

# Public School District Revenues

## Key Takeaways



School districts in the United States derive almost all their funding from **state and local sources, each providing around 45%** of their total funding, with the **federal government providing the remaining 10%**.



States use **funding formulas** to determine how to allocate money to districts, which consider factors such as **the number of students served**. Additional dollars are allocated to support special populations.



**Texas ties both state and local funding to its funding formula**, which means that the state gives money to or takes money from districts to guarantee its formula's basic funding level is exactly met.



Texas' funding formula creates unique challenges for some Houston-area districts because it limits the district's funding to an **amount that may not fully account for the cost of educating its student body**.

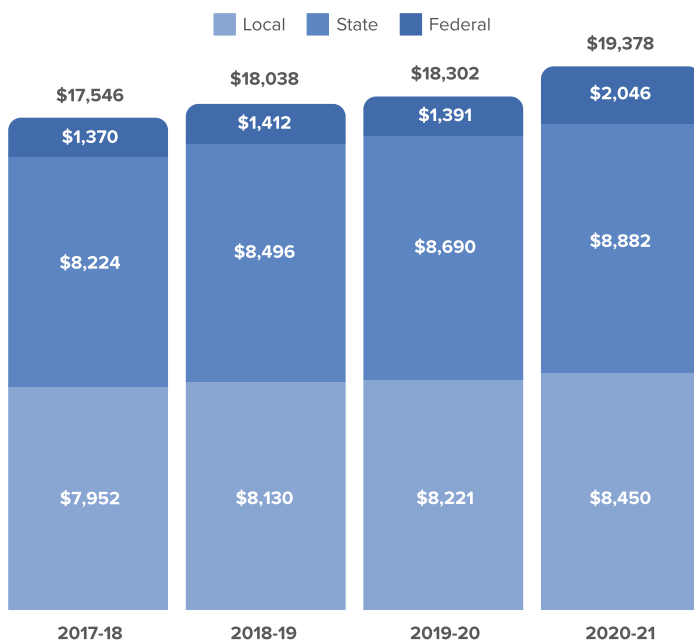
# How are public schools funded in the United States?

## Essential Points

- School district operations are primarily funded with state and local money.
- States use funding formulas to determine how to give districts money.

School districts primarily use state and local funding, with the federal government providing a smaller share.<sup>1</sup>

Average Education Revenues Per Pupil in the United States, 2017-2021<sup>1</sup>



Spending per pupil has been steady, other than increased federal spending in 2020 due to pandemic-era aid such as ESSER.<sup>1 5</sup>

## How does the federal government fund public education?

Through targeted programs such as Title I, districts receive federal aid based on their number of low-income students.<sup>2</sup> Similarly, IDEA Part B provides federal grants to states for students with disabilities.<sup>3</sup>

Recently, ESSER provided flexible funding to districts to help them during the pandemic.<sup>4</sup> However, ESSER ends fall 2024, risking a fiscal cliff that could be especially pronounced for districts with many high-needs students.<sup>5</sup>

## How do states and localities fund public schools?

Property taxes are the most common local funding source for districts.<sup>6</sup> Additionally, states use funding formulas to provide aid. Each state has its own formula.<sup>7</sup>

All states' formulas consider districts' number of students, either on an enrollment or attendance basis.<sup>8</sup> States then provide extra money to districts to support special populations, such as special education or gifted and talented.<sup>7</sup>

Some states also restrict the amount of money that districts can raise from local taxes.<sup>9 10</sup>

## How do districts pay for facilities?

Construction and major improvements to school buildings are typically paid for with separate capital funding.<sup>11</sup> A common source of this funding is bonds, which are debt voters authorize states or districts to use that are typically paid back using local revenue. Most states also provide money for facilities costs and bond repayment.<sup>12</sup>

# How are schools funded in Texas?

## Essential Points

- Texas ties both state and local funding to a common funding formula.
- Districts are largely limited to the money given by the formula.

In Texas, state and local maintenance and operations funding are controlled by this formula driven primarily by attendance and student needs:

$$\$6,160 \text{ (A)} \times (\text{Average student attendance (B)} + \text{special population adjustments (C)})$$

**(A)** The formula begins with a basic allotment of \$6,160 per student.<sup>10</sup>

**(B)** The formula multiplies the basic allotment by the average number of students attending the district.<sup>10</sup>

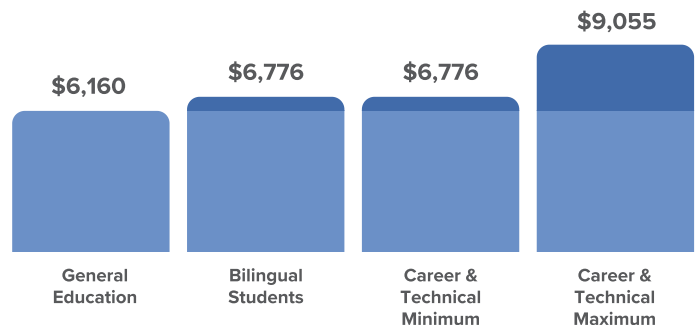
**(C)** The formula then allocates funding based on the district's number of students in special populations, measured by enrollment, attendance, or number of full-time equivalent students for different groups.<sup>10</sup> Examples of students in special populations include bilingual students and those in career and technical education.<sup>13</sup>

Finally, the formula supplements that total by allotments for other district programs and needs to get to a target maintenance and operations funding amount for the district.<sup>10</sup> Examples include transportation or early education funding, allotments for small or fast-growing districts, incentives for teachers, and more.

That target is then compared to local revenue. The state provides aid or recaptures money from districts to ensure actual funding for maintenance and operations meets the formula's target regardless of local revenue.<sup>10</sup> Because this formula limits the amount of state aid, Texas provides a smaller share of funding than peer states.<sup>16</sup>

Districts may adopt a higher property tax rate to raise additional money for maintenance and operations. However, larger increases require voter approval, and additional revenue generated above a certain amount is still subject to recapture.<sup>10</sup>

Example Special Population Adjustments<sup>14</sup>



Portion of Revenue from the State<sup>16</sup> (2021-2022)



## How do Texas school districts fund facilities?

Districts across the country typically use bonds to fund facilities given that the per pupil allotment received is for maintenance and operations, as outlined above.<sup>10</sup> In Texas, districts put bonds up for a vote, and voters decide whether to allow districts to use them.<sup>15</sup> Bonds are then paid back using a dedicated local property tax rate and state aid.<sup>13</sup>

# What does Texas' funding model mean for HISD?

## Essential Points

- The funding formula uniquely challenges HISD as it is not tied to the cost of educating students.
- HISD's per pupil funding lags other major cities in Texas and the United States.
- HISD will face another challenge with the imminent end of ESSER funding.

While it is intended to allocate resources more equitably, Texas' education funding system creates unintended challenges for HISD.

HISD has a high cost of living (resulting in a strong local tax base) but many families with low incomes (resulting in high costs to educate students). Specifically, 91% of students counted for Title I grants to support low-income students<sup>17</sup> and nearly 40% of students are not native English speakers.<sup>18</sup>

That high number of students in special populations creates funding challenges for HISD. While Texas does allocate additional funding, it frequently does not cover the total cost required. An example of this gap is seen in a University of Texas study focused on dual language education.<sup>19</sup> Federal IDEA grants help support some other groups, but HISD only received \$44M for 2022-23, about 1.3% of its revenue.<sup>20</sup>

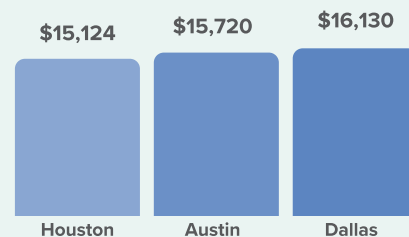
Further, Texas' basic \$6,160 per-student allotment has not increased since 2019,<sup>22</sup> which means the allocations for students in special population have not either.<sup>10</sup>

In addition, HISD's basic funding declined due to lower enrollment and attendance, so recapture (where the state reallocates dollars to other districts once it meets the allocated funding amount) removes new local tax revenue.<sup>23</sup>

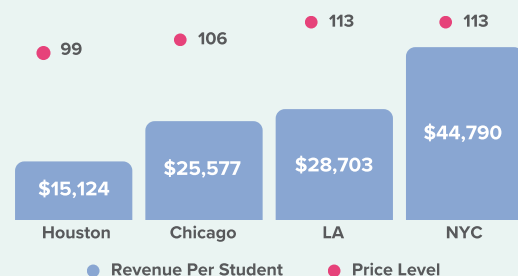
## How does HISD's revenue compare to others?

Notably, HISD has received less revenue per student than other major urban districts in Texas<sup>16</sup> as well as across the U.S., even when accounting for regional price differences, or "levels".<sup>16 24</sup> Covid-19 related ESSER relief has floated HISD's finances but ends after this school year.<sup>5</sup>

**Revenue Per Enrolled Student<sup>16</sup>**  
(Major Urban Districts in Texas, 2022)



**Revenue Per Enrolled Student and Regional Price Parity<sup>16 24</sup>**  
(Other Major Urban Districts, 2022)



**Additional Cost of and Funding for Dual Language Education<sup>10 19</sup>**



## Data Sources

5: Brookings, 10: Texas Education Agency, 16: U.S. Census Bureau, 17: HISD, 18: Houston Chronicle, 19: University of Texas El Paso, 20: U.S. Department of Education, 21: HISD, 22: Texas Education Agency, 23: HISD Fact Sheets (2020, 2021, 2022, 2023), TEA, 24: Bureau of Economic Analysis, 25: Bureau of Economic Analysis

<sup>25</sup>The price level is produced by the Bureau of Economic Analysis to measure differences in the price of consumption goods and services between different metro areas. This level does not directly compare the specific costs school districts face.