Texas Public Policy Foundation

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An Accurate School Finance Revenue Picture

Testimony before the Texas School Finance Commission's Revenue Working Group

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Accurate School Finance Revenue Information Should Be Provided to Taxpayers

When making decisions about school finance, it is important to understand the actual revenue picture and its funding components.

Ensure School Finance Revenue Data is Clear and Accurate

In its *Fiscal Size-Up: 2018-19 Biennium*, the Legislative Budget Board (LBB) included the following figure (LBB, 205):

> FY 2010 and FY 2011 include $2.4 billion and $1.6 billion of one-time federal American Reinvestment and Recovery Act (ARRA) funding, respectively.

FIGURE 152
PREKINDERGARTEN TO GRADE 12 PUBLIC EDUCATION FUNDING IN ACTUAL AND CONSTANT DOLLARS
FISCAL YEARS 2010 TO 2019

| YEAR | ACTUAL DOLLARS | | | TOTAL ACTUAL DOLLARS | TOTAL CONSTANT DOLLARS (2) | AVERAGE DAILY ATTENDANCE |
	LOCAL REVENUE	STATE AID (3)	FEDERAL AID			
2010	$20,285.5	$16,526.1	$7,195.9	$44,007.4	$44,007.4	4,470,146
2011	$20,189.0	$18,115.2	$7,310.5	$45,614.7	$43,744.3	4,555,707
2012	$20,486.4	$18,889.5	$4,842.2	$44,218.2	$40,735.5	4,632,151
2013	$21,357.8	$17,972.4	$4,968.8	$44,299.0	$39,535.7	4,697,243
2014	$22,816.5	$19,233.6	$4,763.1	$46,813.2	$40,404.9	4,778,014
2015	$24,432.0	$19,687.0	$4,925.5	$49,044.6	$41,466.7	4,853,101
2016	$25,606.7	$21,441.6	$4,997.1	$52,045.4	$42,904.6	4,922,493
2017	$26,961.1	$19,627.2	$5,190.1	$51,778.4	$41,185.5	4,972,376
2018 (1)	$28,782.8	$20,932.0	$5,200.2	$54,915.0	$42,342.1	5,075,941
2019 (1)	$30,724.0	$19,388.5	$5,267.0	$55,379.5	$41,245.2	5,166,298

NOTES:
(1) Amounts for fiscal years 2018 and 2019 are projected.
(2) Constant dollars are calculated with compounded state population and inflation growth.
(3) Amounts shown in the State Aid category include all Texas Education funding except for recapture revenue (shown as Local Revenue) and Federal Funds (shown as Federal Aid).
SOURCES: Legislative Budget Board; Comptroller of Public Accounts; Texas Education Agency.

This table has been used to make the potentially misleading claim that "Texas is spending 6.3 percent less per student in constant dollars" ([Ramsey](#)). However, included in both the FY 2010 and FY 2011 number are $2.4 billion and $1.6 billion in **one-time** federal funds from the American Recovery and Reinvestment Act (ARRA) dollars, respectively.[1] Without this one-time—hence exceptional—federal funding included, as **Table 1** below notes, the "total actual dollars" column in Figure 152 above would be $41.6 billion in FY 2010 and $43.9 billion in FY 2011. Further, after removing one-time ARRA funding in **Table 1** below, and using the LBB's constant dollars methodology, **total revenue has declined by only 0.9 percent from 2010 to 2019, not 6.3 percent.** The existence of one-time ARRA funding is not disclosed in the footnotes to Figure 152.

Table 1. Figure 152 from *Fiscal Size-Up: 2018-19 Biennium* without one-time ARRA Federal Aid included in FY 2010 and FY 2011 Total Actual Dollars Column

Year	Local Revenue	State Aid	Federal Aid	Total Actual Dollars	Total Constant Dollars
2010	$20,285,450,102	$14,900,947,039	$6,432,863,472	$41,619,260,613	$41,619,260,613
2011	$20,189,015,855	$16,490,024,246	$7,303,383,209	$43,982,423,310	$42,178,936,681
2012	$20,486,444,541	$18,889,545,559	$4,842,172,665	$44,218,162,765	$40,735,454,306
2013	$21,357,779,629	$17,972,410,153	$4,968,848,275	$44,299,038,057	$39,535,719,522
2014	$22,816,532,311	$19,233,585,019	$4,763,123,805	$46,813,241,135	$40,404,942,956
2015	$24,431,975,134	$19,687,048,554	$ 4,925,548,285	$49,044,571,973	$41,466,734,270
2016	$25,606,706,459	$21,441,599,799	$4,997,083,227	$52,045,389,485	$42,904,598,407
2017	$26,961,131,491	$19,627,152,924	$5,190,145,374	$51,778,429,789	$41,185,490,664
2018	$28,782,849,758	$20,931,954,021	$5,200,203,566	$54,915,007,345	$42,342,096,816
2019	$30,723,953,480	$19,388,498,459	$5,267,005,858	$55,379,457,797	$41,245,210,126

Source: [LBB, 205](#); author's calculations.

While not included on the above chart, ARRA funding was also provided in FY 2009. We simply cannot know how much the Legislature would have appropriated for public education in the absence of ARRA funding in FY 2009, FY 2010, and FY 2011.

In addition, the Legislative Budget Board's Figure 152 **excludes** several billion dollars in local property tax collections used to pay for debt on school buildings, and other payments made to the Texas Retirement System (TRS) for teacher pensions.[2] While the purpose of the LBB table may be to present certain data, without proper explanation and disclosure, **the data can easily be misinterpreted by taxpayers**.

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[1] Email correspondence with Kara Belew November 9, 2018.
[2] Phone conversation between Kara Belew and the Legislative Budget Board staff on November 7, 2018.

Local Property Taxes Should Be Disclosed and Included in School Finance Documents
Reviewing the revenue picture is also difficult because the General Appropriations Act (Texas Budget) and the Texas Education Agency's Legislative Appropriations Request (LAR) **do not include more than $20 billion of local property tax collections** in an easy-to-understand table format. The failure to include **local property tax collections** in the General Appropriations Act, LBB documents, and TEA's LAR misleads taxpayers because they cannot easily determine (1) **the actual amount of both state and local tax revenue being used for public education each year, and (2) whether overall revenue is increasing both in total and on a per student basis.** Under current law, the total amount of revenues will automatically be increased each year with increased student population and yield on the "Golden Pennies" (TEA 2018, 35).

Local property taxes could be disclosed in the GAA and other LBB documents. In fact, in the 1980s, the General Appropriations Act included the total entitlement amount (Foundation School Program), and separately the amount that would be raised through **local property taxes** in the actual text of the bill (HB 656, III-2). For example, see **Table 2**.

**Table 2. FY 1981 – 1983 General Appropriations Act**

In its annual report, the Texas Education Agency (TEA) provides a more complete education revenue picture. For example, TEA data include local property tax collections for bond debt and certain TRS payments (TEA, 19).[3] Furthermore, TEA data match TEA's financial systems and the General Appropriations Act.

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[3] Phone conversation between Kara Belew and the Texas Education Agency staff on November 7, 2018.

Table 3. Total public education spending in the state of Texas

TOTAL FUNDING – 2016-17
$60,615,514,821

PER STUDENT ANNUAL FUNDING
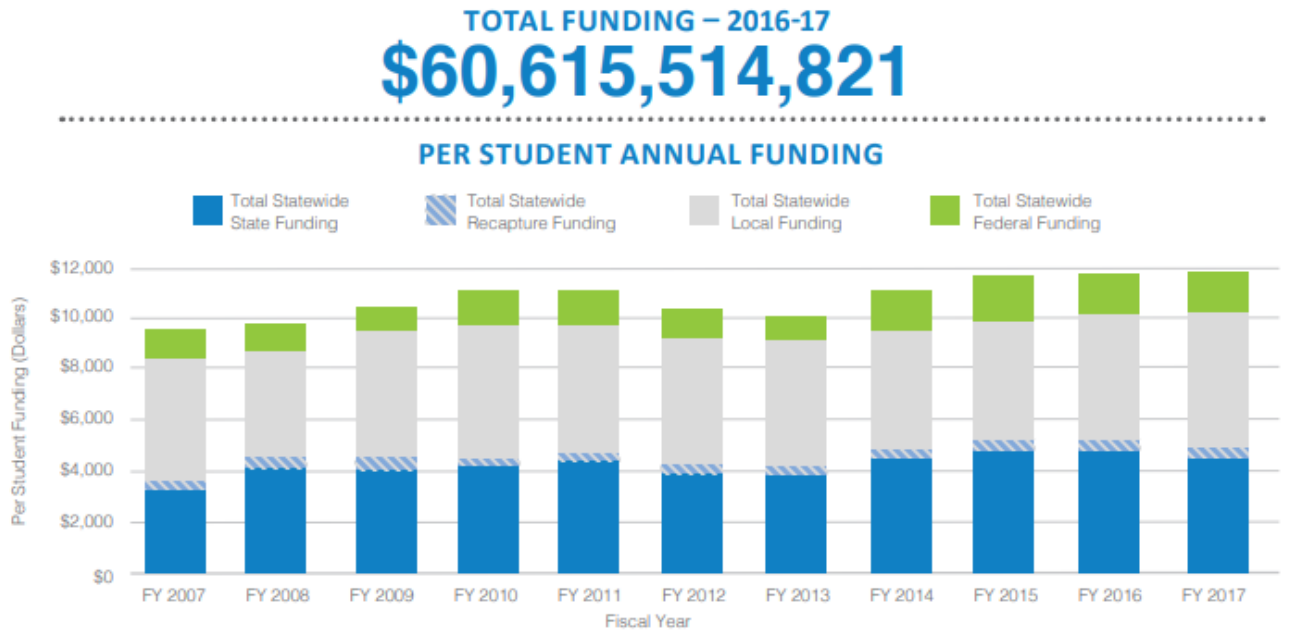
Total funding per student enrolled has increased from $9,423 in FY 2007 to $11,349 in FY 2017, an increase of 20%.[56]

TOTAL ANNUAL FUNDING
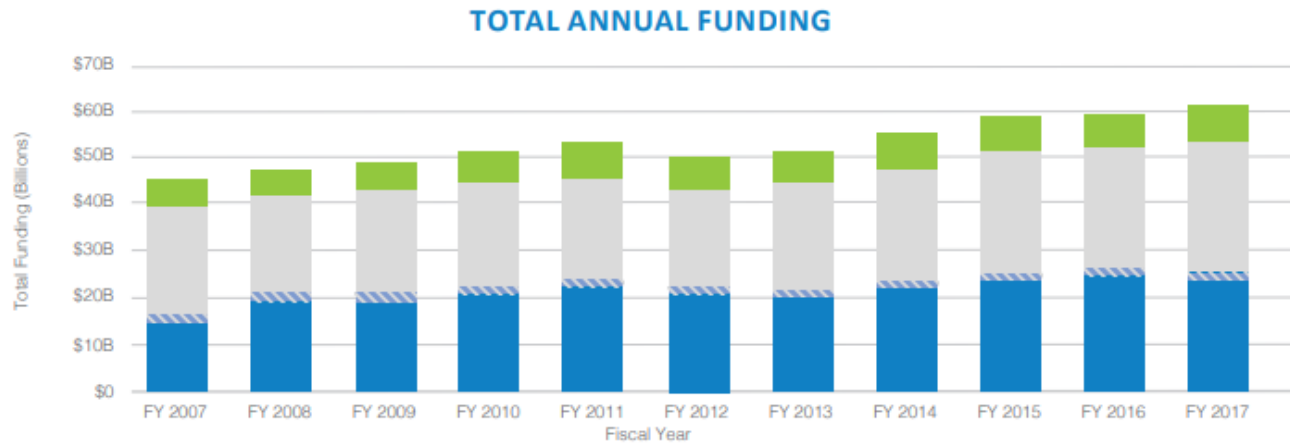
Total funding has increased from $43.1B in FY 2007 to $60.6B in FY 2017, an increase of 41%.[57]

Source: TEA, 19.

TEA data provides that funding per student enrolled has increased from $9,423 in FY 2007 to $11,349 in FY 2017, an increase of 20 percent. In addition, total funding has increased from $43.1 billion in FY 2007 to $60.6 billion, an increase of 41 percent.

Understanding School Finance and State Revenue and Local Revenue
In general, and for over 20 years, the school finance system has determined how much **revenue a school district is entitled to each year** using the following steps:

1. First, the Texas Education Agency determines a school district's **TOTAL ANNUAL FORMULA ENTITLEMENT AMOUNT** based primarily on three factors:

a. Type of school district (small, medium, or large/Cost of Education Index),
b. Type of students enrolled, and
c. District tax rate.
2. Once the school district's **TOTAL ANNUAL FORMULA ENTITLEMENT AMOUNT** is determined, the formulas require TEA to estimate how much of the entitlement will be raised with **local property taxes (LOCAL SHARE)**.
3. Any amount that cannot be raised with **local property taxes (LOCAL SHARE)** is "filled in" by the **state (STATE SHARE)** largely relying on General Revenue financed by sales taxes (TEA 2018, 17-46).

Hence, the school finance formula system is specifically designed to look toward local property taxes for funding first. **This system has been held constitutional by the Texas Supreme Court.**

It is often argued that the state tax revenue must be increased to equal or exceed the local property tax revenue. However, the Texas Supreme Court has reviewed this argument and never held that state tax revenue must equal or exceed the local property tax revenue.

Many organizations, including the Texas American Federation for Teachers and Texas Association of School Administrators, have advanced recent legislative agendas asking the Legislature to provide more money at the state level for education.

But these organizations are not also readily asking that local property tax burdens be decreased (TASB, Texas AFT). Furthermore, these organizations advocate for less information to be available to parents to determine whether children in their school are reading and doing math at grade level under the state's accountability system (TASB, Texas AFT, Texas AFT).

The state currently funds most of school finance with General Revenue funds, largely financed by sales taxes (TEA 2018, 7). These sales taxes are from businesses and families. **In many cases, these businesses and families also pay for ever-increasing local property tax bills.**

How will state taxpayers pay more for school finance?
A key question is how will state taxpayers pay more for school finance.

According to the LBB's Figure 152, to keep up in constant dollars, state taxpayers need to contribute at least $7.4 billion more per biennium (LBB, 205).The Texas general revenue budget for the 2018-2019 biennium is $107 billion, so to afford an additional $7.4 billion, the state's general revenue biennial budget will have to be increased nearly 7 percent.

Because the state level budget is tight, with a 2018-2019 Medicaid shortfall of $2 billion and other significant cost drivers (Currah, 15-17), appropriating an additional $7.4 billion for education each biennium will likely require either a significant new state tax or cutting the $33 billion Health and Human Services budget (LBB, 3).

More Taxpayer Money for Public Education Will Not Necessarily Lead to Better Results
TEA data—form actual Texas school districts—indicates that when comparing similar high family poverty (economically disadvantaged) school districts versus spending, some high poverty family districts achieve relatively better student results at a lower cost (Morath). Further, there is no significant relationship between spending and education outcomes (Morath). Compare, for example, the results of Dallas ISD and Edinburg CISD (Belew):

Comparing two districts

Dallas ISD
86%
of students come from economically disadvantaged families

Edinburg CISD
86%
of students come from economically disadvantaged families

Spending per student

$13,194

$10,881

Percentage of economically disadvantaged students performing on grade level:

36% reading
44% math

Percentage of economically disadvantaged students performing on grade level:

41% reading
51% math

SOURCE: 2018 accountability data

Michael Hogue/Staff Artist

Therefore, before implementing a statewide tax increase that will harm families and businesses, with no easily discernable benefit to students, the Legislature should be able to answer questions about why similar districts are outperforming others at a lower cost.

It is very possible that instead of more funding, the answer to Texas' education problems lie with:

- Offering parents more school options;
- Replicating great schools;
- Creating competition among schools to improve student performance;

- Having funding actually follow each child to their school of choice; and
- Ensuring incentives are in place to attract, reward, and retain our best teachers.

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