



PINCHING PENNIES:

TEXAS IS SHORTCHANGING PUBLIC EDUCATION



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Education is the bedrock of an informed democracy and the bridge to lifelong opportunity. Texans rely on public education to develop a talented workforce and promote shared prosperity. To fulfill this promise to the next generation of Texans, the Legislature must ensure there is equitable and sufficient funding for all kids to get a quality public education, no matter where they live or their background.

Texas is responsible for the education of more than 5.5 million students across 1,207 traditional and charter school districts which operate 9,088 campuses. Our student body is diverse: 53% of students are Hispanic/Latino, 25% are white, and 13% are African American. Students' needs are also diverse: 62% of students are economically disadvantaged, 24% are emergent bilingual, and 14% receive special education services.¹

This report explains how public education in Texas is funded and how recent legislative changes are shortchanging our teachers, schools, and putting our state at risk.

UNDERSTANDING THE FOUNDATION SCHOOL PROGRAM

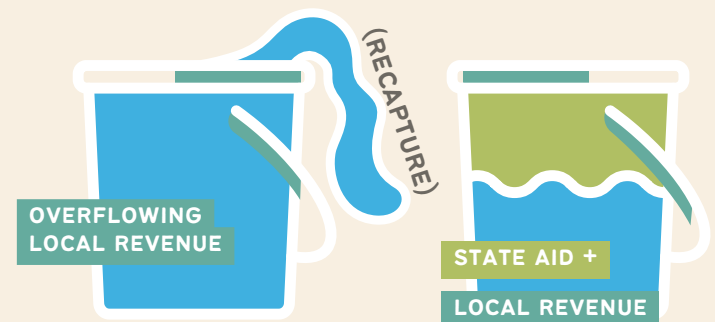
The Texas Education Agency (TEA) administers the Foundation School Program (FSP), which is Texas' school finance system. In 2027, it is projected that nearly \$63 billion in state and local funding (excluding facility funding) will flow through the FSP, or roughly \$12,200 per student in average daily attendance.²

The FSP is a complex set of formulas that determine how much funding each district or charter school is allowed for maintenance and operation. The formula starts with the basic allotment, a base level of funding per student in average daily attendance (ADA).* This amount is increased based on student demographics, such as the number of economically disadvantaged, emergent bilingual, and special education students. This is called weighted student funding. Additional funding allotments are also provided for district characteristics such as small, mid-sized, or fast growth districts.

School district funding works like filling up a bucket. Local property tax dollars go in first. For an average property owner, the school district tax represents about half their property tax bill. If the district cannot reach its full funding level with local dollars, the state provides aid to fill the rest of the bucket. If local revenue overflows the bucket, the excess is redistributed to other districts and charter schools as a part of their state aid.

**Most elements of the school finance system are based on students in average daily attendance (ADA).*

This is known as **recapture** or “Robin Hood”—an equity tool for leveling funding between school districts.

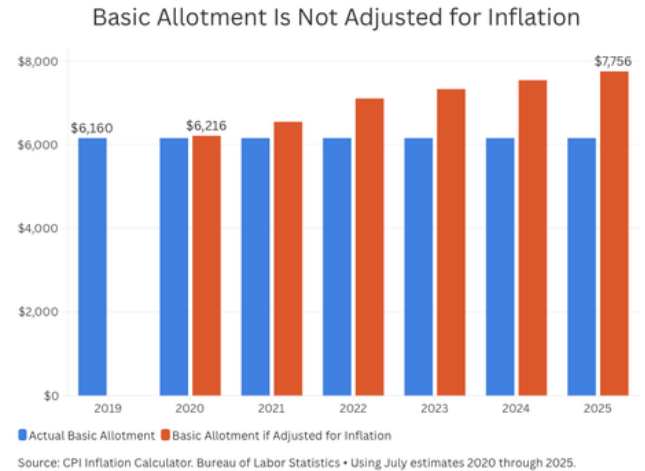


THE BASIC ALLOTMENT: THE INITIAL PER STUDENT FUNDING AMOUNT

The basic allotment is the primary building block of the school finance system. The funding amount is set arbitrarily by the Legislature, when and if they feel moved to do so. It is not based on cost estimates, and it is also not adjusted for inflation.

The basic allotment has not seen a true increase since 2019, when it was set at \$6,160 per student. Legislation passed in 2025 (HB 2) created the Guaranteed Yield Increment Adjustment, a provision described later in detail, to supplement the basic allotment.

If adjusted for inflation annually, the basic allotment would have been \$7,756 in 2025, an increase of \$1,596 per student.³



School Funding Is Not Keeping Pace with Inflation

Inflation Adjusted Spending (2018 dollars) per ADA



Source: Fiscal Size-Up 2026-2027. Legislative Budget Board



Because the Legislature keeps the basic allotment stagnant, school funding is not keeping pace with growing inflation.

In 2020, after funding changes from 2019 legislation went into effect, Texas allocated \$11,597 per student in local, state, and federal funding. By 2027, per student funding amounts are estimated to drop to \$9,686 (adjusted for inflation using 2018 dollars).⁴ This represents a drop in funding of \$1,910 per student in average daily attendance (ADA).

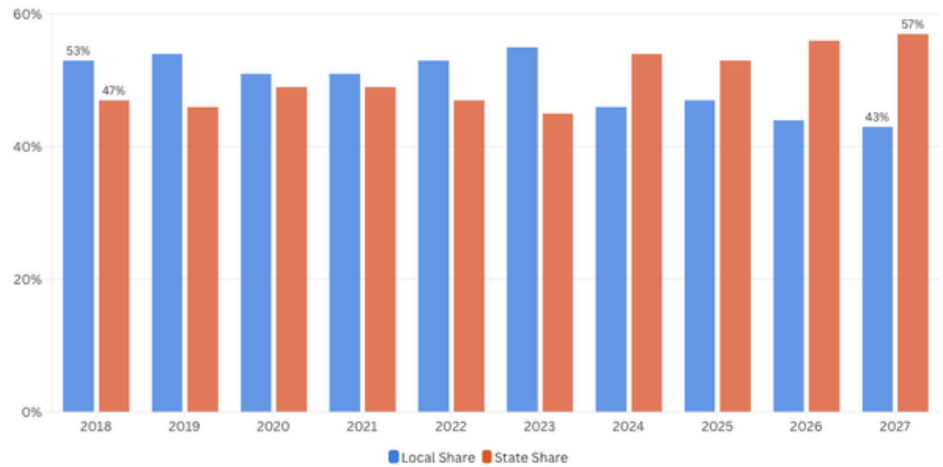
SHIFTING RESPONSIBILITY

Providing public education is the state's responsibility, and it is the policy of the state that the system is substantially financed through state resources.⁵ Since local property tax dollars fill the funding bucket first, the responsibility has shifted disproportionately onto the local share as property values grow across the state. By 2018, the state's share was 47% when including recapture collections. When excluded, the state's share drops to 43%.⁶

This growing reliance on local property tax dollars creates distrust among both the property tax and public education systems in Texas. Taxpayers see higher property tax bills, yet classrooms remain overcrowded, and teachers underpaid. Leading up to 2019, most Texans didn't understand that their higher property tax bill allowed the state to dedicate less funding to public education. In response to taxpayers' frustration, the Legislature implemented tax compression (property tax rate reductions) as a part of HB 3, which passed in 2019.

Tax compression increases the state's share by reducing the amount of funding collected locally. It does not make any changes to how much funding a school district receives, leaving questions unanswered of how to increase teacher pay or improve academic outcomes.

Tax Compression Shifts Funding from Local Property Taxes to State Funds



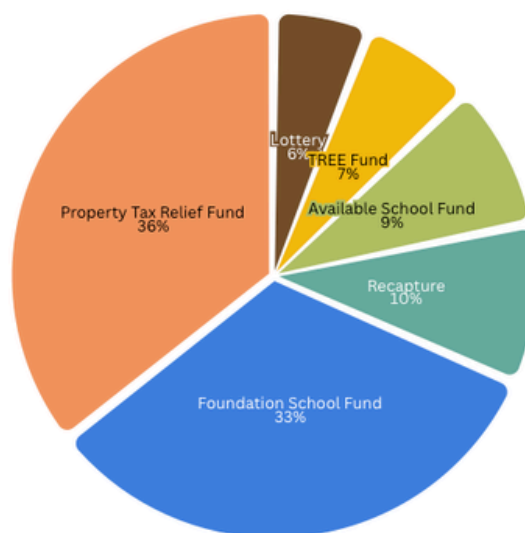
Source: Fiscal Size-Up 2026 - 2027. Legislative Budget Board • State and Local Foundation School Program Shares for Maintenance and Operations.

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THE STATE'S SHARE

While the local share comes exclusively from property taxes, the state's share comes from six different sources:

Sources of State Funding



Source: 2026 -2027 General Appropriations Act. Legislative Budget Board

Foundation School Fund (FSF)	General revenue or otherwise unallocated state dollars, primarily from the sales tax. Also includes 25% of the Occupational Tax.
Available School Fund (ASF)	Receives earnings from the Permanent School Fund, an endowment that consists of revenue primarily from state land and mineral rights. The General Land Office and the State Board of Education are both authorized to transfer up to \$600 annually from the corpus of the Permanent School Fund to the ASF. Additionally, 25% of the motor fuel tax revenue is constitutionally dedicated to the ASF.
Property Tax Relief Fund	A portion of the cigarette and tobacco tax, used motor vehicle sales tax, and corporate franchise tax. The Legislature also moves additional general revenue into this fund to reduce local property tax rates.
Tax Reduction & Education Excellence Fund (TREE)	Any amount above \$300 transferred to the ASF from the General Land Office and/or the State Board of Education is redirected to the TREE Fund to support school entitlements. Sales tax collected from online merchants is collected and used to reduce school maintenance and operation tax rates.
Lottery	Proceeds from the lottery after paying for prizes and program administration.
Recapture (Robin Hood)	Local property taxes that exceed the amount of revenue the state allows a district to collect.

The amount of funding provided by the state is called a “sum certain appropriation,” meaning it is based on a formula, and all the slices of the pie are relational to one another.

For example, even if Texans spend thousands more on lottery tickets than they normally do each year, the overall public education funding amount will still not change. The lottery slice of the pie would increase, but the FSF slice would decrease by an equal amount; since the FSF is mostly general revenue, it increases and decreases in reaction to the other sources. The additional lottery funds would supplant, rather than supplement, the general revenue dedicated to public education.

Some argue that recapture dollars do not go to education because they supplant FSF/general revenue dollars rather than supplement (increase) funding. If that was the case, however, then one could argue that none of the other funds go to education, either, and all state education dollars must only come from general revenue. In truth, recapture dollars, like several other funding sources, are constitutionally dedicated to education.

The only way to increase the amount of funding allocated to public education is to change the formulas that determine school district funding levels.

THE LOCAL SHARE (PRIOR TO 2019)

The maintenance and operation (M&O) property tax pays for day-to-day school operations inside Texas schools, including teacher salaries. School districts also levy an interest and sinking tax (I&S) to pay for voter approved bonds, generally for facilities and other infrastructure projects. This report is focused on the M&O tax, since that is what funds the local share of the Foundation School Program.

Texas had a maximum M&O rate of \$1.17 per \$100 of property value until the passage of HB 3 in 2019, which made major changes to how tax rates are set for school districts. That piece of legislation introduced tax compression, a method of systematically reducing local property tax rates.

Texas' school finance system was built on "a standard of neutrality that provides for substantially equal access to similar revenue per student at similar tax effort."⁸ Every district taxed at \$1.00 per \$100 of property value in Tier I to fund a base level of education that covers the Texas Essential Knowledge and Skills (TEKS), the state's standards on what students should know and be able to do.

$$\text{Max } \$1.17 = \$1.00 + \$0.06 + \$0.11$$

TIER I: BASIC EDUCATION/TEKS

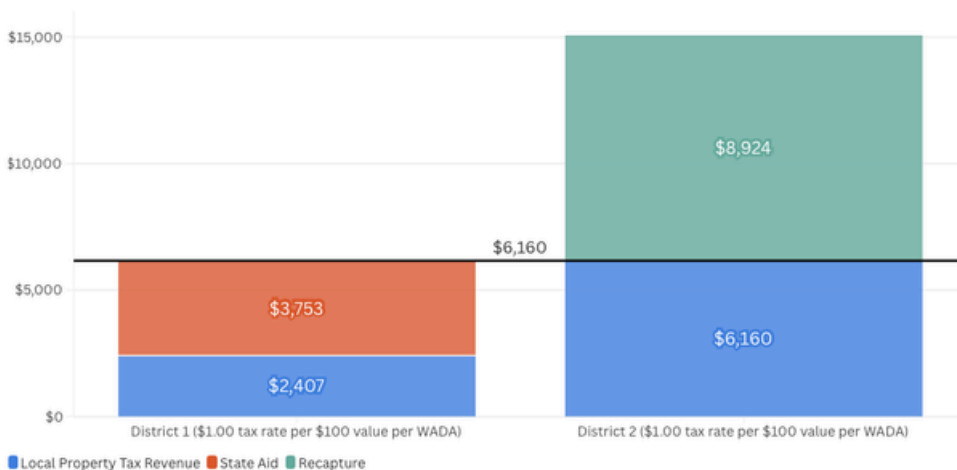
TIER II: OPTIONAL 'ENRICHMENT' FUNDING

Districts that couldn't fill their funding bucket at that tax rate received state aid, and those that overflowed their bucket paid recapture.

Tier II was designed to give districts "meaningful discretion," or the ability to raise additional funds to enhance educational programs or provide enrichment outside of the TEKS. Tier II is broken into two additional tiers: golden and copper pennies. Districts that levy Tier II pennies are guaranteed to receive a certain level of funding per penny per student, called the "guaranteed yield."⁹ Funds generated at the golden penny level are not subject to recapture, so if a district is able to collect revenue greater than the guaranteed yield, it can keep all the revenue. The guaranteed yield of copper pennies is lower than that of golden pennies, and these pennies are subject to recapture.

While Tier II is intended for enrichment, many districts must access these additional pennies to make up for the lack of funding provided in Tier I, due to the basic allotment being arbitrary and the lack of regular adjustments.

Similar Revenue for Similar Taxation



Source: Texas Education Agency • Based on the 2025 – 2026 Summary of Finance for Edgewood ISD (San Antonio) and Alama Heights ISD, Preliminary 11/10/25

To understand how state and local shares interact with the tax equity principle of equal revenue for equal taxation, it's helpful to look at the Tier I funding of a property-poor and property-wealthy school district. **In this example to the left**, to keep the math simple, each district is funded at the basic allotment amount of \$6,160 per student without making any adjustments for student or district characteristics.



Don't let tax rate terminology confuse you! Property tax rates in Texas are referred to as "dollars, cents, or pennies" because tax is levied per \$100 of property value. Most other states tax per \$1,000 of property value and refer to their tax rates as mill rates.

District 1 is property-poor and only able to generate \$2,357 per student when taxing at \$1.00 per \$100 M&O tax rate. The state provides District 1 with \$3,803 in state aid to ensure the district receives the full basic allotment of \$6,160 per student.

District 2 is property-wealthy and easily reaches the full basic allotment funding of \$6,160 per student with an M&O tax rate of \$1.00 per \$100 of property value. This district generates \$14,970 per student at that tax rate. Because the district generates more dollars locally than are allowed for operations, the “excess” revenue is recaptured by the state and redistributed to property-poor districts and charter schools as state aid.

This example is loosely based on two San Antonio school districts: Edgewood ISD (District 1) and Alamo Heights ISD (District 2). We use them as an example because of their historical significance in the multiple lawsuits that improved tax and funding equity in Texas public education.

The tax equity principle of similar revenue for similar taxation ensures that both districts operate on a level playing field. Taxpayers and homeowners in property-wealthy districts often feel it’s unfair to give their local tax dollars to the state, especially when they are unable to provide a high-quality education with the dollars left over. Recapture is not the problem, however, the problem is that the basic allotment is insufficient to meet the educational needs of today’s students. Rather than focus on bringing the top down with recapture, the Legislature should bring the bottom up by increasing the basic allotment, adjusting it annually for inflation, and addressing other long-standing funding holes. If one Texas school district is struggling, then all Texas students suffer the consequences.

TAX COMPRESSION’S IMPACT ON THE LOCAL SHARE (POST 2019)

To address the state’s declining share and complaints about recapture, the Legislature decided to compress (reduce) local property tax rates rather than increase the basic allotment. Lower tax rates reduce the local share and require the state to contribute more, while the actual funding available to schools remains the same.

The school funding and tax cut bill passed in 2019 was designed to decrease the Tier I of the M&O tax rate over time through a combination of statewide and individual district tax rate compression.

In tax year 2019 (Sept. 1, 2019–Aug. 31, 2020), the Legislature compressed every district’s tax rate to \$0.93 from \$1.00 per \$100 of property value. Starting in tax year 2020, tax rates for all districts decline annually if average statewide property value growth is more than 2.5%. This statewide compressed rate is called the maximum compressed tax rate (MCR).

$$\text{Maximum Compress Tax Rate} = \text{Current Rate} * \frac{1.025}{\text{Growth Rate}}$$

Tax compression limits the growth of property tax collections statewide by no more than 2.5% each year. Since this compression is done statewide, all districts see their rates decrease even if an individual district had no growth or a decline in property values.

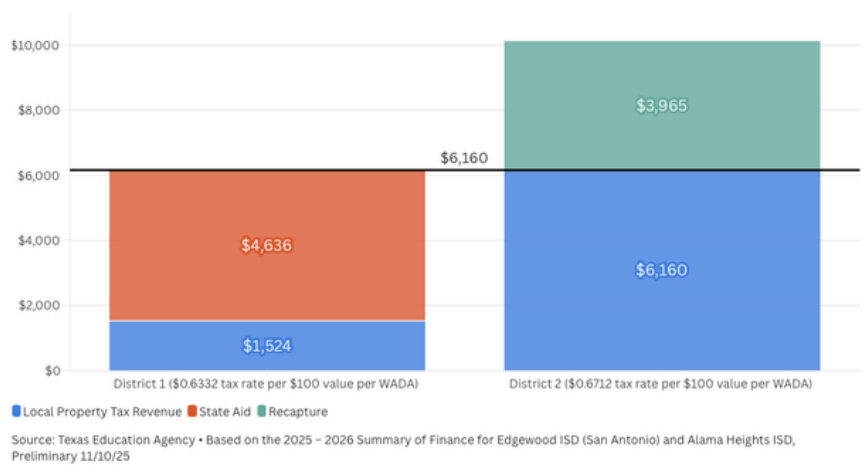
Individual districts are also required to reduce their tax rate if they experience growth greater than the statewide average (or 2.5% if statewide growth did not meet the compression threshold). However, no district is allowed to tax more than 10% below the MCR. This means that districts with different tax Tier I tax rates receive similar amounts of revenue, a complete departure from the tax equity principle of similar revenue for similar taxation.

When revisiting the comparison of a property-poor and property-wealthy district, District 1 is now taxing at

\$0.5799 per \$100 of property value and District 2 is taxing at \$0.6179. With different tax rates, both districts are still entitled to the full basic allotment.

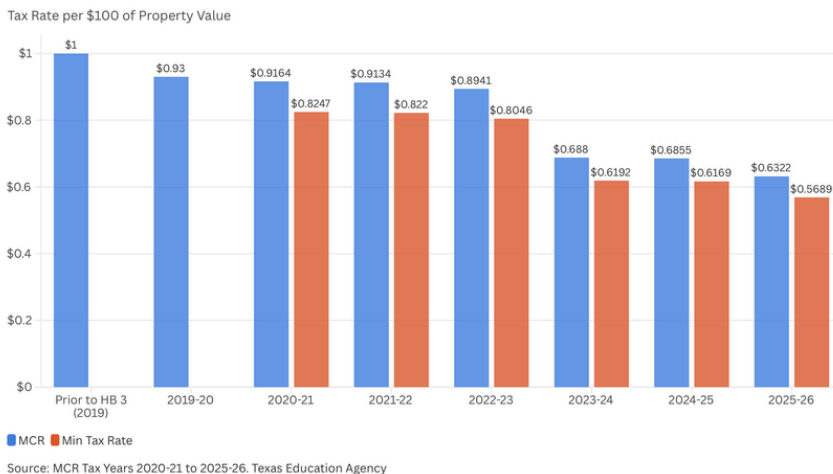
Tax compression is based on value growth, not wealth. This means that District 1 sees more property value growth than District 2, even though District 2 has more wealth per student overall. With its new tax rate of \$0.5799, District 1 now collects even less in local property taxes and needs more state aid to reach the full basic allotment. The state is spending more on this district but has not increased how much funding the district has to operate.

Similar Revenue for Dissimilar Taxation



District 2 is still able to meet the basic allotment with local tax revenue, but their recapture payment declined by \$5,720 dollars per student. Though District 2 is sending much less back to the state in recapture, nothing has changed concerning the funding available to operate the district. In addition to the annual compression dictated by HB 3 (2019), the Legislature can also accelerate tax compression by directing additional state funds to buy down the Tier I M&O tax rate. For tax year 2023-24, the Legislature reduced the tax rate by an additional \$0.107.

Compression: Path Toward Eliminating Tier I M&O Tax



The Legislature chose large, costly tax cuts over investments in education to raise the state’s share. **It’s costing the state \$51 billion** in the 2026-2027 budget to maintain the property tax cuts made since 2019.¹⁰

That is equivalent to roughly \$10,000 per student in available daily attendance spent on tax cuts rather than meaningful improvements to public education.

It’s concerning that the Legislature lacks a long-term plan to sustain these tax cuts going forward. The Legislature started the last two sessions with billions more than usual in carryover revenue. Often referred to as a “surplus,” this one-time revenue was used by lawmakers to enact permanent tax cuts. While the Legislature should prioritize public education first, both tax cuts and investments in education require a sustainable revenue stream. This reckless spending threatens the already meager amounts currently dedicated to public education in the event of an economic downturn.

HB 2 (2025): AN ADVERSARIAL MINDSET TOWARD PUBLIC EDUCATION

Public education, like all public institutions, operates within a system of trust. Current state leadership frames public education as divisive and has subsequently passed laws which limit discussions of race, inequality, and gender identity. These ideological attacks on what is or should be taught in schools are also reflected in the approach legislators take with funding public education.

Policymakers who trust public education provide flexible resources and holistic services to fuel innovation and support student achievement. When seen as adversarial, funding is often withheld or is focused on controlling districts through new restrictions. In these cases, tax dollars are often also redirected towards alternatives.

In 2023, the Legislature withheld nearly \$4 billion in funds earmarked for public education when a provision to create a private school voucher program was stripped from the funding bill. In 2025, a private school voucher bill that diverts public dollars to private institutions passed after decades of opposition. The Legislature also ignored five years of calls from school officials, educators, parents, and advocates to increase the basic allotment. Instead, HB 2 passed, providing far too little in terms of funding while adding multiple layers of complication onto an already tangled system. This approach is fiscally inefficient and makes it nearly impossible for average Texans to understand how public education is funded.

This report highlights some of the major changes in HB 2 (2025). More details on this bill and other pieces of legislation impacting public education can be found on the [Texas Education Agency website](#).¹¹

GUARANTEED YIELD INCREMENT ADJUSTMENT

Instead of using new funds to increase the basic allotment, the Legislature created the guaranteed yield increment adjustment (GYIA) to reallocate existing funds intended to increase the golden penny guaranteed yield toward supplementing the basic allotment. As funds originally intended for wealth equalization are now being distributed to all school districts, this change raises equity concerns.

To understand the GYIA, it's important to first understand golden pennies, how they work within the school finance system, and the recent changes made to them. Golden pennies are first part of the optional Tier II M&O tax rate. They are referred to as "golden" because the state guarantees a relatively high value to every district that accesses these pennies. Golden pennies are not subject to recapture, so the districts that are able to generate funding above the guaranteed yield are able to keep all the revenue generated.

Districts can levy up to eight golden pennies, and the first five can be accessed without a voter-approval tax rate election (VATRE). Though golden pennies are optional, most districts access at least some of them because of their high yield/lack of recapture and not needing an election to access the first five.

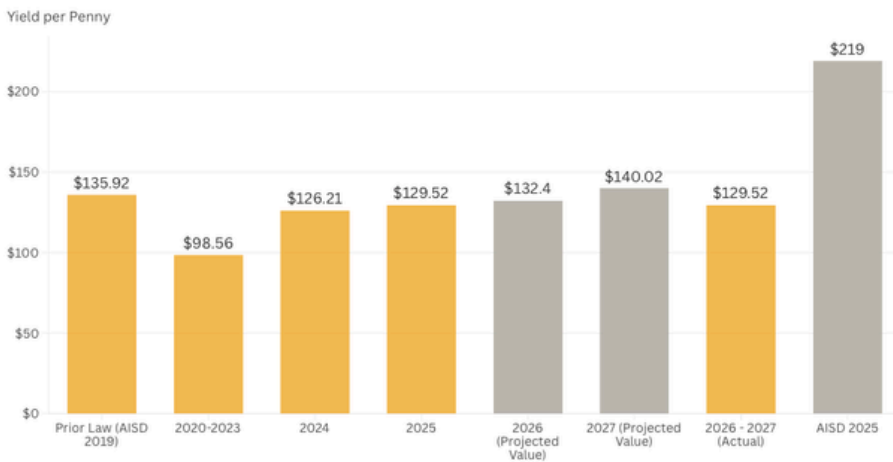
Before HB 3 (2019), the guaranteed yield was tied to Austin ISD. That meant every school district was guaranteed to receive whatever Austin ISD was able to generate per student at one penny of taxation. In 2019, the golden penny yield was \$135.92. If a district's yield per penny was greater than Austin ISD, they were able to keep all the revenue generated because there is no recapture on golden pennies.

HB 3 (2019) decoupled the golden penny yield from Austin ISD and set it at whichever is higher: 160% of the basic allotment or the 96th percentile of property wealth. This reduced the golden penny yield to \$98.56 from \$135.92.

Though the basic allotment has remained the same since 2019, the 96th percentile of property wealth grew to \$129.52 per penny of taxation by 2025. If the golden penny yield was still tied to Austin ISD, districts would be guaranteed \$219 per penny per student.

The guaranteed yield of the golden penny was projected to grow to \$132.40 for 2026 and \$140.02 for 2027. Instead of allowing the golden penny value to increase, the Legislature kept the golden penny value at \$129.52¹² and took the revenue that would have gone to certain districts (those with golden pennies and property value wealth below the 96th percentile of wealth) and distributed it to all districts as the GYIA. For the 2026-2027 biennium, the GYIA provides a \$55 supplement to the basic allotment for a total of \$6,215 in base level per student funding.

Golden Penny Yields Declined Through Legislative Actions



Source: General Appropriations Act 2020-21, 2022-23, 2024-25, 2026-27; HB 1/SB 1 2026-27; Summary of Finance Austin ISD 2025. Legislative Budget Board, Texas Education Agency

Golden pennies continue to be a source of inequity in the school finance system as they are not subject to recapture. The cut in value made in 2019 adds to this inequity as property-wealthy districts see the value of their golden pennies increase each year, while districts that receive wealth equalization are still at a rate below the 2019 guaranteed yield.

With the GYIA, the value of golden pennies is now frozen for lower-wealth districts. Districts with property wealth above the golden penny guaranteed yield amount will now receive the GYIA basic allotment supplement, further increasing inequities across the system.

The GYIA is not an inflation adjustment. While part of inflation calculations, housing costs often are slow to respond to inflation changes, and property values can fall even when inflation is high. The GYIA provides a \$55 supplement to the basic allotment. Adjusting the basic allotment for inflation just for the last year would require an increase of \$185.58.¹³

The GYIA adds another unnecessary layer to our already complex school finance system. Going forward, the state will need to calculate how much it would have spent to increase the golden penny yield (based on the difference between the 96th percentile of wealth, the property wealth of each district with golden pennies, and how many pennies each of those districts are levying) as well as how much of a supplement that can provide to every district in the state. All this to avoid an increase in the basic allotment. The GYIA is not new money: it's a rearrangement of existing dollars in an inequitable way.

ALLOTMENT FOR BASIC COSTS

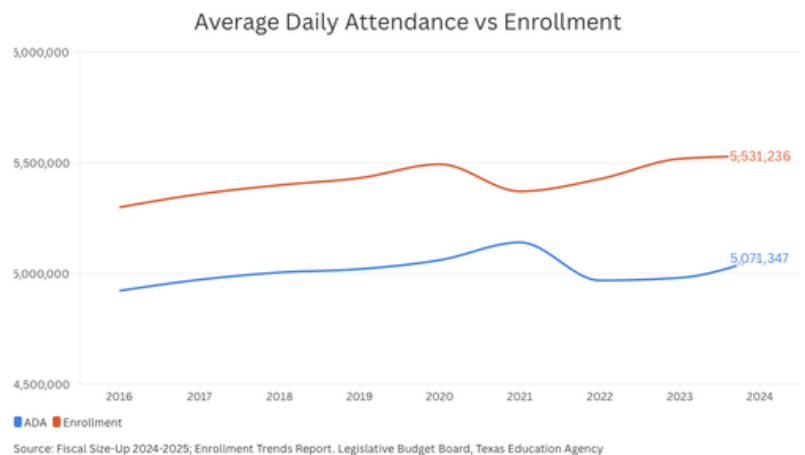
Instead of increasing the basic allotment, the Legislature created the allotment for basic costs (ABC) to pay for specific operational costs usually covered through the basic allotment.

Every district receives \$106 per enrolled student to help cover the cost of:

- Transportation
- Hiring retired teachers
- Health insurance, employee benefits, and payroll taxes
- Contributions and other costs related to member contributions under TRS
- Utilities
- Property and casualty insurance

In effect, the ABC increases in the basic allotment, without state leadership having to say they increased the basic allotment. Shifting this funding to be based on enrollment rather than attendance, even if veiled, is significant. Texas is one of only six states that uses attendance rather than enrollment for school funding (CA, ID, KY, MS, MO, TX). For the 2024-25 school year, nearly 460,000 students (8% of all students) were not counted for base level funding. For perspective, that is nearly the entire school population of Arkansas.¹⁴

Only four other components of the school finance formula are based on enrollment: compensatory education (students on free or reduced lunch), technology and instructional materials allotment, the gifted and talented allotment, and the dyslexia allotment.¹⁵ Adding the ABC as an enrollment-based funding provision is a positive highlight to an otherwise adversarial approach to providing additional funding.



TEACHER/STAFF PAY & INCENTIVES

The Teacher Incentive Allotment (TIA) was introduced through HB 3 (2019) and is based on a program developed at Dallas ISD. School districts develop a local designation system that must be approved by TEA. Districts receive TIA allotment funding based on the level of designation a teacher receives, the number of low-income students (based on compensatory education tiers), and rural status of the campus. Districts must spend at least 90% of their TIA allotment on compensation for TIA designated teachers. The remaining 10% can be used for other allowable costs, such as supporting the local designation system or helping additional teachers earn their designation.¹⁶

While the aim of TIA is to increase teacher compensation, the program is not without controversy. A leading concern is how few districts and teachers currently participate in the program. There are 809 school districts participating in the TIA program out of the more than 1,200 districts in Texas; within those districts there are only 42,294 designated teachers out of more than 378,00 teachers statewide.¹⁷

To increase the number of TIA eligible teachers, HB 2 (2025) adds a new level of teacher designation, called "acknowledged."¹⁸ The previous levels were recognized, exemplary, and master. With the new level comes an increase in funding across all of the designations starting in the 2026-27 school year.

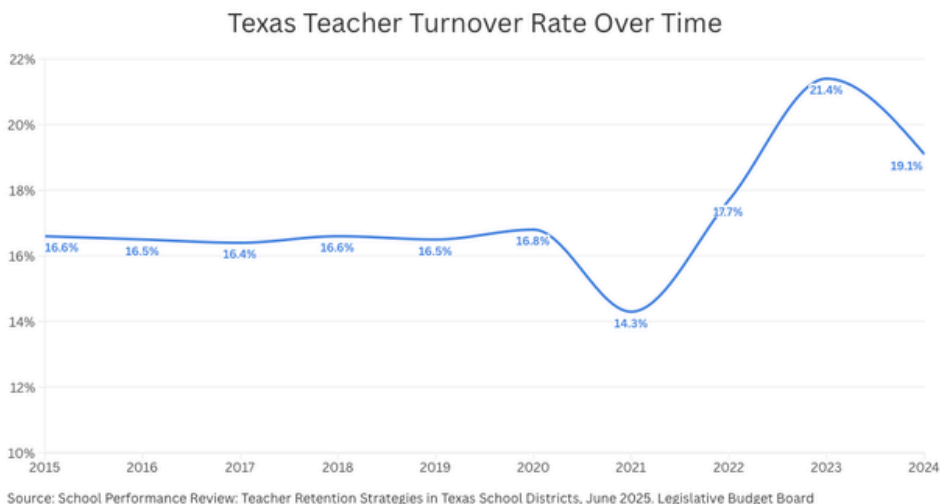
Also beginning in 2026, school districts will have the option to apply for Enhanced TIA after establishing a compensation system based on performance and other requirements. Districts granted the Enhanced TIA designation will receive a 10% increase in their TIA allotment.¹⁹

The Legislature should not use the TIA program as a substitute for providing all teachers with a living wage and annual cost of living adjustments. Teachers as well as paraprofessionals, counselors, librarians, nurses, janitors, bus drivers, and cafeteria workers all do their part to ensure our schools run smoothly, yet there is no comparable bonus program for support staff.

Increasing the basic allotment and maintaining that investment over time would allow school districts to raise wages for all employees.

RETENTION ALLOTMENTS

From school year 2020-21 to school year 2022-23, teacher turnover (teachers that leave their district or transition into non-teaching roles) spiked to 21.4%, up from 14.3% in 2020-21. That is a 49% increase over a three-year period. In rural districts and in those with the highest rates of economically disadvantaged and special education students, turnover was higher than the statewide average.²⁰



To reduce these rates, in 2025 the Legislature created the teacher retention allotment and the support staff retention allotment as a part of HB 2.²¹

The teacher retention allotment provides funding to districts based on enrollment and years of experience among teachers. Teachers must have at least three years of experience to generate funding, and the amount provided increases for teachers with five or more years of experience. School districts with 5,000 or fewer students enrolled receive greater funding than districts with more than 5,000 students.

Teacher Retention Allotment		
	Experience: at least 3 years; less than 5	Experience: 5 or more years
5,000 or fewer students	\$4,000	\$8,000
More than 5,000 students	\$2,500	\$5,000

Creating two funding levels based on enrollment above or below 5,000 students was an odd choice. One may assume the Legislature was attempting to target small rural schools, however 83% of all school districts in Texas have less than 5,000 students. Ninety-two percent of charter schools, which tend to be in urban and suburban areas, have enrollments below 5,000 students.²²

School districts must spend the teacher retention allotment on compensation for each teacher that generates the funding by updating its salary schedule. However, districts that receive an Enhanced TIA designation can use their teacher retention allotment funding for compensation based on performance (in line with TIA program) rather than increasing its salary schedule.

Support staff are vital to our public schools and should be recognized, yet the support staff retention allotment provides districts with \$45 per student in adjusted average daily attendance.^{**} It is disappointing the Legislature based this new allotment on attendance over enrollment and that the amount is completely arbitrary. This allotment must be spent to increase the base salary or hourly wage of non-administrative and non-teacher staff.

Reducing teacher and staff turnover saves districts money and creates stability within our schools. Layering addition programs at random funding levels onto the school finance system is not the most efficient or effective way to increase retention. School districts need reliable funding based on their actual costs as well as the discretion to make salary decisions based on their unique situations.

TEACHER/STAFF PAY & INCENTIVES

Pre-K in Texas is an optional program available for free to eligible three- and four-year-old students. To participate in a Pre-K program the student must meet at least one of the following eligibility criteria:

- Unable to speak English
- Educationally disadvantaged
- Homeless
- Is the child of a classroom teacher within the district
- Is the child of an active-duty member of the armed forces (including reserve members ordered to active duty)
- Is the child of a member of the armed forces, including reserves, who was killed or injured with serving on active duty
- Is the child of a person eligible for the Star of Texas Award (police, firefighter, and first responders killed or seriously injured with serving the state of Texas)
- Is a child who is or ever has been in foster care

HB 3 (2019) required school districts to provide a full-day program to all eligible four-year-olds. However, the Legislature decided to continue funding full-day Pre-K as a half-day program^{***} and created the early education allotment instead.

The early education allotment provides 10% additional funding to the basic allotment for every student in kindergarten through third grade who is educationally disadvantaged or an emergent bilingual student. If a student is both educationally disadvantaged and emergent bilingual, the district receives 20% additional funding. These funds were intended to “support implementing early literacy and mathematics proficiency plans that lead to improved third grade proficiency.”²³ In practice, school districts use the early education allotment to pay for the unfunded second half of the Pre-K day.

HB 2 (2025) adds an additional 1% to the early education allotment for every student in kindergarten through third grade to pay for teachers to attend literacy and mathematics achievement academies. To avoid funding Pre-K as a full-day program, while still ensuring that school districts receive full-day funding, the Legislature created something truly complex.

^{**}*Texas Education Agency: Adjusted average attendance is the quotient of the sum of the district's allotment under TEC, Chapter 48, Subchapter B, and, if applicable, the allotment under TEC, Section 48.101, and the basic allotment for that school year (which has the effect of increasing ADA when calculating the Support Staff Retention Allotment for small/mid-sized districts and charters).*

^{***}Pre-K students are counted as 0.5 ADA rather than 1 ADA.

To untangle this new distribution system, it's helpful to look at an example of a real school district. Below is the early education allotment detail pulled from the Abilene ISD preliminary 2025-2026 Summary of Finance report published by the Texas Education Agency on Dec. 10, 2025.²⁴

Early Education Allotment Detail		
	ADA	Allotment
(A) K-3 Educationally Disadvantaged + K-3 Emergent Bilingual (before distribution for full-day pre-k)	3,607.04	\$2,241,775
(B) Statewide K-3 Educationally Disadvantaged + K-3 Emergent Bilingual (before distribution for full-day pre-k)	1,315,676.78	\$817,693,199
(C) Statewide cost to fund full-day pre-k programs under 29.153(c) (BA * statewide ADA of eligible pre-k students in full-day programs)**	79,360.52	\$493,225,615
(D) Statewide K-3 Educationally Disadvantaged + K-3 Emergent Bilingual (after distribution for full-day pre-k)= B-C	1,315,676.78	\$324,467,584
(E) District entitlement to fund full-day pre-k programs under 29.153(c)	233.86	\$1,453,452
(F) K-3 Educationally Disadvantaged + K-3 Emergent Bilingual (after distribution for full-day pre-k) = (A/B) * D	3,607.04	\$889,555
(G) K-3 All Students	4,241.88	\$263,633
(H) Total Allotment = E + F + G	7,848.92	\$2,606,640
Funding based on one-half of the ADA for each student in the program (0.5 ADA max per student).		

The amount a district receives for the early education allotment is based on the costs of providing a full-day program for the district and statewide, the proportion of the statewide early education allotment the district generates (for K-3rd grades emergent bilingual and/or economically disadvantaged students), and if there is any funding left over in the early education allotment after pulling out funding for full-day Pre-K for all districts.

From the example above the total early education allotment calculation is:

$$E + F + G = H$$

Which breaks down to:

$$E + [(A/B) * (B-C)] + G = H$$

E is the cost of providing the second half of Pre-K day in Abilene ISD = \$1,453,452.

A/B is Abilene ISD’s share of the statewide early education allotment (weight of 0.10 for each K-3rd student who is emergent bilingual and/or economically disadvantaged).

$$\frac{\$2,241,775}{\$817,693,199} = 0.002741584 \text{ (ROUGHLY 0.3\%)}$$

$$E + \left[\left(\frac{A}{B} \right) * (B-C) \right] + G = H$$

\$1,453,452
\$324,467,584
\$263,633

B-C is the statewide early education allotment (weight of 0.10 for each K-3rd student who is emergent bilingual and/or economically disadvantaged), minus the cost of providing the additional half-day of Pre-K statewide = \$324,467,584.

That makes F Abilene ISD’s proportion of the early education allotment after the statewide cost of providing a half-day of Pre-K is deducted from the statewide amount of the early education allotment (for K–3rd emergent bilingual and/or economically disadvantaged) = \$889,555.

G is the 1% additional funding Abilene ISD receives for all K–3rd students = \$263,633.

$$E + F + G = \$1,453,452 + \$889,555 + \$263,633 = \$2,606,640$$

If Abilene ISD got the early education allotment directly the formula would look like:

$$A + G = \text{Early Education Allotment}$$

$$\$2,241,775 + \$263,633 = \$2,505,408$$

Though it’s much more complicated, this new distribution method does generate an additional \$101,232 for this school district, according to these preliminary numbers.

However, the early education allotment should be separate from Pre-K funding. The early education allotment is generated by students in kindergarten through third grade (not Pre-K students) and should be spent on those students who generate that funding. If Pre-K students are in a full-day program, they should simply be counted as full students like any other grade. This is another example of the Legislature adding more layers of complexity instead of providing school districts with logical and direct funding.

If Abilene ISD received full-day funding for Pre-K, without all those extra steps, as well as the early education allotment, the district would receive \$3,958,860. That is \$1,352,220 more than their estimated early education allotment.

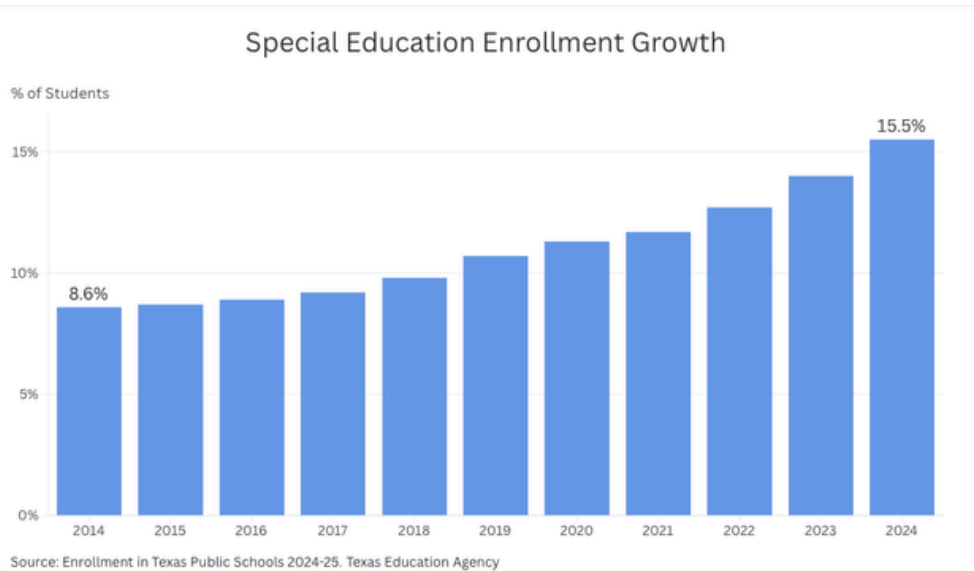
SPECIAL EDUCATION

Civil rights law guarantees that children with disabilities (learning, physical, emotional, or developmental) receive specially designed instruction to progress educationally in American public schools. School districts receive funding from both federal and state resources. Unfortunately, these rights are often denied to students, and

special education services remain underfunded.

In 2018, the U.S. Department of Education found that Texas had been illegally capping special education at 8.5% of enrollment since 2004. This arbitrary cap limiting special education was first exposed by the [Houston Chronicle](#).²⁵ Since the Texas Education Agency was put on corrective action by the U.S. Department of Education, special education enrollment grew to 15.5% of students for the 2024-25 school year.²⁶ That put Texas in line with the national average, which was 15% in the 2022-23 school year.²⁷

Although more students are now being identified as eligible and enrolled in special education programs, Texas public schools are still not receiving the resources they need to fulfill their obligations. A report by the Texas Council of Administrators of Special Education (TCASE) and lobby firm Moak Casey found that there is a gap of \$1.8 billion statewide between what school districts pay for special education services and the funding they receive from state and federal sources.²⁸



HB 2 (2025) makes major changes to how special education is funded. Following recommendations from the Texas Commission on Special Education Funding, special education is moving to a service intensity-based formula from funding based on how much time a student spends in a particular educational setting. The Commission made this recommendation so that “the state funds special education based on the need of the student rather than the placement in which the student receives services.”²⁹

Through rulemaking, HB 2 (2025) directs the Commissioner of Education to develop eight tiers of intensity of service and four special education service groups. Proposed rules are expected in Spring 2026 with full implementation of the new funding framework to begin in the 2026-27 school year. The Legislature set aside \$250 million more for the new system of tiers and service groups than what districts would have received under the new system.³⁰

After bypassing special education funding in HB 3 (2019), the Texas Commission on Special Education Funding was created in 2021 and then delivered their report to the 2023 Legislature. The bill that carried the Commission’s recommendations became a casualty of the private school voucher fight. Each time the Legislature delays or withholds funding for special education, lawmakers directly violate the civil rights of students with disabilities.

THE SHORTCHANGING OF PUBLIC EDUCATION

A look at the state's resources and spending decisions shows the Legislature prioritizes tax cuts over investments in education:

- 2023 Beginning Budget Balance = **\$32 Billion**
- 2025 Beginning Budget Balance = **\$23 Billion**
- Economic Stabilization Fund (Rainy Day Fund) Balance = **\$27 Billion**
- Cost to Maintain Tax Cuts since 2019 in the 2026-27 Budget = **\$51 Billion**
- HB 2 (2025) for the 2026–2027 Biennium = **\$8.4 Billion** (of that, \$4 billion is from funds held over from 2024-25 budget.)

It would cost the state roughly \$24 billion for the biennium to adjust the basic allotment for inflation since 2019.³¹ The \$8.3 billion spent through HB 2 (2025) is barely a down payment on what schools need to make up for years of lost funding.

State leadership's obsession with eliminating school property taxes puts the future of Texas at great risk. Without an income tax, Texas must rely on local property taxes and the sales tax to provide essential programs and services. Erosion of the property tax shifts even greater reliance onto the sales tax, which is regressive and unstable. Large corporations and wealthy property owners see reduced tax bills while lower income Texans pay more just to see districts across the state close campuses, cut programs, and lay off their workforce.

MOVING FORWARD

The school finance system has a good foundation, and any funding changes should be simple, based on student needs, and provide districts with the flexibility to be innovative and meet local needs. To improve public education funding, Every Texan recommends:

- Conducting a study to establish the costs of achieving desired outcomes and cost differentials across districts.
- Using evidence-based data to set the basic allotment, student weights, and district allotments, including an adjustment for cost of living.
- Adjusting the basic allotment for inflation annually and reexamine other funding elements periodically.
- Implementing average daily enrollment-based funding to ensure every student is counted.
- Providing full-day funding for Pre-K students in a full-day program.

To pay for these investments, Texas needs to reexamine its tax code. There are too many tax exemptions, and the sales tax does not reflect the move toward a service-based economy. Many of these tax rates have not been adjusted in decades, and most importantly: those with a greater ability to pay more should contribute their fair share.

State leadership's animosity towards public education and our upside-down tax code keep Texas from having a world-class public education system. Tactics of underfunding and overcomplicating the system fuel state leadership's goals of seeding dissatisfaction and distrust among Texans. Denying public schools adequate resources and demonizing teachers only sets up Texas schools for failure, leading to the privatization of a once-public good and the redistribution of tax dollars to the wealthy. **Texas students deserve better.**

ENDNOTES

- 1 Texas Education Agency. 2024 Annual Report.
- 2 Legislative Budget Board. Fiscal Size-Up 2026 – 2027.
- 3 Bureau of Labor Statistics. CPI Inflation Calculator using July estimates 2020 through 2025.
- 4 Legislative Budget Board. Fiscal Size-Up 2026 – 2027. State, local, and federal funding.
- 5 Texas Education Code. Sec. 48.001 (a).
- 6 Legislative Budget Board. Fiscal Size-Up 2026 – 2027. State and Local Foundation School Program Shares for Maintenance and Operations FY 2018-2027.
- 7 Texas Education Code. Sec. 49.154 (b).
- 8 Texas Education Code. Sec. 48.001 (b).
- 9 Tier II student counts are based on weight average daily attendance (WADA), an amount that takes into consideration all the different student weights. For example, an emergent bilingual student generates a weight of 10% or 0.10. Every 10 emergent bilingual students increase the WADA count by 1 student.
- 10 Legislative Budget Board. Fiscal Size-Up 2026 - 2027.
- 11 Texas Education Agency. 89th Legislature Updates: <https://tea.texas.gov/about-tea/government-relations-and-legal/government-relations/89th-legislature-updates>, accessed Dec. 2025.
- 12 To achieve a golden penny yield of \$129.52 in statue, the basic allotment with GYIA of \$6,215 was multiplied by 0.02084. The Legislature calculated the multiplier needed to get the desired result, the golden penny yield amount for 2025.
- 13 Bureau of Labor Statistics. CPI Inflation Calculator Sept 2024 to Sept 2025.
- 14 National Center for Education Statistics. The student enrollment in Arkansas is estimated to be 488,600 in Fall 2023.
- 15 Texas Education Agency. Monthly Superintendent Call: 89th Legislature Updates (slide deck), September 18, 2025. <https://tea.texas.gov/texas-educators/superintendents/89th-legislature-updates.pdf>
- 16 Texas Education Agency. Teacher Incentive Allotment, www.tiatexas.org/about/funding. Accessed December 2025.
- 17 Texas Education Agency. Teacher Incentive Allotment Annual Report 2024-25 and 2023-24 Texas Public School Statistics, Pocket Edition. 26
- 18 Texas Education Agency. House Bill 2 (HB 2) Implementation: Teacher Incentive Allotment (TIA), July 10, 2025.
- 19 Texas Education Agency. Teacher Incentive Allotment, www.tiatexas.org/how-hb2-impacts-tia/. Accessed December 2025.
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- 21 Texas Education Agency. House Bill 2 (HB 2) Implementation: Teacher Retention Allotment and Support Staff Retention Allotment, June 12, 2025.
- 22 Texas Education Agency. Snapshot 2022-23.
- 23 Texas Education Agency. House Bill 3 Texas School Finance 86th Legislative Session. <https://tea.texas.gov/system/files/HB%203%20Master%20Deck%20Final.pdf>
- 24 Texas Education Agency. 2025 – 2026 Summary of Finance, Abilene ISD. Preliminary – December 10, 2026. Abilene ISD was chosen at random. Example uses the Legislative Planning Estimates.
- 25 Rosenthal, Brian. Denied: How Texas keeps tens of thousands of children out of special education. September 10, 2016. <https://www.houstonchronicle.com/denied/1/>
- 26 Texas Education Agency. Enrollment in Texas Public Schools 2024-25, October 2025.
- 27 National Center for Education Statistics. Fast Facts: Students with Disabilities, 2024.
- 28 TCASE and Moak Casey. Special Education Funding in Texas, 2025.
- 29 Texas Commission on Special Education Funding. Report to the 88th Legislature, December 31, 2022.
- 30 Texas Education Agency. Monthly Superintendent Call: 89th Legislature Updates (slide deck), September 18, 2025. <https://tea.texas.gov/texas-educators/superintendents/89th-legislature-updates.pdf>
- 31 Calculation based on a weighted average daily attendance (WADA) of 7,391,197 multiplied by the \$1,596 to needed to increase the basic allotment to \$7,756.