Understanding Texas School Finance and Austin ISD's November 2024 Tax Rate Election

October 2024 | Kevin Foster, Ph.D.

Executive Summary

In November 2024, Austin Independent School District (Austin ISD) voters will decide whether to approve a tax rate increase to help address the district's $119 million budget deficit. Despite multiple agencies providing top ratings for Austin ISD's fiscal management, the Texas school finance system has placed significant financial strain on the district and the broader Austin community. Factors contributing to this strain include stagnant per student funding amidst significant inflation, underfunded or unfunded mandates, and steadily increasing recapture requirements for districts with high property values. The proposed Voter Approval Tax Rate Election (VATRE) would generate $171 million in new revenue, with Austin ISD retaining $41 million for instructional programs, staff pay increases, and deficit reduction, while $130 million would be surrendered to the state. If passed, the VATRE would reduce the Austin ISD deficit to $78 million; if rejected, the district would face further financial challenges and potential cuts, but property owners, many of whom struggle to keep up with rising costs in Austin, would be spared yet another increase in their cost of living. This policy report does not advocate a position, but provides information about the VATRE, its context within the Texas school finance system, and the implications of its passage or failure.

Introduction

The November 2024 tax rate election in Austin Independent School District (Austin ISD) is a pivotal moment for the district's financial future and the broader landscape of Texas public education funding. At its core, the Voter Approval Tax Rate Election (VATRE) is more than just a local ballot measure. It is a reflection of the ongoing challenges in Texas' school finance system and the difficult choices facing school districts across the state. According to a Rice University report on Texas School district funding gaps, 73% of Texas districts are grappling with underfunding, despite the overall strength of the Texas economy and the presence of substantial excess funds in the state coffers (Turley & Selsberg, 2024). At the beginning of the 88th Legislative Session, the Texas Comptroller issued its Biennial Revenue Estimate showing that for 2024-25, the Legislature would have $188.23 billion available for general purpose spending (Texas Comptroller, 2023). This amount included a revenue surplus of $32.69 billion left over and unspent from the previous year. Various stakeholders, including education associations, advocacy groups, and media outlets, have highlighted the disconnect between local funding needs and restrictive state financial policies. Among them are the Texas Association of School Boards (TXEDINSIGHT, 2024), the Texas Association of School Business Officials (Brownson, 2024), Raise Your Hand Texas, and Every Texan (Villanueva, 2022). This widespread concern underscores the systemic nature of the challenges facing Austin Independent School District.

Several aspects of the Texas approach to school funding have been particularly challenging for Texas districts and communities designated as "property wealthy":

1. The state's basic allotment of $6,160 per student (TEC, §48.051(a)) plus supplements is inadequate to the task of serving the educational needs of students, with the state's per student funding levels among the lowest in the country (Baker et al., 2024).
2. While the state's basic allotment of $6,160 per student has not increased since 2019, inflation has. The cumulative inflation rate from August 2019 to August 2024 was approximately 24.88%, resulting in higher costs to educate each student. [1]
3. Raising additional funds for students through property taxation is not allowed beyond a rate the state establishes each year, and depending on the district, some, much or most of the new dollars raised would go to the state instead of students and schools.
4. The state's approach to school funding, which is

1. According to the Bureau of Labor Statistics, the 12-month percentage change of the Consumer Price Index was 1.7% in August 2019, 1.3% in August 2020, 5.3% in August 2021, 8.3% in August 2022, 3.7% in August 2023, and 2.5% in August 2024. When these annual numbers are applied to the compound inflation formula, the cumulative inflation rate emerges as approximately 24.88%.

grounded in property tax collections, features the concept of recapture, which requires Austin ISD to surrender roughly half of its tax revenue each year to the state. In 2024, Austin ISD raised $1.53 billion in property taxes and will be required to surrender $810 million (more than half) to the state (Segura et al., 2024). The amount of recapture could be a substantial burden to Austin taxpayers, yet Austin students will receive no more or less money regardless of how high or low the recapture payment goes.

Austin residents have traditionally supported local tax efforts to pay for schooling. However, the VATRE poses a new question: Will voters be willing to increase this support when over 75% of newly raised funds would go to the state rather than local schools due to recapture (Segura et al., 2024)? In the context of a democracy, and even a democratic republic, learning the will of the people through a popular vote is a strong argument for the Austin ISD School Board to take the issue directly to the voters in the form of the VATRE.

Unfortunately, voters are not likely to know much about the VATRE, or the context and issues surrounding it, before they go to the polls. And while the issues are complex, they are comprehensible. Moreover, the implications of passage or failure are significant. Along with a consideration of the broader context of school funding in Texas, this policy report will consider the quality of Austin ISD's fiscal stewardship. It will also address the potential consequences of the VATRE's passage or failure, including the impacts on educational quality, district operations, and the broader Austin community.

The goal of this report is not to sway voters in either direction, but rather to provide voters, the general public, and education policy makers with information to inform their actions. In the case of Austin voters, understanding the complexities of school finance and the specific circumstances of Austin ISD will help them better assess whether a "for" or "against" vote will better align with their values and vision for Austin.

How Texas Public Schools are Funded

Basic and Additional Allotments

In Texas, the per student funding level is set by the Texas Legislature, which meets for 140 days every other year. In 2019, House Bill 3 of the 86th Texas Legislative Session set the per student funding level, known as the basic allotment, at $6,160 per student. (This number is neither indexed to inflation nor geographic variations in costs-of-living throughout the state, but rather appears to reflect political pressures on legislators and subsequently, what they are willing to allocate). In addition to the basic allotment, school districts receive supplemental funds for students falling into several different categories.

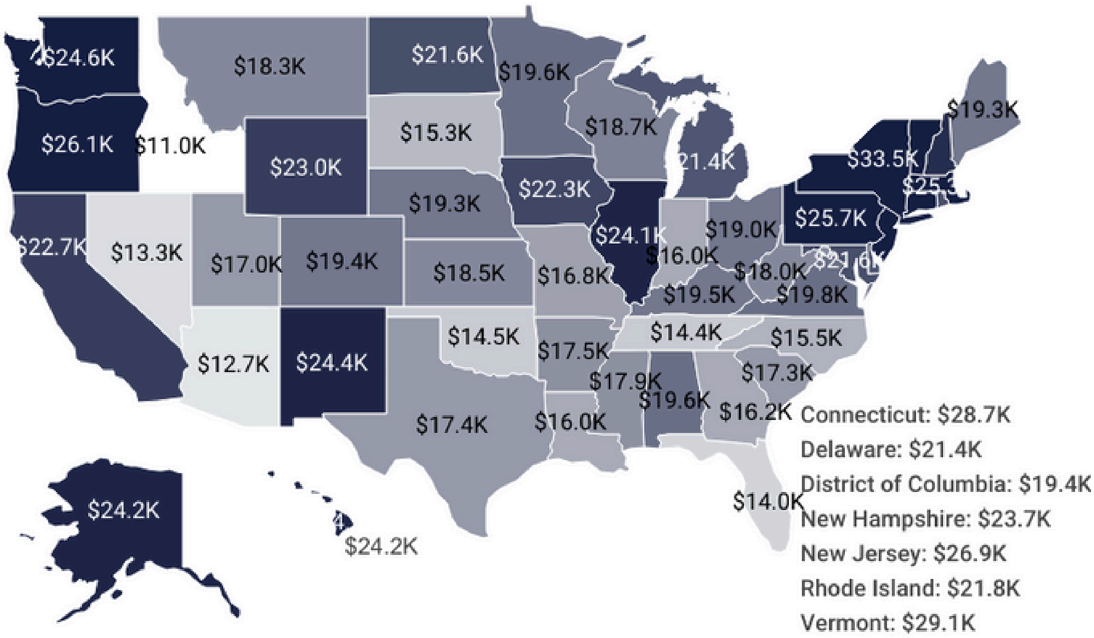
These include:

- English language learners;
- Students in poverty;
- Students receiving special education services;
- Students identified as gifted; and
- Students in career and technical education programs (Texas Education Agency, n.d.-c)

For each district in Texas, an annual tally is taken of their student enrollment and the number of students eligible for special allotments. The state then determines that district's total allotment. In each case, however, the additional support for students may cost more than the state provides in supplements. For instance, according to an analysis by TexasAFT, the state allocated $4 billion for special education services during the 2020-2021 school year, but districts across Texas spent $6.3 billion, resulting in a $2.3 billion gap that was made up by local districts' dollars. (TexasAFT, 2024). Their findings are consistent with those of the Texas Commission on Special Education Funding (Texas Education Agency, 2022). As an additional factor, rather than simply fund each district based upon the tally of their enrollment, funding is tied to their weighted average daily attendance (WADA). This can reduce funding and can impact each district differently.

For each of the last six years, the School Finance Indicators Database project has conducted a rigorous analysis of the school funding in each state and released an annual report on "The Adequacy and Fairness of State School Finance Systems." When all is tallied, Texas routinely ranks near the bottom of all states. In the 2024 report, out of 48 states that received a ranking, Texas ranked 41 (Baker et al., 2024). The School Finance Indicators Database Project findings align with those of the Education Data Initiative, another education research and analysis project. This latter assessment reveals that Texas ranks 37th in overall education spending and 42nd in per-student funding, despite having the

Figure 1: Public K-12 Total Funding per Student



Education Data Initiative sources: United States Census Bureau & National Center for Education Statistics

nation's second-largest student population (Hanson, 2024). These rankings account for all state funding methods, not just the basic allotment. The visualization above comes from Hanson (2024).

The law that put the school funding system into place was passed in 1993 and is widely referred to as "the Robin Hood Plan." It was enacted to create equality in funding across the state and was prompted by the Texas Supreme Court after the Court found the previous funding system to be unconstitutional (Grusendorf, 2016).

Local Property Taxes

To secure funds for its school finance system, the state requires each school district to levy local property taxes within a complicated set of constraints set by the Texas Education Agency (TEA). Each year, the TEA sets a "maximum compressed tax rate," that establishes both the lower and upper limits of each district's tax rate. For 2024-25, that rate has been set at 68.8 pennies per $100 of taxable property. The state layers on additional constraints beyond this base rate and then requires all districts to set local school district property taxes within the constraints they set (Texas Education Agency, n.d.-b). For those districts whose mandated tax floor would result in raising more money than the state allows in base per student spending, the state requires that those funds be raised anyway, deems them "excess revenue" and requires that they be surrendered to the state. The state calls this "recapture." By intent, these captured funds are supposed to go to the districts unable to raise the funds they are allotted.

If the property values in a school district are low enough that they are unable to raise enough local funds to meet what the state has determined is their allotment, the difference is made up by funds from other districts whose "excess" wealth has been collected by the state. However, advocacy groups studying school finance, such as the Texas School Coalition, point out that Texas collects far more in recapture payments than is needed to equalize funding and further point out that recaptured funds do not lead to an increase in funding to students, schools or districts (Texas School Coalition, 2022). Instead, they simply buy down the state's investment in education.

Golden Pennies and Copper Pennies

Among the constraints a district considers when setting its tax rate are what the state calls "golden pennies" and "copper pennies." These additional funds are intended for "enrichment," which is basically any student services that the state does not mandate. However, for hundreds of districts these funds are necessary to simply balance the budget. In the case of golden pennies, a school district can raise their taxes up to 8 additional pennies per $100 of property value and none of that additional revenue would be subject to recapture by the state. School

Boards raise the first 5 pennies at their discretion and for any of the last 3 pennies voters must approve the increase.

The "Robin Hood" system in Texas, designed to equalize school funding, has paradoxically led to significant financial disparities among districts. While some benefit greatly, others struggle to meet their obligations. The oil-rich Wink-Loving Independent School District (ISD) in the Permian Basin provides a rare example of revenue windfalls under this system. From fiscal year 2022 to 2023, Wink-Loving ISD saw a staggering increase of $130.5 million in total revenues, primarily driven by rising property taxes. This surge more than offset an $86.5 million increase in expenses that was largely due to a surge in recapture costs (Bolinger, et al., 2023). In this case, the funds benefit to the state and the district is enormous. This situation starkly contrasts with that of Austin ISD, which in fiscal year 2023 had total expenditures of $1.68 billion, with $845 million – a little more 50% – going towards a recapture payment to the state. These contrasting scenarios highlight the system's inconsistencies: while districts like Austin occasionally need to draw down their reserves to meet annual obligations, a select few, such as Wink-Loving, experience rapid growth in their fund reserves.

For the hundreds of districts financially strained by the system, they can raise their tax rate an additional 8 pennies per $100 of property value above the state's set maximum compressed rate and retain all of those new revenues. Beyond that, districts can raise their tax rate up to another 9 pennies per $100 of property value, but the revenue from that portion of the tax revenue is subject to recapture. Voters must also approve raising taxes to this level.

Table One: 2024 - 2025 Property Tax Revenue Options for School Districts

State's Name for Taxation Level	Tier I "Maximum Compressed Rate"	Tier II, Level 1 "golden pennies"	Tier II, Level 2 "copper pennies"
Taxation rate	68.8 pennies per $100 of property value	Up to 8 additional pennies per $100 of property value	Up to 9 additional pennies (beyond the golden pennies) per $100 of property value
Who sets and approves each portion of the tax rate?	Set and required by State of Texas by statute and administered by the Texas Education Agency	Additional taxation of up 5 golden pennies is set by the Board; Additional taxation of next 3 golden pennies must be approved via a VATRE	Any additional taxation into the copper pennies realm must be approved via a VATRE
Subject to recapture?	Yes	No	Yes

The fundamentals of the Robin Hood approach to school funding have not changed over the thirty-one years of its existence. However, the program has become harder for most people to understand. Moreover, as property values have risen, so has the amount the state recaptures from districts with high property values. But even as the property tax collections have risen, this has not translated into more money for students and their schools.

Meanwhile, school district operating costs have steadily risen (inflation), the basic per student allotment has remained stagnant, the number of unfunded and underfunded mandates imposed on schools has risen, and traditional public school enrollment has declined as close to one thousand charter schools have opened across the state (White, 2023). Each of these factors has led to higher recapture payments for certain districts. In short, as a result of circumstances outside of school districts' control and yet within the State's control, more and more districts in Texas are facing financial difficulties. Many are passing deficit budgets in order to pay for teachers, instructional materials, and basic services required by law. Passing a deficit budget means that in order to pay their costs for the year, the district has to draw down its cash reserves. Many other school districts are closing schools, increasing class sizes, reducing transportation, eliminating teaching positions, cutting academic and extracurricular programs, or otherwise reducing student support.

With this information as a backdrop, dozens of school districts across Texas are going to their voters for approval to raise their local tax rates. However, the new revenues generated are also subject to recapture, so when new money is raised in a district already subject to recapture, a portion of those funds will be taken by the state. In the case of Austin, according to district estimates, the portion to be taken is approximately seventy-six percent (Segura et al., 2024).

Austin ISD's Fiscal Stewardship

Fiscal standing

While understanding the basics of statewide school finance is useful for understanding why a school board would put a VATRE on their ballot, it is also important for voters to understand their district's local situation. Austin ISD's stewardship is such that either without recapture in place, or with a state allotment that brought the state to the national average of per student funding, the district would be able to raise more than enough money to operate its schools, lower taxes for financially distressed homeowners, and still provide hundreds of thousands of dollars in charitable funds to support other school districts. For many of the Austin-based and statewide student and school advocacy organizations, however, the preferred solution is not to eliminate recapture (which is in line with the Austin ISD's vision for equity) but rather to see an increase in the basic allotment. Regardless of whether relief were to come by way of adjustment to the recapture formulas or to the state's per student allocation, relief is well within the means of the state given its large revenue surplus, but out of the hands of the district. In short, the district's financial woes lay beyond factors that the Austin ISD leadership controls.

Two important indicators of the quality of Austin ISD's fiscal stewardship are its FIRST rating and its Bond ratings. FIRST stands for the Financial Integrity Rating System of Texas (Texas Education Agency n.d-a). It was put in place by the Texas Legislature in 2001 and is administered by the Texas Education Agency (TEA). The rating system relies upon several indicators to determine the quality of a district's financial management. Austin ISD maintains an "A" rating, which indicates "strong financial management, transparency, and ability to meet financial obligations. Another powerful indicator of a fiscally responsible organization comes from its bond ratings. For a district to maintain a high bond rating it should maintain a healthy fund balance (cash reserves), have strong financial management policies and procedures, and have an effective team leading the district's financial work. In terms of bond ratings, Austin ISD fiscal standing is among the strongest in the state of Texas. The District holds strong bond ratings according to several rating agencies including Fitch Ratings., Kroll Bond Rating Agency, S&P Global, and Moody's Investors Service (Fitch Ratings, n.d.; Kroll Bond Rating Agency, 2024; Moody's Investors Service, 2022; S&P Global, 2024).

Budget situation

The high quality of the district's financial stewardship has not been enough to shield it from the negative implications of the Texas approach to school funding. The district is considered property wealthy because of local property values, but also has a high percentage of high needs students – for instance, students in poverty, newcomer students who have arrived in the U.S. within the last three years, and students needing specialized support services that cost more than the state provides. There are several areas where Austin ISD's commitment to serving students results in costs beyond the funds provided by the state. For instance, to address the diverse needs of its student population, the district maintains a specialized learning environment tailored for medically fragile students, enabling them to pursue their education while managing complex health conditions. Austin ISD also provides refugee student services and services for students experiencing homelessness. Additionally, Austin ISD provides transition-to-life-after-schooling services for students with disabilities, full-time librarians instead of aides, translation services into dozens of languages, advanced academics, school nurses and much more that is not required by the state, but critical to the well-being and development of students in a large, complex and diverse district. These services are, in act, tightly aligned with the district's vision, mission and understanding of its responsibility for providing a quality education for students, but are also all either underfunded or unfunded by the state. In other words, Austin has property wealth that yields over $1.5 billion in school property tax revenue every year, and yet to serve students adequately needs either an increase in the state's allotment, or the ability to retain enough of its property tax revenue to ensure operation without incurring deficits. However, the per student allotment from the state has remained flat, and the amount of money the state takes from property wealthy districts has increased. The chart below uses information presented by the Austin ISD Chief Financial Officer to the Board of Trustees in July 2024 (Austin Independent School District, n.d.) and shows that the Austin community retains less and less of its money over time, which contributes to the city's renter and homeowner affordability crisis.

Austin ISD's deficit is a logical and unavoidable outcome of the state's approach to school funding. The question for Austin voters is whether to vote yes or no on the VATRE as part of a strategy to address these challenges.

Tax Rate Election Implications

Even in a community where values and priorities are largely aligned, there are instances where difficult decisions must be made and where those decisions will create challenges for some even as they create benefits or relieve burdens for others. The world of policy is one of imperfect choices. External rating agencies have determined that Austin ISD has managed its finances prudently and allocated resources effectively in providing education to its students. Even in the case of significant and painful challenges, for instance, dire problems in special education services coming out of the COVID quarantine era, it has been systems thinking and the strategic deployment of resources that is helping the district see its way out of crisis. But despite determinations of excellence in fiscal stewardship, the district faces a $119 million dollar budget deficit that it must resolve if it is to be effective and strong.

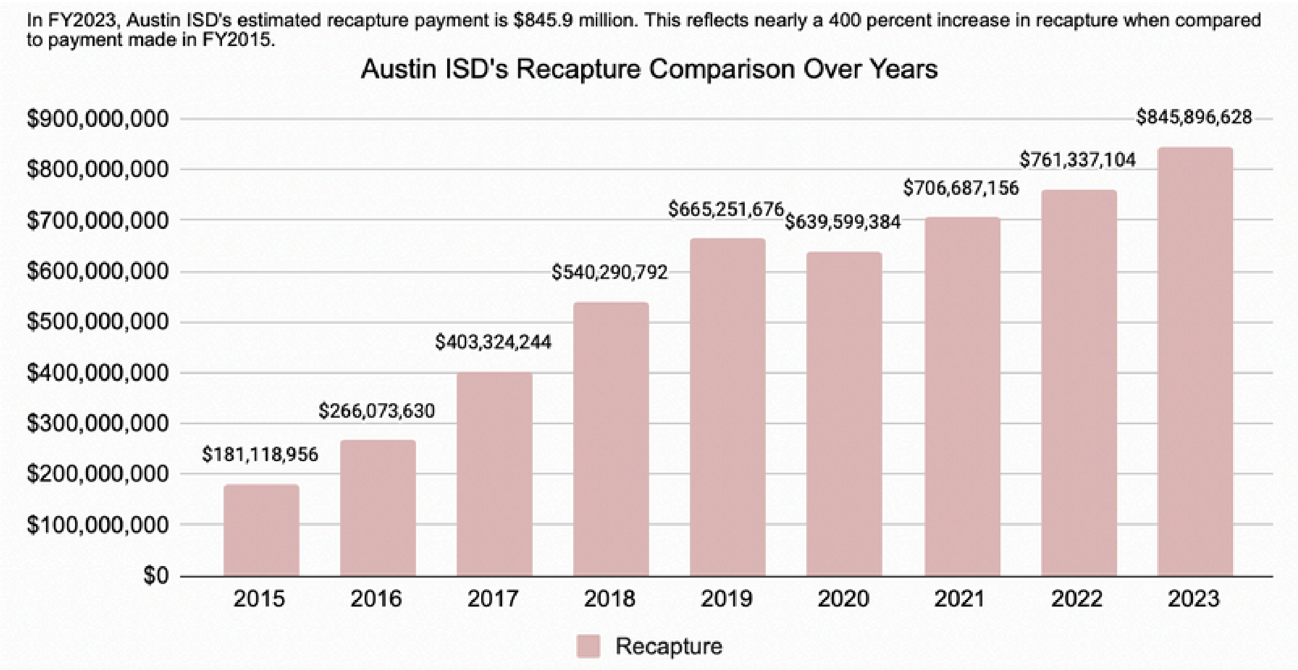
Argument for the VATRE

If Austin voters back the VATRE, they will be providing Austin ISD with one large piece of financial relief, allowing for a staff raise that will help retain personnel and thus promote highly valued organizational stability. Raises help retain teachers; teacher retention means deeper levels of experience on campuses and district-wide; deeper levels of experience district-wide mean a stronger, more stable, more effective district. The VATRE will also help bring down the deficit somewhat, although many more cuts will still have to be made.

Argument against the VATRE

If voters do not back the VATRE, they will be helping the estimated cost to homeowners is $412 per year. Austin is currently a city of displacement, with years of small and large increases to goods, services and every facet of life subject to inflation.

Figure 2: Growth in Austin's ISD Recapture Payment



Every year, teachers, service workers and a range of families leave Austin because they can no longer afford to live in the city. This applies to homeowners and renters. They are replaced by new residents with higher incomes. The Austinites who leave are, by and large, not leaving the region, but rather moving out of the city to suburbs where the cost of living is lower. For Austin residents facing financial strain, an additional increase in property taxes could exceed their household budget, effectively forcing them out of the city. Adding the reality that of the new taxes raised, only one dollar in every four will go to the district and the rest will leave Austin, the challenge becomes even more profound. The VATRE will raise $171 million, only $41 million will go to the district.

A Choice for Austin's Future

This report has detailed the political economic landscape of Texas school finance as it impacts Austin. Through the passage of large facilities bonds in 2017 and 2022, Austinites have shown that they value and support local public education. At the same time, through surveys, public comments at City Council meetings and other channels, they have also sought to preserve Austin as a city where extreme wealth is not a condition of residency. Austinites thus face a difficult decision.

There is a deep thread in American political thought that argues that a well-informed citizenry is a prerequisite for a strong republic. This analysis was written with that line of thought in mind. However Austinites decide on any one issue before them, a well-informed Austin is a stronger Austin. By putting the difficult issue of the tax rate before the voters, the Board of Trustees has acted as responsible stewards of the public trust. It is now up to the voting public to make this important decision.

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