



# Understanding the Financial Structure of Texas Public Schools

*There are three sources of funding for Texas public schools.*

## **1. FEDERAL GOVERNMENT**

Texas school districts receive revenue from various federal grants and formulas, which are primarily earmarked for programs to support disadvantaged students and students with disabilities.

## **2. STATE GOVERNMENT**

School districts receive a percent of their funding from the state. State revenue is distributed using formulas based on a variety of factors, like property wealth, student enrollment, ADA (average daily attendance) and demographics.

## **3. LOCAL COMMUNITIES**

The remaining funding of a school district's revenue comes from their local citizens in the form of property taxes.

# What determines the amount of money Texas school districts receive?

"Entitlement": this is the amount of money a Texas school district is "ENTITLED to receive."

A district's entitlement is calculated using: a basic allotment (the basis of funding a per student amount using varying district allotments) and average daily attendance (ADA), (how many of enrolled students in attendance on the average school day).

Texas school districts' budgets are based on this entitlement: so the more students enrolled in attendance the more money a district receives, the fewer enrolled students in attendance the less money a district receives.



The district's entitlement is funded using a combination of state funds and local funds.

First, how much local revenue is generated through local property taxes to fund the entitlement.

Second, the state portion of revenue is used to make up the difference in funding the entitlement.

This is a balancing act between state and local revenue to equal the district's entitlement.

Ex. Entitlement = Local revenue + State revenue.

# How is the entitlement funded?

Local funding for Texas public schools is generated primarily by a property tax levied on local taxable values.

*Since local property taxes are a primary source of funding for school districts, understanding how they work is important to understanding the overall concept of public school finance and debt.*

A district's property tax rate consists of a maintenance and operations (M&O) tax rate and an interest and sinking (I&S) tax rate.

The M&O tax rate provides funds for the daily maintenance and operation of the district.

The I&S tax rate provides funds for payments on the debt that finances a district's facilities (Bond).

# How do districts receive local funding?

# LOCAL FUNDS (M&O)

## 1

Public school boards have authority to levy and collect ad valorem property taxes. Every summer, the appraisal district prepares the certified appraisal roll of taxable property value in each school district.

## 2

The school district submits information from its certified appraisal roll to the Texas Education Agency (TEA) to calculate the district's maximum compressed tax rate (MCR). NOTE: The district does not calculate the MCR rate.

## 3

A district's MCR is the rate for the current tax year per \$100 of taxable property value at which the district must levy a maintenance and operations (M&O) tax.

# LOCAL FUNDS (I&S)

The board also levies an interest and sinking fund (I&S) tax (also referred to as debt service tax).

This I&S tax is to generate funds required to service the district's debt.

I&S is a voter generated tax rate

If a school district wants to levy an I&S tax rate, it must receive voter approval in a Bond Election.

## *What is a Bond Election?*

School districts are required by law to ask their local voters for permission to issue bonds (debt), which are used to fund the purchase of “big ticket” items, like new school facilities. A schoolboard calls a Bond Election, and voters decide whether or not they want to issue bonds for identified needs. If voters approve the Bond Election, the school district may then sell the bonds and raise the I&S tax rate accordingly to repay the debt.

# SCHOOL DISTRICT TAX RATE

$$\text{M\&O} + \text{I\&S} = \text{Total}$$

(maintenance & operations tax rate)  
Funds the day-to-day maintenance and operations of the district

(interest & sinking tax rate)  
Funds debt repayment for the purchase of “big ticket” items

**District  
Tax  
Rate**

# M&O Tax Rate:

*Day-To-Day Maintenance and Operations*

Examples:



Salaries  
(for teachers  
and other  
staff)



Facility  
repairs and  
maintenance



Bus repairs,  
maintenance  
and fuel



School  
supplies and  
materials



Utilities  
(electricity,  
water, etc.)



# I&S Tax Rate: Debt Repayment (Bond)

Examples: (The examples listed are items that are paid for using bond proceeds.)

- New building construction
- Existing building renovations
- Purchase of land for school facilities
- Program-specific equipment
- Acquisition of new technology
- Purchase of new school buses

Note: I&S funds may **ONLY** be used to repay voter-approved bonds. They may not be used for salaries, utilities or other day-to-day expenses.



# PROPERTY TAX RATE

- Example of the district's current ad valorem property tax rate for 2023-2024.

•M&O Tax Rate	\$0.6692
•I&S Tax Rate	\$0.2000
•Total Tax Rate	\$0.8692

# Reasons districts present bond programs to voters.

*In most cases, Texas school districts' debt takes the form of bonds. School districts issue bonds to pay for "big ticket" items, like facilities.*

## **Why can't school districts use M&O funds to pay for "big ticket" items instead of debt?**

Basically, there are only enough M&O funds to cover a district's day-to-day operating expenses. Over 75 percent of a school district's M&O budget pays for salaries. The remainder of the budget pays for fuel, utilities, supplies, materials, professional development, student travel and nominal capital expenditures.

# Why can't school districts just "pay as they go" for "big ticket" items to avoid debt?

## Address some needs now and some needs later?

Most districts can't wait to address facility construction as funds become available.

To understand why, let's look at the three main categories of large-scale needs

Areas where school districts and communities evaluate facilities:

1. AGE
2. EVOLVING EDUCATION
3. GROWTH

Facility programs that address these areas often require a bond election to be presented to the voters because state law and state funding want the voters to decide.

A decorative graphic on the left side of the page consists of several white and red pipes of varying thicknesses. The pipes are connected at various points, some with grey elbow fittings. The background is a solid green color.

# AGE OF FACILITIES

*A primary reason school districts issue debt is to address the aging of capital assets, like facilities, buses and technology.*

As one might imagine, a significant percentage of a district's facility plans are specifically related to the aging of facilities.

Most districts do a good job maintaining their facilities over time with their M&O budget. But, as facilities age, the repairs and renovations can become too costly to address with M&O dollars alone.

# EVOLVING EDUCATION

## **SIGNIFICANT EDUCATION CHANGES OVER TIME:**

- Changes to district facility standards
- Changes in instructional delivery methods
- Changes to safety and security objectives
- Changes to the Texas Education Code
- Changes to facility codes and regulations

As humans, technology and societies evolve over time, new and unanticipated needs arise that challenge whether something is still effective or acceptable. So, when something, like a building for example, no longer meets current needs, it is thought to have “evolving needs.”

# GROWTH

When Public School Enrollment Grows,

## SCHOOL DISTRICT NEEDS GROW



School districts address the pressures of growth in various, oftentimes creative ways, before asking their taxpayers for more money.

However, eventually the resources of the M&O Fund are limited and a school district must present the voters with an option to expand facilities with bonds.





## In Conclusion

Bonds, with repayment over time, are a tool to address the facilities for public education to the 5 million+ students in Texas. Currently, bonds are the primary way for our school districts to fund major facility projects and other “big ticket items.” Local voters decide, through bond elections, the quality of facilities for their community.



# Finally

Issuing bonds is ultimately a local decision. Voters are given the opportunity to vote for or against issuing bonds to meet their local school districts' facility plans.

## Sources:

- Texas Education Agency (TEA): Texas Public School Finance Overview.  
[tea.texas.gov](http://tea.texas.gov).
- Investing in a Better Texas.pdf: ntaasb; [www.ntaasb.net](http://www.ntaasb.net).