

## Recommended Revenue Options to Pay for Schools

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The Texas public school finance system is about to get a much needed remodel. Money matters in education, and we need funding to truly support the 5.4 million Texas public school students. As the Legislature debates changes to how we fund our schools, lawmakers also need to consider where to find the money needed to support public education.

These Revenue Options would generate millions, even billions for Texas schools in 2020-2021	
Eliminate high-cost natural gas tax break	\$33 million
Eliminate local option homestead exemption	\$1.7 billion
Expand the sales tax to cover more services	\$8.4 billion
Update alcohol tax rates	\$600 million
Update gasoline and diesel tax rates	\$2 billion

Sources: CPHP Analysis of Comptroller and Legislative Budget Board Estimates

The Texas tax code contains many outdated or wasteful exemptions that the Legislature has added over the years. Eliminating certain tax exemptions and updating some tax rates would go far to create new revenue for schools.

**The high-cost natural gas tax break** has outlived its purpose. One-fourth of natural gas severance taxes are constitutionally dedicated to schools. Phasing out this tax break, as Senate Bill 1417 proposes, would generate \$33 million for schools and at least twice that in the long-term.

**The local option homestead exemption** allows school districts to grant a percentage homestead exemption of up to 20 percent in addition to the statewide mandatory flat-dollar exemption of \$25,000. Most of the benefits go to wealthier Texans, and only about 200 school districts in Texas make use of this provision.

**Expanding the sales tax base** to cover services like lawyers and accountants could generate \$8.4 billion in 2020-21. Expanding services that are subject to the sales tax is more equitable than the across-the-board

sales tax rate hike that the Governor, Lieutenant Governor and House Speaker have proposed.

**Update alcohol tax rates:** The last increase in tax rates on beer, wine, and liquor was in 1984, when they were raised to help fund education reforms at the time. Merely raising those alcoholic beverages' tax rates to track inflation since 1984 could increase state revenue in 2020-21 by more than \$600 million.

**Update gasoline and diesel tax rates:** Cars are much more efficient now than they were in 1991, meaning that people buy less fuel and therefore pay less in taxes. Raising motor fuels taxes to match inflation since 1991 could raise about \$7 billion in 2020-21, with \$2 billion of that for schools and the rest for highways. One-fourth of the funds raised would be constitutionally dedicated to schools.

**These are all good options to raise revenue to educate Texas students.**

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