Regional Education Service Centers and Wealth Equalization "Option 4" Arrangements

Prepared by LBB Staff
April 2002

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Charge

At the March 7, 2002 hearing of the Joint Select Committee on Public School Finance, Chairman Sadler requested that the Legislative Budget Board (LBB) staff investigate the role regional education service centers (ESCs) are playing in the wealth equalization "Option 4" arrangements between Chapter 41 districts (those above the equalized wealth level) and Chapter 42 districts (those receiving state aid in Tiers 1 and 2). The following report provides findings for the 2001-02 school year regarding the flow of funds resulting from these arrangements and the use of those funds.[1]

Overview

In accordance with the provisions of Texas Education Code Chapter 41, a district subject to wealth equalization has five options available to reduce its property wealth per student. One option, Option 4, allows Chapter 41 districts to contract for the education of nonresident students from one or more Chapter 42 districts (see Appendix 1). In the 2001-02 school year, 52 of the 101 chapter 41 districts selected Option 4 for all or part of their wealth equalization.

An important aspect of Option 4 arrangements is that they produce a "net gain." In an Option 4 arrangement, a Chapter 41 district is required to purchase weighted students in average daily attendance (WADA) from its partner district(s), thus lowering its property wealth per WADA to the equalized wealth level. The purchase price is the Chapter 41 district's revenue per WADA, an amount which is higher than what the partner district would have received for that WADA from the state had it not entered into an Option 4 arrangement, as state funding would have been based on the partner district's property wealth level and tax effort. The total amount paid by Chapter 41 districts above what the partner district would have received from the state in Tier 1 and Tier 2 is referred to as the ***net gain***.[2]

This net gain stays at the district level, to be spent according to contractual stipulations between a Chapter 41 district and its partner district(s). It is not collected by the state to be used to fund the Foundation School Program, as is the case with wealth equalization Option 3 (purchase of attendance credits), and therefore Option 4 utilization represents a loss of revenue to the state. In the 2001-02 school year, approximately $84 million in net gain remained at the district level.

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[1]In preparing this report, LBB staff gathered documents and information from all 20 ESCs in the state regarding Option 4 arrangements made for the 2001-02 school year. The Texas Education Agency (TEA) also provided key information contained in this report.

[2]For example, Sample ISD, a Chapter 41 district, elects to purchase 100 WADA from a Chapter 42 district. It pays its revenue per WADA amount of $6,000, for a total of $600,000, . The Chapter 42 district, however, would have received only $4,000 per WADA from the state in Tier 1 and Tier 2 aid, or $400,000. The $200,000 difference is the net gain.

Findings

In the 2001-02 school year,

- There were 164 Option 4 arrangements between Chapter 41 and Chapter 42 districts, producing approximately $84 million in net gain;

- Regional ESCs play a role as fiscal agents in 109 of these arrangements, involving $57 million (68 percent) of the net gain;

- Of this $57 million, approximately $38.5 million (68 percent) is directed to the ESCs for expenditure by the service center or regional technology consortia; partner Chapter 42 districts retain $17 million (30 percent); and juvenile justice alternative education programs receive $1.3 million (2 percent);

- Two ESCs – Regions 10 (Richardson) and 13 (Austin) – receive $29 million (75 percent) of the funds directed to ESCs; ten ESCs receive amounts ranging from $49,000 to $2.9 million; and eight receive no benefit from Option 4 arrangements;

- The majority of the net gain directed to ESCs or associated technology consortia is used to defray the technology costs of districts in their respective regions; the remainder is used for other regional technology projects, teacher scholarships, and innovative programs;

- Approximately 87 percent of the Option 4 arrangements involving ESCs were between a Chapter 41 and a Chapter 42 district in the same ESC region, in which net gain directed to the ESC serves both districts. However, in the remaining 13 percent net gain funds received by the Chapter 41 districts' ESCs do not necessarily benefit the partner districts;

- Statewide, Option 4 arrangement funds were used to reimburse Chapter 41 districts for $4.8 million in county appraisal district (CAD) costs;

- A review of Option 4 contracts and the use of net gain funds by ESCs indicates that no Chapter 41 district is directly benefitting from net gain funds in ways that are outside the rules established in the Texas Education Agency's (TEA's) *Manual for Districts Subject to Wealth Equalization.* However, the uses of net gain funds by the Region 10 ESC (Richardson) may not conform to the conditions under which the Chapter 41 district may receive an "efficiency credit," or reduction in its wealth equalization amount.

Option 4 Arrangements

The Texas Education Code §41.121 gives the commissioner of education authority to approve special financial arrangements between districts under wealth equalization Option 4 if the arrangements "serve the best educational interests of the state." These special financial arrangements take the form of contract stipulations between chapter 41 districts and their partner districts on how the net gain is used.

In its *Manual for Districts Subject to Wealth Equalization*, TEA has established guidelines, and incentives, regarding these special financial arrangements for the use of net gain funds (see Appendix 2). Chapter 41 districts can earn an "efficiency credit" equal to the lesser of 5 percent of their wealth reduction amount, or $100 multiplied by their WADA, if their partner district agrees to dedicate the net gain in one of the following ways:

1. At least 50 percent for an extended year program.
2. At least 50 percent for the enhancement of existing alternative education program.
3. At least 50 percent for a juvenile justice alternative education program (JJAEP).
4. At least 50 percent for a combined program involving at least two of the above programs.
5. At least "some portion" for one of the above programs, and the remainder for instructional technology, a portion of which may be sent to an ESC as long as the funds are expended for connecting computer networking services for instruction.
6. 100 percent for instructional technology, a portion of which may be sent to an ESC as long as the funds are expended for connecting computer networking services for instruction.
7. At least 50 percent for an innovative education program.
8. 100 percent to participate in a technology consortium, which must include three partner districts that reside, at least in part, in a county with a population of less than 40,000.

In practice, Chapter 41 districts determine how the net gain is to be used according to the provisions above, and generally write those terms into the contract between the Chapter 41 district and the partner district(s). The contract is then signed by the districts and sent to TEA, where it is reviewed for its conformity to the conditions above and, if acceptable, approved by the commissioner or his designee. All contracts are in effect for a single school year, and thus must be renewed annually.

The language of the conditions above allows for many possibilities in the use of the net gain (see Appendix 4 for a sample Option 4 contract). For example, the partner may agree to use at least 50 percent of the net gain for an existing alternative education program, JJAEP, or an innovative education program. However, TEA does not require that these programs be located in the partner district's region, or that they serve the partner district in any way. In practice, several Chapter 41 districts contracting with partner districts outside of their region require that the partner send at least 50 percent of the net gain to the JJAEP in the Chapter 41 district's region, or to its ESC for an innovative education program.

For example, the contract between Chapter 41 district Port Aransas ISD (Region 2) and Eagle Pass ISD (Region 20) stipulates that Eagle Pass ISD send 50 percent of the net gain to the Nueces County JJAEP, and 25 percent to the Region 2 ESC to promote instructional technology throughout the region. The remaining 25 percent stays at Eagle Pass ISD to be used at their discretion.

ESCs and the Distribution of Net Gain

Several ESCs around the state have facilitated Option 4 arrangements by serving as fiscal agents for the exchange of funds and, in some cases, brokering arrangements by pairing Chapter 41 districts with partner districts. The TEA rules governing these arrangements permits a portion of the net gain to be directed to the ESC for specific purposes, or to a regional technology consortium. The following table shows the estimated distribution of net gain generated by the Option 4 arrangements that involve ESCs.

Table 1: 2001-02 Distribution of Net Gain Generated by Option 4 Arrangements Involving ESCs (est.)[3]

ESC (Region)	Total Net Gain Involving ESCs	Net Gain Directed to ESC	% of Total	Net Gain Retained by Partner Districts	% of Total	Net Gain Directed to JJAEP	% of Total
2	$344,000	$86,000	25%	$86,000	25%	$172,000	50%
5	$706,000	$706,000	100%	$0	0%	$0	0%
6	$98,536	$49,268	50%	$49,268	50%	$0	0%
10	$23,026,164	$15,870,576	69%	$6,655,588	29%	$500,000	2%
11	$3,444,097	$2,927,482	85%	$516,615	15%	$0	0%
12	$208,864	$53,519	26%	$155,345	74%	$0	0%
13	$20,471,038	$13,040,494	64%	$7,282,544	36%	$148,000	1%
15	$1,464,023	$585,609	40%	$878,414	60%	$0	0%
16	$800,876	$640,124	80%	$160,175	20%	$0	0%
17	$1,094,159	$945,153	86%	$149,005	14%	$0	0%
18	$2,078,462	$2,078,462	100%	$0	0%	$0	0%
20	$3,091,070	$1,509,196	49%	$1,081,875	35%	$500,000	16%
Total	**$56,827,289**	**$38,491,883**	**68%**	**$17,014,829**	**30%**	**$1,320,000**	**2%**

Note: Regions 1, 3, 4, 7, 8, 9, 14, and 19 receive no benefit from Option 4 arrangements.

In the 2001-02 school year, there were 164 Option 4 agreements between Chapter 41 districts and their partner districts, producing approximately $84 million in net gain. ESCs play a role as fiscal agents in 109 of these arrangements, involving $57 million (68 percent) of the net gain. Of this $57 million, approximately $38.5 million (68 percent) is diverted to the ESCs for expenditure by the service center or regional technology consortia, partner districts retain $17 million (30 percent), and JJAEPs receive $1.3 million (2 percent). However, if one includes Option 4 arrangements where the ESCs are not involved, the percentage of statewide net gain directed to ESCs is 46 percent.

The average percentage of net gain directed to the ESC varies from region to region; for example, the Region 2 ESC (Corpus Christi) receives 25 percent of the net gain produced by its sole

[3] Amounts are based on Option 4 contract documents provided by ESCs; they do not reflect updates to ADA counts and property values, and may change based on ADA and property value trends in individual districts.

Option 4 arrangement, to be used for instructional technology. The Region 5 ESC (Beaumont), on the other hand, receives 100 percent of the net gain generated by its six contracts, to be used for the Southeast Texas Telecommunications Education Network (SETTEN) technology consortium (see table 2). It should be noted that the percentages shown in table 1 are averages based on all Option 4 contracts in which the ESC is involved; the distribution of net gain may vary from contract to contract (see Appendix 3 for a more detailed breakdown of Option 4 contracts).

Most Option 4 arrangements - about 87 percent - are between districts within the same ESC region, and net gain funds directed to the ESC ultimately have an indirect benefit to all districts in the region. For example, Chapter 41 district Anderson-Shiro ISD, in its contract with Kennard ISD, requires that Kennard ISD use 100 percent of the net gain for instructional technology (efficiency credit condition #6), with 50 percent of it going to the Region 6 ESC (Huntsville). The ESC share will offset costs associated with the Commnet Regional Network, which provides computer networking services to 35 of the region's 56 districts, including Kennard and Anderson-Shiro ISDs.

Figure 1: Net Gain Directed to Education Service Centers, 2001-02 (est.)
Statewide Total: $38,491,883

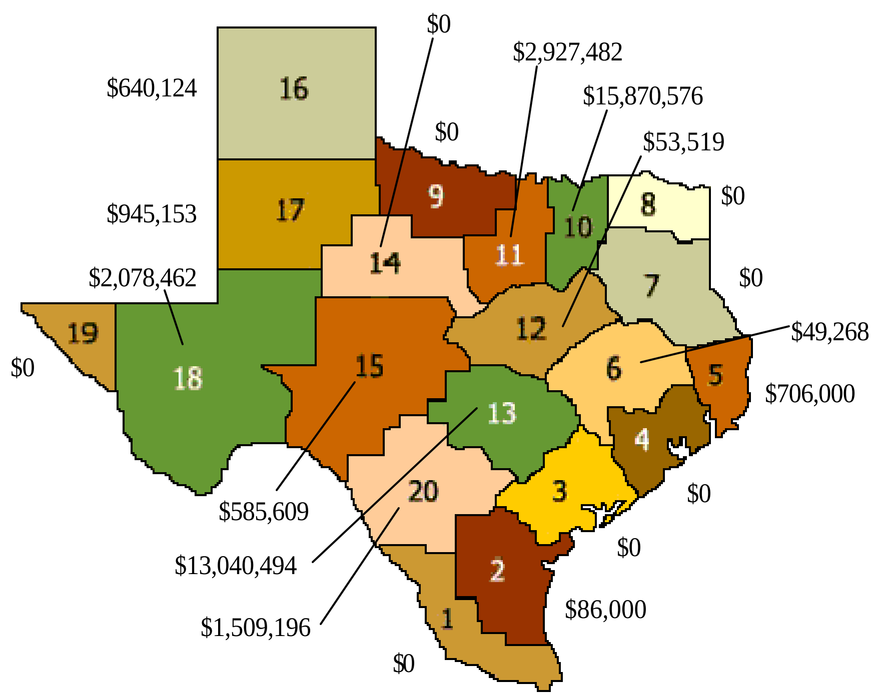

Figure 1 (previous page) illustrates the geographical distribution of net gain funds directed to ESCs. In the 2001-02 school year, two ESCs – Regions 10 (Richardson) and 13 (Austin) – receive $29 million (75 percent) of the funds diverted to ESCs; ten ESCs receive amounts ranging from $49,000 to $2.9 million; and eight receive no benefit from Option 4 arrangements.

ESCs and Use of Net Gain Funds

Table 2 gives a general overview of how ESCs, or associated technology consortia, use net gain funds. Technology consortia, who receive net gain funds in regions 5, 10, 17, and 18, are generally supported by ESCs but are governed by an independent board of directors.

Table 2: Use of Net Gain Funds by ESCs

ESC	Net Gain Directed to ESC	Use of Funds			
		Technology	Innovative Education	Description	Who Benefits?
2	$86,000	!		Distance learning services	All districts in region
5	$706,000	!		Partner districts receive technology grants, rest defrays district tech. fees	Consortium member districts
6	$49,268	!		Defrays district technology fees	All districts in region
10	$15,370,576	!	!	Defrays technology fees, instructional TV consortium, teacher recruitment/retention prgm., online TEKS assessment service	All districts in region; consortium member districts
11	$2,927,482	!		Defrays district technology fees	All districts in region
12	$53,519	!		Defrays district technology fees	All districts in region
13	$13,040,494	!	!	Defrays district tech. fees, teacher certification scholarships	All districts in region
15	$585,609	!		Defrays district technology fees	All districts in region
16	$640,124	!	!	Defrays district technology fees; teacher scholarships	All districts in region
17	$945,153	!		Tech. consortium, defrays district technology fees	All districts in region; consortium member districts
18	$2,078,462	!		Defrays district technology fees	All districts in region; consortium member districts
20	$1,509,196	!		Defrays district technology fees	All districts in region

As the table indicates, most of the net gains received by ESCs are used to defray fees charged to districts in the region for instructional technology and telecommunications services. ESCs receiving net gain funds are able to reduce or eliminate these fees, which are generally the same flat rate for every district in the region. ESCs also are using net gain funds to distribute technology grants to districts in need of additional assistance. This review found no instance where Chapter 41 districts were receiving grants of this sort.

The ESCs in Regions 10 (Richardson) and 13 (Austin) have used a portion of their sizable shares of net gain funds for innovative education programs. For example, the Region 10 ESC is using $4.9 million in net gain funds on a Web-based TEKS assessment system, which will provide teachers in the region on-line assessments of their courses' conformity to the Texas Essential Knowledge and Skills (TEKS) state curricula. In Region 13, $250,000 of net gain is used to provide scholarships to selected participants in its Educator Certification Program.

Additionally, efficiency credit condition #4 allows Chapter 41 districts to direct a portion of the net gain to a juvenile justice alternative education program (JJAEP) in their area. Table 3 lists the JJAEPs receiving net gain funds in the 2001-02 school year. Not shown in this table are any net gain funds retained be partner districts that may be subsequently used to assist JJAEPs in their respective regions.

Table 3: JJAEPs Receiving Net Gain Funds

Ch. 41 District(s)	**Partner Districts**	**JJAEP**
Alamo Heights	Brackett, Center Point, Childress, Medina, Ranger, Stockdale	Bexar County JJAEP
Calhoun County†	Eagle Pass, Cross Plains, Cumby, Ft. Hancock, Jefferson, Lometa, Maud, Sabinal, Simms, West Sabine	Calhoun County JJAEP
Austin, Lake Travis†	Garland, Laredo, Comanche, Rosebud-Lott	Travis County JJAEP
Highland Park, Coppell, Carrollton-FB	Leonard, Sulphur Springs, Mesquite, Avalon, Canton, Lone Oak, Whitewright, Ector, Honey Grove, Savoy, Trenton, Dodd City, Avalon	Dallas County JJAEP
Deer Park†	Laredo	Harris County JJAEP
Port Aransas	Eagle Pass	Nueces County JJAEP
Other alternative education programs named:		
Texas City†	Laredo	Highpoint Gulf Coast Alternative Education Program

† Option 4 arrangements for these districts do not involve an ESC as a fiscal agent.

Efficiency Credit and County Appraisal District (CAD) Credit

As mentioned above, if certain conditions on the use of net gain funds are met, a Chapter 41 district is allowed an "efficiency credit," and may deduct the lesser of 5 percent of their wealth reduction amount, or $100 multiplied by their WADA, from their payment. Additionally, Chapter 41 districts are allowed to deduct a portion of the fee owed to their county appraisal district for tax assessment and collection services. This portion is prorated based on the wealth reduction amount as a percentage of the district's total tax revenue. Table 4 shows the statewide amounts for these credits.

Table 4: Efficiency Credit & CAD Credit Amounts, 2001-02 School Year

	Efficiency Credits	Credits for Prorated Share of CAD Costs
Ch. 41 Districts Statewide	**$26.9 million**	**$4.8 million**

Issues Regarding Region 10 ESC Arrangements

A review of Option 4 contracts and the use of net gain funds by ESCs indicates that no Chapter 41 district is directly benefitting from net gain funds in ways that are outside the rules established in TEA's *Manual for Districts Subject to Wealth Equalization.* However, the uses of net gain funds by the Region 10 Education Service Center do not appear to conform to the conditions under which the Chapter 41 district may receive an efficiency credit.

Specifically, documents from Region 10 ESC (Richardson) indicate that they usually retain 80 percent of the net gain from Option 4 arrangements; of these amounts, they spend approximately 58 percent overall on instructional technology projects, 38 percent on innovative education programs, and 4 percent is sent to the Dallas County JJAEP. This particular division of funds does not technically conform to any of the eight efficiency credit conditions established by TEA.

Additionally, contractual stipulations between Chapter 41 districts within Region 10 and partner districts outside the region also do not appear to conform. Those contracts allow the partner district to retain 20 percent of the net gain, to be spent on combined programs as laid out in condition #5, while the Region 10 ESC receives 80 percent. Condition #5 requires that this amount be used for instructional technology, which is defined later in the section as "computer networking of instruction among or between [the partner district's] campuses and/or from the district and its campuses to an ESC..." This seems to indicate the intent is that the required expenditures on instructional technology must benefit the partner district in some way. However, the partner districts outside Region 10 do not benefit from the 80 percent of net gain the Region 10 ESC spends on instructional technology within Region 10.

Summary

A review of the Option 4 agreements between Chapter 41 districts and Chapter 42 districts shows that a substantial portion of the net gain funds generated by these arrangements are directed to either the ESCs or the JJAEPs in the Chapter 41 districts' home regions. Approximately $38.5 of the $84 million in statewide net gain funds are contractually directed to ESCs, as well as at least $1.3 million to JJAEPs. Although this review found no instance where a Chapter 41 district is directly benefitting from net gain funds in ways that are outside TEA's rules, the technology support provided to all regional districts by the ESC and the additional JJAEP funding do represent indirect benefits to Chapter 41 districts. These are in addition to

TEA's efficiency and CAD credits available to Chapter 41 districts selecting Option 4.

Partner districts still derive a sizable benefit from participating in Option 4 arrangements. Statewide, these districts retained $17 million in net gain funds in ESC-related arrangements, as well as a large portion of the $28 million in net gain created by Option 4 arrangements that did not involve an ESC. Furthermore, since 87 percent of Option 4 arrangements are between districts in the same region, partner districts also benefit from ESC expenditures of net gain funds.

Appendices

1. Texas Education Code Chapter 41, Subchapter E.

2. Relevant sections of TEA's *Manual for Districts Subject to Wealth Equalization, 2001-2002 School Year*.

3. Net Gain distribution of Option 4 arrangements for 2001-02 by ESC and chapter 41 district.

4. Sample Option 4 contract.

Appendix 1

TEXAS EDUCATION CODE CHAPTER 41

SUBCHAPTER E. EDUCATION OF NONRESIDENT STUDENTS

§ 41.121. Agreement

The board of trustees of a district with a wealth per student that exceeds the equalized wealth level may execute an agreement to educate the students of another district in a number that, when the weighted average daily attendance of the students served is added to the weighted average daily attendance of the contracting district, is sufficient, in combination with any other actions taken under this chapter, to reduce the district's wealth per student to a level that is equal to or less than the equalized wealth level. The agreement is not effective unless the commissioner certifies that the transfer of weighted average daily attendance will not result in any of the contracting districts' wealth per student being greater than the equalized wealth level and that the agreement requires an expenditure per student in weighted average daily attendance that is at least equal to the amount per student in weighted average daily attendance required under Section 41.093, unless it is determined by the commissioner that a quality educational program can be delivered at a lesser amount. The commissioner may approve a special financial arrangement between districts if that arrangement serves the best educational interests of the state.

Added by Acts 1995, 74th Leg., ch. 260, § 1, eff. May 30, 1995.

§ 41.122. Voter Approval

(a) After first executing an agreement under this subchapter, the board of trustees of the district that will be educating nonresident students shall order and conduct an election, in the manner provided by Sections 13.003(d)–(g), to obtain voter approval of the agreement.

(b) The ballot shall be printed to permit voting for or against the proposition: "Authorizing the board of trustees of ________ School District to educate students of other school districts with local tax revenues."

(c) The proposition is approved if the proposition receives a favorable vote of a majority of the votes cast. If the proposition is approved, the agreement executed by the board is ratified, and the board has continuing authority to execute agreements under this subchapter on behalf of the district without further voter approval.

Added by Acts 1995, 74th Leg., ch. 260, § 1, eff. May 30, 1995.

§ 41.123. WADA Count

For purposes of Chapter 42, students served under an agreement under this subchapter are counted only in the weighted average daily attendance of the district providing the services.

Added by Acts 1995, 74th Leg., ch. 260, § 1, eff. May 30, 1995.

§ 41.124. Transfers

(a) The board of trustees of a school district with a wealth per student that exceeds the equalized wealth level may reduce the district's wealth per student by serving nonresident students who transfer to the district and are educated by the district but who are not charged tuition. A district that exercises the option under this subsection is not required to execute an agreement with the school district in which a transferring student resides and must certify to the commissioner that the district has not charged or received tuition for the transferring students.

(b) A school district with a wealth per student that exceeds the equalized wealth level that pays tuition to another school district for the education of students that reside in the district may apply the amount of tuition paid toward the cost of the option chosen by the district to reduce its wealth per student. The amount applied under this subsection may not exceed the amount determined under Section 41.093 as the cost of an attendance credit for the district. The commissioner may require any reports necessary to document the tuition payments.

(c) A school district that receives tuition for a student from a school district with a wealth per student that exceeds the equalized wealth level may not claim attendance for that student for purposes of Chapters 42 and 46 and the technology allotment under Section 31.021(b)(2).

Added by Acts 1999, 76th Leg., ch. 396, § 1.07, eff. Sept. 1, 1999.

Appendix 2

From the Texas Education Agency *Manual for Districts Subject to Wealth Equalization, 2001-2002 School Year*

Options Available to Reduce Costs

Several options are available to Chapter 41 districts to reduce costs. **For districts exercising Option 4**, the commissioner may grant an "**efficiency credit**," or cost reduction, to the Chapter 41 district under certain circumstances. The conditions pertain to the partner district's expenditure of funds for specifically approved programs. The credit amount is limited to the lesser of 5 percent of the computed cost of Option 4, or $100 multiplied by the district's Chapter 41 WADA. The commissioner may grant an efficiency credit if one of the following conditions is met.

(1) The partner agrees to use at least 50 percent of the gain from the sale of WADA for a 30-day **extended year program** for all eligible grade K-8 students for the school year in accordance with TEC Section 29.082.

(2) The partner agrees to use at least 50 percent of the gain from the sale of WADA for enhancement of an existing **alternative education program** for behavior management for all eligible students for the school year in accordance with TEC Section 37.008. The funds used must be in excess of amounts expended for the basic operation of the program pursuant to TEC Section 37.008(g).

(3) The partner agrees to use at least 50 percent of the gain from the sale of WADA for a **juvenile justice alternative education program** for the school year in accordance with TEC Section 37.011. The expenditures for this program must be used to pay for additional costs not funded by member districts pursuant to TEC Section 37.012.

(4) The partner agrees to use at least 50 percent of the gain from the sale of WADA for a **combined program** of at least two of the following programs for the school year: extended year, alternative education (enhancement of), and juvenile justice alternative education. Each of the programs must meet the requirements described above.

(5) The partner agrees to use at least some portion of the gain from the sale of WADA for **combined programs plus instructional technology**. Any of the three following programs apply, singly or in any combination, for the school year: extended year, alternative education, and juvenile justice alternative education. Each of the programs must meet the requirements described above. In addition to the funds committed to any one or combination of the programs described above, all of the remaining gain must be used for instructional technology.

(6) The partner agrees to use all of the gain from the sale of WADA for **instructional technology.** That technology must involve computer networking of instruction (1) among or between its campuses and/or (2) from the district or its campuses to an education service center (ESC), other Internet service provider (ISP), or local telephone company point of presence (teleco POP). A portion of the gain may be sent to the ESC, ISP, or teleco POP, as long as the funds are expended for connecting such services. If any of the gain is expended in this manner, the Chapter 41 district may not obtain free instructional technology from the service provider. Yearly charges to the Chapter 41 district must be equal to at least the amount paid by the partner to the service provider for the year. (Note that if this option is exercised, the executive director of the entity must sign the contract agreement.)

(7) The partner agrees to use at least 50 percent of the gain from the sale of WADA for an **innovative education program**. The gain on the sale of WADA may not be used for general capital outlay unrelated to improving student performance.

(8) Each partner agrees to use 100 percent of the gain from the sale of WADA to participate in a **technology consortium** in accordance with the provisions of TEC Section 41.099.

Other specific requirements apply to the technology consortium form of Option 4, listed above. At least three partner districts must be members of the consortium. The Chapter 41 district may be a member of the consortium but must pay at market value for all services received. Market value is determined by the consortium, subject to review by the Agency's financial audits division. Partner districts must reside, at least in part, in a county or counties with a population of less than 40,000.

Most importantly, the technology consortium form of Option 4 must be combined with Option 3, the purchase of attendance credits from the state, in order to enable the Chapter 41 district to retain its "hold harmless" status (discussed below). The gain resulting from the sale of WADA (for all partners combined) must be limited to 10 percent of the Chapter 41 district's cost of buying WADA.

For districts exercising Option 3, the purchase of attendance credits from the state, an "**early agreement credit**" is available. To qualify, the Chapter 41 district must submit a signed Option 3 agreement to the Agency with a postmark on or before September 1 of the applicable year. The deadline is statutory and must be strictly enforced. The reduction in cost is equal to 4 percent of the cost or $80 per credit purchased, whichever is less. Districts must obtain all necessary WADA through Option 3, or through Option 3 in combination with the technology consortium form of Option 4. In the case of Option 3 combined with a technology consortium, the cost reduction applies only to the portion of the WADA purchased through Option 3. The credit is automatic if the district meets the deadline and all other requirements.

"Hold Harmless" Provision

In addition to the credits described above, a Chapter 41 district may be eligible for a "**hold harmless"** provision that allows the district to keep a higher tax base than the tax base it would otherwise keep at the equalized wealth level. In order to be eligible for this provision, the Chapter 41 district must exercise Option 2 (detachment of property), Option 3, or Option 3 in combination with the technology consortium form of Option 4. For the latter to qualify, all program requirements must be met and all WADA, except the WADA obtained through the Option 4 portion, must be purchased through Option 3. Districts exercising this particular combined option should consult the Chapter 41 contact person for assistance with cost calculations (see Section II, Administrative Procedures).

The hold harmless provision basically allows the Chapter 41 district to retain a portion of its tax base that would otherwise be subject to recapture. If the revenue per WADA generated by applying a $1.50 rate to the tax base at the equalized wealth level is less than what the district's revenue per WADA was in 1992-93, the district is allowed to keep more tax base (referred to as **hold harmless tax base**) so that its revenue per WADA in 1992-93 is maintained.

Beginning with the 1999-2000 school year, the hold harmless tax base was adjusted to reflect the increase in the equalized wealth level and factored in the Chapter 41 district's actual maintenance and operations tax rate.

Section 41.002. (g) The wealth per student that a district may have under Subsection (e) is adjusted as follows:

$$AWPS = WPS \times (((EWL / 280{,}000 - 1) \times DTR / 1.5) + 1)$$

where:

"AWPS" is the district's wealth per student;
"WPS" is the district's wealth per student determined under Subsection (e);
"EWL" is the equalized wealth level; and
"DTR" is the district's adopted maintenance and operation tax rate for the current school year.

Credit for Tuition Paid

If a Chapter 41 district pays tuition to another school district to educate a student that resides in the Chapter 41 district (other than a district that elects to have its wealth per student computed under Section 41.0021), a credit against its recapture cost is given. The credit is computed in terms of a reduction to the number of WADA that the district would have to purchase to equalize its wealth. The Chapter 41 district must submit a list of the students being transferred and the amount of tuition being paid per student in order to receive this credit.

Section 41.124. (b) A school district with a wealth per student that exceeds the equalized wealth level that pays tuition to another district for the education of students that reside in the district may apply the amount of tuition paid toward the cost of the option chosen by the district to reduce its wealth per student. The amount applied under the subsection may not exceed the amount determined under Section 41.093 as the cost of an attendance credit for the district. The commissioner may require any reports necessary to document the tuition payments.

County Appraisal District Costs

Districts exercising Option 3 or 4 may also receive a **County Appraisal District (CAD)** cost reduction. TEC Section 41.097 authorizes the CAD discount for Option 3. The discount is an amount equal to the district's CAD cost multiplied by a percentage that is equal to the district's Option 3 recapture cost divided by the district's total maintenance and operations tax revenue. The reduction applies to appraisal costs only and not to costs that may be incurred for tax collections.

Beginning in 1996-97, the cost for Option 3 was reduced by an amount that represented a proportion of the district's **historical CAD cost** over four school years (1993-94, 1994-95, 1995-96, and 1996-97). If a partner district through an Option 4 agreement paid the district's CAD cost for any of those years, that amount was excluded from the sum. If the sum of the CAD cost over those four years exceeded the Option 3 cost for 1996-97, the balance was carried forward as a credit and was used to reduce the Option 3 cost in future years until the credit was exhausted.

The historical CAD cost reduction applies only once. Because most districts exercising Option 3 have taken advantage of the historical CAD cost reduction, the calculation to make the credit balance adjustment has not been built into the worksheets. If a district has a credit balance, the amount will appear on the *Cost of Options Report* as a credit. Districts that are exercising Option 3 but have never before claimed the one-time historical CAD cost reduction still qualify to do so. As these calculations are not built into the worksheet, these districts should consult the Chapter 41 contact person for assistance. (See Section II, Administrative Procedures.)

Districts combining Option 3 with the technology consortium form of Option 4 also qualify for both the current year and the historical CAD cost reductions. These provisions would apply only to the Option 3 portion of the total cost and, for past costs, only to the extent that the historical CAD reduction has not already been claimed.

For districts exercising Option 4, the partner may agree to give the Chapter 41 district the same level of discount as in Option 3 by agreeing to pay that portion of the Chapter 41 district's CAD cost as part of the Option 4 agreement. If there are multiple partners involved, each partner may agree to pay a share proportional to the number of WADA being purchased by each partner. The arrangement is between the Chapter 41 district and its partner(s).

Appendix 3

REGIONAL ESC & OPTION 4 ARRANGEMENTS, 2001-02

Region Region	Ch 41 District	Net Gain	Partner Share of Net Gain	% of Total Net Gain	ESC Share of Net Gain	Total Net Gain	JJAEP Share of Net Gain	% of Total Net Gain	5% Efficiency Credit	CAD Credit
1	*No CH 41 Arrangements*									
2	Port Aransas	$344,000	$86,000	25%	$86,000	25%	$172,000	50.0%	$83,801	$37,074
	TOTAL	**$344,000**	**$86,000**	**25%**	**$86,000**	**25%**	**$172,000**	**50.0%**	**$83,801**	**$37,074**
3	*No CH 41 Arrangements*									
4	*No CH 41 Arrangements*									
5	Sabine Pass	$486,000	$0	0%	$486,000	100%	$0	0.0%	$8,378	$0
	Evadale	$220,000	$0	0%	$220,000	100%	$0	0.0%	$20,038	$0
	TOTAL	**$706,000**	**$0**	**0%**	**$706,000**	**100%**	**$0**	**0.0%**	**$28,416**	**$0**
6	Big Sandy	$71,250	$35,625	50%	$35,625	50%	$0	0.0%	$38,200	$21,055
	Anderson-Shiro	$27,286	$13,643	50%	$13,643	50%	$0	0.0%	$7,031	$2,834
	TOTAL	**$98,536**	**$49,268**	**50%**	**$49,268**	**50%**	**$0**	**0.0%**	**$45,232**	**$23,889**
7	*No CH 41 Arrangements*									
8	*No CH 41 Arrangements*									
9	*No CH 41 Arrangements*									

Appendix 3

10	Carrollton-Farm	$9,113,025	$1,822,605	20%	$7,290,420	80%	$0	0.0%	$2,689,078	$270,963
	Coppell	$2,859,320	$571,864	20%	$2,287,456	80%	$0	0.0%	$1,040,435	$106,015
	Frisco	$38,500	$7,700	20%	$30,800	80%	$0	0.0%	$96,064	$7,001
	Highland Park	$848,445	$169,689	20%	$678,756	80%	$0	0.0%	$41,694	$14,381
	Richardson	$4,436,895	$887,379	20%	$3,549,516	80%	$0	0.0%	$2,273,620	$221,221
	Plano	$5,729,979	$3,196,351	56%	$2,533,628	44%	$0	0.0%	$5,400,000	$475,811
	TOTAL	**$23,026,164**	**$6,655,588**	**29%**	**$16,370,576**	**71%**	**$0**	**0.0%**	**$11,540,890**	**$1,095,392**
11	Carroll ISD	$727,986	$109,198	15%	$618,788	85%	$0	0%	$235,647	$46,000
	Grapevine-Colley	$2,716,111	$407,417	15%	$2,308,694	85%	$0	0%	$1,346,326	$215,275
	TOTAL	**$3,444,097**	**$516,615**	**15%**	**$2,927,482**	**85%**	**$0**	**0%**	**$1,581,973**	**$261,275**
12	Beckville ISD	$208,864	$155,345	74%	$53,519	26%	$0	0%	$65,056	$74,830
	TOTAL	**$208,864**	**$155,345**	74%	**$53,519**	26%	$0	0%	$65,056	$74,830
13	Austin ISD	$9,843,250	$1,968,650	20%	$7,726,600	78%	$148,000	2%	$4,908,708	$566,295
	Eanes ISD	$10,627,788	$5,313,894	50%	$5,313,894	50%	$0	0%	$806,286	$236,037
	TOTAL	**$20,471,038**	**$7,282,544**	**36%**	**$13,040,494**	**64%**	**$148,000**	**1%**	**$5,714,993**	**$802,332**
14	*No CH 41 Arrangements*									
15	Crockett County	$1,464,023	$878,414	60%	$585,609	40%	$0	0%	$140,886	$159,951
	TOTAL	**$1,464,023**	**$878,414**	60%	**$585,609**	**40%**	**$0**	**0%**	**$140,886**	**$159,951**
16	Canadian ISD	$438,761	$87,752	20%	$351,009	80%	$0	0%	$65,921	$21,338
	Highland Park IS	$362,115	$72,423	20%	$289,115	80%			$126,093	$60,132
	TOTAL	**$800,876**	**$160,175**	**20%**	**$640,124**	**80%**	**$0**	**0%**	**$192,015**	**$81,470**

Appendix 3

17	Borden County I	$14,483	$0	0%	$14,483	100%	$0	0%	$1,434	
	Dawson ISD	$7,026	$0	0%	$7,026	100%	$0	0%	$1,352	$2,950
	Denver City ISD	$422,649	$0	0%	$422,649	100%	$0	0%	$58,394	$7,000
	Guthrie Commo	$58,161	$0	0%	$58,161	100%	$0	0%	$3,183	
	Jayton-Girard IS	$157,381	$0	0%	$157,381	100%	$0	0%	$6,273	$12,543
	Klondike ISD	$108,380	$81,285	75%	$27,095	25%	$0	0%	$36,345	$65,639
	Loop ISD	$19,074	$0	0%	$19,074	100%	$0	0%	$1,752	
	Plains ISD	$135,441	$67,720	50%	$67,720	50%	$0	0%	$53,523	$9,963
	Sudan ISD	$155,510	$0	0%	$155,510	100%	$0	0%	$57,203	$65,000
	Sundown ISD	$16,054	$0	0%	$16,054	100%	$0	0%	$1,688	
	TOTAL	**$1,094,159**	**$149,005**	**14%**	**$945,153**	**86%**	**$0**	**0%**	**$221,147**	**$163,095**
18	Glasscock Count	$527,059	$0		$527,059	100%			$60,403	
	McCamey ISD	$166,473	$0		$166,473	100%			$34,181	
	Rankin ISD	$880,288	$0		$880,288	100%			$54,400	$38,551
	Terrell County IS	$465,160	$0		$465,160	100%			$39,406	$38,280
	Wink-Loving IS	$39,482	$0		$39,482	100%			$3,988	
	TOTAL	**$2,078,462**	**$0**	**0%**	**$2,078,462**	**100%**	**$0**	**0%**	**$192,378**	**$76,831**
19	*No CH 41 Arrangements*									
20	Alamo Heights IS	$3,091,070	$1,081,875	35%	$1,509,196	49%	$500,000	16%	$510,000	$137,655
	TOTAL	**$3,091,070**	**$1,081,875**	**35%**	**$1,509,196**	49%	$500,000	16%	**$510,000**	**$137,655**
GRAND	**TOTALS**	**$56,827,289**	**$17,014,829**	**30%**	**$38,991,883**	**69%**	**$820,000**	**1.4%**	**$20,316,788**	**$2,913,794**

AGREEMENT FOR THE EDUCATION OF NONRESIDENT STUDENTS
BETWEEN
PLANO ISD AND BONHAM ISD

This agreement is entered into pursuant to Subchapters A, D, and E, Chapter 41, Texas Education Code (TEC) and rules adopted by the Commissioner of Education in accordance with Chapter 41 TEC. Terms used in this agreement that are defined in the TEC and not otherwise defined herein shall have the meanings set forth in TEC.

This agreement is for Plano Independent School District (PISD or the district) to purchase weighted average daily attendance (WADA) credits from Bonham Independent School District (the partner) for the 2001-2002 school year. The district agrees to purchase WADA credits from the partner in a number that, when added to the WADA of PISD, is sufficient, in combination with PISD's other agreements to educate nonresident students to reduce the districts wealth per student to a level that is equal to or less than the equalized wealth level for PISD for the 2001-2002 school year as determined by the Commissioner of Education under Section 41.002 TEC. "PISD's other agreements to educate nonresident students" means all other agreements to educate nonresident students entered into by PISD with other districts for the 2001-2002 school year. PISD's current estimate of the number of WADA to be purchased from the partner is 400 and the current estimate of cost to PISD per WADA purchased after appropriate deductions, is $4,452. The cost and/or number of WADA count in this agreement are subject to change according to the determinations of the Commissioner of Education in order to properly adjust the wealth per WADA of the district.

This agreement is subject to the following conditions:

The partner will remain accountable for the educational performance of students whose education is paid for by the district.

For each weighted student credit sold by the partner to PISD, the state aid of the partner will be reduced by an amount equal to the partner's 2001-2002 total state and local tier 1 and tier 2 revenues per WADA under Chapter 42, TEC.

WADA purchased by PISD pursuant to this agreement are deducted from the partner's total WADA count to determine the partner's wealth per WADA under Chapter 42, TEC.

The partner agrees to pay a prorated share of County Appraisal District (CAD) cost incurred by the district as a result of funds raised by the district that are distributed to the partner. This proration amount is based on actual WADA purchased from the partner applied as a percentage to the total applicable CAD costs. This prorated cost constitutes a reduction in net gain to the partner.

"Net gain" is defined as the dollar amount paid by PISD that is greater than the dollar amount the partner would have received from the state in tier 1 and tier 2 revenues under Chapter 42, TEC.

The partner agrees to use the net gain funds provided pursuant to this agreement for one or more of the following programs: extended year program, alternative education program, juvenile justice alternative education program, and/or instructional technology, or an innovative education program(s), approved by the commissioner, in accordance with Section 1, pages 5-6, Texas Education Agency Manual For Districts Subject To Wealth Equalization, 2001-2002.

PISD agrees to flow funds for the purchase of the estimated number of WADA, as specified herein and in accordance with a <u>Memorandum of Agreement</u> between PISD, Region 10 ESC and Bonham ISD executed on the same date of this <u>Agreement for the Education of Nonresident Students</u>, beginning on or before February 15, 2001.

Approval of the voters of the district, as required by Section 41.122 TEC, was obtained in the Option 4 election. The board of trustees of the district agrees to submit to the Commissioner of Education, upon request, a certified copy of the board minutes showing the canvas of the election.

This agreement is in effect for one year and becomes null and void at the close of the 2001-2002 school year.

By virtue of our signatures, we the undersigned do express understanding and commitment to the provisions of this agreement.

THE DISTRICT	THE PARTNER
Plano Independent School District County-District # 043-910	Bonham Independent School District County-District # 074-903
(Signature)	(Signature)
Mary Beth King (Typed Name) President, Board of Trustees	Charles W. Butler (Typed Name) President, Board of Trustees
Date 8/24/01	Date 08/20/01
(Signature)	(Signature)
Ralph Stow (Typed Name) Secretary, Board of Trustees	Charlotte Kearney (Typed Name) Secretary, Board of Trustees
Date 8/24/01	Date 08/20/01
(Signature)	(Signature)
Douglas W. Otto (Typed Name) Superintendent	Linda Gist (Typed Name) Superintendent
Date 8/24/01	Date 8-20-01

Commissioner of Education

Date 09-17-01

MEMORANDUM OF AGREEMENT

Cash Flow from Plano ISD to
Region 10 Education Service Center and Bonham ISD
2001-2002

This agreement is by and between Plano Independent School District (PISD), Region 10 Education Service Center (the ESC) and Bonham Independent School District (the partner). The purpose is to provide for the flow of funds from PISD, through the ESC, to the partner in accordance with an Agreement for the Education of Nonresident Students, executed on the same date of this Memorandum of Agreement, between PISD and the partner.

PISD agrees to flow $1,780,800 to the ESC beginning on or before February 15, 2002 in accordance with the schedule listed below. This dollar amount represents the current cost estimate of WADA that PISD has agreed to purchase from the partner as a result of implementing the Agreement for the Education of Nonresident Students referenced above.

The ESC agrees to flow $1,562,240 to the partner beginning on or before February 18, 2002 in accordance with the schedule listed below. This represents the current estimate of the dollar amount the partner would have received from the state in tier 1 and tier 2 revenues under Chapter 42, TEC, plus a residual of twenty (20) % of the net gain. This residual, estimated to be $54,640, is to be spent in accordance with the conditions specified in the associated Agreement for the Education of Nonresident Students. Any final adjustments in this payment amount will be based on final student counts and tax collection data submitted by the partner and approved by the Texas Education Agency.

Payment Schedule

DATE	% of Total Obligation	FROM	TO
February 15	25%	PISD	ESC
February 18	25%	ESC	The Partner
May 15	50%	PISD	ESC
May 16	50%	ESC	The Partner
August 15	25%	PISD	ESC
August 16	25%	ESC	The Partner

By virtue of our signatures, we the undersigned do express understanding and commitment to the provisions of this agreement.

THE DISTRICT
Plano Independent School District
County-District # 043-910

(Signature)

Mary Beth King
(Typed name)
President, Board of Trustees

Date 8/24/01

(Signature)

Ralph Stow
(Typed name)
Secretary, Board of Trustees

Date 8/24/01

8/24/01
(Signature)

Douglas W. Otto
(Typed name)
Superintendent

Date

THE ESC
Region10 Education Service Center
County-District # 057-950

(Signature)

Mack B. Pierson
(Typed name)
Chairman, Board of Directors

Date 8-22-01

(Signature)

Carole Williams
(Typed name)
Secretary, Board of Directors

Date 8-22-01

(Signature)

Joe Farmer
(Typed name)
Executive Director

Date 8-22-01

THE PARTNER
Bonham Independent School District
County-District # 074-903

(Signature)

Charles W. Butler
(Typed name)
President, Board of Trustees

Date

(Signature)

Charlotte Kearney
(Typed name)
Secretary, Board of Trustees

Date 08/20/01

(Signature)

Linda Gist
(Typed name)
Superintendent

Date 8-20-01