



Fiscal Downturn Will Impact School Funding

April 23, 2020

The widespread shutdown of businesses and rise in unemployment due to the coronavirus (COVID-19) pandemic will have a severe impact on government budgets. The problem will be accentuated in Texas due to plummeting oil prices. Because public education is among the state's largest expenditures, these conditions will have a direct, and possibly dire, impact on funding.

Public education relies heavily on state funding, much of which comes from sales taxes

- 45 percent of education funding in Texas comes from state funds, and as property values fall in many areas, as they likely will, that percentage will climb.
- Sales taxes account for 55 percent of all tax collections in Texas.
- Many consumer-oriented businesses that produce significant sales-tax revenue, from retail to hospitality, have been closed for over a month, and even when re-opened, business is likely to be limited.
- Comptroller Glenn Hegar said the surplus of nearly \$3 billion that was once projected for the end of the current biennium is likely to become a shortfall of multiple billions instead. Hegar also said Texas unemployment, (3.5 percent in January) could reach double digits and exceed the highest rate we've seen since 1986.

Oil and gas also have a major effect on the Texas economy

- In addition to the impact to the worldwide economy related to the virus, decisions by Russia and Saudi Arabia regarding oil production have lowered prices even more, driving the price of oil down from \$60 per barrel to now negative numbers.
- The Texas economy is still tied closely to the natural resources industry, and this will cause the loss of jobs to be even greater in Texas than elsewhere in the nation.
- Many Texas school districts are in communities that would be disproportionately affected by economic losses caused by declining oil prices.
- The dramatic drop in the price of oil will also virtually eliminate the source of revenue for the Economic Stabilization Fund (also known as the Rainy Day Fund).

A downturn will exacerbate questions about the sustainability of school funding

- In 2019, the Legislature invested \$11.6 billion in school finance reform: \$6.4 billion in additional funding for public education and \$5.2 billion for property-tax relief.
- The Legislature did not create or designate a funding source for these expenditures.
- If overall state revenues decline, it could be difficult to sustain the new investments in education or the reduction in property-tax rates made in 2019.
- Due to new restrictions put on local property tax rates, school districts would have limited tools at their disposal to make up for lost state revenue.
- There are questions at this time (that remain unanswered) as to whether the state can afford the cost of ongoing property tax rate compression, and if this law may be waived temporarily as many others have.
- During the last major economic shortfall, in 2011, legislators chose to reduce school funding by \$5.4 billion statewide. Those cuts reverberated for years.



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Much remains unknown about how bleak the budget outlook will be

- Comptroller Hegar has said the previously projected \$2.9 billion surplus of General Revenue will likely become a multi-billion shortfall when estimates are updated.
- Additionally, with the economy suffering, certain state costs – such as health care for low-income residents – are likely to grow.
- The US Congress provided significant relief to states, similar to the billions of stimulus dollars Texas received during a recession in 2009.
- However, the 2009 stimulus dollars were used to replace state funds, and therefore created a fiscal cliff that contributed to the 2011 budget shortfall, when those one-time dollars were no longer there.