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Funding Formula Implementation Profile: Texas

Interviewee Information:
Leo Lopez, Chief School Finance Officer

Background: An education funding formula based on student weights was introduced by House Bill 72, as passed by the 68th Texas Legislature, 2nd Called Session, in 1984. Weights, which are still in place today, provide additional funds to schools to encourage and support the use of particular educational practices, such as bilingual education, CTE, and special education. In 1993, the state began a recapture system, which required local school districts to adhere to a cap for how much local tax funding they could retain per weighted student. In 2005, the Texas Supreme Court ruled in *Neeley v. West-Orange Cove* that the existing school finance system constituted a statewide property tax, which was unconstitutional. This ruling brought about further changes to the system that resulted in a statewide buydown of school district maintenance and operations tax rates in order to create meaningful discretion with regard to taxing capacity. In 2017, the state appointed a commission to study the formula and in 2018 that commission issued a report, which ultimately led to the 86th Texas Legislature passing House Bill 3 in 2019, and a new funding formula was put in place to further incentivize various aspects of education practice through weights, such as giving bonuses for student outcomes and recruiting teachers for low-income areas.

Intent: The primary goal of the new formula is to promote equity across the state by ensuring that students receive "substantially equal access to similar revenue per student at similar tax effort," with a goal of reaching horizontal equity. There are only a few hold harmless provisions in the new formula and, therefore, some LEAs in higher-income communities will lose funding to ensure that funds go to where they are needed most. The Texas Legislature shifted its attention to ensuring that the weights are sufficient to fund the intended programs and that student achievement is improving. Therefore, the secondary goal of the reforms is to increase accountability for student achievement through incentivizing particular practices.

Support and Training for LEAs: With over 1000 school districts and nearly 200 charter schools, Texas Education Agency relies on 20 regional education centers and a central depository of online resources to provide LEAs with basic information, training, and technical assistance on financial management and grant reporting.

Reporting: Texas has a robust financial management system at the state level. LEAs submit financial data to TEA using the Public Education Information Management System (PEIMS), which was locally developed. Most LEAs have their own financial system vendor and upload information into PEIMS. TEA's data collection for all types of data occurs on four submission dates throughout the year — one in each season. TEA collects budget and student enrollment data at the campus level in the fall and expenditure and final enrollment data at the summer deadline. TEA collects expenditure data from LEAs with function, object, and site codes. TEA collects specific data at the campus level, such as enrollment, minutes of instruction, attendance, salary, and school calendars.

This enables TEA to analyze how LEAs are spending funds and to track funds that are specifically obligated under TEA's allocation system.

Once the data submission period opens, LEAs have a window of time where they are able to review and edit data. After this period, the data are frozen and LEAs are unable to resubmit. PEIMS has a series of business rules programmed into the system to identify any warnings or fatal errors at the time of submission. Additionally, TEA audit staff validate some of the financial data against data reported in the school district's annual financial audits. TEA has 28 auditors in the financial compliance department, including seven attendance auditors who validate student attendance on a sampling of schools.

Monitoring: TEA produces reports for the public on allocations, expenditures, per-student expenditures, and comparisons between academic performance and financial data. Additionally, TEA auditors do a deep analysis of LEA financial data, including checks for validity of actual expenditures, consistency of student enrollment data, budget versus actual spending in particular categories, financial solvency, and many others. Findings in any of these categories would result in an official letter from TEA. Further, LEAs receive a financial accountability rating, made available to the public through the state's report card system. Significant financial issues, such as inadequate fund balances and staff-to-student ratios, result in docked points on this rating. Any LEA that receives a poor or failing rating will receive a letter from the state. Generally, when districts receive a failing rating for more than three years in a row, they are assigned a conservator and must develop a plan for corrective action.

Measuring Success: TEA uses its extensive data set to analyze financial data and student outcome data together to ensure that the LEAs are implementing the programs the state has incentivized, that those programs are adequately funded, and to see whether the programs are producing the desired outcomes.

Lessons Learned/Advice: It is important for states to define their most important three to four objectives, critically analyze how to meet these objectives, and align them with the financial initiatives of the department. Being able to clearly communicate these objectives and how they will be attained is critical for gaining political buy-in.

With any type of financial reform, there will be those who stand to gain from the formula, as well as those who may be negatively affected at first. It is important to be prepared with talking points and facts at a macro-level to be able to effectively communicate the purpose and highlight the positive impact of any changes. Using facts that represent the total impact, such as "60% of the districts representing 98% of the students in the state are gaining $x per student," may help to prove overall worth of the reforms.

Appendix:

Financial Integrity Rating System of Texas (link to Texas School Financial Integrity Rating System website)

Table 1: 2018-2019 RATINGS BASED ON SCHOOL YEAR 2017-2018 DATA - DISTRICT STATUS SUMMARY

DISTRICT	NAME	RATING
001902	CAYUGA ISD	A = Superior
001903	ELKHART ISD	A = Superior
001904	FRANKSTON ISD	A = Superior
001906	NECHES ISD	B = Above Standard
001907	PALESTINE ISD	A = Superior
001908	WESTWOOD ISD	A = Superior
001909	SLOCUM ISD	A = Superior
002901	ANDREWS ISD	A = Superior
003902	HUDSON ISD	A = Superior
003903	LUFKIN ISD	A = Superior
009304	HUNTINGTON ISD	A = Superior
003905	DIBOLL ISD	A = Superior

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2018-2019 RATINGS BASED ON SCHOOL YEAR 2017-2018 DATA - DISTRICT STATUS DETAIL

Name: **BARTLETT ISD**(**014902**)	**Publication Level 1:** 8/7/2019 3:33:27 PM
Status: **Passed**	**Publication Level 2:** 8/8/2019 2:06:12 PM
Rating: C = Meets Standard	**Last Updated:** 8/8/2019 2:06:12 PM
District Score: 64	**Passing Score:** 60

#	Indicator Description	Updated	Score
1	Was the complete annual financial report (AFR) and data submitted to the TEA within 30 days of the November 27 or January 28 deadline depending on the school district's fiscal year end date of June 30 or August 31, respectively?	8/5/2019 10:41:57 PM	Yes
2	Review the AFR for an unmodified opinion and material weaknesses. The school district must pass 2.A to pass this indicator. The school district fails indicator number 2 if it responds "No" to indicator 2.A. or to both indicators 2.A and 2.B.		
2.A	Was there an unmodified opinion in the AFR on the financial statements as a whole? (The American Institute of Certified Public Accountants (AICPA) defines unmodified opinion. The external independent auditor determines if there was an unmodified opinion.)	8/5/2019 10:41:57 PM	Yes
2.B	Did the external independent auditor report that the AFR was free of any instance(s) of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds? (The AICPA defines material weakness.)	8/5/2019 10:41:58 PM	Yes
3	Was the school district in compliance with the payment terms of all debt agreements at fiscal year end? (If the school district was in default in a prior fiscal year, an exemption applies in following years if the school district is current on its forbearance or payment plan with the lender and the payments are made on schedule for the fiscal year being rated. Also exempted are technical defaults that are not related to monetary defaults. A technical default is a failure to uphold the terms of a debt covenant, contract, or master promissory note even though payments to the lender, trust, or sinking fund are current. A debt agreement is a legal agreement between a debtor (= person, company, etc. that owes money) and their creditors, which includes a plan for paying back the debt.)	8/5/2019 10:41:58 PM	Yes
4	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	8/5/2019 10:41:58 PM	Yes
5	This indicator is not being scored.		
			1 Multiplier Sum
6	Was the number of days of cash on hand and current investments in the general fund for the school district sufficient to cover operating expenditures (excluding facilities acquisition and construction)? (See ranges below.)	8/5/2019 10:41:58 PM	0
7	Was the measure of current assets to current liabilities ratio for the school district sufficient to cover short-term debt? (See ranges below.)	8/5/2019 10:41:59 PM	4

8	Was the ratio of long-term liabilities to total assets for the school district sufficient to support long-term solvency? (If the school district's change of students in membership over 5 years was 7 percent or more, then the school district passes this indicator.) (See ranges below.)	8/5/2019 10:41:59 PM	10
9	Did the school district's general fund revenues equal or exceed expenditures (excluding facilities acquisition and construction)? If not, was the school district's number of days of cash on hand greater than or equal to 60 days?	8/5/2019 10:42:00 PM	0
10	Was the debt service coverage ratio sufficient to meet the required debt service? (See ranges below.)	8/5/2019 10:42:01 PM	0
11	Was the school district's administrative cost ratio equal to or less than the threshold ratio? (See ranges below.)	8/5/2019 10:42:01 PM	10
12	Did the school district not have a 15 percent decline in the students to staff ratio over 3 years (total enrollment to total staff)? (If the student enrollment did not decrease, the school district will automatically pass this indicator.)	8/5/2019 10:42:02 PM	10
13	Did the comparison of Public Education Information Management System (PEIMS) data to like information in the school district's AFR result in a total variance of less than 3 percent of all expenditures by function?	8/5/2019 10:42:03 PM	10
14	Did the external independent auditor indicate the AFR was free of any instance(s) of material noncompliance for grants, contracts, and laws related to local, state, or federal funds? (The AICPA defines material noncompliance.)	8/5/2019 10:42:03 PM	10
15	Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	8/5/2019 10:42:03 PM	10
			64 Weighted Sum
			1 Multiplier Sum
			64 Score

Table 2: Determination of Rating

Determinant	Description	Grade
A.	Did the district answer "No" to Indicators 1, 3, 4 or 2.A? If so, the school district's rating is F for Substandard Achievement regardless of points earned	
B.	A = Superior	90-100
B.	B = Above Standard	80-89
B.	C = Meets Standard	60-79
B.	F = Substandard Achievement	<60

No Rating = A school district receiving territory that annexes with a school district ordered by the commissioner under TEC 13.054, or consolidation under Subchapter H, Chapter 41. No rating will be issued for the school district receiving territory until the third year after the annexation/consolidation.