

Districts in budget crunch blame lack of aid

Help for schools unlikely as the state deals with own deficit, Harvey fallout

By Shelby Webb



Marie D. De Jesus / Houston Chronicle

Pre-K student Lisbeth Zetino, 5, participates in class at Rees Elementary School in Alief ISD.

School funding deficits

Eight of Houston's 10 largest districts approved budgets that included deficits of more than \$2.5 million last summer.

	2016-17 ENROLLMENT	2017-2018 DEFICIT PER STUDENT
Aldine ISD	69,768	\$637.80
Clear Creek ISD	41,819	\$603.10
Houston ISD	216,106	\$494.20
Klein ISD	51,810	\$418.00
Fort Bend ISD	74,146	\$161.30
Pasadena ISD	56,282	\$159.90
Cypress-Fair ISD	114,868	\$158.50
Alief ISD	46,376	\$56.10
Katy ISD	75,428	No deficit
Conroe ISD	59,764	No deficit

Source: District school budget documents
Houston Chronicle

For eight straight years, Cypress-Fairbanks and Conroe ISDs earned the Texas Smart Schools Award, bestowed on school districts with prudent financial practices and high academic achievement, two of only three districts so honored. Now, Cypress-Fairbanks is facing a \$50 million deficit next school year, and Conroe is projected to face its first deficit in

nearly a decade in the next two to four years.

They are not alone.

As the Texas Legislature studies potential changes to the state's school funding mechanisms, the majority of large Houston-area school districts are facing budget shortfalls they say stem from a lack of state aid. Of the 10 largest Houston-area school districts, all but two approved budgets last summer that included deficits of more than \$1 million, according to a Chronicle review. At least nine say they may have to dip into reserve funds within the next three to five years if revenues do not increase.

For some, it is more dire. If nothing changes at the state or local level, district officials say Spring Branch ISD in west Houston will be financially insolvent in three years. Cypress-Fairbanks ISD will use up all of its reserve funds in four or five years. Pasadena ISD only avoided a \$20 million shortfall for the next school year by passing a tax hike referendum, and multiple districts are considering similar measures to keep their schools afloat.

That pain is felt in large and small districts across the state. North East ISD in San Antonio expects to cut \$12 million from its budget next year, likely leading to teacher layoffs, according to the San Antonio News-Express. By 2020, budget documents in Ysleta ISD near El Paso show the district likely will draw down its reserve funds by \$12 million. Friendswood ISD, which educates roughly 6,000 students in a sliver of southeast Greater Houston, is facing a \$1.9 million budget shortfall next year.

"If we've been one of the most efficient districts in the state, and we're facing this crisis, imagine what other districts are dealing with," said Cy-Fair ISD's chief financial officer, Stuart Snow.

While school district officials place blame on the Legislature's failure to pass meaningful changes to Texas' school finance scheme since the 1990s, the state itself is facing budget difficulties of its own.

Lawmakers will start the next legislative session with about \$7.9 billion hole in their budget, according to the nonpartisan Texas Taxpayers and Research Association, a situation that will make finding meaningful additional dollars for education unlikely.

Hurricane Harvey may have made it all but impossible.

Rep. Dan Huberty, R-Humble, said the state's budget deficit will be compounded by issues and expenses related to the storm that pounded much of Southeast Texas last August. Millions of dollars in property taxes will be erased from revenues after the storm damaged buildings and ruined property values across much of the Gulf Coast, he said, and the cost of rebuilding could prove monumental.

"We're going to have a very tough session in being able to make sure we fund those needs out there and, at the same time, create at least a blueprint as we go forward for how do we properly create the weights and mechanics for our education system," Huberty said. "Do we have the resources to fund the (education) system? The answer is no, we don't have the resources right now, especially after Harvey."

Fixing finance formula

As the state wrestles with how to prioritize limited dollars, Lt. Gov. Dan Patrick said 52 percent of Texas' budget already goes to education, and most of that flows into K-12 schools.

"Most comparisons and media reports of state and local education funding only reflect the state school funding formula. They do not include technology and instructional materials, grant programs and other state funding which boosts the state percentage of funding," Patrick said.

Texas' school finance formula depends largely on property values within a district's boundaries, student attendance and the types of students a district educates. Districts with high property values — or "property rich" districts — get less state aide than those with low property values. Districts that meet

a certain ratio of property wealth as it relates to student enrollment must give local tax dollars to the state through what is known as recapture, or the “Robin Hood” tax. That money is redistributed to “property-poor” districts.

Houston ISD was forced to write its first recapture check to the state last year for \$77.5 million. Other local districts that pay recapture include Spring Branch, Tomball, Barbers Hill, Deer Park and Sheldon ISDs.

The more local property taxes districts take in, according to the Texas Education Agency, the less the state pays toward public education. It has been that way since 1993, the last time legislators significantly updated Texas’ public education funding system.

Daniel Casey, a Texas school finance expert with the Austin-based Moak & Casey firm, said the current state funding system was created after Texas’ Supreme Court found the previous scheme unconstitutional. Since the 1990s, Casey said state funding increases often came at the prodding of the court, which has ruled several times that the state has failed to adequately fund public schools or that the state’s school finance system needs tweaking. The last such court battle in 2016 halted that, with the Texas Supreme Court ruling that while the state’s school finance system was deeply flawed, it was not unconstitutional. Fixing it, the justices said, is the Legislature’s job.

Without a high court mandate, lawmakers did not pass school finance reform in the 2017 legislative session. Instead, they created the Texas Commission of Public Education Funding to study the issue. The commission has not yet released recommendations for changes.

Meanwhile, some state leaders, including Patrick and Gov. Greg Abbott, continue to push for local property tax cuts.

In January, Abbott proposed capping the tax revenue growth districts can collect at 2.5 percent. In Houston, property tax revenues grew by about 6 percent between 2015 and 2016, according to the governor’s office.

Huberty said issues relating to property taxes and school finance often are inseparable.

“You can’t have property tax relief without school finance reform — you have to figure out both of those issues,” Huberty said. “Do you have more of a consumption tax to reduce property tax? Those are the kind of discussions you have to have, and we’ve had those discussions on the commission.”

Sen. Paul Bettencourt, R-Houston, who sits on the Commission of Public Education Funding, said districts should expand their revenue streams to include sources other than local property taxes and the state. He pointed to Dallas ISD, which pulls in about \$10 million annually from philanthropy. United Airlines also staffed one of DISD’s schools with 25 full-time employees, a partnership that he said should inspire districts elsewhere.

“It’s not going to be one-size fits all — there are many, many ways to do it right,” Bettencourt said. “At the end of the day, we want the education system to get students the best educations they can get for the best deals taxpayers can support. But we need to look for all the ways we can do it right.”

While the commission studies new ways school districts and the state can pull in more money, school district officials say they continue to feel the pinch from declining state funds.

As recently as 2008, the state provided about 48 percent of funding for school districts throughout Texas. Next year, state funding will account for about 38 percent.

In Conroe ISD, the state’s share of funding has fallen from about 36 percent five years ago to 26 percent this year, a difference of about \$50 million.

“The story needs to get out there that as property values increase, it’s not school districts benefiting from those increases,” said Darrin Rice, Conroe ISD’s chief financial officer. “The state is taking that revenue, and they’re not putting it back into schools. They’re offsetting the state budget with those funds.”

Classrom cuts

The last major decline in state funds came in 2011, when the Legislature cut biennial education funding by \$5.4 billion. At the time, the state still was reeling from the fallout of the Great Recession coupled with rapidly declining oil and gas prices, effectively delivering a one-two punch to the state’s revenues.

Even as oil prices have rebounded and Texas’ economy continues to grow, the state has not returned to its pre-recession per-student funding levels of 2008, according to a report by the University of Texas and the Center for Public Policy Priorities.

Without changes to the state’s funding formula or the amount of funding it contributes, school districts worry they soon will face budget shortfalls similar to those in 2011.

The 2011 cuts led districts to lay off thousands of teachers, increase class sizes and cut programs.

Some districts, including Conroe ISD, were able to stave off staff cuts by not replacing teachers and staff who left at the end of the 2010 school year. Alief ISD cut about 200 jobs.

“We’re not there yet in that scenario,” Alief ISD Superintendent HD Chambers said, “but it is not far off.”

This year, Houston ISD is eyeing layoffs as it faces a \$115 million budget shortfall. Fort Bend ISD, which must cut about \$13 million from its budget, is hoping to avoid layoffs by not replacing teachers who leave at the end of this school year.

“This is a slow bleed,” Chambers said. “Back then, cuts were made quickly. Now every biennium it’s no new money, no new money, but we’re actually losing ground because we have more kids.”

Cy-Fair's enrollment has increased by 11 percent over four years, leading expenditures to increase about 4 percent each year. Over the same time period, state and local revenues have increased about 2 percent each year.

"You can cut supplies all you want, you can turn off the lights in the classrooms, and it still won't make up the deficits we're looking at," said Snow. "When the operating budget is over 86 percent in salaries and benefits, there's no other place to get that money than by cutting positions."

Instead of relying on legislative action in the 2019 session, school districts across Houston are starting to look at whether to ask voters to tax themselves more via referendum elections. Cypress-Fairbanks may put one on the ballot as soon as next year, likely asking voters to increase their maintenance and operations tax from \$1.04 per \$100 of property value to \$1.17.

That would push the district into recapture, but Snow said it may be worth it.

"If we increase our tax rate to \$1.17, that would provide us with about \$55 million," he said. "Recapture would be about \$5 million off of that, so we would net about \$50 million in additional tax revenue."

Huberty said he understands the frustrations of local school district officials. He said they have been asked to be patient for 30 years while the Legislature has waffled on meaningful school finance reforms.

"The reason most of the formulas haven't been addressed is because it's hard," he said. "It's a hard thing to fix." shelby.webb@chron.com
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