

Cost to bring low-revenue districts up to statewide average

Currently, the state calculates revenue per student in weighted average daily attendance (WADA) in two ways. First, the state calculates a *revenue target* based on the methodology set out in the 2006 version of House Bill (HB) 1, which compressed tax rates. The statewide average *revenue target per WADA* is \$4,977. Second, the state calculates *revenue per WADA at the compressed tax rate*. This calculation is based on methodology set out in HB 3646, which was passed in 2009. The statewide average *revenue per WADA at the compressed tax rate* is \$5,368. It is the *revenue per WADA at the compressed tax rate* that currently drives the bulk of funding to school districts.

There are 665 districts serving 3.5 million WADA that receive *revenue per WADA at the compressed tax rate* that is lower than the \$5,368 average. The cost to bring these districts up to the weighted average would be approximately \$917 million in fiscal year (FY) 2011.

Alternatively, there are 659 districts serving 3.6 million WADA that have *revenue targets* lower than the \$4,977 average. The cost to bring these districts up to the weighted average would be approximately \$1 billion.

Cost to restore formula funding

This model reflects the costs to restore formula-based funding for 90 percent of students in the state. Current law limits increases in funding per WADA to \$350 per year. For the purposes of this modeling exercise, we estimated both the state cost under the current gain limit of \$350 per WADA as well as the state cost if the gain limit were relaxed.

Our estimates indicate that a basic allotment of \$5,867 per ADA would deliver FSP funding sufficient such that 90 percent of the state's ADA would generate funding based on FSP formulas. Under the current gain limit, the cost to the state to increase the basic allotment (and the related equalized wealth level) would be approximately \$1.9 billion in both FY 2012 and FY 2013. This estimate is limited by the restriction in current law that limits gains in funding to \$350 per WADA per year. If the gain limit of \$350 per WADA were not applied, the cost would increase to \$4.7 billion in FY 2012 and \$4.8 billion in FY 2013.

Outcome of recalculation of target revenue by ignoring value collections growth

Our analyses of revenue targets indicate that the growth rate in property tax collections after the 2004–2005 school year is a primary explanatory factor in the differences among target revenues per WADA after the passage of HB 1 in 2006. This modeling exercise recalculates the target revenues set by HB 1 by ignoring growth in property values and collections that occurred after 2004–2005. Our estimates indicate that the aggregate reduction in target revenues would reduce state costs for the Foundation School Program (FSP) by approximately \$1 billion in both FY 2012 and FY 2013.

Drivers of differences in HB 1 revenue targets

Our analyses of school districts revenue targets indicate the differences in the revenue targets are driven overwhelmingly by two factors: 1) property wealth per student in weighted average daily attendance (WADA) in the year in which the target was based and 2) the rate at which tax collections grew in the target year.

Property wealth

Property wealth per WADA has the strongest relationship to the revenue target. The pre-House Bill (HB) 1 system from which the revenue targets are derived was based on a guaranteed yield in Tier 2 of \$27.14 per penny per WADA and an equalized wealth level of \$305,000 per WADA. Both “gap” districts (those with a yield per penny per WADA between \$27.14 and \$30.05) and Chapter 41 districts had access to unequalized revenue. For example, a district with 10,000 WADA and a \$1.50 maintenance and operations (M&O) tax rate that produced a yield per penny of \$30.05 would collect \$436 dollars more per WADA than an identical district with property wealth less than the guaranteed yield of \$27.14 per penny per WADA. Gap districts, sometimes referred to as “budget-balanced districts,” received their available school fund per capita distribution on top of their Tier I allotment. For all other districts, the per capita distribution served as a method of financing the Foundation School Program (FSP). There were 214 budget-balanced districts in 2007. Chapter 41 districts also benefited from receiving the per capita distribution in addition to their Tier 1 revenue. Furthermore, a number of Chapter 41 districts could also achieve significantly higher revenue levels due to hold harmless provisions that maintain the revenue those districts were receiving before the authorization of Chapter 41.

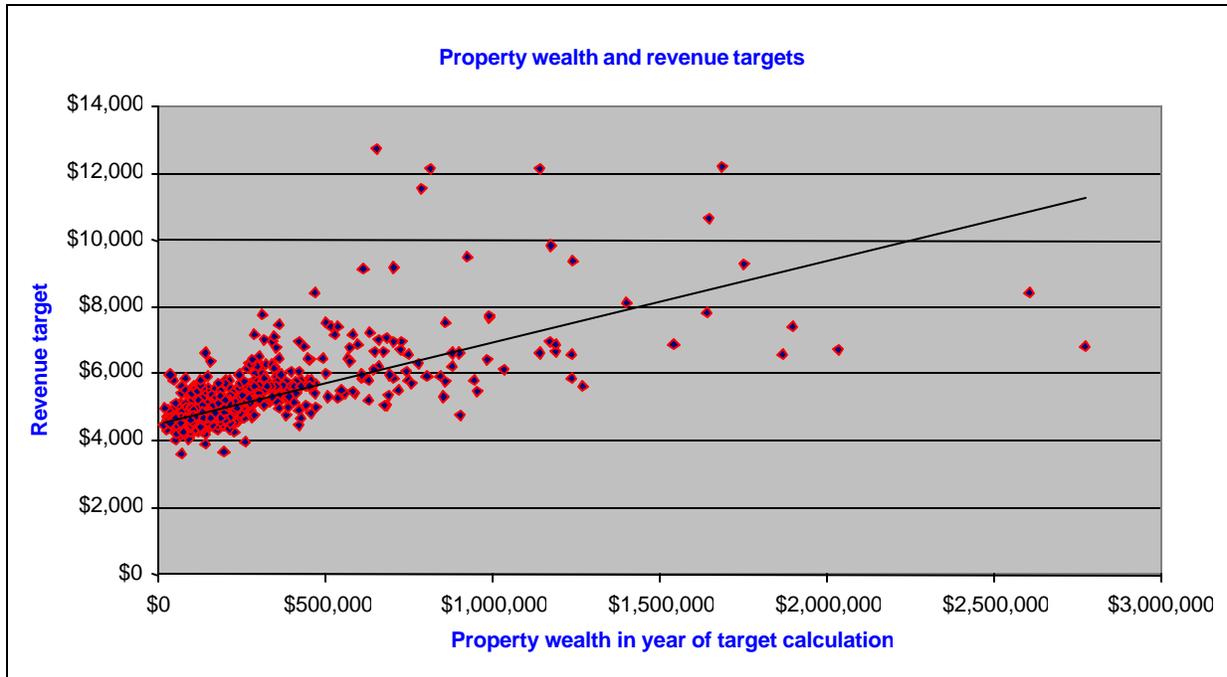


Figure 1. Property wealth and revenue targets

Local collections compared to FSP local share calculation

The FSP local share calculation is based in part on prior year state values. Before the passage of HB 1 in 2006, rapid property value appreciation could boost a district's local revenues sharply. This increase in local revenue would not be recognized in the calculation of the district's FSP entitlement, thus providing total revenue considerably above what might be expected from the equalized system. The M&O collections used for calculating the hold harmless provisions in Section 42.2516(b)(1)(B) of the Education Code (as that section existed before the passage of HB 3646 in 2009) were based on 2007 local values and 2006 adopted tax rates that were on average more than 12 percent higher than the prior year's. As a result, districts that experienced value growth received the benefit of that growth in the calculation of the revenue target that would become the basis of their funding beginning with 2006–2007. Conversely, districts where local optional homestead exemptions make up a substantial proportion of their tax base received fewer local tax collections, and the loss of these collections was not recognized by the FSP formulas. As a result, these districts tend to have revenue targets that are lower than those of other similarly situated districts because their actual tax collections were reduced by the local optional homestead exemptions.

Figure 2 shows the relationship between the ratio of local collections to FSP local share and the revenue target.

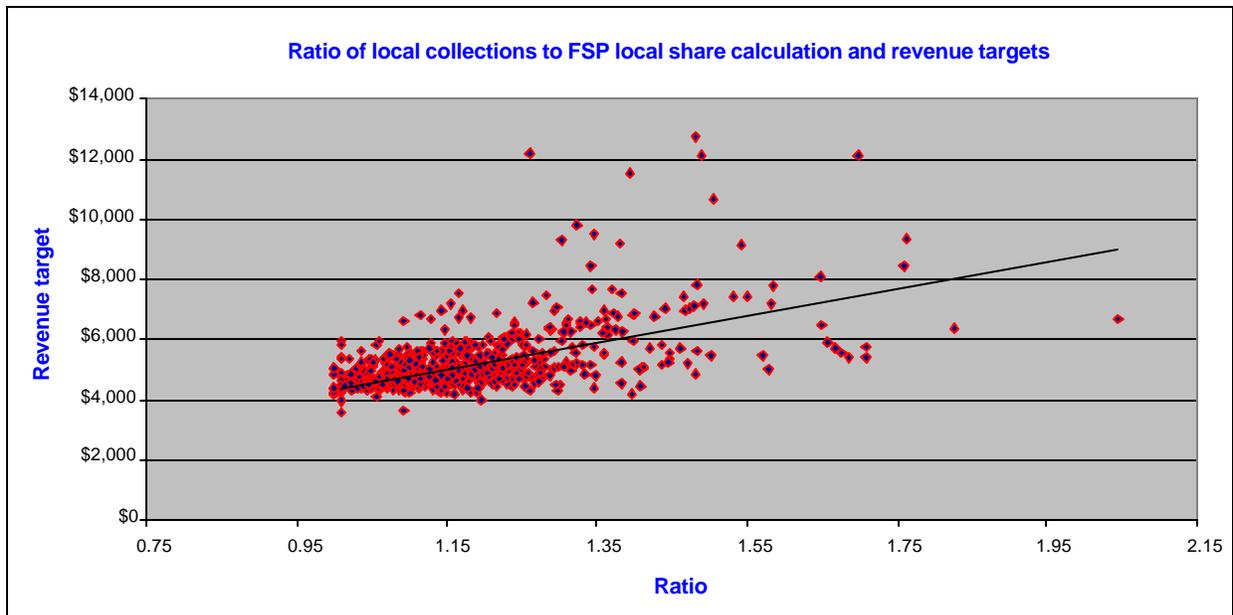


Figure 2. Ratio of local collections to FSP local share calculation and revenue targets

Two additional factors had small though statistically significant impacts on the revenue targets: the 2005–2006 adopted tax rate and the total of non-student-driven FSP allocations.

2005–2006 Adopted tax rate

The 2005–2006 adopted tax rate is actually negatively correlated with the revenue target. Chapter 41 districts in 2005–2006 had an average tax rate of \$1.43, while Chapter 42 districts had an average tax rate of \$1.46.

Figure 3 shows the relationship between the 2005–2006 adopted M&O tax rate and school district revenue targets.

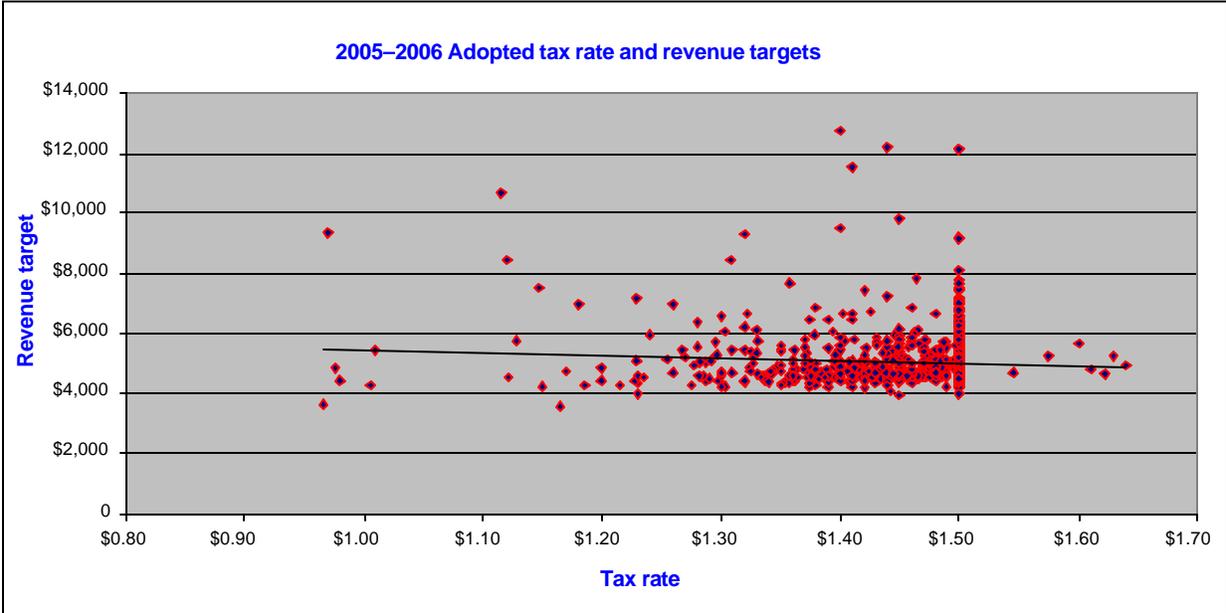


Figure 3. 2005–2006 Adopted tax rate and revenue targets

Non-student-driven FSP allocations

The FSP allocations for additional state aid for homestead exemption (Section 42.2511, Education Code), additional state aid for professional staff salaries (Section 42.2512), additional state aid for school employee benefits (Section 42.2514), and gain from a Chapter 41 partnership all formed part of a district’s revenue target. These were summed together and divided by each district’s WADA. The average total was \$50 per WADA. A small but statistically significant relationship between the non-student-driven FSP allocations and revenue targets was identified.

Figure 4 shows the relationship between non-student-driven FSP allocations and revenue targets.

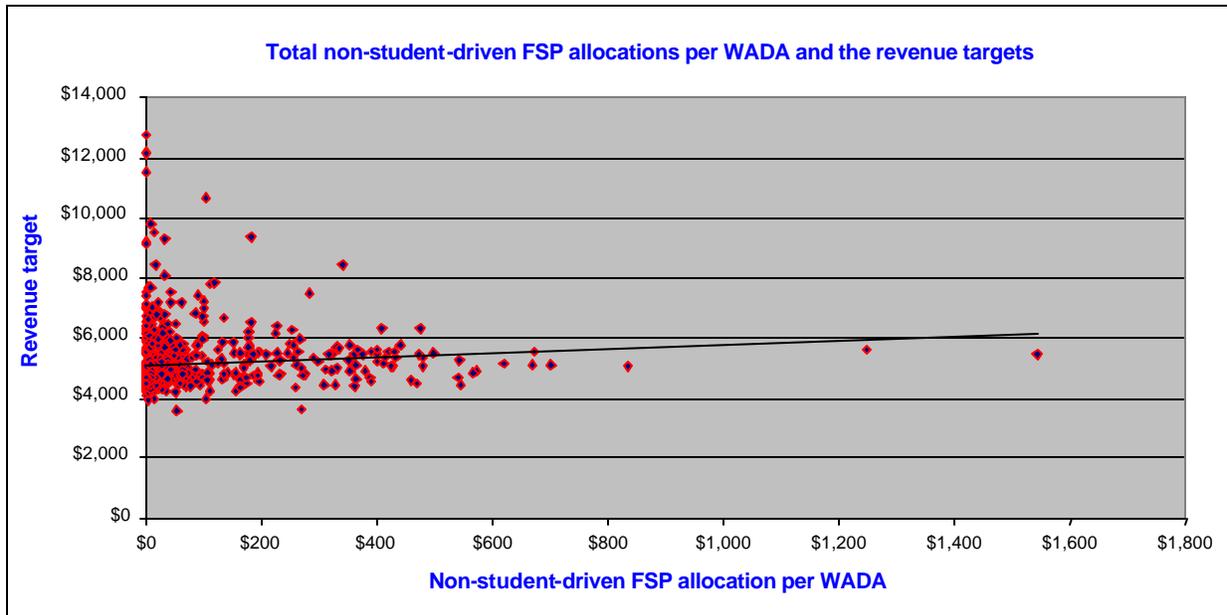


Figure 4. Total non-student-driven FSP allocations per WADA and revenue targets

Regression model

A linear regression was performed on the data elements separately followed by a combined model. Each district’s contribution to the model was weighted by WADA.

The combined model produced an R-Square of .76. Wealth per WADA was the most influential factor, followed by the ratio of local collections to FSP local share. The non-student-driven FSP allocations and the 2005–2006 adopted tax rate each had a small but statistically significant influence.

2010 Formula Funded Districts

CDN	District	2010 ADA	2010 WADA	2010 RACR per WADA
109901	ABBOTT ISD	277	454	\$4,959
221901	ABILENE ISD	15,543	20,756	\$4,999
014901	ACADEMY ISD	1,020	1,432	\$5,094
180903	ADRIAN ISD	116	284	\$5,119
178901	AGUA DULCE ISD	320	536	\$5,124
184907	ALEDO ISD	4,382	5,041	\$5,996
125901	ALICE ISD	4,798	6,394	\$5,067
037901	ALTO ISD	635	1,032	\$5,013
126901	ALVARADO ISD	3,176	4,054	\$5,434
020901	ALVIN ISD	15,502	20,478	\$5,281
188901	AMARILLO ISD	28,884	37,955	\$5,053
140901	AMHERST ISD	171	315	\$4,971
127901	ANSON ISD	688	1,133	\$4,916
071906	ANTHONY ISD	763	1,262	\$5,042
109912	AQUILLA ISD	214	352	\$5,050
220901	ARLINGTON ISD	57,884	75,795	\$5,003
070901	AVALON ISD	300	523	\$4,724
194902	AVERY ISD	385	640	\$4,903
161918	AXTELL ISD	711	1,362	\$4,954
178913	BANQUETE ISD	779	1,238	\$5,103
014902	BARTLETT ISD	345	594	\$4,990
011901	BASTROP ISD	8,183	10,821	\$5,142
013901	BEEVILLE ISD	3,244	4,473	\$5,044
138904	BENJAMIN ISD	76	161	\$4,984
220902	BIRDVILLE ISD	21,286	27,679	\$4,932
034909	BLOOMBURG ISD	255	462	\$4,961
175902	BLOOMING GROVE ISD	768	1,230	\$5,132
043917	BLUE RIDGE ISD	609	978	\$5,037
109913	BLUM ISD	358	600	\$5,214
116916	BOLES ISD	493	840	\$4,939
074903	BONHAM ISD	1,758	2,518	\$5,022
117901	BORGER ISD	2,542	3,508	\$4,956
203902	BROADDUS ISD	441	770	\$4,795
121902	BROOKELAND ISD	373	637	\$4,961
107902	BROWNSBORO ISD	2,658	3,564	\$5,032
031901	BROWNSVILLE ISD	45,156	64,971	\$4,966
119901	BRYSON ISD	189	327	\$5,508
039901	BYERS ISD	93	228	\$4,936
109902	BYNUM ISD	222	389	\$5,080
220917	CASTLEBERRY ISD	3,350	4,653	\$5,024
210901	CENTER ISD	2,304	3,260	\$4,995
003907	CENTRAL ISD	1,425	2,025	\$5,146
073901	CHILTON ISD	460	840	\$4,787
139905	CHISUM ISD	790	1,208	\$5,751
071901	CLINT ISD	10,442	13,570	\$5,095
229901	COLMESNEIL ISD	460	754	\$4,812
020907	COLUMBIA-BRAZORIA ISD	2,811	3,857	\$4,959
116903	COMMERCE ISD	1,500	2,164	\$4,842
161921	CONNALLY ISD	2,310	3,274	\$5,065
147901	COOLIDGE ISD	282	513	\$4,868

2010 Formula Funded Districts

178904	CORPUS CHRISTI ISD	35,226	46,815	\$5,125
187904	CORRIGAN-CAMDEN ISD	960	1,536	\$4,995
095902	COTTON CENTER ISD	124	257	\$5,195
109903	COVINGTON ISD	270	461	\$5,242
161901	CRAWFORD ISD	598	875	\$4,985
101907	CYPRESS-FAIRBANKS ISD	97,766	122,082	\$4,951
056901	DALHART ISD	1,547	2,172	\$4,903
175904	DAWSON ISD	424	692	\$4,988
019901	DEKALB ISD	738	1,223	\$4,835
115903	DELL CITY ISD	94	256	\$4,871
091903	DENISON ISD	4,211	5,910	\$5,146
003905	DIBOLL ISD	1,779	2,583	\$4,890
082902	DILLEY ISD	845	1,533	\$4,956
035901	DIMMITT ISD	1,114	1,782	\$5,107
074904	DODD CITY ISD	284	466	\$4,957
108902	DONNA ISD	13,678	19,336	\$5,121
057907	DUNCANVILLE ISD	12,048	16,251	\$5,073
108903	EDCOUCH-ELSA ISD	5,250	7,388	\$5,147
015905	EDGEWOOD ISD	11,174	15,636	\$5,066
011902	ELGIN ISD	3,649	4,992	\$5,081
174910	ETOILE ISD	140	238	\$4,454
030906	EULA ISD	368	615	\$5,127
107905	EUSTACE ISD	1,389	1,990	\$4,784
220904	EVERMAN ISD	4,605	6,290	\$5,158
143906	EZZELL ISD	63	124	\$5,025
071903	FABENS ISD	2,372	3,637	\$5,070
070905	FERRIS ISD	2,230	3,259	\$4,980
077901	FLOYDADA ISD	826	1,463	\$4,952
169910	FORESTBURG ISD	190	323	\$5,447
114904	FORSAN ISD	665	980	\$6,395
220905	FORT WORTH ISD	73,585	99,185	\$5,098
015914	FT SAM HOUSTON ISD	1,331	1,785	\$4,121
049901	GAINESVILLE ISD	2,467	3,564	\$5,125
057910	GRAND PRAIRIE ISD	24,308	32,271	\$5,045
226907	GRAPE CREEK ISD	1,045	1,628	\$5,027
116905	GREENVILLE ISD	4,496	5,911	\$5,063
228901	GROVETON ISD	682	1,213	\$4,919
095903	HALE CENTER ISD	572	979	\$4,968
127903	HAMLIN ISD	443	753	\$5,127
015904	HARLANDALE ISD	13,228	18,265	\$5,042
104901	HASKELL CISD	588	1,142	\$5,027
127904	HAWLEY ISD	692	1,128	\$5,039
237902	HEMPSTEAD ISD	1,408	2,134	\$5,229
208901	HERMLEIGH ISD	203	360	\$6,183
108905	HIDALGO ISD	3,103	4,713	\$5,001
109904	HILLSBORO ISD	1,708	2,491	\$5,057
163904	HONDO ISD	2,097	2,866	\$5,083
101913	HUMBLE ISD	32,539	40,877	\$5,275
003904	HUNTINGTON ISD	1,621	2,209	\$4,785
070907	ITALY ISD	596	970	\$5,032
109907	ITASCA ISD	683	1,145	\$5,141
121904	JASPER ISD	2,581	3,699	\$5,086

2010 Formula Funded Districts

050909	JONESBORO ISD	121	231	\$5,011
126905	JOSHUA ISD	4,435	5,694	\$5,435
102901	KARNACK ISD	162	317	\$5,972
129903	KAUFMAN ISD	3,485	4,712	\$5,192
126906	KEENE ISD	766	1,285	\$5,122
129904	KEMP ISD	1,465	2,113	\$5,216
131001	KENEDY COUNTY WIDE CSD	71	143	\$7,389
220914	KENNEDALE ISD	2,980	3,854	\$5,050
121905	KIRBYVILLE CISD	1,378	1,981	\$4,858
100903	KOUNTZE ISD	1,314	1,844	\$4,873
219905	KRESS ISD	217	380	\$5,026
108912	LA JOYA ISD	25,323	35,910	\$5,222
254902	LA PRYOR ISD	465	940	\$5,008
161906	LA VEGA ISD	2,688	3,821	\$4,953
015913	LACKLAND ISD	831	1,200	\$4,202
058906	LAMESA ISD	1,772	2,668	\$5,030
034905	LINDEN-KILDARE CISD	751	1,225	\$4,846
072909	LINGLEVILLE ISD	207	351	\$5,412
111902	LIPAN ISD	265	441	\$5,443
181908	LITTLE CYPRESS-MAURICEVILLE CI	3,481	4,615	\$5,089
077902	LOCKNEY ISD	527	875	\$5,004
141902	LOMETA ISD	277	519	\$4,934
168902	LORAIN ISD	159	292	\$5,138
152901	LUBBOCK ISD	25,610	33,685	\$5,106
003903	LUFKIN ISD	7,831	10,687	\$5,081
245902	LYFORD CISD	1,437	2,210	\$4,978
007904	LYTLE ISD	1,606	2,245	\$4,971
094904	MARION ISD	1,315	1,725	\$5,145
073903	MARLIN ISD	1,001	1,851	\$4,760
102902	MARSHALL ISD	5,342	7,145	\$5,119
174909	MARTINSVILLE ISD	313	517	\$5,164
205904	MATHIS ISD	1,600	2,369	\$5,027
108906	MCALLEN ISD	23,151	30,796	\$5,117
011905	MCDADE ISD	157	289	\$5,356
223902	MEADOW ISD	263	441	\$4,887
108907	MERCEDES ISD	5,131	7,130	\$5,170
147903	MEXIA ISD	2,001	3,162	\$4,945
112907	MILLER GROVE ISD	228	397	\$4,595
184904	MILLSAP ISD	716	1,112	\$5,328
182903	MINERAL WELLS ISD	3,278	4,554	\$5,167
018903	MORGAN ISD	110	286	\$4,953
201907	MOUNT ENTERPRISE ISD	371	614	\$4,781
049902	MUENSTER ISD	460	730	\$5,217
009901	MULESHOE ISD	1,331	2,077	\$5,067
138903	MUNDAY CISD	350	596	\$5,013
174904	NACOGDOCHES ISD	5,973	7,729	\$4,858
163903	NATALIA ISD	971	1,482	\$4,998
094903	NAVARRO ISD	1,499	1,977	\$4,785
093904	NAVASOTA ISD	2,642	3,692	\$5,281
035903	NAZARETH ISD	232	345	\$5,054
123905	NEDERLAND ISD	4,868	6,166	\$5,011
079906	NEEDVILLE ISD	2,473	3,293	\$5,183

2010 Formula Funded Districts

152902	NEW DEAL ISD	697	1,133	\$5,033
153905	NEW HOME ISD	168	291	\$5,176
145906	NORMANGEE ISD	502	822	\$5,098
140905	OLTON ISD	650	1,247	\$5,028
125903	ORANGE GROVE ISD	1,663	2,356	\$4,960
181905	ORANGEFIELD ISD	1,641	2,237	\$4,987
230903	ORE CITY ISD	797	1,293	\$4,956
201908	OVERTON ISD	501	832	\$4,814
104907	PAINT CREEK ISD	154	270	\$4,946
070910	PALMER ISD	1,049	1,585	\$4,979
033902	PANHANDLE ISD	660	1,106	\$5,952
101917	PASADENA ISD	48,228	65,397	\$5,067
063906	PATTON SPRINGS ISD	90	292	\$5,065
020908	PEARLAND ISD	17,277	21,750	\$5,249
109914	PENELOPE ISD	185	337	\$5,066
119903	PERRIN-WHITT CISD	367	594	\$5,519
179901	PERRYTON ISD	2,078	2,867	\$5,209
095904	PETERSBURG ISD	254	452	\$5,034
108909	PHARR-SAN JUAN-ALAMO ISD	28,823	40,457	\$5,129
095905	PLAINVIEW ISD	5,375	7,223	\$4,954
007905	PLEASANTON ISD	3,192	4,362	\$5,159
247904	POTH ISD	782	1,190	\$5,020
139912	PRAIRILAND ISD	1,060	1,618	\$5,058
125905	PREMONT ISD	570	978	\$5,125
108910	PROGRESO ISD	2,012	3,022	\$5,105
034907	QUEEN CITY ISD	1,011	1,519	\$4,866
015906	RANDOLPH FIELD ISD	1,126	1,406	\$4,119
206902	RICHLAND SPRINGS ISD	176	378	\$5,031
161912	RIESEL ISD	557	888	\$4,993
214901	RIO GRANDE CITY CISD	9,753	14,204	\$5,114
031911	RIO HONDO ISD	2,120	3,109	\$5,011
041902	ROBERT LEE ISD	248	495	\$5,794
161922	ROBINSON ISD	2,074	2,715	\$5,075
178909	ROBSTOWN ISD	3,107	4,661	\$5,162
076903	ROBY CISD	280	545	\$5,110
166904	ROCKDALE ISD	1,713	2,189	\$5,369
110905	ROPES ISD	295	508	\$5,227
177901	ROSCOE ISD	335	579	\$5,394
076904	ROTAN ISD	305	634	\$4,919
139908	ROXTON ISD	205	357	\$5,109
104903	RULE ISD	146	256	\$4,885
037907	RUSK ISD	1,984	2,707	\$4,988
015907	SAN ANTONIO ISD	49,605	70,146	\$5,064
203901	SAN AUGUSTINE ISD	764	1,292	\$4,982
031912	SAN BENITO CISD	10,220	14,300	\$4,949
071904	SAN ELIZARIO ISD	3,673	5,358	\$4,985
233901	SAN FELIPE-DEL RIO CISD	9,590	12,949	\$4,723
245904	SAN PERLITA ISD	259	536	\$5,023
031913	SANTA MARIA ISD	618	1,076	\$4,825
031914	SANTA ROSA ISD	1,095	1,741	\$4,994
182904	SANTO ISD	470	734	\$5,154
074911	SAVOY ISD	289	500	\$5,003

2010 Formula Funded Districts

129910	SCURRY-ROSSER ISD	845	1,320	\$4,897
115902	SIERRA BLANCA ISD	155	316	\$5,194
205906	SINTON ISD	1,950	2,818	\$4,991
152903	SLATON ISD	1,170	1,791	\$4,970
011904	SMITHVILLE ISD	1,604	2,233	\$5,211
015908	SOUTH SAN ANTONIO ISD	9,100	12,523	\$5,060
031916	SOUTH TEXAS ISD	2,884	3,856	\$5,030
015917	SOUTHSIDE ISD	4,821	6,499	\$5,041
170907	SPLENDORA ISD	3,104	4,231	\$5,127
092907	SPRING HILL ISD	1,753	2,233	\$4,884
140907	SPRINGLAKE-EARTH ISD	388	673	\$5,118
127906	STAMFORD ISD	587	975	\$4,980
177902	SWEETWATER ISD	2,079	2,965	\$5,184
153904	TAHOKA ISD	572	1,070	\$4,927
146907	TARKINGTON ISD	1,870	2,495	\$4,981
056902	TEXLINE ISD	154	311	\$5,207
111903	TOLAR ISD	569	871	\$5,604
071908	TORNILLO ISD	1,229	1,806	\$5,118
221905	TRENT ISD	177	297	\$5,156
228903	TRINITY ISD	1,096	1,679	\$4,899
178912	TULOSO-MIDWAY ISD	3,237	4,197	\$5,070
018904	VALLEY MILLS ISD	589	948	\$5,014
049903	VALLEY VIEW ISD	605	968	\$5,248
226908	VERIBEST ISD	233	417	\$5,022
181907	VIDOR ISD	4,640	6,495	\$4,943
037909	WELLS ISD	297	509	\$4,960
100908	WEST HARDIN COUNTY CISD	545	892	\$5,173
178915	WEST OSO ISD	1,911	2,962	\$5,088
062905	WESTHOFF ISD	40	123	\$5,164
091910	WHITEWRIGHT ISD	723	1,143	\$4,872
153907	WILSON ISD	137	261	\$5,073
225905	WINFIELD ISD	161	292	\$4,252
116909	WOLFE CITY ISD	590	940	\$4,842
071905	YSLETA ISD	41,171	56,915	\$4,986
003906	ZAVALLA ISD	455	773	\$4,599
025906	ZEPHYR ISD	206	353	\$4,753
		1,094,182	1,495,718	\$5,066