

An Introduction to *Putting the Sides Together*

By Chris Patterson

The twelve perspectives on school finance in this collection offer a detailed and comprehensive look at funding for Texas public schools. Each author describes what he or she believes to be the most critical problems and suggests how the state school finance system should be changed or replaced. These perspectives identify both the diversity of opinion voiced in Texas today and areas of fundamental agreement.

This unique collection was designed to capture ideas that represent the full political spectrum in Texas, left to right. Consequently, many ideas in this collection do not reflect the research and views of the Texas Public Policy Foundation, an organization that is guided by market-based principles. However, the collection does reflect the belief that all ideas should be given an opportunity to compete and that the best solutions for questions of public policy are those that produce desired results most efficiently and effectively in the marketplace.

The importance of school finance reform – for public education, taxation, and the state economy – dictates that Texans engage in a measured and thoughtful debate in which all voices are heard. This collection is published to help clarify the debate.

I. The Landscape of Texas School Finance

Texans are ready to change the \$25 billion system that has funded public schools over the past decade. Often described as “Robin Hood” because local school taxes are redistributed from property “rich” to property “poor” districts, the state school finance system is widely criticized by groups across the political spectrum.

Since the conclusion of the 78th Legislature’s regular session, school finance has undergone intense scrutiny. Special committees have been formed to examine alternatives to the current school finance system. State and national experts have been commissioned to research questions about school finance, and testimony has been heard from educational associations, business leaders, policy groups, academicians and citizens. The issue has been extensively covered in the media, and is regularly the focus of discussion in community meetings around the state.

Further, Texas Governor Rick Perry has pledged to call a special session on school finance in the spring of 2004 if legislators can reach consensus on reforms.

The school finance system is now back in court, facing what some perceive as the most serious challenge to its legality since the system was devised in 1993. The Texas Supreme Court recently returned a lawsuit filed by four property-rich school districts

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back to trial court (*West Orange-Cove Consolidated I.S.D. et al. v. Alanis et al.*). Ruling that the state school finance system would be unconstitutional if even one school district is forced to tax at a maximum rate in order to meet state educational requirements,¹ the Supreme Court decision provides additional impetus for reform.

Policy leaders are pressing for reform believing the Texas Legislature would craft a far better system of school finance for Texas public schools than the courts could impose. Many elected officials have a laundry-list of objectives: reduce local property taxes, define the state's required program of instruction, and fund a substantial portion of what the court or legislature might identify as an "adequate education."

As dissatisfaction with the method and level of public school funding grows, there are also signals of an impending taxpayer revolt. Property taxes have increased from \$2.8 billion in 1980 to \$13.6 billion in 2000 – a 367.1 percent increase (comparable to 8.5 percent compounded annually).² Because rising revenues from property taxes have increased the share of school funding shouldered by local communities while decreasing the state share, some policy leaders are calling for the state to provide more money for public schools.

Although support for school finance reform in Texas is widespread and fueled by a variety of criticisms, there is currently little evidence of agreement on what reforms should be introduced, or even how a new system of school finance should be constructed. Given the geographic, demographic, and economic diversity of Texas, this is not surprising. The readily-apparent differences between school districts, and the enormous size of a state system of public education, diminish the likelihood of constructing a single structure to effectively meet the diverse needs of Texas' children.

But despite such challenges, there is broad commitment for school finance reform evident among legislators, and even interest in using the finance system as a vehicle to introduce fundamental changes in public education.

II. Key Policy Questions in School Finance Reform

Texas' next school finance system must address numerous, wide-ranging concerns about public education and satisfy diverse interests. To assist with this formidable task, we have assembled a collection of perspectives identifying the chief problems with Texas' school finance system and solutions by leading voices on school finance.

The authors of this collection are as diverse as the perspectives they present. Nine authors are Texans; the remaining three hail from the East Coast, the West Coast and a state in the center of the nation. The authors acknowledge political beliefs that traverse the political spectrum, from liberal to conservative. They are members of, employed by, or serve as representatives of: school boards, school districts, the education lobby, research institutes, citizen activism, academia and government. Together, these individuals tackle the most vexing questions on school finance for Texans.

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- *Money* – How much money is adequate? Does it cost more to educate some students? How can financial equity be established? What is an efficient use of education dollars? What is the right contribution ratio between state and local funding? How does the state distribute education dollars? What should state dollars pay for and who should decide?
- *Taxation* – What state and local taxes are available for public education? What economic impact will changes cause? What is the best source of revenue for public schools?
- *Educational Outcomes* – How can school finance be linked to student achievement? What must be done to hold schools accountable for better performance? Can incentives be offered to schools? Should students be furnished public as well as private alternatives for academic success?
- *Educational Inputs* – What is an adequate educational program? What programs and services are mandated by the state? Do mandates support student achievement? Should teacher compensation be incorporated into the state school finance system? Who should be responsible for funding facilities? Should the state limit how much local communities can enrich and supplement instruction?

III. Twelve Perspectives on Texas School Finance

The unabridged and unedited perspectives in this report bring together the claims, beliefs, and recommendations that weave the fabric of today's debate on school finance. To introduce the collection, we offer a synopsis of each perspective, identify areas of agreement, as well as disagreement, and distinguish market-based approaches to school finance reform.

We ask you to note that the synopses were developed by the Texas Public Policy Foundation as an overview of the collection; because they were *not* written by the authors, we encourage you to read each perspective in full for complete details, context, and interpretations.

Catherine Clark, Ph.D., associate executive director of the Texas Association of School Boards.

SYNOPSIS of *Adequacy Litigation: Lessons for Texas*. This paper examines what court rulings across the nation have to say to Texas about the obligation of states to provide adequate funding for public schools.

Over the past several decades, courts have shifted their focus in school finance litigation from equalized spending to the adequacy or quality of education. Texas may be vulnerable to legal charges that school districts lack the financial capacity to offer an adequate education to all students. The state may also be vulnerable to political charges that schools have insufficient funds to achieve state goals and relies excessively on local property taxes.

Texas has an advantage over some states, having established curriculum standards that define an adequate education, but can benefit from the experience of other

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states by determining the cost of an adequate education in a way that is transparent to policymakers and engages members of the public to support reform.

Guaranteeing an adequate education will necessitate reallocation of existing state funds between school districts (making some schools losers) or increasing overall state education spending (making all schools winners).

Because adequate funding offers no guarantee of an adequate education, a strong accountability system must link school finance with student outcomes. Linking school finance with educational outcomes can ensure all school districts have the capacity to offer an adequate education to all students.

Eric A. Hanushek, Ph.D., senior fellow for the Hoover Institution at Stanford University; chairman of the Executive Committee for the Texas Schools Project; and research associate of the National Bureau of Economic Research.

SYNOPSIS of *Thinking about School Finance in Texas*. This paper focuses the school finance debate on education policy and briefly considers revenues and spending.

In Texas and throughout the nation, school finance systems are in turmoil because: (a) litigation has played a significant role in school finance decisions although courts are poorly equipped to design education policy; (b) there is a general movement toward centralizing education decision-making at the state level although state regulation generally has proven ineffective in improving educational outcomes – increasing state regulation has not significantly improved either student performance or achievement equity; and (c) school finance is largely divorced from school performance.

The school finance debate has primarily focused on financial equity and opportunity although spending and distribution of education funds are only vaguely related to student learning. There is no scientific evidence that inputs – such as financial resources, teacher certification and class size limitations – closely relate to student learning.

Also central to the debate is the idea of adequacy, popular because the idea suggests there are fundamental principles that can be used to determine the cost of education. Policy leaders, however, should understand that adequacy cannot be determined by science because the amount of money spent on education is wholly a political decision.

How schools are funded influences the choices that schools make, and, therefore, directly determines the amount of student learning. What should be foremost in the debate are student outcomes and how to create incentives for higher achievement by linking educational outcomes with the school finance system. The accountability system should be strengthened and individuals doing exceptional

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jobs should be recognized and encouraged. Incentives that encourage activities to attract more funding without working to improve student outcomes, as evidenced by special education, should be avoided.

A solid school finance system must recognize unavoidable costs and cost differences across districts, including – district size or density, labor market differentials, and specific student characteristics. Additionally, the system should offer an escape clause for students who have not been well-served by their schools by offering school choice and linking education funding to the students.

In connecting school finance to education results, Texas can build on its strong accountability system to improve the efficiency and effectiveness of public schools.

David A. Hartman, chairman of the Lone Star Foundation and author of federal fiscal and tax reports published by the Cato Institute, Institute for Policy Innovation, Howard Institute, Rockford Institute and Family Research Council.

SYNOPSIS of *Texas State Tax Reform via the Flat BAT*. This proposal recommends adoption of a business activity tax (Flat BAT) to provide full state funding for the Foundation School Program, state aid to property-poor school districts, and to improve state economic growth by equitably distributing the business tax burden.

The current school finance system should be reformed because (1) the largest share of public education funding has shifted from the state to local property taxes and most school districts are at or near the statutory tax cap; (2) a rapidly increasing number of school districts are required to transfer local property tax dollars intended for enrichment to districts of lesser property value; (3) excessive taxation of business threatens Texas' business climate and economic prospects; (4) the burden of business taxation is particularly inequitable for corporations and manufacturing enterprises; (5) the current tax system yields surplus in boom years that encourages excessive spending and produces lean yields in hard times that are used to justify tax increases; and (6) spending on public education is not efficient, a failure that is used to justify demands for increased education funding.

These problems can be solved by adoption of a Flat BAT, a value-added tax, calculated by a single rate subtraction method that would be levied on all employers and recipients of commercial revenues (including corporations, partnerships, proprietorships, and governments). The Flat BAT could replace local school taxes now recaptured by the state for funding property-poor schools and all principal state business taxes (including the franchise tax) or the Flat BAT could be paired with the proposed broadening and increase of the state sales tax to completely replace current local property taxes and principal state business taxes.

The Flat BAT offers more benefit than other proposed tax reforms: increasing the base or rate of the sales tax could incentivize tax evasion; increasing the base of

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the business franchise tax requires removal of the constitutional prohibition against a state income tax; shifting the school property tax to commercial and industrial property will lower job growth and ultimately reduce tax collections; and, lastly, adopting a personal income tax will decrease economic growth.

Based on data from the State Comptroller and Texas Education Agency for the 2000-2001 biennium, the Flat BAT could provide \$32.3 billion for Texas public schools (a projection that was confirmed within a reasonable range by the Comptroller's Office, once assumptions were correlated). The Flat BAT would be revenue-neutral for state and local taxation in total, raising no additional revenues beyond the taxes it is designed to replace. Replacing ad valorem and business taxes with more equitable and efficient value, the Flat BAT could produce the revenues required to fully underwrite the cost of providing an adequate education to all children in Texas public schools.

Caroline M. Hoxby, Ph.D., professor of economics at Harvard University and member of the House Select Committee on Public School Finance.

SYNOPSIS of *A New School Finance Plan for Texas: The Texas Great Teachers & Facilities Fund*. This paper describes a new system for allocating state funds to Texas public schools and suggests several alternatives for raising education revenues.

The Texas Great Teachers and Facilities Fund (TGTF) is designed to remedy several problems that exist in the current Foundation School Program: (1) an inflexible tax ceiling that eliminates the financial discretion of many school districts; (2) inefficient distribution of state aid; (3) inefficient taxation to support the Foundation School Program; (4) a weighted pupil formula that is manipulable; and (5) a lack of accountability to taxpayers.

TGTF ensures that every district has sufficient money to provide the core components of education – good teachers and adequate facilities – and to create flexibility for schools to determine how money should be spent. Each district would receive two amounts from the TGTF fund: one for teaching and instruction and the other for facilities. Amounts would be adjusted for costs that are beyond a district's control, such as student poverty and a sparse student population. TGTF would provide limits as well as flexibility to districts, and would ensure schools are accountable to taxpayers by guaranteeing the last or marginal dollar of school spending is always a local dollar raised by local property taxes.

TGTF is based on the few costs of public education that can be determined in a scientific method – the cost of teachers and facilities. Other methods of determining the amount of money necessary to underwrite the cost of the school finance system are seriously flawed. In states that choose to fund a percent of what schools are currently spending, spending rises and falls uncontrollably and districts can lose all fiscal control. In states that choose to fund public education based on adequacy studies – despite the lack of a scientific method to determine

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the relationship between spending and student achievement – special interest groups propose the amount of money they favor based on their own analysis of the relationship between spending and achievement. States that adopt school finance programs based on adequacy face perpetual legal challenges. School finance systems based on weighted pupil formulas face the same challenges because there is no scientific means to establish the weights. The numerous and various student characteristics affecting achievement blur the relationship between educational inputs and outcomes.

Approximately \$20.82 billion in revenue would be required to fund TGTF. Financing TGTF should begin with current state appropriations from the Available School Fund, Lottery Proceeds and General Revenue Fund; the \$9.5 billion remaining revenues required could be generated in several ways: (a) increasing the sales tax rate; (b) expanding the sales tax base; (c) establishing a modified gross receipts tax; and (d) enacting an education flat tax. Each of these alternatives possesses advantages – which far surpass a statewide property tax – as well as disadvantages. Without placing an undue financial burden on local taxpayers, TGTF ensures that every district can adopt an efficient financial strategy for creating student success.

Harrison Keller, Ph.D., senior policy analyst for education in the Office of Texas House Speaker Tom Craddick, and visiting faculty, L.B.J. School of Public Policy, University of Texas at Austin.

SYNOPSIS of *Confronting the Constitutional Challenges*. The paper explores the construction of a results-based school finance system based on adequacy – the notion that schools must have sufficient funding to achieve state education goals. Beginning with a description of the current school finance system and an analysis of court rulings, the author identifies challenges confronting policymakers and suggests ways to link adequate funding with school performance.

Texas' school finance system faces two imminent threats to its constitutionality – dwindling fiscal capacity and disconnection with state education goals. First, state and federal policies enacted over the past several years demand higher student achievement at a time when a growing number of school districts have reached fiscal capacity; because many districts now levy property taxes at or near the statutory cap, several districts have asked the court to determine if the school finance system violates their constitutional right to “exercise meaningful discretion” in setting local property tax rates. Second, Texas has not formally connected school finance with the results that schools are expected to produce and it is unclear whether schools have adequate funding to meet state goals. Whether the state meets its constitutional obligation to make “suitable provision” for the “general diffusion of knowledge” is a key question in school finance reform.

Some advocates of the current system assert that questions about fiscal capacity and constitutional obligation can be solved if the state puts more money into the school finance system. However, the current tax system is unable to generate the

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billions of dollars that would be required. One solution would be to increase school and district efficiency. Because school districts generally follow established patterns of resource allocation, incentives could be created to induce districts to spend money in more effective and cost-efficient ways; every educational program that is underwritten by state money, including teacher preparation, could be required to demonstrate progress toward specific goals that are established by the legislature for continued funding.

Efforts to connect school finance to education results require legislators to specify the level of education that the state is required to provide – a level that will define the constitutional term “diffusion of knowledge.” The first step in establishing a connection between school finance and educational results is refining state curriculum standards, assessments and the accountability system. The second step is to create a system of direct financial incentives for improving student achievement and identify the target for incentives, such as teachers or school districts.

The long-term strategy for connecting school finance with educational results will require estimating the cost of public education and aligning financial formulas with state education goals. Some states have identified the cost based on the judgment of professionals, while other states have conducted adequacy studies, basing cost on the spending of successful schools. In Texas, extensive information about the financing and performance of public schools enables researchers to produce a more sophisticated estimate of costs by examining efficiencies in schools that meet state goals. This information can be used to create a new school finance system that recognizes different costs incurred by schools, such as needs of specific student populations in meeting state goals. With this results-based system, equity – equal access to revenue – can be achieved through adequate funding and schools can be assured sufficient funds to provide a diffusion of knowledge to all students.

Dick Lavine, J.D., senior fiscal analyst for the Center for Public Policy Priorities. SYNOPSIS of *Show Me the Money*. This paper addresses the importance of an adequate and equitable revenue system for funding public education and its implications for the state and local revenue systems.

The current revenue system is unable to keep pace with economic growth – growth that reflects rising population, increased demand for government services, and inflation. This gap creates a “structural deficit,” that will appear as continual revenue shortfalls for Texans. At the same time, state and local taxes have been steadily declining in relation to personal income since 1991. If state tax collections had remained at their 1991 proportion of income, Texas would have an additional \$15 billion revenue instead of the revenue shortfall of 2003.

Because state taxes have not increased, the state’s share of public education funding decreased from 47 percent in 1991 to 42 percent in 2002 and the percent

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is expected to drop below 40 percent for 2003. Primary responsibility for education funding has fallen on local communities. In 1991, the statewide average school tax rate per \$100 of property value was \$1.07, a rate that rose to \$1.60 in 2002. The inadequacy of Texas' tax system is caused by its heavy reliance on the sales tax, which generates more than half of state tax revenue. The sales tax applies to a shrinking share of all sales in the state. Sales tax shrinkage is partially caused by untaxed Internet and mail-order sales, but is primarily attributed to the small percentage of retail goods and services that are subject to sales tax. Today, sales taxes apply to only 40 percent of the retail trade and 30 percent of the sale of services. Texas could raise \$6.5 billion in 2004-05 if the sales tax base were extended to currently untaxed services largely used by business and higher-income families (services that include legal, architectural, engineering and freight services) and untaxed services used by families (services that include car maintenance and repair, and new residential construction).

However, the sales tax is regressive; low- and moderate-income families pay a greater percentage of income than do higher-income families. Raising the sales tax to replace school property taxes would result in a 10 percent increase of current total sales/property tax obligation for families in the middle income quintile while families in the highest income would enjoy a 9 percent drop in their tax burden. The solution for Texas' revenue woes is a personal income tax, a tax that will improve both the equity and adequacy of state and local revenues. A broad-based personal income tax is used by 41 other states.

A recent Texas Poll taken by the Scripps Howard newspaper chain indicates that 52 percent of Texans are in support of a personal income tax if used to reduce property taxes and support education. The Texas Constitution outlines the procedure for implementing a personal income tax. The Center for Public Policy Priorities has calculated the impact of an income tax on Texas based on the tax structure used by Kansas, a state which has income tax collections that are slightly below national average.

The CPPP calculation projects total annual revenues of \$17.3 billion if applied to Texas income in 2000. Two-thirds, \$11.5 billion, would reduce school taxes by 90 percent and the remaining \$5.8 billion could be dedicated to funding education. An income tax would offset the regressivity of the entire revenue system and shift tax burdens, reducing net taxes for a majority of Texas families. The tax burden of families in the lowest income quintile would be reduced by 6.1 percent; the largest tax burden would be an additional 1.9 percent on families with the highest income, a burden that would translate into a 20 percent net reduction in their federal taxes because an income tax is deductible. School finance reform offers the opportunity to provide a long-term solution to Texas' continuing structural budget deficit and improve the state tax system.

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John Merrifield, Ph.D., professor of economics at the University of Texas at San Antonio.

SYNOPSIS of *School Finance that Puts Children First*. This paper outlines a new system of school finance that is based on universal school choice and describes why market forces offer the only hope of improving the quality and equity of Texas public schools.

Public education outcomes remain unacceptable after decades of expensive reform. Public schools successfully resist reforms because the welfare of children is mistakenly equated with the traditional form of public education and people focus on the system of public education or schools – not children. The only way to introduce equity and high performance in public education is to create a children-first system of school finance that is based on funding students and universal school choice. A children-first school finance system represents a major policy shift that may have to be phased in over time; political feasibility may require universal choice to be established as an experiment – a full system that engages all families and all schools in one part of the state.

Restrictive school choice programs, limited to particular students or schools, are not good policy decisions; experiments in Milwaukee and Cleveland fail to produce the information needed to project the results of full statewide implementation and should not be used as small scale models.

A children-first school finance system puts parents in control of funding schools while officials have responsibility to determine the level of per pupil public funding for specific categories of educational needs. Parents decide what schools should receive vouchers and whether they want to invest private funds to purchase more schooling than public funding provides; competition should not be constrained by price controls that force schools to accept the voucher as full payment. To maximize educational opportunity and comply with the constitutional requirement of universal access to free schooling, the voucher must be sufficiently high so that competitive forces cause many schools to accept state funding. Since the average state expenditure per student is well above fees charged by most private schools, competition would likely cause a large number of schools to accept the current level of state aid as full payment. For special needs students, supplemental state and federal funding should be attached to vouchers. State funding should also recognize the additional costs of educating older children and students in different geographical locations.

The state's role in a children-first finance system should be defined and limited to: (a) coordinating funds to schools recognized by accrediting associations; (b) verifying student enrollment; and (c) collecting and reporting student performance data. Because competition deters and corrects mistakes more effectively than government regulation, other state regulation, including indirect regulation through state assessments, is unneeded and should be eliminated. To achieve funding equity through a children-first finance system, Texas could

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emulate Michigan's approach and abandon local property taxes – another alternative would be to establish a uniform statewide or regional property tax.

Using Harris County as an example, the author details how universal choice can serve as the structure for a new system of school finance and install students and education outcomes as the most important priority for public education.

William Peacock, M.B.A., editor of ReformTexas.org and public policy consultant. SYNOPSIS of *Debunking the Myths of Texas Public School Finance*. The author confronts four myths about Texas public school finance, identifying flaws in the system that raise the price and lower the quality of public education, and describes how the system can be reformed to fundamentally change and improve public education.

The first myth: More money is needed to improve educational quality. In fact, over the past two decades, public education spending has almost doubled but there is little evidence that Texas public schools are doing a better job of preparing students for college and highly skilled jobs.

The second myth: Teacher pay must be increased to improve educational quality. In fact, teachers in Texas public schools are well compensated compared to teachers in neighboring states; in this region, only teachers in Colorado make more than Texas teachers. Texas teachers are paid well compared to employees in the private sector when teacher salaries are annualized to reflect twelve months of work; teachers make 34 percent more on the average than private sector employees for 12 months of work.

The third myth: Texas' tax system must be reformed to keep up with the needs of public schools. In fact, the current tax system provides for the needs of public schools as well as any system of taxation can – what the state tax system cannot do is keep up with the desires of the public education system. Since 1999, spending on Texas public schools increased by 25 percent. However, enrollment growth and inflation grew only 17 percent during the same period. Texas' tax system has produced revenues that tracked the growth in adjusted gross income, the gross state product and education spending. Growth in spending more closely tracks tax revenues than growth in enrollment plus inflation.

The fourth myth: The true cost of education must be determined. In fact, the current system of school finance is based on estimates of education costs that are developed by various government agencies, including the Legislative Budget Board. Until the state defines what constitutes a thorough and efficient education, any estimate of cost is fundamentally flawed.

These four myths are used by the education establishment to deflect attention from real problems in public schools; they insulate the education system from school finance reform and hinder meaningful changes that would occur if

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competition were introduced to public education.

There are three market-based reforms of the school finance system that could fundamentally alter the education system and lay the groundwork for improving public education. First and most important: introduce parental choice. Tying school funding to parental decisions would reduce or eliminate many of the current cost-drivers, create incentives for highly effective and affordable educational practices, establish true accountability for educational results, and restore educational quality.

The second school finance reform: eliminate the teacher salary schedule. The salary schedule established by state law reduces competition and quality in several ways: providing an automatic pay increase for all teachers annually regardless of performance; failing to attract and keep teachers, particularly high-performing teachers and teachers in high-need areas (such as high school mathematics); and reducing school administrators' control of compensation.

The third school finance reform: eliminate weighted adjustments to the base level of student funding. The Cost of Education Index, the Small and Mid-Size District Adjustments and the Sparsity Adjustment are additional funds added to the basic allotment – and then the adjusted allotment is modified by additional instructional weights for Special Education, Compensatory Education, Bilingual Education, Career and Technology Education, Gifted and Talented Education and the Public Education Grants.

Because these weights are interlocked, an increase to the basic allotment increases money to all adjustments whether or not the increase is needed. These complex weights and formulas drive up costs and should be replaced or eliminated. This should be accomplished by disconnecting weights and replacing percentages with specific dollar values or establishing a process by which districts that identify a need for additional funding can supplement basic aid by justifying the need and competing with other districts for additional funds.

Competition is necessary and must be introduced if Texans are to achieve excellence, accountability and affordability of public education. School finance reform must find new ways to raise, distribute and account for taxpayer dollars that drive student success.

Wayne Pierce, Ed.D., executive director, Equity Center.

SYNOPSIS of *Offering a Fair and Rational Strategy for Achieving Real Equity and Adequacy*. The paper identifies how the current school finance system fails to furnish adequate resources for all school districts, and the areas in which the current system arbitrarily fails to fund some schools as well as others.

After funding the current school finance system, the state should use new money to (a) underwrite the costs incurred by enrollment growth, new state mandates,

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higher accountability standards, and rising public expectations for educational outcomes; (b) ensure school districts have adequate funding by providing all districts with monies necessary to ensure they, irrespective of wealth status, receive the same increase in revenue for weighted average daily attendance; and (c) ensure equity by increasing revenue for all school districts, providing increased funding in proportion to current funding deficiencies.

Methods employed by the current school finance system to distribute funds to schools should be modified. The state should establish a uniform amount of money for school maintenance and operations that is based on the average money now available to Chapter 41 districts (districts above the maximum equalized wealth level and subject to recapture). Transportation costs should be entirely funded and all districts should be allowed to fully benefit from the Cost of Education Index. The funding adjustment (extra monies) for mid-size districts should be extended to all Chapter 41 districts. All Chapter 42 districts – districts at or below the equalized wealth level – should receive all of the funds to which they are entitled from the Available School Fund, and all Chapter 42 districts should receive all of the Tier I state aid (the amount of money guaranteed to each school district per student on the first 86 cents of tax effort to which they are entitled).

Texas can ensure real equity and adequacy in public education by infusing the current school finance system with new money, correcting funding disparities between districts, fully funding state mandates, and increasing the authority of districts to determine how funds are spent.

Lori L. Taylor, Ph.D., principal researcher, Texas School Finance Project, and associate professor of economics, Bush School of Government and Public Service, Texas A&M University.

SYNOPSIS of *Undue Taxes and Unintended Consequences*. Written when the author was a senior economist and policy advisor at the Federal Reserve Bank of Dallas, the paper explains how the current school finance system adversely affects the state economy and suggests tax reforms for Texas to improve capital investment and wages.

Texas' school finance system depends heavily on property taxes, and, in fact, is designed to encourage school districts to increase tax burdens. Only one other state relies more heavily on property taxes to fund public education. Property taxes fall heavily on businesses in Texas – about 38 percent of school district tax revenues come from taxes on commercial and industrial property, and the burden increases annually. Property taxes paid by businesses increased 38 percent between 1997 and 2001 while business property values only increased by 28 percent. As a result, capital investment in Texas declined between 1990 and 1999; the manufacturing industry was particularly affected, capital per worker grew at less than half the national rate.

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By discouraging capital investment, the state school finance system hinders economic growth and development, and suppresses wage growth – adverse consequences that ultimately act as a brake on tax revenues available for the school finance system. Texas would be better served by a school finance system that aligns the interests of public schools with the economic objectives of the state.

A simple solution is to remove business capital from the local tax base for public education. Because Texas has already severed the link between the tax base and school revenues, removing business property would have little effect on revenues for most school districts. Where the state makes up the difference between local revenue and the guaranteed yield, however, districts should receive additional state aid equal to the revenue they would have raised on business capital. Districts that have revenue recaptured by the state would pay less in Robin Hood payments. The resulting loss in revenue could, at least partially, be replaced by a state or regional tax on both capital-intensive and labor-intensive businesses.

This approach would remedy flaws in the current tax system that skew economic development toward labor-intensive industries. Reforming the state system of school finance to align property taxes with economic objectives of the state will benefit all Texans.

Richard Vedder, Ph.D., professor of economics at Ohio University, and senior fellow at the Texas Public Policy Foundation.

SYNOPSIS of *School Finance in Texas: New Solutions to Old Problems*. This paper evaluates perceptions that the state school finance system does not adequately fund public schools and that insufficient revenues are generated by the state tax system for public schools. The author concludes with an alternative way to fund public education.

Some Texans feel funding for public schools is inadequate. However, if adequacy of education funding is based on comparing current spending with past spending, there is no evidence that Texas is inadequately funding public schools. In 2001, real spending, either per pupil or per capita, was more than double the amount spent in 1975 – an annual growth rate approaching 3.0 percent. Total public school spending increased 5.3 percent annually during this same period of time. Nor is there any evidence that Texas is inadequately funding public schools if adequacy is based on the belief that greater spending might materially increase academic achievement.

In 2001, real education spending was more than double what it was in the 1970's but there is little evidence that public school students in 2003 are, on the average, learning more than their parents did. The experience of Texas public schools supports scientific research showing that educational resources generally have only a weak impact on student achievement. Lastly, if the adequacy of funding of Texas public schools is based on comparisons with other states or even relative to

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the incomes of Texans, the evidence again suggests that Texas is funding schools well.

In 1975, only seven states spent less per pupil than Texas; by 2001, however, over 20 states spent less than Texas, and per pupil spending in Texas was within \$300 of the median (typical) state. In fact, Texas spends a far larger part of its income on public education; per capita spending on education was 15 percent above the national mean. In 2001, Texans paid nearly \$55 of every \$1,000 of personal income on public schools while the average American spent \$45 dollars.

Many Texans who feel education funding is inadequate point to the recent budget shortfall as proof of the need for new state taxes – although there is neither evidence that public schools are inadequately funded nor any scientific evidence demonstrating that increased funding significantly improves student achievement.

There is evidence, however, that Texas should restrain spending and avoid an income tax at all costs. A negative relationship between taxation and economic growth has been demonstrated, and there is an even stronger negative relationship between income taxation and economic growth. Capital migrates out of states with income taxes to the nine states, including Texas, without income taxes.

Adoption of an income tax would lead to a significant decline in growth of personal income in Texas which, in turn, could reduce the standard of living. In the long run, adoption of an income tax may even erode the ability of states to fund schools. In California, for example, high taxation has sapped the state's capacity to generate substantial income growth and California's education spending lags behind states like Texas. Despite the perceptions of some, the facts suggest a massive increase in state education funding is not needed and wholesale tax reform is not necessary.

However, a new student-centered school finance system could reduce local property taxes and eliminate the much-resented Robin Hood redistribution of local taxes for equalization. Attaching funding to students as progressive vouchers, parents could pay tuition at any school, public or private. Tuition at public schools should equal the rate established for each current per-pupil funding from state and local governments for maintenance and operation. Local school property taxes could be abolished and replaced with a statewide property tax assessed to equal the amount of current statewide school tax revenues.

To ensure equity, that all children are offered access to an adequate education, the size of the voucher could vary inversely with family income. Low income families would receive a full voucher, middle income families could receive a voucher that would equal most of the current state and local government subsidies to schools, and very high income families would receive little or no voucher. For students needing special services, the size of the voucher should be increased to meet specific needs.

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A progressive voucher program would ensure financial equity in Texas public education at the student (rather than school) level, improve student outcomes and reduce the achievement gap (according to a growing body of research), and save significant amounts of tax dollars if structured properly.

Ellen Williams, J.D., Texas Lobby Group.

SYNOPSIS of *Funding What Matters*. This paper examines ways the Texas Legislature can solve legal challenges to the school finance system and recommends the Legislature base school finance reform on the three principles used for education reform – standards, capacity, and assessment linked to accountability.

The recent Texas Supreme Court decision, *West Orange-Cove Consolidated I.S.D. et al. v. Alanis et al.*, identifies four constitutional obligations of the state legislature: first, public education must be “adequate,” providing a “general diffusion of knowledge;” second, the means of providing public education must be “suitable” to achieve this purpose; third, the system must be “efficient,” ensuring districts have substantially equivalent access to similar revenues per pupil at similar levels of tax efforts; and fourth, education funding must be achieved without use of a statewide property tax and forced distribution of local revenue.

West Orange-Cove warns that the State Legislature must find a way to meet these obligations. Districts engaged in this suit claim they have no meaningful way to raise the money needed to meet state demands for higher student performance. Two routes are available to the Legislature. First, they can fix the current school finance system by changing the tax-rate ceiling, buying down the floor, or changing statutory requirements for adequacy, suitability and equity. Or second, they can reshape the constitution entirely.

A comprehensive fix of the school finance system will involve spending reform – developing a system that promotes student success while recognizing real cost differences among districts and students. A comprehensive fix will also require tax reform – developing a tax system that provides stable long-term revenue growth sufficient to keep up with enrollment and inflation by encouraging economic growth, job growth and property tax reductions.

The first principle of school finance reform is standards, setting high and measurable goals for public education. The Texas Supreme Court has ruled that the Legislature must equalize school district funding to the level necessary for a “general diffusion of knowledge,” and, noted the *West Orange-Cove* court, a “general diffusion of knowledge” may be broader than the level used for accountability and accreditation. Currently the state’s education goals target “exemplary performance.”

However, schools are not required to meet this goal for accreditation. Another definition of an adequate education is the current law’s broad mission statement that public education should prepare all students for college and work: “all children have

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access to a quality education that enables them to achieve their potential and fully participate now and in the future in the social, economic, and educational opportunities of our state and nation.”

If the Legislature does not broadly define its expectations in law – and what the state is responsible to fund – state funding could be leveled down only to what is required for school accreditation, a threshold that could fail to meet the constitutional requirement for “suitable provision.”

The second principle of school finance reform is capacity, providing school districts with the means to reach state education goals. The Legislature should concentrate resources on what most affects the quality of education – instruction, teachers and campus leadership – and fund these equitably for all students. Funding should reflect actual costs and cost differences in meeting state goals, and a means to keep up with enrollment and inflation should be built in.

The Legislature may update current formulas or create a block grant to account for the total costs of education with no restrictions on how schools use the money for different types of expenses. Capacity depends on state taxes to generate sufficient revenues for ensuring all students have the same opportunity to meet state education goals. To achieve this, the Legislature has considered redistribution of property taxes or tax bases – including consolidation or redrawing school district lines, turning all or some local property taxes into a state property tax either at a certain level or based on kind of property (such as a “split roll” that imposes a state tax on business property and a local tax on residential).

The Legislature also has considered revamping the state tax system to increase the state’s share of education costs and drive down property taxes by:

- (a) expanding the sales tax base and/or rate;
- (b) expanding the franchise tax base to partnerships and sole proprietorships;
- (c) creating a value-added tax;
- (d) enacting a gross receipts tax;
- (e) enacting a payroll tax;
- (f) enacting a personal income tax;
- (g) allowing video lottery terminals at regulated race tracks;
- (h) modifying the corporate franchise tax; and,
- (i) imposing tax increases on specific goods or transactions.

The Legislature should couple fiscal capacity with greater freedom for districts to allocate resources as needed. The Legislature should also re-examine state mandates; in addition to market costs (such as rising construction costs), statutes (such as the teacher salary schedule) drive up the cost of education. The Legislature could look at every mandate, prohibition and restriction – particularly those that pertain to operations – to see if it is related to meeting state goals, and consider giving waivers to school districts when laws routinely hamper their ability to meet state goals.

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Fiscal flexibility, particularly in construction of facilities, can help districts put more money into classroom instruction instead of buildings.

The third and last principle of school reform is assessment linked to accountability – holding the Legislature responsible for satisfying its constitutional duties over public education. Although it is likely the courts will continue to be involved in school finance, the Legislature needs its own method for assessing whether it has equitably funded a general diffusion of knowledge and determining what educational practices provide the greatest return on investment. The Legislature should set standards for adopting only reforms that offer scientific evidence they will improve student learning and advance state education goals. Evaluations should be built into new reforms to ensure their efficiency and effectiveness.

In reforming Texas' school finance system, the Legislature should: fund what matters, measure what provides returns on the margin, fund equitably those elements that impact the quality of each student's education, fund at a reasonable and equitable level, let the market – not politics – regulate education delivery, and measure what provides the best returns for future funding decisions.

IV. Searching for Consensus and Agreement in School Finance

Two issues dominated all twelve perspectives: adequate and equitable funding, and the distribution of funds. However, most perspectives coupled these issues with student performance, governance, school choice, tax reform and the state economy.

Need for Reform: While several points of agreement on critical issues can be identified among most of the perspectives, there is only one point on which all agree: an urgent need for immediate reform.

Adequate and Equitable Funding: The most common reason cited for school finance reform was adequate and equitable funding for public schools. Half of the perspectives called for additional revenues to enable schools to meet the higher levels of performance demanded by the state, and to provide funding that reflects actual costs of education.

Distribution of State Education Funds: Three-fourths of the perspectives suggested fundamental changes in how the state distributes education funding. Several perspectives identified the need to update the amount of funding provided to schools through adjustments and the Cost of Education Index, while other perspectives recommended financial adjustments for specific educational costs be limited or eliminated. Student-centered funding was recommended by three perspectives.

Student Achievement: Raising academic performance and eliminating gaps between student groups is cited by many perspectives as a goal for school finance that should be married to adequate funding. Most perspectives viewed

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fundamental reform of public education as a key part of comprehensive school finance reform – linking the school finance system to state education goals, education outcomes, and school accountability.

Governance: Fully half of the perspectives noted the importance of shifting control over financial decisions from the state to schools for improving educational effectiveness and fiscal efficiency. Increased flexibility, block grants distribution of funds, and parental control of student funding were proposed.

School Choice: One third of the perspectives emphasized the fundamental role that school choice should play in school finance reform for improving efficiency, effectiveness, equity and accountability in public education. Choice was also identified as a vehicle to help students secure specific educational services best suited to their needs, particularly disadvantaged students.

Tax Reform: Almost half of the perspectives identified the need to develop new revenue sources for public education and to reform the state tax system. A variety of approaches were suggested, including – personal income tax, flat education tax, business activity tax, state property tax, expanding the sales tax, modified gross receipts tax, expanding the franchise tax and taxing video lotteries.

The Economy: Three perspectives focused on the economic impact of school finance on the business sector and the state economy, noting that specific taxes have direct consequences on capital investment, job creation, and personal income.

V. Relationship between Consensus, Agreement and Good Policy

Examining the perspectives for areas of major agreement should not be interpreted as a suggestion that the “majority rule” should fashion public policy. Because the contrary is true, a quick detour from school finance is required here.

While consensus and agreement are vitally important to successful implementation of public policy, good policy is not based on either consensus or agreement. Public opinion guides politics – not good public policy. Policy stands on its own and is best judged by how well the means, outcomes, and consequences (direct and indirect) serve the public good. The following questions offer a framework for determining whether policy should be translated into legislation.

- ✓ Is legislation necessary – does a problem exist?
- ✓ Does the problem affect most of the people?
- ✓ Can the problem be solved by any entity other than state government?
- ✓ Is there demonstrable evidence that legislation will produce desired outcomes?
- ✓ Would legislation directly serve and be aligned with established state goals?

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- ✓ Is legislation the most efficient and effective means to achieve the goals?
- ✓ Can the state afford to underwrite this cost?
- ✓ Does the proposed solution define the end, not the means to accomplish the end?
- ✓ How does this proposed solution ensure taxpayers can hold government accountable for results?
- ✓ Does the proposed solution preserve and enhance local control (decision-making by the individuals and organizations directly impacted)?

VI. Market-Based Perspective of School Finance

Student achievement

In this collection, Dr. Hanushek recommends that academic performance should be the foremost concern in school finance reform. This statement makes a world of sense. School finance is simply the means to an end – a system to fund student learning and educational success. School finance can also serve as a vehicle for improving public schools, suggests Dr. Keller. A results-based system that links funding with educational results will allow public schools to be held more accountable for raising achievement, closing the achievement gap between student groups and increasing school completion. The effectiveness and fiscal efficiencies of public schools can be encouraged, supported and rewarded by incentives built into a new system of school finance.

Adequate Funding

The paper written by Dr. Pierce details why public schools need more money to comply with new state mandates, achieve higher standards for student performance, and develop equity. Many policy leaders believe that new state assessments, the end of social promotion, transitioning students into the college-preparatory Recommended High School Program, and federal requirements of *No Child Left Behind* raise expectations that schools cannot meet without increased funding. The Legislature has commissioned research to determine the cost for schools to provide the state's required program of instruction. This research, commonly described as adequacy studies, is based on two assumptions: funding is related educational outcomes, and the cost of various aspects of education can be calculated.

Two national experts contributing to this collection challenge these assumptions: Dr. Hoxby and Dr. Hanushek. Both experts cite the extensive body of scientific research,³ as well as their own work, demonstrating only a weak relationship between education funds and student achievement. They both state there is no scientific way to determine educational costs. Consequently, decisions about education funding are purely political, as Dr. Hanushek notes in his paper.

The cost of education, as noted in Mr. Peacock's paper, is exactly how much public schools are given to spend. Tracked over the past several decades, spending of Texas public schools far exceeds enrollment and inflation; in fact, education spending is based more closely on available revenues from state and local taxes than with costs incurred by rising enrollment and inflation.⁴ According to Dr. Vedder's article, there is no evidence

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that Texas public schools lack adequate funding or need additional money.

Over the past several decades, numerous scientific studies of public schools have revealed that increased spending usually does not result in higher student achievement.⁵ Research does furnish evidence that how schools spend money, rather than how much money is spent, can be correlated with the level of student achievement.⁶ Higher student achievement is associated with higher investments in core academic instruction.⁷

However, a study of spending in several states, including Texas, revealed that public schools generally do not use additional, new funds for core academic instruction.⁸

Allocation of resources, according to research evidence, is far more important than the level of resources. However, there are not enough dollars in Texas to guarantee educational adequacy, notes Dr. Clark in her paper, without standards and accountability.

Distribution of Education Funds

The redistributive aspect of the current school finance system is criticized by all groups throughout Texas: small and large school districts, poor and affluent communities, and Democrats and Republicans. Broad support is expressed for a system that will allow local communities to keep local tax dollars in local schools for local enrichment while ensuring that all schools are sufficiently funded to provide every child equal access to an “adequate” education.

There is a growing body of scientific research showing that how public education funds are distributed impacts school effectiveness and efficiency. Research by Dr. Hoxby and others demonstrates that increased local control of education dollars increases fiscal efficiency as well as student achievement.⁹

Some policy leaders support student-centered funding – improving schools by incorporating school choice into the school finance system. As described in Dr. Merrifield’s paper, the effectiveness of school choice in improving public schools is backed by extensive scientific research. There is strong evidence that choice benefits the children who use choice as well as improving the schools they leave behind.¹⁰

Research conducted by Dr. Hoxby indicates that educational competition encourages increased academic effectiveness and fiscal efficiencies. Her work provides evidence that public schools improve student achievement without additional spending when forced to compete with private schools for students.¹¹

Policy leaders are giving serious consideration to innovative ideas for alternative funding, such as the two proposals included in this collection by Mr. Hartman and Dr. Hoxby. Mr. Hartman proposes the state underwrite the full cost of providing Texas’ required program of instruction, and Dr. Hoxby suggests state monies be directed to schools for funding the primary and most identifiable costs of education – teachers and facilities.

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Tax Reform

Tax reform is by far the most contentious aspect of school finance reform. It is also the part of school finance reform that, if done wrong, can critically injure Texas' economy. Some policy leaders are calling for increased taxes, and even new taxes, to increase funding for public schools. Some, as noted in Mr. Lavine's paper, identify a "structural deficit" in the state tax system that necessitates adoption of a personal income tax and overhauling the entire tax system.

As described in Ms. Williams' paper, a variety of approaches to state tax "reform" have been suggested including such things as a personal income tax, flat education tax, business activity tax, state property tax, expanding the sales tax, modified gross receipts tax, expanded franchise tax, and taxing video lotteries.

But Texans must carefully consider any changes to the way revenues for education are collected. As noted in Dr. Taylor's paper, school finance is intimately related to the state economy, with taxes having a direct impact on capital investment, job creation, and personal income.

Generally, states experience a negative relationship between taxation and economic growth. An income tax has the most adverse impact on state economies, bar none; states with income taxes have less capital investment and personal income declines.¹² The average Texan has a good understanding of income taxes. A voter poll conducted in June 2003 by Baseline and Associates indicates only 19 percent favored adoption of a state income tax.

In the recent economic downturn, states relying heavily on income taxes have experienced more fiscal difficulties than states, like Texas, that are primarily reliant on sales taxes.¹³

If the standard of adequacy for a state tax system is to track growth in adjusted gross income and gross state product, Texas' tax system is adequate, according to testimony provided by the Texas Taxpayers and Research Association to the 78th Legislature's Joint Select Committee on Public School Finance. The current tax system generates more than enough revenue to keep pace with the growth in education costs caused by enrollment and inflation.

This is not to say Texas' tax system could not be improved. Economic benefits would accrue to all Texans if the corporate tax burden were equalized, and the corporate tax burden corresponded to the educational benefit that businesses derive from public schools.

VII. The Promise of School Finance Reform

Close examination of the school finance debate indicates there are two fundamental problems.

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The first problem is spending. Public schools spend whatever amount of money is available without discernable progress toward state education goals – preparing students for higher education or skilled employment. There is no real evidence that Texas public schools need more money, and certainly no evidence that more money will improve student performance. Absent the need to increase public education funding, there is no reason for reforming the state tax system to produce new or additional revenues.

The second problem is productivity. Texas public schools are not meeting public expectations for student performance or school completion. The way Texas funds public education today does not recognize or reward schools for educational quality, equity and efficiency. Nor does the finance system provide schools with incentives or assistance to achieve these goals.

Spending and productivity of Texas public schools could be improved by constructing a results-based school finance system that focuses on educational adequacy.

At the heart of the school finance debate is the belief that the state is responsible for ensuring educational adequacy: providing sufficient funds for public schools to achieve the educational outcomes that fulfill constitutional obligations to all children. But Texas does not explicitly define the educational outcomes that represent an adequate education at present. This problem was identified by a recent ruling by the Texas Supreme Court; in *West-Orange Cove*, judges question whether an adequate education is identified by current state education policies – the curriculum standards, student assessments, the accountability system, and school accreditation standards that guide Texas public schools today.

An explicit definition of educational adequacy, one that translates specific end-results of student learning into state law as expectations for public school performance, would increase school productivity. This definition would shift schools from the intermediate goal of improving student achievement to the final outcome of public education: post-secondary readiness – higher education or employment, what the Texas Education Code says is the purpose of public school curriculum. This definition is specific enough to be objectively measured and sufficiently objective to serve as a standard for school accountability and accreditation. It would improve academic equity within and between schools, and establish the level of achievement that Texans demand of public schools.

At the same time, an explicit definition of educational adequacy could also control state spending by aligning school spending with specific state outcomes, and focus state dollars on state requirements for student performance. By underwriting only direct costs incurred by schools to meet state requirements for student achievement, schools would have a strong incentive to invest dollars efficiently and effectively. State spending on public education could be significantly decreased if all state mandates relating to how schools meet expected state outcomes were eliminated while schools were held accountable for results. Spending could be additionally reduced if local communities were responsible for funding optional programs.

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This definition of adequacy would focus taxpayer dollars on educational priorities – classroom instruction and effective programs – and could increase financial equity for all students by ensuring funding for core instruction. It would increase local control by allowing schools to decide how to use state funds in meeting state requirements and enhance the ability of local communities to fashion supplemental programs that meet the unique needs of their students.

Texas needs a results-based system of school finance that links funding with educational requirements and school performance. Creating this system will challenge policy leaders to clearly define what public schools should accomplish, and what our taxes should fund. Meeting this challenge will be worth the effort. A results-based school finance system will allow Texas to create the most efficient, most equitable and most adequate system of education in the nation.

School finance reform offers all Texans a tremendous opportunity to improve the quality of public education and the economic vitality of our state for generations to come.

ENDNOTES

¹ *West Orange-Cove Consolidated I.S.D. et al. v. Alanis et al.*, 2002 WL 5344582.

² *Report to the 78th Legislature*, Joint Select Committee on School Finance, State of Texas, December 2002, page 2.

³ Eric Hanushek, *The Failure of Input-based Schooling Policies*, Stanford University and National Bureau of Economic Research, *Economic Journal* 113, February 2003.

⁴ Testimony to the Joint Select Committee on School Finance by John Kennedy, Texas Taxpayers and Research Association in *Report to the 78th Legislature*, Joint Select Committee on School Finance.

⁵ W. Norton Grubb and Luis A. Huerta, *Straw into Gold, Resources into Results: Spinning out the Implications of the “New” School Finance*, PACE Working Paper Series 01-1, Policy Analysis for California Education, University of California, Berkeley and Stanford University, April 2001 at http://www.berkeley.edu/wp_01_1.pdf.

⁶ Jane Hannaway et al., *Reform and Resource Allocation: National Trends and State Policies in Developments in School Finance, 1999-2000*, National Center for Education Statistics, Washington, D.C., July 2002.

⁷ *Ibid.*

⁸ *Making Education Dollars Work: Understanding Resource Allocation*, Insights on Education Policy, Practice and Research, Number 14, Southwest Regional Research Laboratory, Austin, TX, November 2001.

⁹ Caroline Minter Hoxby, *Are Efficiency and Equity in School Finance Substitutes or Complements?* *Journal of Economic Perspectives*, Volume 10, Number 4, Fall 1996; and William A. Fischel, *School Finance Litigation and Property Tax Revolts: How Undermining Local Control Turns Voters Away from Public Education*, *Developments in School Finance, 1999-2000*.

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¹⁰ A collection of research on school choice is published online by the Milton and Rose D. Friedman Foundation at <http://www.friedmanfoundation.org/schoolchoiceworks/index.html>.

¹¹ Caroline Minter Hoxby, *Markets and Schooling: The Effects of Competition from Private Schools, Competition Among Public Schools and Teaching Unions of Elementary and Secondary Schooling*, Frontiers of Public Finance: Doctoral Dissertation Winners, November 14, 1994.

¹² Richard Vedder, *Taxing Texans*, Texas Public Policy Foundation, 2002 at <http://www.texaspolicy.com>.

¹³ John Hood, *Why the States Are Broke: Bloated governments, budget gaps, and Parkinson's laws*, Reasonline, October 2003 at <http://www.reason.com/0310/fe.jh.why.shtml>.