

Perspectives

ON TEXAS PUBLIC POLICY

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Education: Letting Principles Guide the Solution **Testimony of Brooke Leslie Rollins before the** **House Select Committee on Public School Finance**

Recently, the Manhattan Institute published a study that identifies rates of high school graduation for all states. This study indicates that Texas' overall graduation rate is 67 % (placing us 37th in the nation) while noting that we in Texas only recognize a 1% dropout rate in public schools.

The Manhattan study issues a call to policy leaders that we have a crisis in public education. Texas public schools are not doing their job of bringing students to graduation. The Manhattan Institute's study also makes clear that the State of Texas is not doing its job of determining how well schools are meeting state education goals and holding schools accountable for student success.

Today's necessity, however, can be tomorrow's remedy. Reforming the state's school finance system provides legislators with the perfect opportunity to establish and connect fiscal standards, as well as incentives, to school performance while addressing the problem of revenue. We must use education dollars to improve Texas public schools, and refine the accountability system, including assessments, school ratings/accreditation standards and calculation of high school completion, to support this effort.

As you know, we essentially face two challenges in school finance – spending and taxes. However, simply attacking the tax structure will do nothing to improve the quality of education our students receive. Likewise, simply increasing the amount of money we throw into the public education system will not necessarily improve the quality of education our students receive either.

We are all proud of the accomplishments of our public schools. But our pride should not promote complacency as to structure, or blind us as to better ways to achieve the overall purpose of public education. That purpose? To develop our young boys and girls into men and women who can be tomorrow's leaders.

For the purposes of this discussion today, there are two problems: (1) the disconnect between funding and outcomes; and (2) local property taxes.

Disconnect Between Funding and Educational Outcomes

The first is the disconnect between funding and outcomes. Texas public schools have neither real incentive nor requirement to meet state goals for student performance. Because the state does not hold public schools accountable for meeting the state educational goals – “diffusion of knowledge,” according to the Constitution; high school completion and post-secondary



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readiness, according to the Education Code – public schools remain far short of meeting these goals after two decades of intensive, expensive reform. The Texas Legislature must incorporate fiscal standards and incentives to hold public schools accountable for meeting state goals for student performance and fiscal efficiencies.

Local Property Taxes

The second problem is the local property tax. Some will say the Legislature faces two choices here: either amend the Constitution to allow for higher local property taxes, or provide local schools with additional revenues so that they can lower property taxes. Many school districts have reached the cap (\$1.50 per \$100 valuation), a ceiling that eliminates ability of districts to use property taxes for enriching local educational programs. This ceiling, acting as a de facto statewide property tax (according to the West Orange Cove ruling), violates the state constitution.

So, with this in mind, the legislative challenge is two-fold: (1) creating a new system for distributing public education funding; and (2) finding alternative sources of revenue for education.

Creating a New System for Distributing Public Education Funding

First, the Legislature must create a new system for distributing public education funding. There is evidence of widespread taxpayer dissatisfaction with “Robin Hood.” Indeed, we are here today precisely because of such dissatisfaction. Our current system of school finance redistributes funds from property-rich to property-poor districts. But redistributing funds has not advanced state education goals. Robin Hood has not necessarily been “the great equalizer”; property-poor districts generally spend more education dollars than property-rich districts. Nor has redistribution equalized the quality of education; students in property-poor districts generally scored significantly lower on state assessments, graduate at a lower rate and demonstrate lower post-secondary readiness than students in property-rich districts.

Again, funding issues are not the same thing as education issues. At its heart, we must seek to make structural improvements to the way we deliver education, as well as take on the task of changing the tax system. To only address the tax system will be a missed opportunity.

Finding Alternative Sources for Education Revenues

Which leads to the second challenge: finding alternative sources of revenue for education.

Of course, changes in funding will necessitate changes in the state tax system. These changes will immediately, directly and powerfully impact the economic vitality of Texas, for good or ill.

Do No Harm

The physician’s dictum – “First, do no harm” – should guide any and all changes contemplated in our tax system. Our system has served Texas very well; we have weathered the national economic downturn better than most simply because we are a state attractive to investment and job growth. Revenue sources have overall proven sufficient for our state’s population growth and inflation. Texas is ranked 13th in the nation today for state business climate by the nationally-respected Tax Foundation. The Foundation ranked Texas fourth in the nation for fiscal balance,

for keeping tax burdens relatively stable as a percentage of income. Although not perfect, our state tax system has nurtured economic development and the prosperity of Texans.

Changing our tax system must be undertaken with extreme caution. We must preserve what is good in the current system, and if absolutely necessary to fix weaknesses, expand taxation in ways that are least harmful to economic growth.

The experience of other states clearly demonstrates that an income tax would be the worst tax for Texas. No matter how many “controls” states have placed on income taxes, income taxes drive government growth and more, higher taxes. Higher government growth and increased taxes drag down personal income; real personal income growth is more than twice as high in low- or no-income tax states. Consumption taxes, on the other hand, are fair, stable taxes that do not trigger government growth; Consumer taxes should be preserved and expanded, but carefully to ensure corporate consumers are not double-taxed. It should be noted that revenues from sales taxes have proven a more reliable source than income taxes, without the adverse economic impact of income taxes.

The economic vitality of Texas depends on preserving and improving the state business climate. We must avoid pyramiding business taxes by levying taxes on business services; this will encourage corporations to leave Texas, and then jobs will disappear and personal income will fall.

With all of that said, however, we should be very, very cautious of simply shifting around tax burdens. Under the current system, our citizens, for the most part, know the price tag for our education costs. Simply shifting the tax burden around so that they do not see burden is not a good response. Transparency is imperative.

If taxes are too high, if the cost of government is not perceived as a good value to the taxpayer, we must seek to lower the cost and improve the value, not hide the taxes.

Research and Resources

With those things in mind, the Foundation is undertaking a significant body of research to examine expenditures and the revenue. Our research will equip policymakers with accurate, detailed information about taxation, revenues and spending, and the relationship of these functions with the state economy.

Distributing Dollars

We have commissioned two projects to assist policy leaders with creating a new way to distribute education dollars that produces more efficient and effective public schools.

The first project is a study of *School Efficiency and Effectiveness*. This research will connect school funding and educational outcomes, identify efficient resource allocations, and propose strategies for fiscal efficiency and improved student achievement. It is projected to be released in early January 2004.

The second project is *Redesigning School Finance*. This research report will examine educational adequacy and propose multiple ways to replace Robin Hood with more efficient, effective funding. We likewise plan on releasing the findings of this study at the first of the year.

Taxing Texans

The Foundation has also undertaken a broad, multi-faceted research initiative to help Legislators craft sound policy about our state's tax structure.

Just last week, the Foundation released the first of three projects focused on taxes. That study was our 50-state survey of taxes and revenue. The report identified how other states collect and spend dollars for public education.

Later this year, we will be releasing a very important research project, *The State Tax Analysis*. This research will examine some of the various tax reforms that have been proposed and project the impact they will have on the state economy. This report will help identify the tax methods that will produce the most fair, economically-stimulating revenues for public education.

We will also be releasing a very important tool for policy leaders. The *Econometric Model* is a computer program that will project the dynamic economic impact of specific tax reforms that can be used by legislators and policy leaders both in formulating ideas, and even during hearings and debate.

Principles to Guide School Finance Reform

I will conclude by offering some principles we hope you will consider during your personal and collective deliberations on reforming education, and the way we fund it:

- The state should clearly define what constitutes a “diffusion of knowledge” or an adequate education – specifying standards for educational completion and post-secondary readiness with an explicit and required foundation curriculum.
- The state should hold all public schools accountable for meeting state educational standards and accredit only schools that meet these standards (it is unconscionable that the Legislature should accredit schools where 50 % of students who take state assessments fail to pass).
- The state should substantially, but not wholly, underwrite the cost of funding the foundation curriculum – state mandated instruction - but not fund optional, supplemental local programs.
- Local communities should fund a part of the foundation curriculum to engage communities in educational success.
- Assessments should be administered to provide specific information about how well students are progressing toward the state's goal of post-secondary readiness (sufficiently accurate to measure grade-level achievement and achievement gaps between student groups).
- Schools should be held accountable and accredited on the basis of student outcomes that meet state education goals (not just improving student achievement).
- Local communities should be afforded the fiscal and legal opportunity to provide unrestricted supplemental, optional enrichment of instruction.

- Funding should be linked to students, not schools or school districts or school functions.
- Categorical restrictions should be removed from school funding and full authority for resource allocation should be given to individual schools providing state money is spent on state-required instruction.
- Incentives should and must be incorporated into the school accountability system to encourage and reward fiscal efficiencies and effective resource allocation.
- Students who fail state assessments or are enrolled in schools that fall below the state's acceptable rating should be given state funds for unrestricted use in another public or private school.
- Competition should be introduced in public education by establishing statewide public school choice.
- School finance reform should be revenue neutral because there is no evidence that money is linked to student achievement and more money is necessary for higher levels of performance; no additional funds should be provided for education other than increases to offset inflation and student enrollment.
- Tax reform should not generate more revenue than required to offset property tax reduction.
- Fiscal efficiencies and redefining resource allocation should underwrite part of the increased state revenues to public education.
- Consumption, not income, taxes should be enacted to furnish the additional revenues required to offset a decrease in local property tax contribution toward public education.
- Tax reform to find alternative revenue sources for education should be fair, address inconsistencies in current tax law and promote economic vitality.