



## **As 2021 Approaches, Uncertainty Surrounds Education Funding**

*October 30, 2020*

### **The state's economic outlook has worsened considerably over the last year**

- The coronavirus pandemic and falling oil prices have considerably reduced state revenues.
- 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.
- 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.
- Contraction in the natural resources sector reduces taxes flowing into the state treasury and puts Texas jobs in peril. The Texas economy is closely linked to the natural resources sector.

### **The downturn exacerbates questions about sustainable 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.
- New restrictions on property-tax rates give schools limited room to make up for lost state revenue.

### **Developments since May 2019 have reduced the state's funding obligation**

- Property values have been higher than projected statewide, producing billions more in projected in local funding for schools, and generating a savings for the state.
- By relying more heavily on property values to fund education, the state is also relying more on recapture. Recapture for the current biennium was projected to decrease \$3.5 billion when House Bill 3 was passed. However, more recent projections estimate a decrease of \$2.3 billion instead.
- An additional \$1.2 billion in federal aid has come into the state, which further reduced the state's funding obligation.
- Student enrollment is below projections, which could decrease state funding for schools, even though enrollment declines have not reduced the need for school staff to serve students.

### **A number of variables will affect education's fiscal outlook going forward**

- Comptroller Hegar projects a \$4.6 billion shortfall for the current biennium but has not projected revenue for the next two years. He will provide a revenue estimate in January 2021.
- Legislators will write the next state budget based on Comptroller Hegar's January 2021 estimate.
- The struggling economy is likely to drive up other state costs, such as health care.
- State agencies have been instructed to reduce their budgets by 5 percent in the current biennium.
- Another federal COVID relief bill could provide states significant resources for public education. However, short-term relief will not solve Texas' longer-term budget uncertainty.