

# EDUCATION *R*eporter

BACKGROUND ON EDUCATION ISSUES FROM THE TEXAS ASSOCIATION OF SCHOOL BOARDS

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## A Primer on Texas School Finance

According to the Texas Legislature, public education is arguably the state's most vital responsibility. Regardless of political, ethnic, or economic background, everyone should agree that a quality education is the key to our students' future in an increasingly competitive global economy.

### Big and Getting Bigger

Texas public education faces many challenges today. Student enrollment is growing by an estimated 70,000 students per year. Additional students need classrooms, supplies, and qualified teachers. State and federal performance expectations are rising for all students, including those who do not speak English as a primary language and those who have special educational needs.

While education needs have grown, the school funding system has increased its reliance on local property taxes. In 2002, over half of Texas' 1,032 school districts adopted tax rates at or near the statutory cap of \$1.50 for operations, and 118 school districts were required to

share their local revenue with the state or other districts.

Texas school finance is complicated. And the size of the enterprise is nearly overwhelming. Over \$35 billion was spent last year in operating expenses and for plant, buildings, and debt. Over \$22 billion alone was paid to school staff in salaries and benefits. Of the \$28 billion spent on operating expenditures to educate over four million students, \$21 billion was expended on classroom instruction and related items.

For many Texans, the only working knowledge they have of school finance is contained in their annual property tax bill. They have read headlines about spending cuts, bond proposals, and the so-called "Robin

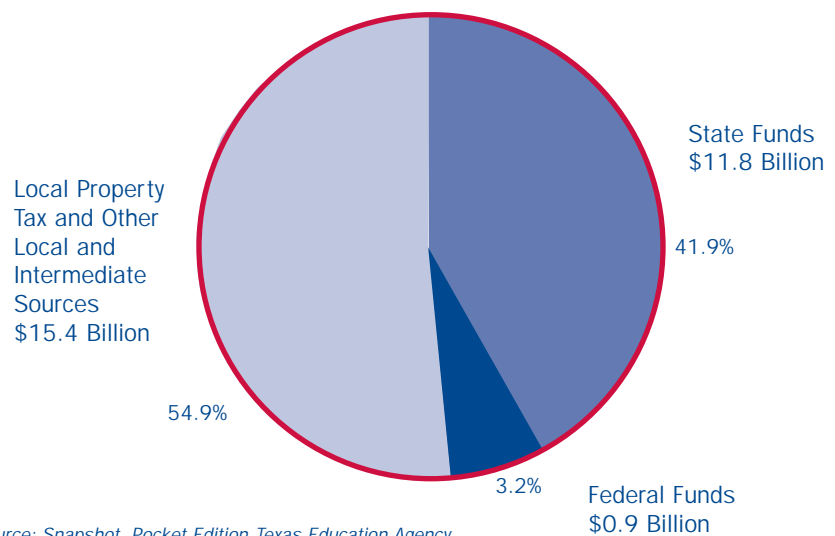
Hood plan." Beyond that, the funding system, cost adjustments, and wealth-sharing formulas inherent to school finance can create a "deer in the headlights" response.

During the anticipated special session on school finance, and the 79th Regular Session beyond, education will be in the spotlight. While this issue of *Education Reporter* can only cover broad basics, it offers a few education acronyms and descriptions used to navigate the complex world of public school finance.

### A Brief History

For the past half century, the responsibility for funding Texas public schools has been shared by the state and local school districts. In

### SOURCES OF FUNDING FOR TEXAS PUBLIC SCHOOLS 2001-2002



Source: Snapshot, Pocket Edition, Texas Education Agency

1949, the Texas Legislature adopted the Gilmer-Aikin Laws, which reorganized state education administration and established the foundation program of funding for each district.

The transformation of school finance since then has been marked by a series of court challenges and legislative changes. In the past 25 years, six major lawsuits have been filed over the structure of school finance in Texas—one in federal court, *San Antonio v. Rodriguez* (1973), four iterations of the *Edgewood* litigation in state courts, and most recently, the *West Orange-Cove CISD v. Alanis* case that will soon find its way to a district court in Travis County for a full trial on issues related to property tax rates and school funding adequacy.

## Revenue Sources

Public school funding comes from local funds, primarily local property tax revenues; state funds from a variety of sources, including the General Revenue (GR) Fund, Available School Fund (ASF), and special fees; and federal funds.

For the 2001-2002 school year, public school funds for all entities including state agency operations amounted to about \$36 billion. School operations funds totaled about \$28 billion of this amount. Approximately 55 percent came from local tax and other local and intermediate sources, 42 percent from state funds, and 3 percent from federal sources.

## Local Funds

Property taxes are the primary source of local funds for public education. Districts adopt two tax rates each year, a maintenance and operations (M&O) tax rate, which raises revenue that can be used for any legal purpose to operate the district's schools, and a debt service or interest and sinking fund (I&S) tax rate, if the district has debt. M&O taxes in all but a few districts are subject to a statutory maximum of \$1.50 per \$100 of taxable value. Districts may levy up to an additional

\$0.50 cents per \$100 of taxable value for debt service taxes at the time bonds are issued.

## State Funds

Most state funding comes from the GR Fund through the Foundation School Fund, a dedicated stream of revenue in the state budget used exclusively for public education. Other major revenue sources include the ASF, revenues from the Permanent School Fund (a perpetual trust established in 1876), funds recaptured from wealthy school districts, lottery proceeds, and miscellaneous funds.

## Federal funds

Federal funds represent the smallest portion of the three major revenue sources for the state's public schools. Most federal funds are appropriated for specific programs or to provide services to a specific group of students (e.g., low income, special education).

Generally, federal funds must be used to supplement programs and cannot be used to replace state or local dollars to fund a program.

## Structure of the Foundation School Program

School districts rely on property taxes as their local revenue source, but property tax revenues at similar tax rates vary widely across the state as property values or wealth varies. To offset this local variation, the state provides funding to districts in inverse relation to district wealth. School districts with higher property wealth receive less state funding than low wealth school districts to equalize overall school funding.

The Foundation School Program (FSP) is a set of formulas that governs the calculation of funding for 1,038 public school districts in Texas. The state's 200 charter schools do not levy property taxes and are supported with state and federal revenue. The FSP consists of two tiers for

funding maintenance and operations. The calculations include a number of adjustments and weights designed to distribute funding according to the characteristics of the school district and its students.

## Tier 1

Tier 1 is the "foundation" funding level in the Texas FSP. Calculation of Tier 1 funding begins with the Basic Allotment, the base level of funding for each student in average daily attendance (ADA). For the 2002-2003 biennium, the basic allotment is set at \$2,537. The state multiplies the Basic Allotment by district adjustments that include the Cost of Education Index (CEI), the Small and Mid-Size District Adjustments, and the Sparsity Adjustment.

Basically the CEI reflects geographic cost variations that are beyond district control. The index for each district is based primarily on teacher salaries of neighboring districts, district size (student enrollment), and concentration of low-income students.

The Small and Mid-Size District Adjustments are designed to help smaller districts compensate for diseconomies of scale encountered in serving smaller student populations. Districts with fewer than 1,600 students receive the Small District Adjustment, while those with more than 1,600 but fewer than 5,000 students receive the Mid-Size District Adjustment. Districts with low enrollment and a geographic area encompassing more than 300 square miles are eligible for the Sparsity Adjustment.

Adjusting the Basic Allotment by the district adjustments results in the Adjusted Allotment. Instructional program weights are applied to the Adjusted Allotment, based on the number of students enrolled in or served by various special programs.

Program weights are applied for special education, compensatory education, bilingual education, career and technology education (vocational programs), gifted and talented educa-

tion, and students participating in the Public Education Grant (PEG) program. PEG permits students in low-performing schools to attend a public school in the student's home district or in another district.

In order to participate in the school finance system, districts are required to levy a tax rate of \$0.86 cents. The distribution of responsibility for funding Tier 1 is a function of the district's local property value. The Local Fund Assignment (LFA), the district's share of Tier 1 cost, is the amount of revenue that can be raised at the \$0.86 tax rate. Districts with sufficient wealth to generate the entire allotment on their own at the \$0.86 tax rate receive no state aid in Tier 1.

## Tier 2

Tier 2 provides additional funds to school districts beyond the base funding level in Tier 1. Districts may levy a tax rate up to \$0.64 cents in Tier 2, but are not required by law to do so.

The Tier 2 tax rate generates resources for education in the form of a guaranteed yield. That is, districts are guaranteed \$27.14 per penny, per student in weighted average daily attendance (WADA) from a combination of local and state sources.

## Facilities Aid

Texas provides state aid for facilities through equalized support for debt service taxes. An Instructional Facilities Allotment (IFA) assists low-wealth school districts in paying debt service on bonded indebtedness for new instructional facilities. An Equalized Debt Allotment (EDA) is available to all districts to provide equalized assistance for existing debt. IFA funding was cut for 2003-2004.

Both IFA and EDA funds are calculated using a guaranteed-yield program. The state establishes a guaranteed revenue yield (\$35 per penny of tax, per student for the 2002-2003 bien-

nium). Districts levy a debt service tax and raise as much of the yield as possible from local property taxes. The state makes up the difference between what the district raises from property taxes and the total guaranteed yield. State support for debt service for facilities is limited to the amount of money appropriated by the Texas Legislature.

## Chapter 41 Wealth Sharing

District wealth sharing was established to help maintain equity in the system. Districts with wealth above \$305,000 per WADA are subject to wealth reduction provisions of Chapter 41 of the *Texas Education Code*. In other words, these districts must take action to reduce their property value.

Districts have five options to reduce their wealth:

**Option 1—Consolidation by agreement.** School boards of two or more districts may agree to consolidate in order to create a new district with wealth per pupil of less than the statutory wealth threshold.

**Option 2—Detachment and annexation of property by agreement.** School boards of two or more districts may agree to detach property from one school district and attach it to one or more school districts. The wealth of the district from which property was detached may not exceed the statutory wealth threshold per WADA. The wealth of any district to which property was attached may not exceed the guaranteed yield level per WADA.

**Option 3—Purchase of attendance credits from the state (voter approval required).** A district with wealth per WADA above the statutory threshold may purchase attendance credits from the state. One attendance credit is equal to one student in WADA. In effect, the district sends a check to the state to reduce wealth per student to the threshold level of \$305,000.

**Option 4—Contract with other districts for educating their students (voter approval required).** A district with wealth above the equalized level may enter into an agreement with a qualifying district to pay the cost of educating students in that district.

**Option 5—Tax base consolidation (voter approval required).** The school boards of two or more districts may agree to conduct an election to create a consolidated taxing district for the maintenance and operations of the two school districts. The resulting taxing district may not have a property wealth per pupil above the equalized level.

For the 2003-2004 school year, TEA has identified 134 school districts subject to the wealth sharing provisions of Chapter 41. All of these districts chose either Option 3 or 4, both of which recapture revenue from high wealth districts, commonly known as the "Robin Hood plan."

## Results of Equalization Efforts

The state's desire to meet requirements of *Edgewood* has moved funding for public education to a very high level of equalization. Since the early 1990s, the Legislature has studied equity as a part of its process of developing the state budget and continued to increase public education funding to keep projected equity levels at or near target levels.

These levels are 85 percent of students in the equalized system and 98 percent of equalized revenue in the system. In 1995, the Texas Supreme Court held that the Texas Foundation School Program is constitutional, meaning that it has been found to yield substantially equal amounts of revenue at substantially equal tax rates. In 2004, there are new challenges to the Texas school finance system.

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Without a doubt, the present school finance system has its critics. Some analysts would suggest that public



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education is in crisis. The truth is that a majority of Texas school districts are at fiscal capacity, the maximum amount of state and local funds available to local districts under current school finance formulas and the tax cap.

To meet rising costs and increasing state and national standards, districts have accessed more and more of their available capacity by raising their local tax rate and eliminating local tax exemptions. When districts reach the maximum tax rate, they may need to cut programs and lay off personnel to continue to meet rising costs, such as higher teacher salaries and health care benefits.

Reliable data show that Texas' public education system is at 97 percent fiscal capacity. The percentage is projected to increase to 98 or even 99 percent within two years.

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The 78th Texas Legislature is expected to grapple with school finance during a special legislative session in spring 2004. For more information on education finance and public education in general, go to TASB's web site at [www.tasb.org](http://www.tasb.org). On left side of the Association's home page you will find Information about Texas Schools. Click on it and find *A Reporter's Guide to Texas Public Education* in left column of that page. It contains a helpful glossary of terms and other useful information about school board governance.

You can check TASB's web site under Advocacy for legislative updates in the education arena.

Another good source of information is the state school finance web site at [www.capitol.state.tx.us/psf/capitol.htm](http://www.capitol.state.tx.us/psf/capitol.htm)



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