What about the Schools? Factors Contributing to Expanded State Investment in School Facilities –

Case Study State #1: Texas

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Overview of State School Facilities Investment Over Time

The state of Texas has experienced rapid population growth and student enrollment increases in the past couple decades. While state and local levels have both invested in educational facilities in Texas over the last 20 years, the share of facilities investment coming from state versus local sources is low. Texas' state share of total capital outlay was only 9 percent ($12.21 billion), from the 1992-93 school year to the 2012-13 school year, compared with a national average of 18 percent (Filardo, 2016).

State level facility administration and oversight

Relative to other states, Texas does not provide much administrative support or oversight of public educational facilities, nor does it have a state facility entity apart from the Texas Education Agency (TEA). Texas has not conducted a statewide inventory of facilities since 1991, nor does the state collect data on building condition, project costs, operations, utilities, maintenance, or design (Texas survey results, 2016). TEA staff confirmed that educational facilities remain the primary responsibility of local school districts given the strong culture of local control in the state (TEA staff interview, May 25, 2016).

Relevant litigation and legislative history

The Texas Legislature's actions on school facilities finance have been intertwined with the state's school finance litigation history. With regard to facilities, during a 2014 school finance trial, plaintiffs pointed out that the state's system of recapture—the state's answer to previous litigation, which allows the state to collect and redistribute billions of dollars of local property wealth from wealthy districts' maintenance and operations (M&O)[1] taxes from around the state to districts with lower property wealth—does not apply. Revenue collected from local property taxes for educational facilities, called interest and sinking (I&S) taxes, are not recaptured or redistributed amongst school districts. Therefore, spending on educational facilities in Texas is more dependent on local wealth than spending on operations. Property-poor school districts often levy higher I&S taxes but raise less revenue for educational facilities. Unfortunately, the May 2016 Texas Supreme Court outcome upheld Texas' system of school finance, finding that it "meets minimum constitutional requirements" (Willet, 2016).

Factors Contributing to Expanded State Investment in Equitable Public School Facilities

Taxation mechanisms (sources of funding)

While other states have diversified their funding for educational facilities, Texas has no dedicated special taxes or sources of funding for educational facilities. The Texas Constitution prohibits a statewide property tax. Therefore, the funding for state aid for facilities in Texas is contributed from the state's general revenues, which are collected primarily through a combination of sales taxes. Legislative appropriations for school facilities programs are subject to fluctuations and are therefore unstable. The vast majority of funding for educational facilities is generated locally. School districts in Texas are fiscally independent and have the authority to issue bonds to raise funds for capital outlay (for construction and renovation) with a simple majority. School districts then levy a tax called the interest and sinking tax (I&S) at a level that will allow them to pay the annual debt-service on bonds. Because funding for educational facilities in Texas is derived primarily from highly variable local property wealth and not subject to recapture, the amount local districts can individually raise varies substantially. Also, Texas has historically been tax-averse and collects less tax revenue per capita than many other states and less than any other case study state (U.S. Census Bureau, 2015), which affects the state's ability to spend on programs.

Distribution of state facility funding

Texas has two primary programs for providing state aid for facilities construction and maintenance: the Instructional Facilities Allotment (IFA) and the Existing Debt Allotment (EDA) programs. Both programs were designed as tax rate equalization programs to address differences in property wealth or the fact that some property poor school districts can raise less money through facilities tax collections despite greater taxing effort. However, the programs have never been sufficient to make facilities spending equitable. In fact, evidence revealed that capital outlay equity in the state actually decreased in the first few years after the EDA and IFA programs were implemented (Plummer, 2006). Furthermore, over the years, the programs have not been adjusted for inflation. The programs fund only districts below a certain property wealth threshold, and as property values in the state have increased over time, a smaller proportion of districts have qualified for state assistance. Due to the legislature's failure to raise the facilities equalization cap over time, the state's share of facilities funding has decreased from 30 percent in 1999 to less than 10 percent (Equity Center, 2015).

[1] *"M&O" is used in Texas to refer to taxes for educational operations (not including facilities construction, which is covered by I&S taxes). The "M&O" acronym is also used in the national facilities literature to refer to maintenance and operations spending for facilities, which are a fraction of the overall operational budgets of districts.*

Analyzing TEA data on the 837 school districts receiving state aid for facilities in 2016 reveals that, similar to 40 years ago, property poor districts end up with lower total facilities revenue per student per penny of tax effort than property wealthy districts. In 2016, the lowest quintile of school districts by property wealth taxed themselves an average of 23 pennies, resulting in $45.40 of total I&S revenue per student per penny of tax effort. However, the fourth quintile of school districts were able to tax themselves at approximately the same rate (22 pennies) and raise $61.74 per student per penny of tax effort. The inequity is most evident when considering that the wealthiest quintile of school districts was able to raise an average of $226.35 per student per penny of tax effort while exerting less tax effort (17 pennies) on average. While lower wealth districts benefited more from state aid, the level of state aid did not make up for the inequitable abilities of school districts to raise funds based on local property wealth.

Texas 2016 State and Local I&S Revenue Per ADA Per Penny by Quintile of District Property Wealth Per ADA

Property Wealth Per Student by Quintile	Tax (I&S) Rate	State I&S Revenue Per ADA Per Penny	Local I&S Revenue Per ADA Per Penny	Total I&S Rev Per ADA Per Penny	State %
1 (low-wealth)	0.2337	$27.92	$17.49	$45.40	54%
Q2	0.2588	$9.44	$28.14	$37.58	23%
Q3	0.2677	$3.88	$37.57	$41.45	6%
Q4	0.2191	$2.55	$59.19	$61.74	3%
Q5 (high-wealth)	0.1744	$1.31	$225.04	$226.35	1%

Public debt policies

While some state aid programs for facilities are project-based or block grants, Texas' state aid through the IFA and EDA programs is designed to provide debt assistance to school districts. The State of Our Schools (2016) report found "The average amount of local district facilities long-term debt also varies greatly by state and district" (Filardo, 2016, p. 19), and that Texas had the third highest amount of debt per student at $13,297. State facilities experts in Texas interviewed for this study agreed that Texas districts carry high debt for two reasons. First, many school districts experienced pent-up need for facilities construction and maintenance prior to the creation of IDA and EDA. When the programs were created, facilities programs in Texas entered into a period of high activity. Since districts can hold facilities debt for multiple decades, many school districts in Texas are still repaying the debt from the period of high activity, which results in higher overall average debt per student. Second, Texas has experienced higher enrollment growth than most states, resulting in the need for more facilities construction, and thus higher debt, than other states. However, this high debt per student also reflects the fact that Texas relies substantially on debt to fund facilities, rather than, for example, a partial pay-as-you-go system. School districts in Texas benefit from the Bond Guarantee Program (BGP), which allows school districts to apply to use the state's credit rating.

Discussion of Equity of State Facilities Programs

For decades, underfunded school districts in Texas have advocated for more equitable and adequate funding from Texas' conservative state legislature. With regard to quality, there is no recent measure of public PK-12 educational facilities in Texas. Therefore, the state cannot and does not fund facilities based on a comprehensive evaluation of current facility needs. Individual districts must keep track of their facilities conditions with little technical assistance from the state. When considering the adequacy of state aid for educational facilities, Texas provides half of the national average for state share of facilities spending; on average, local school districts are responsible for funding over 90 percent of facilities needs on their own (Filardo, 2016). Looking at overall levels of combined spending by state and local districts is misleading as Texas is one of the few states with rapid student enrollment growth. Texas school districts have had to build more new schools than districts in most states in addition to maintaining their current facilities stock.

With regard to equity, Texas' system of funding educational facilities has never been equitable due to the fact that school districts' ability to raise money by selling bonds is still closely tied to local property values. As this study and other research has demonstrated, high wealth districts can raise more money for educational facilities than low wealth districts, even if the two communities are taxing themselves at close to the same amount. The IFA and EDA programs do consider property wealth in their allocation formulas—providing more state aid for lower wealth districts—but the overall levels of state aid do not make up for the vast differences in revenues districts can raise locally. The current state share for educational facilities remains low, relative to the local share that school districts are investing. As the population of Texas continues to grow, fast-growing school districts, those with aging buildings, and districts with lower property wealth will need increased state support to in order to provide high-quality, equitable schools for all Texas children.

See the full report and other state highlights at http://budurl.com/IDRAsymposium.

The IDRA José A. Cárdenas School Finance Fellows Program honors the memory of IDRA founder, Dr. José Angel Cárdenas. The goal of the program is to engage the nation's most promising researchers in investigating school finance solutions that secure equity and excellence for all public school students. An assistant professor of education and community leadership at the Texas State University College of Education, Dr. Marialena Rivera was named the 2016 José A. Cárdenas School Finance Fellow.