



Fiscal Downturn Will Impact School Funding

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The pandemic is severely impacting government budgets and will have a direct, and possibly dire, impact on public education, the state's largest expenditure.

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, that percentage will climb.
- Sales taxes account for more than 60 percent of all state revenue in Texas.
- Due to widespread closures and limits put on consumer-oriented businesses, Texas saw the steepest year-over-year decline in sales tax revenue in a decade: a 13.2 percent drop in collections in May 2020. In June 2020, collections were still 6.5 percent below June 2019 collection levels.
- Rather than the surplus of nearly \$3 billion that was once projected for the end of the current biennium, Comptroller Glenn Hegar now projects a **shortfall of \$4.6 billion** instead.

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

- Additionally, the price of oil has dropped dramatically. Prices went down from \$60 per barrel to less than zero at one point. While the price of oil has recovered to approximately \$40 per barrel, that is still much less than the estimated price used to write the current state budget.
- The Texas economy is closely linked to the natural resources sector, with a direct impact on jobs.
- As oil prices drop, revenue going into the Economic Stabilization Fund (Rainy Day Fund) slows. Comptroller Hegar projects the Fund will have a balance of \$8.8 billion at the end of August 2021 – down from his earlier projection of \$9.3 billion.

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 to pay for property-tax relief – but did not create a new revenue source
- Falling revenues make it difficult to sustain those reforms or fund ongoing property-tax rate compressions.
- The new restrictions on property-tax rates give schools limited room to make up for lost state revenue.
- The \$5.4 billion school funding cuts made in the last major shortfall (2011) reverberated for years.

Much remains unknown about how bleak the budget outlook will be

- Comptroller Hegar projects a \$4.6 billion shortfall for the current biennium and says it's too soon to know what to expect for 2022-2023.
- The struggling economy will also likely drive up other state costs, such as health care for low-income Texans.
- State agencies have been instructed to reduce their budgets by 5 percent in the current biennium.
- The US Congress provided significant relief to states through the CARES Act, primarily to supplant state funds for schools during the 2019-2020 school year.
- Unless Congress passes a new aid package for the 2020-2021 school year and/or the economy recovers much more rapidly than expected, funding is uncertain for the upcoming year and beyond.