

# Appendix C

## Statutory References to the Cost-of-Education Index

### THE COST-OF-EDUCATION INDEX

#### Section 42.102 of the Education Code

Section 42.102 of the Education Code sets out the specific statutory language governing the cost-of-education index (CEI) as follows:

/42.102. Cost of Education Adjustment

- The basic allotment for each district is adjusted to reflect the geographic variation in known resource costs and costs of education due to factors beyond the control of the school district.
- The cost of education adjustment is the cost-of-education index adjustment adopted by the foundation school fund budget committee and contained in Chapter 203, Title 19, Texas Administrative Code, as that chapter existed on March 26, 1997.

The key phrase is *factors beyond control of the school district*. This has a substantial impact on the type of analysis that can be undertaken in developing the CEI. It is not sufficient to know that school districts experience variations in resource costs; a distinction must be drawn between controllable and uncontrollable costs.

#### Chapter 203, Title 19 of the Texas Administrative Code

/203.10 General Provisions

This rule in Title 19 of the Texas Administrative Code establishes a formula for the calculation of each public school district's cost-of-education index that will be used by the Central Education Agency in determining each district's state aid for the 1997—1998 and 1998-1999 school years. The cost-of-education index shall adjust for cost variations caused by factors beyond the control of school districts. An adjustment is made for small districts with fewer than 2,000 average daily attendance that are not eligible for the small district adjustment in the Texas Education Code, /42.103.

/203.5 Definition of Terms and Data Elements

Rule 203.5 outlines the various factors that are used in calculating the allocated aid for each school district.

- *Average daily attendance*. The average daily attendance (ADA) for the diseconomies of scale component shall be that reported on the Principal's Semester Report of Student Attendance and Contact Hours for the relevant school year, either 1991—1992 or 1992—1993. The commissioner of education shall adjust the ADA of those districts which do not offer all grades to reflect the number of students transferred out of the district to attend other districts.
- *Competitive beginning average annual salary*. The competitive beginning average annual salary for a district was the average annual salary of beginning instructional personnel in other districts

with which the district competes. Instructional staff was defined as teachers, nurses, and librarians. The role identification reported on the Public Information Management System (PEIMS) data submission for the 1989—1990 school year was used to determine if an individual was assigned as instructional staff. The assignment must have been the major assignment of the individual as determined by days employed and percent of day assigned. If the role identification was equal to 25, 29, 13, or 22 then the individual was categorized as instructional staff. To compute the competitive beginning average annual salary, the salaries and full-time equivalencies of instructional staff with zero years of experience was aggregated for all the districts in counties contiguous to the district's county and the other districts in the district's county. The average salary was then computed as the aggregate salaries divided by the aggregate full-time equivalencies. The source was the fall PEIMS data submission for the 1989—1990 school year.

- *County population.* The estimate of 1990 county population from the Texas Department of Health, dated May 1987, was used.
- *District type.* The district types were those determined by the Texas Education Agency for the 1989—1990 school year. An adjustment is made for districts which are categorized as independent towns or rural. All other districts do not receive a district type adjustment. A district categorized as an independent town was the largest school district in a county with a population between 25,000 to 100,000, or any other district in that county with an average daily attendance at least 75 percent of the largest district's. Furthermore, the district must not have qualified for categorization as a major suburban district or an other central city suburban district as defined by the Texas Education Agency. Districts categorized as rural are those school districts which either had a student count of between 300 and 743 and a growth rate of less than 20 percent, or that had a student count of less than 300.
- *Percent low income.* This value was derived by dividing the best six-months average of students claiming free and reduced lunches under the National School Lunch Program (NSL) for the 1988—1989 school year by the average daily attendance in the district for the 1989—1990 school year, and multiplying the result by 100.
- *Size of district.* This value for the cost component is the average daily attendance in the district for the 1989—1990 school year as reported on the Superintendent's Report of Pupil Attendance and Contact Hours.

#### */203.10 Calculation of Adjustments for Cost Variations*

The price component of the CEI is designed to adjust for geographic variations in teacher payroll costs that fall beyond the control of the school districts.

The adjustment for cost variations shall be computed according to the following chart. District values for the elements defined in */203.5(b)-(f)* of this title (relating to Definition of Terms and Data Elements) shall be compared to the ranges listed below and the appropriate number of points shall be added or subtracted to the base index value of 1.00.

<b>Value to add to 1.0</b>	<b>Competitive beginning average annual salary</b>	<b>County population &lt;40,000</b>	<b>District type</b>	<b>Percent low income</b>	<b>Size of district</b>
-.01			Independent Town		
.00	Below \$17,300	No		Below 50%	200 to 499
.01	\$17,300 to \$17,750	Yes	Rural	50 - <68%	500 to 999 or <200
.02	\$17,751 to \$18,250			68 - <77%	1,000 to 1,599
.03	\$18,251 to \$18,700			77 - <86%	1,600 to 2,399
.04	\$18,701 to \$19,100			86 - <93%	2,400 to 3,599
.05	\$19,101 to \$19,500			93% or more	3,600 to 5,399
.06	\$19,501 to \$20,000				5,400 to 8,499
.07	\$20,001 to \$20,450				8,500 or more
.08	\$20,451 to \$20,850				
.09	\$20,851 or more				

**/203.20 Computation of Cost-of-Education Index**

The scale component of the CEI adjusts for diseconomies of scale due to differences in district size, based on the number of students in average daily attendance (ADA).

A district's cost-of-education index adjustment for the 1997—1998 and 1998—1999 school years shall be computed by the commissioner of education by calculating each district's cost adjustment in /203.10 of this title (relating to Calculation of Adjustment for Cost Variations). If a school district has more than 1,600 students but not more than 2,000 students in average daily attendance (ADA), the commissioner shall modify the cost adjustment in /203.10 by multiplying it by the following size factor:  $1.0 + [(2000 - ADA) * .00014]$ .

**/203.30 Data Values for Cost-of-Education Index Factors**

- The data values for the data items listed in /203.5(b)-(f) of this title (relating to Definition of Terms and Data Elements) are listed for each school district in Texas in the table entitled Listing of Data Values for 1991—1992/1992—1993 COE Index Factors which is adopted by reference as an official rule of the Foundation School Fund Budget Committee. A copy is available for examination during regular office hours, 8:00 a.m. to 5:00 p.m., except holidays, Saturdays, and Sundays, at the Governor's Budget and Planning Office, 1100 San Jacinto, Austin, Texas 78701.
- Should the need for correction of any data values be proven, the commissioner of education shall adjust the index for the district.

**CALCULATING THE ADJUSTED ALLOTMENT**

Two tiers in the Foundation School Program interact with the CEI to determine the amount of state and local aid that a school district will receive. In Tier 1, the Adjusted Allotment takes into account the Basic Allotment per student per average daily attendance (\$2,537), the CEI, and the Small and Mid-Size Adjustment. The Adjusted Allotment is then used to calculate various program funding, including regular programs, special education, career and technology, compensatory education,

bilingual/ESL, gifted and talented, and Public Education Grant (PEG) programs. New instructional facilities and transportation allotments are also determined with the Adjusted Allotment.

*/203.25* Adjustment of Basic Allotment

For the 1997—1998 and 1998—1999 school years, the commissioner shall adjust each district's basic allotment by applying the following formula:  $ABA = BA * [(Cost-of-Education\ Index - 1) * .71] + 1$  where ABA is the adjusted basic allotment; BA is the basic allotment; and Cost-of-Education Index is the Cost-of-Education Index computed in */203.20* of this title (relating to Computation of Cost-of-Education Index).

**EFFECT OF THE COST-OF-EDUCATION INDEX ON THE WEIGHTED STUDENT COUNT FOR GUARANTEED YIELD FUNDING**

The second tier is also known as the Guaranteed Yield Program, whereby the level of revenue that a school district receives depends upon the district's tax effort for Maintenance and Operations (M&O). Half of each district's CEI is converted into a weight student count, along with the program weights for various special allotments. Subchapter F of Chapter 42 of the Education Code outlines how the number of students in Weighted Average Daily Attendance (WADA) shall be calculated along with the guaranteed yield funding. The WADA is different from a district's average daily attendance.

**Subchapter F of Chapter 42 of the Education Code**

*/42.301* Purpose

The purpose of the guaranteed yield component of the Foundation School Program is to provide each school district with the opportunity to provide the basic program and to supplement that program at a level of its own choice. An allotment under this subchapter may be used for any legal purpose other than capital outlay or debt service.

*/42.302* Allotment

- Each school district is guaranteed a specified amount per weighted student in state and local funds for each cent of tax effort over that required for the district's local fund assignment up to the maximum level specified in this subchapter. The amount of state support, subject only to the maximum amount under Section 42.303, is determined by the formula:

$$GYA = (GL * WADA * DTR * 100) - LR$$

where:

GYA is the guaranteed yield amount of state funds to be allocated to the district ;

GL is the dollar amount guaranteed level of state and local funds per weighted student per cent of tax effort, which is \$24.99 or a greater amount for any year provided by appropriation;

WADA is the number of students in weighted average daily attendance, which is calculated by dividing the sum of the school district's allotments under Subchapters B and C, less any allotment to the district for transportation, any allotment under Section 42.158, and 50 percent of the adjustment under Section 42.102, by the basic allotment for the applicable year;

DTR is the district enrichment tax rate of the school district, which is determined by subtracting the amounts specified by Subsection (b) from the total amount of maintenance and operations

taxes collected by the school district for the applicable school year and dividing the difference by the quotient of the district's taxable value of property as determined under Subchapter M, Chapter 403, Government Code, or, if applicable, under Section 42.2521, divided by 100; and

LR is the local revenue, which is determined by multiplying DTR by the quotient of the district's taxable value of property as determined under Subchapter M, Chapter 403, Government Code, or, if applicable, under Section 42.2521, divided by 100.

- In computing the district enrichment tax rate of a school district, the total amount of maintenance and operations taxes collected by the school district does not include the amount of:
  - the district's local fund assignment under Section 42.252; or
  - taxes paid into a tax increment fund under Chapter 311, Tax Code.
- For purposes of this section, school district taxes for which credit is granted under Section 31.035, 31.036, or 31.037, Tax Code, are considered taxes collected by the school district as if the taxes were paid when the credit for the taxes was granted.

## **Section 825 of the Government Code**

Section 825 of the Government Code describes an interaction between the CEI and calculations of employer share payments to the Teacher Retirement System.

### **§825.405 Contributions Based on Compensation Above Statutory Minimum**

- For members entitled to the minimum salary for certain school personnel under Section 21.402, Education Code, and for members who would have been entitled to the minimum salary for certain school personnel under former Section 16.056, Education Code, as that section existed on January 1, 1995, the employing district shall pay the state's contribution on the portion of the member's salary that exceeds the statutory minimum or former statutory minimum, as applicable.
- For purposes of this section, the statutory minimum salary is the salary provided by Section 21.402 or the former Sections 16.056 and 16.058, Education Code, multiplied by the cost of education adjustment applicable under Section 42.102, Education Code, to the district in which the member is employed.

(b-1) Expired.

- The employer's form showing deductions and certification of earnings must provide the retirement system with information sufficient to administer this section, as determined by the system, including information showing the applicable minimum salary as well as aggregate annual compensation.
- The employer must remit the amount required under this section to the executive director at the same time that the employer remits the member's contribution.
- After the end of each school year, the retirement system shall certify to the commissioner of education:
  - the names of any employing districts that have failed to remit, within the period required by Section 825.408, all contributions required under this section for the school year; and
  - the amounts of the unpaid contributions.
- If the commissioner of education receives a certification under Subsection (e), the commissioner shall direct the comptroller of public accounts to withhold the amount certified, plus interest computed at the rate and in the manner provided by Section 825.408, from the first state money payable to the school district. The amount withheld shall be deposited to the credit of the appropriate accounts of the retirement system.

- The board of trustees shall take this section into consideration in adopting the biennial estimate of the amount necessary to pay the state's contributions to the system.
- This section does not apply to state contributions for members employed by a school district in a school year if the district's effective tax rate for maintenance and operation revenues for the tax year that ended in the preceding school year equals or exceeds 125 percent of the statewide average effective tax rate for school district maintenance and operation revenues for that tax year. For a tax year, the statewide average effective tax rate for school district maintenance and operation revenues is the tax rate that, if applied to the statewide total appraised value of taxable property for every school district in the state determined under Section 403.302, would produce an amount equal to the statewide total amount of maintenance and operation taxes imposed in the tax year for every school district in the state.
- Not later than the seventh day after the final date the comptroller certifies to the commissioner of education changes to the property value study conducted under Subchapter M, Chapter 403, the comptroller shall certify to the Teacher Retirement System of Texas:
  - the effective tax rate for school district maintenance and operation revenues for each school district in the state for the immediately preceding tax year; and
  - the statewide average effective tax rate for school district maintenance and operation revenues for the immediately preceding tax year.