

## **Follow The Money**

*A 50-State Survey Of Public Education Dollars*

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There is a great sense of urgency building in Texas to reform the state system of school finance, evident in halls of the Capitol, daily news media and conversations in bleachers of football games. There is broad agreement that the current system of funding public schools must be changed, perhaps even scrapped for an entirely new system.

Discussions of school finance focus on education dollars. These discussions are very important because changes to the state's system of funding public education could significantly impact the state budget, reconfigure state spending, shift fiscal priorities of state functions, alter the state tax structure, and impact the state economy.

To increase awareness of how education dollars fit into total state revenues and spending, the Foundation examined all 50 states. Using the most recent information published by the U.S. Census Bureau, the National Association of State Budget Officers, and the National Center for Education Statistics, we assembled a fact sheet for each state that distinguishes sources of education dollars, determines the amount spent on education, identifies the role education plays in total state spending, and examines each state's fiscal capacity to sustain education, framing all of this information within the bigger picture of state revenues and expenditures.

### **Key Findings of the Survey**

***Education Revenue:*** There really is no such thing as “education dollars,” despite popular perception. Most states fund their portion of public education from

general revenue, non-dedicated funds, primarily generated from state taxes (income and sales), fees and licenses. Local property taxes underwrite a proportion of public education costs in nearly every state, as do state property taxes in 37 states (taken from *Facts and Figures of Government Finance 2002*, edited by David Hoffman of the Tax Foundation, Washington, DC). *The primary sources of revenue for Texas public education are local property taxes and state sales tax.*

***Sharing the Cost of Education:*** Public schools are funded through a mix of local, state and federal funds in every state, with some small funding from other sources (such as corporations and foundations). The proportions of this mix vary widely from state to state. In 2001, the highest state share was shouldered by Hawaii (89.8%) and lowest by Nevada (28.6%). *Texas' government shoulders a smaller share of the total cost of public education than most other states. In fact, only ten state governments underwrite a lower portion of the total cost of public education than Texas.*

***Per Pupil Spending:*** There is a large difference in per pupil spending between the states. In 2001, Wisconsin spent the most per pupil (\$10,249.00 cost-adjusted dollars) and Hawaii spent the least (\$5,333.00 cost-adjusted dollars). *Texas spent \$8,568.00 cost-adjusted dollars per pupil in 2001 (a combination of federal, state, local and private funding), placing Texas above the national average, 15<sup>th</sup> in the nation – according to a state ranking published by the Manhattan Institute.*

***Change in State Government Spending on Public Education:*** From 1996 through 2001, state government spending on public education rose in 49 states (in Alaska, spending decreased by \$211,000). Despite the increase of state education dollars in those 49 states, the percent of state government spending on public education fell as a percent of total state government spending in 26 states. In 2001, the largest increase in public education as a part of total state government spending was in New Hampshire where public

education rose from 2.62% to 20.06% of total state government spending. Alternately, the largest drop in public education as a part of total state government spending was in Alaska where public education fell from 13.9% to 8.65% of total state spending. *Although state government spending on public education in Texas increased by \$3.543 billion from 1996 to 2001, education spending fell slightly from 20.21% to 19.87% as a percentage of total state government spending.*

***Change in State Government Spending:*** Forty-four states spent more than their general revenues received in fiscal year 2002; the most fiscally responsible states were Arkansas, Florida, Iowa, Virginia and West Virginia. Florida actually spent 2.52% less money than was available in general revenue. Alaska's spending exceeded revenue for the fiscal year by 44.10% and Oregon by 34.49%. *Texas spent 5.73% in excess of state general revenues received during state fiscal year 2002 (spending did not exceed funds available, because the state used prior year closing balances of \$4 billion, reducing funds available for unanticipated or future years' fiscal needs).*

***Tax and Income Growth 1991-2001:*** Annual taxes (including fees) increased throughout the nation, with only one exception – Alaska. Growth was as low as 1.08% in Hawaii and as high as 9.07% in New Hampshire. Annual income also grew in all states; income grew slowest in Hawaii (1.12%) and fastest in Nevada (6.74%). Taxes and income grew at approximately the same pace in 15 states and in five states, income grew faster than taxes – a sign of economic health. In 30 states, however, the growth of taxes and fees surpassed growth of income. *In Texas, the growth of taxes (including fees) and income were closely linked – taxes growing 4.41% with income growing 4.80% between 1991 and 2001.*

The information furnished by this survey provokes important questions about state revenues and spending for school finance reform that will be examined in

subsequent reports published by the Texas Public Policy Foundation over the coming months.

- What revenue sources are available to bolster state education funding that will promote economic vitality?
- How much state revenues are available for public education?
- How much should the state pay for public education?
- Is state spending on education and other core functions sufficiently contained to weather economic downturns?
- Will rising costs of other state services undermine funds for public education?
- Is state tax growth sufficiently aligned with current growth of personal income?
- Should state taxes be reduced to remedy past tax growth that exceeded income?
- How can the entire system of state taxes be reformed to improve economic efficiency, economic competitiveness, administrative simplicity, fiscal adequacy and fairness?

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**This publication is available online at:**

<http://www.texaspolicy.com/pdf/2003-10-22-sf-followmoney.pdf>.

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