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Sizing Up The 2014-15 Texas Budget: Public Education

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Making sure all Texas children receive a high-quality education is key to the future economic prosperity of the state. An adequate and equitable system of school finance is critically important for other school improvement efforts to succeed. Unfortunately, funding for Texas public schools has failed to keep up with inflation and to respond to our growing and changing population and increasing expectations.

KEY FINDINGS

- The 2014-15 Budget Does Not Fully Restore Funding To Schools
- School funding does not keep up with population and inflation
- Pre-K Continues To Be Underfunded

Today, there are nearly five million children in the Texas public education system; 60 percent of whom are economically disadvantaged. Over the 10-year period from the 2001-02 school year to the 2011-12 school year:¹

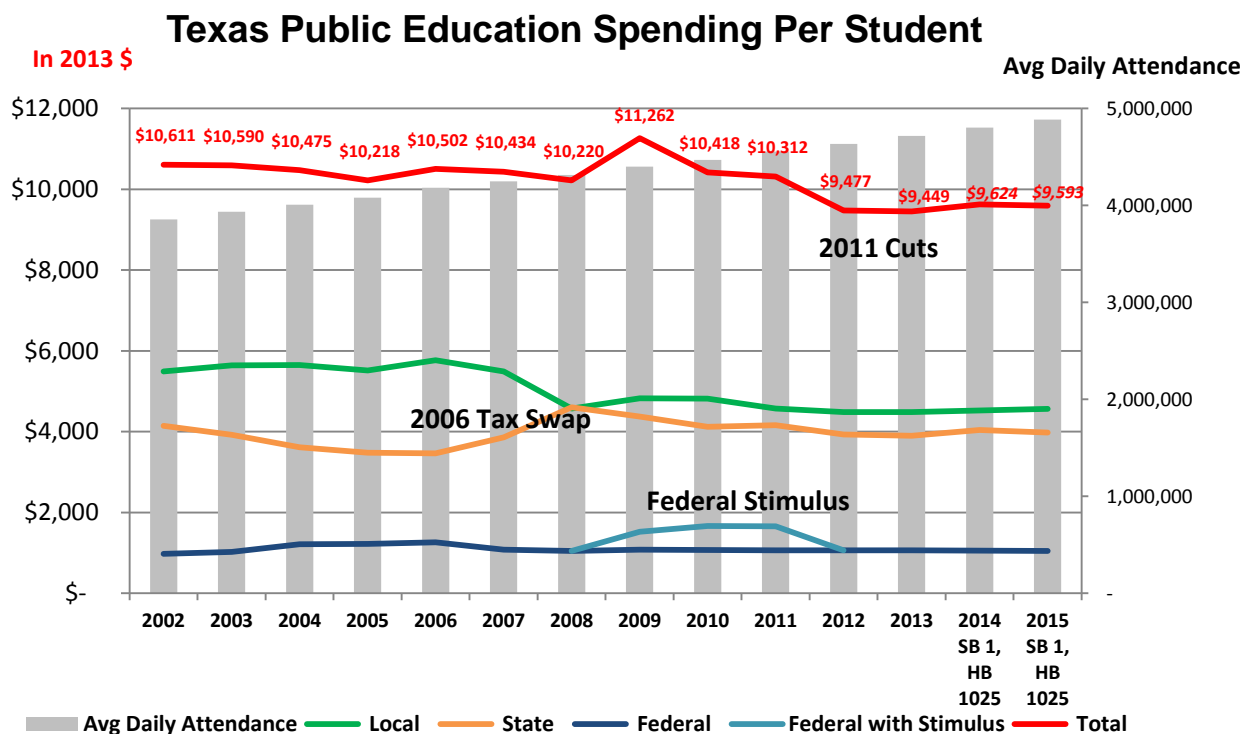
- public school enrollment increased by 20.1 percent;
- the number of economically disadvantaged students increased by 43.7 percent—over double the growth of the school population as a whole;
- Hispanic student enrollment grew by 46.5 percent, while White student enrollment decreased by 10.2 percent;
- the number of bilingual students grew by 49.2 percent and the number of students with limited English proficiency grew by 39.4 percent.

In 2011, when state revenue estimates were bleak, the Legislature chose to drastically cut funding to public education instead of exploring ways to increase revenue or tap the state's Rainy Day Fund for the 2012-13 budget. The Legislature cut \$4 billion from formula funding and over \$1 billion from educational grants—primarily from programs that promote academic success for disadvantaged and at-risk student populations. In real terms, these cuts translate to almost 21,000 fewer teachers and staff in our classrooms, three times as many over-crowded

classrooms in 2011-12 as in the prior year, and six lawsuits filed against the state by parents, districts and education advocates.

The 2014-15 Budget Does Not Fully Restore Funding To Schools

The 2014-15 budget provides \$3.2 billion more in General Revenue to the Texas Education Agency than the budget for the 2012-2013 biennium, but fails to raise per-student funding to pre-recession levels.



Source: CPPP analysis of LBB and SB 1/HB 1025 information; chart design from Rep. Gene Wu. Inflation forecast is 1.6% annually.

In 2008, local/state/federal education spending averaged \$10,220 per student. Under the new budget, per-student funding will drop to \$9,609 for 2014-2015 (amounts are adjusted to 2013 dollars). This represents a \$611 per-student drop in funding from pre-recession levels or \$18,330 per classroom of 30 students. To bring school funding back to 2008 levels, an additional \$5.9 billion from state, local or federal sources would be needed for the 2014-2015 biennium.

Public school attendance is projected to grow by almost 2 percent a year—more than 85,000 students annually. This budget, and every previous budget, does take into account enrollment growth, because formula funding is calculated on a per-student basis. However, when education funding is cut, as it was in 2011, or when funding does not keep pace with inflation, every

student is funded at a lower level in real terms than the previous year. Growth is fastest among the types of students that traditionally cost more to educate, such as economically disadvantaged and limited English proficient students. Cutting per-student funding, or letting funding erode by not keeping up with inflation, forces schools to increase class size and/or reduce programs and supports that assist struggling students.

Improvements In Formula Funding

The majority of the increased funding will flow through the primary elements of the school finance formulas (basic allotment, tier 2 yields, Regular Program Adjustment Factor, target revenue reduction factor), which are set in the budget.

The basic allotment is the base level of per-student funding that every district is guaranteed to receive through a combination of state and local revenue. Raising the basic allotment is the most equitable way to distribute additional school funds, because it increases the funding starting point for every district. It also decreases the amount of local property taxes subject to recapture for property wealthy districts. The budget increases the basic allotment, for the first time since 2006, from \$4,765 per student to \$4,931 in fiscal 2014 and to \$5,022 in 2015.

Through HB 1025, a supplemental appropriations bill, the Legislature added another \$200 million to the formulas, raising the basic allotment even further to \$4,950 in 2014 and \$5,040 in 2015. It is estimated that this additional increase in the basic allotment provided by HB 1025 will decrease the amount the state collects in recaptured local property tax revenue by nearly \$17 million for the biennium.

School districts will also see an increase in the guaranteed yield of “golden pennies” beginning in 2015. “Golden pennies” are the first six pennies of the tax rate for enrichment funding after tier one basic funding – usually the first six pennies over a \$1.00 tax rate. They are “golden” because the state guarantees a higher yield than the last 11 “copper pennies.” Golden pennies are also not subject to recapture, unlike copper pennies and tier one basic funding, meaning that if a district is able to produce revenue above the guaranteed amount it is able to keep it. The guaranteed yield for these pennies will increase from \$59.97 per penny of tax rate currently to \$61.86 in 2015. Property-poor districts benefit from this increase because they will see a greater reward for their tax effort. Since golden pennies are not subject to recapture, this increase has no impact on property-wealthy districts.

The Regular Program Adjustment Factor (RPAF)—one of the two mechanisms used to cut formula funding in 2011—represented a complete change in the philosophy of how public

schools are funded. Before the creation of this factor in 2011, districts would go through a set of calculations based on pre-determined formulas that take into consideration district characteristic and student demographics to establish their funding needs. The adjustment factor moved school funding away from formula calculations and allowed the Legislature to arbitrarily fund only a portion of the state's obligation. This mechanism was responsible for \$2.5 billion of the \$4 billion cut from formula funding in the 2012-13 biennium.

Under this scheme, property-tax-poor districts, which rely more heavily on state aid, were hit harder than property-wealthy districts that receive a relatively small share of their funding from the state. For fiscal 2012, the Legislature decided to fund only 92.39 percent of what schools should have received in their state share of funding—resulting in a \$2 billion (or 7.61 percent) cut. For 2013, the Regular Program Adjustment Factor increased to 98 percent and the cut shrank to \$500 million, or 2 percent, from districts' Foundation School Program formula funding.

By setting the Regular Program Adjustment Factor to 100 percent for the 2014-15 biennium (up from 98 percent in 2013), at a cost of just over \$1 billion, the budget fully restores funding that would have otherwise been cut through that mechanism.

The remaining \$1.5 billion of the \$4 billion cut to formula funding came from reductions to target revenue, which was established when local property tax rates were cut in 2006 in exchange for the state taking on greater responsibility for funding schools. Target revenue freezes districts' per-student funding at the level they received in 2006. If the funding formula generates less funding than a district's target revenue, the state makes up the difference. Nearly a third of the property-wealthy school districts classified as "Chapter 41" and subject to recapture receives more state aid than they pay in recapture due to target revenue. Because it randomly creates winners and adds an extra layer of complication, target revenue is set to expire in 2018.

Unfortunately, the Legislature slightly increased the percentage of target revenue paid for the next biennium, instead of continuing to wean districts off this funding. The state will pay 92.63 percent of target revenue for the 2014-2015 biennium, compared to 92.35 percent in 2013. Increases in the basic allotment are sufficient enough to ensure that no district will see a reduction in their overall funding due to target revenue not being fully funded.

Restoring Educational Grant Funding Was Not A Priority

Of the roughly \$1.3 billion cut for educational grant programs outside the Foundation School Program and not controlled by formula funding in 2011, approximately \$1.2 billion of the cuts will carry forward into the next biennium (not including funds for technology and instructional

materials). Funding that was completely eliminated—including funding for programs that specifically target disadvantaged and at-risk students, such as Pre-K expansion grants, High School Completion/Success, School Based Prevention Services, and the Teen Parenting Program—saw no restorations.

Programs that did receive increases in funding are still below the levels funded by the 2009 Legislature. For example, funding for the Student Success Initiative, a program that provides remediation for students struggling to pass the state's standardized tests, is set at \$50.5 million for the 2014-15 biennium—an increase of \$14 million over the 2012-13 appropriation, but still \$248 million below 2010-11 funding. Community in Schools, a drop-out prevention program, is appropriated \$40.7 million, which is \$11.4 million over the previous biennium, but \$1.2 million less than the 2010-11 biennium.

The Legislature did add about \$97 million to new or restructured educational grant programs, most notably \$25 million in enhanced funding to the Regional Education Service Centers and \$30 million in supplemental Pre-K funding.

Pre-K Continues To Be Underfunded

The 2011 Legislature completely eliminated \$208.6 million in funding for Pre-K expansion grants. These grants allowed districts that offer half-day Pre-K to expand to a full-day program or to enroll additional students who do not meet the criteria for Pre-K services. Beyond the eliminated grant support, Pre-K, like all other grades, also lost funding through cuts to formula funding.

The budget adds \$30 million to Pre-K for the biennium, which is only 14 percent of the amount cut from the expansion grant. Instead of distributing the funds through the competitive grants process previously used, these funds are to be evenly distributed on a per-Pre-K student basis through the Foundation School Program formulas. Distributing funds through formulas is generally more equitable since the formulas, in theory, are supposed to reflect the different costs associated with population needs.

Conclusion

Though there are some increases in education spending for the next biennium, the Legislature failed to undo the harm created by the unprecedented cuts made in 2011. Hit hardest by this disinvestment in public education are those who are poised to gain the most from a quality education and supportive educational services—economically disadvantaged and at-risk children.

Texas can no longer afford to ignore that the student population is changing and becoming increasingly more expensive to educate. The Legislature should re-examine the Cost-of-Education Index and the weights and allotments in the funding formulas, many of which haven't been updated in over 20 years, to ensure that districts are provided adequate resources to provide an education to all students that meets their needs as individuals and our need for a prosperous future for Texas.

For more information or to request an interview, please contact Alexa Garcia-Ditta at garciaditta@cphp.org or 512.823.2873.

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ENDNOTES

¹ Enrollment in Texas Public Schools 2011-12. Division of Research and Analysis Department of Assessment and Accountability, Texas Education Agency; Dec. 2012.