NO MATTER WHERE WE LIVE, TEXANS WANT OUR CHILDREN TO HAVE ACCESS TO A GOOD EDUCATION.

When school budgets get tight, property-wealthy districts are often quick to blame the primary equity tool of the school finance system: recapture. However, recapture, also known as “Robin Hood,” is not the villain in this story. Kids of all backgrounds, from Texarkana to Austin to Brownsville, deserve a high-quality education regardless of the property value within their community. Instead of providing all schools with adequate levels of funding, the Legislature has used recapture to justify bringing the top down rather than the bottom up. By deeming some districts as “property-wealthy” while not providing enough funding to anyone, legislative leadership has sowed division among districts. In order to increase school funding so that all districts are able to support high-quality education for all students, Texans must reject these divisions and demand a finance system that meets the true costs of providing a solid public education.

UNDERSTANDING RECAPTURE

To understand the role of recapture in the school finance system, it is first important to have a basic understanding of how schools are funded in Texas. The funding formulas start with a per-student amount determined by the legislature called the basic allotment. From there, adjustments are made for school district characteristics, such as being small or midsize, and for student characteristics, including the number of emergent bilingual students, low-income students, and special education students. All of these funding adjustments are used to determine how much revenue a school district is allowed to receive for operating its schools.

Local property dollars are collected first to meet the allowed funding entitlement. If a school district is able to collect more than its entitlement, the state “recaptures” or collects that excess revenue. Those recaptured dollars are then redistributed to fund other school districts and charter schools. Recaptured dollars become part of the state aid to schools.

Because the school finance system is formula driven, recapture dollars do not increase the amount of funding for some schools, they are just part of the funding a school receives. Recapture levels the playing field between property-wealthy and property-poor districts. This means if a property-wealthy district, one that pays into recapture, is experiencing budget constraints, all districts are in the same boat. Students with additional funding needs are taken into consideration when setting recapture amounts since those adjustments are used to determine a district’s entitlement.
These funds are used to meet the state's funding obligation for schools after local property tax revenue is collected. Collecting more from any one of these funds does not increase the amount of funding available for schools.

For example, if everyone bought extra lottery tickets this year there wouldn't be more funding for schools. The only way to increase school funding is to make changes to the formulas that determine what schools are entitled to receive.

While recapture has grown significantly, to $3 billion in 2023 from $1.2 billion in 2014, it remains a small part of overall school funding. In 2023, recapture is estimated to account for only 6% of all school funding.

Local property taxes account for half of all revenue that goes to schools for operations. Though $3 billion may seem like a lot, the state does not rely on recapture to fund the $52 billion-a-year school finance system.
Recapture is Not the Problem, It’s the Lack of Investment by the Legislature

Recapture is an equity tool that levels funding between districts, ensuring that some districts do not have drastically more resources than other districts after taking into consideration student populations. Attacks on recapture distract from the real problem of the Legislature not investing in public education.

The basic allotment, the per-student funding amount set by the Legislature, is the primary building block of the school finance formulas and ultimately determines if a school district is considered property-wealthy (pays recapture) or property-poor (receives state aid). However, the basic allotment is a completely arbitrary number; it is not based on identifiable costs or adjusted regularly.

House Bill 3\(^1\), the school finance and tax-cut bill passed in 2019, set the basic allotment at $6,160—up from its previous level of $5,140. Though not all of that increase was new money—some of it was from shifting revenue from other parts of the finance system—the new funds were roughly enough to cover one year of inflation. In 2021, the Legislature took no action to adjust the basic allotment. When the Legislature reconvenes in 2023, the basic allotment will have been stagnant for four years. If the Legislature adjusted the basic allotment for inflation annually, using the Bureau of Labor Statistics Consumer Price Index, the basic allotment would be $7,075 for 2022.

Fact: Charter Schools Contribute to the Growth of Recapture

The expansion of charter schools is also connected to the growth in recapture. While recapture dollars are statutorily dedicated to education, they are not dedicated exclusively to property-poor districts.\(^2\) Charter schools are 100% state-funded and do not have a local tax base, so they are neither property-wealthy nor property-poor.

\(^{2}\) TX Education Code Chapter 49 Subchapter D - Purchase of Attendance Credits Section 49.154
Recapture is based on wealth per student: how much a school district can fill its entitlement with local property tax revenue. When a school district loses students to a charter school, its local wealth per student increases. Charter enrollment is growing rapidly across Texas. By 2023, an estimated 8% of students in average daily attendance will be in a charter school, up from 4% in 2014.‌

As charter enrollment grows, so does the cost to the state. By 2023, nearly 18% of the state’s funding for public education, when including recapture, will go to charter schools, up from 8% in 2014.

Since increases in charter school enrollment increase recapture payments for property-wealthy districts and push other districts toward recapture, the state is essentially siphoning off local property tax revenue to fuel charter school growth. Charter schools are privately managed entities that receive public funding. They do not have locally elected boards and, as a result, have no accountability to local taxpayers.

Before the passage of HB 3 in 2019, when property values would rise the state would benefit from that growth by lowering the amount of state aid needed to fulfill its entitlement to school districts. In response to the outcry over growing recapture and declining state share, the Legislature implemented a system of tax compression that shifts the responsibility to fund schools from local property taxes to state aid.

While tax compression is increasing the state’s responsibility to fund schools, it does not increase the amount of funding available to schools. Eventually, the main portion of the school property tax rate will be eliminated, which will strain the state budget and lead to cuts in education funding if the Legislature does not identify an alternative funding source to replace lost property tax revenue.

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3 Legislative Budget Board. Fiscal Size-Up 2022-23 Biennium; March 2022
Now, every district taxes at a different rate for Tier I M&O and receives similar levels of funding. In addition to property-wealthy and property-poor districts, the system now also has high and low taxing districts. Because tax compression is based on growth, rather than wealth, there is no correlation between Tier I M&O tax rates and property wealth.

When a recapture district experiences tax compression, its recapture payment declines because it collects less local property tax revenue. When a property-poor district experiences compression, its state share of funding increases as local revenue is collected. In either tax compression scenario, there is no benefit to the classroom.

4 Texas Education Agency, Division of State Funding. Tax Year 2021 Final Maximum Tax Rates; August 27, 2001
5 Every Texan analysis of Texas Education Agency Snapshot 2019-20 and Tax Year 2021 Final Maximum Tax Rates data.
HB 3 has reduced the number of recapture districts to 239 in 2021 from 371 districts in 2019. The amount of recapture only declined to $2.560 billion in 2021 from $2.848 billion in 2019 and is estimated by the Legislative Budget Board to increase to $3.015 billion by 2023. The Texas Education Agency is reporting that the recapture is already at $3.116 billion for the 2021-22 school year.

While some property-wealthy districts are seeing large increases in wealth it’s not enough to generate significant growth above the statewide average because those districts are already starting with such a large base. When a district starts with a small tax base it doesn’t take as much growth to go beyond the statewide average. As a result, non-recapture districts have lower tax rates on average than recapture districts.

Tax cuts before kids

Instead of directing additional state resources to improve school funding for all districts, the Legislature chose tax cuts that are making the system more unfair for everyone. When school districts considered ‘wealthy’ by the state face budget cuts and teacher layoffs, then all districts are struggling. Without an alternative revenue source to replace property tax revenue lost to tax compression, the quality of our public education system will ultimately pay the price. Recapture has never been the villain of the school finance system but is used as a justification to push harmful tax cuts. Increasing the basic allotment and funding for special populations puts kids first.

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6 Legislative Budget Board. Fiscal Size-Up 2022-23 Biennium; March 2022
7 Every Texan analysis of Texas Education Agency Tax Year 2021 Final Maximum Tax Rates and 2021 Recapture Paid by Districts data.
8 Texas Education Agency. District Type Glossary of Terms, 2019-20 (next page)
Major Urban (11 districts). A district is classified as major urban if: (a) it is located in a county with a population of at least 1,050,000; (b) its enrollment is the largest in the county or at least 70 % of the largest district enrollment in the county; and (c) at least 35 % of enrolled students are economically disadvantaged. A student is reported as economically disadvantaged if he or she is eligible for free or reduced-price meals under the National School Lunch and Child Nutrition Program.

Major Suburban (80 districts). A district is classified as a major suburban if: (a) it does not meet the criteria for classification as major urban; (b) it is contiguous to a major urban district; and (c) its enrollment is at least 3 % that of the largest contiguous major urban district or at least 4,500 students. A district also is classified as major suburban if: (a) it does not meet the criteria for classification as major urban; (b) it is not contiguous to a major urban district; (c) it is located in the same county as a major urban district; and (d) its enrollment is at least 15 % that of the largest major urban district in the county or at least 4,500 students.

Other Central City (39 districts). A district is classified as other central city if: (a) it does not meet the criteria for classification in either of the previous subcategories; (b) it is not contiguous to a major urban district; (c) it is located in a county with a population of between 100,000 and 1,049,999; and (d) its enrollment is the largest in the county or at least 70 % of the largest district enrollment in the county.

Other Central City Suburban (166 districts). A district is classified as other central city suburban if: (a) it does not meet the criteria for classification in any of the previous subcategories; (b) it is located in a county with a population of between 100,000 and 1,049,999; and (c) its enrollment is at least 15 % of the largest district enrollment in the county. A district also is other central city suburban if: (a) it does not meet the criteria for classification in any of the previous subcategories; (b) it is contiguous to another central city district; (c) its enrollment is at least 3 % that of the largest contiguous other central city district; and (d) its enrollment is equal to or greater than the median district enrollment for the state of 903 students.

Independent Town (67 districts). A district is classified as independent town if: (a) it does not meet the criteria for classification in any of the previous subcategories; (b) it is located in a county with a population of 25,000 to 99,999; and (c) its enrollment is the largest in the county or is at least 70 % of the largest district enrollment in the county.

Non-Metropolitan: Fast Growing (34 districts). A district is classified as non-metropolitan: fast growing if: (a) it does not meet the criteria for classification in any of the previous subcategories; (b) it has an enrollment of at least 300 students; and (c) its enrollment has increased by at least 20 % over the past five years.

Non-Metropolitan: Stable (161 districts). A district is classified as non-metropolitan: stable if: (a) it does not meet the criteria for classification in any of the previous subcategories; and (b) its enrollment is equal to or greater than the median district enrollment for the state.

Rural (464 districts). A district is classified as rural if it does not meet the criteria for classification in any of the previous subcategories. A rural district has either: (a) an enrollment of between 300 and the median district enrollment for the state and an enrollment growth rate over the past five years of less than 20 %; or (b) an enrollment of less than 300 students.