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School Finance and the Budget

Chandra Kring Villanueva, villanueva@cphp.org

In 2011, when state revenue estimates were bleak, the Legislature chose to drastically cut funding to public education instead of exploring ways to increase revenue or tap the state's Rainy Day Fund for the 2012-13 budget. The \$4 billion cut from formula funding and over \$1 billion cut from educational grants represents a \$500 per-student reduction in Texas school spending. In real terms, these cuts translate to almost 21,000 fewer teachers and staff in our classrooms today, three times as many over-crowded classrooms in 2011-12 than the year before, and six lawsuits filed against the state by parents, districts and education advocates.

How the Cuts Were Made

The Legislature used two mechanisms to cut \$4 billion in General Revenue from the formula funding school districts receive: a newly created Regular Program Adjustment Factor, and reductions to “target revenue.”

The Regular Program Adjustment Factor (RPAF) represents a complete change in the philosophy of how public schools are funded. Before the creation of the this factor, districts would go through a set of calculations based on pre-determined formulas that take into consideration district variables and student demographics to establish their funding needs. The adjustment factor moves school funding away from need by allowing the Legislature to arbitrarily fund only a portion of the state's obligation. Under this scheme, property-tax-poor districts, which rely more heavily on state aid, are hit harder than property-wealthy districts that receive a relatively small share of their funding from the state. For fiscal year 2012, the Legislature decided to fund only 92.39 percent of what schools should have received—resulting in a \$2 billion (or 7.61 percent) cut. For 2013, the Regular Program Adjustment Factor increased to 98 percent and the cut shrank to \$500 million, or 2 percent, from districts' Foundation School Program formula funding.

The remaining \$1.5 billion of the \$4 billion cut to formula funding comes from reductions to the target revenue established when local property tax rates were compressed in 2006 in exchange for the state taking on greater responsibility for funding schools. Target revenue freezes districts' per-student funding to the level they received in 2006. If the funding formula generates less funding than a district's target revenue, the state makes up the difference. If the formula generates more than a district's target revenue, then state funding is reduced to the target amount—this is often referred to as the “claw back” provision. Because it randomly creates

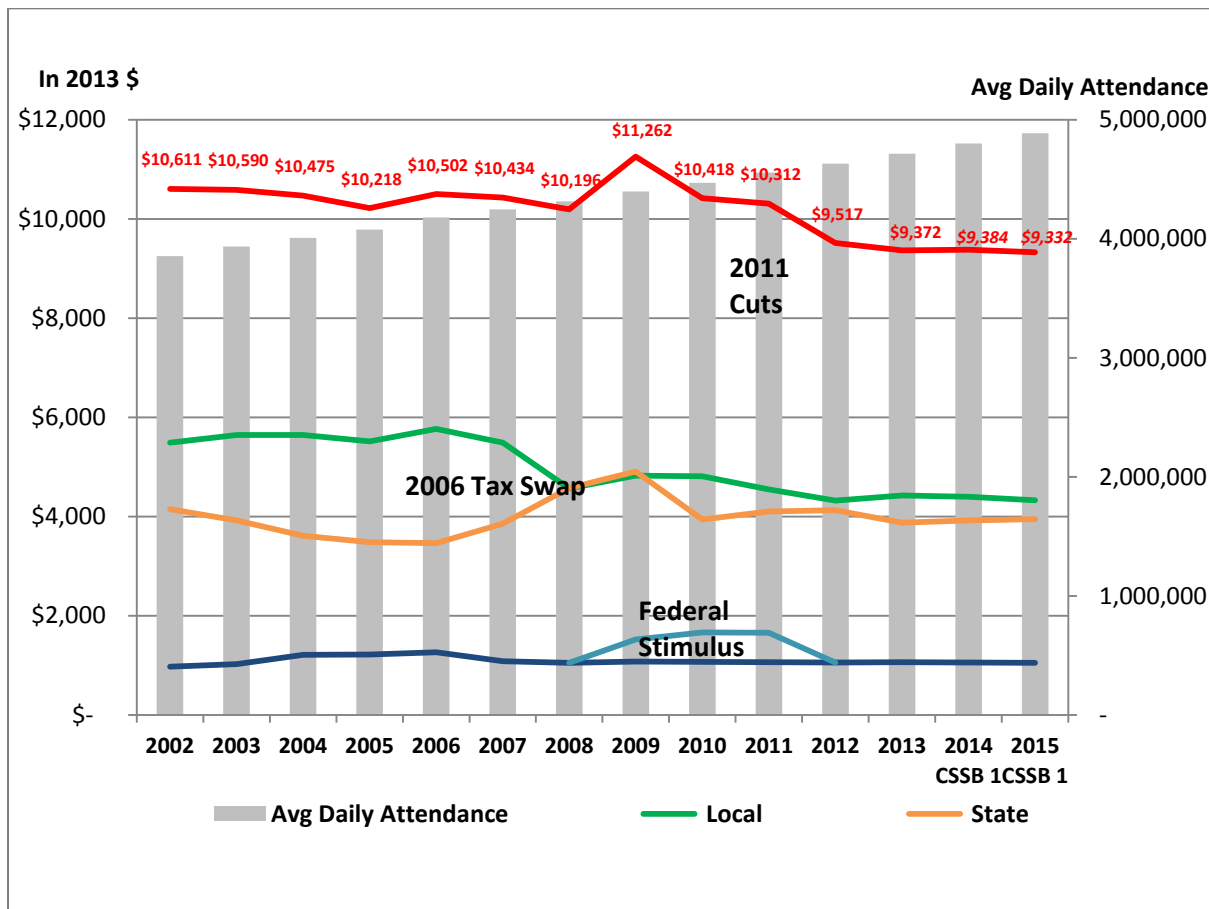
winners and losers and adds an extra layer of complication, target revenue is being phased out and is scheduled to expire in 2018. However, cuts to target revenue still create real harm for the districts that have come to depend on those funds.

Legislators didn't stop there—they also cut over \$1 billion in General Revenue from educational grants outside of the Foundation School Program. Some programs such as the Student Success Initiative, which provides remediation for students who fail the state accountability tests, had their budgets cut deeply. Others, like state grants for Pre-Kindergarten expansion, were completely eliminated.

The Senate Budget Does Not Fully Restore Funding to Schools

The budget passed by the Senate in March (CSSB 1) provides \$1.5 billion more in General Revenue to Texas Education Agency funding than the January 2013 introduced version, but fails to raise per student-funding to pre-recession levels.

Texas Public Education Spending Per Student



Source: Data - Legislative Budget Board; chart design - Rep. Gene Wu;
Update - CPPP 3/20/13. Inflation forecast is 1.6 percent annually.

Student population is projected to grow by roughly two percent a year through the 2014-15 biennium. This budget, and every previous budget, does take into account enrollment growth, because funding is calculated on a per-student basis. However, increases in local property tax revenue often decrease the state revenue needed for enrollment growth.

When education spending is cut, as it was in 2011, or when funding does not keep pace with inflation, every student is funded at a lower level in real terms than the previous year. Student growth is fastest among populations that traditionally cost more to educate, such as economically disadvantaged or limited English proficient students, and students with special education needs. Cutting per-student funding forces schools to increase class size or eliminate additional aid for struggling students.

In 2008, total per-student spending was \$10,196. Under the proposed Senate budget, total per student funding will drop to \$9,332. (Both of those figures are adjusted to 2013 dollars.) This represents an \$864 per-student drop in funding from pre-recession levels or about \$26,000 per classroom of 30 students. To bring school funding back to 2008 levels, the Foundation School Program would need an additional \$8 billion dollars from state and local sources in the next biennium.

Improvements in Formula Funding

By setting the Regular Program Adjustment Factor to 100 percent for 2014-15 (compared to 98 percent in SB 1 as filed), at a cost of just over \$1 billion, the proposed Senate budget fully restores funding that would have otherwise been cut through that mechanism. An additional \$400 million would be injected into the school funding formulas by decreasing target revenue while increasing the basic allotment.

Target revenue as a funding calculation is set to completely expire by fiscal year 2018. The Senate budget gradually decreases the percentage of target revenue paid each year of the biennium as the system weans off this funding calculation. The target revenue reduction factor is reduced to 91.29 percent for 2014 and 91.13 percent in 2015 from 92.35 percent in 2013. In an effort to not harm the districts that have come to rely on target revenue the basic allotment is also raised.

The basic allotment is the base level of per student funding that every district is guaranteed to receive through a combination of state and local revenue. Raising the basic allotment will increase the funding starting point for every district and potentially decrease the number of districts that have to give local property tax revenue to the state as recapture. The Senate budget increases the basic allotment to \$4,799 in 2014 and to \$4,874 in 2015 from the \$4,765 it has been set at since 2006.

Funding Educational Grants is Not a Senate Priority

Very little is proposed to restore the over \$1 billion cut from educational grants. Including the additional Pre-K funds, the Senate adds only \$87.5 million in GR, compared to what was appropriated in the 2012-13 budget, for the Student Success Initiative, Communities in Schools, Project Share, Teach for America, and autism services. A \$230 million GR increase is also proposed for textbooks and other instructional materials.

Pre-K Continues to be Underfunded

The 2011 Legislature completely eliminated \$208.6 million in funding for Pre-K expansion grants. These grants allowed districts who offer half-day Pre-K to expand to a full-day program or to enroll additional students who do not meet the criteria for Pre-K services. Pre-K, like all other grades, also lost funding through cuts to formula funding (the Foundation School Program).

The proposed Senate budget adds \$40 million to Pre-K for the biennium, which is only 19 percent of the amount cut from the expansion grant. Instead of distributing the funds through the competitive grants process previously used, the Senate intends for these funds to be evenly distributed among all Pre-K students.

Preliminary House Budget Doesn't Move Education Funding Forward

The House proposal adds \$2.5 billion more in General Revenue to Texas Education Agency funding than the January 2013 introduced version.

Like the Senate, the House sets the Regular Program Adjustment Factor at 100 percent, preventing further cuts through this mechanism. The House provides a greater increase in the basic allotment than the Senate with \$4,890 for 2014 and \$4,975 for 2015 and a larger reduction to target revenue. Since these changes were negotiated after House Appropriations marked-up Article III, funding details on these provisions are located in Article IX of the budget.

Even though the greater basic allotment and target revenue reduction add nearly \$1 billion more than the Senate budget, the House proposal still doesn't bring real per-student spending back to pre-recession levels. At \$9,435 per student, state/local/federal spending per student is \$761 less than in 2008.

The House budget proposal includes \$30.8 million more in GR for educational programs outside the Foundation School Program than the 2012-13 budget. This is less than half of what is offered in the Senate budget and nothing is specifically earmarked for Pre-K. Like the Senate, the House Appropriations budget also reflects an additional \$230 million in GR for textbooks and other instructional materials, compared to 2012-13 spending.

Conclusion

In 2006, the Legislature compressed local school property tax rates and committed to maintaining schools districts total state and local revenue. Most of the revenue to cover this tax swap was expected to come from the franchise tax, the state's main business tax, and increased taxes on cigarettes and used cars. However, these taxes were never projected to generate the revenue needed and left the state with a \$10 billion biennial structural deficit. Even if the Legislature had used the Rainy Day Fund to prevent the education cuts in 2011, going forward from there, we would still have this \$10 billion hole to fill each biennium. As long as the Legislature refuses to eliminate the structural deficit, it will be unable to meet the needs of our state for education and other vital services.

For more information or to request an interview, please contact Alexa Garcia-Ditta at garciaditta@cphp.org or 512.823.2873.

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