

DATE:	August 22, 2019
SUBJECT:	Small and Mid-sized District Allotment pursuant to House Bill 3 (HB 3)
CATEGORY:	Funding Implications
NEXT STEPS:	Share with business and finance staff

House Bill (HB) 3 was passed by the 86th Legislature, 2019, and signed into law by Governor Abbott on June 11, 2019. As a result of HB 3, the small and mid-sized district adjustments were recreated as a stand-alone allotment for small and mid-sized districts.

Today, the agency released a HB 3 in 30 webinar providing background information that explains why the state moved away from small and mid-sized adjustments and moved toward small and mid-sized allotments and explains the formulas prior to and as a result of HB 3. You can access that webinar and other resources at: <https://tea.texas.gov/hb3>.

This is not a notice that you are receiving the small and mid-sized allotment. This is general information provided to all LEAs about changes to the small and mid-sized allotment structure as a result of HB 3.

Background

The small district adjustment was created in 1974 and amended in 2017 to phase in the adjustment for districts under 300 square miles in size. The mid-sized district adjustment was created in 1995 and then amended in 2009 to include eligible recapture districts based on size. The basic allotment was increased for school characteristics if the school district qualified as a small district or mid-sized district.

Recreation of Small and Mid-sized District Adjustments as Stand-alone Allotment under Tier One

HB 3 restructured the small and mid-sized adjustments. Instead of flowing funds to small and mid-size districts as an adjustment that occurs before other funding adjustments, the funding now flows as an allotment under tier one at the same time as other funding adjustments, such as the compensatory education allotment and the bilingual allotment. This change was based on a recommendation from the [Texas Commission on Public School Finance's Final Report](#). The Commission's report concluded a separate small and mid-sized allotment under tier one would increase spending transparency, while helping the state streamline formulas to focus more on the needs of the student. This change from existing formulas to create a new allotment is cost neutral for districts when taken with the increase to the basic allotment. The small and mid-sized adjustment continues to be a multiplier for the special education allotment to ensure maintenance of financial support for federal law purposes.

How Tier One Funding is Determined under HB 3

The Basic Allotment (BA) is increased from \$5,140 to \$6,160 per student in average daily attendance for the 2019–2020 biennium. The basic allotment is no longer adjusted as follows:

- CEI is repealed, with funding redirected into raising the basic allotment
- Small and mid-sized adjustment is a stand-alone allotment in tier one
- Small and mid-sized adjustment is treated like all other allotments, except special education funding is increased by the small or mid-sized district weights for small and mid-sized districts. The BA is used in a series of formulas that consider student characteristics.

Small and Mid-sized District Allotment under HB 3 for School Districts

The formula for calculating the new small and mid-sized stand-alone allotment is based on the formulas used under prior law, except that instead of adjusting the basic allotment before other student-based adjustments the small and mid-sized adjustments now occur concurrently with all other adjustments.

Small districts are still defined as those with fewer than 1,600 students in ADA, the same as prior law. Additionally, the Legislature sped up the timeline for the small district adjustment phase-in (bringing all small districts to a funding factor of 0.0004) previously due in 2023, to the 2020 school year. HB 3 also adds a new small district formula for districts under 300 students that are the only district located and operating in a county. The value of the small district adjustment to districts remains the same under HB 3.

Under the new law, the small district allotment (SDA) applies to districts with less than 1,600 students, and the following formulae apply to each student in average daily attendance (ADA):

- $((1,600 - \text{ADA}) \times 0.00040) \times \text{Basic Allotment}$

For a school district that is the only school district located and operating in a county, and has fewer than 300 ADA, a factor of 0.00047 is substituted in the formula above.

Mid-sized districts are still defined as those with fewer than 5,000 students in ADA, the same as prior law. The value of the mid-size district adjustment to districts remains the same under HB 3.

Under the new law, the mid-sized district allotment (MDA) applies to districts with less than 5,000 students. The formula is as follows:

- $((5,000 - \text{ADA}) \times 0.000025) \times \text{Basic Allotment}$

Small and Mid-sized Allotment under HB 3 for Charter Schools

Charter schools will now receive the weighted average funding amount for the small and mid-sized allotment. This change recognizes the population of students in small and mid-sized districts relative to the total student population in the state. However, the funding amount excludes the increased funding for single county districts with fewer than 300 ADA, and the increase to the basic allotment resulting from the move to current year property values for school districts. More information on this topic is forthcoming in a presentation on charter school funding on August 29, 2019.

Questions

If you have any questions related to this TAA correspondence on the small and mid-sized district allotment required under HB 3, please contact the Division of State Funding by phone at (512) 463-9238 or by email at HB3info@tea.texas.gov.

Sincerely,

Leo Lopez, RTSBA,
Associate Commissioner for School Finance & Chief School Finance Officer