
Early Payment Credit for Recapture

Restoring a modernized version of the early payment discount for recapture-paying school districts

Executive Summary

Prior to 2019, Texas school districts could earn a discount of up to 4% on their recapture obligation by agreeing to pay early — a provision that rewarded fiscal planning and benefited both districts and the state. House Bill 3 repealed this Early Agreement Credit.

This brief makes the case for restoring a modernized version of the early payment discount, with a recommended floor-and-ceiling structure to maintain constitutional equity across districts of vastly different sizes. If every recapture-paying district had taken this option in 2024–25, the total cost to the state would have been approximately \$68 million — and that cost could be offset or eliminated entirely by the state’s own financial benefit from receiving nearly \$3 billion in February rather than August.

Reinstating the Early Payment Credit is a low-cost, pro-taxpayer reform that rewards fiscal responsibility and provides meaningful relief to recapture-paying school districts.

Background: The Original Early Agreement Credit

Prior to the passage of House Bill 3 in 2019, Texas Education Code Section 41.098¹ allowed school districts to receive a credit on their recapture obligation in exchange for committing early to their payment schedule. Districts that submitted a signed agreement to the Commissioner before September 1 of the school year in question were entitled to reduce their total attendance credit payment by the lesser of:

- 4% of the total recapture owed, or
- \$80 per attendance credit purchased.

Under this structure, payments began February 15 and were made in six equal installments through August 15. Due to the \$80-per-credit cap, districts received an average discount of approximately 3% on their recapture obligation.

Sec. 41.098. Early Agreement Credit. A district that submits a signed agreement under this subchapter to the commissioner before September 1 of the school year for which the agreement is made may reduce the total amount required to be paid for attendance credits under Section 41.093² by the lesser of four percent or \$80 per credit purchased. — Enacted by Acts 1995, 74th Leg. (S.B. 1); Repealed by Acts 2019, 86th Leg. (H.B. 3)

House Bill 3 repealed this provision entirely and shifted the recapture payment date to August 15. No replacement incentive or early payment mechanism was established.³

The Case for Reinstatement

Benefits to School Districts

For school districts paying recapture — some of which owe hundreds of millions of dollars annually — even a modest percentage discount represents significant fiscal relief. A 3–4% reduction on a \$700 million obligation, for example, amounts to tens of millions of dollars that could be redirected to students, teachers, and programs.

Beyond the dollar amount, the early payment structure also provides school districts with greater budget predictability. Committing to a payment schedule in September allows districts to plan their cash flow and investment strategies more precisely across the fiscal year.

¹ Texas Education Code, Section 41.098 – Early Agreement Credit (repealed by H.B. 3, 86th Legislature, 2019).

² Texas Education Code, Section 41.093 – Attendance Credits.

³ [Texas House Bill 3 \(86th Legislature, 2019\)](#) – School Finance Reform.

Benefits to the State

The fiscal case for reinstating the early payment discount is not one-sided. The state also benefits materially from receiving recapture revenue early:

- Receiving nearly \$3 billion in February rather than August gives the state a 6-month window to invest those funds at current interest rates or reduce short-term borrowing costs.
- At current short-term investment rates, the interest earned on \$3 billion over 6 months can substantially offset — or fully cover — the cost of any discount provided to districts.
- Monthly and quarterly sales taxpayers who prepay already receive a combined 1.75% discount (0.5% for timely filing and payment, plus 1.25% for prepayment). Extending a comparable incentive to school districts is consistent with existing state tax policy.⁴

If managed effectively, the Early Payment Credit could carry little to no net cost to the state — because the financial benefit of early receipt offsets the discount provided.

The Floor-and-Ceiling Structure

Why a Cap Is Necessary

A flat percentage discount applied uniformly across all recapture districts would produce constitutionally problematic disparities. The wide range of district circumstances — in property wealth, enrollment, and recapture obligation per student — means that an uncapped percentage discount could generate dramatically unequal per-pupil benefits.

Consider Wink-Loving ISD, which is expected to pay approximately \$123 million in recapture while serving fewer than 350 students. An uncapped 4% discount would yield an additional \$14,596 per student in ADA or \$7,486 per WADA — figures that could invite a constitutional challenge under the equity requirements of the Texas school finance system.

The original 1995 legislation addressed this through the \$80-per-credit cap. A modernized version should preserve this floor-and-ceiling logic.

Recommended Structure

Reinstate the Early Payment Credit with the following parameters:

Discount: The lesser of 4% of total recapture owed or \$200 per WADA (weighted average daily attendance).

Eligibility: Districts that submit a signed payment agreement to the Commissioner before September 1 of the applicable school year.

Payment schedule: Beginning February 15, paid in installments through August 15.

The \$200 per WADA ceiling is modernized from the original \$80 per credit purchased to reflect current recapture levels and cost structures, while still preventing disproportionate per-pupil benefits in very small, high-recapture districts.

⁴ Texas Comptroller of Public Accounts — [Sales Tax Prepayment Discount Policy](#).

Fiscal Impact Analysis

District-Level Examples (2024–25 Preliminary Data)

The following table shows how a 4% discount would apply to a sample of recapture-paying districts, based on preliminary 2024–25 data.⁵ Note how the per-WADA impact varies dramatically by district size and recapture level — illustrating why the ceiling is essential.

Illustrative 4% Discount for Sample Recapture Districts (2024–25 Preliminary Data)					
District	ADA	WADA	Recapture FY25	4% Discount	4% per WADA
Austin ISD	62,738	86,578	\$714,244,512	\$28,569,780	\$330
Dallas ISD	122,365	189,449	\$51,631,371	\$2,065,255	\$11
Highland Park ISD	6,134	7,180	\$81,576,845	\$3,263,074	\$454
Houston ISD	158,420	228,897	\$64,463,347	\$2,578,534	\$11
Plano ISD	43,650	57,641	\$149,648,661	\$5,985,946	\$104
Richardson ISD	33,709	47,616	\$5,658,928	\$226,357	\$5
West Orange-Cove CISD	2,265	3,517	\$248,810	\$9,952	\$3
Wink-Loving ISD	338	659	\$123,339,705	\$4,933,588	\$7,486 [△]

[△] Wink-Loving ISD illustrates why an uncapped 4% discount is problematic. The \$200 per WADA ceiling would limit this district's benefit to approximately \$131,800 — rather than \$4.9 million — preserving constitutional equity.

Statewide Cost at Various Discount Rates

The table below shows the estimated statewide cost of the Early Payment Credit at discount rates ranging from 2% to 5%, for the two most recent completed biennia. These figures represent the maximum gross cost before accounting for the state's offsetting financial benefit from early receipt of funds.⁶

Estimated Statewide Cost of the Early Payment Credit						
Fiscal Year	Total Recapture	Status	5% Cost	4% Cost	3% Cost	2% Cost
FY 2022	\$3,006,339,942	Final	\$150.3M	\$120.3M	\$90.2M	\$60.1M
FY 2023	\$4,541,371,716	Final	\$227.1M	\$181.7M	\$136.2M	\$90.8M
Biennial Total	—	—	\$377.4M	\$301.9M	\$226.4M	\$151.0M
FY 2024	\$2,675,875,106	Near Final	\$133.8M	\$107.0M	\$80.3M	\$53.5M
FY 2025	\$2,886,304,397	Preliminary	\$144.3M	\$115.5M	\$86.6M	\$57.7M
Biennial Total	—	—	\$278.1M	\$222.5M	\$166.9M	\$111.2M

⁵ Texas Education Agency – Preliminary Recapture Data, 2024–25 (as of March 5, 2025).

⁶ Texas Education Agency – [Summary of Finance Near-Final Data, 2024–25](#) (as of November 2025).

At the recommended 4% / \$200 per WADA structure: if every eligible district had taken this option in 2024–25, the estimated total cost to the state would have been approximately \$68 million before accounting for the state’s offsetting benefit from early receipt of funds.⁷

Policy Recommendations

For the Texas Legislature

- **Reinstate the Early Payment Credit.** Reinstate Texas Education Code Section 41.098 (Early Agreement Credit) with an updated ceiling of \$200 per WADA to reflect current recapture levels and cost structures.
- **Adopt a floor-and-ceiling structure.** Structure the discount as the lesser of 4% of total recapture owed or \$200 per WADA, preserving the floor-and-ceiling logic of the original 1995 legislation and protecting against constitutionally problematic per-pupil disparities.
- **Require a full net-cost fiscal note.** The Legislative Budget Board should model the net fiscal impact of early receipt of recapture funds — including interest earned and borrowing costs avoided — to establish the true cost of the discount to the state.
- **Preserve district investment authority.** Districts that take the early payment option should be permitted to invest recapture funds in short-term instruments during the period between collection and remittance, consistent with current law allowing such investments.
- **Consider as part of broader recapture reform.** Companion policies — such as overpayment protections and recapture transparency requirements — should be considered alongside the Early Payment Credit as part of a broader recapture reform package.

For School District Leaders

- Districts currently paying recapture should model the financial impact of an early payment credit at both 3% and 4% discount rates on their current recapture obligation, and include those projections in budget planning materials.
- Trustees and finance officers should communicate support for the Early Payment Credit to their legislative delegation, emphasizing both the fiscal benefit to the district and the net-neutral or net-positive impact on the state.
- Districts should ensure they understand the WADA-based ceiling and how it would affect their specific discount calculation under the proposed structure.

Conclusion

The Early Agreement Credit was a sensible, fiscally balanced provision that rewarded school districts for proactive financial planning while also benefiting the state through earlier receipt of nearly \$3 billion in recapture revenue. Its repeal in 2019 removed a meaningful incentive without replacing it with any comparable relief for recapture-paying districts.

Reinstating a modernized version — with a \$200 per WADA ceiling to preserve equity, and a 4% maximum discount to reward early commitment — is a targeted, low-cost reform that serves school districts, taxpayers, and the state alike. At an estimated gross cost of approximately \$68 million before interest offsets, it is also one of the most cost-effective tools available to provide meaningful relief to the more than 225 districts that pay recapture each year.

The Legislature should reinstate the Early Payment Credit as part of a broader commitment to recapture reform — one that recognizes the fiscal burden borne by recapture-paying communities and rewards the responsible financial stewardship their districts already practice.

Fiscal estimates are based on TEA's preliminary recapture data for 2024–25 (as of March 5, 2025), TEA Summary of Finance near-final data for 2024–25 (as of November 2025), and the Texas School Coalition's Early Agreement Credit Ceiling and Floor Analysis (2025). Statewide costs are maximum gross costs before accounting for the state's offsetting financial benefit from early receipt of funds.

⁷ Texas School Coalition – Early Agreement Credit Ceiling and Floor Analysis (2025).

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About Texas School Coalition

The Texas School Coalition is a membership organization that was founded in 1997 to represent property-wealthy independent school districts whose local tax collections are subject to recapture. The mission of the Texas School Coalition is to advocate for the resources to provide all Texas public school students an excellent education and for a school finance system that balances sustainable state and local investments in the best interests of students and taxpayers.