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# The Solution to Trenchant Inequity in Texas Public Education: A Funding System that Puts Students First

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# Reason Foundation



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# Introduction

Texas' history of school finance litigation dates back to 1968 when a group of parents led by Demetrio Rodriguez sued the state in federal court claiming that its funding system discriminated against students in low-wealth districts.<sup>1</sup> Rodriguez's children attended school in San Antonio's Edgewood ISD, which served mostly minority students of Mexican origin.<sup>2</sup> Despite levying a higher tax rate than the city's most affluent district, Alamo Heights ISD, Edgewood raised significantly less revenue and spent about 67% less per pupil as a result.<sup>3</sup> While the U.S. Supreme Court would eventually rule against the plaintiffs in 1973, decades of legal and political battles at the state level have since shaped today's school finance system.<sup>4</sup>

The most recent challenge to Texas' school finance system came in 2012 when four plaintiff groups representing more than 600 school districts alleged that it was inequitably and inadequately funded in *Texas Taxpayers and Student Fairness Coalition et al v. Morath et al.*<sup>5</sup> Travis County District Judge John K. Dietz found the system to be unconstitutional on several grounds, but this decision was overturned by the Texas Supreme Court in 2016. In the Court's opinion, Justice Don R. Willett wrote that "Despite the imperfections of the current school funding regime, it meets the state's minimum constitutional requirements."<sup>6</sup> While the Court was reluctant to infringe upon the duties of the legislature, it recognized the need for substantive reform, imploring policymakers to act, as "Texas' more than five million school children deserve better than serial litigation over an increasingly Daedalean 'system'. They deserve transformational, top-to-bottom reforms that amount to more than Band-Aid on top of Band-Aid."<sup>7</sup>

It is widely acknowledged that Texas' school finance system is a confusing morass of outdated formulas that have little correlation to student need. For example, a Cost of Education Index created in 1991 to account for

<sup>1</sup> Orozco, Cynthia E., "Rodriguez v. San Antonio ISD," *Handbook of Texas Online*, Texas State Historical Association. 15 June 2010. Web. <[www.tshaonline.org/handbook/online/articles/jrrht](http://www.tshaonline.org/handbook/online/articles/jrrht)> 15 July 2016.

<sup>2</sup> Ibid.

<sup>3</sup> Calculations are based on all source revenue data from 1967–68 school year, which are provided in: Powel, J. "San Antonio Independent School District et. al. v. Rodriguez et. al." U.S. Supreme Court. 21 March 1973. Web. <[www.law2.umkc.edu/faculty/projects/ftrials/conlaw/sanantonioprodroiguez.html](http://www.law2.umkc.edu/faculty/projects/ftrials/conlaw/sanantonioprodroiguez.html)> Sept 15 2016.

<sup>4</sup> Ibid.

<sup>5</sup> "Financial Responsibility Guide." Texas Association of School Boards. TASB.org. 2016. Web. <[www.tasb.org/Services/Legal-Services/TASB-School-Law-eSource/Business/Financial-Responsibility-Guide/documents/overview\\_sch\\_finan\\_system\\_feb16.pdf](http://www.tasb.org/Services/Legal-Services/TASB-School-Law-eSource/Business/Financial-Responsibility-Guide/documents/overview_sch_finan_system_feb16.pdf)>, 15 Oct 2016.

<sup>6</sup> Willett, Don R., "Morath, et. al. v. Texas Taxpayer and Student Fairness Coalition, et.al." Legislative Reference Library of Texas. *Lrl.state.tx.us*. 13 May 2016. Web. <[www.lrl.state.tx.us/scanned/archive/2016/31253.pdf](http://www.lrl.state.tx.us/scanned/archive/2016/31253.pdf)> 15 July 2016.

<sup>7</sup> Ibid.

regional cost differences is still used despite significant shifts in demographics, and a hold-harmless provision called Target Revenue has arbitrarily favored some districts over others for nearly a decade.<sup>8</sup> But this is only part of the challenge, as research has shown that funding allocation policies within districts can have a more substantial effect on school-level resources than revenue inequities among districts, as most employ policies that diminish equity and transparency.<sup>9</sup> As a result, students with identical needs often receive different funding allotments just because of their zip code.

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Contrary to the prevailing thinking, funding education with local property taxes does little to enhance autonomy, and can instead impede policies that actually promote educational freedom, such as charters and education savings accounts.

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Efforts at reform are complicated by Texas' legislative and legal history, including a financial efficiency standard that requires the state to equalize revenue among districts. The current "Robin Hood" system that recaptures local taxes from property-wealthy districts was implemented to satisfy this mandate. Under this politically contentious requirement, legislators have no choice but to consolidate revenue streams or move away from local funding entirely.

But rather than bemoan this reality, reformers across the ideological spectrum should embrace it. For equity advocates, the benefits are obvious, since funding equity is a feature of publicly provided services such as education, and property wealth disparities are a substantial source of funding inequity. But perhaps less intuitive is how the financial efficiency requirement can help advance the policies favored by those who support robust parental choice. Contrary to the prevailing thinking, funding education with local property taxes does little to enhance autonomy, and can instead impede policies that actually promote educational freedom, such as charters and education savings accounts. In the world of school finance, minimizing the role of the district middle-man is an essential step toward empowering parents, and Texas is legally bound to do this. As such, policymakers are uniquely positioned to implement a trailblazing school finance system that maximizes both equity and liberty. The Lone Star State should modernize its school finance system so that it delivers funding based on student needs, maximizes transparency, and empowers parents to have a voice in how education dollars are spent.

With Target Revenue set to expire in 2017 and thousands of students stuck in failing schools, the 85<sup>th</sup> Legislature provides a great opportunity for policymakers to make these fundamental changes.<sup>10</sup> To define

<sup>8</sup> "School Finance 101: Funding of Texas Public Schools, January 2013." Texas Education Agency, Office of School Finance. *TEA.Texas.gov*. Jan. 2013. Web. <[www.tea.texas.gov/Finance\\_and\\_Grants/State\\_Funding/Manuals/School\\_Finance\\_Manuals/](http://www.tea.texas.gov/Finance_and_Grants/State_Funding/Manuals/School_Finance_Manuals/)> 15 May 2016. Pierce, Wayne. "Report for Texas Taxpayer and Student Fairness Coalition, et. al. v. Robert Scott et al." Texas School Coalition, 2012. Web. <[http://www.txsc.org/wp-content/uploads/2012/11/Wayne-Pierce\\_Expert-Report.pdf](http://www.txsc.org/wp-content/uploads/2012/11/Wayne-Pierce_Expert-Report.pdf)> 5 Jan. 2017.

<sup>9</sup> Guin, Kacey, et. al. "Do Districts Fund Schools Fairly?" *Education Next*. Fall 2007. Web. <[www.educationnext.org/do-districts-fund-schools-fairly/](http://www.educationnext.org/do-districts-fund-schools-fairly/)> 5 Jan. 2017.

<sup>10</sup> Based on districts and schools that are rated Improvement Required by the state's accountability system. "Final 2015 Accountability Ratings," Texas Education Agency. *TEA.Texas.gov*. 4 November 2015. Web. <[www.rptsvr1.tea.texas.gov/perfreport/account/2015/multiyearau.pdf](http://www.rptsvr1.tea.texas.gov/perfreport/account/2015/multiyearau.pdf)> 15 May 2016.

and address this subject, this brief begins by explaining how Texas' Foundation School Program delivers funding to districts, including a snapshot of the state's legal and legislative history. Next, it provides an overview of how districts typically fund schools, which is followed by a summary of the system's key shortcomings and recommendations for policy change.

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## Part 1

# How School Districts Are Funded

## 1.1 Overview of Key Lawsuits and Legislation

Texas delivers education funding through its Foundation School Program (FSP), and while the fundamentals of this system are rather straightforward, decades of legal and political wrangling have made it notoriously complex. In order to understand how districts are funded, it helps to first acquire a brief familiarity with the Texas Supreme Court cases and legislative responses that have helped shaped this system, most notably:

- *Edgewood I (1989)*: The Texas Supreme Court found that inter-district inequities in property wealth, tax rates and per-pupil spending violated the “efficiency” element of Article VII, section I of the state constitution.<sup>11</sup> Importantly, it adopted a financial efficiency standard that “There must be a direct and close correlation between a district’s tax effort<sup>12</sup> and the educational resources available to it; in other words, districts must have substantially equal access to similar revenues per pupil at similar levels of tax effort.”<sup>13</sup> In response, the legislature passed Senate Bill 1 (SB 1) in 1990, which created two tiers of funding: Tier 1 to provide guaranteed funding for basic educational needs for any district that met or exceeded a minimum level of taxation, and Tier 2 to provide a guaranteed yield for each additional penny of local tax effort above Tier 1’s minimum level.<sup>14</sup> This mechanism excluded the wealthiest 5% of districts.<sup>15</sup>
- *Edgewood II (1991)*: The Court found SB 1’s exclusion of Texas’ wealthiest districts unconstitutional, ruling “To be efficient, a funding system that is so dependent on local ad valorem property taxes must draw revenue from all property at a substantially similar rate.”<sup>16</sup> To remedy this, the legislature passed Senate Bill 351 (SB 351) later that year, creating 188 county education districts (CEDs) to coordinate all facets of local property taxation under the guidance of the legislature.<sup>17</sup>

<sup>11</sup> Willett, Don R. “Morath, et. al. v. Texas Taxpayer and Student Fairness Coalition, et.al.”

<sup>12</sup> “Tax effort” simply refers to the tax rate. So, two districts with the same rate are exerting the same effort even if they raise different revenue figures (given differences in property wealth).

<sup>13</sup> Willett, Don R. “Morath, et. al. v. Texas Taxpayer and Student Fairness Coalition, et.al.”

<sup>14</sup> Ibid.

<sup>15</sup> Ibid.

<sup>16</sup> Ibid.

<sup>17</sup> Ibid.

- *Edgewood III (1992)*: The Court ruled that SB 351’s CED system created a statewide ad valorem tax in violation of Article VIII, section 1-e of the state constitution.<sup>18</sup> The following year the legislature passed Senate Bill 7, which maintained the previously established funding tiers, capped local tax rates at \$1.50 per \$100 of assessed property value, and instituted a “Robin Hood” mechanism by which taxable property value beyond \$280,000 per student would be recaptured and redistributed to property-poor districts.<sup>19</sup>
- *Edgewood IV (1995)*: The Court held that the system enacted under SB 7 met the constitution’s financial efficiency standard and did not impose a statewide ad valorem tax, since districts retained sufficient discretion in setting local property tax rates.<sup>20</sup>
- *West Orange Cove II (2005)*: The Court found that the \$1.50 local tax rate was an unconstitutional statewide property tax since it had essentially become a “floor as well as a ceiling” for districts.<sup>21</sup> In response, the legislature passed House Bill 1 (HB 1) in 2006, which compressed local tax rates by one-third to order ease the local funding burden.<sup>22</sup> For example, districts taxing at the statutory maximum rate of \$1.50 prior to HB 1 would phase in a compressed tax rate of \$1.00. HB 1 also provided additional Tier 2 taxing authority for districts to access up to a maximum rate of \$1.17.<sup>23</sup>

This history is important to keep in mind as Texas looks to overhaul its funding system. In particular, policymakers must ensure that districts have meaningful discretion in setting local tax rates to comply with Article VIII, section 1-e of the state constitution while also guaranteeing that this revenue is largely equalized by tax effort to comply with Article VII, section 1. In practice, the current system of recapture—or Robin Hood—is one of few options that satisfy these legal requirements.

## 1.2 The Foundation School Program Formula Explained

In 2014–2015, Texas spent \$60.9 billion on Pre-K–12 education, or \$11,704 per student.<sup>24</sup> Local property taxes account for nearly half of all education revenue and compose a Maintenance & Operations (M&O) tax for things such as salaries and supplies, and an Interest & Sinking Fund (I&S) tax for debt service on facilities and capital.<sup>25</sup> While Texas’ education system relies heavily on local revenue, these funds are

<sup>18</sup> Ibid.

<sup>19</sup> Ibid.

<sup>20</sup> Ibid.

<sup>21</sup> Ibid.

<sup>22</sup> “An Introduction to School Finance in Texas.” Texas Taxpayers and Research Foundation. *TTARA.org*. June 2014. Web. <[www.ttara.org/files/document/file-53cd2d02a5c99.pdf](http://www.ttara.org/files/document/file-53cd2d02a5c99.pdf)> 15 May 2016.

<sup>23</sup> Ibid.

<sup>24</sup> “PEIMS District Financial Actual Reports: 2014-2015 Actual Financial Data.” Texas Education Agency. *TEA.Texas.gov*. Web. <[www.rptsvr1.tea.texas.gov/cgi/sas/broker?\\_service=marykay&\\_program=sfadhoc.actual\\_report\\_2015.sas&\\_service=appserv&\\_debug=0&who\\_box=&who\\_list=\\_STATE](http://www.rptsvr1.tea.texas.gov/cgi/sas/broker?_service=marykay&_program=sfadhoc.actual_report_2015.sas&_service=appserv&_debug=0&who_box=&who_list=_STATE)> 15 April 2016.

<sup>25</sup> Ibid.; Texas Association of School Boards, “Financial Responsibility Guide.”



delivered to districts through the Foundation School Program (FSP) as though they originate from the state. As Texas Public Policy Foundation’s Kent Grusendorf describes it, “Schools are funded by a combination of local and state tax revenue, however, all funds are actually controlled by state formulas. It is *as if* all local tax revenue was sent to the state and mixed with state funds, then redistributed to districts based on state formulas.”<sup>26</sup>

The process for determining each district’s M&O revenue entitlement starts with the basic allotment, a per-pupil amount based on average daily attendance and set by the legislature.<sup>27</sup> This figure, which was \$5,140 in 2015–16, is adjusted for a district’s compressed tax rate, Cost of Education Index (CEI) and size as described in Table 1.<sup>28</sup> These adjustments result in the adjusted allotment, which is used as the basis for calculating a district’s M&O funding for two separate tiers:

- **Tier 1** funding is intended to provide for basic educational needs.<sup>29</sup> To determine a district’s revenue entitlement, its adjusted allotment is used as the basis for calculating several programmatic funding allotments including regular education, compensatory education and bilingual education.<sup>30</sup> Funding allotments for other purposes, such as transportation, are then calculated separately.<sup>31</sup> Table 2 summarizes Texas’ programmatic allotments. After determining a district’s Tier 1 revenue entitlement, the share of funding that a district is responsible for raising locally—known as the local fund assignment—is calculated based on a district’s compressed tax rates and prior year’s taxable property value.<sup>32</sup> If a district’s total Tier 1 revenue entitlement is more than its local fund assignment, it receives state funds to offset this gap.<sup>33</sup> Conversely, if a district’s revenue entitlement is less than its local fund assignment, then it is ineligible for Tier 1 FSP state aid and funds raised in excess of \$514,000 per weighted ADA are subject to recapture, which is commonly referred to as “Robin Hood.”<sup>34</sup>

<sup>26</sup> Grusendorf, Kent. “Transparency in Education Funding Sorely Missing.” Texas Public Policy Foundation, 2015. Web. <[www.texaspolicy.com/library/doelib/Policy-Perspective-Transparency-in-Education-Funding-Sorely-Missing.pdf](http://www.texaspolicy.com/library/doelib/Policy-Perspective-Transparency-in-Education-Funding-Sorely-Missing.pdf)> 15 April 2016.

<sup>27</sup> Barba, Michael et. al. “Texas School Finance: Basics and Reform.” Texas Public Policy Foundation, 2016. Web. <[www.texaspolicy.com/library/doelib/TexasSchoolFinanceBasicsAndReform.pdf](http://www.texaspolicy.com/library/doelib/TexasSchoolFinanceBasicsAndReform.pdf)> 15 June 2016.

<sup>28</sup> Ibid.

<sup>29</sup> Texas Association of School Boards, “Financial Responsibility Guide.”

<sup>30</sup> Ibid.

<sup>31</sup> Ibid.

<sup>32</sup> Ibid.

<sup>33</sup> Ibid.

<sup>34</sup> Ibid.

Adjustment	Description
Compressed Tax Rate	The first adjustment to the basic allotment is for the 46% of districts that have a compressed tax rate* (CTR) below \$1.00. For example, a district with a CTR of \$0.95 would receive a basic allotment of \$4,883 (0.95 x \$5,140). Districts with CTRs of \$1.00 or greater receive the full basic allotment. 53% of districts have a CTR of exactly \$1.00.
Cost of Education Index	The second adjustment made to the basic allotment is a Cost of Education Index (CEI) that ranges from 1.02 to 1.20. CEI was assigned to each district in 1991 as a means to account for regional differences in labor cost and only applies to 71% of the basic allotment. The resulting figure is known as the adjusted basic allotment.
Diseconomies of Scale	Lastly, one of three adjustments is made for qualifying districts based on Average Daily Attendance**: <ul style="list-style-type: none"> <li>• <i>Sparsity Adjustment</i>: Provides a minimum ADA funding allotment for districts with fewer than 130 ADA.</li> <li>• <i>Small District Adjustment</i>: Provides two levels of funding weights for districts with less than or equal to 1,600 ADA: one for districts that are smaller than 300 square miles and another for districts that are 300 square miles or more.</li> <li>• <i>Midsized District Adjustment</i>: A funding weight for districts with fewer than 5,000 ADA.</li> </ul>

Source: Barba, Michael et. al. "Texas School Finance: Basics and Reform". Texas Public Policy Foundation, 2016. Web. <[www.texaspolicy.com/library/doclib/TexasSchoolFinanceBasicsAndReform.pdf](http://www.texaspolicy.com/library/doclib/TexasSchoolFinanceBasicsAndReform.pdf)> 15 June 2016. See also: "School Finance 101: Funding of Texas Public Schools, January 2013." Texas Education Agency, Office of School Finance. *TEA.Texas.gov*. Jan. 2013. Web. <[www.tea.texas.gov/Finance\\_and\\_Grants/State\\_Funding/Manuals/School\\_Finance\\_Manuals/](http://www.tea.texas.gov/Finance_and_Grants/State_Funding/Manuals/School_Finance_Manuals/)> 15 May 2016.

\*In response to the *West Orange Cove II* ruling the Texas Legislature passed HB 1 in 2006, which phased in a one-third reduction of local tax rates. The resulting figure for each district is known as the compressed tax rate.

\*\*A simple Average Daily Attendance figure is calculated by dividing the total number of students in attendance for each day during the school year by the total number of instructional days. The actual calculation, called "Refined ADA," is more complex, as it breaks down the school calendar by six-week periods.

Adjustment Type	Program	Description
Student Programs	Regular Program	The largest component of Tier 1 funding, which is based on ADA. Serves all students except for those enrolled in Special Education or Career and Technology Education, which are stand-alone programs for funding purposes.
	Compensatory Education	Provides a weight of 0.2 per ADA for at-risk students, including those eligible for the federal Free and Reduced Price Lunch Program (FRL).
	Special Education	Stand-alone funding for students with disabilities. Provides FTE weights that range from 1.10 to 5.00 and are based on 11 different categories of instructional settings such as Resource Room, Homebound and Speech Therapy.
	Bilingual Education	Provides a weight of 0.1 per ADA for students whose primary language is not English and are instructed in a language other than English.
	Career and Technology Education	Stand-alone funding for vocational education. Provides a weight of 1.35 per ADA.
	Gift and Talented Education	Provides a weight of 0.12 per eligible student up to a maximum of 5% of total school district ADA.
	Public Education Grant program	Provides a weight of 0.1 per ADA to districts that accept students who transfer from underperforming schools. Eligible students can transfer to schools either within or outside their districts.
Other Allocations	High School Allotment	Provides a \$275 allotment per high school student.
	New Instructional Facilities Allotment	Provides \$250 per ADA to assist districts with the operational costs of opening a new school facility in its first two years. This program only provides funding for new students and was not funded from 2012 to 2015.
	Transportation Allotment	Provides a per mile funding allotment for student transportation that is based on linear density. Districts subject to Tier 1 recapture are not eligible for this funding.

Source: Barba, Michael et. al. "Texas School Finance: Basics and Reform". Texas Public Policy Foundation, 2016. Web. <[www.texaspolicy.com/library/doclib/TexasSchoolFinanceBasicsAndReform.pdf](http://www.texaspolicy.com/library/doclib/TexasSchoolFinanceBasicsAndReform.pdf)> 15 June 2016. See also: "School Finance 101: Funding of Texas Public Schools, January 2013." Texas Education Agency, Office of School Finance. *TEA.Texas.gov*. Jan. 2013. Web. <[www.tea.texas.gov/Finance\\_and\\_Grants/State\\_Funding/Manuals/School\\_Finance\\_Manuals/](http://www.tea.texas.gov/Finance_and_Grants/State_Funding/Manuals/School_Finance_Manuals/)> 15 May 2016.

- **Tier 2** provides districts with access to enrichment funding and includes all pennies of taxation above a district’s compressed tax rate up to a statutory maximum of \$1.17.<sup>35</sup> For example, a district with a compressed tax rate of \$1.00 would have access to \$0.17 of Tier 2 taxation. Tier 2 provides resources based on two guaranteed yield levels, whereby the state ensures that each penny of taxation will generate at least a minimum dollar amount per student in combined state and local revenue.<sup>36</sup> The first six pennies of Tier 2 taxation are commonly referred to as “Golden Pennies” since they generate a guaranteed yield that is tied to Austin ISD’s revenue (a property-wealthy district) and aren’t subject to recapture.<sup>37</sup> In 2015–16, this yield was \$74.28 per penny per weighted student.<sup>38</sup> The remaining pennies of Tier 2 taxation available, so-called “Copper Pennies,” provide a lower guaranteed yield at \$31.95 per penny per weighted student and are subject to recapture for districts with property value that exceeds \$319,500 per weighted student.<sup>39</sup>

In addition to M&O taxes, districts can raise revenue to service debt obligations through Interest & Sinking Fund (I&S) taxes and two state programs: the Instructional Facilities Allotment (IFA) and the Existing Debt Allotment (EDA).<sup>40</sup> IFA is a competitive grant for instructional facilities that prioritizes low-wealth districts with less outstanding debt.<sup>41</sup> Districts may apply for this program once voters have approved a bond and before I&S taxes are levied to pay for it.<sup>42</sup> Qualifying districts receive a guaranteed yield of \$35 per penny per pupil in combined I&S tax revenue and state assistance.<sup>43</sup> Alternatively, EDA is available to all districts with property wealth below \$350,000 per ADA, only supports bonds for which districts have already levied I&S taxes, and provides a guaranteed yield of \$35 per penny per ADA up to \$0.29 of tax effort.<sup>44</sup> Importantly, no portion of I&S taxes is subject to recapture and districts may set tax rates above the amounts guaranteed by IFA and EDA.<sup>45</sup>

<sup>35</sup> Ibid.

<sup>36</sup> Ibid.

<sup>37</sup> Ibid.

<sup>38</sup> A “weighted student” is one whose funding is enhanced to reflect certain needs, such as special education, English language learner, etc., resulting in a student being counted as more than one student, in terms of funding. The count of non-weighted students reflects simple enrollment—the number of bodies.

<sup>39</sup> Texas Association of School Boards, “Financial Responsibility Guide”.

<sup>40</sup> Barba, Michael, et. al. “Texas School Finance: Basics and Reform”; Texas Association of School Boards, “Financial Responsibility Guide.”

<sup>41</sup> Ibid.

<sup>42</sup> Ibid.

<sup>43</sup> Ibid.

<sup>44</sup> Ibid.

<sup>45</sup> Barba, Michael, et. al. “Texas School Finance: Basics and Reform.”

## Texas Charter School Funding

With over 227,000 students, open enrollment charters serve about 4% of Texas' public school population and, like districts, are funded by the state's Foundation School Program—but with two notable differences.<sup>46</sup>

First, a state-wide adjusted allotment is used in lieu of making adjustments to each charter's basic allotment. This means that some receive more funding than their characteristics would otherwise dictate, while others receive less.<sup>47</sup> Additionally, charters are unable to raise local tax revenues and do not receive direct support from the state for facilities outside of the state's New Instructional Facilities Allotment, which provides little help as it is often unfunded by the legislature and is restricted to campuses built from the ground up.<sup>48</sup> In aggregate, Texas charter students are underfunded by at least \$1,000 per weighted pupil compared to district students; the typical charter diverts about 15% to 20% of funds that are intended for the classroom to servicing debt financing or renting space.<sup>49</sup>

- <sup>46</sup> Dunn, David and Paul Sadler, "Charter Schools Students Receive Less Funding.", *Houston Chronicle*. 29 Jan. 2016. Txcharterschools.org. Web. [www.txcharterschools.org/charter-schools-students-receive-less-funding/](http://www.txcharterschools.org/charter-schools-students-receive-less-funding/) 15 May 2016.; "Fast Charter Facts", *Txcharterschools.org*, Texas Charter Schools Association. April 2016. Web. <[www.txcharterschools.org/wp-content/uploads/2016/04/00159-Fast-Facts-update\\_two-sided\\_v2cb-2.pdf](http://www.txcharterschools.org/wp-content/uploads/2016/04/00159-Fast-Facts-update_two-sided_v2cb-2.pdf)> Accessed 15 July 2016.
- <sup>47</sup> "Charter School Funding." Texas Education Agency. *TEA.Texas.gov*. 15 May 2015. Web. <[www.tea.texas.gov/Finance\\_and\\_Grants/State\\_Funding/Charter\\_School\\_Funding/Charter\\_School\\_Finance/](http://www.tea.texas.gov/Finance_and_Grants/State_Funding/Charter_School_Funding/Charter_School_Finance/)> 15 July 2016.; Moak, Lynn M. and Daniel T. Casey, "Texas Charter School Finance Report." Moak, Casey & Associates. Web. <[www.moakcasey.com/articles/viewarticledoc.aspx?EID=c6cdf5fe-1ec6-4914-b75d-ce30c90c9375&AID=10125&DID=9173](http://www.moakcasey.com/articles/viewarticledoc.aspx?EID=c6cdf5fe-1ec6-4914-b75d-ce30c90c9375&AID=10125&DID=9173)> 15 July 2016.
- <sup>48</sup> "New Instructional Facility Allotment." Texas Education Agency. *TEA.Texas.gov*. 20 June 2015. Web. <[www.tea.texas.gov/Finance\\_and\\_Grants/State\\_Funding/Facilities\\_Funding\\_and\\_Standards/New\\_Instructional\\_Facility\\_Allotment\\_Program/](http://www.tea.texas.gov/Finance_and_Grants/State_Funding/Facilities_Funding_and_Standards/New_Instructional_Facility_Allotment_Program/)> 15 July 2016.
- <sup>49</sup> Ho, James C. et al. "Brief of Texas Charter School Association, ET AL. In Response to Brief of State Defendants." *TXSC.org*. July 2015. Web. <[www.txsc.org/wp-content/uploads/2015/07/Charter-School-Plaintiffs-Response-Brief-1.pdf](http://www.txsc.org/wp-content/uploads/2015/07/Charter-School-Plaintiffs-Response-Brief-1.pdf)> 15 July 2016.; Isensee, Laura. "Charter School in Houston Gets Creative with School Building, Financing", *HoustonPublicMedia.org*, Houston Public Media, 9 Feb. 2015. <[www.houstonpublicmedia.org/articles/news/2015/02/09/55778/charter-school-in-houston-gets-creative-with-school-building-financing/](http://www.houstonpublicmedia.org/articles/news/2015/02/09/55778/charter-school-in-houston-gets-creative-with-school-building-financing/)> Accessed 15 July 2016.

## Part 2

# How Districts Fund Schools

## 2.1 Staff Allocation

In 2012, district-level funding became the subject of litigation when a group of parents sued Clint Independent School District, claiming that it allocated more funds to its schools in the Clint area than it did to schools in Horizon City and Montana Vista.<sup>50</sup> Analysis of Clint ISD’s expenditures between 2006 and 2010 support this assertion.<sup>51</sup> For example, Clint ISD’s Clint High School received an average of \$2,709 per pupil more than Horizon High School during this time, despite having a smaller share of disadvantaged students.<sup>52</sup> While the Texas Supreme Court ruled that the plaintiffs must go through administrative channels before pursuing legal action, this case highlights a critical component of school finance that is largely ignored by policymakers (see section 2.2 on page 13 for details).<sup>53</sup>

Clint ISD’s funding problems are not an anomaly as the vast majority of districts employ Full-Time Equivalent (FTE) budgeting systems that diminish equity and transparency. In fact, one Texas study found allocation practices within districts have more effect on school-level resources than revenue inequities among districts.<sup>54</sup> The authors concluded “We should not assume that school finance reforms directed at resolving resource inequalities between school districts will ensure those resources are equitably distributed among schools and their students.”<sup>55</sup>

Rather than giving principals actual dollars that can be spent flexibly based on school priorities, FTE budgeting provides staffing positions—such as teachers, librarians and counselors—according to rigid staffing schedules, such as the example shown in Table 3. As a result, resources that are intended for specific

<sup>50</sup> Martinez, Aaron. “Texas Supreme Court Rules in Favor of Clint ISD.” *El Paso Times*. 1 April 2016. *USAToday.com*. 1 April 2016. Web. <[www.usatoday.com/story/news/2016/04/01/texas-supreme-court-rules-favor-clint-isd/82535338/](http://www.usatoday.com/story/news/2016/04/01/texas-supreme-court-rules-favor-clint-isd/82535338/)> 15 Sept. 2016.

<sup>51</sup> “Brief of Amici Curiae: Clint Independent School District v. Sonia Marquez Herrera, et. al.” The El Paso Interreligious Sponsoring Organization and the Border Network for Human Rights. *TXCourts.gov*. 15 June 2015. Web. <[www.search.txcourts.gov/SearchMedia.aspx?MediaVersionID=74987352-af92-40a2-8971-bab8e82ed880&coa=cossup&DT=BRIEFS&MediaID=5af1221d-8e9a-49c1-9b33-a0ee1d106882](http://www.search.txcourts.gov/SearchMedia.aspx?MediaVersionID=74987352-af92-40a2-8971-bab8e82ed880&coa=cossup&DT=BRIEFS&MediaID=5af1221d-8e9a-49c1-9b33-a0ee1d106882)> 15 Sept. 2016.

<sup>52</sup> Ibid.

<sup>53</sup> Martinez, Aaron. “Texas Supreme Court Rules in Favor of Clint ISD.”

<sup>54</sup> Guin, Kacey, et. al. “Do Districts Fund Schools Fairly?”

<sup>55</sup> Ibid.

students are often used for other purposes, and school leaders have less say over how funds are spent. To demonstrate how this affects students and educators in Texas, it is useful to examine hypothetical examples.<sup>56</sup>

Position	Formula
Principal	1 per high school
Assistant Principal	1 for high schools with fewer than 800 students; 2 for high schools with 800 students or more
Teachers	1 for every 25 students
Guidance Counselor	1 for high schools with fewer than 800 students; 2 for high schools with 800 students or more
Librarian	1 per high school with fewer than 2,000 students; 2 per high school with 2,000 students or more

Note: The example staffing schedule is adapted from one that was previously used by a large urban school district.

Consider how the staffing schedule in Table 3 might play out for two high schools with similar student populations as shown in Table 4. In this scenario, if School #1 had enrolled just five more students it would have received an additional assistant principal, teacher and guidance counselor and if School #2 had enrolled just one less student, it would have lost these same positions. In effect, FTE budgeting distributes resources in a manner in which the addition or subtraction of just one student at an arbitrary cut point can cause significant fluctuations in school resources, and a random system of winners and losers is thus unavoidable. The resulting student-to-staff ratios for these schools are provided in Table 5. In aggregate, students at School #1 receive fewer resources than students in School #2 simply because of how their school’s enrollment compares to the district’s staffing schedule.

Position	School #1	School #2
Enrollment	795	800
Principal	1	1
Assistant Principal	1	2
Teacher	31	32
Guidance Counselor	1	2
Librarian	1	1

Position	School #1	School #2
Principal	795:1	800:1
Assistant Principal	795:1	400:1
Teacher	26:1	25:1
Guidance Counselor	795:1	413:1
Librarian	795:1	400:1
Total	23:1	21:1

<sup>56</sup> The work of Dr. Marguerite Roza of Georgetown University’s Edunomics Lab was instrumental in helping to inform material presented on district allocation practices. Her seminal work, *Educational Economics: Where do School Funds Go?*, was particularly valuable. A debt of gratitude is owed to Dr. Roza and any potential errors or misrepresentations are entirely my own.

Importantly, principals have little autonomy with FTE budgeting. For example, instead of receiving an extra guidance counselor, School #2’s principal might have preferred to spend these funds on classroom technology, tutoring or an additional teacher but is instead given a position that might not address her school’s strategic needs. While charter and private school leaders tend to have significant control over budgeting decisions, this isn’t true for most district schools where a typical principal controls as little as 1%–5% of funding.<sup>57</sup>

Another problematic feature of FTE budgeting is that it equalizes staffing positions so that each school’s resource allotment does not reflect the actual salaries of its teachers. Consider a simplified example in which a district has only two teachers whose salaries are shown in Table 6. In this scenario, Teacher A earns \$20,000 less than Teacher B and the district’s average salary is \$60,000. Now assume that Teacher A works at School #1 and Teacher B works at School #2 as shown in Table 7. Instead of providing each school with a budgeted dollar amount and charging it based on the actual salaries of its teachers—\$50,000 and \$70,000, respectively—each is provided with an equalized staffing allotment based on the districtwide average salary of \$60,000. And since School #1 has the less expensive teacher it essentially provides a \$10,000 subsidy to School #2.

This transfer of resources can add up to significant amounts when scaled over an entire staff and would be less troublesome if teacher quality were distributed uniformly within districts. But research suggests that this isn’t the case, as schools in disadvantaged neighborhoods have more difficulty attracting candidates to fill vacant positions than schools in wealthier neighborhoods and thus have smaller applicant pools.<sup>58</sup> As a result, some principals get the first crack at hiring the most talented teachers, and these schools tend to snap up the more experienced, higher-salaried staffs.<sup>59</sup> So while salary is largely an unreliable predictor of performance for individual teachers,<sup>60</sup> this is not the case when considering variations in average teacher salaries among schools.<sup>61</sup> Marguerite Roza and Paul T. Hill conclude:

*On average, given that each school can hire the best talent available, schools with more applicants get more talent. And our research shows that schools with the most applicants employ higher-salaried teachers. Those with much smaller applicant pools have fewer hiring choices and end up with lower-salaried teachers. In sum, the average salary for all teachers at a given school reflects the school’s ability to hire teachers and thus can be related to teacher quality.<sup>62</sup>*

<sup>57</sup> Travers, Jonathan and Courtney Catalo. “Following the Dollars to the Classroom Door: Why and How Effective Student-Based Budgeting Must be Linked with Strategic School Design.” *Education Resource Strategies*, 2015. Web. <[www.erstrategies.org/cms/files/2506-cleveland-sbb-paper-following-the-dollars-to-the-classroom-door.pdf](http://www.erstrategies.org/cms/files/2506-cleveland-sbb-paper-following-the-dollars-to-the-classroom-door.pdf)> 15 May 2016.

<sup>58</sup> Roza, Marguerite and Paul T. Hill, “How Within-District Spending Inequities Help Some Schools to Fail.”, *Brookings Papers on Education Policy 2004*, Ed. Diane Ravitch. Washington, D.C.: Brookings Institution Press, 2004. 208-211. *Brookings.edu*. Web. <[www.brookings.edu/research/journals/2004/brookingspaperoneducationpolicy2004](http://www.brookings.edu/research/journals/2004/brookingspaperoneducationpolicy2004)> 15 April 2016.

<sup>59</sup> Ibid.

<sup>60</sup> Hanushek, Eric A. “The Failure of Input-Based Schooling Policies.” National Bureau of Economic Research, 2002. Web. <[www.nber.org/papers/w9040.pdf](http://www.nber.org/papers/w9040.pdf)> 9 Jan. 2017.

<sup>61</sup> Roza, Marguerite and Paul T. Hill, “How Within-District Spending Inequities Help Some Schools to Fail.”

<sup>62</sup> Ibid.

A district budgeting system that allocates dollars to schools based on actual salaries—instead of allocating staffing positions based on average salaries—can help eliminate this problem in two ways. First, it would force principals to consider economic tradeoffs in the hiring process, which would allow for a more natural dispersion of teacher quality throughout a district. On the surface, this might seem to introduce an unwelcome element into teacher selection, as current systems typically permit principals to simply “hire the best candidate, irrespective of cost.” But in a world of finite resources, this approach is flawed since some schools will inevitably benefit at the expense of those that have fewer choices. Second, to the extent that an equitable mix of teacher quality among schools is still not achieved within a district, the principals who would otherwise be forced to subsidize their peers are instead permitted to apply cost savings to things such as additional staff, classroom technology, tutoring and incentive pay. This would not only allocate resources based on what individual students are entitled to, but also help foster a better work environment that could help attract talented candidates in the future.

**Table 6: Example Teacher Salaries**

	Teacher A	Teacher B
Actual Salary	\$50,000	\$70,000
District Avg. Teacher Salary	\$60,000	

**Table 7: Example Teacher Salaries Charged to School Budgets**

	School #1	School #2
Actual Teacher Salary	\$50,000	\$70,000
District Avg. Teacher Salary	\$60,000	\$60,000
Net Gain or Loss	(\$10,000)	\$10,000

## 2.2 Case Study: Intradistrict Funding Inequities in Clint Independent School District

Clint ISD’s 14 schools serve nearly 12,000 students in El Paso County.<sup>63</sup> The district’s funding allocations were called into question in *Clint Independent School District vs. Sonia Marquez Herrera et al.*, which provides a valuable case study of intradistrict funding inequities. Although some blame Clint ISD’s problems on its at-large board structure—six of the seven school board trustees live in the town of Clint—such discrepancies are largely caused by budgeting policies that are common in public education, which can be illustrated by comparing two of the district’s schools.<sup>64</sup>

Clint ISD’s Clint High School and Horizon High School are only 13 miles apart, with Horizon having greater shares of low-income, special education and English-language learner students as shown in Figure

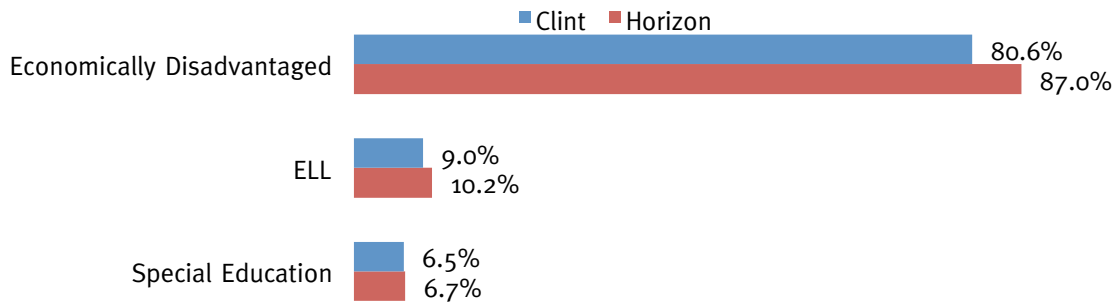
<sup>63</sup> “2014-15 Texas Academic Performance Report: Clint ISD.” Texas Education Agency. *TEA.Texas.gov*. 2015. Web. <<https://rptsvr1.tea.texas.gov/perfreport/tapr/2015/srch.html?srch=D>> 15 Sept. 2016.

<sup>64</sup> Fores, Aileen B. “Equity among Clint ISD schools priority for candidates.” *El Paso Times*. 22 Oct. 2016. *ElPasoTimes.com*. Web. <<http://www.elpasotimes.com/story/news/politics/elections/2016/10/22/equity-among-clint-isd-schools-priority-candidates/92593060/>> 1 Nov. 2016.



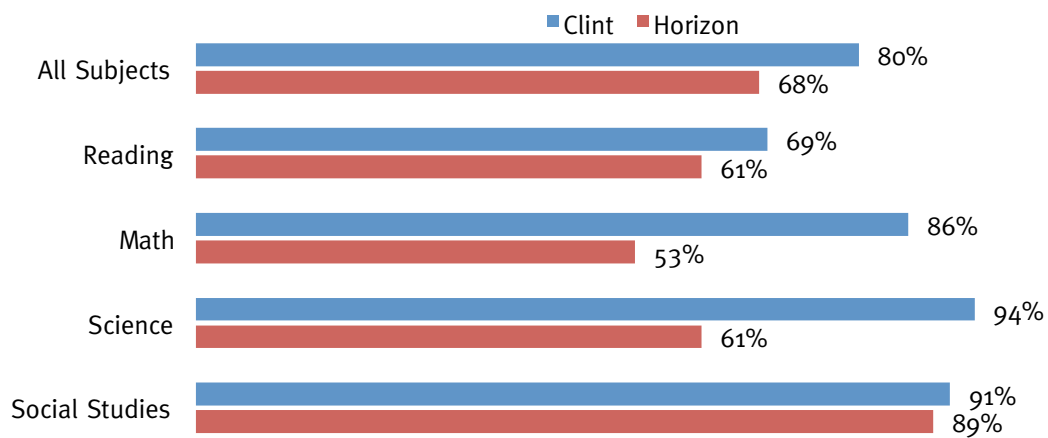
1.<sup>65</sup> In terms of academic outcomes, Clint HS outperforms Horizon across numerous metrics including state testing data, which are provided in Figure 2.<sup>66</sup> Overall, Clint HS students passed 80% of their STAAR exams versus only 68% for Horizon students.

**Figure 1: Demographic Comparison**



Data Source: “2014-15 Texas Academic Performance Report: Horizon H S.” Texas Education Agency. “2014-15 Texas Academic Performance Report: Clint H S.” Texas Education Agency.

**Figure 2: 2014–15 STAAR Results**



Data Source: “2014-15 Texas Academic Performance Report: Horizon H S.” Texas Education Agency. “2014-15 Texas Academic Performance Report: Clint H S.” Texas Education Agency.

Regardless of the apparent greater educational need for Horizon, Clint ISD spent \$1,306 less per pupil on Horizon students during the 2014–15 school year.<sup>67</sup> A primary reason for this difference is how teacher

<sup>65</sup> Based on data obtained from two reports. “2014-15 Texas Academic Performance Report: Horizon H S.” Texas Education Agency. “2014–15 Texas Academic Performance Report: Clint H S.” Texas Education Agency.

<sup>66</sup> Ibid.

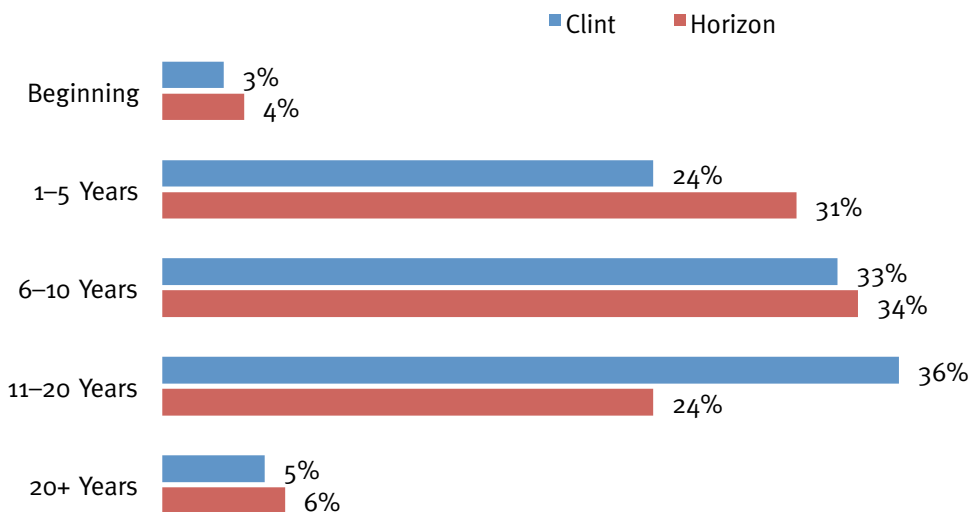
<sup>67</sup> “2014-2015 PEIMS Actual Financial Data, Organized by Campus.” Texas Education Agency. TEA.Texas.gov. Web. <[https://rptsvr1.tea.texas.gov/school\\_finance/forecasting/financial\\_reports/1415\\_allcamp\\_ActRep.html](https://rptsvr1.tea.texas.gov/school_finance/forecasting/financial_reports/1415_allcamp_ActRep.html)> 15 Oct. 2016.

salaries are recognized in the district’s budgeting process, a fact that was acknowledged in an amicus curiae brief written in support of the defense by The Texas Association of School Boards Legal Assistance Funds:

*The testimony of superintendents and school financial officers in the recent school finance trial revealed that districts typically start the budgeting process by allocating staff positions to campuses...Salary levels of personnel are driven, not by the number of students at a campus, but by staff experience levels. By far the largest component of district budgets is personnel. Statewide, districts spend approximately 80% of their operating budgets on payroll. For Clint ISD, that number is 81%. Therefore, variations in salaries alone can have a large impact on the per student expenditure number on which Respondents rely.<sup>68</sup>*

As with most districts, Clint ISD allocates staffing positions in lieu of giving schools actual dollars to spend. These allocations are unrelated to cost, such that principals can hire novice and experienced teachers interchangeably without saving or losing funding for their respective schools. And because Clint ISD uses a traditional pay scale that is based primarily on teaching experience, it spends an inequitable share of money on schools that have more-tenured staffs.<sup>69</sup> This is the case for Clint High School where the average teacher has 1.5 more years of experience and earns an additional \$1,158 compared to the average Horizon teacher.<sup>70</sup>

**Figure 3: Teachers by Years of Experience**



Data Source: “2014-15 Texas Academic Performance Report: Horizon H S.” Texas Education Agency. “2014-15 Texas Academic Performance Report: Clint H S.” Texas Education Agency.

<sup>68</sup> “Amicus Curiae Brief: Clint Independent School District v. Sonia Marquez Herrera, et al.” Texas Association of School Boards Legal Assistance Fund. TXCourts.gov. 4 Dec. 2014. <[www.search.txcourts.gov/Case.aspx?cn=14-0903&coa=cossup](http://www.search.txcourts.gov/Case.aspx?cn=14-0903&coa=cossup)> 1 Nov. 2016.

<sup>69</sup> Clint ISD’s salary schedules can be found at [www.clintweb.net/cms/one.aspx?portalId=28204&pageId=553209](http://www.clintweb.net/cms/one.aspx?portalId=28204&pageId=553209)

<sup>70</sup> Calculations based on data from “2014–15 Texas Academic Performance Report: Horizon H S.” Texas Education Agency. “2014-15 Texas Academic Performance Report: Clint H S.” Texas Education Agency.

## 2.3 Key Problems with Texas' School Finance System

There are seven key problems with Texas' school finance system that policymakers need to address.

**#1 Funding Not Tied to Student Need:** The state adjusts each district's basic allotment by factors that aren't tied to student need. Astoundingly, the Cost of Education Index hasn't been adjusted since it was implemented in 1991 despite the fact that demographics have evolved rapidly in Texas.<sup>71</sup> In total, about \$2.36 billion of funding is dispersed to districts annually based on this outdated index that does not reflect current realities.<sup>72</sup>

Similarly, the diseconomies of scale adjustments that provide additional funding for small and midsize districts are also problematic. While district size can bring about economies of scale, research has shown that these economic benefits diminish as size increases and that per-pupil expenditures actually increase when an optimal district size is breached.<sup>73</sup> A comprehensive study of Michigan districts indicates that the most cost-effective size is about 2,900 students, suggesting that Texas' funding system overestimates the cost savings of its larger districts while providing additional funding to others based on non-existent or exaggerated disadvantages related to scale.<sup>74</sup>

As a result of these adjustments, there were a total of 223 different basic allotments for 1,019 districts in 2014–15, and students with identical needs often receive varying levels of financial support.

**#2 Obsolete Provisions Favor Students in Some Districts Over Others:** Various hold-harmless provisions in the state's funding formula have caused inequities for decades. Most notably, a Target Revenue system was overlaid on Foundation School Program formulas after local tax rates were compressed by House Bill 1 in 2006, which essentially set a per-pupil funding floor for districts.<sup>75</sup> Even though it was intended to be a temporary measure to help districts transition to a new system, 24% of districts are still funded by this mechanism.<sup>76</sup>

Target Revenue has arbitrarily benefited some districts over others, as it bases funding on historical factors rather than a district's current students.<sup>77</sup> According to the Equity Center, "When a segment of districts receives funding outside a cost-based formula system, other districts and their taxpayers are footing the bill

<sup>71</sup> Texas Education Agency, "School Finance 101: Funding of Texas Public Schools, January 2013."

<sup>72</sup> Barba, Michael et. al. "Texas School Finance: Basics and Reform."

<sup>73</sup> Coulson, Andrew J. "School District Consolidation, Size and Spending: an Evaluation." Mackinac Center for Public Policy, 2007. Web.<[www.mackinac.org/8530](http://www.mackinac.org/8530)> 15 April 2016.

<sup>74</sup> Ibid.

<sup>75</sup> Ibid.; Texas Association of School Boards, "Financial Responsibility Guide."

<sup>76</sup> Barba, Michael et. al., "Texas School Finance: Basics and Reform."

<sup>77</sup> Pierce, Wayne. "Report for Texas Taxpayer and Student Fairness Coalition, et. al. v. Robert Scott, et. al."

to keep such non-cost based funding in place. Non-privileged districts with taxpayers taxed at higher rates are in effect subsidizing the higher funded, lower-taxing districts.”<sup>78</sup>

Equity Center estimates that continuing this failed policy beyond its scheduled expiration date in 2017 will shortchange students in over 75% of districts including Houston ISD, Dallas ISD and El Paso ISD.<sup>79</sup> In fact, Houston ISD alone stands to lose an astounding \$14.1 million as a result of allowing Target Revenue to persist.<sup>80</sup>

**#3 Unequalized Tax Revenues:** The current system provides districts with access to unequalized revenues through both M&O and I&S taxes, which ultimately creates funding disparities that are unrelated to tax effort and student need while enabling districts to waste tax dollars. This problem is especially acute with I&S taxes of which no portion is subject to recapture. Katy ISD’s \$70.3 million football stadium is a monument to this problem, with similar venues in Allen ISD and McKinney ISD.<sup>81</sup>

It is true that Texas’ Instructional Facilities Allotment and Existing Debt Allotment programs provide districts with a guaranteed yield of facilities funding, but this level of support hasn’t been updated since 1999 and many districts have become ineligible for state funds at this threshold.<sup>82</sup> As a result, the average high-wealth district raises more than three times as much I&S revenue as the average low-wealth district, even at a lower average tax rate.<sup>83</sup> And when M&O and I&S taxes are combined, the funding gap between the highest and lowest wealth districts is about \$3,400 per pupil, despite the fact that the latter taxes at higher rates.<sup>84</sup>

Some property-wealthy districts are also gaming the system by purchasing things that are typically paid for with M&O revenue—such as furniture, buses and computers— with I&S revenue.<sup>85</sup> By forgoing M&O tax rates that are subject to recapture (i.e. “Copper Pennies”), districts can raise the same level of revenue with I&S taxes at lower rates or raise more revenue at the same rates.<sup>86</sup> This places students and taxpayers in property-poor districts at a significant funding disadvantage relative to their counterparts in wealthier districts. Policymakers should view this as a systemic flaw and be wary of technocratic tweaks that only serve as temporary patches.

**#4 Intradistrict Funding Policies:** Texas’ school finance system ultimately funds districts rather than students. Even though the Foundation School Program uses a weighted-student formula that promotes equity,

<sup>78</sup> “In Depth: Understanding Texas School Finance,” *Equity Center*, 2016. Web. <[www.equitycenter.org/indepth-home/](http://www.equitycenter.org/indepth-home/)> 1 Sept. 2016.

<sup>79</sup> Ibid.

<sup>80</sup> Ibid.

<sup>81</sup> Herrera, Sebastian. “Cost of Katy ISD football stadium tops \$70 million.” *Houston Chronicle*. 28 Oct. 2016. Web. <[www.chron.com/neighborhood/katy/news/article/Cost-of-Katy-ISD-football-stadium-garners-10420133.php](http://www.chron.com/neighborhood/katy/news/article/Cost-of-Katy-ISD-football-stadium-garners-10420133.php)> 1 Nov. 2016.

<sup>82</sup> Pierce, Wayne. “Report for Texas Taxpayer and Student Fairness Coalition, et. al. v. Robert Scott, et. al.”

<sup>83</sup> Ibid.

<sup>84</sup> Ibid.

<sup>85</sup> Ibid.

<sup>86</sup> Ibid.

there is no guarantee that funds are spent on the students they're intended for as district-level policies often lead to inequitably allocated resources. This is because FTE budgeting allocates staffing-positions based on district-wide average teacher salaries instead of sending actual dollars to principals. In this system, not only do schools in disadvantaged neighborhoods have less access to talented teachers than affluent schools, but they're also forced to subsidize their more expensive staffs.

An analysis by Marguerite Roza examined numerous districts, including Austin and Dallas, and found that "...teacher salaries are an average of \$1,000 to \$5,000 higher in schools with fewer poor students than in the highest-poverty schools in the same district."<sup>87</sup> Because schools in these districts are given resources based on staffing positions with equalized salaries, principals aren't permitted to realize these savings and apply them to specific resources that would benefit students. In a separate study, Roza and Paul T. Hill found that the average gain or loss within four districts evaluated ranged from \$72,576 to \$120,612 with one school losing an astounding \$959,730 due to district policies.<sup>88</sup>

To be sure, teachers and principals should be empowered to drive the hiring process, even if it still results in an uneven distribution of talent across a district. What matters is that schools receive the funding allotment their students are entitled to, which is currently not the case in most districts. A district budgeting system that allocates actual dollars and provides principals with autonomy to make tradeoffs with scarce resources would help ensure that all schools get a fair shot at hiring talented teachers without forcing those with less expensive staffs to subsidize the others. Just as Pell grants easily follow students across postsecondary institutions, the same should be true of K-12 funding allotments. This is the only way to guarantee that funding allotments reach the students they're intended for.

**#5 District Enrollment Policies Restrict Parent-Driven Accountability:** Texas parents have little say in how their child's education dollars are spent. Because virtually all districts use residential assignment—the practice in which a family's address determines what school they attend—it can be difficult for dissatisfied parents to enroll their child in a public school that better fits their needs.

Overall, Texas districts fared poorly in Brookings Institution's *Education Choice and Competition Index*, which evaluated 112 large districts based on 13 factors, such as alternatives to traditional district schools, access to information for parents and performance data transparency. Even Houston Independent School District, which was rated as the sixth best choice system in the U.S., falls well short of the nation's frontrunners, as it still gives students default school assignments based on geographical zones and lacks a streamlined enrollment process that accounts for parental preferences.<sup>89</sup> And while the district boasts popular

<sup>87</sup> Roza, Marguerite. "Educational Economics: Where do School Funds Go?"

<sup>88</sup> Roza, Marguerite and Paul T. Hill. "How Within-District Spending Inequities Help Some Schools to Fail."

<sup>89</sup> Klein, Ellie and Grover J. (Russ) Whitehurst. "Interactive: The 2015 Education Choice and Competition Index, Houston Independent School District." Brookings Institution, 2016. Web. <[www.brookings.edu/interactives/the-2015-education-choice-and-competition-index/?keyword=choice%20competition%20index](http://www.brookings.edu/interactives/the-2015-education-choice-and-competition-index/?keyword=choice%20competition%20index)> 15 May 2016; Whitehurst, Grover (Russ) J., "Education Choice and Competition Index 2015: Summary and Commentary." Brookings Institution, 2016. Web. <[https://www.brookings.edu/wp-content/uploads/2016/02/ecci\\_2015\\_final.pdf](https://www.brookings.edu/wp-content/uploads/2016/02/ecci_2015_final.pdf)> 15 April 2016.

magnet schools, there were 71,743 applications for only 18,569 seats in the 2015–16 school year.<sup>90</sup> As a result, Houston ISD families must navigate disjointed processes, and their options are often limited by a lack of available seats. Table 8 summarizes the performance of Texas school districts in Brookings Institution’s study.

District	Overall Ranking	Letter Grade
Houston ISD	6	B
Garland ISD	32	C
Dallas ISD	37	C-
Aldine ISD	54	C-
Conroe ISD	54	C-
North East ISD	68	D
Northside ISD	72	D
Cypress-Fairbanks ISD	37	D
Fort Bend ISD	73	D
San Antonio ISD	73	D
Klein ISD	73	D
Austin ISD	86	F
Katy ISD	88	F
Lewisville ISD	88	F
Arlington ISD	96	F
Pasadena ISD	96	F
Fort Worth ISD	102	F
Alief ISD	103	F
Brownsville ISD	105	F
El Paso ISD	105	F

Source: “Interactive: The 2015 Education Choice and Competition Index.” The Brookings Institution.

**#6 Funding Failure Instead of High-Quality Options for Low-income Students:** Texas’ funding policies have not kept pace with parental demand as nearly 130,000 students remain on waiting lists for charters throughout the state, despite the fact that research has proven their effectiveness in serving low-income students.<sup>91</sup> Nationally, all four randomized controls trials—the “gold standard” of social science research—on charters indicate that they effectively serve urban students.<sup>92</sup> And in a study of Texas charters, Stanford University’s Center on Research on Education Outcomes found that in a school year students in poverty who attended charters had a 14-day learning advantage in reading and a 22-day learning advantage in math compared to the same group attending district schools.<sup>93</sup>

<sup>90</sup> It’s important to note that parents often apply to multiple schools, so the application figures don’t necessarily equate to the number of unique families that applied. Nevertheless, it’s evident that there is a substantial gap between the supply of seats in HISD’s magnet schools and families who wish to enroll in them. Jenkins, Lynn and Dianne Johnson. “Co-exist or Collaborate? Strategic Options for Growing the Number of Quality Public School Seats in Houston.” Houston A+ Challenge, 2016. Web. <<http://www.houstonaplus.org/wp-content/uploads/2016-07-29-Charter-WP-3-Logos.compressed.pdf>> 15 August 2016.

<sup>91</sup> Dunn, David. “It’s Time for Texas to Invest in All Public School Students.” TribTalk.org, The Texas Tribune. 21 July 2016. Web. <[www.tribtalk.org/2016/07/21/its-time-for-texas-to-invest-in-all-public-school-students/](http://www.tribtalk.org/2016/07/21/its-time-for-texas-to-invest-in-all-public-school-students/)> 15 Aug. 2016.

<sup>92</sup> Greene, Jay P. “Charter Benefits are Proven by the Best Evidence.” George W. Bush Presidential Center, May 2012. Web. <[www.bushcenter.org/publications/articles/2012/09/charter-benefits-are-proven-by-the-best-evidence.html](http://www.bushcenter.org/publications/articles/2012/09/charter-benefits-are-proven-by-the-best-evidence.html)> 15 July 2016.

<sup>93</sup> “Charter School Performance in Texas.” Center for Research on Educational Outcomes, Stanford University, 2015. Web. <[www.credo.stanford.edu/pdfs/Texas\\_report\\_2015.pdf](http://www.credo.stanford.edu/pdfs/Texas_report_2015.pdf)>

The Texas Legislature compounded this problem in 2013 when it passed Senate Bill 2 (SB 2). While SB 2 will raise the charter cap to 305 by 2019, it also transferred authorization authority from the State Board of Education to the Commissioner of Education and required the Commissioner to adopt additional application standards.<sup>94</sup> These changes have frustrated applicants and seem to have discouraged out-of-state operators from entering the state.<sup>95</sup> According to Carpe Diem Learning Systems CEO Robert Sommers, the onerous application can take years to complete.<sup>96</sup> And a study by American Enterprise Institute found that of 15 state education agency authorizers, Texas' application requires the greatest number of tasks—more than double what's required by Massachusetts,<sup>97</sup> which is renowned for its high-performing charter sector.<sup>98</sup> In 2016, only two of 26 applicants for Texas charters were granted and the states' 183 charters is well below even the previous cap of 215.<sup>99</sup> Clearly, the obstructive red tape is the greatest hindrance to charter school proliferation after facilities funding.

To be sure, SB 2 supporters had good intentions as they sought to increase the number of high-quality operators in Texas, but research suggests that the state's low-regulation environment effectively fostered quality at a time of rapid growth. One study found that between 2001 and 2011 the average charter school made substantial improvements relative to districts schools, concluding “Our analysis clearly indicates that charter school quality has improved over time in Texas.”<sup>100</sup> And since SB 2 also included strict provisions that rapidly close underperforming charters, Texas' authorization requirements are especially unwarranted and only serve as bureaucratic hurdles to providing more choice for families who are stuck on waiting lists. American Enterprise Institute estimates that the typical application could be shortened by at least one-third, saving applicants more than 700 hours of work—all while maintaining the same level of quality.<sup>101</sup> Such bureaucratic obstacles prevent high-quality options, such as charter schools, from proliferating in Texas, despite strong parental demand. This is especially troubling as students in Texas' low-income communities disproportionately attend failing schools. In 2015, more than one in 10 schools with low-income populations of 50% or greater were rated “Improvement Required” by the Texas Education Agency, whereas less than

<sup>94</sup> Texas (State). Legislature. Senate. “S.B. No. 2.” 83<sup>rd</sup> R.S., 2013. Web. <[www.legis.state.tx.us/tlodocs/83R/billtext/pdf/SB00002F.pdf](http://www.legis.state.tx.us/tlodocs/83R/billtext/pdf/SB00002F.pdf)> 15 Dec. 2016. See also: “Texas Public Charter Schools 20 Years Later: A State of the Sector Report.” Texas Charter Schools Association, 2016. Web. <[http://www.txcharterschools.org/wp-content/uploads/2016/12/TCSA\\_State\\_of\\_Sector.pdf](http://www.txcharterschools.org/wp-content/uploads/2016/12/TCSA_State_of_Sector.pdf)> 7 Jan. 2017.

<sup>95</sup> Texas Public Charter Schools 20 Years Later: A State of the Sector Report.” Texas Charter Schools Association.

<sup>96</sup> Lindquist, Ian and Jenn Hatfield. “Simplifying Charter School Authorization for High Performers.” American Enterprise Institute, 2016. Web. <<http://www.aei.org/publication/simplifying-charter-school-authorization-for-high-performers/>> 7 Jan. 2017.

<sup>97</sup> McShane, Michael Q. et. al. “The Paperwork Pile-Up: Measuring the Burden of Charter School Applications.” American Enterprise Institute, 2015. Web. <[www.aei.org/wp-content/uploads/2015/05/Paperwork-Pileup-final.pdf](http://www.aei.org/wp-content/uploads/2015/05/Paperwork-Pileup-final.pdf)> 15 Dec. 2016.

<sup>98</sup> Eden, Max. “Lifting the Massachusetts Cap on Charter Schools: Pro and Con.” Manhattan Institute, 2016. Web. <<http://www.manhattan-institute.org/html/massachusetts-charter-school-cap-pro-con-9278.html>> 15 Dec. 2016.

<sup>99</sup> Texas Public Charter Schools 20 Years Later: A State of the Sector Report.” Texas Charter Schools Association. Note: The number of charters in operation is not necessarily identical to the number of charter campuses. Existing charters have separate processes by which to add new campuses. For example, YES Prep Public Charter Schools has multiple campuses operating under one charter. In 2016, there were 629 open enrollment charter campuses in Texas and while total charter enrollment has grown rapidly, it hasn't kept pace with parental demand for the reasons noted above.

<sup>100</sup> Baude, Patrick L. et. al. “The Evolution of Charter School Quality.” The National Bureau of Economic Research, 2014. Web. <[http://harris.uchicago.edu/sites/default/files/Rivkin.paper\\_.pdf](http://harris.uchicago.edu/sites/default/files/Rivkin.paper_.pdf)> 15 Aug. 2016.

<sup>101</sup> McShane, Michael Q. et. al. “The Paperwork Pile-Up: Measuring the Burden of Charter School Applications.”

one in one hundred schools with low-income populations of less than 50% received the same rating.<sup>102</sup> These figures are summarized in Table 9.

<b>% of Students Economically Disadvantaged</b>	<b># of Schools Rated</b>	<b># Rated Improvement Required</b>	<b>% Rated Improvement Required</b>
<25%	909	0	0%
25-50%	1681	19	1.1%
50-75%	2563	146	5.7%
>75%	2926	438	14.9%
<b>TOTAL</b>	<b>8079</b>	<b>603</b>	<b>7.5%</b>

Data Source: Calculations based on data obtained from “2014-15 TAPR Download of Selected Data.” Texas Education Agency. Web. <<https://rptsvr1.tea.texas.gov/perfreport/tapr/2015/xplore/DownloadSelData.html>> 15 April 2016. Note: Data do not include the 567 campuses that were not rated by Texas Education Agency for various reasons.

**#7 Lack of Transparency:** Texas’ financial reporting system falls short of maximizing transparency. Currently, key school-level financial data are publicly available but difficult to access since they’re warehoused in separate reports. For example, the Texas Academic Performance Report shows metrics such as a school’s average teacher salary but only provides links to more comprehensive information in the Public Education Information Management System. And while Texas’ School Report Cards that summarize school performance provide a financial snapshot and links to the two aforementioned reports, they don’t highlight some of the key metrics that all parents should be informed of. Texas should be commended for making this information available, but end-users are forced to piece together financial data by navigating several reports, which makes it difficult for stakeholders to make valuable comparisons across districts, schools and demographics.

<sup>102</sup> Calculations based on data obtained from “2014-15 TAPR Download of Selected Data.” Texas Education Agency. Web. <<https://rptsvr1.tea.texas.gov/perfreport/tapr/2015/xplore/DownloadSelData.html>> 15 April 2016.



## Part 3

# Recommendations

## #1 Move Away from Relying on Local Revenues to Fund Public Education

Public education is enshrined in the Texas Constitution, which states “A general diffusion of knowledge being essential to the preservation of the liberties and rights of the people, it shall be the duty of the Legislature of the State to establish and make suitable provision for the support and maintenance of an efficient system of public free schools.”<sup>103</sup> The Texas Supreme Court’s *Edgewood I* decision shaped the parameters by which this mandate is funded by establishing a financial efficiency standard that requires districts to have “substantially equal access to similar revenues per pupil at similar levels of tax effort.”<sup>104</sup> In practice, legislators have few options for achieving this aim, which is made especially difficult by vast differences in property wealth among districts.

The Robin Hood system currently in place helps satisfy legal requirements and provides a foundation for delivering funds equitably, but its manner of redistribution is politically contentious. Although this view is somewhat misguided, since *any* system of public school finance is inherently redistributive, the current mechanism is nevertheless susceptible to serial litigation and overwrought complexity. Policymakers should seek a more effective system that not only complies with Texas’ legal requirements, but also allocates tax dollars transparently and in a manner that best incentivizes high-quality options for families.

One option for policymakers is to create consolidated funding districts, which would equalize property wealth by combining districts for tax purposes only.<sup>105</sup> In this system, the newly formed entities would be responsible for levying local M&O taxes while districts would still receive support from state and federal sources. Although this would likely satisfy Texas’ legal requirement for financial efficiency and simplify the distribution of state funds, it would fail to ensure student-level funding equity since local spending would ultimately vary by consolidated district. An additional drawback is that membership in these entities would be subject to frequent and disruptive changes in order to keep pace with fluctuations in property wealth. As a result, this option would trade one set of problems for another without fully addressing one of the most

<sup>103</sup> “The Texas Constitution.” Article 7. Education.” Web.<[www.statutes.legis.state.tx.us/Docs/CN/htm/CN.7.htm#7.1](http://www.statutes.legis.state.tx.us/Docs/CN/htm/CN.7.htm#7.1)> 7 Jan. 2017.

<sup>104</sup> Willett, Don R. “Morath, et. al. v. Texas Taxpayer and Student Fairness Coalition, et.al.”

<sup>105</sup> HB 654 filed by Rep. Jimmie Don Aycock in the 84<sup>th</sup> Legislature is an example of such a proposal and is available at [www.legis.state.tx.us/tlodocs/84R/billtext/pdf/HB00654I.pdf#navpanes=0](http://www.legis.state.tx.us/tlodocs/84R/billtext/pdf/HB00654I.pdf#navpanes=0). For a summary of this bill by Moak, Casey & Associates see [www.moakcasey.com/articles/viewarticledoc.aspx?EID=7de7c0b9-0170-4262-888e-a8d16989d5eb&AID=7811&DID=6609](http://www.moakcasey.com/articles/viewarticledoc.aspx?EID=7de7c0b9-0170-4262-888e-a8d16989d5eb&AID=7811&DID=6609).

pressing issue at hand. Instead, it seems that it would only create a new layer of bureaucracy without providing any incentive for using tax dollars more effectively.

The only solution that would guarantee financial efficiency, fund students equitably and put an end to decades of litigation is to replace local revenues with state revenues. In this system, operational funding wouldn't have any relation to property value and the resources provided to students wouldn't reflect variations in wealth. A primary objection to this plan is that it would strip away local autonomy, but as the current system shows, relying on local taxes has little relation to autonomy as the state mandates key elements such as teacher pay, class size and credentialing requirements, which research has shown to be ineffective in boosting achievement.<sup>106</sup> Rather, ending Texas' reliance on local revenue would help pave the way to a funding mechanism that promotes parental demands for choice and ensures that students in need receive their educational funding, all in a context of the equity that a public education system mandates.

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It is critical for parental choice advocates to understand how school finance systems that rely on local revenue can obstruct educational freedom. For example, charters in Pennsylvania receive about 83% of revenue directly from districts based on the students they enroll and these funds are largely tied to the dollars that districts raise locally.<sup>107</sup> As a result, charter funding varies wildly from \$6,865 to \$18,750 per pupil and districts can prohibit students who reside outside their boundaries from enrolling in the charters they fund.<sup>108</sup> This not only increases tensions between charter and district officials, but also forces some families to falsify their address in order to enroll in a better school, putting them at risk for criminal charges.<sup>109</sup> In some states, local revenue and other legalities can also complicate funding for choice programs such as education savings accounts by necessitating an annual appropriation of state funds, which is susceptible to constant political risk and can arbitrarily cap the number of participating students. Fortunately, Texas' current system helps negate these problems since all revenue is essentially allocated from the same pot, but moving to a system free of local revenues altogether would be even more effective and transparent. Policymakers should work toward this as a long-term solution that both liberty and equity advocates can support.

<sup>106</sup> "Brief of Appellants Texans for Real Equity and Efficiency in Education and Texas Association of Business, et al." Supreme Court of Texas. April 13, 2015. 22–30. Print.

<sup>107</sup> "PBSA Special Report: Charter School Revenues, Expenditures and Transparency." Pennsylvania School Boards Association. *PBSA.org*. 17 Aug. 2016. Web. <[www.psba.org/wp-content/uploads/2016/08/Charter-School-RtK-08172016.pdf](http://www.psba.org/wp-content/uploads/2016/08/Charter-School-RtK-08172016.pdf)> 15 Nov. 2016.

<sup>108</sup> Ibid.; Nerl, Daryl. "Bethlehem Area School District uses private eye to track non-resident students," *The Morning Call*. 6 Dec. 2016. *Mcall.com*. Web. <[www.mcall.com/news/local/bethlehem/mc-bethlehem-charter-school-residency-investigationrecovered-mon-dec--5-17501-20161206-story.htm](http://www.mcall.com/news/local/bethlehem/mc-bethlehem-charter-school-residency-investigationrecovered-mon-dec--5-17501-20161206-story.htm)> 15 Nov. 2016.

<sup>109</sup> Nerl, Daryl. "Bethlehem Area School District uses private eye to track non-resident students."

## #2 Adopt Student-Based Budgeting

Regardless of how education revenues are raised, the Lone Star State should adopt student-based budgeting, a funding portability framework that maximizes equity and empowers principals to make resource allocation decisions. Student-based budgeting is rapidly expanding as states and districts look to modernize their school finance systems. It is based on five key principles, as outlined by Reason Foundation’s *A Handbook for Student-based Budgeting, Principal Autonomy and School Choice*.<sup>110</sup>

1. Funding systems should be as simple and transparent as possible.
2. Per-pupil funding should be based on the needs of each student.
3. Per-pupil funding should follow the student to the public school of their choice.
4. Principals should receive actual dollars—not staffing positions or other allotments—to spend flexibly based on school needs.
5. Funding allocation principles should apply to all sources of education revenue.

Fortunately, Texas already has some of the underpinnings required for student-based budgeting and only four changes are needed to adopt this system.

### *Provide an Equal Funding Base for All*

The Foundation School Program formula should be simplified so that it provides a robust basic allotment that is the same for all students. To promote equity, this figure should only be adjusted by programmatic weights that are based on student characteristics such as special education, compensatory education and bilingual education, which will ensure that student need—not political influence and outdated formulas—drives the allocation of dollars. And if policymakers allow the state’s Target Revenue system to expire as scheduled in 2017, then funds that are currently distributed arbitrarily will instead be funneled into the basic allotment, which means that more dollars will be allocated based on student needs rather than political arrangements.<sup>111</sup>

### *Allow Principals Financial Autonomy*

At least 80%–90% of each student’s funding allotment should be pushed directly to the school in which he or she is enrolled, similar to what Texas already does with charters. This will guarantee that funds are spent on the students they’re intended for while also affording principals greater autonomy over expenditures since

<sup>110</sup> Snell, Lisa. “A Handbook for Student-Based Budgeting, Principal Autonomy and School Choice.” Reason Foundation, 2013. Web. <[www.reason.org/files/student\\_based\\_budgeting\\_handbook.pdf](http://www.reason.org/files/student_based_budgeting_handbook.pdf)> 15 April 2016.

<sup>111</sup> Equity Center, “In Depth: Understanding Texas School Finance.”

they would receive actual dollars and not staffing allotments or other inputs. If legislators fail to implement this as a state-level reform then leaders should be encouraged to adopt it locally as more than 30 districts across the U.S. have already done. In cities such as Houston, Denver and Boston, funds are allocated by a weighted-student formula and principals receive actual dollars to spend flexibility rather than staffing positions or other inputs. This system has proven to be popular among principals, as 87% of those surveyed wanted to keep it.<sup>112</sup>

### *Improve Transparency*

Texas should improve financial transparency by modernizing its reporting system. The best option would be to create an interactive website that allows the public to easily view, compare and download financial data. This dedicated portal would make it easy to compare spending patterns across districts and campuses while also providing users with demographic data for even greater context. With a few mouse clicks, parents would be able to see things such as per pupil operating expenditures, average campus salaries and spending on special education students across multiple schools all on one page.

Short of this, financial transparency can also be improved by making minor adjustments to current reports. For example, robust financial data can be included in each school's Texas Academic Performance Reports and key measures such as average teacher salaries can also be provided in the School Report Cards. By maximizing transparency parents and policymakers will have the tools necessary to ensure that tax dollars are reaching the students they're intended for.

### *Implement School Choice*

Texas districts can give parents more say over how their child's education dollars are spent by replacing residential assignment with a robust system of public school choice. To do this, districts should look at how cities such as such as Denver and New Orleans have modernized enrollment practices via "common enrollment." Within this system, parents rank their preferences and submit a single application that a computerized algorithm uses to place each child as close to his or her top choice as possible.<sup>113</sup> A notable advantage of common enrollment is that it provides families with more equitable access to choices while eliminating the need to navigate separate application processes.<sup>114</sup> Although still in its infancy, early signs are promising. In Denver's first three years of using common enrollment, most participating families in transition grades were matched to their first choice, with about 90% being matched to one of their choices.<sup>115</sup>

<sup>112</sup> "Fair Student Funding Summit: Conference Proceedings and Recommendations for Action." Education Resource Strategies, 2010. Web. <<https://www.erstrategies.org/cms/files/1022-fair-student-funding-summit.pdf>> 15 April 2016.

<sup>113</sup> "Coordinating Enrollment Across School Sectors: An Overview of Common Enrollment Systems." Center on Reinventing Public Education, 2014. Web. <<http://www.crpe.org/publications/coordinating-enrollment-across-school-sectors-overview-common-enrollment-systems>> 15 July 2016.

<sup>114</sup> Ibid.

<sup>115</sup> Gross, Betheny and Patrick Denice. "An Evaluation of Denver's SchoolChoice Process, 2012-2014." Center on Reinventing Public Education, 2015. Web. <[www.crpe.org/sites/default/files/crpe-report-evaluation-denver-schoolchoice\\_process.pdf](http://www.crpe.org/sites/default/files/crpe-report-evaluation-denver-schoolchoice_process.pdf)> 15 Aug. 2016.

### #3 Expand Access to High Quality Education Options

Texas' supply of high-quality options is currently insufficient, yet state policies prevent the charter sector from growing in response to parental demand despite the fact that research has shown that charters are effectively serving low-income families. Policymakers should consider ways to make funding more equitable for charter students. One possibility is using credit ratings to provide proven charters with a per-pupil facilities allotment that is dedicated to expansion. A mechanism to back tax-exempt bonds for high-performing charters is already in place with Texas' Charter District Bond Guarantee Program.<sup>116</sup> To qualify, charters must be in existence for at least three years and receive an investment-grade rating from a recognized firm.<sup>117</sup> These ratings are based on rigorous criteria that indicate quality, including academic outcomes, financial stability and waitlist data.<sup>118</sup> To date, only 14 of 183 charters have applied and met this standard.<sup>119</sup> Although qualifying charters receive more favorable terms—and thus lower issuance and interest costs—they still must service long-term debt obligations with operational funds. Providing a per-pupil facilities allotment to these charters would allow them to serve more students without diverting funds from classrooms.

To be certain, this is a modest proposal, as only 36 bond issues have been guaranteed since the program was implemented in 2014, and a cap on outstanding guarantees continues to limit expansion.<sup>120</sup> Given this fact, combined with Texas' need for more high-quality schools that serve low-income students, lawmakers should consider extending this allotment to both existing and future bond issues that are backed by the state.

Additionally, policymakers should allow parents to pursue more diverse educational options by adopting an innovative program that puts student needs first: Education Savings Accounts (ESA).

ESAs allocate a portion of a student's funding allotment to a special account that parents can use to purchase approved services such as private school tuition, tutoring, educational therapies, curricula, individual public school courses and college courses.<sup>121</sup> Ultimately, families are free to choose the combination of approaches that best works for their situation within a defined umbrella of options. Arizona created the nation's first

<sup>116</sup> "The Permanent School Fund Guarantee Program." Texas Education Agency. *TEA.Texas.gov*. 31 Dec. 2015. Web. <<http://tea.texas.gov/index2.aspx?id=25769817560>> 15 Aug. 2016.

<sup>117</sup> Ibid.

<sup>118</sup> Holloran, Kevin and Brian J. Marshall. "Uplift Education, Texas; Charter Schools." Standard & Poor's, 2012. Web. <[www.uplifteducation.org/cms/lib01/TX01001293/Centricity/Domain/1/Uplift%20Education%20SP%202012%20Final.pdf](http://www.uplifteducation.org/cms/lib01/TX01001293/Centricity/Domain/1/Uplift%20Education%20SP%202012%20Final.pdf)> 15 Aug. 2016. For additional information demonstrating how effective underwriting standards can incentivize quality and minimize defaults for tax-exempt facilities bonds for charters schools, see also: "Charter School Bond Issuance: A Complete History, Volume 2." Local Initiatives Support Corporation, 2012.

<sup>119</sup> Dunn, David. "SBOE Right to Expand Bond Guarantees for Charters." *San Antonio Express-News*. 29 Dec. 2016. *MySanAntonio.com*. Web. 8 Jan. 2017. <[www.mysanantonio.com/opinion/commentary/article/SBOE-right-to-expand-bond-guarantees-for-charters-10825159.php](http://www.mysanantonio.com/opinion/commentary/article/SBOE-right-to-expand-bond-guarantees-for-charters-10825159.php)> 7 Jan. 2017.

<sup>120</sup> "Texas Permanent School Fund Bond Guarantee Program Summary." Texas Education Agency. *TEA.Texas.gov*. November 2016. <[http://tea.texas.gov/Finance\\_and\\_Grants/Texas\\_Permanent\\_School\\_Fund/Texas\\_Permanent\\_School\\_Fund\\_Disclosure\\_Statement\\_-\\_Bond\\_Guarantee\\_Program/](http://tea.texas.gov/Finance_and_Grants/Texas_Permanent_School_Fund/Texas_Permanent_School_Fund_Disclosure_Statement_-_Bond_Guarantee_Program/)> 7 Jan. 2017.

<sup>121</sup> Ladner, Matthew. "The Next Step in School Choice." *EducationNext.com*. Summer 2016. Web. <[www.educationnext.org/the-next-step-in-school-choice-forum-education-savings-accounts/](http://www.educationnext.org/the-next-step-in-school-choice-forum-education-savings-accounts/)> 15 Aug. 2016.

ESA program in 2011 with its Empowerment Scholarship Accounts, which was originally designed to help children with special needs and now extends to other groups including students attending underperforming schools, children in foster care and military dependents.<sup>122</sup> Similar laws have since been passed in Mississippi, Florida, Tennessee and Nevada.<sup>123</sup>

The benefits of this innovative approach go beyond customization. First, ESAs save taxpayers money since they are funded at discounted levels. For example, legislation passed in Nevada funds students at 90% of the statewide per-pupil average, with low-income and disabled students receiving additional support.<sup>124</sup> ESAs also incentivize efficiency, as unused funds can be rolled over from year to year and even applied to college tuition later on.<sup>125</sup> Most importantly though, research has proven the numerous benefits of providing parents with choice. A recent meta-analysis by Ed Choice’s Greg Forster showed that empirical studies have overwhelmingly found that school choice programs have positive effects on student achievement, civic values and racial segregation.<sup>126</sup> Of the 18 random control trials on the academic outcomes of participants, 14 found school choice had positive effects while only two found any negative effect.<sup>127</sup>

Texas should adopt a universal ESA program that provides participating students with 90% of their basic allotment plus any programmatic funding they are eligible for through Foundation School Program formulas. As a safeguard against fraud, the state can issue parents use-restricted debit cards that are subject to regular oversight and audits, and a robust ratings service—similar to Consumer Reports or Yelp—could be created so families can rate and share experiences related to the quality of service providers, information that could then be used to restrict low-quality educators from receiving public funds. This is preferable to regulating service providers on the front-end, which would not only create barriers that would prevent diverse options from flourishing, but would also be more cumbersome to oversee.

<sup>122</sup> Ibid. See also: Bedrick, Jason and Lindsey M. Burke, “The Next Step in School Choice”, *National Affairs.com*. Winter 2015. Web. <[www.nationalaffairs.com/doclib/20141218\\_BedrickBurke.pdf](http://www.nationalaffairs.com/doclib/20141218_BedrickBurke.pdf)> 15 Aug. 2016.

<sup>123</sup> Ladner, Matthew. “The Next Step in School Choice.”

<sup>124</sup> “Nevada’s Education Savings Account Program: FAQs”, Nevada State Treasurer. *NevadaTreasurer.gov*. Web. <[http://www.nevadatreasurer.gov/uploadedFiles/nevadatreasurergov/content/SchoolChoice/NVESA\\_FAQ.pdf](http://www.nevadatreasurer.gov/uploadedFiles/nevadatreasurergov/content/SchoolChoice/NVESA_FAQ.pdf)> 15 Aug. 2016.

<sup>125</sup> Ladner, Matthew. “The Next Step in School Choice.”

<sup>126</sup> Forster, Greg. “A Win-Win Solution: The Empirical Evidence on School Choice, Fourth Edition.” Friedman Foundation for Education Choice, 2016. *EdChoice.org*. Web. <[www.edchoice.org/wp-content/uploads/2016/05/2016-5-Win-Win-Solution-WEB.pdf](http://www.edchoice.org/wp-content/uploads/2016/05/2016-5-Win-Win-Solution-WEB.pdf)> 15 Sept. 2016. Note: Friedman Foundation for Education Choice is now EdChoice.

<sup>127</sup> Ibid.

## Conclusion

Texas' school finance system is broken at both the state and district levels, but policymakers have an opportunity to pursue fundamental fixes during the 85<sup>th</sup> Legislature. The Lone Star State can finally put an end to decades of litigation by moving away from its reliance on local property tax revenue, and a comprehensive student-based budgeting program can help ensure that funds are allocated equitably and transparently. Policymakers should also provide families with access to the education that best fits their needs by expanding the supply of high-quality options and empowering parents to have a voice in how their dollars are spent, which is especially critical as it relates to the state's low-income student population.

## About the Author

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