



# DO TEXAS CHARTER SCHOOLS RECEIVE THEIR FAIR SHARE OF FUNDING?

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Do Texas' public charter schools receive more or less funding than public school districts?<sup>1</sup> The following analysis of this oft-debated topic summarizes the state's school finance system and highlights key revenue and trend data that identify differences in public charter funding allocations. This analysis finds that:



- Public charters receive about \$813 less state and local funding per pupil than public school districts, on average, representing a per-pupil funding disparity of 7%.
- The primary driver of this overall disparity is facilities revenue. On average, public school districts raise \$1,505 per pupil from local I&S (interest and sinking) dollars and also receive \$105 per pupil in state debt funding. In comparison, public charters aren't eligible for I&S dollars and receive an average of \$196 per pupil in facilities support from the state.

<sup>1</sup> All references to public charters refer to those classified as "open-enrollment charters" unless otherwise noted.

- On average, public charters generate about \$692 per pupil more in M&O (maintenance and operations) dollars, which is likely driven by differences in how the small and mid-sized district allotment is calculated. However, this amount falls well short of bridging the revenue gap caused by facilities funding.
- Between 2015 and 2019 the inflation-adjusted funding gap grew by about 36%—from \$596 per pupil to \$813 per pupil.
- Regression analyses indicate that differences in several cost factors, including student demographics, do not explain the difference in funding between public charters and public school districts.
- On average, public charters operating in Texas’ metro areas receive fewer dollars per pupil than public school districts operating in metro areas.
- Public charters serve about 5.8% of Texas’ public education students in ADA (average daily attendance) and receive about 5.4% of state and local education dollars—\$3.138 billion out of about \$58.156 billion.

Reason Foundation’s data dashboard<sup>2</sup> allows users to evaluate these trends for themselves, including statewide and local comparisons for several public school districts.

## HOW DOLLARS ARE ALLOCATED TO PUBLIC SCHOOL DISTRICTS

To begin with, stakeholders might want to become familiar with the basics of education funding. Texas’ school finance system allocates dollars based primarily on student and district characteristics, with state and local coffers sharing responsibility for revenue contributions. Ultimately, districts’ funding levels—and the portion covered by the state—are contingent on a complex interplay of state formulas, local property wealth, and local tax rates. The two primary components of education funding are briefly described below.

### 1. Maintenance and Operations Funding

Maintenance and operations (M&O) revenue provides the bulk of funding for K-12 education and pays for things such as teacher salaries, classroom supplies, and administrative expenses. In total, state and local M&O funding accounts for more than 80% of education revenue and is delivered through two allocation tiers.<sup>3</sup>

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<sup>2</sup> “Texas Charter Funding Analysis,” Reason Foundation, *reason.org*, Jan 2021. [https://reason.shinyapps.io/texas\\_charter\\_funding/](https://reason.shinyapps.io/texas_charter_funding/) (22 Jan 2021).

<sup>3</sup> Calculations based on 2018-2019 data obtained from “PEIMS Financial Data Downloads,” Texas Education Agency, [tea.texas.gov/finance-and-grants/state-funding/state-funding-reports-and-data/peims-financial-Reason-Foundation](http://tea.texas.gov/finance-and-grants/state-funding/state-funding-reports-and-data/peims-financial-Reason-Foundation)

- **Tier One:** Determines each district’s foundation entitlement, which is based primarily on the number of students in average daily attendance (ADA), a basic allotment of \$6,160, and various adjustments for student and district characteristics, including weights for categories of need such as compensatory education and bilingual education.<sup>4</sup> Importantly, districts with fewer than 1,600 or fewer than 5,000 students are eligible for a small and mid-sized district allotment.<sup>5</sup> Generally, districts are required to levy an M&O tax rate of \$0.93 per \$100 of local school district property value to receive their full Tier One entitlement.<sup>6</sup>
- **Tier Two:** Determines each district’s enrichment entitlement based primarily on the number of students in weighted average daily attendance (WADA), the district’s discretionary tax effort above \$0.93, and two Guaranteed Yield levels set by the state—\$98.56 for the first eight pennies of tax levied (Golden Pennies) above a district’s Tier One rate and \$49.28 for the remaining nine pennies (Copper Pennies) permitted by statute.<sup>7</sup> The Guaranteed Yield levels ensure that local property wealth, which varies significantly throughout the state, is equalized to a minimum amount.

## 2. Facilities Funding

Districts are also permitted to levy interest and sinking (I&S) tax rates up to \$0.50 for funding that can be used to service debt issued to finance facilities and other capital projects.<sup>8</sup> In total, I&S dollars account for more than 12% of Texas’ state and local education revenue, with the vast majority of districts levying an I&S tax.<sup>9</sup> Moreover, the state also provides support for facilities funding through two primary programs for districts: the Instructional Facilities Allotment (IFA) and the Existing Debt Allotment (EDA). In 2019, about 38% of districts received funding through one of these two grant programs.<sup>10</sup>

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data-downloads (13 Nov 2020). Unless otherwise noted, all revenue data presented in this analysis exclude federal dollars, bond revenue, state TRS contributions, and recapture revenue.

<sup>4</sup> Texas Education Code (TEC), §48.051

<sup>5</sup> Texas Education Code (TEC), §48.101

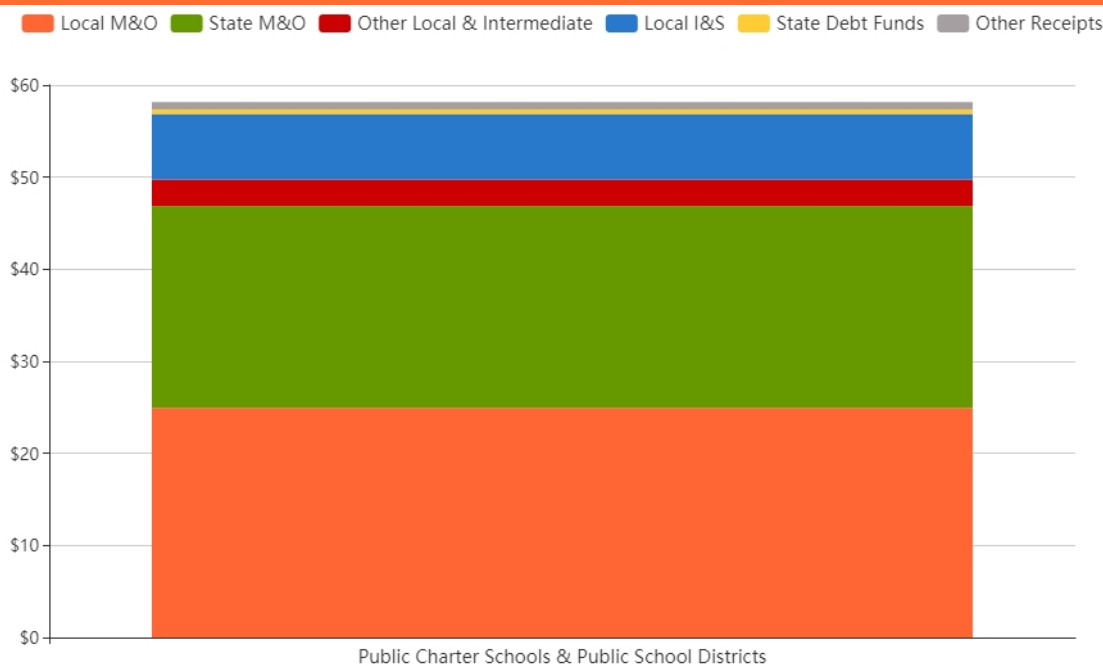
<sup>6</sup> Texas Education Code (TEC), §48.255

<sup>7</sup> Texas Education Code (TEC), §48.202

<sup>8</sup> Texas Education Code (TEC), §45.001

<sup>9</sup> Calculations based on data obtained from “PEIMS Financial Data Downloads.” For I&S tax rate data see “Texas Public School Finance Overview,” Texas Education Agency, [tea.texas.gov](http://tea.texas.gov), December 2020. [www.tea.texas.gov/sites/default/files/texas-public-school-finance-presentation.pdf](http://www.tea.texas.gov/sites/default/files/texas-public-school-finance-presentation.pdf) (15 Dec 2020).

<sup>10</sup> “Texas Public School Finance Overview.”

**FIGURE 1: 2018-2019 PUBLIC EDUCATION REVENUE BY SOURCE**

Source: “Texas Charter Funding Analysis.”

## HOW FUNDING IS DIFFERENT FOR PUBLIC CHARTERS

Texas’ public charters receive funding in largely the same manner as the state’s public school districts, but with some key differences—and three in particular—that stakeholders should be aware of when assessing funding trends.

### *1. Public charters receive limited funding for facilities.*

The most critical difference is that public charters can’t levy local I&S taxes to raise facilities funding and also aren’t eligible for the state’s IFA and EDA allotments. While some public charters have been eligible for facilities funding since the 85<sup>th</sup> Legislature, the amount allocated for this program has been limited and only delivers about \$196 per pupil.<sup>11</sup> In comparison, public school districts raise an average of about \$1,505 per pupil each year from local I&S taxes with the state providing an additional \$105 per pupil for facilities.<sup>12</sup>

<sup>11</sup> Ibid. Also see Texas Education Code (TEC), §12.106

<sup>12</sup> Calculations based on data obtained from “PEIMS Financial Data Downloads.” Unless otherwise noted, all per-pupil revenue figures are calculated using 2018-2019 Average Daily Attendance figures obtained from “Average Daily Reason Foundation

### *2. The methodology for allocating the small and mid-size allotment is different for charters.*

Unlike public school districts, all public charters—regardless of enrollment—are eligible for a small and mid-sized district allotment, which is approximately \$1,058 per pupil.<sup>13</sup> This amount is determined based on an adjusted weighted average of public school districts' small and mid-sized allotments. While the majority of Texas' public charters would be eligible for this provision anyway, some would not meet the size requirements to receive this funding while others would actually receive additional dollars if the same formula used for public school districts were applied.

### *3. Public charters receive Tier Two enrichment funding based on statewide averages.*

While public school districts raise Tier Two funding based primarily on a combination of local tax rates, local property wealth, and guaranteed yield levels, public charters' Tier Two allotments are calculated using statewide average tax rates. In 2020, the average rates for Golden and Copper Pennies were \$0.0593 and \$0.0265, respectively.<sup>14</sup> For comparison, Dallas ISD's Tier Two rates in 2020 were \$0.0766 and \$0.0558.<sup>15</sup> As a result, the revenue a student generates at this funding level is lower when a student attends a public charter rather than DISD. Similarly, the inverse is true if a district's local levies are less than the statewide average rates.

## REVENUE COMPARISONS: PUBLIC CHARTERS VS. PUBLIC SCHOOL DISTRICTS

In Texas, public charter schools receive dollars directly from the state, which generally makes it easier to assess their funding trends. Nevertheless, care must be taken to ensure that revenue comparison with public school districts is fair and accurate. Our analysis uses publicly available 2018-19 data accessed directly from Texas Education Agency's website and excludes three major categories of revenue that we determined would obfuscate comparisons: bond revenue, recapture revenue, and state TRS contributions. The remaining

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Attendance and Wealth per Average Daily Attendance," Texas Education Agency, *tea.texas.gov*.  
[www.tea.texas.gov/finance-and-grants/state-funding/state-funding-reports-and-data/average-daily-attendance-and-wealth-per-average-daily-attendance](http://www.tea.texas.gov/finance-and-grants/state-funding/state-funding-reports-and-data/average-daily-attendance-and-wealth-per-average-daily-attendance) (15 Dec 2020).

<sup>13</sup> "Texas Public School Finance Overview."

<sup>14</sup> *Ibid.*

<sup>15</sup> "2019-2020 Tier II Detail Report," Texas Education Agency, *tea.texas.gov*, 2 Dec 2020.  
[www.tealprod.tea.state.tx.us/fsp/Reports/CrystalReportViewer.aspx?rpt=19&year=2020&run=30190&cdn=057905&format=html](http://www.tealprod.tea.state.tx.us/fsp/Reports/CrystalReportViewer.aspx?rpt=19&year=2020&run=30190&cdn=057905&format=html) (22 Jan 2021).

categories account for all pertinent sources of state and local education revenue including both operating and facilities dollars. Most notably, local I&S dollars that districts raise to pay off bond debt are also included. While some researchers choose to exclude this revenue source when making similar comparisons, we believe that doing so is misleading and serves no legitimate purpose. In any event, Reason Foundation's data dashboard allows users to make customizable comparisons for themselves using the revenue categories included.<sup>16</sup> For example, users might want to view comparisons that exclude certain revenue categories for more-nuanced views of revenue trends. Finally, all per-pupil figures displayed are weighted averages and calculated using Average Daily Attendance counts, while inflation-adjusted revenue figures were calculated using CPI data indexed to 2019.<sup>17</sup>

### *Statewide Revenue Comparisons*

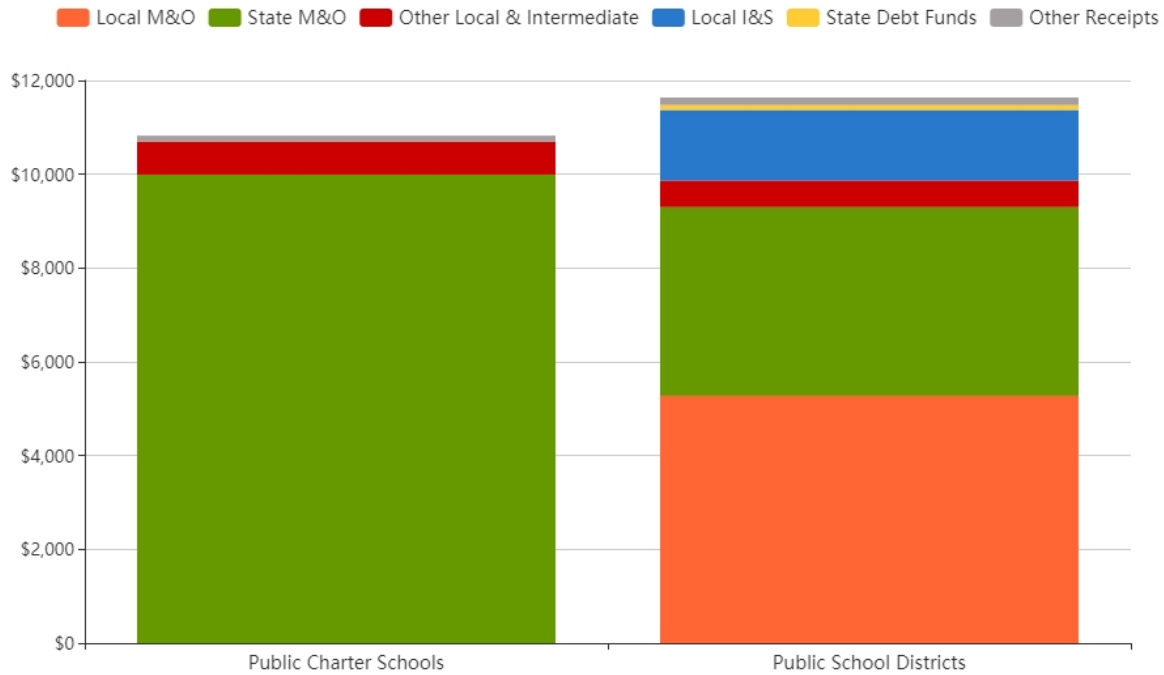
In total, public charters serve about 5.8% of Texas' public education students and receive about 5.4% of state and local education dollars—\$3.138 billion out of about \$58.156 billion. When comparing per-pupil revenue, public charters generate fewer dollars on average—about \$10,824 per pupil compared to \$11,637 for public school districts—a funding disadvantage of \$813 per pupil as shown in Figure 2 below. It should be noted that when the Other Local & Intermediate and Other Receipts categories are removed from this calculation, the funding gap grows to \$918 per pupil.<sup>18</sup> Regardless, the primary driver of the funding disparity is local I&S dollars, with public school districts raising an average of \$1,505 per pupil statewide. Despite the fact that charters receive an average of \$692 more per pupil in total M&O dollars, they are at a considerable funding disadvantage when both operating and facilities funding are considered.

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<sup>16</sup> "Texas Charter Funding Analysis," Reason Foundation, *reason.org*, Jan 2021. [https://reason.shinyapps.io/texas\\_charter\\_funding/](https://reason.shinyapps.io/texas_charter_funding/) (22 Jan 2021).

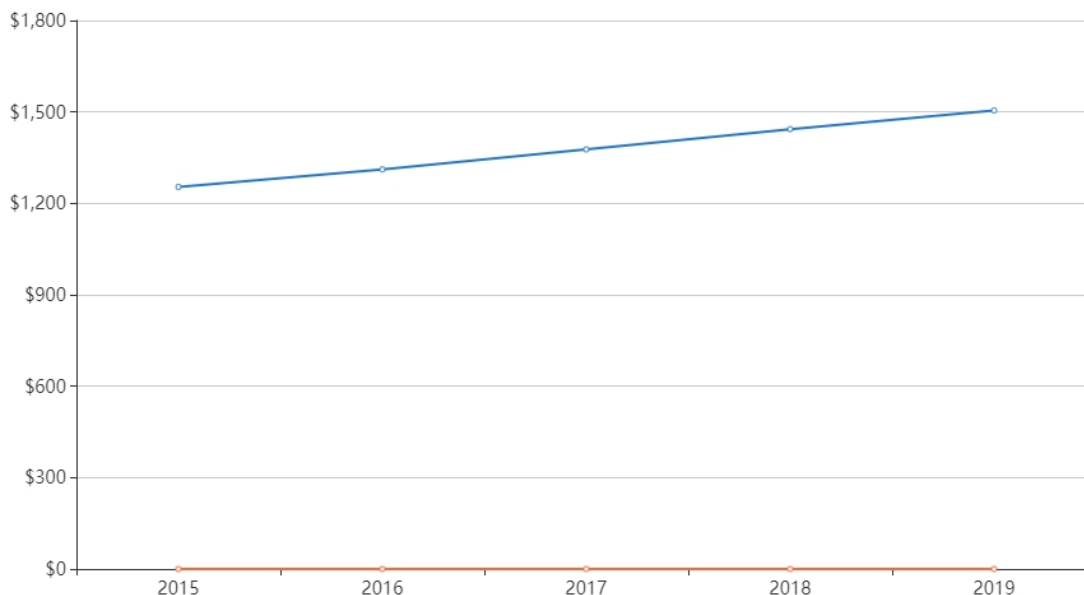
<sup>17</sup> "Consumer Price Index: Total All Items for the United States [CPALTT01USA661S]," Organization for Economic Cooperation and Development, retrieved from FRED, Federal Reserve Bank of St. Louis. [www.fred.stlouisfed.org/series/CPALTT01USA661S](http://www.fred.stlouisfed.org/series/CPALTT01USA661S) (January 24, 2021).

<sup>18</sup> Other Local & Intermediate includes revenue generated from donations, services to other school districts, and tuition and fees. Other Receipts includes revenue from other resources or non-operating revenues, such as proceeds from the sale of real and personal property. Prior research has demonstrated that, on average, charters raise more philanthropic dollars per pupil, which is likely a driver of the increased revenue disparity when Other Local & Intermediate is removed from the analysis.

**FIGURE 2: PER-PUPIL FUNDING COMPARISONS BY REVENUE CATEGORY**

Source: "Texas Charter Funding Analysis."

Additionally, since 2015 the per-pupil funding gap has grown by about 36%—from \$596 to \$813. Inflation-adjusted per-pupil revenue has increased for both public charters and public school districts, but public charters have received disproportionately fewer of these additional dollars. Local I&S revenue also appears to be a primary driver of this trend, with inflation-adjusted revenue growing by \$251 per pupil during this time as public school districts have raised more dollars to pay off bond debt as displayed in Figure 3.

**FIGURE 3: FIVE-YEAR I&S PER-PUPIL REVENUE TREND**

Source: “Texas Charter Funding Analysis.”

### *Metro Comparisons*

The bulk of public charter students attend schools within Texas’ major metro areas, so it’s also important to consider funding comparisons at a more local level. This is especially true since many of these students would otherwise attend public school districts that aren’t eligible for the state’s small and mid-sized district funding allotment. To provide a full illustration that is inclusive of all charters operating within major metro areas and also aligns with how revenue data are reported, we created a category that compares average funding levels as determined by National Center for Education Statistics’ “City-Large” designation (districts inside a city with a population of 250,000 or more). On average, we find that charter students in Texas’ major metro areas receive about \$382 less per pupil compared to students attending public school districts in Texas’ major metro areas. This funding comparison can be explored using Reason Foundation’s data dashboard, where users can assess the various revenue categories that contribute to this figure.<sup>19</sup>

<sup>19</sup> “Texas Charter Funding Analysis,” Reason Foundation, *reason.org*, Jan 2021. [https://reason.shinyapps.io/texas\\_charter\\_funding/](https://reason.shinyapps.io/texas_charter_funding/) (22 Jan 2021).



### *Regression-Adjusted Comparisons*

The statewide revenue comparisons discussed earlier indicate that public charter schools in Texas receive about 7% less state and local funding than public school districts do. It is possible, however, that the funding disparities could be explained by differences in students and other factors. For example, the overall funding gap favoring public school districts could be justified if they're serving students from less-advantaged groups. Statewide, data obtained from the Texas Education Agency indicate that public charters tend to serve greater proportions of students classified as economically disadvantaged and limited English proficiency, and smaller proportions of students classified under several special education categories.<sup>20</sup> However, to evaluate these differences more rigorously, we ran an ordinary least squares regression that controls for several characteristics, some of which directly affect funding levels:

- Student enrollment
- % of students classified as Economically Disadvantaged
- % of students classified as Limited English Proficiency
- % of students classified as Special Education
- % of students classified as Hispanic
- % of students classified as Black
- % of students classified as Asian
- Location (county)

The results from these analyses suggest that the overall funding disparity between sectors is not fully explained by differences in student background, enrollment, or the location of the districts (see Appendix for the full results). Each of the six specifications indicates that public charter schools receive about 7% to 8% less funding per pupil than public school districts after controlling for several observable differences in students and the locations of schools between sectors. The fully specified model indicates that public charter schools

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<sup>20</sup> All demographic data with the exception of ethnicity categories were obtained from "2019 Data Download," Texas Education Agency, [tea.texas.gov](http://tea.texas.gov). [www.rptsvr1.tea.texas.gov/perfreport/account/2019/download.html](http://www.rptsvr1.tea.texas.gov/perfreport/account/2019/download.html) (20 Jan 2021). Ethnicity data were obtained from "Student Enrollment Reports," Texas Education Agency, [tea.texas.gov](http://tea.texas.gov). [www.rptsvr1.tea.texas.gov/adhocrpt/adste.html](http://www.rptsvr1.tea.texas.gov/adhocrpt/adste.html) (20 Jan 2021). It's important to note that there is variation within certain classifications. For example, Texas' formula allocates dollars based on several special education placement categories that vary with respect to both service intensity and funding level. These counts aren't publicly reported and to our knowledge previous research on the topic have not accounted for these factors and it is highly unlikely they would alter the findings observed in this analysis.

receive about 7% less funding per pupil than public school districts after controlling for differences in student backgrounds, enrollment, and location.

## CONCLUSION

It is clear that Texas' public charters receive less funding per student than public school districts on average. The primary driver of this funding disparity is local I&S dollars, which public charters do not receive. While the state provides public charters with about \$196 per pupil for facilities and charters also tend to generate more M&O dollars on average, these revenues fall well short of bridging the observed revenue gap.

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**APPENDIX: PER-PUPIL REVENUE BY SECTOR (NONLINEAR AND CONTROL FOR ENROLLMENT)**

	Per-Pupil Revenue (\$1,000s)	Per-Pupil Revenue (\$1,000s)	Per-Pupil Revenue (\$1,000s)	Per-Pupil Revenue (\$1,000s)	Per-Pupil Revenue (\$1,000s)	Per-Pupil Revenue (\$1,000s)
<b>Charter</b>	-0.083*** (0.000)	-0.081*** (0.000)	-0.084*** (0.000)	-0.078*** (0.001)	-0.072** (0.002)	-0.073** (0.006)
<b>Enrollment</b>	-0.000 (0.803)	-0.000 (0.868)	-0.000 (0.710)	-0.000 (0.759)	-0.000 (0.998)	-0.000 (0.807)
<b>Econ (%)</b>		-0.000 (0.452)	-0.000 (0.209)	-0.000 (0.169)	0.001 (0.268)	0.002* (0.013)
<b>LEP (%)</b>			0.001 (0.423)	0.001 (0.350)	0.001 (0.242)	-0.000 (0.915)
<b>SPED (%)</b>				0.002 (0.557)	0.001 (0.707)	0.001 (0.807)
<b>Hispanic (%)</b>					-0.001** (0.009)	-0.002* (0.012)
<b>Black (%)</b>					-0.001* (0.038)	-0.003*** (0.000)
<b>Asian (%)</b>					0.000 (0.849)	-0.002* (0.040)
<b>County Fixed Effects</b>						X
<b>R-Squared</b>	0.0200	0.0212	0.0228	0.0236	0.0358	0.5044
<b>N</b>	1200	1200	1200	1200	1200	1200

Notes: P-values in parentheses. +  $p < 0.10$ , \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$ . “Econ” is “Economically Disadvantaged.” “SPED” is “Special Education.” “ESL” is “English as a Second Language.” “LEP” is “Limited English Proficiency.” Coefficients are average marginal effects. The final model includes indicator variables for 254 counties. The dependent variable is the natural log of total revenues per pupil. Each observation is weighted by total enrollment.