



TEXAS PUBLIC SCHOOL FINANCE

PRIORITIZE REFORM

Executive Summary

The State of Texas has one of the largest and most diverse public school systems in the United States. With 5.4 million students, Texas educates about ten percent of the total K-12 population in the United States. Roughly six in ten students in Texas are considered economically disadvantaged and one in five are English language learners, ranking the state ninth and second nationally in those categories according to the National Assessment of Educational Progress.

Managing and funding such a large and diverse school system has proven to be an overwhelming challenge for the state legislature. A long history of school finance litigation has plagued the state since the first half of the 1960s. In the most recent school finance case against the state questioning the constitutionality of the school finance system, the Texas Supreme Court ruled that the current funding system meets the minimum constitutional requirements, stating “Our Byzantine school funding system is undeniably imperfect, with immense room for improvement. But it satisfies minimum constitutional requirements.”⁸

The current funding system does not provide adequate or effective funding directed towards high quality initiatives that will improve educational outcomes. Several integral formula funding elements including the transportation allotment and the cost of education index have not been updated since they were first introduced over 25 years ago. Fundamental problems with the funding formula system, an increasing burden on local school districts to provide a disproportionate amount of public school funding, and a lack of investment in programs for high-need student populations have led to poor outcomes and significant shortages in the workforce pipeline of Texas.

While there is continual debate regarding the amount of funding the state is obligated to provide for public schools and the volume of that burden that local school districts should be responsible for, prioritizing funding and fixing an overly complicated funding system are necessary to prevent the perpetuation of uninspiring outcomes for students in Texas’ public education system.

State Data

- Nearly 5.4 million students in 1,200 school districts¹ across more than 8,500 campuses account for approximately 92 percent of all school aged children in Texas.²
- The school districts employed about 711,786 total staff members during the 2017-18 school year, 356,838 of which were teachers.³
- 16 percent of students graduate from high school without the need for remediation.⁴
- 73 percent of students enroll in a post secondary institution.⁵
- 28 percent of those students complete a post-secondary credential within six years.⁶
- Only 12 percent of students who achieve a post-secondary credential are considered low-income.⁷

Texas must meet the demands of an ever-changing workforce and prepare students for a career in the global economy. Policy efforts should shift the focus toward investment in the education system of the future. The current school funding system, designed decades ago with no meaningful updates since its inception, has deteriorated into an archaic model that is inefficient and undervalues the students' education. This is a systemic problem that must be addressed before another generation of students graduates unprepared to enter the workforce.

A funding system must meet the demands of an increasingly diverse student population, with significant geographical disparity between school districts, steadily increasing enrollment, evolving workforce needs, and a global economy. Texas has the unique opportunity to reinvent the way public schools are funded, bringing the education system into the 21st century to produce the future workforce Texas needs to compete in a global economy.

Workforce of Texas

Texas public school funding is not meeting the needs of a 21st century workforce. To meet workforce demand and expand the workforce pipeline, the public school funding system must be updated and simplified to direct funding towards program areas that prepare students for jobs and careers in a global economy. Low rates of college and career readiness is evidence of a system that is not prioritizing programs and funding effectively for today's workforce.

A 2016 study by Georgetown University found that 95 percent of jobs created after the 2008 economic recession required at least some post-secondary credentials. According to a survey by the Federal Reserve Bank of Dallas conducted in August 2018, a shrinking labor market is now the number one concern of business executives, with 66 percent reporting difficulty finding and hiring qualified workers. This shortage has led to an increase in overall labor costs, with 64 percent of firms reporting they have had to increase wages and benefits to recruit and retain employees. By the year 2024, 50 to 60 percent of jobs in the Houston metro area will require training beyond high school.⁹

The need for a robust workforce pipeline led state leaders in higher education, public education, and business and industry to create an advisory committee to address the issue. In 2015, the committee established a new state plan, called 60x30TX. This plan's focus is to improve college and career outcomes for all students and set several goals for the state to pursue leading up to the year 2030.

60x30TX Plan

The 60x30TX plan is imperative because of the advanced economy in Texas and a shrinking workforce pipeline. With 11 years remaining in the 60x30TX plan, the state legislature, business leaders, higher education institutions and public school leaders will have to make many tough decisions to prioritize programs and funding to meet these goals.

The 60x30TX plan is a strategic higher education plan which aims to have at least 60 percent of Texans ages 25 to 34 achieve a certificate or degree by the year 2030. The plan also sets out three additional goals to have at least 550,000 students

complete a certificate, associate, bachelor's or master's degree from a higher education institution in Texas by 2030, decrease student loan debt, and increase the percentage of students who graduate with marketable skills.

In the most recent progress report on the 60x30TX plan, approximately 40 percent of Texans ages 25-34 had obtained at least a certificate from a higher education institution as of 2016. If this rate continues, about 46 percent of Texans ages 25-34 will have a post-secondary credential by the year 2030, far short of the state's goal.

College and Career Readiness

The outdated formula funding system doesn't account for the diversity of Texas' student population or the transformation in viable industry jobs and career pathways for students.

As part of Texas' new A-F accountability system, college, career and military readiness (CCMR) indicators are now tracked and account for 40 percent of a campus or school district's student achievement grade. The state CCMR indicators include the number of students who earn college credit on an AP/IB exam, scored at or above the college ready level on SAT, ACT, or Texas Success Initiative Assessment (TSIA), completed a college-level dual credit course, earned an associate's degree, earned an industry-based certification, completed an Individual Education Program, enlisted in the armed forces, or completed career and technical education coursework aligned to an industry certification.

College Readiness

According to the most recent 2018 CCMR data, 334,424 students graduated from Texas public schools in 2018.¹⁰ Of those, 54 percent received credit for achieving proficiency in at least one of the CCMR criteria. When it comes to college readiness, 37 percent of graduating students met SAT readiness criteria in English Language Arts (ELA) and Reading and 24 percent in Mathematics. The benchmark for college and career readiness on the SAT in 2018 was a score of 480 on the ELA and Reading section of the assessment and 530 in Mathematics.¹¹ About 12 percent of students met ACT readiness criteria in ELA and Reading and 12 percent met readiness criteria in Mathematics.

College and career readiness benchmarks for the ACT in ELA and Reading is a score of 20 and for Mathematics, a score of 22.¹² 66,000 students or 20 percent of the graduating class earned at least three credit hours in ELA or Mathematics dual credit courses and about 20 percent of students met the criterion score on an AP/IB exam in any subject, earning college level credit hours.

Career Preparedness

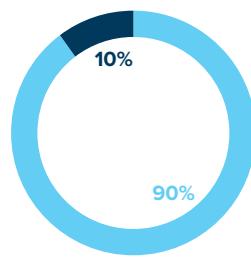
Almost three percent or about 8,900 students who were enrolled in a career and technical education (CTE) program graduated with an industry-based certificate, and about four percent or almost 12,000 students graduated with at least one CTE course aligned with an industry-based certification. 2,715 graduated with a completed individual education plan with workforce readiness criteria. An additional one percent of students graduated with an associate degree and two percent enlisted in the U.S. Armed Forces.

While the state boasts an overall four-year graduation rate of 90 percent, far fewer students are graduating college or career ready. About 16 percent of high school graduates who took the SAT or ACT scored at least a 24 on the ACT or 1110 on the SAT in both Reading and Math in 2017. According to the Texas Higher Education Coordinating Board's Eighth Grade Cohort Report released in 2016, 73 percent of the 2010 high school graduating class enrolled in a post-secondary (P.S.) institution and 28 percent achieved a P.S. credential within six years of graduation. Of those students who achieved a P.S. credential within six years of graduation, only 12 percent were low-income students.

Funding

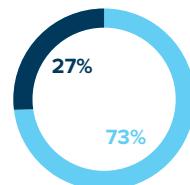
Local burden for funding public schools is inordinate. The method in which Texas public schools are funded is critical to increasing outcomes and giving every student, no matter their background, an opportunity to obtain a high-quality education. Over the last several decades, a combination of factors have greatly increased the complexity of the public school funding system.

Texas High School Graduates 2017-18



■ Failed to Graduate
■ Graduated

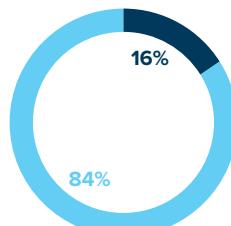
Texas Post-Secondary Enrollment 2017-18



■ Did not Enroll in P.S.
■ Enrolled in P.S.
■ Did not earn P.S. Credential within six years

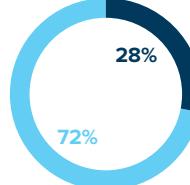
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Texas Students Graduating College Ready 2017-18



■ College Ready
■ Need Remediation

Texas Completion 2017-18



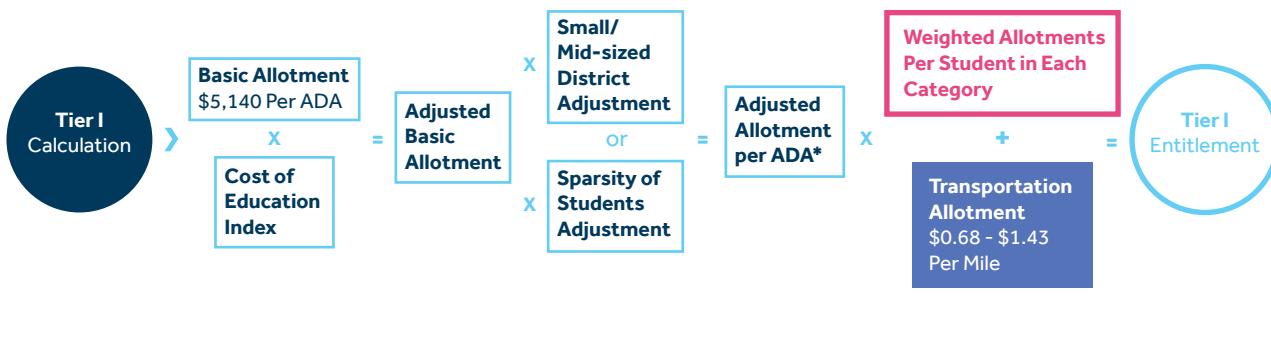
■ Earned P.S. Credential Within Six Years
■ Did not earn P.S. Credential within six years

About 201,000 students graduated from a Texas high school in 2010 and failed to attain a post-secondary credential within six years.¹⁴

Since the late 1980s six major lawsuits were filed questioning the constitutionality of the system. The legislature's attempts to rectify the problem of wealth disparity, lack of equity, and the absence of efficiency in response to the court's rulings helped to create a convoluted, inefficient, and insufficient method of funding.

The School Finance Formula

Begins With:



Weighted Allotments

Special Education: 1.1 - 5.0
 Career and Technical Education: 1.35
 Bilingual Education: 0.10
 Compensatory Education Allotment: 0.20
 Gifted and Talented: 0.12
 Public Education Grant: 0.10

Then Determine State's Share Vs. Local Share of Tier I:



Next:



*Adjusted Allotment per ADA is the greater of: basic allotment X CEI or basic allotment X small or mid-sized district adjustment.

School Finance Formula Terms

Tier I Funding: Guaranteed revenue for school districts based on the various types of students who attend school in the district, utilizing weights for students who are considered more expensive to educate.

Basic Allotment: The base amount that every school district is guaranteed to receive in state and local funds for each student in average daily attendance. The basic allotment is set in the appropriations bill each biennium.

Cost of Education Index (CEI): Each school district is assigned a multiplier to compensate the district for geographic and cost differences beyond the control of the district. The CEI has not been updated since 1991.

Adjusted Basic Allotment: Calculated by multiplying the basic allotment by the CEI.

Average Daily Attendance (ADA): The average number of students who attend district campuses per day divided by the number of instructional days in a school year.

Weighted Average Daily Attendance: The number of students a district receives funding for when accounting for students with special needs.

Small District Adjustment: School districts with 1,600 or fewer students in ADA receive a higher level of funding and districts with 300 square miles or more receive additional funding to account for dis-economies of scale.

Mid-Size District Adjustment: Districts with more than 1,600 ADA and fewer than 5,000 ADA receive a higher level of funding.

Sparsity of Students Adjustment: Districts with less than 130 ADA are eligible for increased funding as if they had higher student counts.

Adjusted Allotment: Used as a starting point in the formulas to determine the amount of state and local revenue a district is entitled to receive.

Weights and Allotments: Districts receive funding for students who are considered more expensive to educate. The weights and allotments increase the Tier I entitlement depending on the number of students in each category.

Maintenance and Operations (M&O) Tax Rate: The primary local revenue source for school districts. The maximum rate is \$1.17 per \$100 in value on property within the district's boundary.

Tier II Funding: The minimum amount of state and local revenue per WADA that is guaranteed per penny of tax effort, regardless of the district's property value or student population.

Austin ISD Yield Per WADA: The guaranteed yield of golden penny tax revenue for all school districts. The AISD yield per WADA is above the level of possible revenue generated by districts containing 85 percent of the state's students.

Golden Pennies: Each of the first six pennies levied above the compressed tax rate of \$1.00. These pennies are not subject to recapture, therefore property wealthy school districts are allowed to keep all revenue generated by these pennies. The state guarantees revenue to ensure that property poor school districts can leverage as much revenue as the AISD yield.

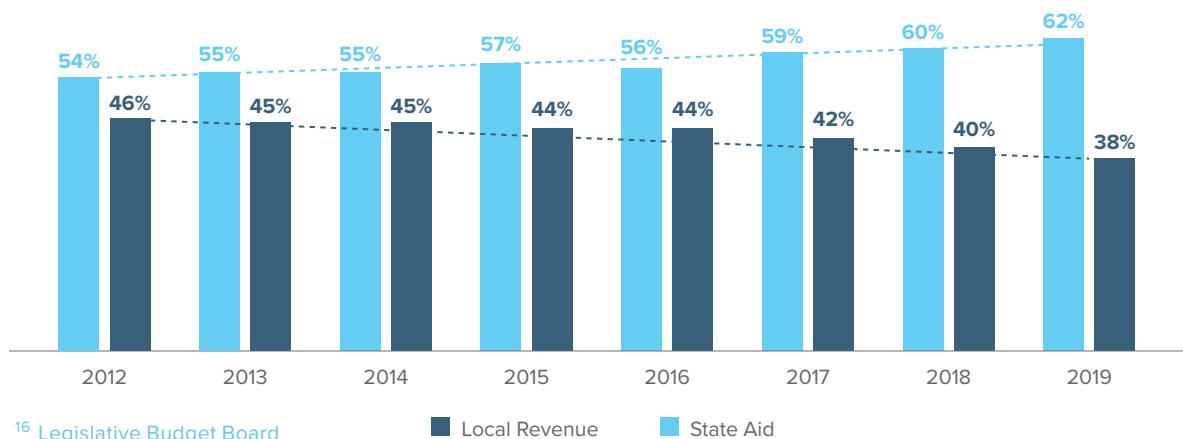
Copper Pennies: All remaining pennies up to the \$1.17 rate cap. These pennies are guaranteed by the state to raise \$31.95 per WADA. Revenue generated by school districts above \$31.95 is subject to recapture.

Recapture: A method used to decrease the disparity between school districts in the amount of taxable property value. Under recapture, property wealthy school districts are required by Chapter 41 of the Education Code to reduce their taxable value to the Equalized Wealth Level.

Equalized Wealth Level: The threshold set in statute that establishes the amount of taxable value for all school districts. Property wealthy school districts are required to reduce their taxable value down to the equalized wealth level. Those districts must remit any amount of property wealth generated above \$514,000 per WADA. The six golden pennies are not subject to recapture. Any revenue generated above \$319,000 per WADA for the remaining copper pennies is subject to recapture.

Texas Public Education Funding

State Share vs. Local Share 2012-2019



Over the past ten years, the burden of funding education has steadily shifted toward the local districts. For the 2017-18 school year, local school districts provided about 62 percent of funding while the state's share continued its decline to an estimated 38 percent. This trend is facilitated by the mechanics of the funding formula itself. Local school district tax revenue, based on their prior year assigned property value and level of Maintenance and Operations (M&O) Tax, is calculated to determine if the school district has enough revenue to cover the cost of educating the districts' student population, known as their Tier I Entitlement. If the school districts' local revenue is not enough to cover the entire Tier I cost, the state provides revenue that is necessary to fill in the rest. As property values rise, local school district revenues increase causing the state's share to decrease. This is why the Texas Education Agency's legislative appropriations request reduced by about \$3.5 billion for the 2019-2021 biennium.¹⁵

Local tax burden is unsustainable under the current school finance system. This persistent decline in funding from the state has led to a significant increase in local property taxes because school districts are forced to increase their M&O tax rate to offset lost revenue. The Target Revenue System limits the amount of revenue a school district can raise by capping the M&O tax rate at \$1.17 per \$100 valuation and a maximum I&S tax rate of \$0.50.

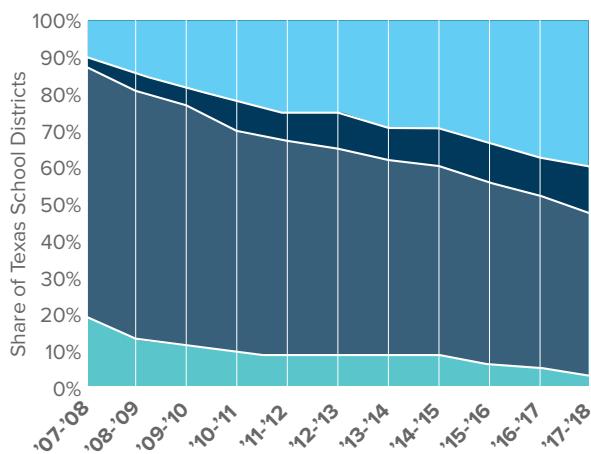
School districts have the authority to increase M&O tax rates up to \$1.04 at their own discretion. If the school district determines that an increase in the M&O tax rate is necessary beyond the

\$1.04 amount, they must seek voter approval by initiating a Tax Ratification Election (TRE). As state funding has decreased over the past ten years, an increasing number of school districts have sought voter approval through a TRE and increased their tax rates to offset losses from state revenue.

When the Target Revenue System was first implemented in 2007-2008, there were 93 school districts with an M&O tax rate of \$1.17. As of 2017, 397 school districts had reached the maximum \$1.17 M&O tax rate. From 2006 to 2017, there have been 637 TREs, and 78 percent were successful. In 2017 alone, 58 school districts held a TRE and 55 of them were approved by voters.¹⁷

M&O Tax Rates 2007-2018

Below \$1.039 At \$1.04
Between \$1.041 and \$1.169 At \$1.17



¹⁸ Texas Taxpayers and Research Association Foundation

Recent Legislative Efforts

Over the past several sessions, the Texas Legislature has considered many pieces of legislation aimed at overhauling or changing the school finance system. Many of those efforts have failed to pass or resulted in no significant changes to the system. In the last two sessions, two significant pieces of legislation were filed attempting to significantly overhaul the way public schools are funded.

During the 84th Legislative Session, former State Representative and former Chairman of the House Public Education Committee, Jimmie Don Aycock, authored House Bill (HB) 1759, an attempt to preempt

the state supreme court's decision in *Texas Taxpayer & Student Fairness Coalition v. Michael Williams*.

Most recently, during the 85th Legislative Session, State Representative Dan Huberty, the current Chairman of the House Public Education Committee, authored the primary school finance legislation of session, HB 21. The bill failed to pass during the regular session after robust debate between the House and Senate regarding the inclusion of a provision for special education school vouchers. The bill eventually passed during the 85th Legislative Session, 1st Called Special Session with substantial changes.

HB 1759 (2015)

Repeal:

- Cost of Education Adjustments and Update.
- Transportation Allotment
- High School Allotment
- Additional State Aid for Staff Salaries

Increase the basic allotment from \$5,040 to \$5,888.

HB 21 Original Draft (2017)

New Funding:

- \$1.8 billion in new funding
- New weighted funding for students with dyslexia
- Increase funding weight for bilingual education programs
- Increase funding weight for career and technology programs

Repeal Allotments:

- Transportation
- High School Student
- Support Staff Salaries
- Hold Harmless Provision

HB 21 Enrolled (2017)

Established the Texas Commission on Public School Finance

\$351 million in new funding for:

- New facilities funding
- An autism and dyslexia grant program

\$212 million for the Teacher Retirement System

A History of School Finance

- 1947** The first major reform in the Texas public school system began in **1947** with the Gilmer-Aiken Committee, which was tasked with creating a new plan for financing Texas schools.¹⁹ The committee was born from mounting school enrollment after World War II, an increased cost of living and the need for local taxation in a system that contained over 5,000 school districts. The committee eventually created the Texas Education Agency to manage school districts and provided schools with a minimum amount of state funding.²⁰
- 1968** In **1968**, the first of the modern legal battles over Texas' school finance system began with a lawsuit entitled *San Antonio School District v. Rodriguez*. The lawsuit challenged the constitutionality of the school finance system, a system that created wealth disparity in areas with low property values, allowing wealthier school districts to have more funding per pupil.²¹ In **1971**, the United States District Court declared Texas's school finance system unconstitutional.²² The case was appealed to the United States Supreme Court in **1973**, and the court overturned the lower court's finding stating that the U.S. Constitution does not "explicitly nor implicitly" mention the right to be educated.²³
- 1984** To preempt another lawsuit, the state legislature enacted House Bill 72 in **1984**, which included equity improvements for the school finance system.²⁴ Shortly after in **1987**, the State District Court declared the school finance system unconstitutional in *Edgewood ISD v. Bynum* (*informally known as Edgewood I*).²⁵ The Third Court of Appeals of Texas swiftly reversed the state district ruling in **1988**, and the Texas school finance system was again declared constitutional.²⁶
- 1989** *Edgewood I* was then appealed to the Texas Supreme Court in **1989** and was unanimously ruled unconstitutional. The court declared that the current system violated the "efficient system" clause of the Texas Constitution.²⁷ Following this decision, the legislature instituted a new system of funding during a special session with the passage of Senate Bill 1.²⁸ Another lawsuit was filed shortly after, *Edgewood ISD v. Kirby* (known as *Edgewood II*). In **1990**, the State District Court again ruled that this system was unconstitutional, and the Texas Supreme Court upheld the lower court's decision.²⁹
- 1991** In an attempt to rectify the equity problems associated with Senate Bill 1 (1990), the legislature passed Senate Bill 351 in **1991**.³⁰ This legislation was challenged in a new case, *Carrollton-Farmers Branch ISD v. Edgewood ISD (Edgewood III)*, and the court declared the system remained unconstitutional.³¹
- 1993** Governor Ann Richards then signed the "Robin Hood" law in **1993**, requiring property wealthy school districts to undergo wealth-equalization measures between themselves and property poor school districts.³² This same "recapture" mechanism remains in place today. The recapture system was swiftly challenged in *Edgewood ISD v. Meno (Edgewood IV)*. The Texas Supreme Court upheld the constitutionality of the Robin Hood law in **1995**.³³
- 2001 - 2005** From **2001 to 2005**, the Robin Hood law was again challenged in *Neeley v. West Orange Cove CISD*.³⁴ The plaintiffs argued that the Robin Hood plan constituted a state-wide property tax, and the State District Court ruled in favor of the plaintiffs and required the legislature to find another solution to the problem. The case was appealed to the Texas Supreme Court and the court agreed with the plaintiffs but did not find the system wholly unconstitutional and granted a stay of injunction until **2006**.
- 2006** The Texas Legislature adopted a "Target Revenue System" in **2006** on top of the school finance formulas to reduce property taxes.³⁵ Under the new system, school districts were required to reduce their M&O tax rates by one-third. To account for the loss in revenue, the Legislature additionally created a property tax relief fund that pulled funds from a corporate franchise tax and an increased cigarette tax. This legislative fix was challenged in the Texas Supreme Court but was declared constitutional in **2011**.³⁶
- 2011** Due to long-term effects of the 2008 economic depression, the Texas legislature passed a biennial budget in 2011 that cut over five billion dollars from the education system.³⁷ After the cuts, more than 360 property poor school districts sued the state in *Texas Taxpayer & Student Fairness Coalition v. Michael Williams*, arguing the school finance system was inequitable and inadequate for meeting the state's accountability system.³⁸
- 2013** The State District Court ruled that the school finance system was unconstitutional in **2013**.³⁹ The school finance trial was reopened in **2014** after most of the funding cuts from 2011 were restored during the 83rd Legislative Session. Judge Dietz (the presiding judge over the 2013 case) reaffirmed his earlier ruling citing inequity, inadequacy and that the Robin Hood plan constituted a statewide property tax.⁴⁰ The decision was appealed in **2015**, and the Texas Supreme Court agreed to hear the case. In **2016**, the Texas Supreme Court unanimously ruled that the school finance system in Texas is constitutional.⁴¹

Top Ten Facts

1. The outdated formula funding system doesn't account for the diversity of Texas' student population or the transformation in viable industry jobs and career pathways for students.
2. Several integral formula funding elements including the transportation allotment and the cost of education index have not been updated since they were first introduced over 25 years ago.
3. Over the past ten years, the burden of funding education has steadily shifted toward the local districts. For the 2017-18 school year, local school districts are providing about 62 percent of funding while the state's share continued its decline to an estimated 38 percent.
4. Roughly six in 10 students in Texas are considered economically disadvantaged and one in five are English language learners, ranking the state ninth and second nationally in those categories.
5. While 73 percent of Texas' 2010 high school graduating class enrolled in a post-secondary institution, only 28 percent achieved a post-secondary (P.S.) credential within six years of graduation.
6. Of those students who achieved a P.S. credential within six years of graduation, only 12 percent were low-income students.
7. About 201,000 students graduated from a Texas high school in 2010 and failed to attain a post-secondary credential within six years.
8. 41 percent of Texas third graders read at their grade level. This is a critical point in a child's development as they "learn to read" leading up to third grade and "read to learn" in the years after.
9. A shrinking labor market is now the number one concern of business executives in Texas, with 66 percent reporting difficulty finding and hiring qualified workers.
10. By the year 2024, 50 to 60 percent of jobs in the Houston metro area will require training beyond high school.

Sources

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- ³² Acts of 1993, 73d Leg., R.S., ch. 347 (S.B. 7), 1993 General and Special Laws of the State of Texas (codified as Tex. Educ. Code ch. 41).
- ³³ Pennington. "Texas Education Agency and the Robin Hood Plan: Is Stealing from the Rich Really Giving More to the Poor." 394.
- ³⁴ Ibid, 395.
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- ³⁷ Acts of 2011, 82nd R.S., ch. 1355 (H.B. 1), General and Special Laws of the State of Texas.
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The Texas public school finance system is outdated and must be reformed to better educate our children. Without adequate and appropriate funding, our future workforce will not be prepared to meet the demands of a dynamic and fast-growing economy.

The Partnership is leading the Houston business community to draw a road map to meaningful change for empowering improved outcomes and better supporting our schools. This document seeks to build an understanding of the mechanics of school finance to assist our legislative, education and community partners in identifying and implementing solutions.

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