



## **BACKGROUND AND TALKING POINTS ON SCHOOL FINANCE IN TEXAS**

### **CURRENT SYSTEM OF FINANCE FOR SCHOOLS**

In 2006, the State created the target revenue system funded by a business margins tax and reduced local property taxes, shifting more of the burden of funding schools to the State. The margins tax never brought in enough to help the State fulfill its responsibility to schools. The Legislature has not taken steps to fix this structural problem. The shortfall was obscured by a booming economy in 2007 and by federal stimulus dollars in 2009.

The current school finance system was intended as a stop-gap measure. Since then, the legislature has enacted significant new accountability goals and mandates. Over the last decade student enrollment has grown by 20 percent, and districts' operating costs have increased. The school finance system has not kept pace with districts' needs and has resulted in significant funding gaps among school districts statewide.

Property value growth has underperformed projections, which adds to the state's funding burden. The 2009-10 state budget assumed property values would grow at about 3 percent in 2009. Actual growth was less than half that.

The Texas Legislature's reluctance to address the cumbersome, inequitable school finance system has resulted in 6 lawsuits challenging the current system. The suits will be heard in October of 2012. Appeals will extend to the Texas Supreme Court, so we do not anticipate any work on the school finance system before the summer or fall of 2013.

There are three aspects of school finance that must be viewed separately, but are interrelated.

- ✓ The Public School Finance System provides the roadmap for funding public education in Texas. Based on policy decisions made by previous legislatures, formulas direct funding to property wealthy school districts, to property poor districts, to transportation allotments for rural school districts, etc.

- ✓ Then there is the actual appropriation of funding that is determined by legislators every two years. Legislators determine how much will be allocated to each area of public education guided by the School Finance System that is in place.

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✓ Lastly is the distribution of this funding within the local school district. Districts have some discretion in how they allocate the funding they receive from the state. They can cut or reduce programs like fine arts and foreign language, and other special programs. Staffing decisions are made at the local level, in response to funding from the state.

### **TEXAS NOW RANKS 45<sup>TH</sup> IN SPENDING PER PUPIL**

Texas now ranks 45th among the 50 states, and 14th out of the 15 most populous states, in terms of per-student spending on public education. Compared to its neighboring states, only Oklahoma spends (slightly) less per student than Texas on public education. Texas was 25th in spending on public education as recently as 1999.

In 2011 the State underfunded schools by \$4 billion in the Foundation School Program and by \$1.5 billion in grants.

Although the State had more than \$6 billion in the Economic Stabilization Fund (Rainy Day Fund) after using \$3.2 billion to close the budget deficit that resulted from underfunding the budget in 2009, they chose not to use it for schools.

The current two year budget:

- Φ Cut \$4 billion from the Foundation School Program for the biennium
- Φ Eliminated an additional \$1.4 billion in funding outside the Foundation School Program
- Φ Appropriated \$269 million less for the Student Success Initiative
- Φ Appropriated \$345 million less for DATE
- Φ Eliminated the Pre-K grant program, a \$223 million cut in funding
- Φ Appropriated \$15million less for Education Service Centers
- Φ Appropriated \$546 million less to Technology/Instructional Materials
- Φ Appropriated \$5.9 million less for Texas AP Incentives
- Φ Appropriated \$12 million less to Communities in Schools
- Φ Eliminated the \$271 million Technology Allotment
- Φ Eliminated the Optional Extended Year Program
- Φ Eliminated Science Lab funding
- Φ Appropriated \$700,000 less for Steroid testing

### **SMOKE AND MIRRORS**

There's the "No New Taxes" game - in this game, lawmakers write a budget for the next two years that does not require taxes to be raised, but, instead, cuts needed services to cities and counties and cuts funding for public education that will results in increases in local city and county taxes and in school district taxes. Legislators proudly tout the passage of a budget that doesn't raise taxes, knowing that that same budget will force taxes to be raised at the local level.

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There's the practice, that has dramatically increased over the last 20 years or so, of holding funds generated from fees paid by citizens and using those funds as a sort of savings account that the Comptroller can count when she has to certify that there is enough revenue in current accounts or in reasonable projections of tax revenue for the upcoming two year budget. Unlike the country, Texas cannot write a deficit budget, one for which there is not likely to be enough revenue. Here's an example: Everyone who pays utility bills automatically pays a small amount of money to the state to fund a program that helps elderly persons, or persons with disabilities, or persons of low income to avoid having their utilities shut off during peak temperatures for non-payment. A small portion of the money is used for this purpose every year, but the vast majority, almost \$600 million dollars, is sitting in the state's "savings account" so that it can be used as described above, to certify that the budget for the next two years will balance.

This practice results in the need as soon as the legislative session begins every two years to authorize the spending of current dollars, those that could otherwise be used for the new budget, instead to supplement the appropriation from the previous budget that was deliberately underfunded.

## **LOCAL OPTIONS**

Districts have the option to raise local property taxes, but there are limits on 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.

If a district wants to raise the tax rate above \$1.04, it must hold a Tax Ratification Election (TRE) to get voter approval for the proposed increase.

As a result of these cuts 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.

Some districts are instituting fees for some programs and services.

Some districts are eliminating programs.

## **TALKING POINTS**

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Texas PTA surveyed its members in 2011 during the last legislative session to determine whether or not members were willing to consider other ways to adequately fund public education. The results were clear. **Members believed more money should be spent on public schools.**

- 78% of respondents supported raising the cigarette tax.
- 72.7% supported raising the tax on alcohol.
- 63.8% strongly supported the use of a portion of the Rainy Day Fund to restore some public education funding for the next 2 years.
- 48.2% supported raising other fees
- 48.2% supported spending state dollars in order to ensure the maximum amount of federal funding for schools.
- Parents also supported fixing the business margins tax.

A new survey will be administered prior to the upcoming legislative session, but these results may be used in conversations with legislators and legislative staffers.

**Urge the Legislature to address the broken school finance system** by creating a new system of finance that is simpler and more equitable.

**Urge the Legislature to fix the business margins tax** so that it generates the revenue for schools that was promised by policymakers.

**Urge the Legislature to adequately and equitably fund public schools.**

**Urge the Legislature to think beyond the two-year budget cycle and to consider the long-term consequences of underfunding public education.** We must plan to maintain and increase the health of our Texas economy. That can only be accomplished by an educated workforce.

**Remind legislators that public schools in Texas have seen a dramatic increase in the number of high needs, at-risk students.** These students are much more expensive to educate, and require much more support, intervention, and special programming.

**Remind legislators that public schools are the heart of most communities, serve as the major employer for many communities, and provide jobs for their constituents.** Schools must be supported. They are the heart of many communities.

**Educate your neighbors and leaders in the community.** It is critical that they understand the issues facing public education and that they communicate their concerns to legislators. Local communities have the power to convince legislators to act.

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