

Texas

by Meagan Batdorff

Summary and Highlights

This summary examines the revenue sources and funding equity for district schools and charter schools in Texas and, in particular, Dallas and Houston during FY 2006-07 (Figure 1).¹ District

sponsored or campus charters² were excluded from this analysis because their data were inseparable from traditional schools within the same district. Only state-sponsored, open enrollment charter districts were included. Each such state-sponsored charter school is known as a “charter district” in Texas.

In the following figures, the statewide values show how much per pupil funding districts in the state

Figure 1: District and Charter School Revenues and Enrollments

Texas (2006-07)	Statewide		Statewide Weighted for Charter Enrollment		Dallas		Houston	
Per pupil Revenue								
District	\$9,773		\$10,158		\$10,409		\$10,735	
Charter	\$9,141		\$9,141		\$8,322		\$10,127	
Difference	(\$631) (6.5%)		(\$1,017) (10.0%)		(\$2,087) (20.1%)		(\$608) (5.7%)	
Per pupil Revenue by Source	District	Charter	District	Charter	District	Charter	District	Charter
Federal	\$940	\$1,155	\$1,108	\$1,155	\$1,443	\$1,032	\$1,113	\$1,340
State	\$3,527	\$7,263	\$2,731	\$7,263	\$1,852	\$7,023	\$1,926	\$7,018
Local	\$4,579	\$0	\$5,593	\$0	\$6,660	\$0	\$6,672	\$0
Other	\$724	\$719	\$726	\$719	\$455	\$263	\$1,024	\$1,768
Indeterminate	\$2	\$5	\$1	\$5	\$0	\$4	\$0	\$1
Total	\$9,773	\$9,141	\$10,158	\$9,141	\$10,409	\$8,322	\$10,735	\$10,127
Enrollment								
District	4,293,335 98.4%		N/A N/A		149,532 88.5%		186,670 91.1%	
Charter	71,479 1.6%		N/A N/A		19,381 11.5%		18,220 8.9%	
Charter Schools	189		N/A		32		45	
District	\$41,957,272,702 98.5%		N/A N/A		\$1,556,533,190 90.6%		\$2,003,882,452 91.6%	
Charter	\$653,422,526 1.5%		N/A N/A		\$161,289,442 9.4%		\$184,513,242 8.4%	
Total	\$42,610,695,228		N/A		\$1,717,822,632		\$2,188,395,694	
Percentage of Revenue by Source	District	Charter	District	Charter	District	Charter	District	Charter
Federal	9.6%	12.6%	10.9%	12.6%	13.9%	12.4%	10.4%	13.2%
State	36.1%	79.4%	26.9%	79.4%	17.8%	84.4%	17.9%	69.3%
Local	46.9%	0.0%	55.1%	0.0%	64.0%	0.0%	62.2%	0.0%
Other	7.4%	7.9%	7.1%	7.9%	4.4%	3.2%	9.5%	17.5%
Indeterminate	0.0%	0.1%	0.0%	0.1%	0.0%	0.1%	0.0%	0.0%
Change in district school funding if subjected to charter funding structure								
	(\$2.7 billion)				(\$300 million)		(\$100 million)	

CHARTER SCHOOL FUNDING: Inequity Persists

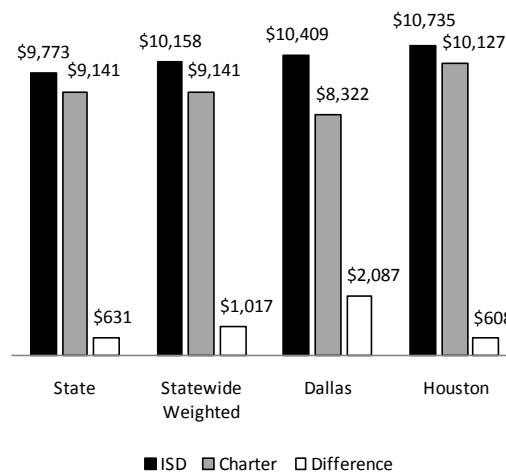
received compared to how much charter schools received per pupil. The statewide values weighted for charter enrollment adjust these figures to account for the fact that some districts enroll more charter students than others and the district PPR varies between districts. The weighted values estimate how much more or less per pupil funding charter schools received compared to the funding district schools would have received to educate the same students. (See Methodology for details.)

Highlights of Our Findings

- On average, charter districts across Texas received 6.5 percent less funding than traditional districts: \$9,141 vs. \$9,773 per student, a difference of \$631.
- Texas charter districts received \$9,141 per pupil, but district schools would have received an estimated \$10,158 to educate the same students – a difference of \$1,017, or 10.0 percent. Weighting the district PPR for charter enrollment therefore increases the funding difference by \$386 from the statewide difference above.
- Houston charter districts received 5.7 percent less than Houston Independent School District (HISD) schools: \$10,127 vs. \$10,735 per student, a difference of \$608.
- Dallas charter district funding lagged behind Dallas Independent School District (DISD) funding by 20.1 percent: \$8,322 vs. \$10,409 per student, a difference of \$2,087.
- Traditional districts statewide outpaced charter districts on combined state and local funding totals by 10.4 percent, or \$843 per pupil. The difference in combined state and local funding totals was even greater when comparing HISD schools and HISD charter districts: \$1,580 per student, or 18.4 percent, more for HISD schools. Similarly, DISD schools received \$1,489, or 17.5 percent, more in combined state and local revenues than charter schools located in DISD.

- Charter schools statewide surpassed district schools in per pupil federal revenues by 22.9 percent (\$1,155 vs. \$940 per pupil).

Figure 2: Per Pupil Total Revenue for Texas District vs. Charter Schools, FY 2006-07



Primary Reasons for Funding Disparities

- Texas charter districts do not have access to local funds, including debt service and capital funds. Instead, open enrollment charters are funded solely through state, federal, and “other” fund sources. The state funding formula, therefore, provides charter districts with more state revenues than traditional districts receive but does not overcome charter districts’ lack of a local tax base.
- Texas recognizes charter districts as LEAs for some funding purposes but not for others. Charters have full LEA status when applying for federal funds but are denied certain state funds, such as the Small District Adjustment.
- Statewide, charter districts generated more “other” dollars per pupil than did district schools. Charter districts in HISD, however, earned 17.5 percent of total per pupil funding through “other” revenues, \$744 more per pupil than HISD district schools. Charter districts in Houston account for nearly 25 percent of the total number of open enrollment charter holders in Texas. But in Dallas, the district

generated more “other” revenue than the charter districts, 4.4 percent vs. 3.2 percent.

- The larger sums (per pupil) of federal funds received by charter districts compared to traditional districts are likely a result of: (1) the fact that charter districts serve higher percentages of Title I and low income students than their traditional counterparts; and (2) charter districts may be applying for, and receiving, more competitive sources of federal dollars and some later generations of charters are still accessing federal start-up funding.

How Texas Funds Its District Schools³

The Texas Foundation School Program (FSP) funds traditional districts through local property tax revenues and state revenues. The local share of FSP is based on property values located within a school district. FSP state entitlements rest primarily on property wealth and current fiscal year factors such as student attendance, the number of students in special populations and their attendance, and each district’s local tax effort.

The FSP is a three-tiered system. Tier I consists of a basic grant or allotment per student set by the legislature plus categorical aid for special populations. Adjustments to the Tier I formula include: (1) a small district adjustment for districts with an Average Daily Attendance (ADA) of less than 1,601 students; (2) a mid-sized district adjustment for districts with an ADA of 1601 to 5,000 students; (3) a sparsity adjustment for districts with an ADA of less than 130 students; and (4) a cost of education index (CEI) adjustment that accounts for varying economic conditions. Tier I also includes a transportation allotment.

Tier II is based on a “guaranteed yield” that ensures traditional districts a supplemental level of revenue per student that is based on Weighted ADA (WADA). As in Tier I, Tier II revenue is a combination of state and local efforts. A traditional district is entitled to the difference between the guaranteed yield revenue per WADA established by the legislature and the revenue per

WADA that its enrichment rate actually yields. The enrichment rate allows school districts to supplement basic program funding through an enriched tax rate. Chapter 41 districts, traditional districts whose enrichment rate generates more than the guaranteed yield level, are not eligible for the state aid provided in Tier II.

Figure 3: State Charter School Policies

State Policies	Yes	No	Partial
Charter schools receive their funding directly from the state			X ⁴
Charter schools are eligible for local funding			X ⁵
Cap on funding a charter school can receive		X	
District public schools receive differential funding (e.g. more funding for 9-12 vs. K-8 schools)		X	
Charter schools receive differential funding		X	
State allows district to withhold funding from charter schools for providing administrative services	X		
State "holds harmless" district funding for charter enrollment		X	
School is considered LEA if authorized by non-district organization	X ⁶		
School is considered LEA if authorized by district		X	
Cap on number of charter schools	X		
Cap on number of charter schools authorized per year		X	
Cap on number of students attending charter schools		X	
Charter schools have an open enrollment policy			X ⁷

Tier III was added in the 1990’s and provides state funded equalized debt assistance for school capital needs. The Instructional Facilities Allotment funds new instructional facilities

whereas the Existing Debt Allotment assists districts with debt payments incurred prior to September 1, 2001.

Changes to Texas School Finance

On November 22, 2005, the Texas Supreme Court ruled that the state's school tax system was unconstitutional because school districts did not retain "meaningful discretion" in establishing local property tax rates; the state Supreme Court simultaneously reversed a lower court's decision that the state was in violation of the constitution due to inadequate and inequitable access to public education funding. The Court gave the Legislature until June 1, 2006 to find a funding system solution.⁸

On May 15, 2006 the Legislature adopted House Bills 1 and 3. HB1 reduced the amount of M&O property tax for districts at the \$1.50 cap by \$0.17 per \$100 valuation, effective September 1, 2006 and an additional \$0.33 reduction per \$100 valuation for 2007, thus capping the tax at \$1 per \$100 valuation. A greater burden for funding therefore shifted to the state through a new business tax system⁹ and changed the formula to produce increases in the basic allotment, guaranteed yield and the equalized wealth level. The changes also provided \$2,500 in salary allotments per eligible full-time employee, monthly pay increases, and an additional \$275 per student in average daily attendance (ADA) in grades 9-12, and additional facilities funding.¹⁰

How Texas Funds Its Charter Districts

Charter districts are funded using the FSP formula above. Open enrollment charter schools are funded using an averaging formula and funded directly by the state with state revenue sources; charter districts are not eligible for local revenues. FY 2006-07 was the fourth year in a transition from a Resident District Formula to a State Average Formula. For charter districts in operation on or before September 1, 2001, funding is based on 60 percent of the Resident District Formula and 40 percent of the State Average Formula. The Resident District Formula is set by calculating the

school's WADA and applying the greater of the following: (1) the amount of state aid that a student's residential district would generate for the Tier I and Tier II tax rate; or (2) the resident district's average tax levy per ADA if the student's resident traditional district does not receive foundation aid because it exceeded the wealth threshold.¹¹ The State Average Formula is a statewide average of all district rates and adjustments under Tiers I and II. Since charter districts do not have a tax base of their own, they are ineligible for excess funding beyond the Tier II threshold. In addition, charter districts are not directly eligible for the supplemental adjustments described under the traditional district school formula above. (See Figure 3 for a summary of policies that impact charter school funding.)

Facility Funding

Traditional districts receive facilities funding from the state's Capital Outlay programs, including the Instructional Facilities Allotment and the Existing Debt Allotment under Chapter 46 and the Bond Guarantee program through the Permanent School Fund (PSF). Charter school bonds are not currently backed by the PSF¹² and therefore are charged a higher interest rate and assigned a speculative grade rating.

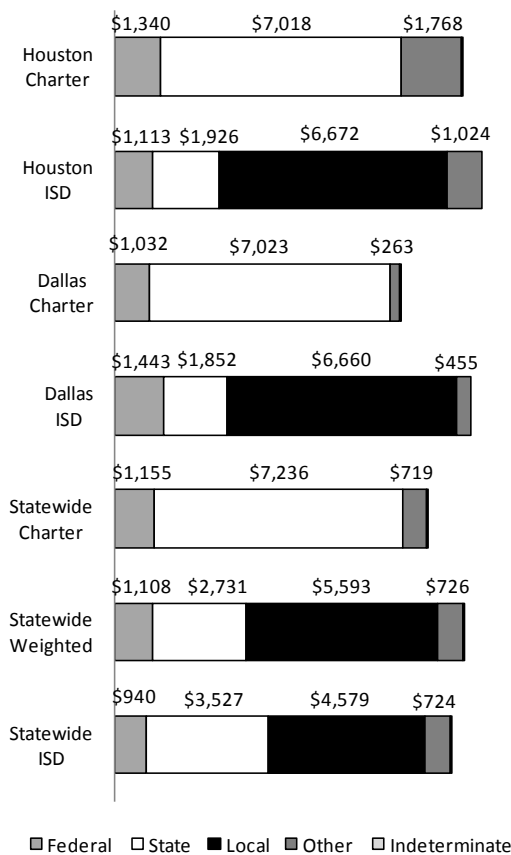
In 2005, lawmakers considered providing up to \$1000 per enrolled student to "charter schools of excellence" (this designation being determined by an assessment of performance standards) for the financing of facilities at these schools. This was abandoned due to perceptions of unfair practices in the application of standards. In 2009, the Legislature created a credit enhancement program to back charter capital debt based on a private match of state allocated funds.

Primary Revenue Sources for Texas Public Schools

On average, Texas traditional districts generated nearly half (46.9 percent) of public school revenues from local property taxes and 36.1 percent from state FSP funds. State funding for public schools is generated through a series of

taxes and fees including sales taxes, and as of FY 2006-07, a new “margin” tax that replaced the franchise tax. The remaining 17 percent of statewide district revenues came from federal support (9.6 percent) and “other” revenues (7.4 percent). Charter districts, however, rely solely on the state for the vast majority of revenues – 79.4 percent statewide in FY 2006-07 – and have no access to local funds. Charter districts capitalized on their status as LEAs, generating 3 percent more per pupil in federal revenues than traditional districts statewide, and surpassed traditional districts in “other” dollars at 7.9 percent of total revenues.

Figure 4: Per Pupil Revenue by Source for Texas District vs. Charter Schools, FY 2006-07



The majority of the gap between charter and traditional district funding per pupil in Texas can be attributed to the following disparities in revenue sources: 1) charter districts’ inability to

access local funds; 2) state aid formula adjustments that are denied to charters; and 3) charter districts’ inability to access facilities funding. (See Figure 4 for per pupil revenues by sources.)

Local Sources

No Access to Local Revenues: Traditional districts in Texas generated an average of 46.9 percent of their revenues from local sources. The local portion of total dollars was higher in HISD (62.2 percent) and DISD (64.0 percent) due to the high property tax base of these two districts. The entirety of Texas charter districts’ FSP funding comes from state sources, which is intended to compensate for the lack of local revenues but does not cover the local funding shortfall. Charter districts relied on the state for 79.4 percent (\$7,263 per pupil) of their revenues, whereas combined state and local funds comprised 83.0 percent (\$8,106) of ISD revenues statewide, a disparity of \$843 per pupil.¹³ This disparity increases in Dallas and Houston, with DISD receiving \$ 8,512 in combined state and local dollars, whereas Dallas charters received \$7,023 in state revenues, a \$1,489 (17.5 percent) difference. Likewise, HISD schools received \$8,598 in combined revenues per pupil and Houston charters received \$7,018 in state revenues per pupil, a disparity of \$1,580 or 18.4 percent.

State Sources

Formula Adjustments: Charter districts are not recognized as independent entities for certain district level formula adjustments such as the Small or Mid-size District Adjustment (SDA). The SDA offers up to \$1,600 in additional revenue per student for districts serving fewer than 1,601 students (in Average Daily Attendance). The mid-size adjustment is applied to districts serving 1,601 to 5,000 students for districts that offer a full K-12 grade program and are not subject to recapture. However, the SDA adjustment is only applied to charter districts that are located within a traditional district that receives the adjustment itself. The majority of charter districts operates within urban traditional districts, and are therefore ineligible to receive the small or mid-size

district adjustment. In the 2006-07 Texas Charter School Evaluation, researchers compared 2005-06 PEIMS revenue data from traditional districts and charter districts serving less than 500 students and found that traditional districts received approximately \$3,537 more in per pupil funding than charter districts.¹⁴ Since the bulk of Texas charter districts serve 500 students or less, they are denied millions of dollars in revenue due to the state's failure to recognize them as independent entities for the purpose of the SDA. Traditional districts and their residing charters may also receive adjustments through the Cost of Education Index (CEI). Many charter districts receive some funding for CEI adjustments based on the traditional district's weighted formula.

Facility Funding Sources: Like many states, Texas blocks charter schools from accessing any capital dollars that district schools generate from state or local sources to cover maintenance and facilities operations. The recently released *2007 Annual Survey of Local Government Finances – School Systems* lists total Texas Capital Outlay expenditures as \$6,654,163,000. This equates to \$1,549 per district school student, none of which is available to Texas charter districts. Tallies of funds 599 and 699 – capital and debt services revenues for districts statewide from the TEA PEIMS database, FY 2006-07 actuals – show districts generating \$969 per pupil. Chapter 46 of the Texas Education Code prohibits charter districts from participating in the Instructional Facilities Allotment (IFA) or the Existing Debt Allotment (EDA). Charter districts must therefore cover facilities financing out of general operating dollars, thereby increasing the funding disparity. Many charters work diligently to raise funds from private sources to cover capital needs, a practice rarely used by traditional districts.

Students Served: According to the FY 2006-07 NCES Common Core of Data, more Texas charter districts were Title I eligible than traditional districts (75.6 percent vs. 60.7 percent), and charter districts had more free and reduced price lunch eligible students (61.7 percent vs. 46.9

percent). The Texas funding formula is not weighted for grade levels served, so grade level differences cannot be a factor in the funding discrepancy. Student factors therefore may be a reason charter districts receive more federal funding than district schools per pupil and should be cause for an increase in state FSP funding per pupil (Figure 5).

Figure 5: School Characteristics¹⁵

Texas (2006-07)	Statewide District	Statewide Charters
Percentage of students eligible for free or reduced price lunch	46.9%	61.7%
Percentage of schools eligible for Title I	60.7%	75.6%
Percentage of students by school type:		
Primary (K-5)	48.2%	31.5%
Middle (6-8)	19.6%	10.3%
High (9-12)	17.3%	20.3%
Other (K-12, K-8, etc.) ¹⁶	12.5%	29.5%

Federal Sources

Charter districts relied more heavily on federal dollars than did traditional districts (\$1,155 vs. \$940 per pupil). This may be because: (1) Charter schools serve a higher percentage of at-risk students; (2) In FY 2006-07, approximately 100 charter campuses had been in operation for 3 years or less. Some of those campuses were likely receiving federal start-up dollars; and 3) Charter districts may be accessing more federal competitive grants, on average.

Other Sources

On average, traditional districts generated only \$5 more per pupil than charter districts statewide. However, the difference in other dollars increases to \$744 more per pupil for Houston charter districts than HISD students.

State Scorecard

We have assigned ratings to each state based on the quality of data available, as well as to the extent charter schools have access to specific

Figure 6: State Scorecard

Findings		TX
Federal Funding	Charters have access to federal funds according to state statutes (Yes = black, No = white)	Y
	Percentage of federal revenue is <i>greater than</i> (> black), <i>equal to</i> (=; black), or is <i>less than</i> (< white) that of total enrollment for charter schools	>
State Funding	Charters have access to state funds according to state statutes (Yes = black, No = white)	Y
	Percentage of state revenue is <i>greater than</i> (> black), <i>equal to</i> (=; black), or is <i>less than</i> (< white) that of total enrollment for charter schools	> ¹⁷
Local Funding	Charters have access to local funds according to state statutes (Yes = black, No = white)	N
	Percentage of local revenue is <i>greater than</i> (> black), <i>equal to</i> (=; black), or is <i>less than</i> (< white) that of total enrollment for charter schools	<
Facilities Funding	Charters have access to facilities funds according to state statutes (Yes = black, No = white)	N
	Percentage of facilities revenue is <i>greater than</i> (> black), <i>equal to</i> (=; black), or is <i>less than</i> (< white) that of total enrollment for charter schools	<
Data Availability	State provides detailed, public data on federal, state, local, and other revenues for district schools (Yes = black, Partial = grey, No = white)	Y
	State provides detailed, public data on federal, state, local and other revenues for charter schools (Yes = black, Partial = grey, No = white)	Y
Funding Formula	Charters are treated as LEAs for funding purposes (Yes = black, Partial = grey, No = white)	P
	State funds student (black) or the LEA (grey)	S
	State funding formula is fair and equitable (Yes = black, No = white)	N

streams of revenue (Figure 6). In Figure 6, we judged “Data Availability” on the ease of access to the information needed for this study and others like it. A rating of “Yes” means that all information was available through web sources or that it was provided upon request by state departments of education. A rating of “Partial” means some but not all of the data for this study were available either through web sources or through state departments of education. A rating of “No” means the data were not available either through web sources or through state departments of education.

Separately, we judged “Funding Formula” based on whether or not charters were considered Local Education Agencies for purposes of funding. “Yes” means that charters in the state are always considered LEA’s for all forms of funding. “Partial” means that charters are sometimes considered LEA’s for specific streams of funding (such as federal revenue) or that only certain charters are considered to be LEA’s. “No” means charters in the state are never considered an LEA for funding purposes. A state received a rating of fair and equitable funding if charters received fair and equitable revenue in all three revenue streams listed.

The same method was applied to ratings for the remaining categories of federal funding, state funding, local funding and facilities funding.

Endnotes:

¹ All FY 2006-07 revenue and enrollment data was provided by the Texas Education Agency from the TEA PEIMS Actual Financial database or was available online. The following applies to the calculation of total and per pupil revenues by source: (1) Three open enrollment charter schools had no revenues reported for FY 2006-07 in Houston: American Academy of Excellence, Crossroads Community Education Center, and Gulf Shores Academy. One charter school is not included for Dallas: Lynacres Academy. Only open enrollment charters are included in charter totals. Campus charter revenue data is not available from sponsoring districts; (2)

Enrollment and estimated revenues for Pre-K and EE students were removed from totals. State foundation amounts for Pre-K students could not be specifically identified and separated from kindergarten foundation amounts by TEA. Therefore, we used the TEA estimated amount per pupil plus additional Pre-K awards to deduct an estimate of Pre-K revenues from revenue totals. This amount does not represent actual revenues and does not include any local or federal sources. In addition, the following fund codes representing Pre-K and EE revenues were deducted from totals: Headstart federal (205); Headstart state (416); Evenstart federal (205); federal childcare development block grant (203); IDEA Part B Preschool (225); IDEA Part B Preschool Deaf (228); Summer LEP Early Childhood (390); Ready to Read (402) (419); (3) Enrollments for EE students for charters and districts identified as (-999) by TEA represent an enrollment greater than 5 but less than zero. We used an average of 2.5 for each case. This average was used for 240 ISDs and charters; (4) Adult education revenues identified under fund codes 381, 220, and federal and state TANF funds 223 and 382 were removed from totals; (5) Object code 5721 and charter schools object code 5729 were moved from “other/intermediate” sources – as Texas classifies the revenue – to state revenues, the true source of the funding; (6) Texas does not include any Objects from “Other Resources/Non Operating Revenues Object Codes” in revenues. We have included the following in “other” as revenue: (7912) Sale of Real and Personal Property; (7918) Special Items; (7919) Extraordinary Items; (7949) Other Resources; (7951) Gain in Sale of Real and Personal Property; (7952) National School Breakfast Program; (7953) National School Lunch Program; (7955) Earnings from Temporary Deposits and Investments; (7956) Insurance Recovery; and (7989) Other Non-Operating Revenues. For charter schools we included (7959), Other Gains; and (7) Dallas reported no revenues under Object codes 7XXX. TEA reports that these revenues must have been included in

object codes 57XX but did not confirm. This may be why “other” revenues are low for Dallas ISD.

² Due to the nature of Texas accounting procedures, district-sponsored “campus” charter schools are considered district schools and, thus, their data are included in ISD membership and revenue totals. As a result, our analysis of charter school funding only covers state-sponsored charter districts. Exact numbers for district sponsored charters and enrollments were not available because the TEA does not require separate reporting for these schools.

³ “Formula Adjustments and the School Finance System.” House Research Organization Focus Report. March 31, 2004.

⁴ Charter districts are directly funded by the state, but campus-level charters are funded via district pass-through.

⁵ Campus charters receive a portion of local funds but charter districts receive no local funds.

⁶ Charter districts are considered LEAs for some funding purposes, but not all.

⁷ Charter Districts must set geographic boundaries, but have an open enrollment policy within those boundaries.

⁸ “Supreme Court Finds Current School Tax System Unconstitutional.” House Research Organization: Interim News. December 19, 2005. Number 79-1.

⁹ Combs, Susan. Texas Comptroller of Public Accounts. “Window on State Government”. July 2006.

¹⁰ Dawn-Fisher, Lisa. “House Bill 1: An Overview of School Finance Changes.” Texas Education Agency, June 26, 2006.

¹¹ Caskey, Liz (Director, State Funding). Memo to: The Charter School Administrators: Subject:

2006-07 Preliminary Summary of Finances (HB1, 79th legislature, Third Called Session). Texas Education Agency, September 22, 2006.

¹² As of November 2009, the State Board of Education was “looking into” targeting a small portion of the \$22 billion Permanent School Fund to finance charter school facilities. See “Texas’ School Fund might invest in charter school facilities.” <http://www.statesman.com/search/content/region/legislature/stories/2009/11/02/1102psf.html>.

¹³ As stated above, the local amounts reported by the state do not include some debt service, equity transfers and or capital sources that would increase this gap.

¹⁴ “Texas Charter Schools 2006-07 Evaluation.” Texas Center for Educational Research. May 2008. (p59).

¹⁵ Source for School Characteristic data: NCES.

¹⁶ Other types of schools include multiple grade levels, such as K-8 or K-12, and nontraditional schools.

¹⁷ Charter schools are not eligible for any local revenues and, therefore, receive all foundation aid from state sources.