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Transparency in Education Funding Sorely Missing

by The Honorable
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Key Points

- School finance in Texas is not transparent, which causes confusion and allows arguments which are not based on facts to prevail.
- School choice in Texas, as provided by the Taxpayer Savings Grant, has a positive fiscal note from the Legislative Budget Board.
- Since all funds, state and local, are controlled by the state formulas, the system acts as if all the money were first sent to the state, then reallocated to districts from one big pot.

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Introduction

Late last year, MIT Professor and White House consultant Johnathan Gruber made news when discussing the passage of national healthcare reform by saying: "lack of transparency is a huge political advantage, and basically, you know, call it the stupidity of the American voter, or whatever, but basically, that was really really critical to get the thing to pass…. "[1]

Complexity and lack of transparency worked to the political advantage of the few who understood the complex structure of healthcare in the United States. When complexity obscures a system and the effect of reform, lawmakers lack the information they need to make informed decisions. Yet, even without information, they are often under intense pressure to take a stand. A vote under these conditions is, at best, an educated guess. Transparency is critical to good government.

Transparency in Education Funding Formulas[2]

School finance in Texas fits squarely into this metric. Texas schools are funded by one of the most complex set of formulas in the nation. Only a handful of people in the entire state fully comprehend how schools are funded. This type of complexity places well-meaning lawmakers at a disadvantage, especially when they raise questions about whether and how education can be improved.

When these questions arise, those opposed to a reform—such as school choice—object to the proposals based on information which is often confusing and sometimes misleading. In the case of school choice in particular, they point to the fact that public education is funded by a mix of local property tax revenue & state tax revenue. Local property taxes account for the majority of K-12 spending, and as the system is structured, local school districts can fall into one of two categories:

- If local property taxes raise more money than state formulas provide, the state collects the extra funds form the district. (Commonly called "Chapter 41" districts.)[3]
- If local property taxes do not raise enough funds, the state disburses funds to the local schools to make up the difference. (Commonly called "Chapter 42" districts.)[4]

This is usually called the Robin Hood system. Given these facts, opponents raise the following objection: because the state's support in some districts is less than the amount of the grant or scholarship, the numbers don't work.[5] On its face this seems like a reasonable argument. How can the state save money if it does not fund a particular district at an amount greater than the value of the grant? Opponents make this argument despite the fact that both Texas Education Agency (TEA) and Legislative Budget Board (LBB) have issued positive fiscal notes for the Taxpayer Savings Grant (TSG) proposal.[6] (See Appendix for LBB estimate.) In other words, both the TEA and LBB have published documents concluding that the TSG has a positive fiscal impact on the state. Why?

The answer begins with the Texas Constitution, which requires the state Legislature to provide funding for education.[7] The means that the Legislature has chosen to fulfill this requirement is a mix of local property tax revenue and state tax revenue. In this capacity, the local ISDs are the

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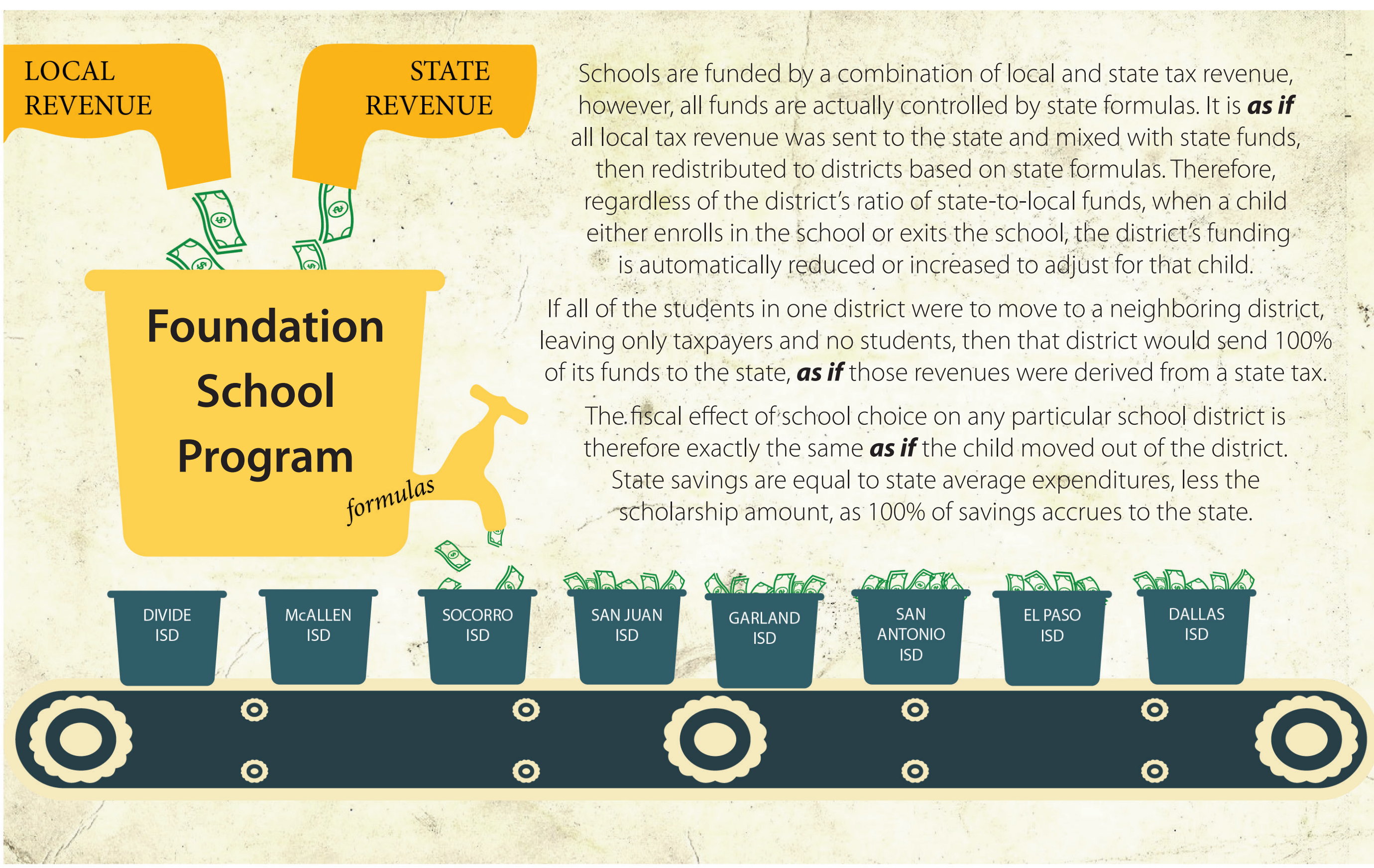
state's agents, carrying out the state's work. The Texas Supreme Court declared this when it stated, "school districts are local public corporations of the same general character as municipal corporations. They are defined as quasi-municipal corporations, and derive their powers by delegation from the state. They are state agencies, erected and employed for the purpose of administering the state's system of public schools."[8] This situation is most apparent in the Robin Hood system, described above, in which the state collects money from Chapter 41 ISDs and disburses it to Chapter 42 ISDs.

K-12 spending is driven by formulas on a per student basis.[9] When a child is enrolled in a Chapter 42 district, the state disburses money for that student to the receiving ISD. When a child is enrolled in a Chapter 41 district, the state allows the district to keep more of its local property tax revenue. Likewise, if a child moves out of a school district, the ISD does not save the cost of educating that child. Instead, the state formulas automatically decrease the funding to that ISD.

Since all funds, state and local, are controlled by the state formulas, ***the system acts as if all the money was first sent to the state, and is then reallocated to districts from one big pot called the Foundation School Program (FSP).*** These FSP formulas determine how much each district gets based on various formula elements including tax rates, district size, student demographics, and district demographics.

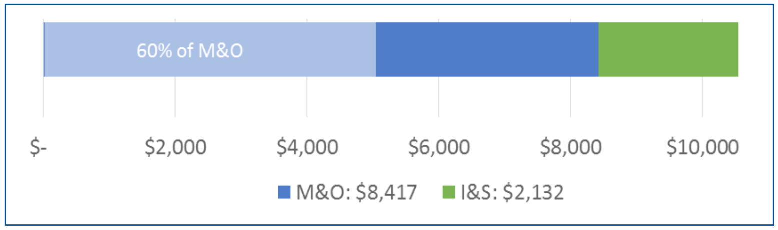
To illustrate this, suppose every single student in Austin ISD enrolled in Round Rock ISD. The student count would be zero in Austin and all the tax revenue collected through local property taxes by Austin ISD would be sent to the state.[10] This is because when you multiply the student count "zero" by the formula elements the result is "zero." In other words, Austin's Foundation School Program allotment would be "zero" and they would not be allowed to keep the local tax revenue which they collected.

Figure 1: "As If" All One Pot



This explains why the TSG has a positive fiscal note. In our current system, funding already follows the child, but only among ISDs. With the TSG, a part (60 percent) of the money follows the child to a private school, while the remainder returns to the state.[11] The result is a positive fiscal note.

Figure 2: Funds Per Student Allotted Through the TSG



Conclusion

To summarize: whether a district is funded primarily by state funds or by local funds, the amount they receive or get to keep is determined by state formulas. State formulas contained in the FSP determine how much each district in the state either receives or sends to the state.[12]

The Legislature can more effectively address issues in a manner which best benefits Texans if the information provided to them, and the public, is accurate and transparent. Texans deserve to know how their tax dollars are distributed to schools. They also deserve to know how much is being spent. Today's complex formulas obscure both of these facts. ✭

Appendix

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83rd LEGISLATIVE REGULAR SESSION
May 18, 2013

Estimated Two-Year Net Impact to General Revenue-Related Funds for HB 3497, Committee Report 1st House. Substituted: a postive impact of $91,398,918 through the biennium ending August 31, 2015.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive (Negative) Impact to General Revenue-Related Funds
2014	$14,172,062
2015	$77,226,856
2016	$205,590,877
2017	$338,535,859
2018	$476,185,127

Notes

[1] Gruber, Jonathan. *"Lack of transparency is a huge political advantage"* video accessed via Youtube (Feb. 25, 2015).

[2] The discussions in this section of the paper only deal with Maintenance and Operations [M&O] tax revenue. Debt Service [I&S] revenues are totally local for purposes of paying for facilities and are not included in this discussion.

[3] Chapter 41, Texas Education Code.

[4] Chapter 42, Texas Education Code.

[5] Frels, Kelly and Thompson, David. *Vouchers don't meet constitutional requirement of 'public free schools.'* Houston Chronicle Opinions (Feb. 18, 2015). Also, Dr. Mike Moses' comments made at a TPPF conference.

[6] Legistlative Budget Board, *Fiscal Note, 83rd Legislative Regular Session in re: HB3497*, and the Texas Education Agency's *Cost Estimate for Senate Bill 1575*.

[7] The Texas Constitution, Article VII, Section 1.

[8] *Thomas B. Love, Next Friend, Et Al. v. City of Dallas*. 120 Tex. 351 (Tex. 1931), #5633, Accessed via casetext.com.

[9] *An Introduction to School Finance in Texas*, The Texas Taxpayers and Research Association, pps. 6-12 and 23.

[10] The discussions in this section of the paper only deal with Maintenance and Operations (M&O) tax revenue. Debt Services (I&S) revenues are totally local for purposes of paying for facilities and are not included in this discussion.

[11] As filed, SB 276 would provide 60 percent of Maintenance & Operation expenditures to the school of choice; the remaining 40 percent would return to the state.

[12] Chapter 41 and 42, *Texas Education Code*.

About the Author

The Honorable Kent Grusendorf is the director of the Texas Public Policy Foundation's Center for Education Freedom.

Grusendorf represented Arlington from1987-2007 in the Texas Legislature. Due to his prior service on the State Board of Education, he was viewed as a leader on education issues in his freshman term. Through appointments to the House Public Education Committee and various Select Committees by three governors and three house speakers, he played a significant role in crafting legislative responses to the Edgewood I, Edgewood II, Edgewood III, Edgewood IV, and West Orange Cove school finance court decisions. During his tenure, Grusendorf carried education accountability/improvement intiatives for four governors: Clements, Richards, Bush, and Perry.

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