Region One
EDUCATION SERVICE CENTER
"Students First"

BONDS BEST PRACTICES & DECLINING ENROLLMENT/ADA

Presented by:

Escamilla Poneck
ATTORNEYS & COUNSELORS
&
D|A|DAVIDSON
FIXED INCOME CAPITAL MARKETS

July 23, 2026

TODAY'S PRESENTERS

Humberto practices primarily in the area of Public Finance, representing both issuers and underwriters in state and local government debt offerings as Bond Counsel, Disclosure Counsel and Underwriters' Counsel. A portion of his practice is in the area of School Law, addressing the various legal issues faced by public school districts on a daily basis. Humberto earned his Doctorate in Jurisprudence from The University of Texas at Austin School of Law.

Humberto F. Aguilera
Attorney
Escamilla & Poneck, LLP

Carlos brings 13 years of industry experience. Prior to joining the firm, he served as Texas municipal underwriter where his responsibilities involved pricing numerous credits including state and local governments, school districts, and hospital districts for senior and co-managed bond transactions. Carlos earned a BBA from The University of Texas at Austin and holds a Series 7, 28, 50, 53, 99, and 63 licenses.

Carlos Buentello
Underwriting Banker
D.A. Davidson & Co.

Escamilla Poneck
ATTORNEYS & COUNSELORS

BONDS BEST PRACTICES

TAXATION BASICS OF TAX-EXEMPT BONDS

Tax Exempt

adjective

A tax status that excludes an individual or organization from a certain tax obligation.

- ❑ Yes, you're right…tax-exempt bonds should not be concerned with taxation. But, if you are connected to a state or local governmental entity or even a Section 501(c)(3) charity, the issuance of tax-exempt bonds, notes or certificates of obligation (and sometimes, leases) has the potential of bringing a perfect storm of tax penalty and complexity to your door. Let's talk about:
  - Arbitrage
  - Private Activity
  - Recordkeeping

ARBITRAGE RULES

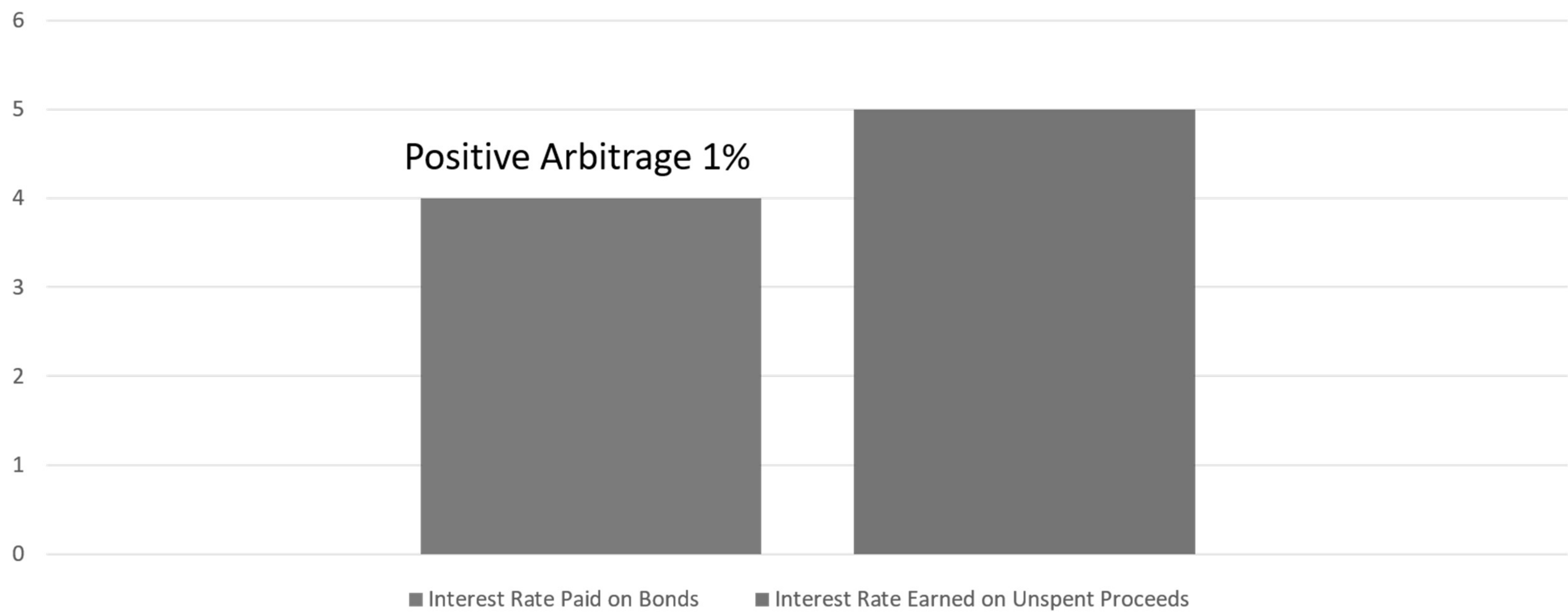
The word comes originally from the Latin "arbiter," meaning "onlooker." (Merriam-Webster Dictionary) By the time it got into the French and English languages it had come to mean "making choices" and from there morphed into buying and selling something, nearly simultaneously, to make a profit.

- ❑ In the world of tax-exempt bonds, it means investing the money you borrowed (called "the proceeds") while gradually spending it on your "project." By itself, doing this is not illegal and should not cause problems. In any case, the issuer must always keep two interest rates in mind:
  - i. the interest rate paid on the money you borrowed (called the "arbitrage rate") and,
  - ii. the interest rate earned on the borrowed money still unspent.

- ❑ If i) is greater than ii), you are earning "negative arbitrage," i.e., you're losing money.

- ❑ If ii) is greater than i), you have **POSITIVE ARBITRAGE** and this is where you must start paying attention.

ARBITRAGE RULES



ARBITRAGE RULES

Form **8038-T** (Rev. October 2021) Department of the Treasury Internal Revenue Service

Arbitrage Rebate, Yield Reduction and Penalty in Lieu of Arbitrage Rebate

▶ Under sections 143(g)(3) and 148(f) and section 103(c)(6)(D) of the Internal Revenue Code of 1954.

▶ Go to www.irs.gov/Form8038T for instructions and the latest information.

OMB No. 1545-0047

Part I Reporting Authority — Check box if Amended Return ▶ ☐

1 Issuer's name	2 Issuer's employer identification number (EIN)
3 Number and street (or P.O. box no. if mail is not delivered to street address) — Room/suite	4 Report number (For IRS Use Only) 7
5 City, town, or post office, state, and ZIP code	6 Date of issue
7 Name of issue	8 CUSIP number
9 Name and title of officer of the issuer or other person whom the IRS may call for more information	10 Telephone number of officer or other person
11 Type of issue ▶	Issue price ▶ 11

Part II Arbitrage Rebate and Yield Reduction Payments — Amount

12 Computation date to which this payment relates (MM/DD/YYYY)

13 Arbitrage rebate payment (see instructions) ☐ check box if less than 100% of rebate amount — 13

14 Yield reduction payment (see instructions) ☐ check box if less than 100% of yield reduction amount — 14

15 Rebate payment from Qualified Zone Academy Bond (QZAB) defeasance escrow (see instructions) — 15

Part III Penalty in Lieu of Arbitrage Rebate

16 Number of months since date of issue: ☐ 6 mos ☐ 12 mos ☐ 18 mos ☐ 24 mos ☐ Other. No. of mos ▶

17 Penalty in lieu of rebate — 17

18 Date of termination election (MM/DD/YYYY)

19 Penalty upon termination — 19

Part IV Late Payments

20 Does failure to pay timely qualify for waiver of penalty? See instructions — Yes ☐ No ☐

21 Penalty for failure to pay on time (see instructions) — 21

22 Interest on underpayment (see instructions) — 22

Part V Total Payment

23 **Total payment.** Add lines 13, 14, 15, 17, 19, 21, and 22. Enter total here — 23

Part VI Miscellaneous

24 Unspent proceeds as of this computation date — 24

25 Proceeds used to redeem bonds — 25

26 Gross proceeds used for qualified administrative costs for guaranteed investment contracts (GICs) and defeasance escrows — 26

27 Fees paid for a qualified guarantee — 27

	Yes	No
28 Is the issue a variable rate issue? — 28		
29 Did the issuer enter into a hedge? Name of provider / Term of hedge — 29		
30 Were gross proceeds invested in a GIC? Name of provider / Term of GIC — 30		
31 Were any gross proceeds invested beyond an available temporary period? — 31		
32 Calculations for filing of this form prepared by: ☐ Issuer ☐ Preparer:		

Signature and Consent — Under penalties of perjury, I declare that I have examined this return, and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. I further declare that I consent to the IRS's disclosure of the issuer's return information, as necessary to process this return, to the person that I have authorized above.

▶ Signature of issuer's authorized representative — Date — ▶ Type or print name and title

Paid Preparer Use Only — Print/Type preparer's name | Preparer's signature | Date | Check ☐ if self-employed | PTIN — Firm's name ▶ | Firm's EIN ▶ — Firm's address ▶ | Phone no.

For Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11545Y Form **8038-T** (Rev. 10-2021)

- ❑ How will the Internal Revenue Service know about any positive arbitrage?
- ❑ Issuers of tax-exempt obligations must file a Form 8038-T around five (5) years after the issue date.
- ❑ Filling-out the form will disclose any positive arbitrage.
- ❑ You will not regret obtaining the services of a qualified “Arbitrage Specialist” for this and other related needs.

ARBITRAGE RULES

- **What happens if we have positive arbitrage?**
  - Generally, you must “rebate” (which means “pay back”) any amount of positive arbitrage to the United States Treasury, keeping in mind you got to hold on to it for the last five years.
  - Some issues and issuers are allowed to keep the money they made. These cases are called “exceptions to rebate” and mostly apply to smaller issues and issuers.

- **Why is Uncle Sam being so hard on us?**
  - The Treasury views the tax-exempt interest (on federal tax returns) granted to issuers and holders of such debt to be a giant federal subsidy, costing billions in lost income tax revenue and giving issuers a distinct advantage over taxable-interest debt, including U.S. Treasury Securities.

The idea is “You’ve been given a valuable gift, so don’t try to enlarge it.”

ARBITRAGE RULES

- **It may appear that having to rebate positive arbitrage is not much of a penalty, so what if the Issuer continues to invest in "higher yielding nonpurpose investments."**
  - If the Issuer hasn't spent all or most of the proceeds within the so-called "spending periods" and continues to earn positive arbitrage profits, it could be subject to the "mother of all penalties" in the tax-exempt bond world. Specifically, the interest on the debt is declared by the IRS to be taxable for federal income tax purposes. The consequences to the Issuer and the bondholders would be catastrophic. This rarely happens but it creates a real incentive to ensure you watch over the unspent proceeds as the years roll on.
  - Spending Periods – the typical spending periods for new money issues are three (3) and five (5) years. You can extend your 3-year period to five years if you can show a good reason for taking extra time, like engineering or architectural complications. Your earnings on unspent proceeds during these periods can be "unrestricted," but any positive arbitrage must be rebated.
  - The problems begin when unspent proceeds are still on hand after the expiration of the spending period and those proceeds are earning positive arbitrage. The Issuer has pledged, in the bond documents, to spend the proceeds "with due diligence" within the spending period, so failure to do so presents an easy target. Even if no positive arbitrage is present, unspent proceeds are seen by the IRS as an indication of over-borrowing.

PRIVATE ACTIVITY

- The federal government does not want the generous subsidy it gives to the Issuers of tax-exempt debt to trickle down and end up benefitting a “nongovernmental person.” Such person is, generally, any person or entity that is not a state or local governmental unit. If more than ten percent (10%) of the issue is benefitting such person, the bonds can be declared “private activity bonds” (PAB) and forfeit their tax-exempt status. Making the determination of such PAB status involves several technical tests and resort to many pages of regulations for which we have neither time nor inclination.

- **WHICH OF THE FOLLOWING IS TRUE?**
  A. Renting excess office space in your bond-financed administrative building is okay because the Renter is the Center for Medicare/Medicaid Services.
  B. Letting the U.S. Marshalls Service use your county jail (for a per-diem amount) is okay.
  C. Charging for advertising on your new, bond-financed super-scoreboard in your old, bond-financed school district stadium is always okay.
  D. All of the above are True.
  E. None of the above are True.

PRIVATE ACTIVITY

- Now that you know the answer is **E.** and that all of the "users" are nongovernmental persons, let's take a tour of some common situations where PAB status can arise.
  - The issuer could have a problem with PAB at the time of issuance or even before the issue date. For example, School District K has rented out its gymnasium during the summer months for several years now and the bonds that financed the gym are paid off. K now issues a new bond to renovate the gym.
  - City M has extra space in one of its fire stations that it allows one of its major vendors to use in exchange for discounts on emergency medical equipment.
  - County Z issued new money (20-year) bonds seven years ago and spent some of the proceeds on vacant land. It now sells the land and puts the amount received in its general fund.

- Because of the tricky and somewhat insidious nature of PAB, Issuers should exercise caution and should not hesitate to contact bond counsel if a question arises. One of the reasons the IRS is so concerned about "post-issuance compliance" is what they call a "change of use" that results in PAB status.

PRIVATE ACTIVITY

❑ **What if your bonds get declared PAB by the IRS?**

- Your bonds could become taxable…but that's not likely. In most cases, the Issuer will be allowed an alternative resolution to the problem that is not pleasant, but much better than taxable status.
- The alternative is comprised basically of two parts:
  1. First, the offending bonds must be refunded, with the new, refunding bonds being taxable interest bonds.
  2. Second, the Issuer must pay a penalty (in cash) to the U.S. Treasury. The penalty, which is computed using a yearly-adjusted rate, is based on the interest paid on the bonds in the past few years. The idea is to subject the Issuer to a "taxable" rate on the bonds declared PAB.

RECORDKEEPING

- ❑ **<u>Record Retention rule</u>** – There are many good reasons to make certain all records relating to your issuance of tax-exempt obligations are maintained and accessible. The general rule is that these records should be kept "***for the life of the bonds***" **plus three (3) years**, whether new money or refunding bonds. Many Issuers keep the transcript and all related bond documents indefinitely. Electronic storage is acceptable to the IRS, provided you follow their guidelines.

- ❑ **<u>Bond Audits</u>** – one instance where well-maintained and accessible records become essential is in the event of an IRS audit of one or more of your tax-exempt obligations. Audits happen for various reasons and do not require that you did something wrong. The process almost always begins with a letter from the IRS asking the issuer to provide written records called an IDR or *Information Document Request*. If you have maintained your documents properly you will likely survive the audit simply by providing the documents and answering certain questions. Generally, this process is conducted entirely by mail, telephone and/or email. Many audits result in no action, but if the Issuer feels even a little doubt or anxiety, bond counsel should be contacted. On the other hand, if you cannot provide the requested documentation, or if what you provide does not satisfy the auditor, the IRS tends to assume the worst. The auditor may suspect or detect an arbitrage or PAB problem, neither of which is good.

LEGAL FRAMEWORK AND FEDERAL SECURITIES LAWS

- Municipal Bonds are generally exempt from registration with the Securities and Exchange Commission
  - SEC Anti-fraud provisions are applicable
  - Section 17(a), Securities Act of 1933
- Rule 10b-5, promulgated pursuant to Section 10, Securities Exchange Act of 1934
- Anti-fraud provisions in a nutshell:
  - No fraud/deceit
  - No untrue statements of a material fact or an omission of a material fact
- Rule 15c2-12: requires bond underwriters to enter into a contract with the Issuer to ensure:
  - Production of offering document (e.g. the Official Statement); and
  - **Continuing disclosure of <u>annual reports</u> and <u>event notices</u>**

ANNUAL REPORTS

- The District shall file annually with the MSRB (1) within six months after the end of each fiscal year ending in or after 2021, financial information and operating data with respect to the District of the general type included in the final Official Statement authorized by Section 19 of this Order, being the information described in Exhibit "B" hereto, and (2) if not provided as part of such financial information and operating data, audited financial statements of the District, when and if available. Any financial statements so to be provided shall be (i) prepared in accordance with the accounting principles described in Exhibit "B" hereto, or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation, and (ii) audited, if the District commissions an audit of such statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within such period, then the District shall provide unaudited financial statements within such period and audited for the applicable fiscal year to the MSRB, when and if the audit report on such statements becomes available. Under current Texas law, including, but not limited to, Chapter 44, as amended, Texas Education Code, the District must keep its fiscal records in accordance with generally accepted accounting principles, must have its financial accounts and records audited by a certified or permitted public accountant and must file each audit report with the Texas Education Agency within 150 days after the close of the District's fiscal year. Copies of each audit report must also be filed in the office of the District and with the Secretary, Board of Trustees. The District's fiscal records and audit reports are available for public inspection during the regular business hours of the Superintendent of Schools. Additionally, upon the filing of these financial statements and the annual audit, these documents are subject to the Texas Public Information Act, as amended, Texas Government Code, Chapter 552. Thereafter, any person may obtain copies of these documents upon submission of a written request to the Superintendent of Schools at Texas Independent School District, 123 Main Street, ABC, Texas, and upon paying the reasonable copying, handling, and delivery charges for providing this information.

- If the District changes its fiscal year, it will file notice of such change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the District otherwise would be required to provide financial information and operating data pursuant to this Section.

EVENT NOTICES

- The District shall provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner and not more than 10 business days after occurrence of the event:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other material events affecting the tax status of the Bonds;
7. Modifications to rights of holders of the Bonds, if material;
8. Bond calls, if material, and tender offers;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the Bonds, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below;
13. The consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material;
15. Incurrence of a financial obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Board, any of which affect security holders, if material; and
16. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District, any of which reflect financial difficulties.

CONTINUING DISCLOSURE AMENDMENTS

- Effective February 27, 2019, the SEC added two new event notices:
  1. Incurrence of a financial obligation of the Board, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Board, any of which affect security holders, if material; and
  2. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Board, any of which reflect financial difficulties

  - "Financial Obligations" include private placements, bank loans, capital leases, and other financed purchases.
  - For larger entities, will likely require a multi-department education effort and advanced planning.
  - Pandemic and other governmental assistance could trigger an event filing.
  - Private Placement maintenance tax notes, leases, Public Property Finance Act Contracts, and other obligations may trigger an event filing.
  - Sidenote: Be mindful of any QTEO designations of such obligations and how they may impact your bonds.

MSRB EMMA SYSTEM

- Municipal Securities Rulemaking Board (MSRB)
- Established by Congress in 1975 to protect municipal securities investors, municipal entities and the public interest
- Self-regulatory organization that regulates the activities of the broker-dealers that buy, sell and underwrite municipal bonds
- In 2010 Congress expanded MSRB's authority to regulate municipal advisors
- Not authorized to regulate municipal issuers
- Maintains the Electronic Municipal Market Access (EMMA) website which is the official source of municipal securities data and disclosure documents
- EMMA has a mechanism for voluntary disclosures

LIABILITY

- ❑ Anti-fraud violation could lead to:
  - ➢ Investor action for damages for reckless or intentional action; or
  - ➢ SEC enforcement action for negligent, reckless or intentional action.
  - ➢ Fines, penalties, injunctions, criminal liability.
- ❑ Liability covers all statements connected to the purchase and sale of securities including statements "reasonably expected to reach investors."
- ❑ Liability reaches to not just the governmental entity but also to officials and staff of such entity.

LIABILITY

THE BOND BUYER

SEC charges Texas school district and former CFO with fraud

By Connor Hussey March 16, 2022, 1:16 p.m. EDT 3 Min Read

Crosby ISD has agreed to settle the Commission's charges by consenting to the order finding it violated antifraud provisions, without admitting or denying any findings. Following the SEC's complaint against Merka filed in the U.S. District Court for the Southern District of Texas, she agreed to pay a $30,000 penalty and not participate in any future municipal securities offerings.

"Crosby and Merka misled municipal bond investors regarding the truth of Crosby's financial health and Shelby Lackey's deficient auditing practices further exposed investors to harm," said LeeAnn Gaunt, chief of the division of enforcement's public finance abuse unit

"The SEC is committed to holding bad actors in municipal securities offerings accountable for their misconduct and will continue to provide protections for investors," said David Peavler, regional director of the SEC's Fort Worth Regional Office.

CONSIDER ADOPTING A DISCLOSURE POLICY

- ❑ Reduces the chance of any material misstatements or omissions or violations of Rule 15c2-12
- ❑ Establishes a defense of reasonable care against misstatements or omissions that may still occur
    - If a policy is adopted and then ignored could be used to document failure to exercise reasonable care
- ❑ Policy needs to be reasonable but also in line with the District's particular needs and capabilities
- ❑ SEC has referenced disclosure policies in practically every enforcement action against an issuer
    - Has cited poor or no policy as cause of violation;
    - Has imposed adoption of policy as a settlement term; and/or
    - Has cited post-violation adoption of policies as factors in reducing punishment.

STEP 1: Determine Existing Process

- ✓ The closer the policy is to existing practice the more likely it will be followed

STEP 2: Determine What Enhancements Need to be Made

- ✓ Are all individuals or departments who possess relevant information involved?
- ✓ Are individuals with knowledge of District wide issues/trends involved?
- ✓ Are individuals and departments involved in disclosure matters working together?
- ✓ Are appropriate District personnel adequately trained?

See "Crafting Disclosure Policies" by the National Association of Bond Lawyers August 20, 2015.

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FIXED INCOME CAPITAL MARKETS

DECLINING ENROLLMENT/ADA

THE STATE OF PUBLIC SCHOOL ENROLLMENT IN TEXAS

NEWS // EDUCATION

Texas public school enrollment falls by more than 76,000 students, report shows

The declines came despite overall population growth, and one expert warns they could accelerate.

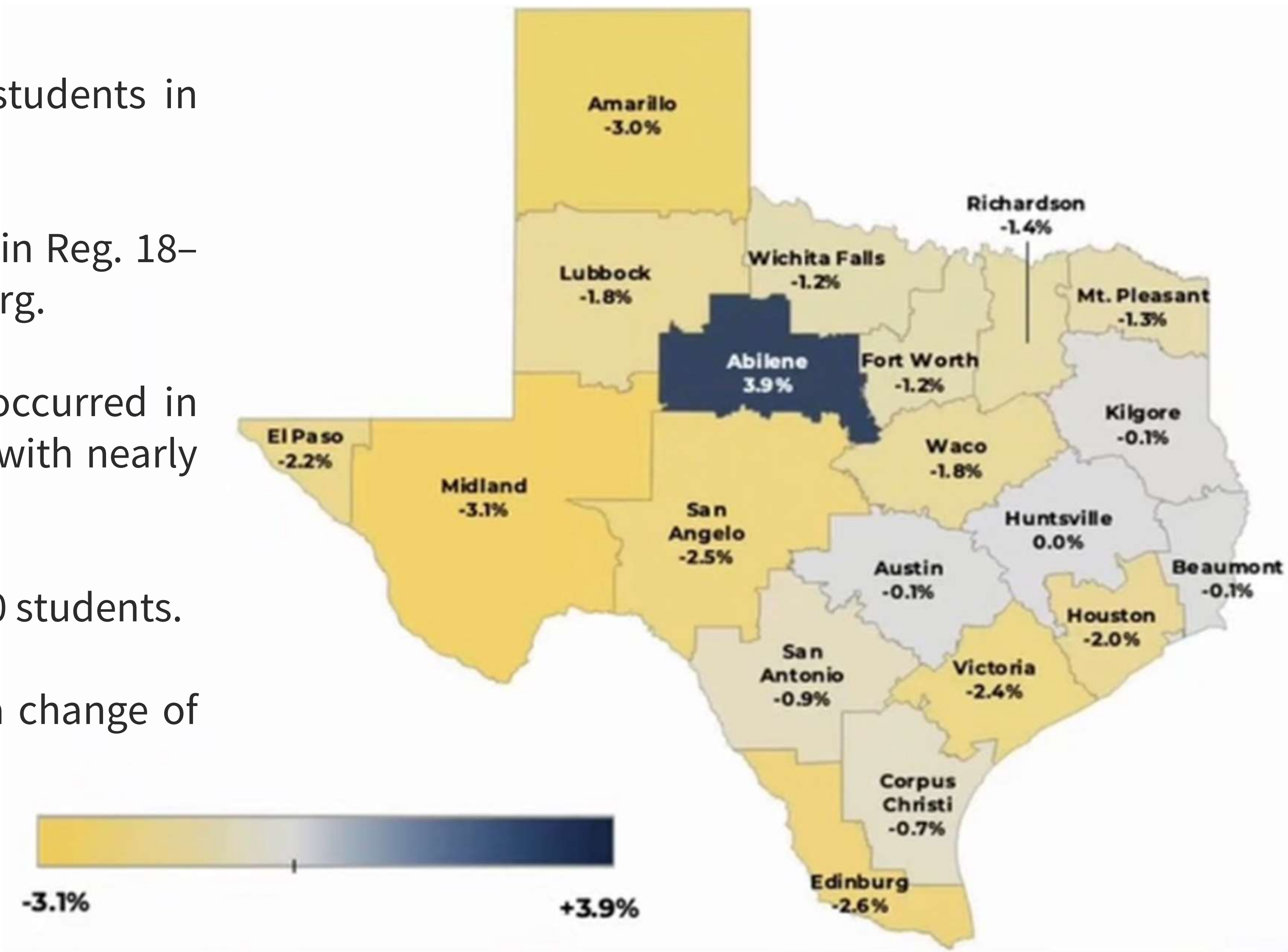
By Silas Allen, *Staff Writer*

Texas school enrollment sees second-largest historic drop, falls below 5.5 million

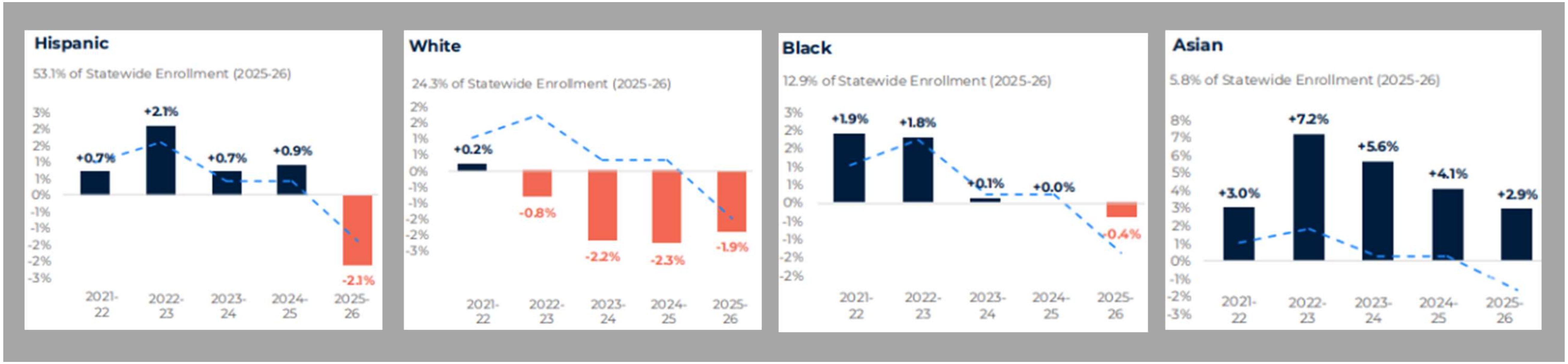
- ❑ Currently, the State of Texas educates 5,467,642 public school students in 9,113 schools.
- ❑ 53.1% are Hispanic, 24.3% White, 12.9% are Black, 5.8% are Asian, and 3.9% are multiracial. Hispanic students have been the majority since the 2010-11 school year.
- ❑ The 2025-26 school year saw public school **enrollment dropped by 76,613 students or 1.4%** from the previous school year resulting in millions of dollars of lost funding.
- ❑ Rating agencies (Moodys/S&P/Fitch) note enrollment as a factor when assigning a credit rating to a school district. A lower rating typically results in higher borrowing costs.

ANNUAL ENROLLMENT CHANGE BY ESC REGION

- 18 of the 20 ESC Regions recorded fewer students in 2025-26 than the prior year.
- In terms of %, the biggest declines occurred in Reg. 18–Midland, Reg. 16–Amarillo and Reg. 1–Edinburg.
- In terms of numbers, the biggest declines occurred in Reg. 4–Houston with 24,500, Reg. 10–Dallas with nearly 13,000, and Reg. 1–Edinburg with 11,400.
- Only Reg. 14–Abilene saw an increase of 2,800 students.
- Reg. 6–Huntsville was essentially flat, with a change of just six students.

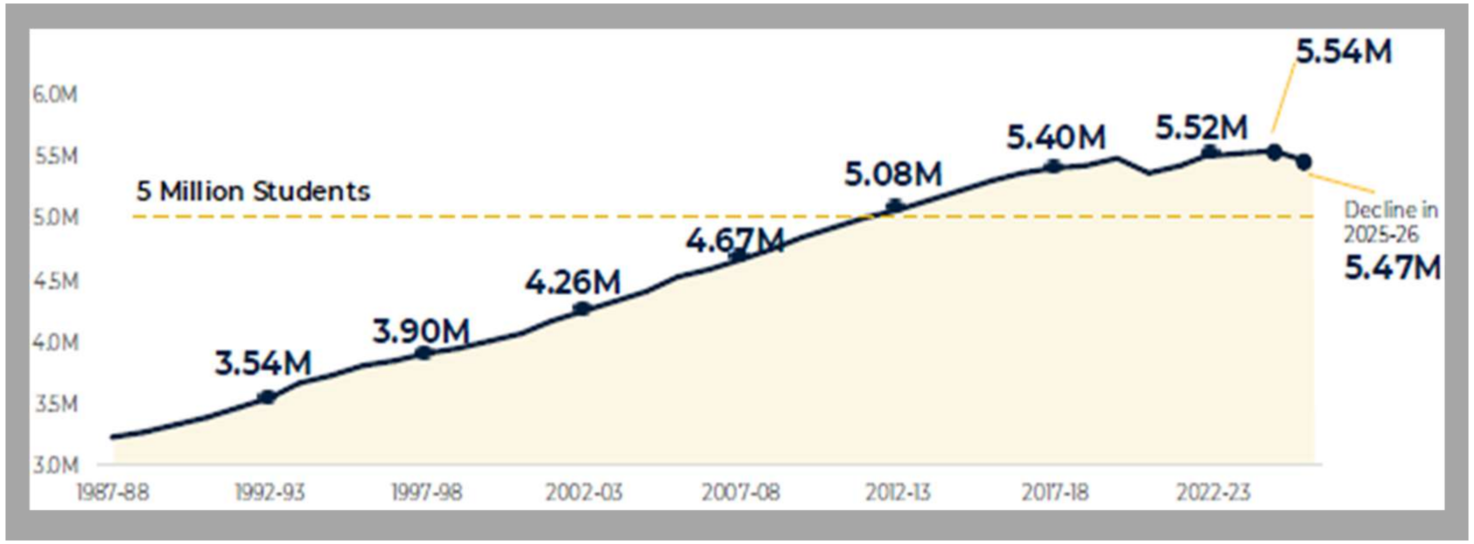


ANNUAL ENROLLMENT CHANGE BY RACE/ETHNICITY



- ❑ In the 2025-26 school year, three of the four largest groups – Hispanic, White and Black – declined simultaneously for the first time.
- ❑ Asian enrollment has grown every year in the period, though the pace has slowed.
- ❑ The Hispanic student population dropped by 61,781 or 81% of the 76,613 total enrollment loss.
- ❑ A significant portion of this Hispanic enrollment loss likely reflects a simultaneous decline in emergent bilingual students, a population that heavily overlaps with Hispanic enrollment.

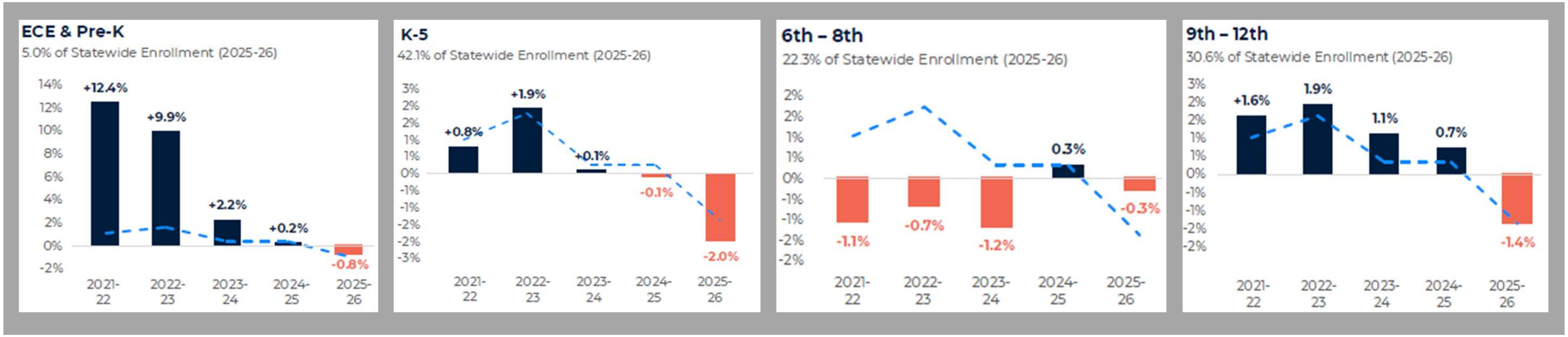
ANNUAL ENROLLMENT OVER THE DECADE



School Year	Total Enrollment	Yearly Change in Enrollment	Total Population Of the State of Texas	Enrollment as a % Of Population
2016-17	5,359,127	1.10%	27,914,064	19.2%
2017-18	5,399,682	0.80%	28,291,024	19.1%
2018-19	5,431,910	0.60%	28,624,564	19.0%
2019-20	5,493,940	1.10%	28,986,794	19.0%
2020-21	5,371,586	**-2.20%**	29,239,570	18.4%
2021-22	5,427,370	1.00%	29,570,351	18.4%
2022-23	5,518,432	1.70%	30,113,488	18.3%
2023-24	5,531,236	0.20%	30,727,890	18.0%
2024-25	5,544,255	0.20%	31,318,578	17.7%
2025-26	5,467,642	**-1.40%**	31,709,821	17.2%

- ❑ Until recently, public school enrollment had been growing steadily with nearly all years posting an annual gain of 1–3%.
- ❑ The 2025-26 school year saw a 1.4% decline from the previous school year, again only the second time this has occurred.
- ❑ The other recorded drop happened in the 2020-21 school year due to the COVID-19 shutdown.
- ❑ Public school enrollment as a percent of the total population of Texas continues to decline.

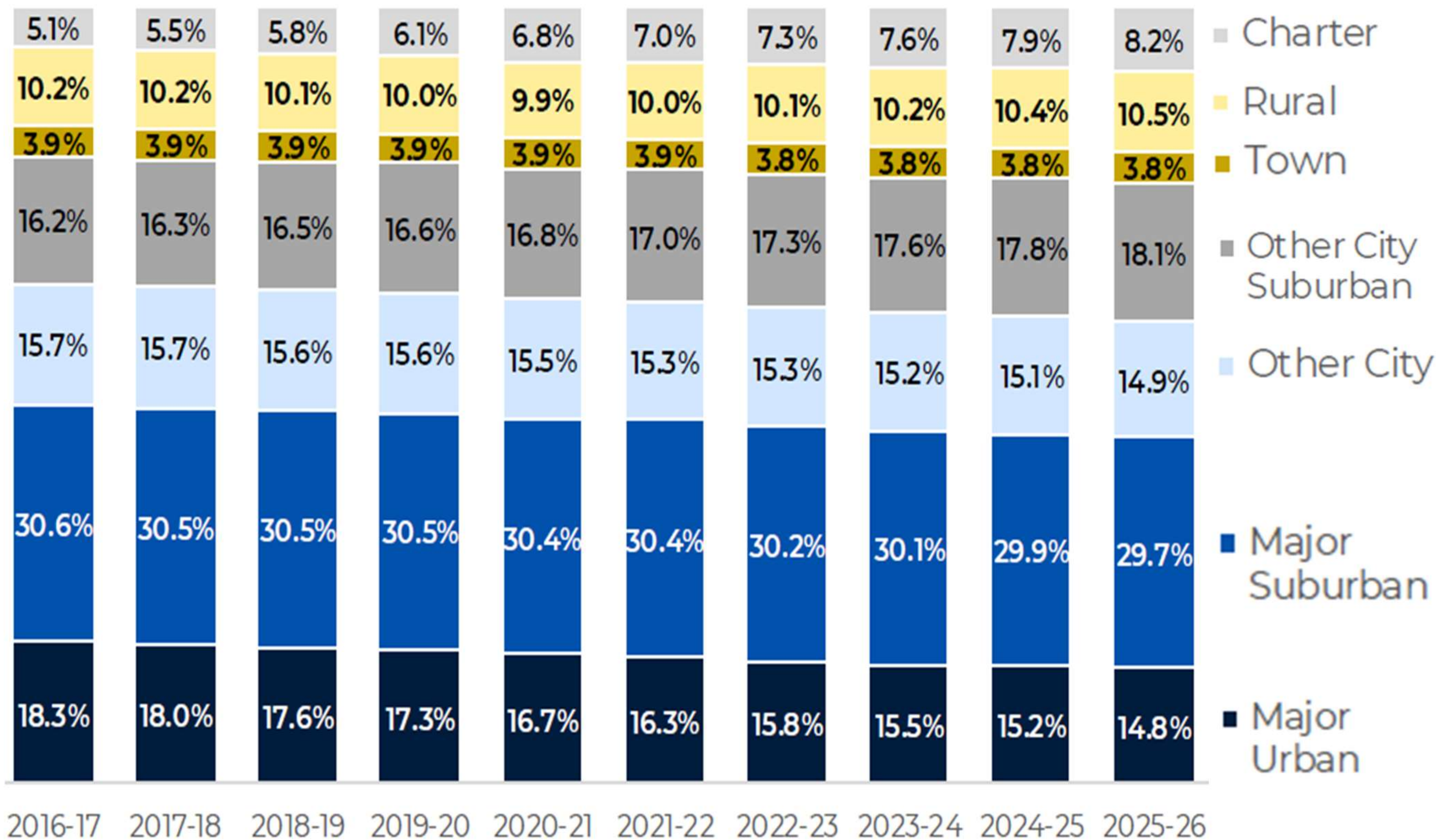
ANNUAL ENROLLMENT CHANGE BY GRADE LEVEL



- ❑ Early childhood Ed/Pre-K showed a dramatic swing surging >12% then decelerating steadily.
- ❑ K–5 enrollment declined by 46,180 students, accounting for 60% of the current enrollment drop.
- ❑ Middle grades have been falling consistently since COVID-19 and accounted for 5% of the enrollment drop.
- ❑ High school enrollment held up the longest before falling, accounting for 32% of the enrollment drop.

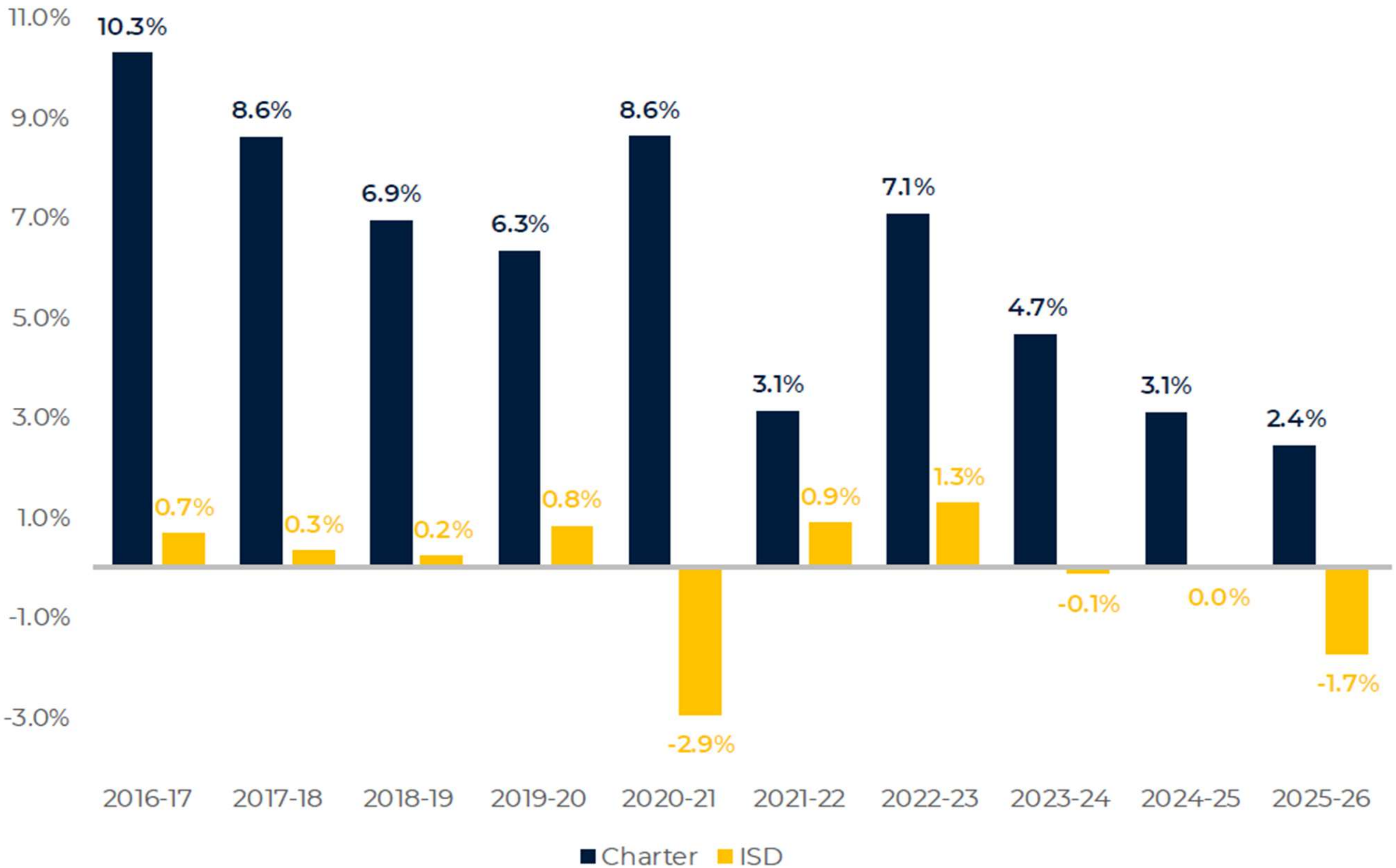
ANNUAL ENROLLMENT SHARE BY DISTRICT CLASSIFICATION

- ❑ Charter school expansion has been most pronounced in urban areas, offering alternatives to their assigned district schools.
- ❑ Major Urban districts lost nearly 170,000 students over the decade.
- ❑ 43% of traditional ISDs are located in a county where the population is growing, while district enrollment is not.



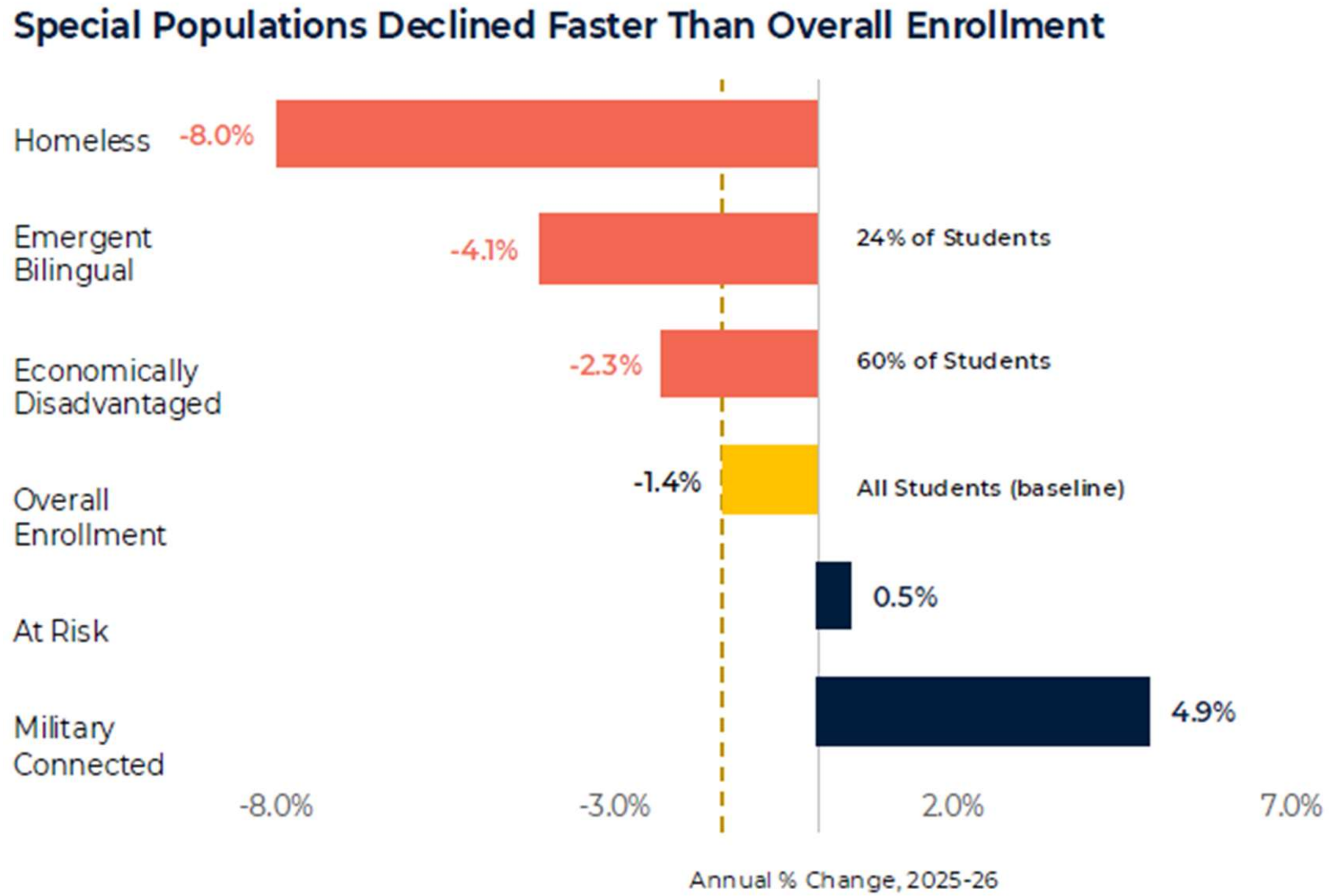
ENROLLMENT OF TEXAS CHARTER SCHOOLS OVER A DECADE

- Charter enrollment has increased from 272,800 students in 2016-17 to nearly 446,600 in 2025-26, an increase of roughly 173,800 students.
- This represents a 63% increase in enrollment. Certain charter schools offer to bus students from the border to the campus.
- On average, the charter sector has added approximately 17,400 students per year during this period.
- Charter enrollment has grown every year since 2016-17 and continued to expand even during the COVID-19 pandemic.



A LOOK AT SPECIAL POPULATIONS

- This data comes from PEIMS and is collected from the Family Income survey. It is entered by school staff, so errors occur, and numbers are continuously being corrected/updated. A higher or lower % affects a school's accountability.
- Economically disadvantaged students make up approximately 60% of total enrollment.
- Emergent bilingual students represents 24% of total enrollment and 86% were Hispanic. With a decline of 55,000 students, this group makes 71% of the 76,613 drop in enrollment.
- Charters grew their share of both populations in 2025–26, suggesting some of these students are leaving traditional ISDs for charter schools.



TOP 5 REASONS STUDENTS LEFT PUBLIC SCHOOLS

- Enrollment in a private or public school outside Texas and home schooling together account for more than 55,000 exits per year.
- The $1 billion voucher program for eligible students to attend private schools or be homeschooled, launched this year with 106,659 students receiving state-funded accounts for the 2026-27 school year out of more than 274,000 applicants.
- **Return to Home Country had a significant effect on the RGV**. Some stopped showing up to school. Administrators contacted parents to follow up and found parents were scared.

Leaver Reason	2020-21	2021-22	2022-23	2023-24
Reason Unknown	45,495	42,865	40,524	37,885
Enrolled in a Public or Private School outside Texas	30,895	30,978	30,619	30,622
Home Schooling	29,846	29,765	30,061	26,647
Returned to Home Country	8,585	10,698	11,152	11,623
Enrolled in Texas Private School	7,816	8,426	7,399	6,415

WHAT WILL PUBLIC SCHOOL LOOK LIKE IN THE COMING YEARS

Key Takeaways

- In the 2025-26 school year, Texas had **76,000 fewer public school students** than it did the school year before.
- This is the **first enrollment decline**, outside of a global pandemic, in nearly **40 years.**
- **Hispanic students** accounted for **4 out of 5 students.**
- In the past ten years, **major urban districts** have lost **17.3%** of their students, while **rural districts** grew by **13.4%**
- By 2030, Texas could see approximately **100,000** fewer K-12 students.[1]

❑ The Texas Demographic Center is projecting that Texans under 18 as a share of the total state population will decline from 25% in 2020 to 18% by 2060.

❑ In the near-term, whether assuming low, mid or high migration to the state, the Center is projecting that the school-age population will shrink in 2026 and continue to shrink each year through 2030.

❑ This means Texas is unlikely to grow its way out of this scenario and public schools should prepare themselves for structural changes to accommodate this enrollment decline.

Brookings Institution projections estimate that public schools could lose between 2.9 million and 6.6 million students over the next 25 years, with the steepest drops expected between now and 2035. Falling birth rates, families leaving cities and the rapid expansion of private school voucher programs are all driving the collapse. The buildings are open. The seats are empty.

HOUSE BILL 2
PUBLIC EDUCATION FUNDING PLAN

TEXAS LEGISLATURE 2025

Gov. Greg Abbott signs $8.5 billion public education funding plan into law. Here's how it works.

The spending package will give schools more money for staff pay raises, operational expenses, special education and more.

- ❑ On June 4, 2025, Gov. Abbott signed a bill adding $8.5 billion in new public education funding.
- ❑ ***The bill increased the basic allotment by $55 per student from $6,160 to $6,215.***
- ❑ The bill provided $4 billion+ for teacher and staff pay raises, expansion of the Teacher Incentive Allotment (TIA), and teacher preparation and certification programs.
- ❑ The bill provided millions more to expand career and technical education opportunities, special education reforms, strategies for improving early literacy and numeracy, and school safety.
- ❑ $1.3 billion for school district operational costs, including insurance, transportation, and utilities.
- ❑ $199 million to expand the charter school facilities allotment.

AVERAGE DAILY ATTENDANCE

- **Average Daily Attendance (ADA)** – The number of actual students in attendance divided by the number of instructional days typically taken at 10:00am. This means if a student misses school, they are not counted for funding purposes that day. Currently, only six states use attendance-based funding: California, Idaho, Kentucky, Mississippi, Missouri, and Texas and are the outliers nationally. The majority of the country funds public schools based on student enrollment.
- **The 90% Attendance Rule** – TEA requires public school students to attend class at least 90% of the days it is offered to receive credit or a final grade. This applies to both excused and unexcused absences and failing to meet this threshold means a student must repeat the course or grade (except in elementary). However, TEA gives the District leeway on dealing with attendance issues.
- **Chronic Absenteeism** – After the COVID-19 pandemic and students gradually returned to school, a trend emerged where parents seemed less concerned with school attendance. Prior to the Covid-19 pandemic, 95%+ attendance in public schools was the norm. Currently, attendance typically hovers around 91% to 92% of total enrollment, while some urban or rural districts can fall to 88% to 90%.
- **Optional Flexible School Day Program (OFSDP)** – an alternative attendance program allowing school districts to offer flexible class hours and days. It enables eligible at-risk students to complete coursework and recover credits through weekend/evening/extended/online classes. Parental approval is required and districts generate ADA funding based on the actual contact hours.

ADA PROJECTIONS

- TEA's statewide ADA projections:
  - For 2025-2026 is 5,009,942
  - For 2026-2027 is 4,990,784

		2016-2017 ADA	2017-2018 ADA	2018-2019 ADA	2019-2020 ADA	2020-2021 ADA	2021-2022 ADA	2022-2023 ADA	2023-2024 ADA	_2024_2025_ADA
REGION 1	**EDINBURG**	**398,099**	**399,816**	**403,141**	**380,404**	**405,447**	**384,702**	**391,764**	**393,218**	**391,095**
REGION 2	**CORPUS CHRISTI**	96,853	96,420	92,820	88,891	87,984	86,069	85,413	84,665	85,010
REGION 3	**VICTORIA**	49,924	49,592	48,750	46,844	45,384	44,075	43,553	43,191	42,952
REGION 4	**HOUSTON**	1,117,058	1,131,466	1,137,541	1,113,289	1,136,044	1,131,019	1,130,752	1,137,314	1,131,553
REGION 5	**BEAUMONT**	77,888	78,328	76,781	74,573	75,556	75,738	75,679	75,831	76,884
REGION 6	**HUNTSVILLE**	181,443	185,001	187,389	186,365	191,131	199,872	200,711	203,643	205,805
REGION 7	**KILGORE**	157,761	157,209	160,383	157,390	162,036	165,799	168,246	168,509	169,013
REGION 8	**MT PLEASANT**	51,691	51,474	51,880	51,654	50,945	50,526	50,479	50,489	50,059
REGION 9	**WICHITA FALLS**	34,951	34,633	34,661	33,612	34,262	34,095	33,508	32,955	32,437
REGION 10	**RICHARDSON**	795,584	806,440	812,241	795,773	820,864	810,792	810,740	821,066	827,979
REGION 11	**FORT WORTH**	548,497	548,951	552,449	546,254	544,835	545,500	543,530	543,208	543,347
REGION 12	**WACO**	159,677	160,341	161,868	157,999	160,496	160,617	160,411	160,917	160,584
REGION 13	**AUSTIN**	362,261	359,526	357,979	358,110	361,462	348,130	349,299	355,070	361,551
REGION 14	**ABILENE**	55,866	53,587	53,125	53,255	56,167	59,253	61,067	63,633	68,852
REGION 15	**SAN ANGELO**	46,269	46,125	45,904	44,469	44,987	46,205	45,796	45,184	44,812
REGION 16	**AMARILLO**	79,145	78,204	77,535	74,837	74,162	74,781	73,442	72,441	71,568
REGION 17	**LUBBOCK**	78,256	77,643	77,533	75,125	76,080	76,224	74,961	74,103	73,762
REGION 18	**MIDLAND**	81,469	83,173	84,978	84,506	81,111	81,195	82,058	90,832	97,958
REGION 19	**EL PASO**	165,459	163,986	162,297	152,529	155,382	151,228	147,872	146,397	144,249
REGION 20	**SAN ANTONIO**	436,561	442,698	440,584	429,480	437,638	443,253	451,696	452,567	455,138
		4,974,711	**5,004,614**	**5,019,837**	**4,905,360**	**5,001,974**	**4,969,073**	**4,980,976**	**5,015,234**	**5,034,605**

FINANCING IMPACT OF DECLINING ADA

- **Foundation School Program (FSP)** – FSP uses ADA to establish how much state funding public schools are entitled to receive. ADA is used to calculate all state funding formulas and base funding on ADA. It provides a base amount of funding for each student and an additional weight depending on the program(s) in which the student participates. Weights are added because, theoretically, some student and district characteristics are "more expensive" to educate due to their involvement in: Special Ed, Bilingual/ESL Program, Career and Technology, and Gifted and Talented, etc.
- **Day-to-Day Funding** – school funding is tied heavily to ADA and any drop in attendance directly reduces maintenance and operations (M&O) funding for teacher salaries, utilities, buses, instructional supplies, etc. The other components of school funding are taxable values and weighted ADA (or WADA) that drives many of the special allotments. To a lesser extend, ADA can impact interest and sinking (I&S) funding for example, when calculating Existing Debt Allotment (EDA).
- **In terms of dollars** – for some school districts, a one-percentage-point increase in ADA is equivalent to about $1.5 million in additional funding. TEA calls this the "incentive" effect, the idea being that districts will work harder to keep students in school if their funding depends on it. Efforts to move to enrollment-based funding have been unsuccessful since, from the Legislature's perspective, it would take approximately $3 billion to fix.


E&P
THANK YOU
We're available for any questions and, as always, we encourage you to bring your students to your pricings.