



As 2021 Approaches, Uncertainty Surrounds Education Funding

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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.