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A long-standing legacy in shaping Texas fiscal policy

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Money is no barrier to school finance reform

By Dale Craymer
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When state legislators convene in January to address major issues facing Texas, "school finance" and "property tax relief" are expected to top the priority list. But revenue growth may be moderate, calling into question just how much lawmakers can accomplish, especially when schools will need an additional $4 billion in the next budget cycle just to keep up with growing enrollment.

The truth is, there is plenty of money available to address school finance. How?

Under Texas' current school finance formulas, that $4 billion cost will be split between the state and local school districts, with schools covering their share with the property tax. Local school property values are projected to increase 6.8 percent over each of the next few years, generating a $7.5 billion increase in the local share for the biennium. With school districts that much "wealthier," the state's overall school formula obligation is projected to actually drop by $3.5 billion from what it now spends.

Lawmakers should just say "no" to that savings. At an absolute minimum, the state should freeze the amount it spends on public schools at today's level of spending. That doesn't cost the next budget one extra penny, and "frees up" $3.5 billion for schools.

That money could be used to limit the growth of school property taxes, fund new program improvements, or a combination of both – options that could be done easily and equitably through the state's school finance formulas.

So how do our current school finance formulas generate $3.5 billion in state savings?

The state and local school districts share responsibility for school finance in Texas. The state essentially guarantees districts will have a certain amount of revenue for each student they educate. School districts pay their share by levying a property tax. But some districts have very little taxable property relative to the number of students – perhaps a few modest homes with a lot of young families. These "property poor" school districts don't raise very much revenue with their property tax. If they don't generate enough to meet the guaranteed per-student amount of revenue, state money makes up the difference.

Other districts may have tremendous oil and gas wealth or major industrial facilities, but not many homes and students. These "property wealthy" districts generate substantial local tax revenue, far above the per-student amount the state guarantees. To equalize "wealth" statewide across districts, the state requires these districts to share their excess through a system commonly known as "recapture," or "Robin Hood."

Understand that the terms "wealthy" and "poor" refer to the value of the property within the school district – not to the students and their families. A property "wealthy" district may have a high proportion of economically disadvantaged students, and a property "poor" district might not.

A snapshot of any given year shows the system is substantially equitable – all districts essentially get similar amounts of revenue per student, whether the district is "poor" or "rich."

But equity has a dark side that comes into play when that snapshot become a motion picture – moving from one year to the next.

Thanks to a healthy economy, Texas home and business values are increasing each year. That's good news for those who see the value of their assets rise, but it's not necessarily good news for school districts. State aid formulas recognize that districts are now a bit "wealthier" than before, so districts qualify for less state aid – such as the $3.5 billion state "savings" discussed earlier.

This shift of a greater share of school operation funding to the local school property will worsen over time if the Texas Legislature fails to act in 2019. In fact, should current trends continue, our schools will be completely funded by property taxes and recapture in as few as a dozen or so years.

Fortunately, lawmakers periodically review school finance and adjust the formulas based on existing needs and available revenue – something they should do again when the gavel convenes the 86th Legislature.

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PHOTO OF AUTHOR ATTACHED

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