

## **What's Money Got To Do With It?** ***School Finance and Student Learning***

By Chris Patterson

**T**exans 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.

At the same time, Texas’ school finance system has once again been drawn to the courts, this time to prove it does not violate a constitutional prohibition against a state property tax.

Since the conclusion of the 78<sup>th</sup> 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. Testimony has been heard from educational associations, business leaders, policy groups, academics and citizens. The issue has been extensively covered in the media, and is regularly the focus of discussion in community meetings around the state.

Additionally, 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 presently faces the most serious litigation since the system was devised in 1993. The Texas Supreme Court recently returned a lawsuit filed by four property-rich school districts back to trial court (*West*

*Orange-Cove Consolidated I.S.D. v. Alanis*). Ruling 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, 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,
- increase the state's portion of public school funding,
- define the state's required program of instruction,
- strengthen the state's accountability system, 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). 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 universal structure to effectively meet the diverse needs of Texas' children.

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.

Across the political spectrum, there is agreement on the four primary goals of school finance reform: higher student achievement, adequate funding for public schools, appropriate distribution of education funds, and tax reform.

*Student achievement* is clearly the foremost goal of school finance reform. Policy leaders recognize the urgent need to raise academic performance and eliminate achievement gaps between students groups.

Linking funding with educational outcomes will allow public schools to be held more accountable for all students to demonstrate high levels of academic achievement (effectiveness) and wise allocation of resources (efficiency). From around the nation, experts have identified ways the state can link school finance with the existing accountability system to build incentives for encouraging, supporting and rewarding effectiveness and efficiency.

*Adequate funding* is the second goal of reform. Public schools say more money is needed to provide the required program of instruction, and even more is needed to raise student performance

to the higher levels established by the new state assessments, new graduation requirements, and standards set by the federal *No Child Left Behind Act*.

The legislature has commissioned research to determine the cost of an adequate educational program. Assuming funding is related to educational outcomes, some policy leaders are seeking to determine the right amount of funding for public schools – with the underlying belief that more money is needed and costs can be determined.

This assumption has been challenged by two national experts: Dr. Caroline Hoxby (a professor of economics at Harvard University, who serves as a member of the House Select Committee on Public School Finance) and Dr. Eric Hanushek (professor of economics at Stanford University, who was invited to testify before a subcommittee of the Select Committee). Both experts cite the extensive body of scientific research, as well as their own research, demonstrating little or no relationship between education funds and student achievement.

In fact, when schools get new funds they generally do not invest money in core instruction – one of the few resources associated with student achievement.

*Distribution of educational funds* is another key goal of school finance reform. The redistributive aspect of the current school finance system is criticized by all groups. There is widespread support for a system that allows local communities to keep their local tax dollars in their schools, with fierce advocacy for financial equity between school districts that ensures all children have equal access to an “adequate” education.

Some policy leaders support student-centered

funding – improving schools by incorporating school choice into the school finance system. The effectiveness of school choice in improving public schools and student achievement is backed by scientific research. When competing with private schools for students, public schools improve student achievement significantly without additional spending.

*Tax reform* is by far the most contentious goal of school finance reform. It is also the goal that, if done wrong, can critically injure Texas' economy. Some are calling for increased taxes, and even new taxes, to increase funding for public schools. Others identify a “structural deficit” in the state tax system and call for a complete tax overhaul.

A variety of approaches to state tax “reform” have been suggested including:

- a personal income tax,
- a flat education tax,
- a business activity tax,
- a 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. 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.

The average Texan has a good understanding

of income taxes; a voter survey 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.

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 78<sup>th</sup> 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.

In practice, however, the amount of money spent on public education is not fully related to enrollment and inflation, but rather tracks how much money the tax system is able to raise. In other words, *the cost of public schools is historically whatever money is available.*

This is not to say Texas' tax system could not be improved. Equalizing the corporate tax burden, and making the corporate tax burden commensurate with the educational benefit that businesses derive from public schools, would provide economic benefits for all Texans.

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

The first problem is spending.

Texas 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 more money would improve their performance. Absent the need to increase public education funding, there is no real reason for significant tax reforms.

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.

Texas needs a results-based system of school finance that links funding with educational performance. The state must develop a system that focuses public schools on end-goals; something that is not currently done.

This effort will challenge Texans to clearly define what public schools should accomplish, and what our taxes should fund. 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 for generations to come.

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