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Fitch Ratings: TX K-12 Funding Proposals Would Boost Rev Expectations.

Fitch Ratings-Austin-05 February 2019: Public school funding proposals from both the Texas House of Representatives and Senate for the 2020-21 biennium include sizable increases, which if realized would boost near-term revenue growth expectations for Texas school districts, according to Fitch Ratings.

Fitch's U.S. public finance tax-supported rating criteria consider the prospects for future revenue growth in assessing one of its four key rating drivers. Of the nearly 100 Texas districts that Fitch rates, 80% currently have either an 'aaa' or 'aa' revenue growth prospect assessment. The primary considerations for school district revenue growth are enrolment and state funding trends, and to a lesser extent local economic/tax base growth. The limits on Texas school districts' ability to increase local operating tax revenue (unless voter approved) typically result in a weak assessment of independent revenue-raising ability. However, the state's responsibility for and control over education funding overall reduces the emphasis on the lack of local revenue control when assessing a district's revenue framework.

The House proposal would boost state funding for K-12 education by more than \$7 billion and contribute to a nearly 17% jump from the last biennium to more than \$70 billion in total funding (state, local and federal). The proposal specifies part of the funding be used for property tax relief, salary increases and other specific programs. The proposed \$6 billion Senate increase includes \$3.7 billion for a \$5,000 teacher pay raise and another \$2.3 billion for property tax relief, if reforms to the current equalization (recapture) system are enacted.

Several factors likely contributed to the increased K-12 funding proposals introduced as the 2019 session gets underway. First, the state's continued strong economic growth produced an 8% increase in estimated general purpose revenues for the upcoming biennium (total revenue estimate of \$119 billion). Also, legislators seem to be responding to ongoing criticism about local property tax burdens on homeowners and businesses and increasing recapture burdens on property wealthy districts. Finally, a 2016 Texas Supreme Court ruling found the current funding system constitutional but flawed and advocated for major reforms. The state's K-12 finance system has been the subject of periodic lawsuits over the past 50 years, mostly aimed at questions of equity and adequacy.

Fitch will monitor the fate of these funding proposals as the legislative session progresses through the spring. The session is scheduled to end May 27th.

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