


Texas Public School Finance Program

April 10, 2018



MOAK, CASEY
& ASSOCIATES
SCHOOL FINANCE & ACCOUNTABILITY EXPERTS

Scope of Public Education

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- One in 5 Texans is directly served or employed
 - 5.4 million students
 - 250,000 in charter schools
 - 1.5 million in high school grades
 - 248,000 in PK or early education
 - Early grade cohorts about 400,000 at each grade level
 - Average growth of 72,000, about 1.4%, in past 5 years
 - 706,000 employees
 - Over 353,000 teachers
 - 100,000 other professionals (principals, counselors, librarians, nurses, therapists, etc.)
 - 68,000 paraprofessionals
 - 185,600 other employees

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Scope of Public Education

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- Operating Funds
 - \$49.5 billion all funds, \$42.6 billion general fund in 2015-16 (last completed year)
- Non-Operating
 - \$7.3 billion debt service
 - \$7.6 billion capital outlay

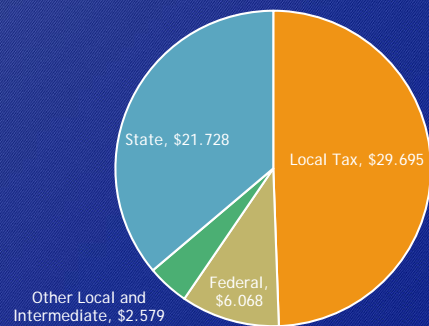
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Scope of Public Education

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2016-17 Revenue Sources, All Funds



Amounts in billions

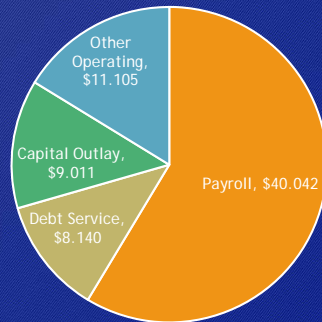
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Scope of Public Education

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2016-17 Expenditures, All Funds



Amounts in billions

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State and Local Revenue Structure

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- State
 - Available school fund
 - Lottery revenue
 - Recapture funds
 - General revenue
- Local
 - Operations property tax up to \$1.17 per hundred
 - Debt service tax up to \$.50

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Primary 1876 Constitutional Provision

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- "Sec. 1. SUPPORT AND MAINTENANCE OF SYSTEM OF PUBLIC FREE SCHOOLS. A general diffusion of knowledge being essential to the preservation of the liberties and rights of the people, it shall be the duty of the Legislature of the State to establish and make suitable provision for the support and maintenance of an efficient system of public free schools." - Texas Constitution, Article 7, Section 1

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Constitutional Rules of the Game

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- Taxpayer equity
- No state property tax
- Local property tax requires voter approval
- Legislative definition of adequacy for both operations and facilities

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Taxpayer Equity Bombshell (1989)

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- “There must be a direct and close correlation between a district’s tax effort and the educational resources available to it; in other words, districts must have substantially equal access to similar revenues per pupil at similar levels of tax effort.” - Edgewood I decision

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Legislative Attempts to Improve Equity

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- Raise the bottom up ruled unconstitutional in 1991
- Subsequent action to create county education tax districts ruled unconstitutional in 1992
- Constitutional amendment proposed in 1993 to validate CEDs, but failed to get voter support

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Legislative Attempts to Improve Equity (cont'd.)

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- With voter approval, 5 voluntary (?) options adopted in 1993, including direct recapture, allow school districts to reduce wealth per student
 - Commissioner given authority to detach and annex property or consolidate districts if districts failed to act
- System declared constitutional in January 1995

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Litigation History

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- West Orange-Cove
- "Sec. 1-e. ABOLITION OF AD VALOREM PROPERTY TAXES. No State ad valorem taxes shall be levied upon any property within this State." - Texas Constitution, Article 8, Section 1-e

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Litigation History

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- "The state cannot provide for local supplementation, pressure most of the districts by increasing accreditation standards in an environment of increasing costs to tax at maximum rates in order to afford any supplementation at all, and then argue that it is not controlling local tax rates." - West Orange-Cove II decision
- Tax compression as a solution

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Litigation History

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- *Texas Taxpayer and Student Fairness Coalition*
- Argued the adequacy question as part of Article 7, Section 1
 - "Suitable provision"

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Litigation History

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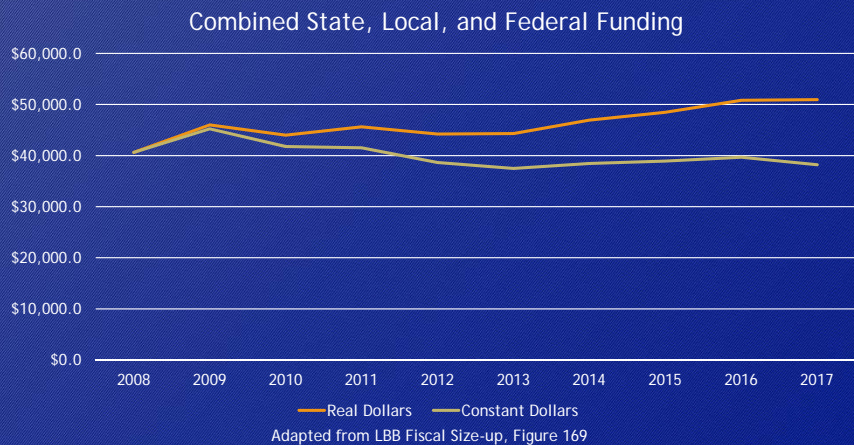
- “Judicial review, however, does not license second guessing the political branches’ policy choices, or substituting the wisdom of nine judges for that of 181 lawmakers. Our role is much more limited, as is our holding: Despite the imperfections of the current school funding regime, it meets minimum constitutional requirements.” - Texas Taxpayer decision (2016?)

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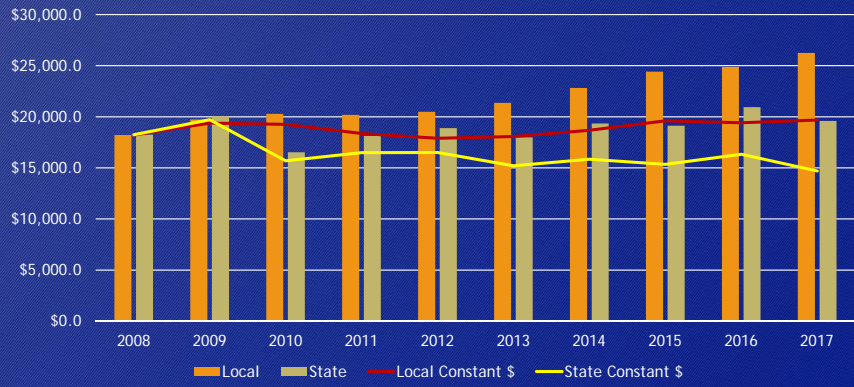
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Local and State Funding for Public Education



Adapted from LBB Fiscal Size-up, Figure 169

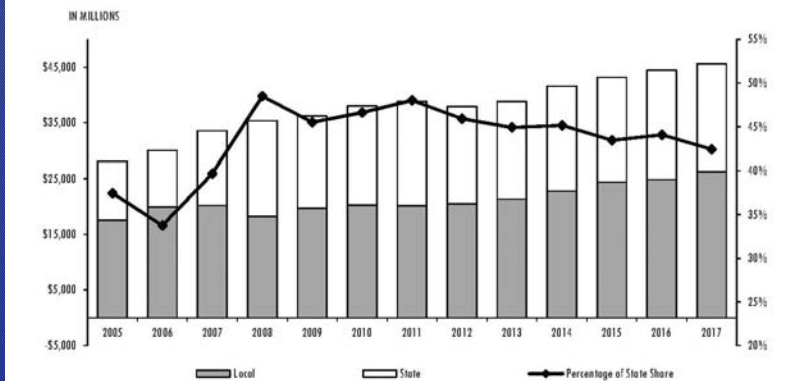
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FIGURE 172
STATE AND LOCAL FOUNDATION SCHOOL PROGRAM FUNDING AND STATE SHARE PERCENTAGE
FISCAL YEARS 2005 TO 2017



Source: Legislative Budget Board, Fiscal Size-up, 2016-17

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	% State
2017*	39.21%
2018*	36.86%
2019**	36.61%

* From TEA's payment files; includes debt service funds, charter schools included

** From MCA model for 2018-19 school year; includes debt service funds and charter schools

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Financing Public Education

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- Federal funds are significant, but use is generally restricted
 - Supplement v. supplant
 - Maintenance of effort

Federal Grant	2018-19 Appropriation
Child Nutrition	\$4.344 Billion
IDEA, Title Programs	\$6.105 Billion
Other Federal	<u>\$0.019 Billion</u>
Total	\$10.467 Billion

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Foundation School Program

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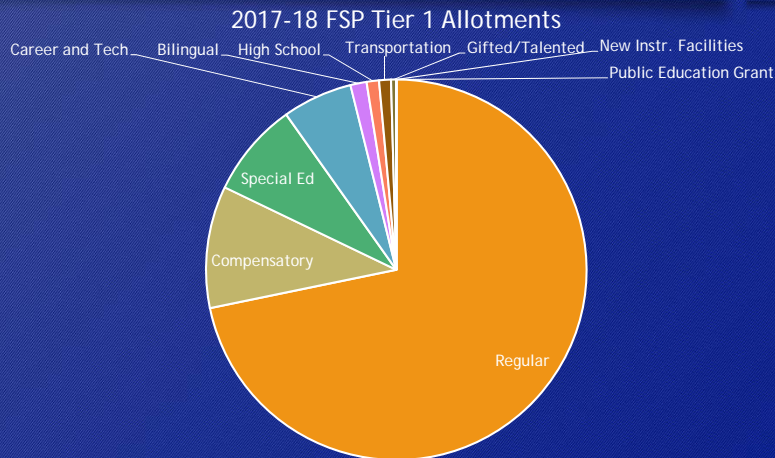
- Multi-Tier structure
- Tier 1 Program Allotments
 - Regular or Basic Education
 - Special Education
 - Compensatory Education
 - Career and Technical Education
 - Bilingual / ESL Education
 - Gifted / Talented Education
 - Public Education Grant
 - New Instructional Facilities Allotment
 - Transportation
 - High School Allotment

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Foundation School Program

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Foundation School Program

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- Basic Allotment \$5,140
- Adjustments
 - Cost of Education Index
 - District Size Adjustments
- Weights for Special Program Allotments
 - 18 different weights applied to the adjusted allotment
 - NIFA, Transportation, High School do not use the adjusted allotment

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Foundation School Program

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- Tier 1 financed by state and local sharing of allotment costs
- Local share determined by property values and compressed tax rate
- State aid is remainder, but not less than ASF, NIFA, and High School

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Foundation School Program

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- Tier 2
 - Two levels of “enrichment” above Tier 1
 - Austin yield (\$99.41/\$106.28)
 - \$31.95 yield
 - Entitlement based on simple equation:
 - $\text{yield} \times \text{tax effort} \times \text{student count}$
 - WADA - Weighted Average Daily Attendance
 - State aid determined by entitlement minus taxes attributed to tax effort

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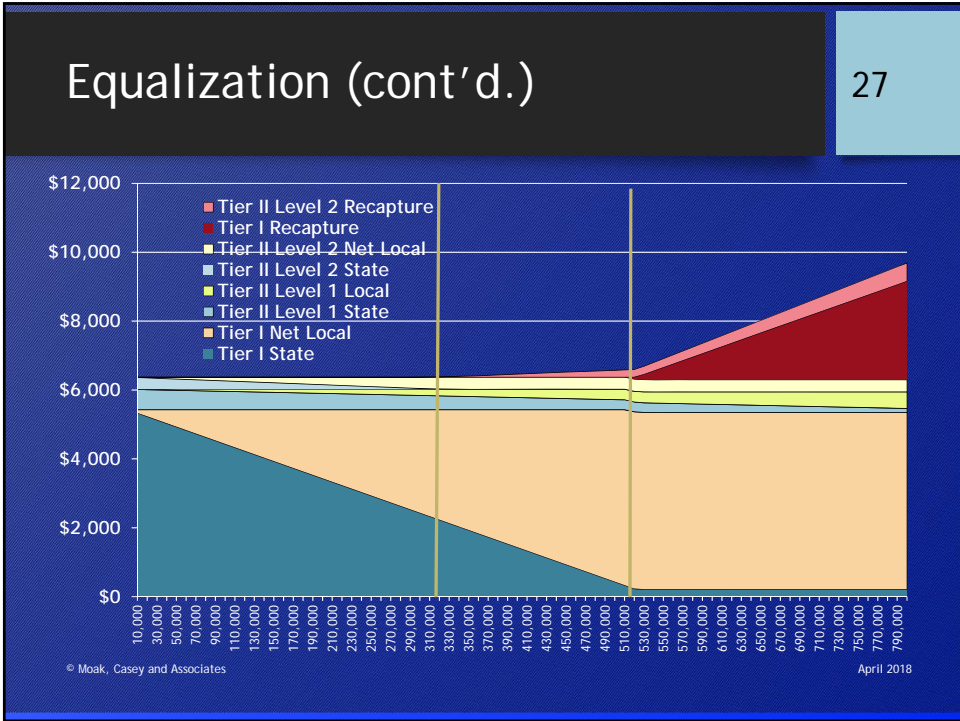
Equalization and Recapture

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- Recapture
- Two equalized wealth levels
 - \$514,000 per WADA for Tier 1
 - \$319,500 per WADA for taxes attributed to the \$31.95 yield zone of Tier 2
- Percentage of taxes to be paid by property-wealthy district is based on excess tax base per student

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- ### State Assistance for Facilities
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- Facilities Funding
 - Most funding from local property tax supported bonds
 - Limited state role adopted in 1999
 - Existing Debt Allotment
 - Instructional Facilities Allotment
 - Operate as guaranteed yield programs
 - \$35 per ADA per penny of debt tax (a little below state average)
 - Types of facilities limited for IFA
 - State pays about 10% of debt service on average
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Dynamic Tension between State and Local Leadership

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- State leadership places greater emphasis on particular innovations or approaches
- Local leadership places greater emphasis on general funding increases
- Emerging teacher salary issue as a primary example

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Major Issues for 2019

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- Inflation and enrollment growth
 - 3% growth in revenue required
- Property tax relief
- Recapture
- Performance expectations and funding
- Teacher salary structure

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