

Investing in Our Future:

What you need to know as Texas re-examines the school finance system

by Chandra Villanueva

In January, the newly created Texas Commission on Public School Finance began studying and making recommendations to improve the school finance system. This five-part series prepares readers to engage with lawmakers and the Commission by providing background on past school finance commissions, the strengths and challenges of the current finance system, and recommendations for improvements.

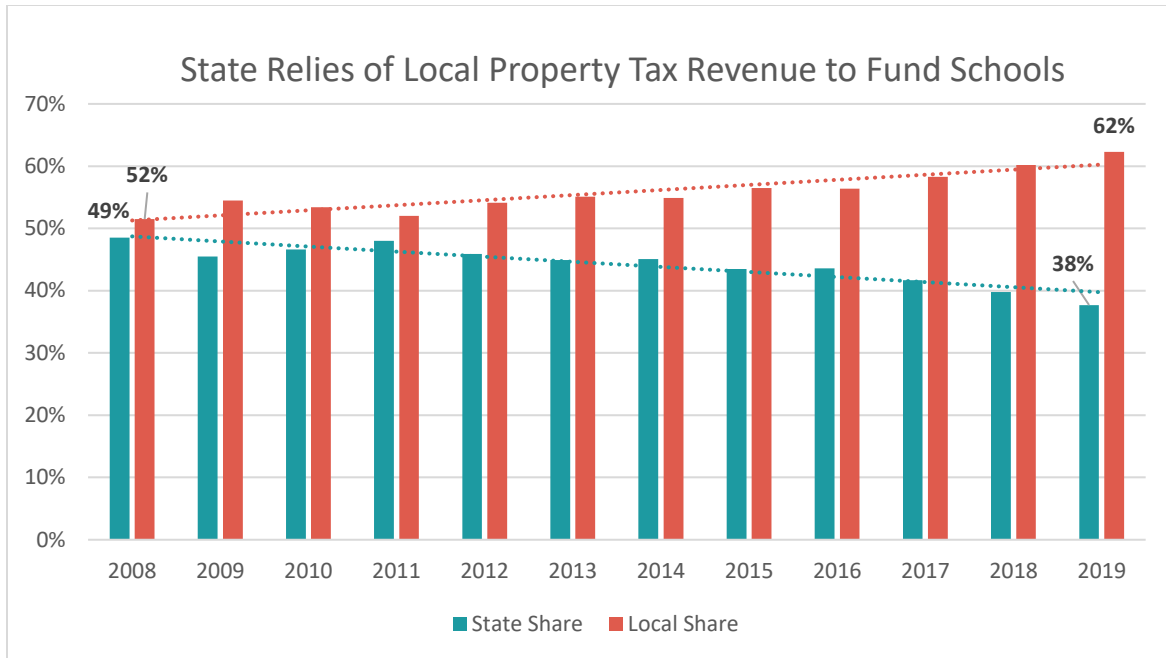
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Part 4: Funding Schools is a Shared Responsibility: Finding a Balance between State and Local Funding Sources

Educating 5.4 million Texas public school students is a huge responsibility. To put this in perspective, there are 28 states where the entire population is less than the number of public school students in Texas.

The driving force behind Texas' push for independence was a desire for public education. Many of us have benefited from public education, and it's now our responsibility to ensure current and future generations have access to a strong public education system.

State and local taxpayers share the responsibility to fund the nearly \$50 billion per year Foundation School Program, the primary source of funding for school maintenance and operation. Although Texas law directs the state to contribute a substantial share of funding, by 2019 the state's share of funding relative to the local share is projected to drop to 38 percent from 42 percent in 2017. State and local funding has gotten out of balance because when local property tax revenue collections increase – thanks to a strong local economy, for example – the state is able reduce its contribution to schools. The current school finance system allows the state to take advantage of higher local property taxes, and it's actually something state budget writers plan for in their funding projections.



Source: Legislative Budget Board. FY 2017-19 are estimates based on the Conference Committee Report for Senate Bill 1. Local share includes recapture dollars; in FY 2010-11 state share funds included the federal American Recovery and Reinvestment Act of 2009.

The State Relies on Rising Property Values to Fund Schools

Using a set of complex formulas, the Legislature determines how much funding is needed to support the maintenance and operation of the public education system. Individual school districts first use revenue raised through local property taxes to fund their schools, paying for things like teachers, educational materials, and other educational services. If a school district is unable to raise enough funds locally to meet the Texas Education Agency determined funding level for that district, then the state provides some of its revenue. If a district is able to generate funding above the set level, then the school finance formulas classify the district as "property-wealthy," requiring the district to send its excess funding to the state for redistribution to other districts and charter schools.¹ This redistribution is known as "recapture" or "Robin Hood."

Because Texas is a growing state, property tax revenue generally increases each year. City and county budgets benefit when local property values increase, allowing municipal governments to invest in police, firefighters, parks, and infrastructure. For schools, however, increasing property values usually lead the state to contribute less to public education. While the state budget benefits from rising local property tax revenue, local property owners see their tax collections go up without a corresponding improvement to their local schools. When local property value collections increase, lawmakers could use the savings generated for the state to update the school finance system, though usually they choose not to.

In 2017, total funding for the Foundation School Program (the formulas and laws that provide operational funding for public schools in Texas) was \$46.4 billion, and of that the state contributed \$19 billion and local property taxpayers contributed \$27 billion. The amount needed to fund schools in 2018 will increase by \$1.42 billion from 2017, primarily due to there being more students. Because the

property values are rising across the state, local property taxes will generate \$1.75 billion more than the previous year— \$330 million more than needed to fund the growth in student population.²

State Support for Public Education is Declining

	Total Funding (\$billions)	State Share	Local Share	Amount more Contributed by Local Share
2017	\$46.4	\$19.4	\$27.0	\$7.7
2018	\$47.8	\$19.0	\$28.8	\$9.8
2019	\$49.1	\$18.5	\$30.6	\$12.1

Source: Legislative Budget Board – State and Local Share of Foundation School Program Entitlement. FY 2017-19 are estimates based on the Conference Committee Report for Senate Bill 1. Local share includes recapture dollars.

In addition to allowing local property tax revenue to cover 100 percent of the cost of enrollment growth, the state also uses the additional \$330 million generated locally to reduce its share of school funding. Those state dollars, which otherwise would have gone to education, are used on other budget expenses or tax cuts. Unless lawmakers change the system, future increases in property tax revenue will continue to allow the state’s share of education funding to decline. By 2019, local property tax payers will contribute \$12 billion more to public education than the state does.

It doesn’t matter if a school district is classified as “property-poor” or “property-wealthy” under the recapture provisions in the school finance formulas; any rise in local property tax revenues corresponds with a decrease in state support for that district. For districts that do make contributions to the state under recapture, rising property values increase the recapture payment.

Recommendations for Finding Balance between the State and Local Share of School Funding

There are several actions lawmakers can take to create balance between the state and local share of school funding:

Reduce Tax Rates and Increase the Basic Allotment: In 2006, the Legislature reduced local property tax rates and dedicated additional state aid to keep districts from losing funding. This action brought the state and local share to nearly a 50/50 split and provided a substantial reduction in property tax rates for businesses and homeowners. Instead of using a complex set of adjustments that moved the system farther away from the costs of educating students, as was done in 2006, a simple increase in the basic allotment - the base level of per-student funding – would have the same effect without adding another layer of complexity to the finance system.

While this approach would even out the split of school funding between state and local property taxes, it would not address the historic and continued underfunding of the system detailed in [Part 3](#) of this series.

Adjust the Basic Allotment for Inflation: One reason the state’s share declines with property value growth is because the formulas do not account for inflation. Per-student funding should be adjusted to reflect growing costs and expanding educational standards for our students. Adjusting for inflation

would begin to address current inadequate funding levels and would ensure the state share to public education remains steady.

CPPP estimated it would cost the state \$2.7 billion to cover inflation for the 2018 – 2019 budget cycle. House and Senate school finance proposals during the 2017 legislative session fell far short of the funding needed to cover the cost of inflation. Proposals from both chambers relied on smoke and mirror tactics for funding, instead of identifying a new and sustainable source of funding. The House proposed delaying a future payment to schools to create a one-time budget savings, while the Senate proposal, which passed, delayed nearly \$800 million in funding to the Health and Human Services Commission. Lawmakers need to restore funding for the Health and Human Services Commission in the next budget cycle.

Instead of relying on local taxpayers to pick up the cost of the state’s underfunding of public education, lawmakers should make real adjustments to the finance formulas to boost investments in our students. We all benefit when Texas has an educated workforce, with informed residents active in our communities.

¹ There are five methods school districts can adopt to reduce its wealth per student, however most districts choose to send funding back to the state for redistribution.

² Legislative Budget Board. State and Local Share of Foundation School Program Entitlement (in millions) and State Share Percentage – Fiscal Years 2007-2009.

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