September 21, 2007

To: **THE CHARTER SCHOOL ADMINISTRATOR ADDRESSED:**

Subject: **2007-2008 September Summary of Finances (SOF)**

The September Summary of Finances (SOF) for the 2007-2008 school year has been posted to the TEA school finance website and includes important information noted below:

1. <u>General comments on 2007-08 Funding Formulas</u>

a. **Formula values for 2007-08** – the following formula values for the Foundation School Program (FSP) will be used in the calculation of state funding for the 2007-08 school year:

   i. Basic Allotment = $3,135

   ii. Guarantee Levels for Tier II - Tier II guarantees school districts $36.45 of additional state aid per WADA for each penny of maintenance and operations (M&O) tax levied above $0.86, up to a maximum of $0.31 (excluding the Level II pennies):

      1. Tier II, Level I= $36.45 per penny, up to a maximum of $0.14.

      2. Tier II, Level II = $46.94 per penny, up to a maximum of $0.04.

      3. Tier II, Level III: $31.95 per penny; up to a maximum of $0.17 (the total pennies between Level I and Level III of Tier II are limited to $0.31.)

b. **Transportation allocation** – the initial transportation allocation for the 2007-08 school year will be estimated based on the charter's 2005-06 final transportation allocation. When transportation reporting and settle-up for 2006-2007 is complete, the estimated 2007-08 allocation will then be based on the 2006-07 allocation, and the allotment amount will be adjusted. When the actual Regular Program Transportation Allotment is calculated for Resident District Charter Schools (schools initially in operation on or before 09/01/01), it will be calculated using 50% Weighted Linear Density and 50% on the actual reported Linear Density. For additional information, please refer to the 2006-2007 Transportation Allotment Handbook for additional information.

c. **<u>Spending Rules:</u>**

   i. The calculation of the Allotment Subject to the Spending Rules for the State Average Formula reflects increases in the Adjusted Allotment resulting from the increase of the Basic Allotment to $3,135.

   ii. The calculation of the Allotment Not Subject to the Spending Rules for the State Average Formula reflects three state average levels of the Guaranteed Yield Amount (Tier II).

d. **<u>Technology allotment</u>** – the technology allotment is calculated using a rate of $29.42 multiplied by the charter's 2007-08 estimated Refined ADA. This rate is subject to change at a later date. These funds should be accounted for in the Special Revenue Fund 411.

e. **<u>Additional Aid for School Employee Benefits</u>** – The gain is made by comparing the change in formula as enacted by HB 3343 of the 77th Legislative Regular session. The legislature increased the rate for Tier II funding to $27.14 (2002-2003 SY) per penny of tax effort per WADA. The gain from formula changes can be calculated by multiplying the

f. difference in the yield ($27.14 - $24.70 = $2.44) by the number of weighted students, then by the district's tax effort for Tier II, not to exceed the maximum tax effort for Tier II . If the district's number of covered employees multiplied by $900, is more than 75% of the amount of gain from formula changes, the district is considered to have insufficient formula gains to fund the state's portion of the cost of insurance, and the district is entitled to additional aid for school employee benefits. This allotment is based on the "final" amounts currently on the 2005-06 SOF Report. This allocation will be updated when the "final" allotments for 2006-07 are determined.

g. **Certain Professional Staff Salary Allotment and Staff Allotment** – If a charter holder participated in TRS Active Care for the 2005-2006 school year and operated an open-enrollment charter school as of January 1, 2006, the charter holder is eligible to receive the wage increase of $2,500 annually for certain professional staff and $500 and $250 respectively for eligible full-time and part-time staff. If the charter holder operated an open-enrollment charter on January 1, 2006, but did not participate in TRS Active Care for the 2005-2006 school year, the open-enrollment charter is only eligible to receive $2,000 annually for certain professional staff. The allotment included in this report is based on the October 2006 data submitted via the FSP payment system Staff Salary Data module. Once the 2006-07 staff averages are determined for the 2006-07 "near final" SOF, the 2007-08 estimated salary allotments will be updated based on the 2006-07 staff averages. The "near final" 2007-08 SOF will use the average of all 12 months of 2007-08 data from the FSP Staff Salary Data module to calculate the salary allotments.

h. **High School Allotment** – this allotment is based on the greater of the estimated High School ADA based on the Fall 2006 enrollment or the estimated High School ADA submitted on the 2006-07 FSP Tax and Student Data Module. This allotment will be updated once the 2006-07 Summer PEIMS data is available. The "near final" 2007-08 SOF report will reflect actual high school ADA from the 2007-08 Summer PEIMS submission.

2. For charter schools that were initially in operation on or before September 1, 2001:

a. **Funding formulas** – if this charter school was in operation on or before September 1, 2001, the September SOF report reflects the fifth year of the transition from the Resident District Formula to the State Average Formula, as was mandated by House Bill 6, 77th Legislature. For the 2007-08 school year, funding for charter schools initially in operation on or before September 1, 2001 will be based on 50% of the Resident District Formula and 50% on the State Average Formula. For more information on the State Average Formula, see number 3 below.

b. **Method 1 –** the calculation of the Method 1 funding variable is calculated by summing the resident district's estimated Available School Fund (ASF) allocation, M&O tax collections for levels I, II, and III, chapter 41 recapture, tuition paid, additional state aid for tax relief, reduction in excess revenue, penalty if the M&O rate is below the compressed rate, high school allotment, the professional salary allotment, NIFA allotment adjustment under HB 828, and transportation allotment adjustment under HB 1922 and dividing the sum by the resident district's ADA.

c. **Method 2** – the calculation of the Method 2 funding variable is determined by summing the resident district's Total Cost of Tier I less any allotment to the resident district for transportation with the three levels of the resident district's Guaranteed Yield Amount (Tier II), additional state aid for tax reduction, reduction in excess revenue, penalty if the M&O rate is below the compressed rate, high school allotment, professional salary allotment, NIFA allotment adjustment under HB 828, and transportation allotment adjustment under HB 1922 and dividing the sum by the resident district's WADA.

d. **For this September Summary of Finances, it is assumed that resident districts will adopt an M&O tax rate that is equal to the state compressed tax rate (2005-06 M&O rate X .6667) and will adopt the same number of pennies exceeding their state compressed rate as they adopted in 2006-07. The M2 variable will be updated when the actual tax rates are available in December 2007.**

3. For charter schools that began operations after September 1, 2001 – charter schools that began operation after September 1, 2001 are funded based on statewide average values of the FSP formula elements note below.

a. State Average Adjusted Basic Allotment = $3312

b. State Average Adjusted Allotment = $4,022

c. State Average DTR for Tier II

i. Level I = $.1131

ii. Level II = $.0419

iii. Level III = $.0042

d. Average State Aid for Tax Reduction Per WADA = $1,297

Please note that DTR levels are likely to change in December when tax rate and M& O tax collection amounts are available.

4. NEW STATE AID FOR THE 2007-08 SCHOOL YEAR

Educator Salary Increases (Rider 86) – This allotment provides school districts and charters schools with new funding equal to $23.63 per student in weighted average daily attendance (WADA). Funds in Rider 86 are dedicated to pay increases for "educators", which is a larger group of employees than those eligible for the Certain Professional Staff Salary allotment. Charter schools should spend these funds on personnel who would be required to hold a certificate issued by the State Board of Educator Certification if they were employed in a similar role at a school district. Please note that charter schools are not required to provide an across the board raise for any group. Additionally, charter schools are not required to pay an increase in the salaries that were paid to an employee in the 2006-07 year. Charter schools will be required to report the amounts expended on increased salaries for individuals who would be subject to the minimum salary schedule, if they worked in a school district. This includes classroom teachers, full-time counselors, full-time nurses, and full-time librarians. We will consider local schedules that increase an individual's pay beyond this year's salary (including local step increases) as counting for purposes of compliance with the rider.

5. DATA SOURCES AND PLANNED UPDATES

a. The 2007-08 September SOF – is based on the 2007-08 Estimate of State Aid Template data reported to the Division of State Funding. If the charter school did not report 2007-08 estimated attendance data, this report reflects the 2006-07 FSP payment system six-week data as of July 5, 2007. These data will be updated as the charter school's 2007-08 first six-week attendance data are reported via the FSP Payment System.

b. **Estimated M&O Tax Collections –** In order to estimate the maintenance and operations (M&O) tax collection amounts for school districts, estimated property values and tax rates were used. The 2007 local property values were estimated by increasing the local 2006 taxable values by 7.09 percent. The 2007 tax rate was estimated by multiplying the actual 2005 tax rate by the state compression rate, which is 66.67 percent for the 2007-08 school year. If the 2006 tax rate adopted by the district included pennies of tax effort above the 2006 compressed tax rate, those pennies are added to the 2007 estimated tax rate. This estimated rate is multiplied by the estimated local 2007 property value, and then multiplied by the average percentage collection for 2004, 2005, and 2006 years to produce estimated M&O tax collections. Districts will be asked to report their local values and their 2007 adopted tax rates on the FSP System Information Survey during the fall. This information will be used to update the Method 1 and Method 2 FSP Variables on the SOF in

December 2007.

Example:

- *2005 Adopted rate = $1.50*
- *Average collection rate = 98%*
- *2006 Local value = $101,000,000*
- *2006 CPTD value = $100,000,000*
- *2006 Adopted rate = $1.50 x 88.67% = $1.33 + $0.06 = $1.39*
- *2007 Estimated rate = $1.50 x 66.67% = $1.00 + $0.06 = $1.06*
- *2007 Estimated local property value = $108,160,900*

- *2007-08 Estimated local M&O tax collections = $1.06 x ($108,160,900/100) x 98% = $1,123,575*

If a district was awarded an Instructional Facilities Allotment (IFA) for a lease-purchase agreement, the district's share of the IFA allotment has NOT YET been subtracted from the M&O tax collections estimation.

c. Planned Updates:

i. **By December 2007**, the SOF will be updated to reflect the tax rate and M&O collection information reported by school districts on the FSP Information Survey and the high school ADA will be updated based on the 2006-07 ADA reported by the charter school in the Summer 2007 PEIMS submission.

ii. **By April 2008**, the SOF report will be updated to reflect resident school districts' 2008 budgeted tax collections. Please note that if a school district's budgeted tax collections are less than its estimated tax collections, the charter schools estimated allocation will be reduced as directed by Section 42.253 of the Texas Education Code. This reduction will have the effect of lowering state aid payments to the charter school for the current school year.

iii. **By November 2008**, the "Near Final" SOF report will be updated to reflect resident school districts' 2008 surveyed tax collections and actual PEIMS attendance (including high school ADA) for charter schools and school districts. If, at that time, it is determined that the charter school was underpaid for the 2007-08 school year, the charter school will receive a lump sum settle-up payment. If, at that time, it is determined that the charter school was overpaid for the 2007-08 school year, the charter school's 2008-09 payments will be reduced in order to recover the amount owed to the state from the 2007-08 school year.

iv. **By April 2009**, the "Final" SOF report will be updated to reflect school districts' 2008 audited tax collections. If, at that time, it is determined that the charter school was underpaid for the 2007-08 school year, the charter school will receive a lump sum settle-up payment. If, at that time, it is determined that the charter school was overpaid for the 2007-08 school year, the charter school's 2008-09 payments will be reduced in order to recover the amount owed to the state from the 2007-08 school year.

Please note that payments made to charter schools during the year are based on projected charter school and school district attendance estimates, estimated school district M&O tax rates, and estimated tax collections. As always, charter schools are strongly advised to project state aid based on their best available information. Each charter school should frequently complete a current 2007-08 estimate of state aid template or an equivalent state aid estimation process. The greatest value of the SOF report is in explaining the basis of cash distributions to charter schools. Actual state aid earned can be significantly impacted by factors not known to the Division of State Funding at the time this report is being published. It is strongly recommended that charter schools budget conservatively to accommodate these unexpected changes.

If you have any questions please contact Nora Rainey or Kimberley Rife at (512) 463-9238.

Sincerely,

Liz Caskey, Director

State Funding