



School Finance Overview

Current Challenges



Everything's Bigger in Texas

- 1018 school districts
- 5.5 million students
- \$56.7 billion for maintenance and operations
- (\$2.7 billion) in recapture
- \$11 billion for debt service (interest and sinking)



Source: <https://tea-texas.maps.arcgis.com/apps/webappviewer/index.html?id=51f0c8fa684c4d399d8d182e6edd5d97>



Budget Plans for FY 2025

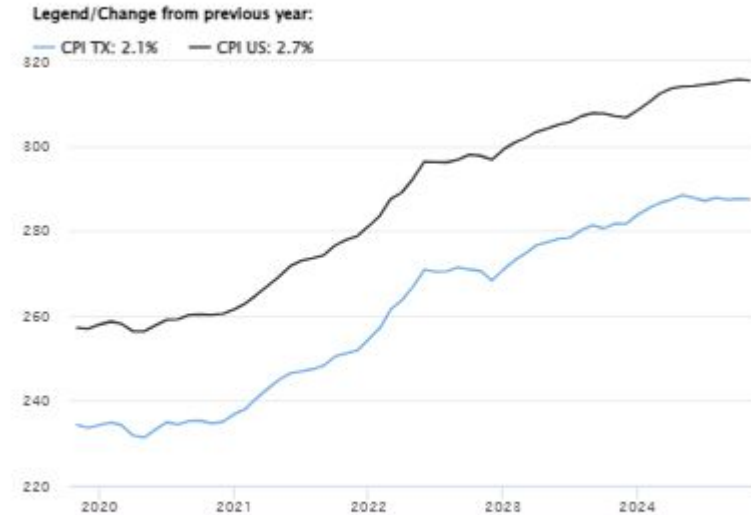
	Anticipate Using Fund Balance	Do Not Anticipate Using Fund Balance
Will Need to Make Budget Cuts	177 (56.5%)	51 (16.3%)
Will Not Need to Make Budget Cuts	54 (17.3%)	31 (9.9%)



Inflation

- Between the 2019–2020 school year and the 2023–2024 school year, inflation grew by more than 20%
- The comptroller is forecasting slowed growth in inflation, but not deflation

Measures of Inflation

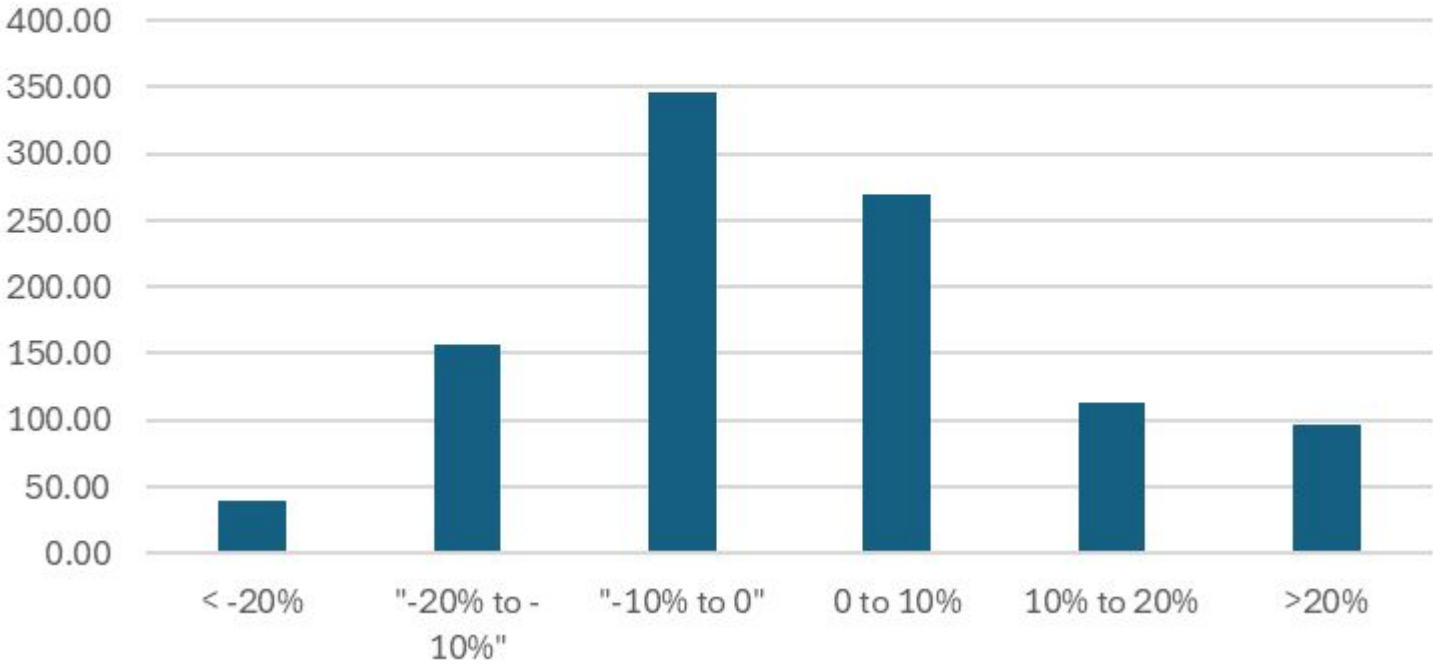


*Excluding food and energy

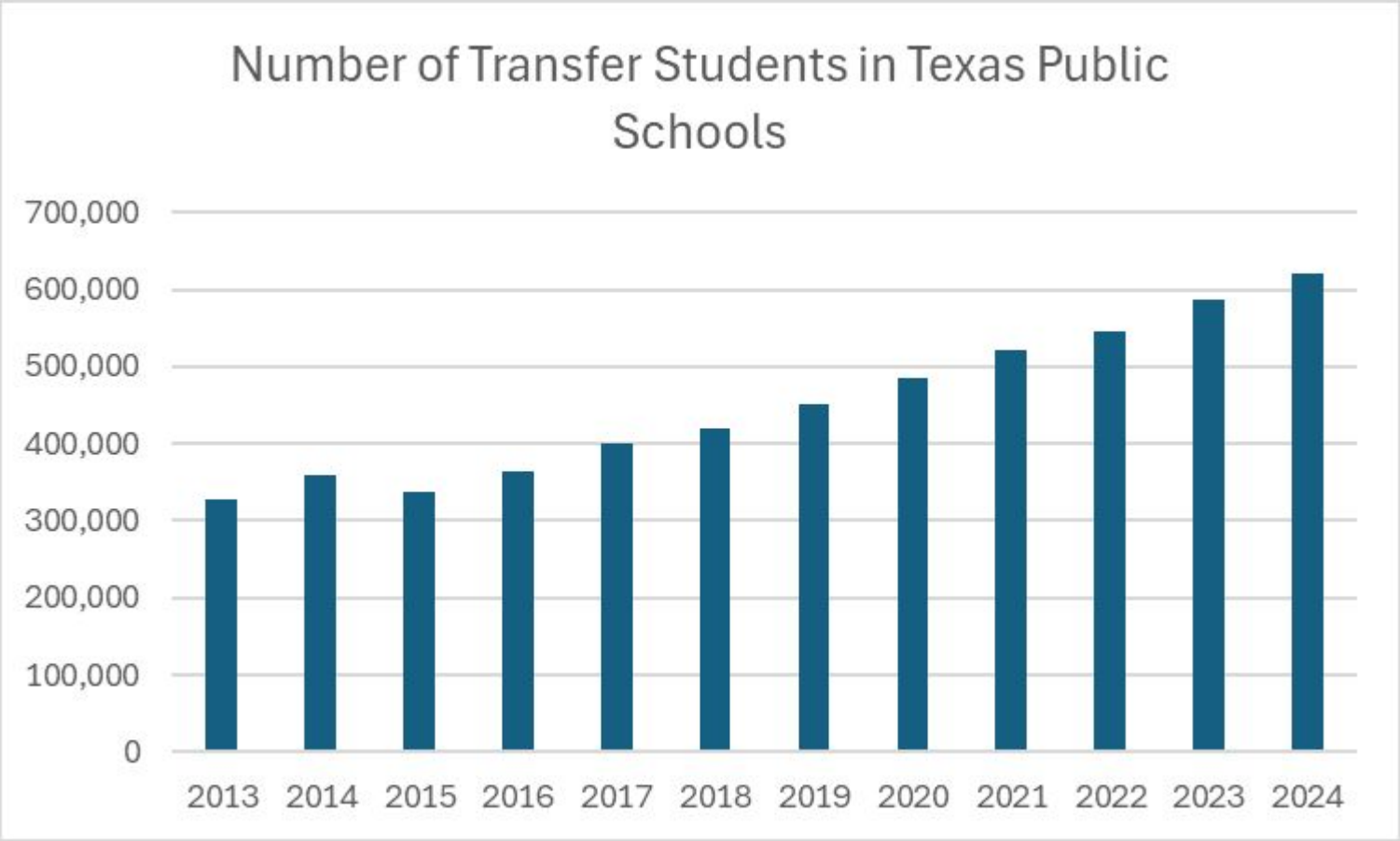
Source: US Bureau of Labor Statistics and Comptroller of Public Accounts, based on data provided by Bureau of Labor Statistics

More than Half of Districts Face Declining Enrollment

Count of Districts by Enrollment Change 2019 through 2024

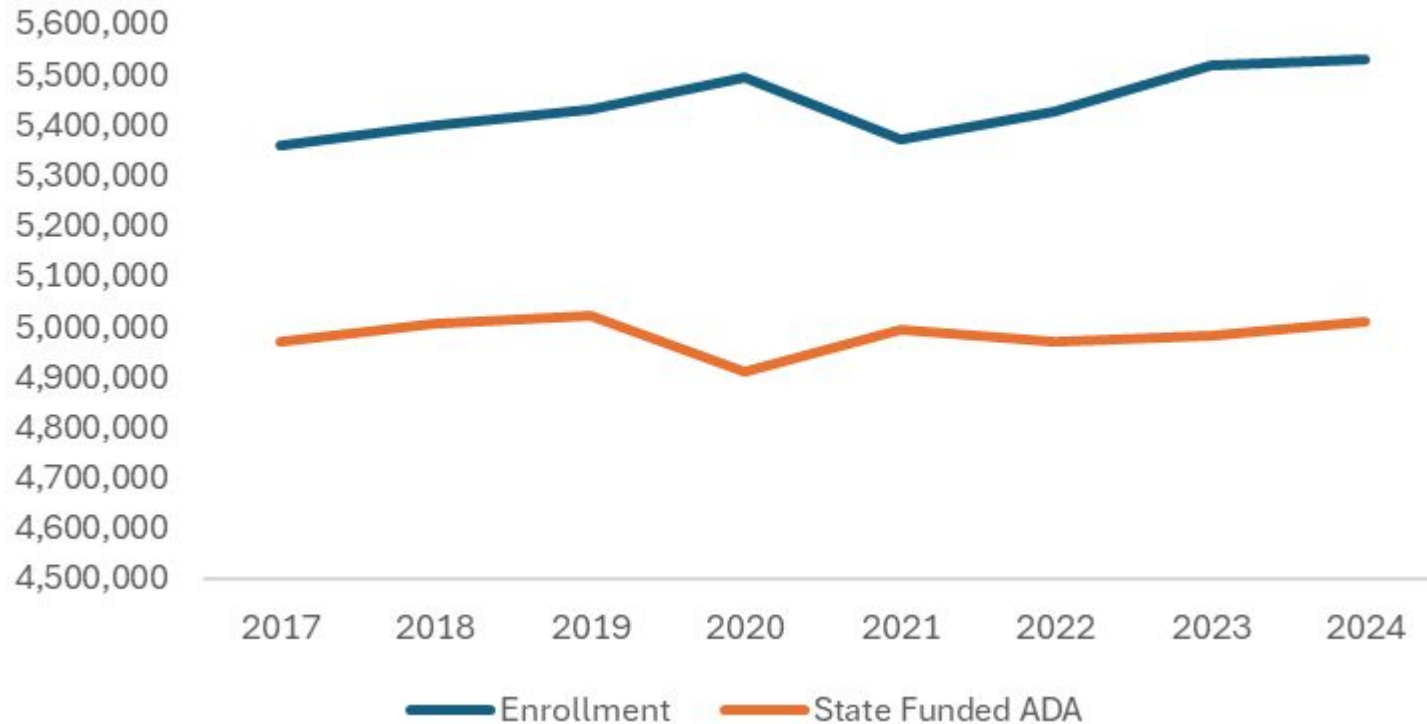


Districts Face Increased Competition for Students



Attendance Rates Have Improved, But are Not Yet Back to Pre-Pandemic Levels

Enrollment versus ADA: 2017 - 2024



Since 2017, enrollment is up 172,109 but ADA is only up 35,540

The difference between enrollment and funded ADA went from 387,387 to 522,956

*



Teacher Retention Issues Remain

	Total Teachers	Teachers who Exited in Prior Year	% Exited	# of New Hires in Current Year	% New Hires
2024	375,593	45,231	12.17%	49,176	13.09%
2023	371,468	49,738	13.44%	50,998	13.73%
2022	370,433	42,840	11.57%	42,971	11.60%
2021	370,302	33,945	9.34%	40,720	11.00%
2020	363,527	36,473	10.16%	41,090	11.30%
2019	358,910	37,303	10.43%	38,691	10.78%
2018	357,522	36,900	10.44%	40,977	11.46%
2017	353,445	35,964	10.34%	41,728	11.81%
2016	347,681	35,747	10.43%	40,593	11.68%
2015	342,835	34,557	10.31%	42,079	12.27%



Budget Plans for FY 2025 Included a Significant Number of Deficits

	Anticipate Using Fund Balance	Do Not Anticipate Using Fund Balance
Will Need to Make Budget Cuts	177 (56.5%)	51 (16.3%)
Will Not Need to Make Budget Cuts	54 (17.3%)	31 (9.9%)



Legal Framework for School Finance



*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 (1876)



It is the policy of this state that the provision of public education is a state responsibility and that a thorough and efficient system be provided and substantially financed through state revenue sources so that each student enrolled in the public school system shall have access to programs and services that are appropriate to the student's educational needs and that are substantially equal to those available to any similar student, notwithstanding varying local economic factors.

-Texas Education Code § 48.001(a)

*The public school finance system of this state shall adhere to a standard of neutrality that provides for **substantially equal access to similar revenue per student at similar tax effort**, considering all state and local tax revenues of districts after **acknowledging all legitimate student and district cost differences**.*

-Texas Education Code § 48.001(b)

*No **state ad valorem taxes** shall be levied upon any property within this State.*

-Texas Constitution (1968)



Funding Mechanics



Some Terms You Might Hear

- **Average Daily Attendance (ADA):** The number of students, on average, who show up to class every day
- **Basic Allotment (BA):** The base funding amount (currently \$6,160) that a student would earn if they showed up to school every day, did not draw weighted funding for extra programs, and the district did not adopt extra pennies in the enrichment rate
- **Weighted ADA (WADA):** The number of students, on average, who show up to class every day, adjusted to reflect the cost of additional services they may need
- **Maintenance and Operations (M&O):** The portion of the tax rate that supports day to day operations
- **Interest and Sinking (I&S):** The portion of the tax rate that supports bonded debt.

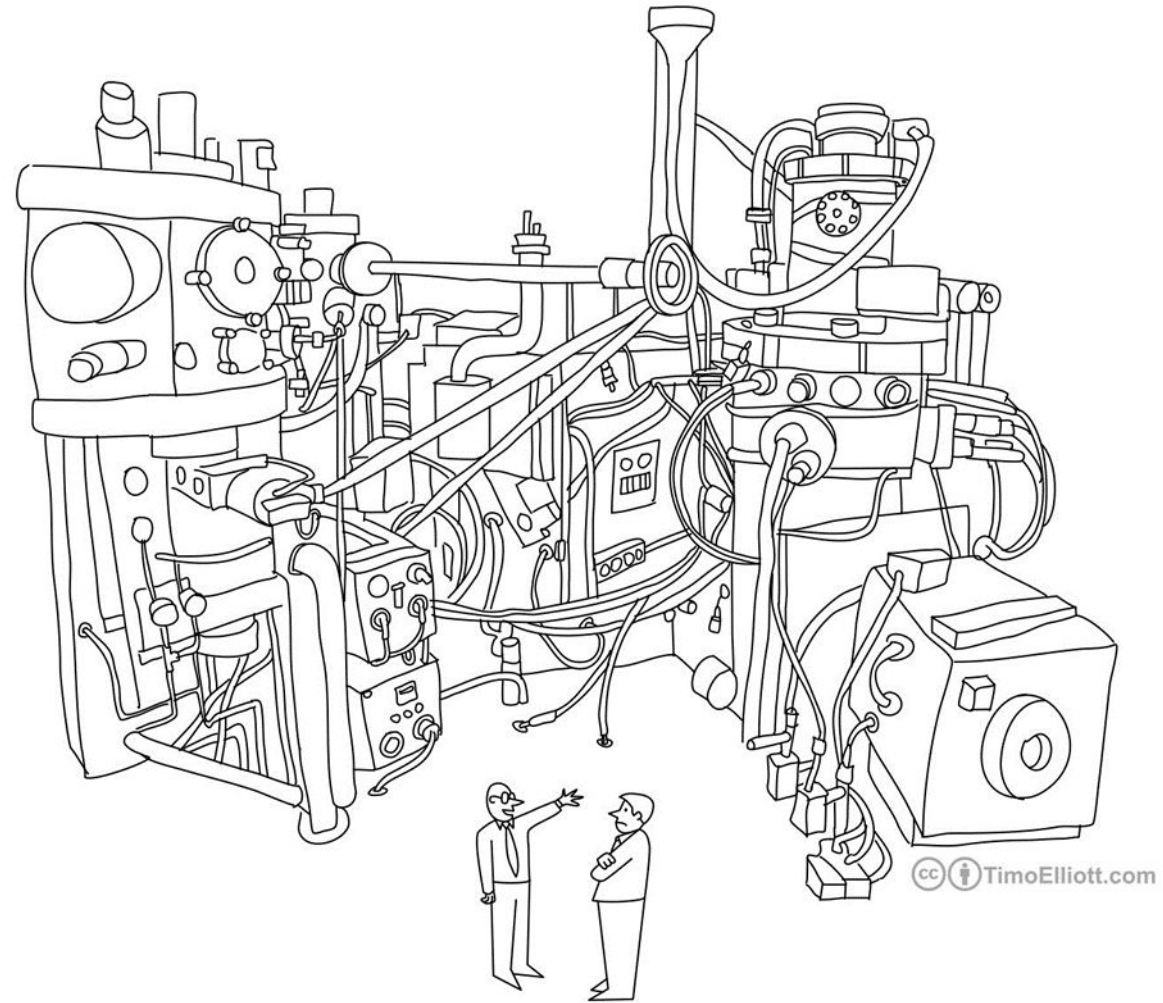
Some Terms You Might Hear

- **Tier 1:** The foundation or base part of the Texas school finance system, which is designed to capture core costs. Currently, it is covered by about \$0.63 of a district's M&O tax rate
- **Tier 2:** The enrichment part of a the Texas school finance system. It is designed to provide additional revenue for communities that are willing to adopt a higher M&O tax rate.
- **Golden Pennies:** The first 8 pennies of a district's enrichment tax rate.
- **Copper Pennies:** The last 9 pennies of a district's enrichment tax rate.
- **Voter Approval Tax Rate Election (VATRE):** A required election for a district to access more than 5 enrichment pennies

The Funding Challenge

- More than 1000 school districts
- Enrollment ranges from <10 to >180,000 students
 - 53 districts have more than 25,000 students
 - 400 districts have less than 500 students
- Economically disadvantaged ranges from <1% to 100% of students
- Property wealth per student in average daily attendance
 - 37 districts <\$164,000
 - 86 districts >\$1,892,208





“Well, sure, it looks complicated...”

Like many states

- Heavily dependent on the local property tax
- Uses wealth-equalization-based foundation school formula
- Weighted funding system based on student counts
- State / Local share determined based on relative levels of property wealth
- Local property taxes above state-determined levels recaptured and used as a method of finance for state aid system

Foundation School Program (FSP)

Texas' system for distributing state aid to public schools

- FSP is like a cup – each district gets one.
- The size of a district's cup is determined by several factors:
 - Number of students who come to school each day (ADA)
 - Legislatively determined funding amount per student (Basic Allotment)
 - Characteristics of students and the services they receive (Additional Allotments)
- FSP is funded through a combination of state aid and local tax revenue.
 - District property wealth determines how much of the cup is filled with local property taxes and how much is filled with state aid.



Perhaps Unique....?

- School aid calculated based on 70+ data elements that must be tracked and entered into a school funding template by local LEAs
 - 38 different ways to count students;
 - 8 different ways to calculate the district's property value;
 - 30+ pieces of other data related to
 - Tax rates and collections;
 - Transportation;
 - Various specific programs
- State aid template most often used is an excel template maintained outside the state agency and has 150+ worksheets embedded
- Typically undergoes multiple versions after a legislative session as state and local stakeholders work through legal interpretations



Big Picture Concepts: Funding Drivers

student counts

- *More students, bigger cup*
- *Fewer students, smaller cup*

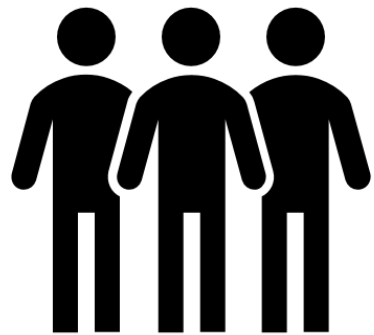
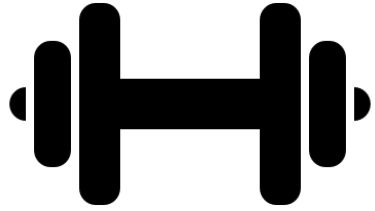


property values

- *Higher or lower values, same cup*
- *Property values impact the mix of state and local revenue in the cup*



Fill to here with
local revenue

 \times  \times \$6160

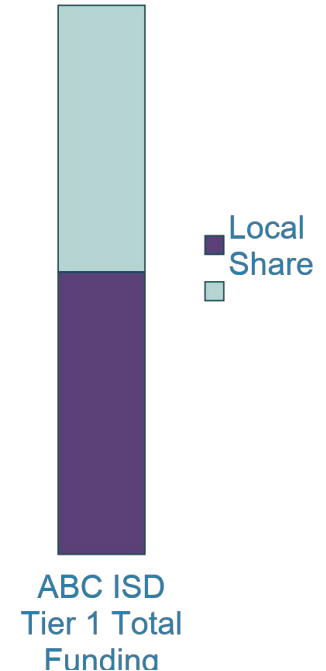
For most allotments, the formula will be a student count
times
a weight times the basic allotment

Financing Tier 1

A school district's Tier 1 Entitlement is the sum of all Tier 1 Allotments
 Funding for Tier 1 Entitlement is shared between state and local districts

ABC ISD – FY20

Regular Program Allotment	\$28,602,418
Special Education Allotment	\$3,705,268
Career/Tech Allotment	\$2,653,191
Compensatory Ed Allotment	\$5,155,717
Early Education Allotment	\$835,152
Bilingual Education Allotment	\$638,034
...etc.	<u>\$2,375,920</u>
Total Tier 1 Entitlement:	\$43,965,700
Locally Funded Share*:	\$15,820,441
State Funded Share:	\$28,145,259



* $Local\ Share\ of\ Tier\ 1 = Tier\ 1\ Tax\ Rate \times (Property\ Value / 100)$
 For FY20 ABC ISD's Local Share of Tier 1 = $\$0.65 \times (\$2,433,913,978 \div 100)$

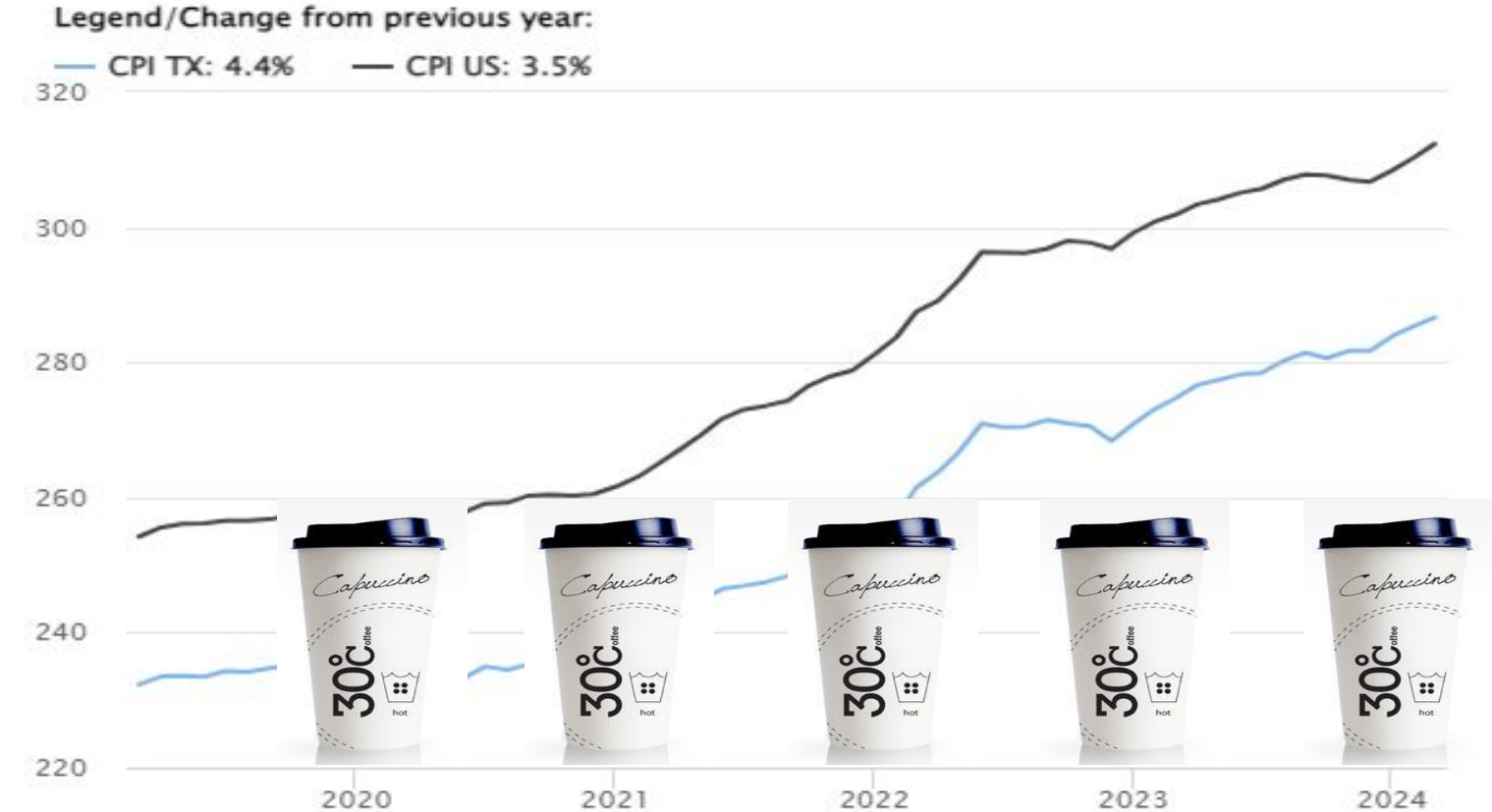
Excess Local Revenue (AKA Recapture, Robin Hood)



- In some districts, the calculated local share exceeds the total cost of the program. When this happens, districts are said to have “**excess local revenue**”
- There **is no recapture on golden pennies** or on **facilities funding**

Inflation

As costs rise, legislative action is required to allow districts to keep pace



*Excluding food and energy
Source: US Bureau of Labor Statistics and Comptroller of Public Accounts, based on data provided by Bureau of Labor Statistics

89th Legislative Session



Hoped for Changes

- Funding increases
 - **A basic allotment increase**
 - generates new core funding as well as new funding in all of the programs designed to provide additional revenue to students needing other services
 - the most straight forward way for the legislature to provide a funding increase
 - provided in Tier 1, so does not require an increase in the tax rate to generate new revenue
 - **School Safety Funding** is needed to help schools employ security staff
 - **Special Education Funding** is needed to implement the recommendations of the select committee on special education and to help bridge the gap between what districts spend and what they receive



Different Kinds of Funding

- Formula funding is most valuable because it is recurring in nature. Schools can use these funds to invest in staff with less concern that the dollars will not be there in future years.
- Grant dollars, while helpful, are often one time in nature, making it harder to use for recurring costs.



Funds Available

REVENUE AVAILABLE FOR GENERAL PURPOSE SPENDING			
In Billions of Dollars			
		2024-25	PROJECTED 2026-27 BIENNIUM
GR-R Tax Collections	+	\$143.36	\$155.42
Other GR-R Revenue	+	\$24.03	\$21.01
TOTAL GR-R REVENUE	=	\$167.38	\$176.43 SUBTOTAL
Beginning Balance	+	\$39.43	\$23.76
TOTAL GR-R REVENUE & FUND BALANCES	=	\$206.81	\$200.19 SUBTOTAL
Reserve for Transfers to the Economic Stabilization and State Highway Funds	-	\$10.38	\$11.19
Reduction of Reserve for Transfers of Severance Taxes to the Economic Stabilization Fund	+	\$0.31	\$5.60
TOTAL REVENUE AVAILABLE FOR GENERAL-PURPOSE SPENDING	=	\$196.73	\$194.60 TOTAL

Totals may not sum due to rounding.

	2016-17	2018-19	2020-21	2022-23	2024-25	2026-27
Estimated GR-R Revenue	102.45	113.82	113.83	156.98	167.38	176.43
Estimated Beginning Balance	7.29	1.94	4.84	11.68	39.43	23.76
Required Transfers (i.e. ESF, Highway Fund, etc.)	-2.00	-5.57	-4.80	-19.63	-10.07	-5.59
Estimated Total Revenue Available for General Purpose Spending	107.74	110.20	113.88	149.04	196.73	194.60
Estimated Revenue net of Beginning Balance	100.45	108.26	109.04	137.36	157.3	170.84

Estimated in the comptroller's BRE, various sessions

Introduced Budgets

	House	Senate
Increase of Guaranteed Yield on Golden Pennies	\$132.40 in FY 2026 and \$140.02 in FY 2027	\$132.40 in FY 2026 and \$140.02 in FY 2027
Property Tax Relief	\$3.5 billion contingent on new legislation	\$3.5 billion contingent on new legislation that increases the homestead exemption to \$140,000 and provides \$500 million in business tax cuts
Education Savings Accounts	\$1 billion in FY 2027	\$1 billion in FY 2027
School Finance Changes	\$4.85 billion contingent on legislation	\$750 million for changes to TIA, and \$4.1 billion for educator pay increases
School Safety	\$200 million per year	\$200 million per year

Relative agreement on the amounts, but the mechanisms differ



What about the Basic Allotment?

- A \$300 increase in the BA costs roughly \$4.4 billion.
- Lawmakers will be looking for resources for other programs as well
 - Special education?
 - New early childhood programs?
 - Changes to TIA?
 - Small / midsize allotment changes?
 - Transportation allotment changes?
 - Minimum salary schedule?

State Cost and Related Implications per Various Increases in FSP Basic Allotment assumed to take effect in FY26

Basic Allotment (FY26 & Beyond)	Increase from Current Law	Annual State Cost (in billions)	Biennial State Cost (in billions)
\$6,260	\$100	\$0.735	\$1.5
\$6,360	\$200	\$1.470	\$2.9
\$6,460	\$300	\$2.200	\$4.4
\$6,560	\$400	\$2.960	\$5.9
\$6,660	\$500	\$3.7	\$7.4
\$6,760	\$600	\$4.4	\$8.8
\$6,910	\$750	\$5.6	\$11.2
\$7,160	\$1,000	\$7.4	\$14.8
\$7,500	\$1,340	\$9.9	\$19.8



School Safety

- Both budgets set aside \$200 million per year. That's roughly double what is spent now.
 - SB 260 by Huffman increases the campus allotment to \$30,000 from \$15,000 and the per ADA allotment to \$20, from \$10.



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