

### KEY POINTS

While HB 3 represented a substantial investment in Texas public schools, the benefits were not felt evenly by all schools. In particular, small and mid-sized schools lost a key adjustment that increased the basic allotment used for all of the Tier One Allotments in place prior to HB 3.

HB 3 preserved this funding only for the Regular Program Allotment (in the form of the standalone Small and Mid-Sized Allotment) and for the Special Education Allotment.

However, other special programs see diseconomies of scale as well, particularly Career and Technical Education, which requires significant capital investments and, often, higher labor costs.

HB 3 did include a funding hold harmless in the form of the Formula Transition Grant, but this funding is set to expire at the end of the 2023-24 school year.

Additionally, HB 3 included an unintended consequence: Small school districts can see their **overall funding decline** if they expand participation in their Career and Technical Education programs.

As a result, some small district advocates are exploring fixes to HB 3 that would correct these unintended consequences and recognize again the challenges faced by small and mid-sized schools in providing special programs such as Career and Technical Education.

### IMPACT OF HB 3 ON THE SMALL AND MID-SIZED DISTRICT ADJUSTMENT

Texas school finance formulas have long recognized the unique funding needs of small and mid-sized school districts, and have, since 1977, provided an upward adjustment to rural communities with relatively small numbers of students in attendance. Prior to HB 3, the specific amount of this adjustment was determined by three main factors:

- **Regular Program Average Daily Attendance** (i.e. total ADA minus Career and Technical FTEs and Special Education FTEs);
- **Square mileage** of the district; and,
- the district's **Adjusted Basic Allotment** (ABA), which had been previously adjusted for the Cost of Education Index.

The result of this calculation was called the Adjusted Allotment (AA), and on average, represented around a **30 percent** increase over the ABA for eligible districts. Districts with lower ADA saw a higher benefit, as did districts covering an area greater than 300 square miles.

HB 3 made some changes to this calculation, including:

- removing the impact of the CEI, which was repealed;
- making weights consistent across all districts regardless of square mileage; and
- adding a new, higher weight for countywide school districts.

You can find more information on how this adjustment is calculated after HB 3 in the Appendix.

However, the most significant change was the restriction of this adjustment to two allotments: the Regular Program Allotment (in the form of the standalone Small and Mid-Sized Allotment) and the Special Education Allotment.

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## IMPACT OF HB 3 ON THE SMALL AND MID-SIZED ADJUSTMENT (cont.)

Prior to HB 3, the AA was used to calculate *all* of the nine Tier One Allotments in place at the time. As a result, small and mid-sized districts saw the benefit of the AA across many different program areas.

Now, under HB 3, the school finance formula no longer recognizes the diseconomies of scale faced by small and mid-sized districts in those other program areas, namely, compensatory education, bilingual education, and career and technical education (CTE).

CTE, in particular, requires the purchase and maintenance of expensive equipment, as well as instructional staff with industry experience, which are often hard to find and can command higher salaries as a result.

**Table 1** below highlights the changes made by HB 3 as it relates to prevalence of the small and mid-sized adjustment to the basic allotment. Only allotments that rely on the basic allotment or an adjusted version of the basic allotment are listed below. You can find details on how several of these allotments are calculated in the Appendix.

**Table 1. Impact of HB 3 on Prevalence of Small and Mid-Size Adjustments**

Allotment	Impact of HB 3
Regular Program Allotment	<i>Removed Small and Mid-Sized Adjustment to Regular Program Allotment, but created standalone Small and Mid-Size Allotment to preserve funding</i>
Small and Mid-Sized District Allotment (new)	
Special Education Adjusted Allotment	<i>Small and Mid-Sized Adjustment Preserved</i>
Dyslexia Allotment (new)	<i>Does Not Include a Small and Mid-Sized Adjustment</i>
Compensatory Education Allotment	<i>Removed Small and Mid-Sized Adjustment</i>
Bilingual Education Allotment	<i>Removed Small and Mid-Sized Adjustment</i>
Career and Technology Allotment	<i>Removed Small and Mid-Sized Adjustment</i>
Early Education Allotment (new)	<i>Does Not Include a Small and Mid-Sized Adjustment</i>
Fast Growth Allotment (new)	<i>Does Not Include a Small and Mid-Sized Adjustment</i>
Gifted & Talented Allotment	<i>Repealed. Previously included a Small and Mid-Sized Adjustment</i>
Public Education Grant	<i>Removed Small and Mid-Sized Adjustment</i>

## SMALL AND MID-SIZED SCHOOLS AND CAREER AND TECHNICAL EDUCATION FUNDING

As noted above, HB 3 removed the Small and Mid-Sized Adjustment from the Career and Technical Allotment, but continued to exclude Career and Technical FTEs in the definition of Regular Program ADA. In combination, this created an unintended consequence in the school finance system whereby **small school districts may actually receive less overall funding if they expand their students' participation in career and technical programs.**

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In simple terms, adding **1.0 additional Career and Technical Education (CTE) FTE** has the following impacts:

- **Reduces** the district's Regular Program Allotment by \$6,160; and
- **Increases** the district's CTE Allotment by \$8,316 (1.35 \* 6,160).

However, for districts that receive the Small and Mid-Sized District Allotment, the marginal impact of an additional CTE FTE is a bit more dynamic. For districts with less than around **360 Regular Program ADA**, adding an additional CTE FTE would **reduce** the Small and Mid-Sized District Allotment by more than the \$2,156 gain from the other two allotments cited above (\$8,316 - \$6,160).<sup>1</sup> The further a district's Regular Program ADA is below this level, the bigger the funding reduction will be by adding 1.0 additional CTE FTE.

Additionally, many small and mid-sized districts currently experience a lower net gain from an additional 1.0 CTE FTE than would be experienced by a larger district (i.e. one ineligible for the Small and Mid-Size District Allotment). This is because the Small and Mid-Sized District Allotment decreases at certain points when an additional CTE FTE is added, and this reduction will eat into the \$2,156 net gain described earlier.

### **POSSIBLE REMEDIES**

One possible remedy that has been proposed to address the issues outlined above would be **to adjust the Career and Technical Education Allotment** in the same manner as the Special Education Adjusted Allotment. As described earlier, the Special Education Adjusted Allotment relies on the Adjusted Allotment calculated under the Small and Mid-Size Allotment. Restoring this adjustment to the Career and Technical Education Allotment (as it was prior to HB 3) would accomplish two objectives:

- Address the diseconomies of scale faced by small and mid-sized school districts that offer certain capital-intensive special programs; and
- Prevent the unintended consequence experienced by certain small school districts in which their expansion of career and technical programming and increased CTE FTEs resulted in less total funding.

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<sup>1</sup> For simplicity's sake, this analysis ignores the impact of an additional CTE FTE on the Special Education Adjusted Allotment and the higher Small and Mid-Sized District Allotment weight given to countywide school districts. Generally speaking, including the Special Education Adjusted Allotment would lower the Regular Program ADA level at which this phenomenon occurs, while including the countywide weight would increase it. A good general rule of thumb, then, is that districts with less than 300-400 Regular Program ADA could experience an overall decline in funding due to the addition of 1.0 CTE FTE.

## APPENDIX

The table below shows a simplified version of the school finance formula for calculating the major allotments discussed in this primer.

Allotment	HB 3 Formula
<b>Regular Program Allotment</b> TEC §48.051	Regular Program Allotment = Regular Program ADA * Basic Allotment  Regular Program ADA = Total ADA – Career and Technical FTE – Special Education FTE
<b>Small and Mid-Sized District Allotment (new)</b> TEC §48.101	Small and Mid-Sized Allotment = Regular Program ADA * Adjusted Allotment  <i>For districts with less than 1,600 ADA</i> Adjusted Allotment = ((1,600 – Reg. Program ADA) X .0004) X Basic Allotment  <i>For countywide districts with less than 1,600 ADA</i> Adjusted Allotment = ((1,600 – Reg. Program ADA) X .00047) X Basic Allotment  <i>For districts with less than 5,000 ADA</i> Adjusted Allotment = Greater of ( ((5,000 – Reg. Program ADA) X .000025) X Basic Allotment Or the Adjusted Allotment for Districts with >1,600)
<b>Special Education Adjusted Allotment</b> TEC §48.102	Special Education Adjusted Allotment = (Adjusted Allotment * Weighted Regular Special Ed FTEs) + (Adjusted Allotment * 1.15 * Mainstream ADA) + (Adjusted Allotment * 4.00 * Residential Care and Treatment FTEs) + (Adjusted Allotment * 2.80 * State Schools FTEs) + (Adjusted Allotment * 1.70 * Non-Public Contract FTEs) + Extended School Year Services – Early Child Intervention Set-Aside
<b>Career and Technical Education Allotment</b> TEC §48.106	Career and Technical Education Allotment = (Basic Allotment * 1.35 * Career and Technical FTEs) + (\$50 * Advanced CTE FTEs)