 80 percent of all districts) will be required to participate in the statewide

program; districts with between 500 and 1,000 employees have the option of joining. Districts with more than 1,000 employees may join the program as of September 1, 2005.[24]

Several funding streams were created for the health insurance program, including the use of a portion of the formula funding increases provided through the Foundation School Program (i.e., the increases to the Tier 2 Guaranteed Yield, the Equalized Wealth Level, and the "Gap" District funding). School districts must use a portion, but no more than 75%, of their formula funding increase to fund a $900 per year allotment to each employee who participates in group health insurance; if formula gains are not sufficient, a supplemental amount of state aid will be provided. Separately, the Teacher Retirement System will provide $1,000 per year per employee that may be used for additional coverage or compensation. School districts are also required to maintain current employer contributions toward health insurance coverage, with a minimum effort target of $1,800 per participating employee. State transition aid is provided to districts not meeting this minimum effort, but the aid will be phased out over time.

FEDERAL FUNDING

The federal government is contributing $5.4 billion to the Texas education system in the 2002-03 biennium, representing about 9 percent of total K-12 education revenues. These funds are distributed to specific programs that primarily assist disadvantaged populations. The allocations are categorized in the General Appropriations Act as follows:

Federal Funds	***FY 2002 ($ mill.)***	***FY 2003 ($ mill.)***
Education and Welfare (Title 1 "disadvantaged" programs, special education, drug free programs, etc.)	**$1,849.4**	**$1,863.0**
Federal School Lunch Program (lunches and breakfasts; eligibility based on poverty level)	**$811.0**	**$859.4**
Other Federal Funds (Temporary Assistance to Needy Families. Mostly adult education and teen parenting programs)	**$6.1**	**$6.5**

[24]Districts with 1,000 or more employees may be permitted to opt-in earlier than September 1, 2005 if the Teacher Retirement System determines it to be feasible.

APPENDIX A: OVERVIEW OF LITIGATION AND LEGISLATIVE RESPONSES, AND EQUITY MEASURES

While many of the structural elements of the current school finance system have been in place since House Bill 72 in 1985, the system has been continuously adjusted by the legislature to a greater or lesser extent every two years. The driving force behind these adjustments have been court rulings. The courts are not in a position to design an acceptable structure but, by repeated rulings on the constitutionality of the system, have played a central role in shaping the school finance system. Public input and education interest groups have helped frame the legislative responses to these rulings.

The cornerstone of school finance litigation in Texas is Article 7, Section 1 of the state's 1876 Constitution:

> "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 free public schools."

Successive legal challenges to the system in Texas focused on the definition of "efficiency."

This appendix summarizes the history and influence of the courts on school finance in Texas. It concludes with a discussion of equity and the equity measures currently used to define an acceptable system. These equity measures are a result of the various court rulings and play a role in determining the funding level of the entire system.

Rodriguez v. San Antonio ISD

The state's funding structure was first challenged in a federal district court by Demetrio Rodriguez in 1968. He asserted in his lawsuit, Rodriguez v. San Antonio ISD, that the state's funding structure violated the "equal protection" clause of the U.S. Constitution's 14th amendment. This amendment was the basis of the Brown v. Board of Education case in 1954, in which the U.S. Supreme Court ruled that "separate but equal" educations are inherently unequal.

In 1971 the U.S. District Court ruled that the school finance system relied too heavily on local property wealth. In 1973 the U.S. Supreme Court, in a 5-4 decision, overruled the District Court, stating that education "is not among the rights afforded explicit protection under our Federal Constitution." The decision effectively removed public education financing from the federal arena and rendered it a state issue, to be determined in state legislatures and by state courts.

Even though the school finance system was upheld by the U.S. Supreme Court, the court action spurred legislative interest in revising the system. In 1975, in House Bill 1126, Tier 2 was established and the

system was renamed the Foundation School Program.[25] The intent was to increase state aid to poor districts. Further adjustments in 1979 increased state aid and increased the fairness of property tax appraisals.

Edgewood v. Bynum

A Select Committee on Public Education began meeting in 1983. Its reform minded recommendations, released in early 1984, included school finance changes. That year, the Mexican American Legal Defense and Education Fund (MALDEF) filed the first of the Edgewood cases, Edgewood v. Bynum. Filed in state court, the lawsuit challenged the equity of the school finance system.

The legislature responded to these developments by approving House Bill 72 in 1985. The bill instituted many of the structural elements that are in place today, including "weighted" students, the "small / sparse" district adjustment, the use of "full time equivalent" units for special and vocational (now known as career and technology) education, and specific equalization funding.

Edgewood I – Similar Revenues at Similar Levels of Tax Effort

The Edgewood case went to trial in 1987 as Edgewood v. Kirby (William Kirby was the TEA Commissioner at the time). The State District Court found that the state's financing system violated both the "equal protection" (Article 1, Section 3) and the "efficient system" (Article 7, Section 1) clauses of the state's constitution. A state court of appeals reversed the decision in 1988, but the Texas Supreme Court unanimously affirmed the district court's ruling in 1989.

The Texas Supreme Court upheld education as a fundamental right under the Texas Constitution and cited "glaring disparities" in spending between wealthy and poor districts that violated the "efficiency" clause. Unlike the lower court, however, the Supreme Court did not demand "absolute equality" in per pupil spending to satisfy the "efficiency" clause. It created a standard of "substantially equal access to similar revenues per pupil at similar levels of tax effort." The court declared that "a remedy is long overdue" and set a deadline of May 1, 1990 for a legislative remedy. (This deadline was later extended to June 20.)

In June 1990, during the sixth called "special session," the legislature approved Senate Bill 1. The bill added a facilities component to the foundation school program definition, mandated that 95 percent of the state's students would be in a wealth-neutral system by 1995, and implemented adjustments to further assist less wealthy districts. It did not limit the enrichment capacity of wealthier districts.

Edgewood II and II-A County-Wide Tax Bases

The Edgewood case was retried in 1990 based on the "efficiency" of the system. In January 1991, the Supreme Court affirmed the lower court's rejection of Senate Bill 1, stating that its primary flaw was "its overall failure to restructure the system." The opinion, referred to as Edgewood II, noted that "...the

[25] The Basics of School Finance, Sixth Edition, Revised 1996, p. 10.

system would be made more efficient simply by utilizing the resources in the wealthy districts to the same extent that the remainder of the state's resources are utilized" and called on the legislature to take immediate action.

A month later, in response to a motion for rehearing on one of the issues, the Supreme Court issued an advisory opinion that is sometimes referred to as Edgewood II-A. This opinion noted that: (1) local unequalized enrichment is not strictly prohibited; and (2) the Constitution allows the legislature to authorize an additional ad valorem tax to be levied and collected within all school districts for the maintenance of those public schools.

In 1991 the legislature responded with Senate Bill 351 which created 188 "County Education Districts" (CEDs). The CEDs consolidated the tax bases of several school districts within a county and thus "equalized" wealth among these districts. This consolidation applied to the first 72 cents of tax effort (this was to rise to $1.00 of tax effort in 1994-95). School districts retained the ability to tax above the CED tax rate. The grouping of the 188 CEDs was based on a maximum per student property valuation of $280,000 (to be phased in).

Edgewood III and Senate Bill 7 Recapture

By June 1991 the District Court heard arguments from wealthy districts challenging the constitutionality of the CEDs. The District Court upheld the system, but in January 1992
the Supreme Court ruled that Senate Bill 351 ran afoul of two constitutional provisions. The provisions were: Article 7, Section 3, requiring local voter approval of school property tax levies; and Article 7, Section 1-e, prohibiting a state property tax (outlawed since 1980). The ruling pertained to the nature of the tax itself; it did not address the equity of the school finance system. The Supreme Court allowed the system to stay in place for two school years, giving the legislature until June 1993.

The legislature met in a special session in 1992 and the regular 73rd session (1993) to correct the system before the June deadline. A constitutional amendment to allow for a statewide property tax and redress the defects of the CED structure was put before the voters on a May 1, 1993 ballot. The voters rejected the initiative by a wide margin, leaving the legislature with a month to devise an acceptable system. The legislature responded with Senate Bill 7.

The most important and most controversial new element of Senate Bill 7 was its equalization / recapture formulas, which are directed at wealthier districts. The bill imposed a $280,000 cap (subsequently increased incrementally to the current $300,000 for the 2001-02 school year) on the per student taxable property value base in all districts.
Those districts with property values that exceed this limit must choose one of five methods to reduce their taxable wealth:

(1) Consolidate with another (poorer) school district.
(2) Detach and annex property to another school district for taxation purposes.

(3) Purchase average daily attendance credits from the state (write a check to the state). The cost of a credit depends on a calculation that approximates the amount of tax revenue raised per child in that district.
(4) Contract for the education of non-resident students (partner with a poorer district).
(5) Consolidate its tax base with one or more other districts.

Full implementation of Senate Bill 7 was scheduled for the year 2000. Until then, a number of wealthier districts would have been "held harmless," or permitted to retain a per pupil tax base that exceeds $280,000 per student. These districts were being "phased in" to the equalized system. (Subsequent legislation made this hold-harmless permanent.)

Edgewood IV

Senate Bill 7 was challenged in court as Edgewood IV based on the efficiency issue and on the issue of adequacy or "suitable provision" clause of the Texas Constitution. In December 1993 the District Court upheld Senate Bill 7 contingent on state funding for school facilities. In January 1995 the Supreme Court upheld the school finance system on all grounds, noting that it did not accept the challenge on facilities only because of an "evidentiary void." With regard to facilities, the court warned that, "the lack of a separate facilities component has the potential of rendering the school finance system unconstitutional in its entirety in the very near future." Otherwise, the court said the system met the constitutional level of efficiency because both rich and poor school districts had substantially equal access to the funds necessary to provide an accredited program. While disparities still existed in the level of tax effort needed in each district to generate the necessary funds, the court did not consider the disparity too great.

The court did caution that supplementation at the district level should not become so great as to destroy the efficiency of the system; and if a large number of school districts had to set at the maximum maintenance and operations tax rate ($1.50) to meet the accreditation standards, it could be viewed as an unconstitutional state property tax.

In 1995, in response to the warning in Edgewood IV, the Legislature established a $170 million school facilities grant program in Senate Bill 1. The bill's distribution formulas favored less wealthy districts. In subsequent action the legislature improved on school facilities funding efforts with the creation of the Instructional Facilities Allotment (IFA) in 1997 and the Existing Debt Allotment (EDA) in 1999 (both described in the body of this report). The $170 million in the 1996-97 biennium increased to $200 million in the 1998-99 biennium. Combined appropriations for the IFA and EDA for the 2002-03 biennium are $1.45 billion.

Edgewood V

A May 1998 lawsuit referred to as Edgewood V alleged that since the approval of SB 7 in 1993, the state has gradually eroded the equity of the school finance system through legislation and its application of the laws. The most significant of the issues raised included: extension of the "hold harmless" protection for Chapter 41 (wealthy) districts; elimination of recapture on debt service tax effort; and the absence of a revenue equalization mechanism for certain old debt payments.

The District Court chose not to hear the case while the legislature was in session. Senate Bill 4 was passed in May 1999 and included state assistance for up to 12 cents of school district tax effort for existing debt service. The bill increased the basic allotment in Tier 1

and the guaranteed yield in Tier 2, and provided additional assistance for new school facilities. Also, SB 4 raised the Equalized Wealth Level from $280,000 to $295,000 and made the hold harmless provision permanent.

No further action on Edgewood V has been pursued.

West Orange-Cove CISD v. Nelson; Hopson v. Dallas ISD

In April 2001, two separate lawsuits challenging the constitutionality of the school finance system were filed. Four school districts (West Orange-Cove Consolidated Independent School District, Coppell ISD, La Porte ISD, and Port Neches-Groves ISD) filed a suit against TEA Commissioner Nelson, Comptroller Rylander, TEA, and the State Board of Education, contending that the state's current $1.50 statutory cap on M&O tax rates represents an unconstitutional statewide ad valorem tax. The plaintiffs also argued the issue of the "adequacy" of state education funding. In July 2001, the District Court ruled against the districts, noting that only 19 percent of school districts were at the $1.50 cap, and that it was not the judiciary's place to judge whether the legislature had spent enough on public education.

In a separate suit, Hopson v. Dallas ISD, four taxpayers sued the Dallas and Highland Park ISDs, seeking a declaration that the wealth-sharing provisions of the school finance system are unconstitutional, and seeking an injunction to prohibit the school districts from collecting taxes for recapture. The plaintiffs in this suit make the same constitutional argument as was made in West Orange-Cove CISD v. Nelson, and also contend that the use of WADA calculations creates non-uniformity of taxation in violation of the Texas Constitution. The case has not been heard by the state District Court at the time of this publication.

Equity

In the Edgewood cases, the successive legal challenges to the system in Texas focused on the definition of "efficiency." An "efficient system of free public schools" has been interpreted in the courts as one that is equitable. Equity in this context is "horizontal" equity, which is defined as "equal treatment of equals," or roughly equal per pupil expenditures across school districts.

The primary elements of the current school finance structure were established in Senate Bill 7 in 1993. The most significant change in the school finance system since Senate Bill 7 is direct state assistance for facilities, which expands access to state aid beyond the $1.50 tax rate.

The LBB continues to monitor and report the equity of the funding structure and any adjustments to the structure. Equity is a central component of the school finance structure in the sense that any proposed change to the school finance structure is evaluated in terms of its effects on equity. If adjustments diminish the equity of the system, the system may be open to a constitutional challenge.

Three primary measures of the structure's equity were accepted by the Supreme Court in its approval of SB 7 in 1995. Based on the time of the ruling, these measures and their targets were:

- **The percentage of total Foundation School Program revenue within the Equalized Funding System (target of 98 percent).** This is defined as the proportion of FSP revenue either within the "guaranteed yield" thresholds or subject to "recapture." It includes all Tier 1 state and local revenue, all Tier 2 state revenue, Tier 2 local revenue up to the guaranteed yield level of $25.81 raised at tax efforts up to $1.50, various "hold harmless" funds, and state and local revenue raised through participation in the Instructional Facilities Allotment and Existing Debt Allotment;

- **The percentage of students within the Equalized Funding System (target of 85 percent).** This is defined as the proportion of students that attend school in districts with per pupil property wealth that falls within the Tier 2 "guaranteed yield" threshold ($258,100 per pupil).

- **The variation in per WADA spending between those districts at the top of the wealth spectrum and those with below average wealth (target gap of no more than $600).** This is calculated by comparing the average per WADA revenues in districts with per pupil wealth above the equalized wealth level with average per WADA revenues in districts that receive Tier 2 assistance. This comparison does not include revenue generated at tax rates above $1.50.

During the 77th legislative session, House Speaker Laney and Lt. Governor Ratliff announced that they will convene an interim committee to study the school finance system and the state's tax structure. This committee is expected to establish a framework for legislative action during the 78th legislative session in 2003.

APPENDIX B: FREQUENTLY ASKED QUESTIONS

Q: What is the LBB school finance model and what does it predict?

A: The LBB school finance model simulates the funding formulas to determine the statewide Foundation School Program (FSP) appropriation. The model is used to reflect changes in enrollment, property values, and district tax effort. Also, the model is used to estimate the state cost of a proposed change in law and to provide insight into how the proposed change would affect individual school districts. The model is based on projections (depending on the time of year, some information is actual) of property value, student enrollment, and local tax setting decisions. The model provides a highly accurate statewide estimate of the implications of changes in the school finance system. Because of the inherent limits of projections and the vast differences in district characteristics, discrepancies may exist between the model and actual funding for an individual district.

Q: Why is state assistance based on year-old property values?

A: Current year property values are finalized by the Comptroller's Office in June. The use of current year values would require the Texas Education Agency (TEA) to determine a school district's state aid based on an estimate of final values. Using such an estimate would result in increased uncertainty in state aid for school districts and possibly larger fluctuations when TEA "settles-up" with school districts at the end of the year.

Q: Do school districts benefit when their property values increase?

A: School districts receive a one year benefit from an increase in values. Because school funding is based on a school district's wealth (calculated using prior year values), any increase in property values is not factored into the school finance system until the following year.

Q: What happens when school district property values decline?

A: Because state aid is calculated on prior year property values, districts experiencing property value declines do not generate state aid to offset all revenue lost due to value declines. If the property value decline exceeds four percent of taxable values, state appropriated funds are available to assist these districts.

Q: What do all the different tax rates mean?

A: The various tax rates (M&O, I&S, nominal, effective, compressed, and rollback) serve specific purposes for the generation of local revenue and as a basis for state funding. Each of these tax rates is defined in Appendix C (Glossary). M&O and I&S represent specific tax rates and limit how the related revenue can be spent. The nominal rate is what the school district adopts. The effective rate is what the state uses to fund districts. The compressed rate is also used for calculating state aid in certain circumstances. The rollback rate is related to local voters' ability to influence the amount of increase in the nominal tax rate.

Q: How are open-enrollment charter schools funded?

A: In 2001, the 77th Legislature passed a charter school reform bill, House Bill 6, which capped the number of charters at 215 and altered the way charter schools are funded. For charter schools currently

operating, the same funding mechanism currently in place will continue through the 2002-03 biennium. These schools will be entitled to the same amount of state and local funding that would be spent on a student by the student's district of residence. However, beginning in the 2003-04 school year, there will be a 10-year transition to the use of **state average** funding elements for the calculation of state aid. For new charter schools, funding will be based only on state averages beginning with the 2001-02 school year.

Q: What is the difference between "transition aid" and "hold harmless" ?

A: The state generally provided "transition assistance" to districts to meet obligations related to state level increases in costs such as teacher salaries. This assistance is generally considered temporary. A "hold harmless" attempts to protect districts from changes in the funding formulas that would result in districts receiving less total funding per student than it would have received without the formula change.

Q: Which option do most districts subject to recapture choose?

A: Almost all districts that have been subject to recapture since 1995 have elected to apply options (3) purchasing attendance credit from the state; or (4) contract for the education of non-resident students. (The one exception is the Tuloso-Midway ISD, which deeded industrial property to Corpus Christi ISD in 1993 -- Option 2). Certain "hold harmless" and "recapture discounts" provided in statute require districts to choose either Option 3 or 4 in order to receive the benefit. By July 15 of each year, districts are notified if they are going to be subject to Chapter 41. In the 2002-03 biennium, recapture payments are projected to total $1.31 billion.

Q: Can I&S tax effort be used to access state aid in Tier 2?

A: No. Senate Bill 4 (1999) limits Tier 2 to M&O tax effort and prevents state Tier 2 funds from being used for debt service. A State Board of Education rule (TAC §105.12) allows the basic allotment (Tier 1) to be used for certain debt service and lease-purchase payments.

Q: Are I&S taxes levied for lease-purchase payments?

A: Lease-purchase payment amounts are not I&S taxes, but are treated as "bond taxes" for purposes of state assistance under Chapter 46 (Instructional Facilities Allotment).

Q: What is the difference between the IFA and the EDA?

A: The Instructional Facilities Allotment (IFA) can be characterized as state aid for "new debt" and the Existing Debt Allotment (EDA) as state aid for "old debt." That is, the IFA is for districts whose voters have granted them the authority to sell bonds to pay for instructional facilities, but who have not issued the bonds nor levied I&S taxes to pay for bonded debt service. The amount available for the IFA is limited by appropriation, and therefore there is no guarantee that all districts that apply will receive it (districts are ranked by wealth per ADA, among other factors). The EDA is assistance for eligible *existing* debt; a debt is eligible if the district made a payment on it in 2000-01 (bonds receiving IFA assistance are not eligible for EDA funds). EDA assistance is limited by the amount of eligible debt, and not by appropriation.

Q: How does the "gap" funding work and which districts get it?

A: House Bill 3343, 77th Legislature, added a provision to the Education Code (§42.2513) which provides additional state assistance to ensure that all school districts not subject to Chapter 41 receive the full benefit of Tier 2 state funding increase. For fiscal year 2002, the Tier 2 Guaranteed Yield was raised from $24.99 per WADA per penny of tax effort to $25.81, a $0.82 increase. Generally speaking, districts with property wealth per WADA of $249,900 or less would receive all $0.82 worth of the increase, districts between $249,900 and $258,100 would receive a partial benefit, and districts above $258,100 but below the recapture level of $300,000 would receive no benefit. The "gap" funding provides supplemental state aid to districts that would receive only partial or no benefit from the increase in the Guaranteed Yield, in the amount necessary to ensure each non-Chapter 41 district receives the full $0.82 increase.

There are approximately 36 school districts that appear to qualify for gap funding (the 16 "gap" districts and 20 Tier 2 districts). Districts will receive gap funding in both years of the 2002-03 biennium, but the amount of funding for the biennium in limited to $37 million. If there are insufficient funds to guarantee districts the full benefit of the Guaranteed Yield increase in 2003, the gap funding allotments will be pro-rated.

Q: What happens if biennial appropriations exceed the amounts necessary for Foundation School Program payments to school districts?

A: According to House Bill 2879, 77th Legislature, the commissioner of education must apply surplus funding in a certain order if he determines that Foundation School Program fiscal year 2002 and 2003 appropriations exceed the amounts required to be paid under law. This surplus would be the result of district property values increasing faster than what was assumed when projecting FSP appropriations. Each item must be fully funded before the next item can be allocated money.

For fiscal year 2002, the priority list is:

1. Adjust state aid or recapture for districts experiencing rapid value declines;
2. Increase state aid for districts granting the local optional homestead exemption;
3. Adjust state aid or recapture for districts in which a major taxpayer protests their property valuation.

For fiscal year 2003, the priority list is:

1. Increase funding for the Instructional Facilities Allotment by $50 million;
2. Expand the equalized tax effort, under the Existing Debt Allotment, to 29 cents;
3. Adjust state aid or recapture for districts experiencing rapid value declines;
4. Increase state aid for districts granting the local optional homestead exemption;
5. Adjust state aid or recapture for districts in which a major taxpayer protests their property valuation.

APPENDIX C: GLOSSARY

Adjusted Allotment (AA): The result of the Adjusted Basic Allotment being modified by the Small District or Mid-Size District Adjustment. The student allotments are then factored into the AA to determine program costs.

Adjusted Basic Allotment (ABA): The result of applying the Cost of Education Index into 71% of the Basic Allotment. The ABA is then adjusted by the Small and Mid-Size District Adjustment.

Available School Fund (ASF): The ASF is comprised of earnings from the Permanent School Fund (PSF) and 1/4 collections from the motor fuels tax. After paying for administrative costs of the PSF, a portion of the ASF is placed in State Textbook Fund, which includes funding for the technology allotment. The remainder of the ASF is distributed through the FSP based on the number of students in the district. This per capita distribution varies from year to year (usually between $250 and $300).

Average Daily Attendance (ADA): A method of counting students for the purpose of providing state aid to school districts. Currently, Texas counts students in attendance each day and averages the attendance count over the year.

Basic Allotment: The minimum allotment provided for each student in attendance. It is adjusted to take into account district and student characteristics.

Chapter 41 District: A school district whose property wealth exceeds $300,000 per weighted student (for the 2001-02 school year; the threshold increases to $305,000 per weighted student for the 2002-03 school year). These districts are subject to the recapture provisions in Chapter 41 of the Texas Education Code.

Compensatory Education: A program for students who are educationally disadvantaged. School districts receive funding for these students from the compensatory education allotment. The allotment is based upon the number of students participating in the federal free or reduced-price lunch program.

Compressed Tax Rate: An element of SB 4 (1999) that uses a portion of an increase in state aid, delivered by increases in the funding formulas, to provide tax relief. This rate is for state aid purposes; not for local billing purposes.

Cost of Education Index (CEI): An adjustment to the Basic Allotment intended to reflect geographic and other cost differences beyond the control of a school district.

County Appraisal District (CAD): The political subdivision in each county responsible for appraising property for ad valorem tax purposes. The appraisal district is governed by a board of directors. Five directors are appointed by the taxing units that participate in the district.

Effective Tax Rate: The rate used for determining state aid. It is calculated by dividing a district's prior year property value into its total property tax receipts, or "collections."

Equalized Wealth Level: The level of property wealth per weighted ADA which, if exceeded, renders a school district subject to the recapture provisions of Chapter 41 of the Education Code. For the 2001-02 school year, the Equalized Wealth Level is $300,000 per WADA; for the 2002-03 school year, it increases to $305,000.

Equity: In the context of school finance in Texas, the term has been referred to as requiring substantially equal access to similar revenue per student at similar levels of tax effort.

Existing Debt Allotment (EDA): In the EDA, state assistance is provided through a guaranteed yield system ($35 per penny per ADA) for up to $0.29 of tax effort related to school district bonds. For the 2002-03 school year, the maximum tax rate for which debt is equalized is limited to 12 cents, unless the commissioner determines that sufficient surplus funds are available to provide for the higher tax rate. To be eligible, districts had to have made a payment on the bonds in 2000-01, and the bonds may not be related to bonds for which the district receives Instructional Facilities Allotment funds.

Foundation School Fund (FSF): Exists within the Foundation School Program and provides the bulk of the state funds used by school districts to pay teacher salaries, facility construction and renovation, administration, and other educational resource costs.

Foundation School Program (FSP): The system of funding formulas used to fund public schools. The FSP consists of three "tiers:" Tier 1 or "basic allotment;" Tier 2 or "guaranteed yield;" and Tier 3 or the Instructional Facilities Allotment and the Existing Debt Allotment.

"Gap" District: A school district whose property wealth per WADA in the 2001-02 school year falls between the Tier 2 Guaranteed Yield level of $258,100 ($25.81 per WADA per penny of tax effort) and the Chapter 41 Equalized Wealth Level of $300,000. For the 2002-03 school year, these levels increase to $27.14 Guaranteed Yield and $305,000 Equalized Wealth Level). Increases to the Guaranteed Yield and the Equalized Wealth Level do not benefit gap districts, although such increases may alter which districts fall into the "gap" range. There are approximately 16 gap districts.

Guaranteed Yield: A school finance method to ensure that a school district generates no less than a certain amount of revenue per penny of tax effort. If a school district can not generate local revenue up to the guaranteed yield level, the state makes up the difference. The Texas school finance system provides a "guaranteed yield" in Tier 2 and in the Tier 3 allotments.

Instructional Facilities Allotment (IFA): It guarantees receiving districts $35 per ADA per penny of tax effort to assist in the payment of new instructional facility debt obligations. While the IFA is structured as a guaranteed yield, it does not guarantee that all districts that have received voter approval to sell bonds will receive IFA funding. Districts must apply to the Texas Education Agency (TEA) for state aid through the IFA.

Interest and Sinking Fund (I&S) Tax Rate: Also called the debt service tax. I&S taxes pay for bonded indebtedness, facilities, and other capital needs. The I&S tax rate is limited to $0.50 on all debt issued after September 1, 1992. (Education Code §45.003 (e))

Legislative Budget Board (LBB): The Texas Education Code §42.007 charges the LBB with adopting a calculation of the equalized funding elements necessary to further the state policy (Education Code §42.001) of a state-sponsored equitable, thorough and efficient system of public education. The LBB staff prepare a report for each legislature which fulfills this requirement. Also, LBB staff is responsible for a school finance model which is used to project the cost of an equitable Foundation School Program under existing legal parameters. Once approved by the LBB, that cost projection is used in the introduced version of the appropriations bill. The LBB prepares equalized education funding statements and other special reports on school finance for certain public education bills. School finance reports project the costs of current and proposed school funding formulas as well as the impact on system equity. The reports are prepared on a statewide basis, as well as by individual school district and legislative district. Current and historical data by school district are also available through this reporting system.

Local Fund Assignment (LFA): A district's share of Tier 1 of the Foundation School Program. It is established by applying a $0.86 tax rate to the district's Certified Taxable Value for the preceding year.

Maintenance and Operations (M&O) Tax Rate: M&O taxes pay for administration and operational costs. The M&O tax rate is limited to $1.50. (Education Code §45.03(d))

New Instructional Facilities Allotment (NIFA): Established in SB 4 (1999), this $25 million annual allotment is intended to assist districts that experience fast growth in students. The first year a new school is open, the district would receive $250 per ADA. The second year the facility is open, the district would receive $250 per additional ADA at the school.

Nominal Tax Rate: The tax rate adopted by the local school board and indicated on property tax bills.

Permanent School Fund (PSF): An endowment consisting of land and investment holdings. PSF interest is constitutionally dedicated (Article 7, Section 5) to the Available School Fund, which must be used for public education. As of July 31, 2001, the fair market value of the PSF was $19.6 billion. The State Board of Education administers the fund under constitutional and statutory requirements.

Recapture: Revenue raised from school districts with wealth above the "equalized wealth level". Recapture applies revenue generated from M&O tax effort on wealth above $300,000 per weighted student.

Rollback: A rollback election provides voters an opportunity to "roll back" proposed tax increases above a specified limit. Rollback provisions are designed to allow school districts to set a tax rate to

generate the same amount of state and local revenue per weighted average daily attendance (WADA) as they had the prior year, plus $0.03 (for school year 1999-2000), plus debt service taxes. For the 2000-01 school year, the $0.03 increased to $0.06, where it remains. A rollback election occurs if a school district set a tax rate greater than the rollback rate. If a majority of the district's voters disapprove of the tax rate, it is "rolled back" to the current tax rate.

Settle-Up: Settle-up is the process by which the Texas Education Agency reconciles the past year's district funding with each district's actual entitlement. Prior to the start of the school year, TEA establishes the amount to be distributed monthly to each school district, based on **estimates** of the district's ADA, tax collections, and property values. At the end of the year, TEA examines **actual** ADA, tax collections, and property values to retrospectively determine each district's actual entitlement. Districts that were "overpaid" in the previous year are subject to decreased funds throughout the following school year, whereas districts that were "underpaid" are fully reimbursed in September of that year.

Technology Allotment: This allotment is distributed from the State Textbook Fund at a rate of $30 per pupil. It is used for the purchase of computers and other technology and for teacher training.

Telecommunications Infrastructure Fund (TIF): Established as part of the Texas Public Utility Regulatory Act of 1995 (HB 2128) to disburse up to $1.5 billion over 10 years to link Texas schools, hospitals, and libraries for distance learning and information sharing. A portion of these funds are appropriated to the Texas Education Agency for technology and information initiatives.

Texas Education Agency (TEA): The Texas Education Code §7.021(b)(1) requires TEA to "administer and monitor compliance with education program required by federal and state law, including federal funding and state funding for those programs." Further, Education Code §7.055(b)(7) directs the commissioner of education to "issue vouchers for the expenditures of the agency and shall examine and must approve any account to be paid out of the school funds before the comptroller may issue a warrant."

Textbook Fund: The state textbook fund consists primarily of funds set aside by the State Board of Education from the Available School Fund. Any revenue accruing from the sale of the state's disused books is also deposited into the fund. The State Board sets aside an amount sufficient to purchase and distribute all the necessary textbooks for schools and charter schools for the following school year, plus an amount to fund the $30 per ADA technology allotment, which is distributed to all districts for the purchase of electronic textbooks and related technology. For the 2002-03 biennium, the amount set aside to the Textbook Fund totals $806.2 million.

Wealth per student: Is expressed as the taxable value of property in a district divided by the number of students in weighted average daily attendance. (Education Code §41.001)

Weighted Average Daily Attendance (WADA): Is an adjusted student count that compensates for student and district characteristics as defined by statute. It is calculated by dividing the sum of the school district's allotments (both district adjustments and student allotments in Tier 1), any

allotment to the district for transportation, any allotment from the New Instructional Facilities Allotment (this is different from the Instructional Facilities Allotment), and 50 percent of the adjustment under the Cost of Education Index, by the basic allotment for the applicable year. (Education Code §42.302(b))