

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

INTRODUCTION

Public Education in the state of Texas is massive. Approximately 5.3 million students are served through over 1,300 school districts. In 2016 these ranged in size from 11 enrolled students in Divide ISD, to 215,225 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. In the last couple of decades, Texas has ranked #1 with the most school districts compared to all other states — approximately 9.3 percent of the nation's 14,000 public school districts — and is second only to California in the number of students that are enrolled in public primary and secondary schools. In 2016, Texas school districts employed 706,325 people that encompassed over 8,000 campuses. Texas is currently growing at a rate of approximately 75,000 students per year.

Much of the 82nd 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 was 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. It also outlines what our district, along with most others, is facing financially in the future.

HISTORY

In 1949, the Texas Legislature adopted the Gilmern Aikin Act, which prescribed the reorganization of state education administration. The Gilmern Aikin Act also established the "Minimum Foundation Program," which created a funding system that provided revenue for education from both state and local sources. Due to the disparity in financial resources among school districts in the mid-1980's, a series of lawsuits challenging the way school districts were funded began to emerge. *Edgewood v. Kirby* made its way through the courts and then reached the Texas Supreme Court in 1989, which ruled the school finance system unconstitutional. 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 Senate Bill 7 passed. This legislation invoked the property tax recapture provision, also known as Robin Hood. The practice of funding lower wealth districts with revenue from higher wealth districts is known as "recapturing." The purpose for recapturing 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 Orangeb 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. Sudan ISD was taxing at a lower rate so our compressed rate was set at \$.8447.

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. When this occurred, 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 of this combined led to a difference of the \$2 billion anticipated shortfall for public education growing to almost \$10 billion for that 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 have been declining to do so in the last several biennium's. 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 budgets 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 85th legislative session has clearly shown a clash between the Senate, led by our voucher driven Lt. Governor, and the House of Representatives, which is not willing to pass any school finance bills coming out of the Senate that contains any measure of vouchers. The Senate, in return, is unwilling to pass any school finance bills coming out of the House that does not contain vouchers. Thus holding the students, our most valuable interest of Texas, hostage with no new funding!

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 100 students in the last decade, and more specifically 35 students in the past 2 years) and the successful history of the passage of bond issues over the last 15-20 years, which 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 year show us losing between \$325,000-\$700,000 in ASATR funding dollars, depending on two factors that the district has no control over, enrollment and taxable value. The simple way to understand ASATR (Additional State Aid for Tax Reduction) is to realize that this was additional state funding meant to replace local tax revenue that was lost in 2006 when the state compressed our tax rate. It was written into law that this additional funding would be stopped on September 1, 2017. Because of this large loss in state revenue, an exception has been triggered for Sudan ISD that allows us to raise our current tax rate of \$.9610 up to a \$1.04 to replace ASATR, thus replacing some of our local tax revenue that we lost when our local tax rate was compressed in 2006 when we were taxing at \$1.26. It is very important for everyone to understand that as long as our values and enrollment remain at status quo, the district will not have to pay Ch. 41 recapture on this additional tax revenue. Please realize that all districts in the state of Texas are looking at very tough times as long as our current legislatures are at a stand still in regard to school finance and the funding of public schools. Having said all of that, there are currently some laws up for discussion and vote in the current special session. If we were to receive additional new funding in this legislation, enough to make us whole again after the loss of ASATR, we more than likely would look at keeping our M&O tax rate where it is currently, or only increase it enough to make up for the remainder of loss of ASATR revenue.

There is no one cure that is going to pull districts through our current school finance shortfalls. Some districts may be forced to close their doors. I saw a newscast recently of a small local district talking about the very real possibility of their school shutting down in the near future due to the cut in ASATR revenue. Other districts are looking at cutting extra-curricular programs to help offset loss in State funding. When Texas schools begin cutting their extra-curricular programs, you know stressed financial times are serious! Once schools in our rural communities close, then it makes it extremely difficult for a small town to survive. Community effort, working together with the school district, is what will be needed to pull district's through tough financial times. I feel confident in facing this battle with our community, because the citizens of Sudan have always been very supportive of the school and have always wanted a quality education for our students. Please do not hesitate to call me, your board members, or school staff with questions or concerns. It is always a great day to be a Hornet and I, the school board, and the great staff at SISD appreciate your support in helping to fund your school.

