

Veritas

Texas Public Policy Foundation

Policy primer tax panel, draws hundreds to the debate

INSIDE this ISSUE

- From the President 3
- A Conversation With... 5
Representative Rob Eissler
- Foundation Profiles 6
- Big Government's New 7
Pet Project
- Board Spotlight: 9
George W. Strake, Jr.
- Bigger Is Not 10
Always Better



Tax panelists (from left to right) Kevin Thompson, Council On State Taxation, Rep. Bill Keffer, Sen. Steve Ogden, chairman of the Senate Finance Committee, John Sharp, chairman of the Texas Tax Reform Commission, and panel moderator Howard Wolf, chairman of the board of Stewart & Stevenson Services, are thanked by Foundation president, Brooke Rollins.

More than 300 policymakers, elected officials, media and taxpaying citizens gathered in the Capitol Auditorium to learn the details of the Texas Tax Reform Commission's proposed tax plan for Texas.

On April 5, the Texas Public Policy Foundation hosted the panel discussion, "A Taxing Time for Texas," as part of its 2006 Policy Primer series. Panel members included: John Sharp, chairman of the Texas Tax Reform Commission; Sen. Steve Ogden, Senate Finance Committee chairman; Rep. Bill Keffer, Texas Conservative

Coalition Research Institute, and Kevin Thompson, Council On State Taxation. Howard Wolf, chairman of the board of Stewart & Stevenson Services and member of the Texas Tax Reform Commission, served as panel moderator.

The tax plan proposed by the Texas Tax Reform Commission would abolish the current franchise tax, substituting a new business tax that would tax all forms of business with limited liability. Such businesses with more than \$300,000 in gross receipts would have a choice of netting out of their gross receipts either their compen-

CONTINUED ON PAGE 4



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Texas Public Policy Foundation *Mission*

The Foundation's mission is to improve Texas by generating academically sound research and data on state issues, and by recommending the findings to opinion leaders, policy makers, the media and general public.

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Veritas is a quarterly publication of the Texas Public Policy Foundation. *Veritas* focuses on the critical issues facing public policy in Texas. Subscribe to this publication by contacting the Texas Public Policy Foundation at (512) 472-2700 or at our website www.TexasPolicy.com.

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Mission Statement

The Texas Public Policy Foundation is a 501(c)3 non-profit, non-partisan research institute guided by the core principles of limited government, free markets, private property rights, individual liberty and personal responsibility.

The Foundation's mission is to improve Texas government by generating academically sound research and data on state issues, and by recommending the findings to opinion leaders, policymakers, the media and general public. The work of the Foundation is conducted by academics across Texas and the nation and is funded by hundreds of individuals, foundations and corporations. The Foundation does not accept government funds or take contributions to influence the outcomes of its research.





Message from the President: *Brooke Rollins*

"The only way to improve Texas is to stop looking for quick fixes and enact fundamental reform."

The governor's call for an immediate special session on school finance has put the Foundation into overdrive. Indeed, no two issues will have a greater impact on the future of Texas in the coming years than taxes and education.

Our recommendations call for using the \$8.2 billion surplus to cut out-of-control property taxes, enacting a true spending limitation to keep future spending under control, warding off increased taxes, and enacting significant, lasting education reform.

It was just a few weeks ago that we all felt the sting of government's reach on tax day, April 15th. Unfortunately, it doesn't end there for most of us. Indeed, most Americans work from January 1 to well past April 15 just to pay the combined bill of federal, state and local taxes.

That's before food, medicine, shelter or clothing.

With Texans justifiably apprehensive about the current special session fo-

cused squarely on taxes, the tax burden on Texas—which had been trending down for a decade—is on the rise.

According to the Tax Foundation, back in 1994 the average Texan was working until April 21 to pay federal, state and local taxes—with 9.7 percent of income going to state and local governments, while the federal government took 20.5 percent.

Throughout the 1990s, Texans worked longer and harder to pay their taxes, due primarily to rising federal tax burdens. From 1994 to 2000, the state and local taxes actually dropped steadily as a percentage of income.

But in 2001 the ratio of state and local taxes went back up, and for the last five years has fluctuated between 9.3 and 9.4 percent of income. Federal decreases have allowed Texans to work fewer days to pay taxes.

We hit a low-mark (actually, a high mark!) in 2004 when Texans worked only until April 11 to pay their combined tax bill—the shortest time since 1971 (when we worked until April 10 to pay all taxes).

Prepared for the bad news? The trends are inching back up. In 2005, Texans worked until April 16 to pay for government. And this year? According to the Tax Foundation's 2006

analysis, you'll be working until April 19 to pay your tax bill.

So what will this month's special session do to Texas next year? With the governor and most lawmakers committed to using at least a portion of the surplus to buy-down taxes, the good news is that one should expect the state tax burden report to fall.

It is these facts that keep all of us at the Texas Public Policy Foundation passionate about what we do every day—fighting at the Capitol for good public policy solutions based on a free market and limited government.

The challenges before us are great, but know we will tirelessly promote sound, conservative tax solutions that respect the strength of our economy, based on years of extensive research.

Thank you for your interest and your support. Please never hesitate to call if we can help in any way.

For Texas,

Brooke Rollins
President
Texas Public Policy Foundation



A Taxing Time for Texans... from page 1

"I see surplus as overpayment of taxes that should be returned. Others tell me surplus is money we haven't figured out how to spend yet."

--State Rep. Bill Keffer

sation costs (including benefits but not over \$300,000 for a single employee) or their costs of goods sold. The remainder would be taxed at a rate of one percent except for retail, wholesale, and restaurant businesses, which would be taxed at one-half of one percent. Current estimates are that this tax would bring about \$6 billion into state coffers, netting about \$3.8 billion for the state when the franchise tax's repeal is taken into account.

State Representative Bill Keffer was skeptical of the proposed plan, expressing concern that the proposal lacked the staying power to keep property taxes from coming back up again in the future.

Instead, Keffer suggested using an estimated \$4.3 billion (now estimated at over \$8 billion) of the state's revenue surplus to buy-down property tax rates until the 80th Legislature can take up the issue when it convenes again in January.

"I see surplus as overpayment of taxes that should be returned," he said. "Others tell me surplus is money we haven't figured out how to spend yet."

Sharp disagreed with Keffer's proposal, warning that spending too much of the surplus and not taking this opportunity to close loopholes in the current franchise tax would not be in the state's best interest. He argued that using \$1 billion—instead of \$4 billion—would avoid creating an even bigger hole to fill in the next legislature.

Keffer, though, noted that use of the surplus would require a commitment to greater fiscal discipline on the part of lawmakers.

The 2006 Policy Primer Series is underwritten by grants from the Dodge Jones Foundation and the Armstrong Foundation. Upcoming primers will focus on school district efficiency and judicial selection. Registration information will be available online, at www.TexasPolicy.com.

The complete audio of this policy primer and other Foundation events is available online, at www.TexasPolicy.com/multimedia/ ★

FOUNDATION PROFILES: Arlene Wohlgemuth

Arlene Wohlgemuth is a visiting research fellow at the Texas Public Policy Foundation's Center for Health Care Policy Studies. She recently completed 10 years of service as state representative for District 58.

During the 77th legislative session, she served as chairman of Appropriations Article II Subcommittee (Health and Human Services), vice-chairman of Calendars, CBO for Human Services, and member of the Select Committee for Health Care Expenditures. Ms. Wohlgemuth authored HB 2292, the sweeping reform of Health and Human Services which improved service delivery for the recipients and will save taxpayers more than \$3.7 billion during its first five years. The reform included consolidating 12 HHS agencies into five and is the largest government reform bill ever passed in the state.

Ms. Wohlgemuth served as president of the Texas Conservative Coalition, chairman of the TCCRI Health and Human Services Task Force, and chairman of the TCCRI State Finance Task Force. She was twice named to *Texas Monthly's* "Ten Best" List. She is currently a board member of the Texas Conservative Coalition Research Institute, and she is owner of Three Point Strategies, a lobbying and consulting firm.





A Conversation With Representative Rob Eissler...

Texas House of Representatives, District 15—The Woodlands



Foundation vice president, Michael Sullivan, greets State Representative Rob Eissler before a policy primer at the Foundation's offices.

State Representative Rob Eissler was first elected to the Texas House of Representatives in 2002, and has served on the House Committee on Public Education and the Committee on Health and Human Services. A graduate of Princeton University, Eissler was a naval aviator before settling in The Woodlands, Texas, in Montgomery County. Eissler is a small business owner and has served in numerous positions in the community, including 18 years on the Conroe Independent School District's Board of Trustees.

On the eve of the April 17 special session on public school finance, the Foundation's vice president, Michael Quinn Sullivan, visited with Representative Eissler, a leader on education reform issues.

Michael Quinn Sullivan: Your professional life has been marked by public service, as a Navy pilot, serving on the school board, and now in the Legislature. Why do you do it?

State Representative Rob Eissler: I think everybody has a duty to help make the world better for you having been there. Different people go about that in different ways. Once I found a home in The Woodlands, there were plenty of opportunities and need for people to be involved and so I gravitated towards that. I always expected to be in the Navy. You certainly do appreciate this country after having visited other countries... seeing what other people have to live with. Every time I returned from overseas I would literally kiss the ground. It's not that I went to a lot

of bad places, but this country is just so amazing. But with community service—wow, that is now a sentence people get! I guess I have a credit?

Sullivan: You are regarded in and around the legislature as a leader on education reform issues. Which of these do you hope the legislature will take up in the 80th Session (to begin in January 2007)?

Eissler: It depends on what we can get here in the special, if anything. Hopefully we'll get something. I know (Senator Florence Shapiro) has been working a lot on teacher pay... But having served on the stakeholders committee (for teacher pay), you realize how much work there is to be done. There are a myriad of challenges just on trying to establish an incentives program for teachers.

Sullivan: Do you think the teacher pay issue is one of the most important out there, in terms of public education reform?

Eissler: If you are looking at the education of our children, the first place to look is the teacher. I know everyone wants to reward our best teachers and get as many as we can. A lot of the reforms are attached to that, such as the 65-Percent Rule (which requires that at least 65-percent of school district funds go directly to the classroom).

But I should add that the ramifications of the incentive pay plan are amazing. For example, if you want to pay better teachers better, then you have to find a way to measure that. Do we have a system in place to do that now? And we're not just talking test scores, but value-added. Does our [state curriculum] do that? What do we need to change? A great teacher doesn't necessarily have the smartest kids. And why can't teachers make more when they are more efficient?

But even when you look at my other committee, at human services, the greatest need is the same, and it is summed up in one word: fathers. When you see the difference in the performance of kids overall, it's the absence of the father influence. I have really been thinking through that, and the first thing we have to do is find a way to get them present. I would like to see efforts to bring them in. Look at all the peripheral problems, drugs, attendance, all those things would be positively affected by having fathers more involved.

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Conversation With... Continued from page 5

" I try to remind myself that any problem we don't solve today—and any problem we create—is one we leave for our children."

Sullivan: How can we better drive efficiency in general?

Eissler: We have to improve on the older models of doing things. Like with technology, we have to do a better job of utilizing it in the classroom, in government and how we govern. When we built a new high school when I was on the school board, we hadn't yet included the wiring for a network and I remember saying, "by the time we build this thing, everything will be wireless." Sure enough, look where we are now. We need to look ahead.

We need to focus on efficiency. Look at duplicating good teachers with distance learning. There has been a fear in the education community that we'd replace teachers with computers. You'll never replace good teachers, you may just multiple them.

You can say the same things in human services. But we have to be willing to analyze things properly. There is a saying that a problem well-defined is a problem half-solved.

Sullivan: Thinking about this special session, and even the issues in education re-

form, health care, and on, how important do you see the stakes?

Eissler: I try to remind myself that any problem we don't solve today—and any problem we create—is one we leave for our children. But in so many ways, that is what we have to prepare them for. We're going to make mistakes, new problems will arise. We need to train the next generation to be prepared to skillfully confront them.

Sullivan: What kind of role does, or should, groups like the Foundation play in developing and implementing good public policy?

Eissler: The Foundation is great; you cannot build anything without a good foundation! I learn a lot, and I don't like to miss the publications. We don't have to agree on absolutely everything, and usually it is not so much disagreement, as it is trying to look at how to get to the same points practically. I think the Foundation has great people, Byron Schломach, Jamie Story. It is always very quotable and reliable information.★

TEXAS PUBLIC POLICY NEWS

The Foundation's e-newsletter, *TPPN*, keeps readers up-to-date on the Foundation's latest research, news, views, activities, and events.

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Big Government's New Pet Project

Mandatory Animal Registration Burdensome, Unnecessary

By Marc Levin, Esq.

If your cat is planning to have kittens, you better take a number. The U.S. Department of Agriculture has hatched the National Animal Identification System (NAIS). The NAIS comes in response to fears of mad cow disease and bioterrorism, even though there are at most three instances of mad cow disease in U.S. history and no documented instances of animals being used for bioterrorism.

This program, which began on a voluntary basis in 2004, becomes mandatory this year for 25 percent of premises where animals are kept. Eventually, all premises will be required to register their animals with the government or face criminal penalties, including a fine of \$1,000 per day. Every animal on the premises must be given a radio-frequency identification tag (RFID).

States can choose to administer the program themselves. For example, the Texas Legislature has charged the Texas Animal Health Commission with doing so. After an avalanche of protests from small farmers at their last meeting, the Commission will convene again on May 4 to consider whether to begin enforcing mandatory registration.

Each state can determine the definition of a "premise." Texas and most other states will likely exclude private pets, but persons who raise or transfer animals will be covered. Accordingly, if a litter of kittens is born and the owner wishes to sell or give them away, the owner must register his premises and tag the kittens with a 15-digit electronic identification device. While large agribusiness operations may have the wherewithal to implement this

scheme, small farmers throughout the nation are bracing for an unbearable regulatory burden. Even high school 4-H or FFA programs will have to comply with this mandate, although the Commission is considering an amendment to allow them to register each project rather than every animal.

Small ranchers are worried that the compliance costs of registering their premises and animals will make their business an endangered species. Harold Renfro, a Nacogdoches County rancher, told the *Lufkin Daily-News*, "I think that this is an undermining of the small farmers, and ranchers. I believe that this is just another way to get people to quit farming and raising their own livestock. They have already put the small packing houses out of business because of all the red tape."

The red tape associated with the NAIS does not end after a premises owner registers his premises and tags and registers his animals. Rather, the burden continues as the owner must report, within 24 hours, any missing animal, any missing tag, the sale of an animal, the death of an animal, the slaughter of an animal, the purchase of an animal, the movement of an animal off the farm or homestead, or the movement of an animal onto the farm or homestead.

The Texas Organic Farmers and Gardeners Association stated in its comments to the Commission, "Not since Prohibition has any government agency attempted to enshrine in law a system, which so thoroughly stigmatizes and burdens common, everyday behavior and is so certain to meet with huge resistance from the citizens it unjustly targets."



Marc Levin is the director of the Center for Effective Justice at the Texas Public Policy Foundation.

"Small ranchers are worried that the compliance costs of registering their premises and animals will make their business an endangered species."

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Animal Identification... Continued from page 7

“ If we must have an animal identification program, compliance should be treated as a civil matter, rather than making criminals out of a family whose cat has kittens or a small farmer struggling to navigate this regulatory labyrinth.”

Like many burdensome and intrusive government programs, there are likely to be unintended consequences. For instance, a greater percentage of cattle or wild game may be raised in Mexico or Central America where the level of regulation and sanitation is lower than the U.S., even without the NAIS. This net result would be to lessen the safety of the beef and other animal products consumed by Americans.

Finally, why should an honest error in complying with this Orwellian program be a criminal offense? While House Bill 1361 passed last session by the Texas Legislature classifies the offense as only a Class C misdemeanor, that still means a \$500 fine for each day a violation occurs plus court costs, which can add up to thousands of dollars. If the offender does not pay, he can be sent to county jail. If we must have an animal identification program, compliance should be treated as a civil matter, rather

than making criminals out of a family whose cat has kittens or a small farmer struggling to navigate this regulatory labyrinth.

For centuries, Texans have lived off the land, raised livestock, and enjoyed the companionship of pets. What has changed to warrant making all of these private activities subject to registration and surveillance? The government has cried wolf and the public outcry has just begun. ★

Marc Levin, Esq., is director of the Center for Effective Justice.

The author welcomes your thoughts on this article. Please send your comments to: mlevin@texaspolicy.com.

SIDEBAR: Mandatory Texas Animal ID Program Delayed Until 2007

After a public outcry, the Texas Animal Health Commission (TAHC) announced in April that it will postpone until winter or spring 2007 consideration of a plan to force all owners of premises with animals to register with the government or face criminal penalties. The U.S. Department of Agriculture is forcing all states to develop a scheme for all premises to be registered and all animals to be tagged under the rubric of the National Animal Identification System (NAIS).

The 79th Legislature passed House Bill 1316, authorizing the TAHC to develop and implement a state animal ID program consistent with the NAIS. As part of the overcriminalization project at the Foundation's Center for Effective Justice, Marc Levin was the only person

to testify before the State Senate against the bill's creation of a criminal penalty for failure to register a premises or animal.

Once Texas farmers and ranchers found out about this scheme and the burdens it would impose on them, over 700 of them contacted the TAHC to oppose the plan. The Commission also received letters from State Representatives Lois Kolkhorst (R-Brenham) and Bryan Hughes (R-Mineola). One member of the Commission even joined the opposition.

With the delay, Texas farmers and ranchers can breathe easier, as the Legislature will have an opportunity early next session to modify or repeal House Bill 1316, and Texans can share their concerns with members of Congress.





Foundation Spotlight: *George W. Strake, Jr.*

There is an elite group of Texas Public Policy Foundation supporters who have been with us from the start—George W. Strake, Jr. is among them. This month, the Foundation board welcomed Mr. Strake as its newest member. Mr. Strake has committed to not only make a financial investment to support our work, but help guide our research agenda and leverage our work in Austin and around the state.

Well-known as a champion of Texas, a former colleague who learned of the appointment describes Mr. Strake in this way:

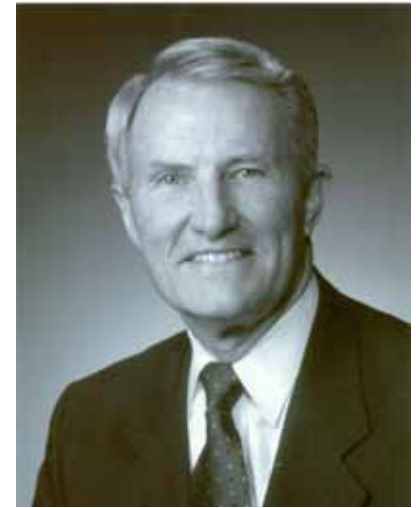
“George Strake epitomizes what it means to be a gentleman. I am taken with his character and abilities and have never forgotten the example he set. He is the finest person I have ever met. The Texas Public Policy Foundation is most fortunate to have him involved.”

Mr. Strake’s commitment to free market principles is well-documented and will serve the Foundation well. A third-generation Texan born in Houston, Mr. Strake is committed to preserving the freedom of the Lone Star State. Well-studied in economics, Mr. Strake studied at the University of Notre Dame before continuing on to Harvard University’s Graduate School of Business. He also served for two years aboard ship in the United States Navy.

Ever beholden to Texas, Mr. Strake returned to Houston to join his father in the independent oil operating business, and has carried on the business as an independent oil and gas operator at Strake Energy, Inc.

Mr. Strake has served his state in many capacities, including Secretary of State in 1979 and later running for the office of Lieutenant Governor of Texas. He was named co-chairman of the Houston Economic Summit Host Committee, and has served as a member of the Interstate Oil Compact Commission, Texas Independent Producers and Royalty Board, and the IPAA Regional Board.

Mr. Strake has made an impact by being on the board of groups such as the Boy Scouts of America, Freedom’s Foundation, Navy League of the United States, Institute of International Education, and Greater Houston Partnership, among many others. Mr. Strake now joins the Texas Public Policy Foundation in this same capacity.



George W. Strake, Jr. joins the Texas Public Policy Foundation’s Board of Directors.

Some of Mr. Strake’s advice to others, which will help guide the Foundation, includes consistently standing for the same principles, and that perseverance counts. These are two pieces of advice the Foundation has successfully upheld and one that our long-term supporters—such as Mr. Strake—understand and commit to every day.

“Remember, even at the founding of the United States, there was not unanimity of opinion concerning the direction we should go. One third of the people wanted a peace treaty with England, and would agree to remain occupied. Another third wanted to remain under the British Crown. Only one third wanted independence. The American founders believed in something and exerted leadership to see it come to fruition.

Stand for something, and apply that same leadership to what is important to you.”

George W. Strake Jr.

Please join us in welcoming to the Texas Public Policy Foundation Board a great Texan with great conviction for a freer, more prosperous Texas. ★



Bigger Is Not Always Better *School Services Should Be Consolidated*

By Jamie Story



Jamie Story is a policy analyst for the Center for Education Policy Studies at the Texas Public Policy Foundation.

“From 1960 to 1984, the number of school districts in the United States declined by more than 60 percent. But over the same period, school administration grew 500 percent.”

Texas law requires every school to have a principal, and every district a superintendent. This mandate, which seems logical at first glance, actually has a stifling effect on districts’ ability to find unique solutions to local problems.

In smaller districts, it could make sense to share principals between schools, or superintendents between districts. Three small districts within a county could remain independent, but hire a single “county superintendent,” thus significantly lowering administrative costs. Unfortunately, current law makes this and other innovative management arrangements unthinkable.

This is but one example of state mandates limiting public school efficiency. Hundreds more could be found quickly. And countless more with a little work.

With property owners facing sky-high taxes and seemingly endless calls from the education community for more money, it is necessary to ensure every dollar is used to its fullest potential to improve student performance.

But this requires that local school districts have the discretion to act creatively.

The term “consolidation” is often a dirty word in public schools. It conjures up images of community schools being swept away and children being bussed for hours to the “bigger and better” consolidated school. But Regional Service Center 17 in Lubbock has used a creative version of that “dirty” idea to lower costs for several of its school districts. The Regional Service Center provides payroll and accounting services, and in doing so, has helped participating districts to save between 50 and 80 percent annually on these functions.

Payroll and accounting services have little to do directly with student achievement or the culture of a school district, but the services are necessary. Through its innovative consolidation of services, Regional Service Center 17 and the participating school districts have freed up funds for use in more academically meaningful pursuits.

Understandably, citizens want their local schools and districts to remain independent. And frankly, the evidence may be on their side.

Decades ago, education reformers looked to district consolidation as a way to lower costs and ensure access to quality teachers and facilities. From 1960 to 1984, the number of school districts in the United States declined by more than 60 percent. But over the same period, school administration grew 500 percent. Clearly, consolidation has not led to decreased administrative costs on a national level.

Texas has followed similar consolidation patterns, downsizing from nearly 7,000 districts in 1936, to just over 1,000 today. Even so, districts range in size from dozens of students in parts of west Texas, to more than 200,000 in Houston ISD. Unfortunately, districts this large (and small) typically prove less efficient than more modestly sized districts.

The largest school districts have administrative and support staffs proportionally larger than those found in smaller districts. And administrative positions are growing faster than student enrollment.

Clearly, consolidation is not the cure-all to fix school finance. However, consolidation does not have to be a dirty word. There are

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benefits to be reaped from consolidation—but consolidation of services, not necessarily schools or districts.

Borrowing an idea from the private sector, innovative school districts are adopting the practice of shared services. Shared service arrangements enable districts to reduce the costs associated with functions such as transportation, food services, and human resources, just to name a few.

Shared services could also take the form of allied purchasing agreements, allowing small districts to take advantage of bulk pricing when ordering paper, desks, and even computers.

Shared services—less controversial and more effective than traditional consolidation—enable districts to save thousands of dollars each year on non-academic expenses. The Legislature should streamline state law, relaxing mandates and providing incentives that facilitate shared service agreements. In doing so, lawmakers will show through their actions that the priority of our public schools is the education of children, not the growth of bureaucracies.★

Jamie Story is a policy analyst in the Center for Education Policy Studies.

The author welcomes your thoughts on this article. Please send your comments to: jstory@texaspolicy.com.

“ Shared services—less controversial and more effective than traditional consolidation—enable districts to save thousands of dollars each year on non-academic expenses.”

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Mark Your Calendars... *2006 Policy Primer Series**



The 2006 Policy Primer Series is underway with a wide range of topics sure to be of great interest and importance in the 80th Session of the Texas Legislature.

Thursday, May 11, 2006

Efficient Education: Accounting & Spending

Tuesday, June 13, 2006

Breaking the Addiction to Prison

Tuesday, July 11, 2006

Judicial Selection

Tuesday, September 12, 2006

Giving Victims A Voice

Tuesday, October 10, 2006

Price & Quality Transparency in Health Care

Tuesday, November 14, 2006

Property Rights in the 80th Legislature

Tuesday, December 5, 2006

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For details on all Foundation upcoming events go to: www.TexasPolicy.com.

**Tentative schedule*

Looking Ahead... a sample of *2006 Foundation* research



Economic Freedom

Electricity Deregulation
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Effective Justice

Prison Overcrowding
Probation Reform
Privatization: Facilities & Programs
Overcriminalization

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Public School Accreditation
Constitutional Definitions
End-of-Course Tests
Parental Choice

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