

# ***Texas School Finance : Then, Now, the Future, and Us***

## **INTRODUCTION**

Public Education in the state of Texas is massive. Approximately 5 million students are served through over 1,300 school districts. In 2009 these ranged in size from less than 20 enrolled students in Grandview-Hopkins ISD to over 200,000 students in Houston ISD, although 84 percent of all school districts (containing 21 percent of the state's students) have less than 5,000 students. Texas has more school districts than any other state — 8 1/2 percent of the nation's 15,350 districts — and is second only to California in the number of students that are enrolled in public primary and secondary schools. Texas school districts employ 646,815 people and encompass 8,322 campuses.

Much of the recently completed 82<sup>nd</sup> legislative session focused on adopting a school funding bill. Going into the session many predicted a shortfall of \$10 billion dollars for funding public education to a comparable level as the previous biennium. After an arduous process public education will be funded at \$4 billion below the previous biennium's level. The following information (to the best of my knowledge) gives a very brief look at the past, present, and future of education in the state of Texas as well as what we and most every other district in the state is facing in the coming years.

## **HISTORY**

In 1949, the Texas Legislature adopted the Gilmer-Aikin Act, which prescribed the reorganization of state education administration. The Gilmer-Aikin Act also established the "Minimum Foundation Program," which created a funding system that provided revenue for education from both state and local sources. In the mid 80's because of the disparity in financial resources among school districts a series of lawsuits challenging the way school districts were funded began to emerge. After making its way through the courts, *Edgewood v. Kirby* the reached the Texas Supreme Court, which ruled the finance system unconstitutional in 1989. This resulted in the formation of County Education Districts (CED's). The Texas Supreme Court soon struck this down, and the Texas Legislature returned to work. In 1993, it passed Senate Bill 7, the legislation that invoked the property tax recapture provision, also known as Robin Hood. The purpose for recapturing revenue from high-wealth districts and using it to fund lower-wealth districts was to improve equity in the funding system. By 2004, Robin Hood was recapturing \$1.2 billion per year from 134 school districts. The Texas Legislature budgets those recaptured dollars and uses them to fund the Foundation Program of finance. As a result, it is very hard to end the Robin Hood provisions because state government would have

to find replacement funding to maintain support for schools.

During the 1990's dissatisfaction with recapture mounted. At the same time, modest state funding increases were not keeping pace with the cost of education in Texas. This was due to a growing assessment system and a growing student population. To meet revenue needs of districts, school boards raised property tax rates. In fact, by 2003, nearly 690 school districts were at or near the statutory maximum tax rate of \$1.50. This, in turn, sparked litigation to overturn the system because of high taxes and inadequate funding.

In 2001, a group of school districts mounted a lawsuit that became known as *West Orange-Cove CISD v. Neeley*. When the case went to trial in 2004, over 300 school districts were involved as plaintiffs or plaintiff interveners. Plaintiff school districts argued that, because they must levy the maximum property tax rate to maintain equity and adequacy, the local property tax had become equivalent to a state ad valorem tax, which is prohibited by the Texas Constitution. They also argued that the state finance system underfunded public education, preventing the districts from meeting their responsibilities to promote the "*General Diffusion of Knowledge*". In September 2004, the Travis County District Court ruled in favor of the plaintiffs and ordered the Texas Legislature to remedy the unconstitutional aspects of the school funding system.

In 2006, the Legislature responded by passing HB1 and HB2 in a third called special session. This legislation compressed local property tax rates by 1/3, providing tax relief to property owners. While most descriptions of the tax reduction effort focused on \$1.50 tax rate being compressed to \$1.00, rates varied widely which resulted in compressed M&O rates between \$0.64 and \$1.09. Our district was taxing at a lower rate so our compressed rate was set at \$.8447. At the present time, 475 school districts have compressed rates of less than \$1.00, 543 districts have compressed rates of exactly \$1.00, and 7 "special law" districts 12 have compressed rates of over \$1.00 because they were authorized to levy M&O rates above \$1.50 in 2005. Districts can tax \$0.04 above the compressed rate without voter approval, but must obtain voter approval in order to access the remaining pennies up to the statutory M&O rate cap of \$1.17. This provides a minimum of \$0.17 in "meaningful discretion" during the tax setting process to school districts.

To make up for the lost education revenues due to tax compression, the state guaranteed to hold harmless each district at the higher of its 2005 or 2006 funding levels per student. The state meant to make up the difference with implementation of a revamped corporate franchise tax, increased cigarette and tobacco taxes and a change in the method of calculating the tax on the sale of used motor vehicles. At the time legislators anticipated a shortfall (approximately \$2 Billion) in covering the property tax buy down so they hoped to make up the difference by keeping the increase from the property tax collection. At the time Texas property values were on the rise. Since the districts were only funded on what they were spending in 2005 or 2006 they were not able to keep any of the additional dollars from rising

values nor were they penalized if values in their districts were declining. They also intended to make up some of the difference with revenues from a robust Texas economy. There were warnings sounded at the time by many of the states “elder” politicians of this risky tax reduction move. Many predictions were made that Texas would find itself with a severe financial shortfall in the coming years. This predicted shortfall was obscured by a booming economy one biennium and federal stimulus dollars the next. The robust economy soon faltered. The franchise tax never lived up to expectations, and the student population grew at an astounding rate. All this combined led to a difference of the 2 billion anticipated shortfall for public education growing to almost \$10 billion for the current biennium.

## **HOW THE CURRENT SYSTEM HAS IMPACTED SCHOOLS**

School leaders have envisioned the present crisis since 2006. Texas school finance experts such as Lynn Moak and David Thompson have warned school leaders of the structural deficit that was created and how it would affect all districts across the state regardless of property wealth. It might best be explained as being analogous to a family that receives the same amount of money to live on year after year with no cost of living increase. Expenses such as insurance, utilities, fuel, payroll etc. all increase but the amount of revenue remains the same. In the past the state has always funded enrollment increases but declined to do so this biennium for the first time ever. Local communities are limited in what they can do to fill the gap in funding left by the Legislature. Local property taxes for maintenance and operations are capped at \$1.17. More than 200 districts are at the cap. Other districts have such low property wealth that they can’t raise tax rates enough to replace lost state funding. All districts are cutting costs, finding efficiencies, and streamlining operations. As many as half of the state’s school districts have dipped into their fund balances to help make ends meet, but that is not a long-term solution. Schools are required to keep a certain level of reserve funds to cover lags in tax collections, slow state payments, and unexpected expenses. Most district budget are about 80% personnel costs—salaries and benefits—so some districts are cutting the number of people employed by the school.

## **WHAT ABOUT THE FUTURE?**

The Legislature must address the broken school finance system. State leaders must make education a priority—which means using available resources to fund it properly. It is vital that local community members understand the issues facing public education and communicate their concerns to legislators. Local communities have the power to convince legislators to act sooner rather than later. This past legislative session has clearly shown that a majority of our state leaders are voting along partisan lines and will not cross those lines even if they feel it is in the best interests of the state.

## WHAT ABOUT US?

In the early '80's, Sudan ISD jumped to the top percentile of districts in the state in regard to property wealth per student when Southwestern Public Service's Tolk Station went online. Although depreciation and previous school finance legislation have moved us down the ladder we still have been able to enjoy a good financial standing. **However, we are not impervious to this current financial calamity.** We have been able to weather the last few years due to an increase in enrollment (approximately 30 in the last two years) and the passage of the bond issue last May which will help us with Capital Improvement's on the maintenance side of the budget. We are like every other school in the state in looking for every feasible way to cut budgets and reduce personnel costs through attrition. We currently have an adequate fund balance but must be extremely cautious in using it. Current projected runs for the coming biennium show us losing over \$600,000 dollars in state funding. What is even more scary is that all indications point to the following biennium (2013-15) being worse than this. It is very important for everyone to understand that all districts in the state of Texas are looking at very tough times ahead. Please do not hesitate to ask questions or research Texas Public Education Financing. I am always willing to visit with anyone about what we are doing and what our goals and visions are. There are many very good websites available that are doing an outstanding job of maintaining factual information about Texas School Finance. Some of these include:

Texas Education Agency - <http://www.tea.state.tx.us/>

Texas ISD - <http://www.texasisd.com/>

Texas Association of School Boards - <http://www.tasb.org/>

Texas Association of School Administrators - <http://www.tasanet.org/>

Moak, Casey, and Associates - <http://www.moakcasey.com/>

There is no one cure that is going to pull districts through this crisis. Many districts will probably be forced to close their doors. I read recently of one small Panhandle school district that is doing away with all athletic programs. Another district is shutting down its football program. When Texas schools begin cutting their athletic programs you know times are bad. Once the school in our rural communities close then it makes it extremely hard for the town to survive. It is going to take all residents working together to pull their district's through. I feel confident in facing this battle because our community has always been very supportive of the school and has always wanted a quality education for our students. Please do not hesitate to call me, your board members, or school staff with questions, concerns, etc.

Bo Lance, Superintendent

