

JANUARY 2019



# FISCAL NOTES

AN EXAMINATION OF THE TEXAS  
PUBLIC EDUCATION FINANCE SYSTEM —  
AND THE CHALLENGES IT FACES.

A REVIEW OF THE TEXAS ECONOMY FROM THE OFFICE OF **GLENN HEGAR**, TEXAS COMPTROLLER OF PUBLIC ACCOUNTS

## TEXAS SCHOOL FINANCE

### DOING THE MATH ON THE STATE'S BIGGEST EXPENDITURE

#### EXECUTIVE SUMMARY

Education is essential to the growth of any modern economy. As knowledge-based industries assume ever-greater importance to the state and the nation, educated workers are vital.

For decades, the state has sought to provide an equitable public school system funded by shared state and local revenues. In 2016, the Texas Supreme Court ruled the system “meets minimum constitutional requirements” but needs “transformational, top-to-bottom reforms.”<sup>1</sup>

This report analyzes the history and intricacies of Texas’ school finance system, to provide the perspective needed to understand the fundamental legal, financial and policy challenges facing the system.

Demands on the state’s education budget have never been higher. Texas’ public schools serve more than 5 million students, and enrollment is growing at a rapid pace. The number of economically disadvantaged students, who are costlier to educate, is rising rapidly, outpacing the growth of the overall student population. Demographers project this trend to continue, raising significant concerns about the system.

School finance is undoubtedly one of the most difficult issues Texas state policymakers have to address, and attracts more opinions and criticism than any other. This report does not address many issues falling under the general heading of education reform, focusing solely on funding.

These are some key points about the current school finance system:

**Property tax bills are rising sharply, placing a growing burden on Texas businesses and homeowners.**



Most public school funding in Texas comes from a combination of state and local revenue. School districts levy property taxes to fund the local share.

Texas property tax *rates*, which are set by local entities including school districts, have changed relatively little in recent years. Property tax *revenue*, however, has increased due to skyrocketing property values.

**As a consequence of strong economic growth and current funding formulas, both the local share of funding and recapture payments continue to rise.**

While the state and school districts both are responsible for a share of school funding, the Foundation School Program (FSP) formulas count the district’s local property tax revenues *first*, with the state providing the remaining portion of each district’s “entitlement” — its total amount of funding as dictated by the formulas.

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# A Message from the Comptroller

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The 2019 legislative session, like all sessions, will grapple with dozens of challenges facing our state, some old and some new. But one issue that undoubtedly will be discussed and debated is a perennial one for Texas: public education, and the way in which we pay for it.

Over the years, both the Legislature and our courts have wrangled over our public school finance system, trying to find ways to guarantee a decent education for all of our kids while relying heavily on local property taxes for funding. School districts throughout the state have radically different property values, and similar tax rates simply will raise much more money in some districts than in others. It's a fundamental inequality that lawmakers have spent decades trying to address.

In 2016, the Texas Supreme Court ruled that our public education finance system was deeply flawed but constitutional, ending a 30-year legal battle. But the system's problems haven't gone away. In particular, the rapid rise in Texas' property values has forced local tax collections sharply upward, putting a financial strain on many homeowners and bringing calls for tax relief. Yet any limitation on property tax collections inevitably will create a need for more state funding to compensate — and the state's finances are always tight.

It's important, however, to realize that these problems are built into the funding formulas of the current system. Right now, due to those formulas, rising property tax collections are actually reducing the state's share of the total bill, forcing schools to rely increasingly on their own taxes despite widespread taxpayer dissatisfaction. It's a situation that could have serious implications for our state's remarkable economic success.

In this special issue of *Fiscal Notes*, we take a detailed look at Texas school finance and the problems and pitfalls it faces. It's my hope that this report will give lawmakers and all interested Texans a clearer view of what has proved to be one of the thorniest and most persistent public policy challenges facing our state.

A handwritten signature in black ink that reads "Glenn Hegar". The signature is fluid and cursive, written over a faint circular seal of the Office of the Comptroller of Public Accounts.

**GLENN HEGAR**

Texas Comptroller of Public Accounts

Note: This report contains estimates and projections that are based on available information, assumptions and estimates as of the date of the forecasts upon which they are based. Assumptions involve judgments about future economic and market conditions and events that are difficult to predict. Actual results could differ from those predicted, and the difference could be material.

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# TEXAS SCHOOL FINANCE: DOING THE MATH ON THE STATE'S BIGGEST EXPENDITURE

A reasonable balance between state and local funding is crucial to the system's viability and helps to minimize its reliance on local property tax revenues. Yet the formulas ensure that any increase in local tax revenue *reduces* state funding. The state's share of FSP revenues was 46.2 percent as recently as 2008; since then it has declined steadily, to 36.0 percent in 2018.<sup>2</sup>

In essence, it's a math problem:

$$X + Y = Z$$

As with any equation, the two sides need to balance. If **X** is local revenue, **Y** is state revenue and **Z** is the total amount needed to fund our schools, as fixed by the formulas, any increase in **X** requires a *decrease* in **Y**.

## **Texas' school finance formulas do not respond to inflationary effects.**

The goods and services used to provide public education are subject to inflation, just as any other element in our economy. While both state and local per-student funding rose greatly between fiscal 2000 and 2018, for instance, after adjustment for inflation state funding actually fell. The FSP formulas that determine the funding school districts receive have no mechanism that adjusts automatically for inflation.

## **"Recapture," the state's primary vehicle for ensuring equity, accounts for a growing portion of overall school district funding.**

To compensate for varying amounts of property wealth among Texas school districts, the system uses "recapture" to transfer some local revenue from property-wealthy districts to those with low property wealth. Essentially, recapture is used to bring more equity to the system.

Due mainly to the FSP formulas, recapture amounts rise over time with taxable property values.

If left unchecked, the school finance formulas will cause more districts to lose funding to recapture; the Houston and Dallas independent school districts (ISDs) have joined Austin ISD as recapture districts in recent years. The addition of large urban districts to recapture status will significantly increase the number of students attending school in districts that lose local funds to the state.

**If left unchecked,  
the school finance formulas  
will cause more districts  
to lose funding to recapture.**

## **Any significant change in current Texas school funding patterns will require changes to the FSP formulas.**

The Legislature's ability to provide an efficient system of public education — and to constrain the system's increasing reliance on local property tax revenues — depends largely on its willingness to make changes to the school finance formulas.

## **Growing enrollment, especially among low-income and other disadvantaged students, will continue to exert upward pressure on funding needs.**

About 59 percent of Texas' public school students are classified as economically disadvantaged, and their share of total enrollment continues to rise — as will the demand for special programming and compensatory educational funding.

## **Any consideration of school funding sources should take into account their inherent volatility and their long-term ability to grow with funding needs.**

The demand for education funding is rising steadily, but tax collections can and do fluctuate with the economy on which they are based. While property taxes are remarkably reliable as a funding source, the sales tax that supplies well over half of all state tax revenue is vulnerable to the effects of economic downturns. Severance taxes are even more volatile, often varying by 50 percent or more annually. Any consideration of public education finance should recognize the higher inherent volatility of state revenue.

## **Any standard for the relative state and local shares of public school funding should consider the characteristics of all funding sources.**

The historical average of 40 percent state funding and 60 percent local funding seems reasonably attainable and may provide a useful starting point for these discussions.

# TEXAS SCHOOL FINANCE: DOING THE MATH ON THE STATE'S BIGGEST EXPENDITURE

## A NOTE ON METHODOLOGY

This report uses data from a variety of state and federal sources to highlight and assess the most significant historical and future trends in Texas public education finance.

The Texas Education Agency (TEA) was the primary source of statewide public education data for this report because it houses the Public Education Information Management System (PEIMS). Through PEIMS, individual school districts are required to regularly report certain data regarding student and educator demographics, district finances and academic performance.

The Legislative Budget Board (LBB) supplemented the TEA data presented in this report with state and local revenue data from the FSP, which provides a broader perspective on the funding relationship between school districts and the state. In addition, some data gathered by the Comptroller's Property Tax Assistance Division were used. The report also relies on Comptroller revenue data from other taxes.

Some data in this report are provided both in "current" dollars (2017 or 2018) and "constant" dollars, adjusted for inflation using 2017 or 2018 as a base. The report assumes current trends will continue, such as inflation, population growth and increases in the number of economically disadvantaged students.

### FSP State and Local Revenue Shares

The LBB and TEA provide much of the primary data for public education finance in Texas, yet their analyses of data concerning the FSP have different goals and involve important differences in methodology.

LBB's approach, as published in its biennial *Fiscal Size-up* report, focuses primarily on capturing potential impacts to the state budget. One major implication of this approach is that it does not report all local interest and sinking (I&S) tax collections, including only those affecting the state's obligations under the Instructional Facilities Allotment and Existing Debt Allotment, two programs providing state aid for school facilities. In addition, LBB categorizes recaptured local property taxes as "local" revenue.

TEA's reports, by contrast, usually include *all* local I&S tax collections. Moreover, TEA views recaptured local property taxes as a method of finance available

to state government and therefore categorizes them as "state" revenue.

For the purposes of this report, as well as for more general discussions of school finance, the Comptroller's office suggests a different approach to examining the state and local shares of public education spending. We believe an accurate depiction of the revenues that support the FSP requires the inclusion of all local tax collections, regardless of whether or not they affect the state budget. Furthermore, recaptured property taxes are raised from a local tax and accordingly are best characterized as a local contribution.

The Comptroller's calculation of state and local shares over time is as follows:

SHARES OF TEXAS PUBLIC EDUCATION FUNDING FISCAL 2000-2018		
FISCAL YEAR	STATE SHARE	LOCAL SHARE
2000	45.6%	54.4%
2001	42.7	57.3
2002	39.3	60.7
2003	36.5	63.5
2004	35.4	64.6
2005	33.4	66.6
2006	30.5	69.5
2007	37.0	63.0
2008	46.2	53.8
2009	42.3	57.7
2010	44.2	55.8
2011	45.5	54.5
2012	43.0	57.0
2013	41.9	58.1
2014	42.2	57.8
2015	40.4	59.6
2016	40.4	59.6
2017	38.2	61.8
2018	36.0	64.0
AVERAGE	40.0	60.0

Sources: Texas Education Agency and Texas Comptroller of Public Accounts

**Appendix 2** compares this analysis with those of the LBB and TEA.

## INTRODUCTION

Public education is one of the most important functions of Texas state government and currently represents the biggest share — 38.9 percent — of Texas’ general revenue spending.<sup>3</sup> The state and more than a thousand local school districts share the responsibility for providing all Texas schoolchildren with the opportunity to acquire the knowledge they need to thrive in a modern society.

The Texas Constitution requires the state to make suitable provisions for the support and maintenance of public education. For decades, the school finance system has faced repeated constitutional challenges on the basis of equity and efficiency, but despite misgivings, the Texas Supreme Court has ruled that the current system remains constitutional in these respects.

Our challenge today is different.

The need for education funding has never been higher. Texas’ school-aged population and the number of higher-need students are growing dramatically. Upkeep and expansion of facilities are expensive; maintenance and operations costs are rising.

The funding we provide, however, increasingly comes from local property tax revenue, requiring less from the state but burdening local taxpayers more and more each year. Texas property owners are demanding tax relief, but any substantial reduction in local property taxes would require significant increases in state funding.

In essence, it’s a simple math problem:  $X + Y = Z$ , where  $Z$  represents the total amount of school funding called for by the state’s educational funding formulas.  $X$  and  $Y$  are the state and local components; since the equation must balance, any increase in  $X$  reduces  $Y$ . And vice versa.

This balancing act is a natural consequence of our public education funding system — and one that is proving increasingly difficult to sustain.

This report examines the Texas school finance system from a number of angles, including its historical context as well as current trends in school funding.

## I. THE LITIGATION THAT SHAPED TEXAS PUBLIC EDUCATION

A general diffusion of knowledge being essential to the preservation of the liberties and rights of the people, it shall be the duty of the legislature of the State to establish and make suitable provision for the support and maintenance of an efficient system of free public schools.<sup>4</sup>

With these words, the Texas Constitution orders state government to provide a free public education to the state’s schoolchildren — a single sentence representing perhaps the most difficult continuing challenge faced by generations of Texas lawmakers.

Through the years, the Legislature and our school districts have grappled to produce a system offering efficient, equitable public education funded in part by taxes assessed on property values that vary greatly throughout the state. After a long series of lawsuits, in 2016 the Texas Supreme Court finally held that our school finance system is constitutional but called for “top-to-bottom reforms.”<sup>5</sup> The ruling ended a lengthy chapter in Texas jurisprudence, but not the array of challenges still facing the system.

In many ways, the story of Texas public education funding is the story of the litigation that shaped it.

### THE EDGEWOOD CASES

San Antonio’s Edgewood ISD is a school district with low property wealth that happens to adjoin Alamo Heights ISD, a district with *much* higher property wealth. In 1984, Edgewood and 67 other Texas school districts filed a lawsuit highlighting this stark contrast as an example of the unacceptable disparity in resources among Texas’ public schools.

The Texas Supreme Court agreed, finding the school finance system unconstitutional and insisting that “districts must have substantially equal access to similar revenues per pupil at similar levels of tax effort.”<sup>6</sup> It was the first in a series of clashes between the Texas Supreme Court and the Legislature — collectively called the *Edgewood* cases. Lawmakers attempted to remedy these disparities with 1989’s Senate Bill (SB) 1, using state funds to equalize wealth among 95 percent of Texas school districts. But in a ruling subsequently known as *Edgewood II*, the new law was struck down for still failing to provide sufficient equity across the state.<sup>7</sup>

# TEXAS SCHOOL FINANCE: DOING THE MATH ON THE STATE'S BIGGEST EXPENDITURE

In 1991, the Legislature passed SB 351, which established 188 county education districts (CEDs) to apportion and level out tax revenue among school districts. Wealthier school districts promptly sued, claiming the CEDs created an unconstitutional, *de facto* statewide property tax. In *Edgewood III* the court agreed, since the CEDs' boundaries, tax rates and revenue distribution all were prescribed by state law.<sup>8</sup>

Forced back to the drawing board, the Legislature next introduced the complex "recapture" system with 1993's SB 7. The court approved this system in its *Edgewood IV* ruling, satisfied that the law's accountability and accreditation systems ensured the minimal standard of adequacy required for the "general diffusion of knowledge."

The ruling dismissed a claim that the state was failing to make "suitable provision" for schools by providing only 43 percent of funding while the districts provided 57 percent. But it also offered a warning: if enough districts were eventually forced to tax at the maximum rate of \$1.50 merely to maintain adequacy, they would no longer have meaningful discretion to set their own tax rates, resulting yet again in an unconstitutional statewide property tax.<sup>9</sup> It was a preview of the cases to follow.

## THE WEST ORANGE-COVE CASES

The next cases challenging the public school finance system were called *West Orange-Cove I* and *II*. In 2001, a group of wealthy school districts sued the state, alleging that the \$1.50 cap on the maintenance and operations (M&O) property tax rate equated to a statewide property tax because it left them with no meaningful discretion in setting tax rates.<sup>10</sup> In a 2005 ruling, the court sided with the plaintiffs and ordered changes, reiterating that:

The State's control of this local revenue is a significant factor in considering whether local taxes have become a state property tax... [We caution] that a cap to which districts are inexorably forced by educational requirements and economic necessities... will in short order violate the prohibition of a state property tax.<sup>11</sup>

The Legislature responded in 2006 with House Bill (HB) 1, which tweaked the tax system, lowering local rates by about a third and adding additional

state money.<sup>12</sup> The parties to the case and the court were satisfied with this response and the case was dissolved.

## TEXAS TAXPAYERS AND STUDENT FAIRNESS COALITION CASE

In 2014 still another suit, *Texas Taxpayers and Student Fairness Coalition v. Williams*, challenged Texas' school finance system on many of the same grounds covered in *Edgewood* and *West Orange-Cove*: adequacy, equity, efficiency and "meaningful discretion" in taxation.<sup>13</sup>

This time, the diversity of the plaintiffs was noteworthy, as the case was a consolidation of several lawsuits with different perspectives and legal claims.

The array of plaintiffs eventually involved in the lawsuit — more than 600 districts, equity advocates, school choice groups and business groups — was a clear sign of the wide divergence of opinions regarding school finance, as well as increased frustration with stricter testing and accountability measures; the decreasing share of state funding in the face of rising enrollment; and the continuing rise of property tax bills in much of the state.

But the system held. The district court ruled for the plaintiffs, but in 2016 the Supreme Court overruled the lower court, criticizing the "Byzantine" finance system but finding it constitutional nonetheless.<sup>14</sup> Maintaining its *Edgewood IV*-era reasoning, the court ruled that disparities in funding and student achievement were not necessarily a sign of inefficiency. The court also noted that "equality of educational achievement" was a fine goal but not constitutionally required for the "general diffusion of knowledge."<sup>15</sup>

Finally, the court found districts generally have meaningful discretion in taxation, since only 24 percent were taxing at the current maximum M&O rate of \$1.17 per \$100 in property value.<sup>16</sup> As in prior decisions, however, the court explicitly acknowledged the system's faults, strongly suggesting the Legislature chart a better course.

**In 2016, the Texas Supreme Court overruled the lower court, criticizing the "Byzantine" finance system but finding it constitutional.**

## II. THE FOUNDATION SCHOOL PROGRAM

The state’s Foundation School Program funds public schools through a series of formulas prescribed by the Legislature that determines how much local and state funding each school district receives. Districts with low property values require more state support, while districts with higher property values require less.

It’s important to note that high property value isn’t necessarily a function of residential real estate values. Some property-wealthy districts in Texas have relatively low residential property values and much higher commercial property values, due to the presence of assets such as a nuclear power plant or manufacturing center.

At the local level, the FSP is funded primarily by M&O property taxes levied by individual school districts. State FSP funding comes from state tax revenue (including that deposited into the state’s Property Tax Relief Fund), the state lottery and the Permanent School Fund, an endowment established by the Texas Constitution.<sup>17</sup> Every Texas public school district must participate in the FSP and must raise local property tax revenue before receiving state funds.

FSP funding is delivered under two separate “tiers,” Tier I and Tier II, for basic program costs and program enrichment, respectively. A district’s *Tier I entitlement* is based on certain district and student characteristics, such as its share of students needing special services. An optional *Tier II entitlement* is based

on local “tax effort,” the tax rate levied above the minimum rate required by law.<sup>18</sup>

Once these entitlements are established, the FSP calculates how much state funding a district will receive for each tier based on the amount of local revenue it can supply. The FSP also offers an Instructional Facilities Allotment and an Existing Debt Allotment to help school districts pay debt service on existing facilities.<sup>19</sup>

The amount of state aid a school district receives under both tiers depends largely on three key variables: its number of students, property values and property tax rates.<sup>20</sup> In general, as a school district’s enrollment increases or its property tax base shrinks, a district will receive more in state aid; if its need decreases or its tax base expands, it will receive less.

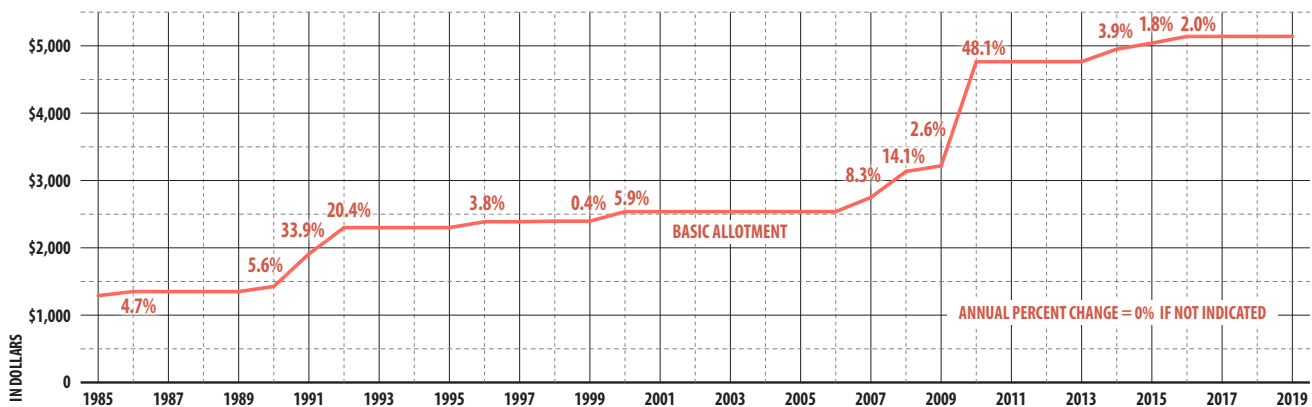
### TIER I AND THE BASIC ALLOTMENT

The Legislature establishes the central component of Tier I funding, the *basic allotment*, for each school district per student based on its average daily attendance (ADA). The basic allotment then is adjusted for each district based on its size, regional cost differences, instructional programs offered and additional resources needed.<sup>21</sup>

Over the years, lawmakers have increased the basic allotment from \$1,290 per student in fiscal 1985 to \$5,140 in fiscal 2019 (**Exhibit 1**). Increasing the basic allotment is an effective approach to improve equity among districts.<sup>22</sup>

EXHIBIT 1

BASIC ALLOTMENT PER STUDENT, FISCAL 1985-2019



Note: Basic allotments for fiscal 1985 through 1995 are the minimum amounts set in statute and may not reflect the actual amounts appropriated by the Legislature. Sources: Texas Legislature Online (1985-1995) and Texas Education Agency (1996-2019)

# TEXAS SCHOOL FINANCE: DOING THE MATH ON THE STATE'S BIGGEST EXPENDITURE

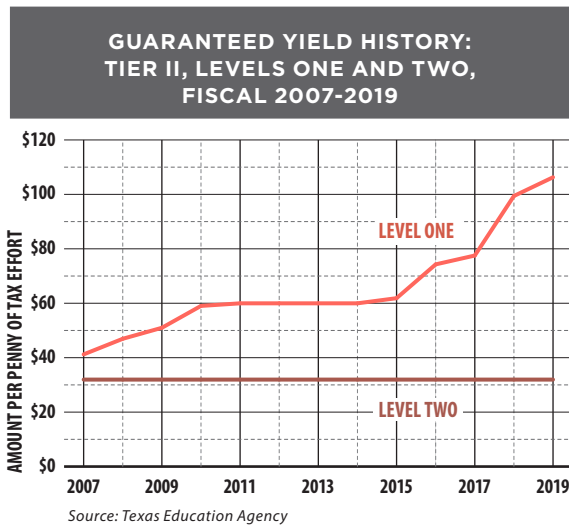
## TIER II AND GUARANTEED YIELD

The FSP determines Tier II funding through the *guaranteed yield formula*, which includes two levels, the second added in fiscal 2007.

The first level of guaranteed funding is equal to the district's wealth per student counted in weighted average daily attendance, or WADA, for each penny of property tax levied per \$100 valuation — a "tax effort" — between \$1.00 and \$1.06. (WADA is ADA after adjustment for various factors.) The second level is a fixed amount set by state law — \$31.95 per student counted in WADA — for each penny of property tax levied between \$1.06 and \$1.17.<sup>23</sup>

The first level of Tier II has risen from \$41.21 per student in fiscal 2007 to \$106.28 per student in fiscal 2019, with recent, significant increases (**Exhibit 2**). The second level of Tier II has remained fixed at \$31.95.<sup>24</sup>

EXHIBIT 2



## WEALTH EQUALIZATION AND RECAPTURE: "CHAPTER 41"

School districts with high property values can raise more money per student for each penny of tax effort than can those with low property values. Some school districts can raise their entire Tier I entitlements with local property taxes alone.

The wealth disparity between districts can be extreme (**Exhibit 3**). For example, both Cotulla ISD and Buna ISD have comparable enrollment, but *radically* different levels of wealth per student counted in ADA.

Cotulla ISD, between San Antonio and Laredo, had one of the highest levels of wealth per student during fiscal 2018, at about \$3.7 million.<sup>25</sup> Cotulla ISD's

high per-student property wealth is largely the result of nearby natural gas processing plants and crude oil pipelines with high taxable values.<sup>26</sup> By contrast, Buna ISD, north of Beaumont, had about \$222,000 of property wealth per student in the same year.<sup>27</sup>

In fiscal 2018, the state's median property wealth per student was \$379,066.

To address such inequalities, in 1993 the Legislature's SB 7 (see **Appendix 1**) established a system to limit M&O revenues going to districts with high property wealth per student and use some of them to increase aid to districts with low property wealth. SB 7 describes "property-wealthy" districts as those exceeding certain Equalized Wealth Levels (EWLs), thresholds set in Texas Education Code Chapter 41.<sup>28</sup>

If a district's property value is so high that local taxes can supply revenue per student beyond these state-set thresholds, the state takes the surplus and redistributes it to districts with lower property wealth. This transfer is called *recapture* or, by many, "Robin Hood."

Chapter 41 defines two EWLs, one for Tier I and another for Tier II. The original threshold for recapture on Tier I, set in 1994, was \$280,000 per student, raised from the \$1.00 statutory minimum M&O tax rate. (Chapter III of this report discusses minimum and maximum tax rates.) Today it's \$514,000 (**Exhibit 4**).<sup>29</sup> For Tier II, the threshold is \$319,500, raised from a rate of between \$1.06 and \$1.17. The current Tier II EWL took effect in fiscal 2007 and has not changed since.<sup>30</sup>

In fiscal 2017, 194 school districts paid into the

EXHIBIT 3

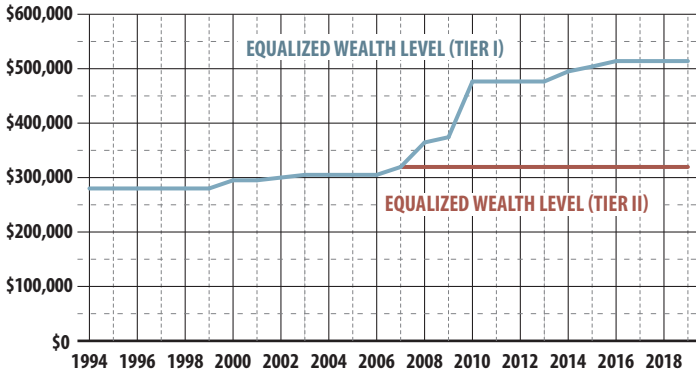
DISTRICTS WITH MOST PROPERTY WEALTH		DISTRICTS WITH LEAST PROPERTY WEALTH	
SCHOOL DISTRICT	PROPERTY WEALTH PER ADA	SCHOOL DISTRICT	PROPERTY WEALTH PER ADA
Westhoff ISD	\$16,942,635	Boles ISD	\$30,537
Kenedy County-Wide CSD	12,490,913	Olfen ISD	58,184
Fort Elliott CISD	9,135,596	San Elizario ISD	62,088
Kelton CISD	9,099,338	Edcouch-Elsa ISD	63,865
Glasscock County ISD	8,085,851	Tornillo ISD	65,476

Source: Texas Education Agency



**EXHIBIT 4**

**EQUALIZED WEALTH LEVEL HISTORY, FISCAL 1994-2019**



Source: Texas Education Agency

**EXHIBIT 5**

**TOP CHAPTER 41 SCHOOL DISTRICTS BY RECAPTURE REVENUE, FISCAL 2017**

DISTRICT	STUDENT ENROLLMENT	RECAPTURE REVENUE
Austin ISD	82,766	\$403,324,244
Plano ISD	53,931	105,270,174
Houston ISD	215,408	93,080,703
Highland Park ISD	7,024	90,029,741
Eanes ISD	8,116	83,305,989
Spring Branch ISD	35,016	51,059,269
Midland ISD	24,642	45,806,661
Cotulla ISD	1,365	37,619,362
Lake Travis ISD	9,791	36,913,866
Alamo Heights ISD	4,838	33,888,357
<b>TOTAL</b>	<b>442,897</b>	<b>\$980,298,366</b>
<b>CHAPTER 41 DISTRICT TOTAL</b>	<b>818,737</b>	<b>\$1,714,100,494</b>

Note: Totals may not add due to rounding.  
Source: Texas Education Agency

recapture system under Chapter 41; 10 districts accounted for 57 percent of all recapture revenue as well as 54 percent of the total student population in districts paying recapture. In all, these 10 districts educated more than 442,000 students and sent nearly \$1 billion in M&O tax revenue to the state (Exhibit 5).<sup>31</sup>

In fiscal 2017, Austin ISD paid the most in recapture by a wide margin. Eanes ISD and Lake Travis ISD — two Travis County districts bordering Austin ISD — also were among the top 10.

Houston ISD first began making recapture payments in 2017. In that year, the district contributed

the third-highest amount of recapture revenue. Harris County’s Spring Branch ISD also was among the top 10 Chapter 41 districts.

Plano ISD and Highland Park ISD, near Dallas, ranked second and fourth, respectively, in recapture revenue paid. Dallas ISD has been designated as a Chapter 41 district and TEA expects it to begin making recapture payments in fiscal 2019.<sup>32</sup>

In fiscal 2017, Chapter 41 school districts had 818,737 students in attendance, or about 15 percent of the state’s total student population, up from about 12 percent in fiscal 2016.<sup>33</sup>

The share of all state and local revenue represented by recapture rose to a peak of 4.2 percent in 2006 and then began to fall due to the effects of tax rate compression legislation (see below). The upward trend for recapture revenue began again in 2014. In fiscal 2018, school districts paid \$2.1 billion in recapture, or about 3.9 percent of total state and local funding (Exhibit 6).<sup>34</sup> Current trends suggest that the 4.2 percent peak of 2006 will be exceeded in the next three to five years.<sup>35</sup>

**EXHIBIT 6**

**TOTAL STATE AND LOCAL REVENUE AND RECAPTURE REVENUE, FISCAL 2000-2018**

FISCAL YEAR	STATE SHARE (\$, BILLIONS)	LOCAL SHARE (\$, BILLIONS)	RECAPTURE (\$, BILLIONS)	RECAPTURE SHARE OF TOTAL (%)
2000	\$10.4	\$11.9	\$0.5	2.1%
2001	10.3	13.3	0.5	2.2
2002	10.2	15.0	0.8	2.9
2003	9.9	16.2	1.0	3.6
2004	10.0	17.2	1.1	3.8
2005	9.8	18.4	1.1	3.8
2006	9.4	20.1	1.3	4.2
2007	13.1	20.9	1.4	4.0
2008	17.2	18.9	1.1	3.1
2009	16.4	21.0	1.4	3.7
2010	17.9	21.5	1.1	2.6
2011	18.8	21.5	1.0	2.5
2012	17.3	21.9	1.1	2.7
2013	17.4	23.1	1.1	2.6
2014	18.8	24.5	1.2	2.7
2015	19.1	26.7	1.5	3.1
2016	20.0	27.9	1.6	3.2
2017	19.3	29.5	1.7	3.4
2018	18.8	31.4	2.1	3.9

Sources: Texas Education Agency and Texas Comptroller of Public Accounts

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## AUSTIN ISD AND RECAPTURE

EXHIBIT 7

Since fiscal 2007, the Austin Independent School District has paid more in recapture than any other Texas school district.<sup>36</sup> In fiscal 2017, about 38 percent or \$403 million of the district's total M&O revenue was recaptured (**Exhibit 7**). Austin ISD expects recapture to cost it nearly 46 percent of its M&O revenue in fiscal 2018; if no changes are made to the school finance system, recapture could claim more than 60 percent in fiscal 2021.<sup>37</sup>

AUSTIN ISD GENERAL FUND, FISCAL 2017 AND 2018

FISCAL YEAR	2017	2018
M&O TAX REVENUE	\$1,056,123,159	\$1,185,798,360
LESS CHAPTER 41 PAYMENT	-403,324,244	-540,290,792
M&O TAXES RETAINED	652,798,915	645,507,568
PERCENT SHARE AISD RETAINED M&O	61.8%	54.4%
PERCENT SHARE STATE RECAPTURE OF M&O	38.2%	45.6%

Note: Data for fiscal 2018 are projected.  
Source: Austin Independent School District

### III. TEXAS PUBLIC EDUCATION FUNDING SOURCES

Texas uses local, state and federal funds to support educational operations and facility construction in public school districts throughout the state. Most of this revenue is state and local; the federal government provides a relatively small amount of funding to school districts for administration of the child nutrition program, Every Student Succeeds Act grants and other federal initiatives.

#### LOCAL FUNDING

Local funding for Texas public schools is generated primarily by an M&O property tax levied on local taxable values. Each school district adopts a certain M&O tax rate per \$100 of taxable property valuation.

One of the most important elements of the 2006 school finance reforms reduced local property tax rates throughout the state. It did this by establishing a *compressed tax rate* (CTR) for each district. A district's CTR is its 2005 M&O tax rate multiplied by a state-set 66.7 percent, effectively reducing the 2005 rate by a third.

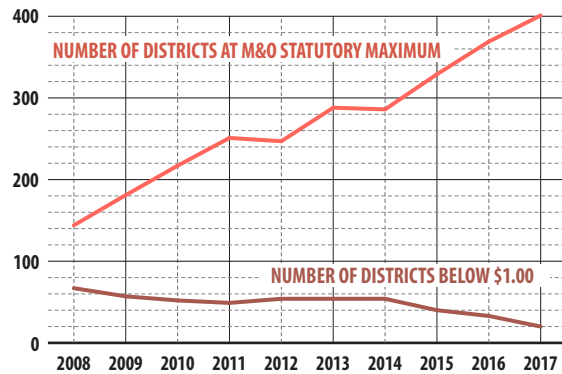
For example, a district with a 2005 M&O rate of \$1.50 has a CTR of \$1.00 (\$1.50 multiplied by .667). To receive full state funding, districts must levy a tax rate at least equal to its CTR, but for most their *maximum* M&O tax rate became the CTR plus 17 cents — an effective cap of \$1.17 per \$100 of valuation. (Some school districts in Harris County have been allowed to adopt tax rates above the \$1.17 cap; in addition, due to the effects of tax rate compression, some districts' M&O rates are below \$1.00).<sup>38</sup>

Today, nearly all Texas school districts are subject to an M&O tax rate minimum of \$1.00 per \$100 of

valuation and a cap of \$1.17. The number of districts at the \$1.17 cap rose by 178 percent between 2008 and 2017, from 144 to 401. The number at or below the *minimum* M&O tax rate of \$1.00 fell by 70 percent, from 67 to 20, in the same period (**Exhibit 8**).

EXHIBIT 8

TEXAS SCHOOL DISTRICTS AT M&O THRESHOLDS, TAX YEARS 2008-2017



Sources: Texas Education Agency and Texas Comptroller of Public Accounts

After the CTR was established in 2006, most school districts were allowed to add an overall total of 4 cents to their M&O rates without voter approval. Beyond that rate, school districts generally must obtain voter approval through a local tax ratification election (TRE) up to the M&O cap of \$1.17. Since 2009, 434 school districts have held TREs. Of those, 355 or 81.8 percent were approved.<sup>39</sup>

In addition to the M&O property tax, school districts levy an interest and sinking property tax to collect revenue for payments on any debt incurred for facilities construction. I&S revenue is *not* subject to recapture.

## Texas property values rose by 7 percent between 2017 and 2018 alone.

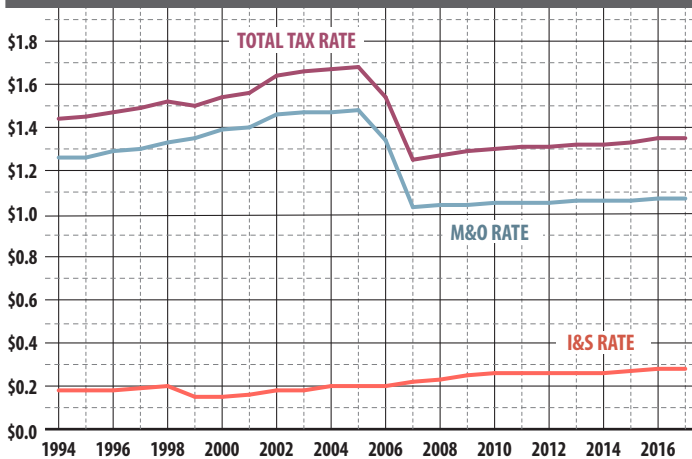
### PROPERTY TAX TRENDS

The Texas Constitution authorizes counties, cities, school districts and special-purpose districts to levy property taxes. In tax year 2017, Texas school districts levied \$32.1 billion in property taxes, 54.1 percent of all property taxes levied by political subdivisions in that year.<sup>40</sup>

From fiscal 1994 to 2005, the average statewide total property tax rate for school districts rose by 24 cents, from \$1.44 to \$1.68. Since property tax compression was implemented in 2007, the average statewide school district property tax rate has risen from \$1.25 to \$1.35, with M&O rates increasing by 4 cents and I&S rates by 6 cents (**Exhibit 9**).

EXHIBIT 9

#### AVERAGE STATEWIDE SCHOOL DISTRICT PROPERTY TAX RATES, FISCAL 1994-2017



Note: Average M&O rates are weighted by taxable value. Rates are per \$100 of property valuation.

Source: Texas Education Agency

Texas property values have been rising — by about 7 percent between 2017 and 2018 alone, for example.<sup>41</sup> As a result, many school districts haven't had to increase their M&O rates to raise additional revenue. During the 2017 tax year, the average M&O tax rate in Texas was \$1.07 per \$100 of taxable property valuation.<sup>42</sup>

## LOCAL APPRAISALS AND THE COMPTROLLER'S PROPERTY VALUE STUDY

In Texas, local appraisal districts appraise and value property located within their boundaries. (Appraisal district boundaries coincide with county boundaries, but appraisal districts are not part of county governments.) Each local taxing unit in the appraisal district, including school districts, sets tax rates and collects property taxes based on those appraised values after various deductions and limitations are applied.

State funding, however, is based on a study of local property values conducted by the Texas Comptroller's office. State law requires the Comptroller's office to study the total taxable value of property in each Texas school district, as reported by appraisal districts, at least every two years.

This property value study (PVS) is intended to determine whether appraisal districts are appraising property at market value, to ensure the appropriate values are used to calculate state funding. The state's commissioner of education uses the PVS as part of the state's funding formula to determine how much state funding each school district is eligible to receive.

### STATE FUNDING

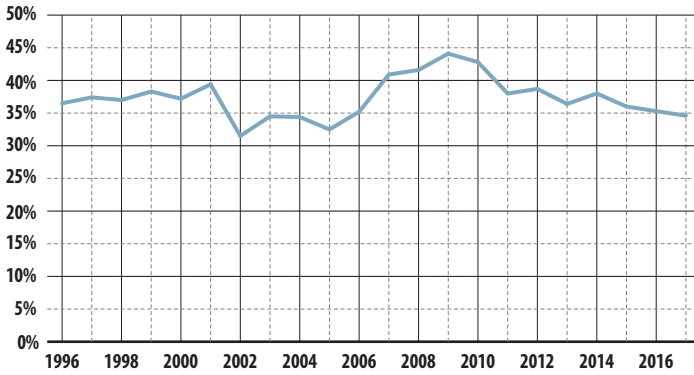
Most state funding for public education comes from the state's General Revenue-Related (GRR) funds, including the General Revenue Fund, Available School Fund, State Technology and Instructional Materials Fund and the Foundation School General Revenue Dedicated Account.<sup>43</sup>

In addition, since 2007 the state's Property Tax Relief Fund (PTRF) has supplemented education expenditures to help lower property tax rates. In recent decades, combined GRR and PTRF funds generally have trended upward, but year-over-year growth rates tend to fluctuate fairly dramatically with the rest of the economy.

# TEXAS SCHOOL FINANCE: DOING THE MATH ON THE STATE'S BIGGEST EXPENDITURE

EXHIBIT 10

## APPROPRIATIONS TO THE FOUNDATION SCHOOL PROGRAM AS A SHARE OF ALL GENERAL REVENUE-RELATED AND PTRF APPROPRIATIONS, FISCAL 1996-2017



Source: Texas Comptroller of Public Accounts

Exhibit 10 shows the state's share of the calculated FSP entitlement as a percentage of the state's annual GRR and PTRF revenue for fiscal 1996 through 2017. During this period, the share of GRR and PTRF devoted to the FSP averaged about 37.3 percent. The large increase after 2006 is the result of the property tax rate compression approved in that year, which caused the state to increase its contributions. More recently, however, the state share has begun to decline again as property values and property tax revenue both rise and expenditures for health and human services take an increasing share of the state budget.

## IV. COST DRIVERS AND STATE/LOCAL SHARES

Texas school funding needs are driven primarily by enrollment, but other factors are important as well, including household income and inflation as well as various state and federal mandates.<sup>44</sup>

## ENROLLMENT GROWTH

Today, the Texas public school system serves more than 5 million students.<sup>45</sup>

Enrollment growth is a direct consequence of Texas' rapid population growth. The state led the nation in population growth in each year between 2010 and 2016, adding more than 3 million residents in just six years.<sup>46</sup>

Between the 1993 and 2017 school years, enrollment in Texas public schools rose by 51 percent or more than 1.8 million students.<sup>47</sup> The student count has risen by more than 519,000 since 2010.

## ECONOMICALLY DISADVANTAGED STUDENTS

Household income is another factor driving school funding needs. The number of Texas students identified as "economically disadvantaged" — eligible for free or reduced-price meals — is rising (Exhibit 11), and many of them qualify for compensatory education funding and other resources.

From fiscal 2007 to 2017, the share of Texas students classified as economically disadvantaged rose from 55.5 percent to 59 percent. In this period, the number of economically disadvantaged students rose faster than the overall student population, by 24.2 percent versus 16.8 percent.

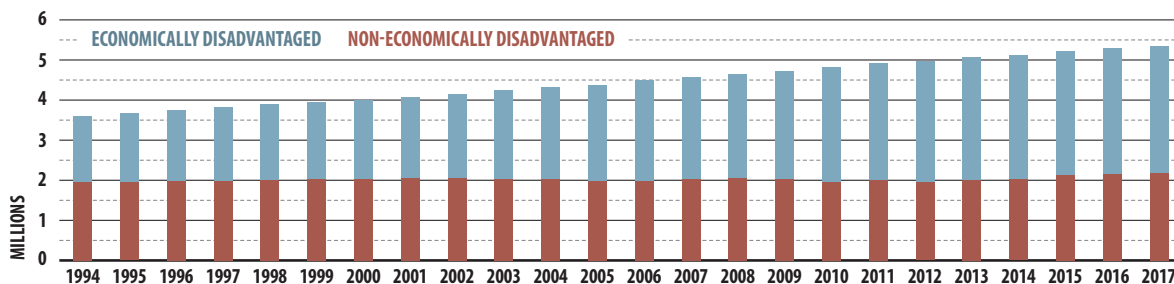
In the fiscal 2017 school year, the share of the student population classified as economically disadvantaged fell among African Americans, Hispanics, Asians and multiracial students, but increased for Anglo students.<sup>48</sup>

## INFLATION

Public education funding and expenditures are affected by inflation, the steady increase in prices of goods and services over time.

EXHIBIT 11

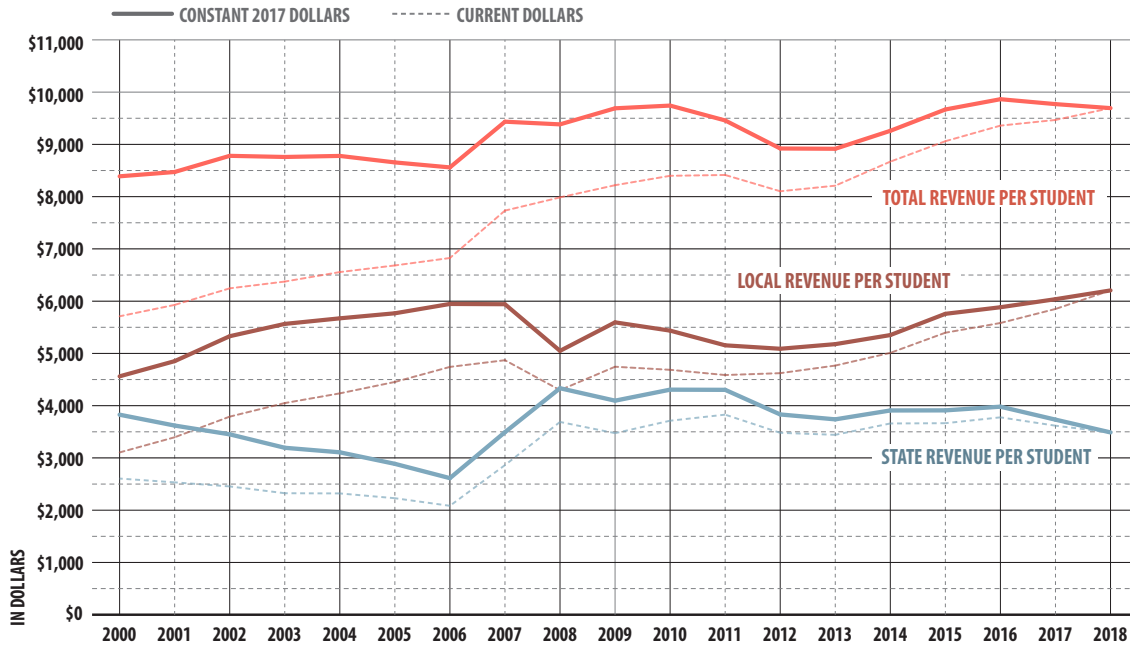
## TEXAS STUDENT ENROLLMENT BY ECONOMIC STATUS, FISCAL 1994-2017



Sources: Texas Education Agency and Texas Comptroller of Public Accounts

EXHIBIT 12

AVERAGE PER-STUDENT REVENUE IN TEXAS PUBLIC SCHOOLS, FISCAL 2000-2018



Sources: Texas Education Agency, Texas Comptroller of Public Accounts and U.S. Inflation Calculator

From fiscal 2000 to 2018, total per-student revenue for Texas public schools rose by 70 percent, from \$5,711 to \$9,694. Per-student revenue from state sources rose by 34 percent, from \$2,605 to \$3,488, while revenue from local sources rose by 100 percent, from \$3,105 to \$6,206 (Exhibit 12).

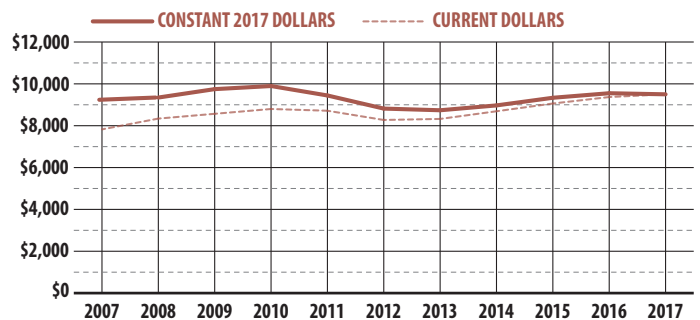
After adjusting for inflation, however, total and local per-student revenue rose by 16 percent and 29 percent, respectively, but state per-student revenue actually fell by 8 percent.

Due to inflation, school districts have to spend more simply to provide the same resources to the same number of students. Exhibit 13 shows Texas school district operating expenditures per student from all sources for fiscal 2007 through 2017. In terms of current (2017) dollars, unadjusted for inflation, operating expenditures per student rose by 21 percent in that period, from \$7,824 to an all-time high of \$9,500. In constant 2017 dollars, however, operating expenditures per student rose by just 3 percent, from \$9,239 to \$9,500.

Fiscal 2017 spending was lower than in several previous fiscal years.

EXHIBIT 13

TEXAS OPERATING EXPENDITURES PER STUDENT, ALL SOURCES, FISCAL 2007-2017



Note: Expenditures for debt service and capital outlays are excluded. Sources: Texas Education Agency, U.S. Bureau of Labor Statistics and Texas Comptroller of Public Accounts

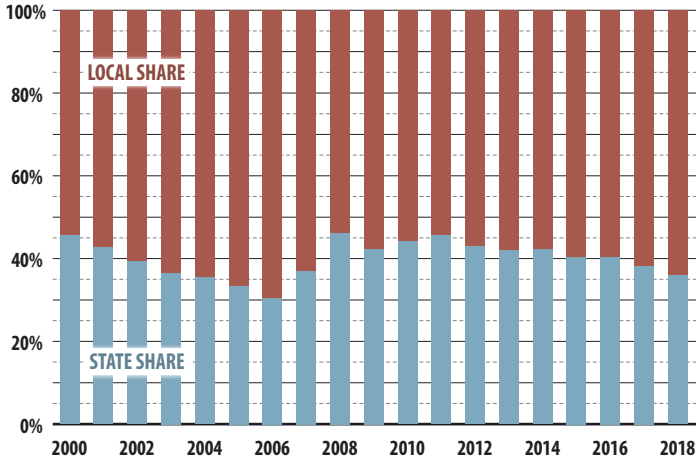
STATE AND LOCAL SHARES

In Texas, there's a fairly common perception that the cost of public education is, or should be, divided more or less equally between the state and local school districts — even though the state share averaged 40 percent from 2000 to 2018. Due to the funding formulas, however, there's an inverse relationship between state and local funding — as local revenue

# TEXAS SCHOOL FINANCE: DOING THE MATH ON THE STATE'S BIGGEST EXPENDITURE

EXHIBIT 14

## SHARES OF TEXAS PUBLIC EDUCATION FUNDING FISCAL 2000-2018



Sources: Texas Education Agency and Texas Comptroller of Public Accounts

rises, state funding generally decreases (**Exhibit 14**). Between fiscal 2000 and 2018, the state and local shares of total education funding averaged 40 percent and 60 percent, respectively. During this period, the state's share fell as low as 30.5 percent in 2006, the year of the HB 1 reforms.

The compressed tax rate introduced by HB 1 slashed M&O rates to provide property tax relief. As a result, the state and local shares came close to parity in 2008, at 46.2 percent and 53.8 percent, respectively. Since then, however, rising property values and the local-first formulas have returned the system to its prior trajectory, with the local share growing to 64.0 percent in fiscal 2018, or by an average of 1 percent annually since 2009.<sup>49</sup>

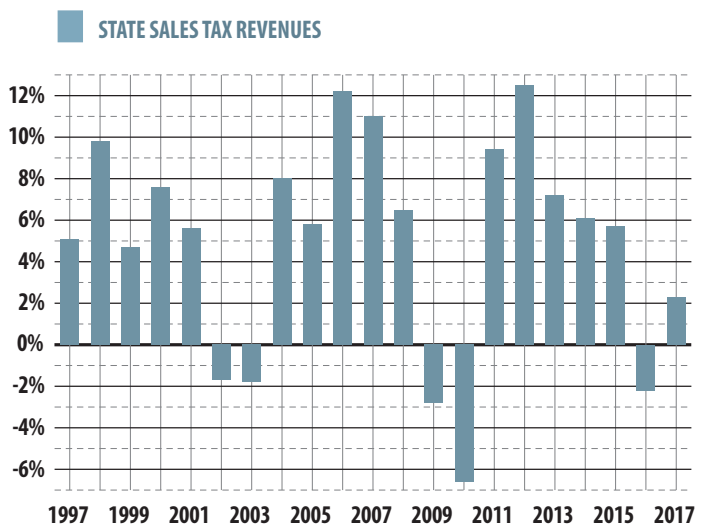
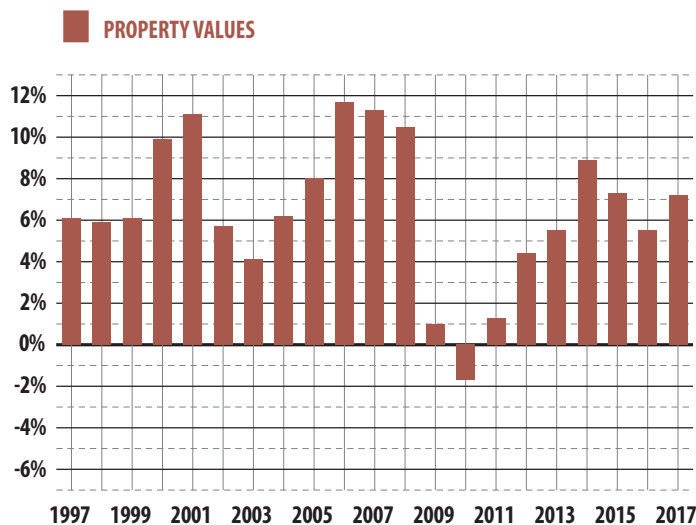
Texas' property values have more than tripled since 1997, from \$800.8 billion to about \$2.8 trillion, a 248 percent increase (**Exhibit 15**). Even after adjustment for inflation, property values rose by 128 percent.

With those increases, recent TEA projections indicate that the state's share of total funding will continue to fall.<sup>50</sup> Texas' public education funding formulas thus have ensured increasing dependence on local property taxes — and a growing burden on homeowners and businesses.

**Recent TEA projections indicate that the state's share of total funding will continue to fall.**

EXHIBIT 15

## ANNUAL CHANGE IN TEXAS PROPERTY VALUES AND SALES TAX REVENUE, 1997-2017

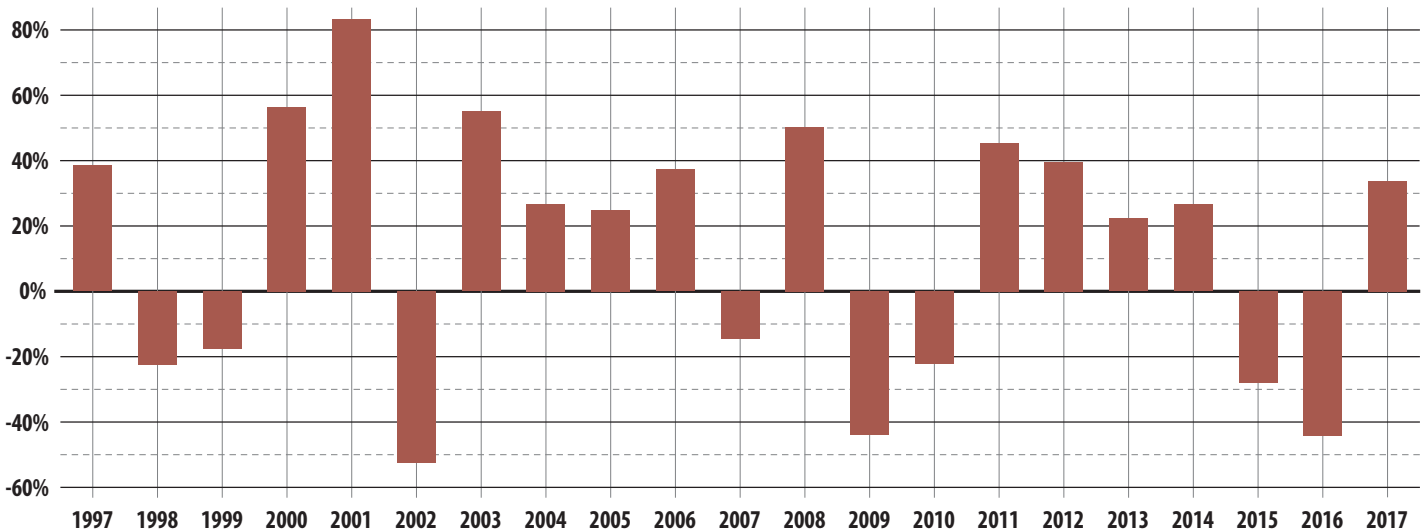


Note: Property value calculations are for tax years 1997-2017; sales tax calculations are for fiscal 1997-2017.

Sources: Texas Education Agency and Texas Comptroller of Public Accounts

EXHIBIT 16

ANNUAL CHANGE IN STATE SEVERANCE TAX REVENUE, FISCAL 1997-2017



Source: Texas Comptroller of Public Accounts

**TAX VOLATILITY**

**Exhibit 15** also shows growth in sales tax collections. The general sales tax is the most important state tax in terms of revenue, averaging 60.5 percent of state tax collections since 1993.

Collections from both sales and property taxes can vary dramatically from year to year, but sales tax revenue is much more vulnerable to economic downturns. The exhibit shows sales tax revenue over time as the estimated amount of sales tax collections that would have been received if the Tax Code had not changed during the study period (i.e., since 1996). This removes the effects of legislative changes to capture only volatility induced by the economy. Property values saw only one annual decrease from 1997 to 2017, while sales tax revenue declined five times.

State severance taxes levied on oil and gas production are even more volatile than sales taxes (**Exhibit 16**), experiencing double-digit changes in every year since 1997.

Between 1997 and 2017, the annual change in property values ranged from -1.7 percent to +11.7 percent, while that of sales taxes varied more broadly, from -6.6 percent to +12.5 percent. Annual changes in severance tax collections ranged from -52.4 percent to +83.3 percent. The compound annual growth rates of

property values, sales tax revenues and severance tax revenues in this period were 6.4 percent, 4.8 percent and 6.6 percent, respectively (**Exhibit 17**).

**Texas’ public education funding formulas have ensured increasing dependence on local property taxes — and a growing burden on homeowners and businesses.**

EXHIBIT 17

GROWTH RATES OF PROPERTY VALUES, STATE SALES TAX REVENUE, AND STATE SEVERANCE TAX REVENUE, 1997-2017

	PROPERTY VALUES	STATE SALES TAX REVENUE	STATE SEVERANCE TAX REVENUE
<b>Maximum Growth Rate</b>	11.7%	12.5%	83.3%
<b>Minimum Growth Rate</b>	-1.7	-6.6	-52.4
<b>Compound Annual Growth Rate</b>	6.4	4.8	6.6

Note: Tax revenues adjusted to reflect those that would have been collected if the state’s sales tax laws had not changed in the period studied. Property value calculations are for tax years 1997-2017; sales tax and severance tax calculations are for fiscal 1997-2017.

Source: Texas Comptroller of Public Accounts

# TEXAS SCHOOL FINANCE: DOING THE MATH ON THE STATE'S BIGGEST EXPENDITURE

## V. CONCLUSION: A COLLISION COURSE?

Texas is seeing a number of problematic trends in school finance. The first is increasing demographic pressure on schools. Texas has one of the nation's largest and fastest-growing public school enrollment counts — 5.4 million for the 2017-18 school year. The cost of educating such a large population is tremendous, and exacerbated by dramatic and disproportionate growth in the number of higher-needs children.

Yet in the face of these growing costs, under current FSP formulas the state's contribution to public school funding has remained flat in recent years, with a prolonged shift toward local responsibility.

As we've shown, this is a consequence of a system built on local dollars and *supplemented* by the state. Regardless of tax rates, the state's share of the FSP, by formula, *necessarily* drops when property values rise sharply and tax rates stay the same. And that leaves property owners absorbing an increasing tax burden.

With the school finance system we have, these trends are inevitable.

Texas is constitutionally obligated to educate its schoolchildren. As the state's young population continues to grow, so will the cost of public education, and the gap between local and state responsibility will only widen unless fundamental changes are made to the way Texas funds its public schools.

Texas' "Byzantine" school finance system, as the state's Supreme Court called it, is the result of countless compromises and adjustments over decades. The system has fundamental problems. Addressing all of them will be a daunting task. But the math, which we have focused on here, is hard to deny.

**As the state's young population continues to grow, so will the cost of public education, and the gap between local and state responsibility will only widen unless fundamental changes are made to the way Texas funds its public schools.**



# APPENDIX I

## A LEGISLATIVE HISTORY OF TEXAS SCHOOL FINANCE

Article VII, Section 2 of the Texas Constitution establishes the Permanent School Fund (PSF), an endowment fund consisting of assets such as state lands, equity holdings and mineral rights, to provide a continuous source of funding for Texas public education.

A separate Available School Fund (ASF) set out in Article VII, Section 5, is used to finance instructional materials and per-student distributions to school districts. The ASF consists of PSF investment returns and certain tax revenue; **Exhibit 18** illustrates how funding flows between the two funds.<sup>51</sup>

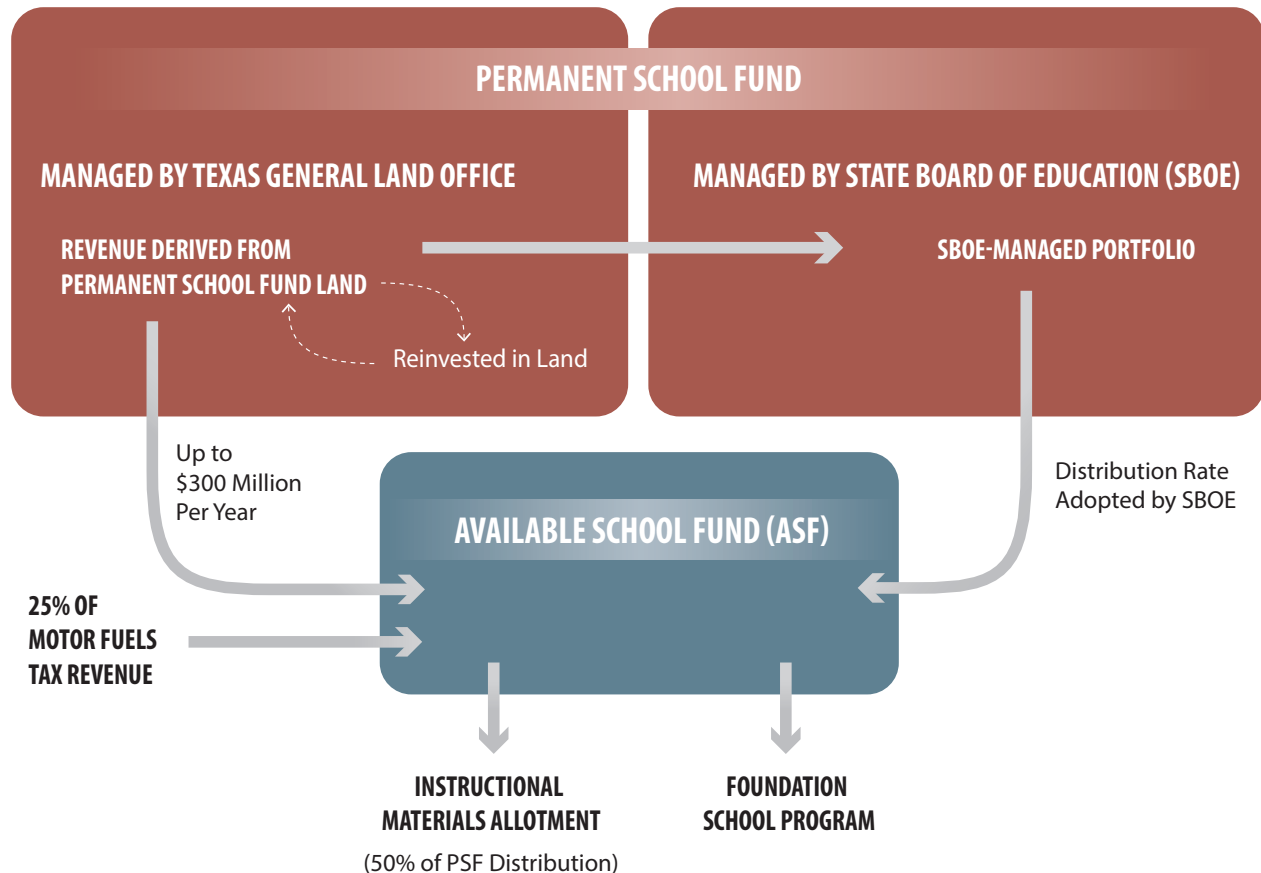
The Gilmer-Aikin Laws, approved by the 51st Texas Legislature in 1949, were the earliest legislative efforts to

establish a comprehensive public school finance system for the state. These laws created the Minimum Foundation Program — now the Foundation School Program (FSP) — a formula-based allocation system which today supports the operating costs of more than 1,200 Texas school districts through a combination of state ASF distributions and local property tax revenue.<sup>52</sup>

Since then, Texas legislators have enacted a series of major changes to the school finance system. The following timeline describes key legislative changes that shaped the current school finance system.

**EXHIBIT 18**

### FUNDING FLOW OF PERMANENT SCHOOL FUND AND AVAILABLE SCHOOL FUND



Source: Legislative Budget Board

# APPENDIX I

## A LEGISLATIVE HISTORY OF TEXAS SCHOOL FINANCE

### HOUSE BILL 72

#### 68th Legislature, Second Called Session, 1984

- Increased state aid to school districts by 26 percent, from \$3.6 billion to \$4.5 billion annually
- Required the basic allotment to be calculated using the number of students in average daily attendance (ADA) rather than the number of personnel employed at a school district
- Adjusted a school district's basic allotment based on certain factors:
  - Price differential index: adjustment for variations in purchasing power among districts
  - Small district adjustment: adjusted for variations in school district size and student population
- Special allotments:
  - Special education allotment
  - Compensatory education allotment
  - Bilingual education allotment
  - Experienced teacher allotment
  - Vocational education allotment
- Established mechanisms to equalize wealth among school districts:
  - Equalizing mechanism — State aid = adjusted basic allotment – local share (higher in wealthier school districts)
  - Enrichment equalization allotment — encouraged property-poor school districts to increase local tax rates to enhance their curricula
  - Equalization transition entitlement — Temporarily mitigated costs of equalization for qualifying high-wealth school districts that experienced reductions in state aid<sup>53</sup>

### SENATE BILL 1019

#### 71st Legislature, Regular Session, 1989

- Established a two-tiered school finance system
- Tier I – Basic entitlement:
  - Funding to support basic, accredited educational programs
  - Increased basic allotment for each student in ADA from \$1,350 to \$1,500
  - Replaced price differential index and small district adjustment with the cost of education index
  - Eliminated experienced teacher allotment
- Tier II – Enrichment entitlement:
  - Funding to supplement Tier I and enrich basic educational programs
  - Eliminated equalization mechanisms from HB 72
  - Established a guaranteed yield formula
  - Enabled school districts to gain additional state aid by setting their local tax rates above mandatory minimum
  - Guaranteed a minimum yield of state and local revenue on each penny of Tier II tax<sup>54</sup>

### SENATE BILL 1

#### 71st Legislature, Fourth Called Session, 1990

- Redefined ADA to be calculated each month of the regular school year, rather than the best four weeks of eight weeks' worth of attendance
- Increased basic allotment from \$1,500 to \$2,128
- Increased local fund assignment (LFA), the portion of Tier I entitlement for which school districts are responsible, from 33.3 percent in 1989-1990 to 43 percent in 1992-1993<sup>55</sup>

# APPENDIX I

## A LEGISLATIVE HISTORY OF TEXAS SCHOOL FINANCE

### SENATE BILL 351

#### 72nd Legislature, Regular Session, 1991

- Created county education districts (CEDs)
- Consolidated the tax bases of school districts located in the same county that had a combined property wealth not above a certain amount
- Collected and pooled property taxes and then redistributed tax revenue to each member school district on an equalized basis
- Established a third FSP tier of pooled tax revenue for member school districts with tax efforts above the state guaranteed funding limit
- Increased basic allotment from \$2,128 to \$2,600<sup>56</sup>

### SENATE BILL 7

#### 73rd Legislature, Regular Session, 1993

- Eliminated CEDs
- Established a *recapture system* to distribute some revenue according to property wealth
- Required school districts with wealth per student exceeding the equalized wealth level (\$280,000) to reduce their effective wealth in one or more of the following ways:
  - Merge with lower-wealth school districts
  - Detach territory and annex it to another school district
  - Purchase ADA credit from the state
  - Contract for the education of students from other school districts
  - Consolidate tax base with another school district<sup>57</sup>

### HOUSE BILL 1

#### 75th Legislature, Regular Session, 1997

- Established the instructional facilities allotment
- Provided financial assistance to eligible school districts to pay debt service on bonds issued for the construction of academic facilities, in addition to any interest and sinking taxes in effect<sup>58</sup>

### HOUSE BILL 10

#### 79th Legislature, Regular Session, 2005

- Appropriated \$735 million from the Economic Stabilization Fund to the Texas Education Agency for the purchase of textbooks and the operation of school districts under the FSP<sup>59</sup>

### HOUSE BILL 1

#### 79th Legislature, Third Called Session, 2006

- Compressed local maintenance and operations tax rates to 88.67 percent of the former rate
- Authorized school districts to increase their M&O tax rates up to 17 cents above their compressed tax rates (CTRs)
- Expanded Tier II entitlement from one level of enrichment funding to three levels:
  - Level 1 — funding based on each penny of tax effort between a school district's LFA tax rate and its CTR
  - Level 2 — funding based on each cent of tax effort above a school district's CTR to a maximum of 6 cents
  - Level 3 — funding based on each cent of tax effort beyond a school district's CTR plus 6 cents
- Every cent of increase above a school district's CTR plus 6 cents was equalized at Austin ISD's property wealth per student in weighted average daily attendance (WADA) and recaptured above an equalized wealth level of \$319,500<sup>60</sup>

# APPENDIX I

## A LEGISLATIVE HISTORY OF TEXAS SCHOOL FINANCE

### HOUSE BILL 3646

#### 81st Legislature, Regular Session, 2009

- Decreased M&O compression rate from 88.67 percent to 66.67 percent
- Collapsed Tier II entitlement from three levels of enrichment funding to two:
  - Level 1 — funding based on the first 6 cents of tax effort above a school district's CTR
    - Provided the most substantial amount of enrichment funding per WADA
    - Not subject to recapture
  - Level 2 — funding based on each cent of tax effort above a school district's CTR plus 6 cents
    - Provided less enrichment funding per WADA than Level 1
    - Subject to recapture
    - Established a permanent Existing Debt Allotment
    - Guaranteed \$35 per ADA per penny on I&S taxes to pay existing bond debt on instructional and non-instructional facilities<sup>61</sup>

### HOUSE BILL 1

#### 82nd Legislature, Regular Session, 2011

- Reduced public education funding by an estimated \$5.4 billion
- Set Aug. 31, 2017 as the expiration date for Additional State Aid for Tax Reduction<sup>62</sup>

### SENATE BILL 1

#### 83rd Legislature, Regular Session, 2013

- Increased public education funding by an estimated \$3.6 billion<sup>63</sup>

### HOUSE BILL 21

#### 85th Legislature, First Called Session, 2017

- Established the Texas Commission on Public School Finance:
  - 13 members
  - Duties include addressing policy issues in public education and recommending improvements to current school finance system
  - Expired Jan. 8, 2019
- Provided additional state aid to qualifying charter schools
- Created grant programs for school districts with financial hardships and for students with certain intellectual disabilities
- Established a six-year transition plan to combine the small and mid-size district adjustments into a single small district adjustment<sup>64</sup>

### QUALITY AND EFFECTIVENESS

In addition to shaping public school finance, the above legislation addressed aspects of school quality and effectiveness. The 1949 Gilmer-Aikin Laws, for instance, established the first minimum salary requirement for all Texas public school teachers and guaranteed students basic educational opportunities for at least 175 days per year for 12 years.

House Bill 72 (68th Legislature, Second Called Session, 1984) attempted to attract and retain high-quality teachers by increasing salaries, creating a merit-based career ladder and requiring competency exams. The law also attempted to improve student accountability by requiring school districts to restrict the number of allowable absences, employ discipline management programs and administer exit exams to graduating students.

Senate Bill 1 (71st Legislature, Fourth Called Session, 1990) devoted entire articles to amending state law relating to school accountability, efficiency and performance incentives.

# APPENDIX II

## STATE AND LOCAL REVENUE SHARES: THREE APPROACHES

As described in the Note on Methodology at the beginning of this report, the Legislative Budget Board and Texas Education Agency employ different assumptions in reporting data pertaining to the relative state and local shares of educational funding in the Foundation School Program (FSP). In this report, the Comptroller's office employs a third method incorporating elements of both agencies' approaches.

This appendix provides detail on the state and local shares over time under all three approaches.

FSP REVENUE SHARES: LEGISLATIVE BUDGET BOARD METHOD		
FISCAL YEAR	STATE SHARE	LOCAL SHARE
2000	47.0%	53.0%
2001	43.5	56.5
2002	40.2	59.8
2003	39.7	60.3
2004	37.0	63.0
2005	37.3	62.7
2006	33.8	66.2
2007	39.7	60.3
2008	48.5	51.5
2009	45.5	54.5
2010	46.6	53.4
2011	48.0	52.0
2012	45.9	54.1
2013	44.9	55.1
2014	45.1	54.9
2015	43.5	56.5
2016	43.7	56.3
2017	41.8	58.2
2018	40.1	59.9
2019	38.0	62.0

Source: Legislative Budget Board

FSP REVENUE SHARES: TEXAS EDUCATION AGENCY METHOD		
FISCAL YEAR	STATE SHARE	LOCAL SHARE
2000	47.7%	52.3%
2001	44.9	55.1
2002	42.2	57.8
2003	40.1	59.9
2004	39.2	60.8
2005	37.2	62.8
2006	34.8	65.2
2007	41.1	58.9
2008	49.3	50.7
2009	46.0	54.0
2010	46.8	53.2
2011	48.0	52.0
2012	45.6	54.4
2013	44.5	55.5
2014	44.9	55.1
2015	43.6	56.4
2016	43.5	56.5
2017	41.6	58.4
2018	39.9	60.1

Source: Texas Education Agency

FSP REVENUE SHARES: COMPTROLLER METHOD		
FISCAL YEAR	STATE SHARE	LOCAL SHARE
2000	45.6%	54.4%
2001	42.7	57.3
2002	39.3	60.7
2003	36.5	63.5
2004	35.4	64.6
2005	33.4	66.6
2006	30.5	69.5
2007	37.0	63.0
2008	46.2	53.8
2009	42.3	57.7
2010	44.2	55.8
2011	45.5	54.5
2012	43.0	57.0
2013	41.9	58.1
2014	42.2	57.8
2015	40.4	59.6
2016	40.4	59.6
2017	38.2	61.8
2018	36.0	64.0

Sources: Texas Education Agency and Texas Comptroller of Public Accounts

# ENDNOTES

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