



Improving the Texas School Finance System: Funding Options and Considerations

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The COVID-19 pandemic, higher inflation, labor shortages, and extreme weather events have presented new challenges for school districts, leading parents, educators, and school board members to call for improving funding for public schools in Texas.

To address these and other challenges, the 88th Texas Legislature should consider improvements to the Texas school finance system, including increasing the basic allotment, keeping up with inflation, and moving from attendance-based to enrollment-based student counts. The Legislature could also provide additional support for areas of critical need, such as special education funding, student and school safety funding, resources to support teacher recruitment and retention, and support for building and updating school facilities.

Funding Levels and Student Counts

The basic allotment is the core of the Texas public school finance system and represents the bulk of funding used to operate schools and pay educators. The Legislature sets the basic allotment dollar amount. This amount is then multiplied by the number of students served in each school district, along with adjustments for district circumstances and student program needs. The basic allotment makes up about half of district funding, and the accuracy of the student counts is an important component of the equation that merits review and improvement.

In 2019, the Texas Legislature set the basic allotment at \$6,160 per student in average daily attendance. With inflation impacting everything from labor to lumber, **increasing the basic allotment** in statute or in the appropriations bill would help school districts keep up with the costs of paying teachers and running schools. The Texas Consumer Price Index, published by the Texas comptroller, is a good metric for tracking inflation in Texas and could be used to adjust the amount of the basic allotment now and in the future.

Raising the basic allotment could help **lower property taxes and reduce property tax recapture payments**. When the state provides a greater share of public education funding to school districts through state general revenue increases in the basic allotment, it helps to reduce the reliance on local school district property taxes — allowing districts to reduce their tax rates.

With the state projecting that recapture levels will have a large increase in the upcoming biennium, it is very important that these locally collected school district taxes not simply offset or supplant other state revenue. Putting the projected value of a recapture increase into a basic allotment increase could neutralize this supplantation issue and lower recapture.

Keeping the basic allotment up to date by adjusting for inflation also will assist school districts in improving teacher pay. As required by statute, at least 30% of any basic allotment increase **automatically raises salaries** of teachers and other non-administrative staff, with 75% of that amount specifically dedicated to raising the pay of teachers, librarians, counselors, and nurses. This funding increase could help keep teachers in the classroom and could be a flexible tool to locally address teacher shortages.

Student Counts

Texas records average daily attendance of students as the first step in allocating billions of dollars to school districts. Six states use this method. Twenty-three states use enrollment instead of average daily attendance to report students served, whether they are in school or not in school on the day of the count. The remaining states use single-count or multiple-count methodologies.¹

The pandemic and extreme weather events have exposed the vagaries of recording attendance by counting only students who come to school. The cost of education does not decline when attendance suddenly or temporarily declines. A classroom teacher is still paid regardless of whether three of her students are out sick or are unable to reach school because of weather conditions. In fact, when the absent students return to school, the district may need more funding to help them catch up. Districts need resources to remediate students who miss multiple days of instruction by providing tutoring, small group instruction, and virtual instruction to students.

Moving to a student-count methodology, such as enrollment or average daily membership and away from the current average daily attendance, would result in a larger student count because average daily membership or enrollment counts include excused absences.² This, in turn, improves funding accuracy by recognizing that students who are absent must still be served in terms of equipment, programs, and a place in the classroom. It would help districts that experience bad weather and other challenges outside their control.

Moving to enrollment-based student funding could be a challenge. Given the potentially higher cost associated with enrollment funding and related adjustments, legislators could consider first implementing a concept like average daily membership in a single program area, perhaps one with high numbers of student absences like special education or students at risk of dropping out. Such a proposal also could be tailored to help close a large funding gap in a program area for districts that have the greatest needs and largest gaps.

In 2021, legislators filed bills to change from counting attendance to counting enrollment, as a measure to increase the accuracy of students served and the budgeting stability of schools.³ Already in pre-filing for the 88th Legislature, multiple bills have been filed to move to enrollment-based funding.

Critical Area: Special Education

The 2019 school finance overhaul did not address special education funding formulas, even though special education is one program area with an enormous gap between the amount districts spend and the funding they receive. After stakeholders and the U.S. Department of Education took notice of a Texas Education Agency (TEA) constraint on special education enrollment levels, the Legislature repealed the constraint in 2017. Since then, enrollment of students receiving special education services has increased significantly, as have expenditures. **Meanwhile, the funding gap has grown to more than \$2 billion.**⁴

Among recommendations from the Texas Commission on Special Education Funding are formula changes: an **intensity-of-service based formula** (replacing the current placement-based formula) and an **increase in the special education transportation mileage rate**. These proposals could help close the funding gap.⁵

¹ Eric Syverson and Chris Duncombe, "[Student Counts in K-12 Funding Models](#)," Education Commission of the States, Denver, CO, January 2022.

² The increase in student counts by switching from average daily attendance to enrollment is estimated to be about 8%. Texas Education Agency, "Attendance Projections for the 2023-2024 and 2024-2025 School Year," Austin, TX, October 17, 2022.

³ 87th Texas Legislature. House Bill 1246 and Senate Bill 728 were filed but did not receive a hearing.

⁴ From 2016 to 2021, local education agencies' general fund special education expenditures (PEIMS) grew by \$1,786,892,091, while Foundation School Program special education allotment funding grew by \$1,105,922,3335 – creating an even larger gap between districts' state dollar expenditures and funding. See also Texas Education Agency, "[Special Education Trends](#)," March 2022, pages 13 and 25.

⁵ Texas Commission on Special Education Funding, "Recommendations for Consideration." November 14, 2022.

Critical Area: School Safety

After the deadly Santa Fe school shooting, the Legislature in 2019 created the school safety allotment, funded at \$9.72 per student. Following the horrific Uvalde school shooting in May 2022, state leaders announced \$417 million in one-time school safety grants. These funds will help implement far-reaching commissioner-proposed rules that require school districts to install panic alarms, exterior door locks, and bulletproof glass on exterior windows. **Increasing the school safety allotment to an adequate level to fund ongoing needs**, such as security personnel, training, and equipment, is imperative. Districts need stable, annual operational funds for school safety that can be budgeted and relied upon.

Along with school safety funding, the Legislature could **improve access to evidence-based mental health services and mental health professionals**, while reducing the burden on educators and districts to identify and solve mental health issues. The situation is dire. One Texas hospital reports an 800% increase since the pandemic began in children with mental health crises receiving services in hospital emergency rooms.⁶

Critical Area: School Facilities

The Legislature should consider providing **additional funds to update the state's current facilities programs**. School districts need a reliable amount upon which districts can plan and base budgeting decisions. Ongoing facilities funding also could reduce the need for some additional bonds paid by facilities debt taxes, while renovating aging facilities with safe and efficient buildings conducive to meeting the needs of students in a modern classroom.

Critical Area: Teacher Shortage

The pandemic caused significant disruption in teacher attrition,⁷ along with challenges such as lack of substitutes. Districts require more teachers to maintain smaller classes and tutoring programs to improve the performance of students who fell behind academically. Students with increasing behavioral issues will require different types of support from teachers, counselors, and psychologists. Additionally, schools need to replace teachers leaving the profession. Texas teacher retirements increased 14% during the 2020-21 school year over the prior year.⁸

From a funding perspective, as the Legislature considers increases to teacher pay, it would be wise to consider the **automatic raises that result when the Legislature raises the basic allotment**. This methodology, already in law, is acknowledged as a fair way to address educator pay.

Another way to help school districts address teacher shortages is to **waive the burdensome employer surcharges for hiring retirees**. When a district needs to hire a retiree — to drive a bus or teach a class — the district must pay a large surcharge to the Teacher Retirement System. At a time of large-scale teacher shortages, such hiring disincentives are an impediment to hiring and retaining qualified staff.

Summary

The 88th Texas Legislature could consider changes to improve public education funding and address critical items at a time when funding improvements are greatly needed. Addressing inflation and labor shortages through a basic allotment increase, recognizing the true costs of educating students, closing the large gap on special education funding, providing predictable and stable funding for school safety, and helping schools meet facilities challenges would be much-needed changes for our public schools and students.

⁶ Houston Chronicle, "[Texas Children's ER sees massive spike in kids with mental health crises like suicidal thoughts](#)," November 17, 2022.

⁷ Texas Education Agency, "[Teacher Vacancy Task Force](#)," Austin, TX, March 10, 2022, page 7.

⁸ Texas Education Agency, "[Understanding Challenges and Opportunities](#)," Austin, TX, March 10, 2022, page 17.