

Research Report

MARCH 2004

The High Costs Of Texas Public Education

A Study Of Three Texas School Districts

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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, policy makers, 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.

EXECUTIVE SUMMARY

This study examines the economic performance of three Texas school districts, investigates the regulatory and financial incentives that are driving up expenditures, and examines the financial accountability of school districts to taxpayers. Sources of information used for the examination included the annual school district actual expenditure and student performance reports by the districts to the Texas Education Agency for 1996-97 through 2002-03. The three school districts studied represent small, medium and large districts from north, central and south Texas: Laredo ISD (24,000 students), Austin ISD (78,000 students) and Dallas ISD (163,000 students).

Economic Performance: The three school districts examined did not attempt, and state policy does not require, measurement of the economic efficiency by systematically comparing performance with expenditures, or to allocate limited resources based on economic efficiency. Nor is there any evidence from expenditure data that districts give the highest priority to instructional expenditures when budgets are tight. Trends in the allocation of available revenue among school functions are away from instruction and toward discretionary activities. District expenditures are highly correlated with available taxing ability and unrelated to productivity. The major component of all the functions in annual operating expenditures is payroll where increases are related to long-term, economy-wide wage increases, and not to productivity.

Financial Accountability of School Districts to Taxpayers: Recordkeeping for the three districts was tailored to meet regulator requirements instead of identifying what money was spent on state mandated services and the required program of instruction, or differentiating between mandatory and discretionary expenditures. Despite the wealth of information available, much of which is easily accessible online, financial accounting and performance reporting greatly lacks the transparency that is required for taxpayers to understand whether their tax dollars are well-spent and for state legislators to make informed decisions about education funding. The focus is on accounting for what was done without attention to available alternatives.

Regulatory and Financial Incentives: Austin, Dallas and Laredo, like all other school districts in Texas are encouraged by the current system of public education in Texas to spend whatever funding is available and to increase spending, undisciplined by tests of economic efficiency, either through rule to relate revenue allocation to economic efficiency or through creation of a level playing field to encourage competition. The system impedes access to available information, relying on the Freedom of Information Act to prevent information flow rather than encourage it.

Recommendations:

- State funding should prioritize instructional spending through incentive programs such as matching teacher pay with measurable student achievements.
- State funding should be partially based on an economic efficiency measure.
- State policy should discourage growth of large school districts with high administrative costs that do not produce high student outcomes efficiently.
- Market-based spending should be created through public school competition and voucher systems that make public education responsive to consumers (students and parents) rather than the bureaucracy.
- Accounting procedures should be developed to distinguish discretionary spending from expenditures on state required activities and to require provision of an economic rationale for professional/contractor spending decisions.
- A public information system should be developed to allow parents to make intelligent choices among schools based on financial and academic performance and help policymakers make informed decisions about school funding.

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INTRODUCTION

The per-student expenditures on primary and secondary education in Texas have been rising in recent years at a pace considerably above the rate of inflation. Since the main source of funding for school districts is the local property tax, the tax rates have also been rising rapidly. The tax rate per \$100 valuation has increased in many school districts to the maximum allowed in the Texas constitution. At the same time student performance as measured by standardized test scores has improved only modestly – raising many questions about the ability of the tax-funded public education system to improve the education of current and future generations of Texans. To help policymakers answer these questions, this study:

- Examines the economic performance of three Texas school districts that are typical of the range of Texas school districts,
- Investigates the regulatory and financial incentives that drive up spending, and
- Reviews the financial accountability of school districts to taxpayers.

This study was originally intended to analyze patterns of school district expenditures in light of the primary state mission of education. The original objective was to determine if spending priorities match with the primary objective of teaching. It was hoped that the findings of this study could determine whether there is an objective basis for the claim from school districts that most of the recent cost increases are due to state and federal “mandates,” and that districts have insufficient funding to meet these mandates.

The original study could not be completed because the data systems maintained by the school districts do not differentiate and account for expenditures underwriting the cost of mandated and unmandated or discretionary activities.¹

To examine economic performance, this study compared the expenditures and student performance of three very different school districts over a period of years.

- Comparing the **unit expenditures (average expenditures per student)** and trends of Dallas Independent School District (DISD), Austin Independent School District (AISD), Laredo Independent School District (LISD) and the Texas average district.²
- Examining the data on spending by comparison of **expenditures per student where expenditures are corrected to constant purchasing power dollars** so that comparisons over time take out the effects of general inflation. Economic efficiencies are estimated in order to compare performance relative to costs of the three districts and to compare such efficiency measures among the districts and with the state average.

The study selected the three school districts for the following reasons:

- Size in the 2002-03 School Year:
 - Small (LISD) - Student enrollment totaled 24,000,
 - Medium (AISD) - Student enrollment totaled 78,000, and

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- Large (DISD) – Student enrollment totaled 163,000.
- Enrollment Growth: All three systems had only modest enrollment growth over the last six years ranging from 2.8% in AISD, to 3.9% in LISD and 5.3% in DISD.
- Student Populations in the 2002-03 School Year: All three systems have a high percentage of minority and economically disadvantaged students but there are important differences in concentrations. Note that the state average for student groups in school districts was 14.3% African American and 42.7% Hispanic, with 51.9% being economically disadvantaged.
 - LISD's student population was 99.2% Hispanic and 95.5% economically disadvantaged.
 - AISD's student population was 14.4% African American and 51.5% Hispanic with 53.0% being economically disadvantaged. AISD's student population was distributed more closely with the statewide averages than were LISD and DISD.
 - DISD's student population was 32.9% African American and 58.9% Hispanic with 77.6% being economically disadvantaged.

The study examined the regulatory and financial incentives built in to the system of public education from the perspective of the literature on economic behavior in regulated industries and from the evidence of the data and institutional focus on costs rather than performance.

The financial accountability of school districts to taxpayers is examined based on an evaluation of financial information recorded by districts and their responses to requests for information under the Freedom of Information Act.

THE ECONOMICS OF PUBLIC EDUCATION: PERFORMANCE MEASURES, EXPENDITURE PATTERNS AND EFFICIENCY

Defining an Economic Evaluation

Economic evaluations always involve both the value of the output and the costs of the inputs. That is, a question is not really formulated as an economic problem unless one is willing and able to compare the value of the product (benefits) with the value of the resources used in production (costs), and to consider alternatives. The economic problem is always basically an investigation of the benefits and costs of a given enterprise, relative to available alternatives.

For example, an investment advisor will counsel a client to invest in a venture only if the expected return is positive (expected benefits will equal or exceed costs), and also only if the proposed venture seems to be the best one available. An economic problem does not exist if there is no alternative (including the option to do nothing).

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Economics is about answering the question of whether an existing or proposed activity will produce a value that is equal to or greater than the cost of the resources devoted to the enterprise, and whether it is also the best alternative available.

An economic evaluation of the Texas public school system must include both a measure of the value of the output and the costs, as well as the expected outcomes from available alternatives. This section examines standard measures of performance (outputs) and a detailed examination of the components of costs. Finally, the two sides of the question – the outputs and the costs – are combined in a measure that compares outputs and costs and considers alternatives.

Performance Indicators

State Assessments:

The percentage of students passing the standardized assessments is one measure of performance of school districts. Standardized assessments have become both a measure of accountability for the school system and a measure of learning for the students. Since primary and secondary education attempts to prepare students for a number of endeavors there is a set of tests designed for measuring capacity.

The test used during the period 1993-94 through 2001-02 is known as the Texas Assessment of Academic Skills (TAAS), which was required of students at grade levels three through eight and ten to measure proficiency in math, reading, writing and social studies. A new assessment instrument known as Texas Assessment of Knowledge and Skills (TAKS) mandated in 1999 by Senate Bill 103 (76th Legislature) was implemented in 2002-03 and is required of grades three through eleven. TAKS includes the subject matter of English language arts, mathematics, science and social studies.

The examination of student test scores as an indicator of performance shows that all three districts performed poorer (smaller percentage of students passing the TAAS in 1996-2002 and TAKS in 2003) than was the case for the statewide average (see Table 1). Over the period 1996 to 2002, DISD gained slightly more in the percentage of students passing than the statewide average and more than AISD and LISD, although DISD still tests poorest of the group.

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	TAAS*					TAKS**
	1996	1999	2001	2002	6 Yr Gain	2003
Austin ISD	58.8	68.0	71.2	78.8	20.0	63.2
Dallas ISD	50.8	61.5	65.2	72.5	21.7	52.5
Laredo ISD	53.9	64.4	71.3	74.4	20.5	46.8
Texas	67.1	78.3	82.1	85.3	18.2	67.4
*TAAS % Passing (Sum of 3-8 & 10): Accountability Subset; TAKS % passing all tests						
**TAKS (sum 3-10 1 SEM below panel rec)						
Source: Texas Education Agency's Academic Excellence						
Indicator System at http://www.tea.state.tx.us/perfreport/aeis/						

Dropout Rate:

Another measure of performance is the dropout rate because it measures the extent to which the total system is achieving the job of educating all children. Still other measures of performance are the graduation rate and the test scores on exit exams for those students completing the twelfth grade.

The dropout trends for high school students by district as compared to the statewide averages are shown in Table 2. All three districts have higher dropout rates than the statewide average; however, the DISD rates are significantly closer to the state average than AISD and LISD. High school completion has increased in all three districts; the percentage that each districts' dropout rate has declined from 1998 to 2002 is shown below:

- 27.6% for AISD,
- 37.8% for DISD,
- 46.7% for LISD, and
- 43.8% decline for all Texas students.

Table 2. Drop-out Rates (4-Yr. Dropout Rate)

	Class of 1998	Class of 1999	Class of 2000	Class of 2001	Class of 2002	Change 1998 to 2002
Austin ISD	12.3	12.3	12.9	10.7	8.9	-27.6%
Dallas ISD	9.8	10.1	9.7	6.3	6.1	-37.8%
Laredo ISD	12.2	9.5	10.1	8.1	6.5	-46.7%
Texas	8.9	8.5	7.2	6.2	5.0	-43.8%

Source: Texas Education Agency's Academic Excellence
Indicator System at <http://www.tea.state.tx.us/perfreport/aeis/>

Measuring School Efficiency:

A reasonable, single measure of overall performance of a school district is the percentage of students passing the standardized tests, aggregated across all grades. This measure captures the performance of students throughout the system for each school year. This is the measure of performance used in the calculation of economic efficiency discussed below.

Expenditures

The TEA accounting code system provides the ability to compare the expenditure patterns among school districts and compare expenditure patterns over time, with proper adjustment. Comparisons among the three very different school districts allow an examination of whether scale matters, and where efficiencies might be indicated. An examination of changes over time allows an evaluation of why costs (expenditures) are rising. A systematic comparison of benefits and costs allows an evaluation of the extent to which improvements are forthcoming due to higher spending.

A note on concepts of costs and expenditures is in order. In economics, there is the common reference to total costs, average costs, marginal costs and opportunity costs having usually to do with the costs of production. The economic use of the term “costs” means the maximum amount which the factor could earn in alternative employment.

The total costs of production for a firm engaged in producing “widgets,” for example includes both expenditures and non-expenditures. Non-expenditures, or implicit costs, are those not paid out by the firm, but which accrue directly to the firm or to its owners. For example, an owner of a business may not be paid directly for his labor or management skill, but his time is certainly a cost of production, and is valued at the price his labor could earn in alternative employment. The same will be true of land devoted to crop production. The economic cost is not an expenditure paid out for the land, but the value of the land in its best alternative use (its opportunity cost).

In this report the most common reference to an average is school district expenditure per student. The expenditures are made up of labor, materials, supplies, utilities, etc. that are used in the school systems operation.

The expenditures by school districts in many cases will be the same thing as economic costs (e.g., the salary paid to teachers, which is approximately the maximum value the teacher could earn in alternative employment). But in some cases, school district expenditures will not be the same as economic costs.

For example, the accounting costs of land and buildings is not the same thing as the economic cost of these resources since one would need to calculate the value of their use in the local market for land and buildings and assign that amount as the cost of its use in the enterprise of education. For this and other reasons, this report relies mostly on the more narrow calculus of expenditures for comparisons. If there is a reference to cost that is different, it will be explained.

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The gains in student outcomes reported above in Tables 1 and 2 are associated with significant increases in per student expenditures. Table 3 shows the total expenditures per student, for school year 2001-02 by school district and for the Texas average. Also shown are the increases in expenditure by category for the five-year period of 1996-97 through 2001-02 in year 2003 constant purchasing power dollars.³ The Total Operating Expenditure plus Other (Debt Service and Capital Expenditures) increased by:

- 27.8% for AISD,
- 3.7% for DISD,
- 44.6% for LISD, and
- 23.0% for all Texas students.

The five-year increase in total expenditures per student for DISD was small (3.7%) when debt service and capital expenditures are included in the calculation because DISD spent significantly less on debt service and capital expenditures by the end of the period. DISD had a 47.2% decline in debt service and capital expenditures over the period (see “Other” under Dallas Percent Change in Table 3).

The inclusion of debt service and capital expenditures significantly increases the variation in the shares among the districts since capital expenditures do not occur evenly over time. Capital expenditures occur unevenly over time for a number of reasons including expected growth rates in the number of students and the age of buildings and bus fleets.

For each district, operating expenditure per student, excluding debt service and capital expenditures increased over the five-year period by:

- 31.1% in AISD,
- 16.6% in DISD,
- 11.4% in LISD, and
- 17.8% for all Texas districts.

The compounded annual rate of change, over and above the rate of inflation for the period amounted to:

- 5.6% for AISD,
- 3.1% for DISD,
- 2.2% for LISD, and
- 3.3% for all Texas districts.

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Table 3. Actual Expenditures From All Funds Per Student Compared (2003 Purchasing Power Dollars)

Expense by TEA Code	Austin		Dallas		Laredo		Texas	
	2001-02 Dollars	Percent Change 1997 to 2002	2001-02 Dollars	Percent Change 1997 to 2002	2001-02 Dollars	Percent Change 1997 to 2002	2001-02 Dollars	Percent Change 1997 to 2002
Total Operating Expend plus Other	8,707	27.8%	7,534	3.7%	9,503	44.6%	8,755	23.0%
Total Operating Expenditures	7,440	31.1%	6,803	16.6%	6,610	11.4%	6,772	17.8%
Instruction (11, 95)	4,113	26.8%	3,960	14.0%	3,981	14.8%	3,936	16.9%
InstructionalResMedia (12)	153	80.3%	106	-2.2%	166	-2.4%	125	24.3%
CurriculumStaffDevelop (13)	222	239.8%	227	81.1%	91	56.4%	115	69.8%
InstructionalLeadership (21)	155	37.8%	147	26.7%	132	-15.3%	111	15.5%
SchoolLeadership (23)	485	35.3%	370	0.5%	378	8.6%	382	18.3%
GuidanceCounselingServices (31)	240	30.5%	235	21.5%	254	17.0%	241	20.2%
SocialWorkServices (32)	35	76.8%	14	-49.9%	53	51.4%	19	22.7%
HealthServices (33)	51	47.7%	68	11.9%	103	13.6%	65	25.5%
Transportation (34)	201	-0.9%	99	322.8%	83	30.8%	180	16.5%
Food (35)	331	-23.8%	330	2.4%	356	5.4%	345	7.8%
Cocurricular (36)	127	134.4%	60	28.0%	111	27.7%	172	21.6%
GeneralAdministration (41, 92)	218	23.1%	226	61.1%	207	1.9%	251	17.6%
PlantMaintOperation (51)	811	21.1%	714	-7.9%	559	-12.3%	702	11.9%
SecurityMonitoring (52)	76	500.7%	53	40.1%	70	94.3%	43	65.6%
DataProcessingServices (53)	222	343.8%	194	194.4%	67	103.4%	84	78.0%
Other*	1,232	14.2%	674	-47.2%	2,881	358.0%	1,937	45.5%

* Other includes debt service and capital expenditures and excludes intergovernmental charges.

Source: School district actual expenditure reports at <http://www.tea.state.tx.us/adhocrpt/> for FY 1996-97 through 2001-02.

NOTE: Parenthetical numbers are TEA cost function codes.

Instruction Expenditures

Instruction expenditures per student have increased rapidly during the last five years in AISD amounting to 26.8% in constant purchasing power dollars, but rates of increase were much lower than for most of the support functions. The increases were:

- 26.8% for AISD,
- 14.0% for DISD,
- 14.8% for LISD, and
- 16.9% for all Texas districts.

Instruction expenditures are made up of approximately 90% payroll, 4% professional contracts and 3% supplies and materials. Therefore, the primary reason for expenditure increases in instruction is payroll expenditures. Specific activities within the districts help account for these figures including:

- AISD maintains about 1% of instruction expenditure that is professional contractors,
- DISD has increased the share of instruction expenditures for professional contractors from 2.2% in 1996 to 4.2% in 2000, and
- LISD increased use of professional contractors from 1.6% of instruction expenditures in 1996 to 4.3% in 2000.

The relative emphasis on instruction over the last five years is indicated by the percent of expenditures devoted to instruction. Table 4 shows the instructional share of total

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expenditures, including capital expenditures and debt service, on the first line. Also shown are the instruction shares excluding capital and debt service.

The share of total district spending attributed to instruction has declined in all school districts under both measures, except for Laredo which has shown an increase in the share when capital expenditures and debt service are ignored in the denominator. AISD has the lower share throughout the five-year period regardless of which measure is used.

Only 55% to 59% of operating expenditures (with the denominator excluding debt service and capital expenditures) are devoted to the primary task of educating students. The rest of operating expenses goes to indirect support of teachers and students, administrative functions, data processing, food service and transportation.

However, the most appropriate measure of the share of expenditures going to classroom instruction is the measure including capital and debt service. Capital expenditures and debt service are measures of capital inputs to education and should be included. It should be noted that including these capital input measures makes the calculated share more variable over time because capital investments are not made in equal increments each year. A detailed study of capital expenditures over a long period of years would be required to adequately compare the schools on this basis.⁴

Table 4. Trends in Instruction Share of Total Expenditures

Year/Ratio	96-97	97-98	98-99	99-00	00-01	01-02
Austin ISD Actual (All Funds)						
Ratio Instr/Total Operating Plus Cap	47.6%	42.6%	37.0%	39.4%	45.9%	47.0%
Ratio Instr/Total Operating	56.9%	56.8%	57.2%	58.5%	56.0%	55.0%
Dallas ISD Budgeted (All Funds)						
Ratio Instr/Total Operating Plus Cap	47.8%	52.1%	51.7%	54.1%	54.6%	52.2%
Ratio Instr/Total Operating	59.0%	58.8%	57.8%	59.2%	59.6%	57.7%
Laredo ISD Actual (All Funds)						
Ratio Instr/Total Operating Plus Cap	52.8%	51.5%	52.2%	54.7%	52.9%	41.8%
Ratio Instr/Total Operating	58.4%	58.2%	59.3%	61.9%	60.8%	60.1%
Texas ISD Total Actual (All Funds)						
Ratio Instr/Total Operating Plus Cap	47.3%	46.7%	46.0%	46.1%	45.5%	45.0%
Ratio Instr/Total Operating	58.2%	58.2%	58.0%	58.5%	58.0%	57.7%

Source: Calculated from school district data on actual all funds expenditures at <http://www.tea.state.tx.us/adhocrpt/>.

Overview of AISD Expenditures Relative to Texas Average

Instructional expenditures at AISD are rising and closely track the statewide average; instructional expenditures were 3.7% below the statewide average in 1996-97 and increased to 4.5% above the statewide average in 2001-02. Figure 1 shows that the instruction expenditure per student in constant 2003 dollars has risen over the period:

- \$3,243 in 1996-97,
- \$4,113 in 2001-02, and
- \$4,283 in 2002-03.

The total operating expenditure per student in constant 2003 dollars (includes all the function code items in Table 3 except capital related expenditures) has risen over the period for AISD:

- \$5,703 in 1996-97,
- \$7,440 in 2001-02, and
- \$7,729 in 2002-03.

There are significant differences in the level and growth in spending on specific functions in AISD, spending that far exceeds average state spending on these functions and merits attention that might be overlooked in a five year examination of spending only within AISD. By the 2001-02 year AISD spending greatly exceeded the state average in:

- Data Processing Services at 163%,
- Curriculum Staff Development at 92%,
- Social Work Services at 81%,
- Security Monitoring at 27%,
- Instructional Leadership at 40%,
- School Leadership at 27%, and
- Instructional Resource Media at 23%.

During 2001-02, General Administration expenditures were slightly below the statewide average, but increased by 4% relative to the Texas average since 1996-97 (see Table 5).

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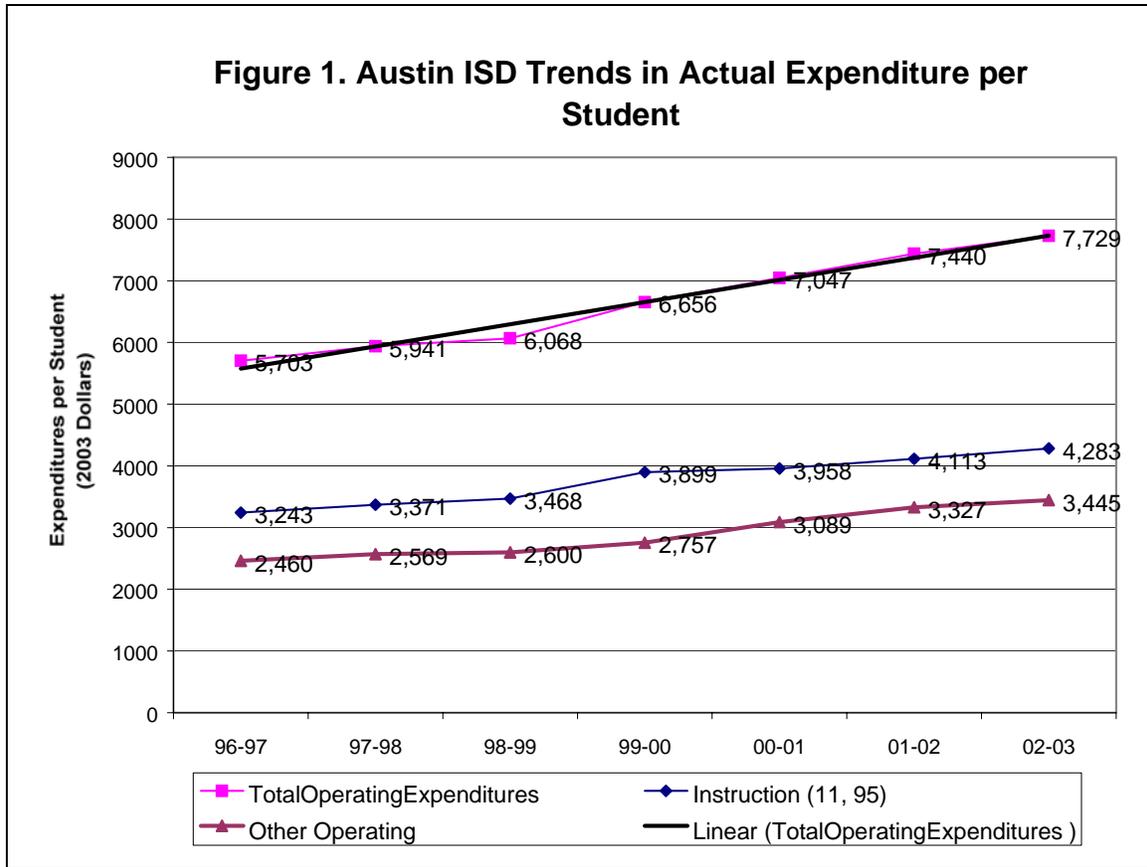


Table 5. AISD Function Costs Relative to Texas Average

	96-97	97-98	98-99	99-00	00-01	01-02
Instruction (11, 95)	0.963	0.961	0.967	1.016	1.036	1.045
InstructionalResMedia (12)	0.848	0.902	0.833	1.078	1.063	1.230
CurriculumStaffDevelop (13)	0.960	1.187	1.077	1.061	2.022	1.921
InstructionalLeadership (21)	1.174	1.457	1.465	1.341	1.291	1.401
SchoolLeadership (23)	1.110	1.170	1.147	1.252	1.210	1.270
GuidanceCounselingServices (31)	0.917	0.926	0.846	0.869	0.920	0.995
SocialWorkServices (32)	1.255	1.411	1.210	1.209	1.356	1.808
HealthServices (33)	0.661	0.683	0.648	0.738	0.735	0.778
Transportation (34)	1.315	1.237	1.235	1.186	1.173	1.119
Food (35)	1.357	1.108	1.069	1.004	0.962	0.958
Cocurricular (36)	0.381	0.602	0.529	0.554	0.656	0.734
GeneralAdministration (41, 92)	0.831	0.881	1.041	0.901	0.832	0.870
PlantMaintOperation (51)	1.069	1.061	1.023	1.021	1.106	1.156
SecurityMonitoring (52)	0.487	0.512	0.354	0.938	1.648	1.767
DataProcessingServices (53)	1.056	0.927	1.129	1.305	2.901	2.633

Each of the numbers represent the value of a ratio with district spending per student in the designated category divided by state spending per student, on average, in the designated category.

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In a five year examination of spending on specific functions in AISD, the highest rates of increase (constant dollars per student) from 1996-97 through 2001-02 occurred in:

- Security Monitoring 500% (\$62/student),
- Data Processing Services 344% (\$172/student),
- Curriculum Staff Development 240% (\$156/student),
- Cocurricular 134% (\$73/student),
- Social Work Services 77% (\$15/student),
- Instruction 27% (\$870/student), and
- All Contract and Professional Services 54% (\$232/student).

AISD Superintendent Expenditures

Information provided by the district for superintendent compensation lists particular components of the compensation package but does not identify the total dollar value of annual compensation.

The Superintendent at Austin ISD has a current base pay of \$257,750. The total superintendent expenditures package consists of:

- \$185,000/year base salary in July 2000, adjusted to \$248,900 in 2002-03, plus (up to a)
- \$15,000 annual bonus,
- \$24,000 in tax-shelter annuities,
- school district provided auto, or \$12,000 in lieu of auto,
- 12 days consulting time,
- home office equipment, and
- vacation and health and life insurance benefits.

The range in base pay for superintendents of Texas independent school districts in 2002-03 was from \$33,000 to \$322,000.

Overview of DISD Expenditures Relative to Texas Average

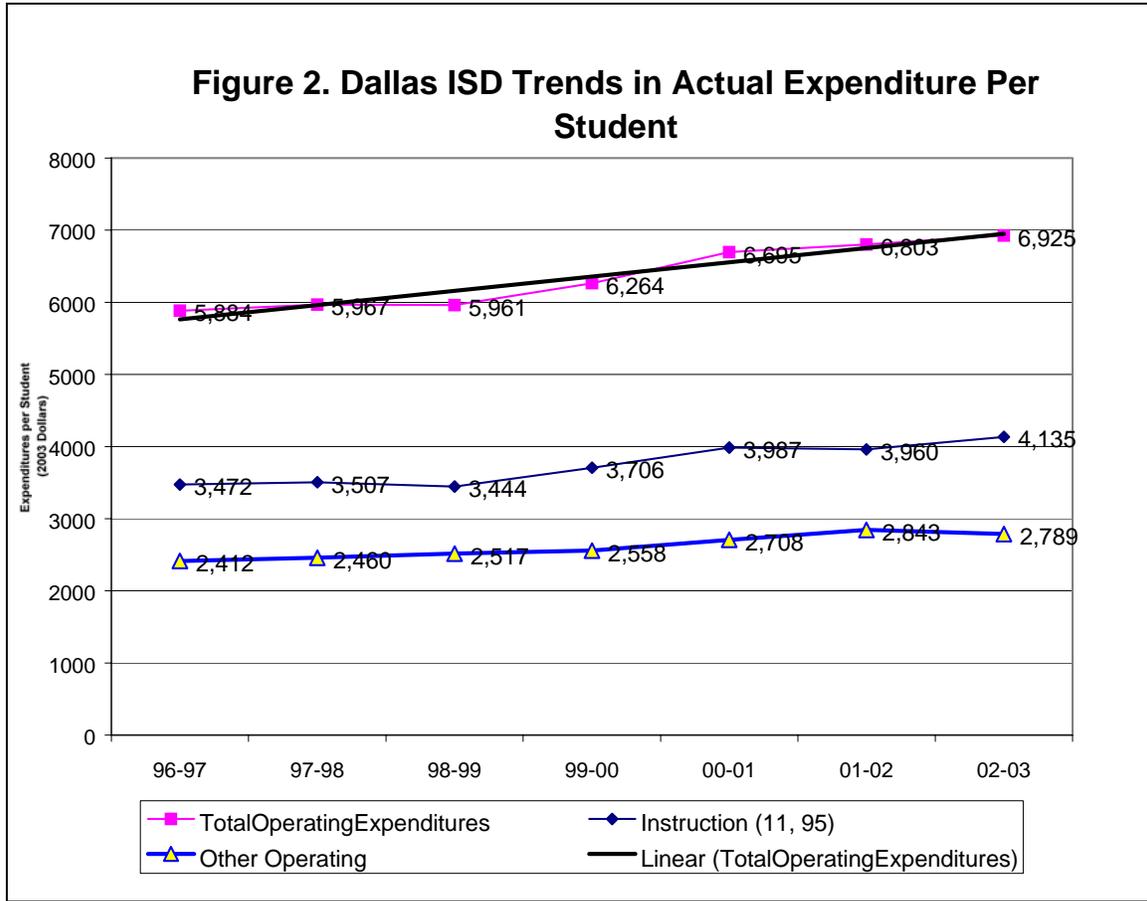
Instructional expenditures at DISD are rising and closely track the statewide average. Instructional expenditures were 3.1% above the statewide average in 1996-97 and decreased to 0.5% above the statewide average in 2001-02. Figure 2 shows that the expenditure per student in constant 2003 dollars rose over the period:

- \$3,472 in 1996-97,
- \$3,960 in 2001-02, and
- \$4,135 (estimate) in 2002-03.

The High Costs Of Texas Public Education

During the same period of time, the total operating expenditure per student in constant 2003 dollars also rose:

- \$5,884 in 1996-97,
- \$6,803 in 2001-02, and
- \$6,925 in 2002-03.



There are significant differences in the level and growth in spending on specific functions in DISD, spending that far exceeds average state spending on these functions and merits attention that might be overlooked in a five year examination of spending only within DISD. By the 2001-02 year DISD spending greatly exceeded the state average in the following:

- Data Processing Services at 130%,
- Curriculum Staff Development at 97%,
- Security Monitoring at 23%, and
- Instructional Leadership at 32%.

During 2001-02, General Administration expenditures were slightly below the statewide average but increased by 37% relative to the Texas average since 1996-97 (see Table 6).

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Table 6. DISD Function Costs Relative to Texas Average

	96-97	97-98	98-99	99-00	00-01	01-02
Instruction (11, 95)	1.031	0.999	0.960	0.966	1.043	1.006
InstructionalResMedia (12)	1.075	0.992	0.949	0.916	0.953	0.846
CurriculumStaffDevelop (13)	1.845	1.745	1.776	1.611	1.849	1.968
InstructionalLeadership (21)	1.205	1.391	1.370	1.331	1.277	1.322
SchoolLeadership (23)	1.141	1.090	1.034	0.992	1.050	0.969
GuidanceCounselingServices (31)	0.964	0.963	0.944	0.979	0.998	0.974
SocialWorkServices (32)	1.786	1.731	1.869	1.201	1.085	0.729
HealthServices (33)	1.173	1.136	1.103	1.048	1.087	1.046
Transportation (34)	0.152	0.258	0.155	0.526	0.579	0.552
Food (35)	1.007	1.037	1.018	1.001	0.989	0.955
Cocurricular (36)	0.329	0.321	0.333	0.299	0.339	0.346
GeneralAdministration (41, 92)	0.659	0.783	0.703	0.693	0.784	0.903
PlantMaintOperation (51)	1.237	1.053	1.092	1.004	1.041	1.018
SecurityMonitoring (52)	1.457	1.604	1.432	1.266	1.293	1.233
DataProcessingServices (53)	1.391	1.792	1.973	1.673	1.442	2.300

NOTE: Parenthetical numbers are TEA cost function codes.

Each of the numbers represent the value of a ratio with district spending per student in the designated category divided by state spending per student, on average, in the designated category.

In a five year examination of spending on specific functions in DISD, the highest rates of increase (constant dollars per student) from 1996-97 through 2001-02 occurred in:

- Transportation 323% (\$76/student),
- Data Processing Services 194% (\$128/student),
- Curriculum Staff Development 81% (\$102/student),
- General Administration 61% (\$86/student),
- Instruction 14% (\$487/student), and
- All Contract and Professional Services 51% (\$257/student).

DISD Superintendent Expenditures

Information provided by the district for superintendent compensation lists particular components of the compensation package that does not identify the total dollar value of annual compensation. Although this statement duplicates the preface of a previous section in this report addressing compensation for the AISD superintendent, it is worth repeating.

The Superintendent at Dallas ISD has a compensation package including base pay, retirement, consulting time allowance and other benefits. The superintendent package includes:

- \$322,000/yr base salary in 2002-03 (up from \$310,000 in July 2000), with automatic annual adjustment of not less than 5%, plus

The High Costs Of Texas Public Education

- \$12,000/year auto allowance,
- \$3,000 discretionary expense account, home office equipment,
- \$450/month cell phone allowance,
- \$100,000/year (for five years) deferred comp, plus contribution to Teacher Retirement System, and
- ten days per year consulting time and vacation and health and life insurance benefits).

Other Individual Expenditure Items

Some insight on DISD spending can be gleaned from the district's record of contracts and professional services, although this information is difficult to assess in full because the district did not provide codes to explain expenditures. The DISD financial contract files for FY 2002-03 show a total expenditure of \$164.6 million of DISD funds, expenses having \$76.0 million of matched funding. The following categories of discretionary expenditures include some direct payments in addition to the contract file data:

● Lobbyist (at least)	\$221,560,
● Attorneys (at least)	\$802,573,
● Financial Advisors (at least)	\$365,812,
● Risk Management (at least)	\$15,100,055,
● Education Consultants (at least)	\$321,600,
● Association Dues & Related Expenses (at least)	\$272,958,
● Advertising (at least)	\$102,525,
● Technology (at least)	\$17,221,771,
● Arts Learning (at least)	\$4,303,354,
● Drama Instruction (at least)	\$176,750,
● Summer Camps & Outdoor Education (at least)	\$392,450,
● Learning Consultants (at least)	\$470,891,
● Parent Expenditures (at least)	\$40,260, and
● Charities (at least)	\$75,381.

The expense categories are listed with the term “at least;” this term reflects the fact that it was not possible to identify all expenditures pertaining to this category because individual payments were not coded to describe purpose.

While there is no way to know whether the above expenditures were justified in performing the job of education at DISD, some of the expenditures raise questions of efficiency of large schools. LISD's (a much smaller school district) financial files, for example, do not show expenditures for a lobbyist, and attorney fees seem to be primarily for collecting delinquent taxes. All of the three school districts are spending large additional dollars on technology – computers, software and related electronics (AISD increased 260% from 1996-97 to 2001-02, DISD 178% and LISD 159%). These expenditures support both student learning and systems operations of all kinds.

While the Texas Comptroller's Office school audit program provides needed outside review of such expenditures and the management of the systems, there is no direct way to test whether the right mix of technology and labor is being employed. Again, a shift to a performance driven system empowered by consumer choice would relieve much of the need to focus on unanswerable questions about the appropriateness of particular expenditures.

Expenditures, such as these that clearly have no direct relationship with the provision of student instruction, also emphasize the continuing ability of school districts to continue discretionary or optional spending despite claims there is insufficient funding for teachers, reading programs and classrooms.

Overview of LISD Expenditures Relative to Texas Average

Instructional expenditures at LISD are rising and closely track the statewide average. Instructional expenditure was 3.0% above the statewide average in 1996-97 and decreased to 1.2% above the statewide average in 2001-02. Figure 3 shows that the expenditure per student in constant 2003 dollars rose over the period:

- \$3,468 in 1996-97,
- \$3,981 in 2001-02, and
- \$4,545 in 2002-03.

Over the same period of time, the total operating expenditure per student in constant 2003 dollars also rose:

- \$5,940 in 1996-97,
- \$6,610 in 2001-02, and
- \$7,476 in 2002-03.

There are significant differences in the level and growth in spending on specific functions in LISD, spending that far exceeds average state spending on these functions and merits attention that might be overlooked in a five year examination of spending only within LISD. By the 2001-02 year LISD spending greatly exceeded the state average in the following:

- Social Work Services at 170%,
- Security Monitoring at 62%,
- Health Services at 58%,
- Instructional Resources Media at 33%, and
- Instructional Leadership at 19%.

During 2001-02, General Administration expenditures were slightly below the statewide average, and decreased by 13% relative to the Texas average since 1996-97 (see Table 7).

The High Costs Of Texas Public Education

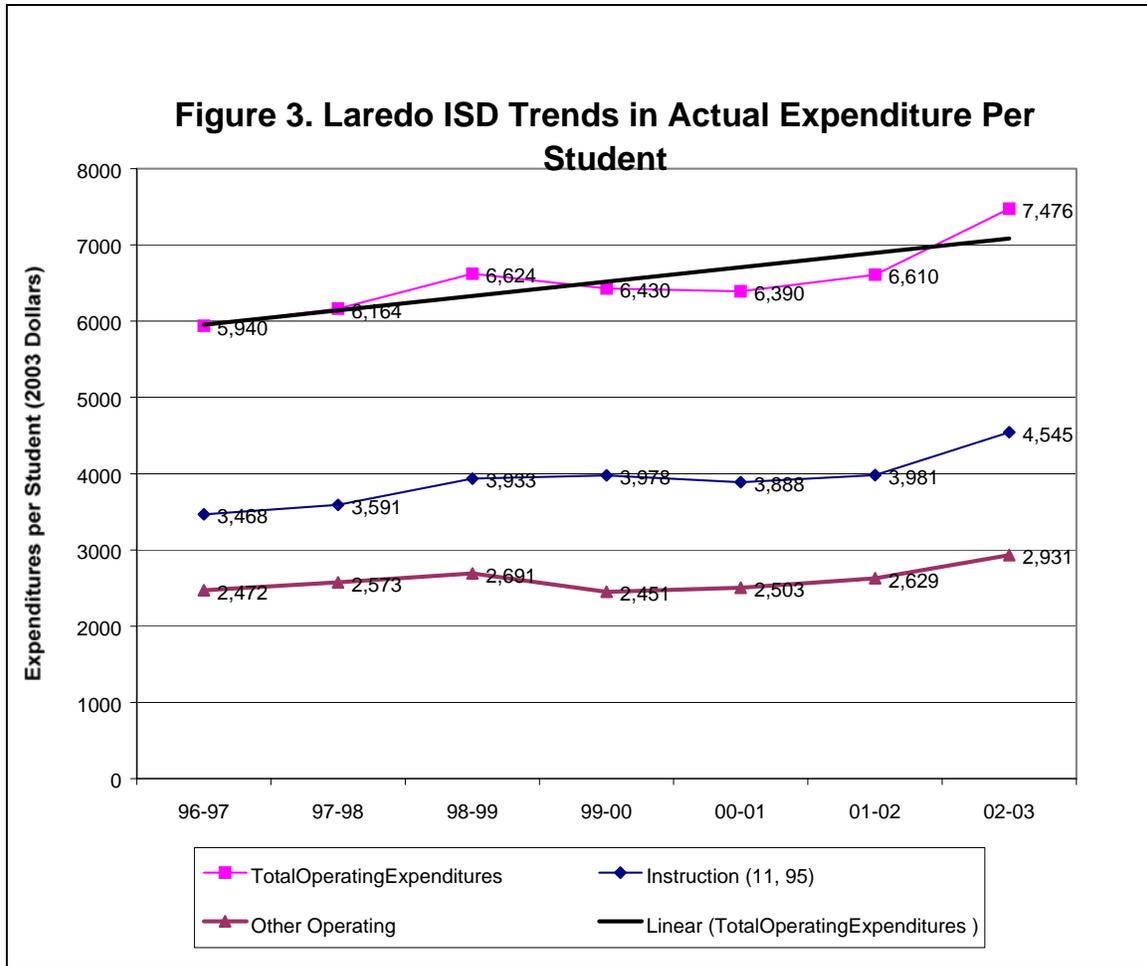


Table 7. LISD Function Costs Relative to Texas Average

	96-97	97-98	98-99	99-00	00-01	01-02
Instruction (11, 95)	1.030	1.023	1.097	1.036	1.017	1.012
InstructionalResMedia (12)	1.689	1.542	1.622	1.312	1.286	1.326
CurriculumStaffDevelop (13)	0.853	0.912	0.955	0.880	0.862	0.785
InstructionalLeadership (21)	1.617	1.541	1.518	1.235	1.155	1.187
SchoolLeadership (23)	1.078	1.153	1.084	0.952	0.984	0.989
GuidanceCounselingServices (31)	1.085	1.070	1.141	1.039	1.074	1.056
SocialWorkServices (32)	2.189	2.351	2.769	2.663	2.536	2.700
HealthServices (33)	1.747	1.668	1.738	1.601	1.591	1.582
Transportation (34)	0.412	0.404	0.458	0.427	0.450	0.463
Food (35)	1.055	1.042	1.058	0.993	1.019	1.031
Cocurricular (36)	0.613	0.765	0.759	0.736	0.659	0.644
GeneralAdministration (41, 92)	0.955	0.900	0.880	0.746	0.831	0.827
PlantMaintOperation (51)	1.017	0.991	1.012	0.818	0.786	0.796
SecurityMonitoring (52)	1.386	1.633	1.497	1.090	1.278	1.627
DataProcessingServices (53)	0.690	0.737	0.713	0.753	0.782	0.788

NOTE: Parenthetical numbers are TEA cost function codes.

Each of the numbers represent the value of a ratio with district spending per student in the designated category divided by state spending per student, on average, in the designated category.

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In a five year examination of spending on specific functions in LISD, the highest rates of increase (constant dollars per student) from 1996-97 through 2001-02 occurred in:

- Data Processing Services 103% (\$34/student),
- Security Monitoring 94% (\$34/student),
- Social Work Services 51% (\$18/student),
- Transportation 31% (\$20/student),
- Cocurricular 28% (\$24/student),
- Instruction 15% (\$513/student), and
- All Contract and Professional Services 35% (\$136/student).

LISD Superintendent Expenditures

Worth repeating is the limited information provided by districts about compensation for superintendents. No dollar value is given nor can any be calculated for some of the benefits provided in the superintendent's contract.

The Superintendent at Laredo ISD has a compensation package consisting of base pay, retirement, auto allowance and typical vacation and insurance benefits. The superintendent package is made up of:

- \$95,000/year base salary (no automatic adjustment) plus,
- \$10,000/month in deferred comp up to a maximum of \$320,000, with consulting allowed on days-off or personnel leave time,
- \$7,200 annual auto allowance,
- \$150/month cell phone, and
- vacation and health insurance benefits.

PAYROLL EXPENDITURE: THE PRIMARY OVERRIDING FACTOR IN EDUCATION EXPENDITURE INCREASES

The job of education as practiced by public education institutions in Texas is a very labor-intensive enterprise. Payroll expenditures amount to 80% to 85% of the operating expenditures (see Table 8) or about 75% of total expenditures including debt service and capital expenditures. Therefore, an understanding of the labor expenditure components and increases in recent years is critical to understanding the causes of increases in the total expenditure of education shown in Table 3.

Table 8. Trends in Payroll Costs and Share of Total Operating Expenditures (2003 Constant Dollars)

Year/Ratio	96-97	97-98	98-99	99-00	00-01	01-02	Change 1997 to 2002	Annual Rate of Change
Austin ISD Actual (All Funds)								
Payroll Share of Operating Cost	84.5%	84.8%	85.1%	85.8%	82.9%	83.3%		
Austin Payroll Cost per Student	4,821	5,036	5,163	5,724	5,857	6,228	29.2%	5.3%
Per U.S. Service Industry Cost Index AISD*	4,821	4,920	4,993	4,938	4,961	5,096	5.7%	
Annual Rate of Change in Actual Cost per Student		4.4%	2.5%	10.9%	2.3%	6.3%		
Dallas ISD Actual (All Funds)								
Payroll Share of Operating Cost	82.8%	83.2%	84.1%	84.1%	81.8%	80.1%		
Dallas Payroll Cost per Student	4,871	4,963	5,011	5,268	5,479	5,495	12.8%	2.4%
Per U.S. Service Industry Cost Index DISD*	4,871	4,970	5,044	4,989	5,012	5,148	5.7%	
Annual Rate of Change in Actual Cost per Student		1.9%	1.0%	5.1%	4.0%	0.3%		
Laredo ISD Actual (All Funds)								
Payroll Share of Operating Cost	87.0%	85.7%	84.6%	86.3%	84.5%	84.5%		
Laredo Payroll Cost per Student	5,171	5,293	5,615	5,551	5,405	5,598	8.3%	1.6%
Per U.S. Service Industry Cost Index LISD*	5,171	5,276	5,354	5,296	5,320	5,465	5.7%	
Annual Rate of Change in Actual Cost per Student		2.4%	6.1%	-1.1%	-2.6%	3.6%		
Texas ISD Total Actual (All Funds)								
Payroll Share of Operating Cost	81.1%	80.9%	81.1%	80.9%	80.5%	80.3%		
Texas Payroll Cost per Student	4,696	4,881	5,019	5,309	5,307	5,474	16.6%	3.1%
Per U.S. Service Industry Cost Index Texas	4,696	4,792	4,863	4,810	4,832	4,964	5.7%	
Annual Rate of Change in Actual Cost per Student		3.9%	2.8%	5.8%	0.0%	3.1%		

* Per student payroll cost increase at U.S. Department of Labor Total Compensation Cost Index rates of increase. Cost Index at <http://www.bls.gov/web/echistry.pdf>.

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From this table (Table 8) it is clear that:

- AISD and LISD expenditures of payroll per student are higher than the statewide average and higher than DISD,
- AISD payroll expenditures at the beginning of the period were approximately the same as DISD and \$125 per student higher than the statewide average,
- By 2002 the gap between AISD and DISD had widened to \$730 per student and to \$750 above the statewide average, and
- LISD expenditures were also above the statewide average by \$175 at the beginning of the period and \$124 by the end of the period.

The differential payroll levels and increases over the five-year period reflect both wage rate differentials among the cities, and the mix of total personnel employed by the school district. For the most part, student teacher ratios remain constant so the payroll dollars per student differentials are a reflection of the mix of teachers (experience and education) and the mix of teachers relative to other employees.

Minimum wage rates for teachers are set by state law but local districts can pay more and choose the mix of experience and education levels of the teaching staff. As a practical matter, however, the wage rate averages for the major classes of workers have increased in near lock-step in recent years, with the exception of superintendents in AISD and DISD. LISD's superintendent pay has increased somewhat higher than the state average for superintendents but the increase is not widely divergent from pay increases for other district personnel. Over the period 1998-99 to 2002-03 the following average wage increases were paid:

<input type="checkbox"/> Austin ISD	<u>Percent</u>
➤ Teachers	14.1
➤ Support staff	13.9
➤ Administrators	16.3
➤ Superintendents	52.6
<input type="checkbox"/> Dallas ISD	<u>Percent</u>
➤ Teachers	25.3
➤ Support staff	25.4
➤ Administrators	20.3
➤ Superintendents	125.5
<input type="checkbox"/> Laredo ISD	<u>Percent</u>
➤ Teachers	12.1
➤ Support staff	8.7
➤ Administrators	10.4
➤ Superintendents	23.9
<input type="checkbox"/> Texas Average ISD	<u>Percent</u>
➤ Teachers	16.4
➤ Support staff	14.5
➤ Administrators	14.4
➤ Superintendents	18.0

The High Costs Of Texas Public Education

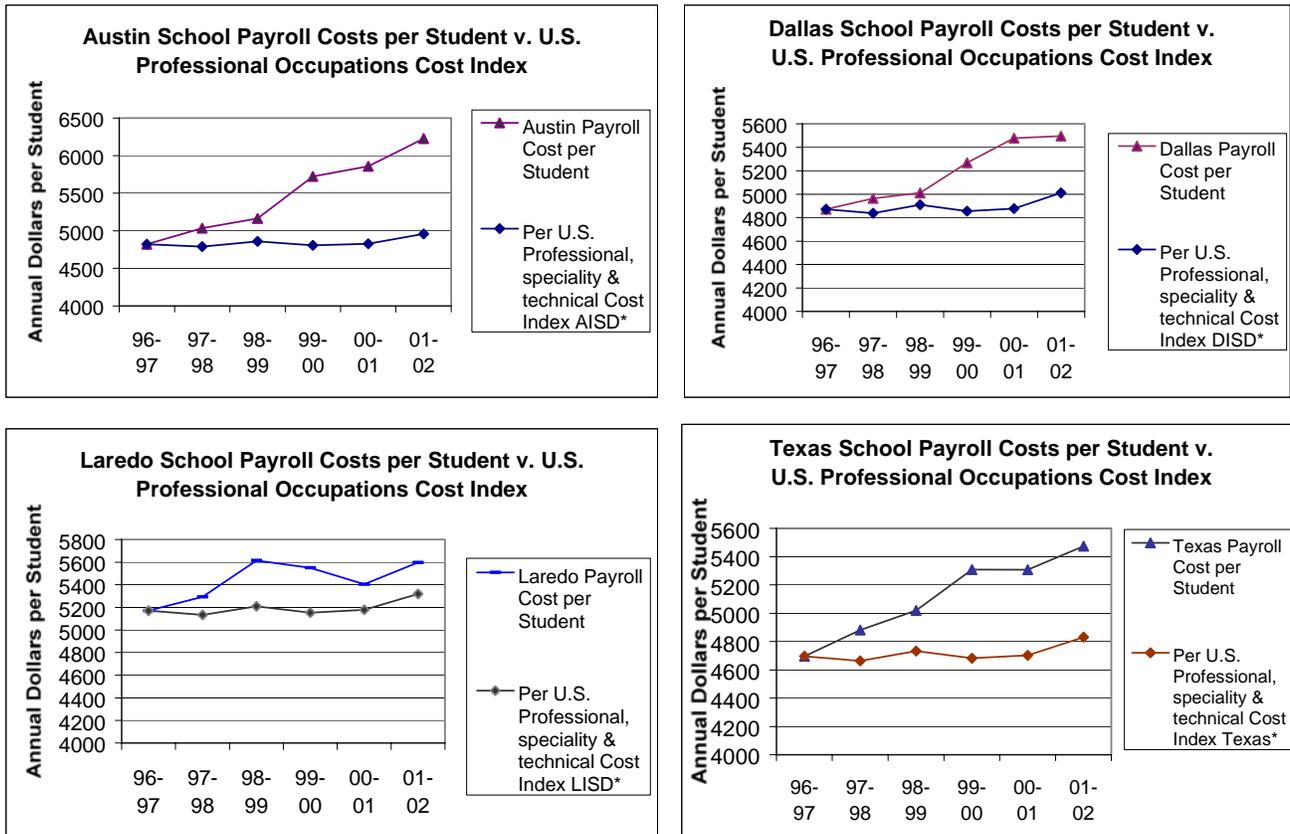
The increase in payroll expenditures per student in 2003 **constant dollar terms** over the five year period amounted to:

- 29.2% for AISD,
- 12.8% for DISD,
- 8.3% for LISD, and
- 16.6% for all Texas districts.

For perspective, the actual payroll expenditures per student are compared with payroll changes that would have prevailed if the increases had tracked the average of the private sector professional, specialty and technical occupation compensation increases in the U.S. The comparisons are shown graphically in Figure 4.

Clearly the national average compensation expenditures for professional, specialty and technical occupations (wages and salaries plus benefits) tracked the national recession while the Texas school system total compensation increases (per student) continued their upward trend. (Note: a very similar pattern results by use of the index of service industry occupations rather than the professional, specialty and technical occupation index).

Figure 4. Actual Payroll Increases for Texas, AISD, DISD, and LISD Compared with Payrolls if Adjusted by U.S. Cost Index



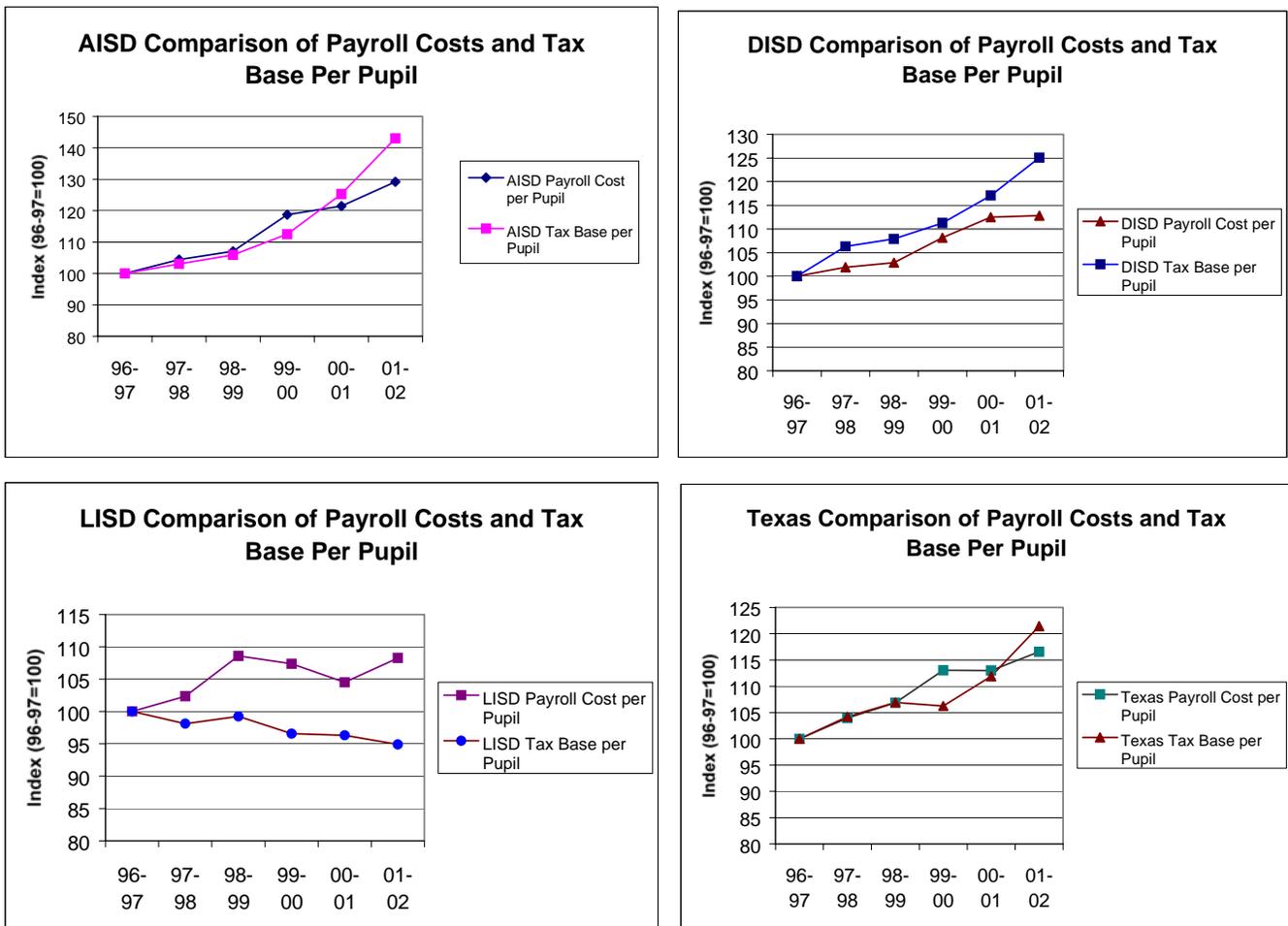
The High Costs Of Texas Public Education

Texas average school district payroll expenditures **per student** tend to follow in near lock step with the value of the tax base **per student** (Figure 5). That is, the spending for the primary expenditure of education (payroll) expands to accommodate the growth in the number of students and then increases in the expenditures per pupil as the tax base per pupil rises. Payroll expenditures per pupil tend to rise with the value of the tax base per student, a trend not necessarily related to the quality of the output (educated students). The emphasis is on effort, not productivity.

There is considerable variation among the three districts relative to the Texas average payroll spending per student and tax base per student:

- AISD's tax base per pupil rose faster than payroll expenditures in 2000-01 and 2001-02, allowing the transfer of tax dollars to other school districts,
- DISD has managed to keep the growth in payroll expenditures per student below the growth in the tax base per student and the district does not make transfer payments to poorer districts, and
- LISD has increased payroll expenditures per student (even though the tax base per student is not rising) due to the transfer from wealthy districts under the state's transfer formula.

Figure 5. Index of Actual Payroll Increases for Texas, AISD, DISD, and LISD Compared with Tax Base (Per Pupil)



Contractor/Professional Services

Contractor and professional services may be a means of introducing market place efficiencies into the public school system performance if the process of selection is carried out under competitive bidding procedures in local markets where the supply of contractors is not restricted. Increased use of contractors may also be an indicator of poor management. In any case contractor spending is often discretionary spending and one focus of the study was to identify such discretionary spending.

The three districts in the current study use contractor services in a number of school functions. Table 9 shows the share of contractor/professional services by district for 1996-97 and 2000-2001. The increase in total contractor/professional services in constant purchasing power dollars per student from 1996-97 to 2000-01 was:

- 54% in AISD,
- 51% in DISD, and
- 35% in LISD.

DISD and LISD both more than doubled the dollars for professional/contractors from 1997 to 2001:

- Data processing is one area where AISD spends more than twice the DISD expenditure per student and 28% of the service is from contractors.
- AISD also contracts out 88% of the health care services and spends about five times the rate per student of DISD.
- DISD, on the other hand, spends about 20 times as much on student transportation as AISD and LISD, and contractors provide 85% of the service.
- DISD's administrative expenditures per student are almost double that for LISD, and surprisingly, contractors complete 41% of the function.

Security and monitoring expenditures vary widely among the three entities. LISD spends \$50 per student on this function, five times that of DISD and 10 times that of AISD.

This study attempted to complete an examination of contracting practices by examining the more detailed records of the school districts. There was a limited ability to complete this task, as mentioned in previous sections. A list of current contractors was requested from the three school districts. AISD responded that no such list exists. DISD produced a list but did not identify the function for which the contractor was hired. LISD failed to produce a list.

The question that is unanswerable from this data is whether the allocation of tax dollars among contractors and internal personnel has any relationship to the delivery of instruction or to the economic advantage of one over the other. There is no obvious reason why the dollars per student expenditures among the districts vary so widely.

The High Costs Of Texas Public Education

Table 9. Per Student Expenditure and Share of Function Expense Filled By Professionals and Contractors: 1996-97 and 2001-02

Function	1996-97		2000-01		1996-97		2000-01		1996-97		2000-01	
	Prof/Contract	% Contract	Prof/Contract	% Contract	Prof/Contract	% Contract						
11 INSTRUCTION	\$29.93	1.0%	\$28.06	0.7%	\$74.73	2.4%	\$165.36	4.2%	\$50.16	1.6%	\$167.63	4.3%
12 INSTRUC RESOURCES & MEDIA SERV	\$1.93	2.3%	\$2.89	2.0%	\$1.49	1.2%	\$1.85	1.6%	\$7.72	4.8%	\$3.85	2.1%
13 CURRICULUM AND STAFF DEVELOPMNT	\$9.35	16.2%	\$11.07	5.6%	\$18.67	16.8%	\$59.41	31.2%	\$8.93	17.5%	\$9.19	9.8%
21 INSTRUCTIONAL LEADERSHIP	\$4.74	4.7%	\$3.16	2.3%	\$4.81	4.7%	\$11.35	8.6%	\$3.49	2.5%	\$3.23	2.6%
23 SCHOOL LEADERSHIP	\$0.39	0.1%	\$1.10	0.3%	\$0.13	0.0%	\$0.16	0.0%	\$3.44	1.1%	\$0.05	0.0%
31 GUIDANCE, COUNSELING, EVAL SVC	\$2.81	1.7%	\$1.73	0.8%	\$4.43	2.6%	\$4.86	2.1%	\$3.48	1.8%	\$2.71	1.1%
32 SOCIAL WORK SERVICES	\$2.31	13.2%	\$0.91	3.6%	\$0.15	0.6%	\$0.82	4.1%	\$0.06	0.2%	\$0.03	0.1%
33 HEALTH SERVICES	\$10.86	35.9%	\$39.37	88.1%	\$2.66	4.9%	\$1.20	1.8%	\$5.62	7.0%	\$6.90	7.1%
34 STUDENT TRANSPORTATION	\$5.40	2.1%	\$4.95	2.4%	\$9.13	4.2%	\$85.13	85.3%	\$3.22	5.2%	\$4.90	4.1%
35 FOOD SERVICES	\$5.22	1.4%	\$3.49	1.1%	\$4.09	1.4%	\$23.55	7.2%	\$23.78	8.0%	\$14.87	4.3%
36 CO-EXTRACURRICULAR ACTIVITIES	\$2.83	5.5%	\$7.14	6.8%	\$3.60	8.8%	\$3.43	6.2%	\$3.86	4.9%	\$6.38	5.8%
41 GENERAL ADMINISTRATION	\$57.40	26.1%	\$60.62	26.8%	\$48.64	38.9%	\$74.35	40.7%	\$25.97	14.2%	\$39.23	19.2%
51 PLANT MAINTENANCE/OPERATIONS	\$232.40	38.9%	\$355.74	46.0%	\$217.77	31.6%	\$263.31	36.6%	\$159.59	27.9%	\$185.49	33.9%
52 SECURITY AND MONITORING SYSCS	\$0.00	0.0%	\$0.41	0.6%	\$7.19	21.5%	\$9.43	18.7%	\$31.54	97.3%	\$49.62	92.3%
53 DATA PROCESSING SERVICES	\$9.88	21.6%	\$75.29	28.4%	\$34.77	50.6%	\$31.64	30.1%	\$3.11	5.7%	\$6.45	11.0%
61 COMMUNITY SERVICES	\$3.21	5.8%	\$7.92	7.7%	\$13.20	18.6%	\$11.14	11.1%	\$0.09	0.3%	\$0.05	0.2%
71 DEBT SERVICE	\$0.00	0.0%	\$0.00	0.0%	\$0.00	0.0%	\$0.00	0.0%	\$0.00	0.0%	\$0.00	0.0%
81 FACILITIES ACQUISITION	\$0.47	0.3%	\$45.33	10.3%	\$0.00	0.0%	\$0.33	0.7%	\$0.00	0.0%	\$0.53	0.2%
93 PAYMENTS - SHARED SERVICES	\$0.00	0.0%	\$0.00	0.0%	\$0.00	0.0%	\$0.00	0.0%	\$0.00	0.0%	\$0.00	0.0%
96 PAYMENTS TO JJAEP'S	\$0.00	0.0%	\$0.00	0.0%	\$0.00	0.0%	\$0.00	0.0%	\$2.19	100.0%	\$6.33	100.0%
Total Expenditures by Object	\$379.14	6.3%	\$549.18	7.7%	\$445.66	7.0%	\$747.31	10.5%	\$336.25	5.8%	\$507.44	7.1%

Source: http://tlucas.tea.state.tx.us/reports/1_2021_20_00.html

Lobbying Services

Discretionary spending takes many forms. An attempt was made to determine the extent of discretionary spending that is not focused on instruction. One item that is included in the contractor services is lobbying. DISD paid lobbying firms at least \$221,560 during 2002-03, presumably for lobbying the Legislature. Such a use of taxpayer dollars seems a questionable expense for a variety of reasons.

First, the use of taxpayer dollars by one government entity to advocate its interests to another government entity would appear difficult to justify in terms of student welfare. Secondly, districts sometimes lobby to oppose what some could view as taxpayer interest (such as expanding parental rights and school choice). Third, lobbying represents one of the few areas where competition among school districts exists, although it pits taxpayers in one community against taxpayers in another as a district lobbies for more tax dollars for its own schools.

A full examination of lobbying among the three school districts was not possible, given the records available to the author. It is unknown whether AISD paid for lobbying since detailed expense records were not available from the freedom of information request, and lobbying does not appear to be the function of law firms paid by LISD.

Summary of Expenditure Comparisons

The analyses of a number of economic studies both in Texas and elsewhere indicate that instruction expenditures are positively related to student performance and that total expenditures have only a minimally positive relationship to performance,⁵ but there is no indication from such studies that the following activities have any positive impact on student performance. These activities are listed as identified by state accounting codes:

- InstructionalResMedia (12),
- CurriculumStaffDevelop (13),
- InstructionalLeadership (21),
- SchoolLeadership (23),
- GuidanceCounselingServices (31),
- SocialWorkServices (32),
- HealthServices (33),
- Cocurricular (36),
- GeneralAdministration (41, 92), and
- DataProcessingServices (53).

To the contrary, other studies have found a negative relationship between spending on administration and student performance.⁶ Further, the variation of expenditures per student among the three school districts in the study on these individual functions are large, an implication that the school districts do not have any idea of how productive these expenditures are any more than the author and these items make up about 20% of the total annual operating expense.

From an economic perspective, districts should be able to show how these functions support performance before raising taxes and requesting more state assistance to underwrite the cost of these activities.

Spending and Performance: Costs and Benefits

So far, this report has documented measures of performance of the three districts in the study by comparing passing rates on standardized tests and dropout rates. Comparisons were made among the districts, with the statewide averages and over time. This report also documented and compared expenditure patterns among the districts and over time, to focus on spending for instruction relative to other spending, looking at discretionary spending in particular in a variety of areas.

The examination of spending was limited, particularly limited in identifying discretionary spending because function codes and aggregated data conceal much. In the limited time available for this study, additional detail was requested from the districts under the Freedom of Information Act. Some information was unavailable to the author, recorded in an electronic form that was unreadable without prohibitive reformatting expense or did not exist in any form within the district. Whatever information could be obtained was evaluated in this study.

This financial information, combined with educational outcomes, allows an economic analysis of costs and benefits of the three school districts that is described in the next section.

The Matter of Efficiency

The legislature and TEA have focused much attention in recent years on accountability, reporting and student testing. Indeed Texas is often referenced as having some of the best reporting systems in the U.S. But there is no standard test of economic efficiency (the value of the school district's product in relation to its expenditure) with which to value economic performance. Dr. Richard Vedder suggests a measure of efficiency for school districts in a report published by the Texas Public Policy Foundation (*Efficient, Effective, Fair: Paying for Public Education in Texas* – February 2004).⁷

The standard measure of performance in economics is always to value output or production relative to the costs of production. It is not enough to examine the performance of schools simply on the basis of the number of educated kids, or of only the expenditures of educating students. The two measures must be combined so that performance is a measure of the value of output (educated students) relative to the expenditures of education.

Therefore, Dr. Vedder suggests a measurement of efficiency defined as the ratio of the expenditure of a year's education effort divided by the number of students passing the standardized test. An equivalent measure is the average annual expenditure per student divided by the ratio of passing to total students.

For example, if the average expenditure of education for school district A is \$8,000 and the passing rate is 50% (0.5×100) then the economic efficiency of the district is $\$8,000/0.5 = \$16,000$.⁸ If district B also has an average expenditure of \$8,000 but has a 100% passing rate, its efficiency is \$8,000; the smaller the ratio, the more efficient the district.

The efficiency measure suggested by Dr. Vedder introduces the important relationship between a measure of the value of output and the value of scarce resources used in the enterprise (per student expenditures), a measure that surely is superior to a simple comparison of either expenditures without regard to performance, or performance without regard to expenditures.

There are some limitations to this measure:

- The measure results in a ranking among districts that is very sensitive to the expenditure basis for calculating the expenditure per student, and the adequacy of the percentage passing as a measure of the value of the school's output,
- Ranking of the three districts studied here changes, depending on whether debt service and capital are included in the expenditures per student, and when making the transition from TAAS to TAKS, and
- It ignores the matter of percentage of the student body that drops out which is part of the measure of aggregate performance of the district. Other measures that might be included are the extent of preparation for college by college-bound students and competitiveness in the job market for the others.

Although not perfect, Dr. Vedder's efficiency measure is a simple but comprehensive measure of economic efficiency that should be considered in the school finance debate.

In order to create a firm link between student performance at the margin and cost at the margin (the standard for competitive markets), an individual's payroll expenditures have to be tied to the employee's contribution to the education of students. Within the current regulated public school system improvements in that direction can be made by offering incentives to teachers (and support staff) willing to devote exemplary effort to measurable student outcomes.

The other way to achieve this competitive end is to encourage competition among schools by putting the power to direct resources in the hands of students and parents (allowing choice and capacity to choose through vouchers). Such policy changes would immediately put charter schools and private schools in effective competition with public schools. Such competition could be expected to change the mentality from one of finding new sources of tax dollars, to a focus on student outcomes that are convincing to the client – students and parents.⁹

Evaluating the Economic Efficiency of Three School Districts

The economic efficiency of the three school districts in this study show that Laredo ISD is the most efficient of the three based on year 2001-02 data, ignoring debt service and capital expenditures and using the percent passing the TAAS. However, when debt service and capital are included, Dallas ISD is ranked most efficient. With the administration of the new state assessments, TAKS, the relative passing percentages changed as follows:

- Laredo ISD with a 46.8% passing rate,
- Austin ISD with a 63.2% passing rate, and
- Dallas ISD with a 52.5% passing rate.

This change re-orders the 2001-02 ranking of the three school districts in terms of efficiency (see Table 10).

An important subset of the efficiency measure is the efficiency of the labor part of the expenditure, which typically makes up about 85% of the annual operating expenditures. In general, LISD does the job of teaching with lower payroll expenditures per student than do the other districts. Likewise, DISD has lower payroll expenditures per student than AISD. Therefore, the efficiency with respect to labor is highest for Laredo, followed by DISD and AISD.

While there are modest differences among the three districts, the main conclusion to be drawn from these measures is that efficiency is not related to scale. LISD is as efficient as AISD and DISD. One would be hard pressed to conclude that one district is doing a better job than the other on the basis of these data.

Table 10. Measures of Efficiency

	Based on 2001-02 TAAS and Actual Expenditures*			Based on 2002-03 TAKS and Budgeted Expenditures**
	Labor Efficiency***	Overall Efficiency Including Capital	Overall Efficiency Excluding Capital	Efficiency Estimates Based Total Expenditures & Budgeted Data
Austin ISD	\$7,904	\$11,049	\$9,441	\$11,581
Dallas ISD	\$7,579	\$10,392	\$9,383	\$13,429
Laredo ISD	\$7,524	\$12,772	\$8,884	\$14,254
Texas	\$6,417	\$10,263	\$7,939	\$10,516

* Actual expenditures from <http://www.tea.state.tx.us/adhocrpt/>

** Source: Vedder, Richard and Joshua Hall, *Effective, Efficient, Fair: Paying for Public Education in Texas*, Texas Public Policy Foundation, Austin, Texas, February 2004.

*** Calculation based on percent passing and payroll expenditures per student.

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For many, it is tempting to estimate a statistic that indicates how much improvement in performance (the percentage of passing students) could be forthcoming from increased expenditures on public education – a *spending elasticity of passing* (percent change in percentage passing / percent change in spending). The data below show the elasticities of the three districts (based on the period 1997-98 through 2000-01 for spending and 1998-99 through 2001-02 for percent passing).

The calculated ratios capture the usual argument that increased school spending is needed to increase performance of students. For example, for AISD the implications of the data below are that a one-percent increase in spending would increase the percent passing TAAS by 0.85%. For LISD the implications of the data are a one-percent increase in spending would produce a 4.2% increase in percent passing.

Table 11. Falsely Assumed Relationship Between Spending and Performance

ISD	Dollars Spent 1997-98** (1)	Dollars Spent 2000-01** (2)	Real Dollar Increase for Teaching the Same Number of Students (3)	Percent Change in Expenditures 1997-98 to 2000-01 (4)	Percent Change in Passing % 1998-99 to 2001-02 (5)	Ratio (5)/(4)
Austin ISD	462,315,861	548,394,062	86,078,201	18.6%	15.9%	0.85
Dallas ISD	963,947,542	1,081,542,537	117,594,995	12.2%	17.9%	1.47
Laredo ISD	138,966,154	144,073,050	5,106,896	3.7%	15.5%	4.23

* Assumes test results lag spending by one year; i.e., results of higher spending do not result in an immediate increase in test results.

** Year 2003 purchasing power dollars per student times year 2000-01 students.

Source: School district actual expenditure reports at:

<http://www.tea.state.tx.us/adhocrpt/> for FY 1996-97 through 2001-02.

There are two problems with these statistics, as with the argument that more spending is necessarily required to improve performance.

- First, the above calculations implicitly assume that the historical change in percentage passing is due to, and only to, spending changes. Vedder's study (and others like it) shows that such is not the case.¹⁰ While spending is positively related to performance (measured as percent passing), the contribution from spending among statistically identifiable factors is small. So, the ratios in Table 11 are due mostly to factors other than spending.
- Second, the above ratios do not capture the important demand side of the question – the same is true of the Texas public school finance system. Competitive markets that are consumer driven are disciplined by the price elasticity of demand which is the ratio of percent change in quantity demanded (in this case, an increment of education, captured here as the percent passing) to percent change in price.

In Table 11, the denominator in the last column would ideally be the percent change in the market-driven price of education, rather than the change in bureaucratically determined expenditures. If consumers were in charge of spending rather than school administrators, then they would decide how much education effort for the price they are willing to buy from among different suppliers. As the price rises (more expensive teaching) then consumers would reduce the amount of educating they would purchase. Perhaps only market mechanisms that incorporate this demand side principle can be expected to break the cycle of the upward spiral of real expenditures per student.

SCHOOL REGULATORY AND FINANCE SYSTEM INCENTIVES

The Texas school finance system, as influenced by the courts, is designed to supplement local tax-based funding efforts with state funding subject to system-wide reallocation to achieve funding equality among districts, and to redistribute federal funds to local school districts. The state guarantees local districts a minimum amount of funding per weighted pupil. State funding increases with local tax effort through the Foundation School Fund. If a district raises less than the State guaranteed minimum per weighted pupil, the state makes up the difference; if the district raises significantly more than the guaranteed amount, the excess is distributed to poorer school districts.¹¹

The school finance system provides an incentive for some districts to raise property tax rates as high as possible because state funding increases with local tax effort, and at the same time provides an incentive for some districts to drive down the property tax base to ensure they remain recipients of property tax redistribution from more property-wealthy districts.

The school finance system has been described as “a guaranteed yield with recapture.”¹² The basic incentive set up by this funding formula is to encourage school districts to raise property tax rates. Rapidly rising property values in good economic times will counteract this incentive but over the long term there is a built-in incentive for school districts to spend more and raise tax rates, whether or not an increase is truly needed to do the education task.

There are several state rules/laws that attempt to discipline the local incentive to raise tax rates. Appraisals of property are by law to be market-based at 100% of market, and the State Comptroller is assigned the job of completing an annual review of the appraisals to discipline the appraisal process to achieve the intent of the law. Local school districts are able to impose a tax rate for operational expenses (Maintenance and Operation or M&O) and a separate rate for facilities. The state constitution limits the local school property tax rates for M&O to \$1.50 per \$100 valuation.

But on the other side of the matter, there are state laws that drive district expenses up: limiting class size, restricting student/teacher ratios, and requiring school districts to educate all students within their geographical boundary unless exempt and transferred. There are teacher certification requirements that attempt to assure teacher quality. In addition, the Legislature grants teacher pay raises based on education and experience,

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thus reducing the flexibility of local school boards to manage with a focus on outcomes. There is a minimum salary schedule adopted by statute that requires school districts to pay at least the state minimum based on education and experience.¹³ Further, the state specifies requirements for the provision of transportation for students.¹⁴

In effect Texas has created local education monopolies and then attempted to regulate them to produce the desired outcomes. But the result is these regulatory approaches have not stopped the upward spiral of real (inflation adjusted) expenditures, and indeed may be the primary cause.

The experience in public education regulation and the related continual upward spiral of unit expenditures has much in common with government experience in the regulation of business. There is much to recommend a study of the U.S. experience of the regulation, and finally the systematic deregulation of numerous industries over the last 30 years to apply the lessons learned to the education problem.¹⁵ Perhaps the most common element between education regulation and economic regulation of the last 50 years is the focus on costs and the processes that justify them.

In economic regulation the attempt to regulate monopolies (mostly ones created by government edict) is always founded on rates (prices) justified on the basis of a normal rate of return on investment. A primary reason for failure of regulation under these rules is that consumers are denied any choice of suppliers (the service area designation guarantees the customer base) and the monopolies find it easy to justify expenditure additions that can be passed on in the next rate hearing. There is no competitive market to discipline the rates and the quality of service according to the consumer's willingness to pay.

In public education the consumer base is also guaranteed through limited exceptions allowed for transfers, home schooling and private schooling. The number of parents and students who will choose these alternatives is limited in large measure because the parent pays twice – once for the alternative schooling and again through the property tax. Administrators of public schools, like the corporate leaders of regulated businesses, are clear winners; the larger the school grows through the guaranteed student base, the larger the salary package (note the superintendent salaries and district enrollment of the three districts in this study). Since the Legislature limits the choices administrators can make through teacher salary specifications and student/teacher ratios, and since education professionals claim improving test scores requires additional learning specialists, materials and equipment, districts find it easy to justify higher expenditures and associated tax rates.

For some, it is easy to assume that wages of school district workers of all types should get cost of living adjustments and real increases that keep pace with wage increases in the general economy if there is no means of measuring the value of the output, and no effective competition. Likewise, it is easy for some to assume that experience and education of teachers is important (deserves more pay) in increasing the value of the output (educated students) if there is no means of measuring the actual contribution, although the relationship between teacher education and student achievement has not been conclusively demonstrated.

In the unlikely case that Texas will develop an adequate system of measuring the value of an individual's contribution to the value of output, the primary means of disciplining the upward spiral of expenditures (mainly payroll expenditures) is to encourage competition through allowing consumer (students and parents) choice. The two alternatives most often proposed are voucher mechanisms and development of charter schools. Another means is to focus funding at the margin on specific, measurable outcomes within the public schools through incentive programs.

ACCOUNTABILITY TO TAXPAYERS AND PUBLIC INFORMATION ACCESS

Texas reportedly has one of the best school accounting/reporting systems in the U.S. The Texas Education Agency has developed a detailed coding system that school districts must use to report both budgeted and actual expenditures – reporting is built up from data at the campus level which is aggregated to the district, region and state levels. Student participation and performance (test scores, dropout rates, graduation rates, etc.) must be reported in great detail. The demographic profile of the student population is also required and includes the documentation of minority, gender and ethnic groupings, as well as the percentage of the population that is economically disadvantaged.

Reporting times include a “snap-shot” of budgeted expenditures and student/teacher data in October of each year and a final budgeted expenditures report at the end of the year (budgets routinely change over the year). Eventually a report of actual expenditures is required. Expenditures (both budgeted and actual) are reported for the General Fund and for All Funds (including federal and state grants and special funding and non-tax local sources of funding). There is more attention paid to certifying and accounting for expenditures in the General Fund category because these data are used in the important funding formulas that distribute state funding contributions among the districts.

The TEA has a well-developed web page that makes much of the school system data available on-line. The development of this report relied heavily on the TEA web page data systems and reports. In addition, the State Comptroller completes annual audits of the school districts and reports the results on the agency's web page.

Indeed there is much information available on Texas school systems. At the same time it is difficult for ordinary taxpayers to understand what their tax dollars are buying. Should one examine only the General Fund budgets and actual expenditures, or All Funds statistics? Which budgeted numbers are to be trusted, the October “snap-shot” budgets or final budgets? How closely do budgeted numbers match actual expenditures?

The coding systems developed by TEA impose needed uniformity for standardized reports. A great deal of effort is required, however, for taxpayers to understand the data. Work is clearly needed to provide transparency for use by taxpayers. Current reporting systems seem clearly designed for use by regulators rather than for the taxpayer, researcher or policymaker.

None of the reams of data available at the TEA or in school districts provide a sufficiently detailed record of expenditures to shed light on important financial decision-making. School district financial records are not designed to identify necessary spending from discretionary spending, not designed to identify spending on state mandated activities from optional district activities, and not designed to identify core academic programs from district electives.

Consequently, districts have insufficient knowledge of their own spending to claim they have insufficient funding for state mandates or higher student expectations. Consequently, policymakers have insufficient data to make financial decisions about “adequate” funding. Consequently, consumers can not “shop around” and compare the price of a unit of education (dollars/educated student) with the quality of the product.

The report summarized here depended to a significant extent on data and other information requests made under the Freedom of Information Act. Copies of financial files were requested, including:

1. Comprehensive Annual Financial Report for the Year Ended August 31, 2003 (filed with the Texas Education Agency),
2. School District Official Annual Budget for the 2002-03 School Year (copy of 2002-03 annual budget for AISD was obtained by informal means),
3. List of contracts that the district established with vendors and professional services during the 2002-03 school year with the amount paid for each contract if the amount exceeds \$2,500,
4. An electronic version of the itemized check register for the district for the 2002-03 school year,
5. Itemized credit card bills for the district for the 2002-03 school year, and
6. The current employment contract for the district superintendent, including all compensation, direct and indirect, both salary and benefits.

As a general matter district responses to the requests were less than satisfactory:

- Austin ISD 1) responded on time, 2) did not have a system-wide list of contractors and could not create one in a reasonable time period, and 3) their accounting software could not generate a usable electronic output file without an estimated 40 hours of programming time;
- Dallas ISD 1) did not respond within the ten-day guidelines, 2) provided an electronic file of selected information from their check register (check no., date, payee, and dollar amount) that omitted the reference number allowing identification with TEA function codes, 3) did not produce a credit card document, and 4) provided a current financial statement that only includes the first ten months of FY 2002-03; and
- Laredo ISD 1) did not respond within the ten-day guidelines, 2) produced the requested electronic check register file, but in PDF format making compilation from the 17 mega bite file impossible, 3) did not produce a credit card document, and 4) could not produce a contractor list.

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Given the increased expenditures on data processing by all three of the districts the requests should have been relatively straightforward to produce, and within the time intended in the law.

The procedures for how to request and reply to requests for information under the FOI Act need improvement. In the electronic world of the 21st century willing parties can easily agree on what can be exchanged, and do it with exchangeable electronic media.

Such public information problems are common to the operation of public entities everywhere. On the one hand, taxpayers have a right to know how their tax dollars are being spent. Furthermore, principles of good government in a democratic society demand that public entities be open. But implementation of open access rules that work is a difficult task, especially when computers and electronic media are involved.

In the present highly technical economy it is ordinarily a simple task for people of good will, who are knowledgeable, to exchange large volumes of usable information in electronic format. On the other hand if ill will and adversarial conditions prevail, easy tasks are made almost impossible.

Private markets mostly eliminate such adversity because the focus is on outcomes where a competitor's reputation precedes him. The current process is made difficult because a request is channeled through one administrator of the public information office – a gatekeeper. The procedures do not allow direct communication between knowledgeable individuals to clarify what information is needed and to agree on data formats. The current law does not require school districts to create computer files that do not currently exist in order to answer the request, even though such an option may be the most useable and easily transferred format.

A number of improvements in the ability of school administrators to respond to requests from taxpayers is sorely needed.

CONCLUSIONS

The primary findings of the study relate to economic performance, regulatory and financial incentives and financial accountability.

Economic Performance

There is currently no attempt to measure the economic efficiency of school districts by systematically comparing performance with expenditures, or to allocate limited economic resources based on economic efficiency. Expenditures of the districts studied are highly correlated with available taxing ability and unrelated to productivity. Trends in the allocation of available revenue among school functions are away from instruction and toward discretionary activities. The major component of all the functions in annual operating expenditures is payroll where increases are related to long-term, economy-wide wage increases – and not to productivity.

- There is no indication of economies of scale among the three districts. The smaller district may in fact be more efficient than the larger two.
- Most of the increased expenditures in all the districts are due to payroll spending that make up about 85% of annual operating expenditures, which increase without regard to increases in productivity.
- The increases in payroll expenditures for discretionary administration and support staff, as well as associated costs, have been greater than increases for teacher salaries and instruction. This raises questions about the spending priorities of districts.
- It is unclear how discretionary, non-instruction support functions improve student performance since there are great differences among the three districts regarding both the absolute value of per-student expenditures and rates of increase in expenditures for several non-instruction support functions.
- The school district expenditure-per-student increases are driven by inclinations to increase wages of workers roughly in step with wage increases typical of the long-term wage increases in the larger economy, without regard to productivity, as well as increases in the number of non-instructional staff.
- There have been improvements for all three districts in both the percentage of students passing the standardized TAAS test and in dropout rates. The value of the improvement in passing rates is unclear since a significant drop in passing rates occurred with implementation of the new TAKS test.

Regulatory and Financial Incentives

The current Texas public education system is basically a regulated monopoly in education, maintained by state requirements of local school boards to educate all non-exempt students within their geographical boundary, funded with local board autonomy over property tax rates to raise the local share of funding combined with state supplements, and the effective elimination of competition.

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The combined effects of education regulations and financing incentives is to encourage spending growth that is undisciplined by tests of economic efficiency, either through rule to relate revenue allocation to economic efficiency or through creation of a level playing field to encourage competition.

- Superintendents and managers are rewarded handsomely for increased school system sizes.
- The well-intentioned regulatory approach to public school management and funding encourages increases in the local property tax rate because state funding increases with local tax effort through the Foundation School Fund.
- Since funding incentives are cost based (input-based) rather than performance based, school district spending tracks closely over time with available tax dollars; districts tend to spend whatever tax dollars are available.
- Use of discretionary funds increase total spending through federal and private matching grants, which results in a shift away from instruction (there is no match funding available for good teaching).
- There is no current means of matching marginal productivity to marginal costs (the essential test of competitive markets) to justify requests for increased funding.
- Increased instructional effectiveness has not been rewarded with matched salary increases of teachers and their supporting helpers, but seem to be rewarded instead with increased reporting, testing and coordinating requirements.

Financial Accountability of School Districts to Taxpayers

The system of accounting for student performance and financial management seems more designed for regulators than taxpayers, researchers or policymakers. While there is a wealth of information available from the regulatory agencies and school districts – much of it online – there is a great lack of transparency that is required for ordinary taxpayers to understand whether their tax dollars are well-spent, or simply where their dollars are spent. Nor is there sufficient information for policymakers to make educated decisions about funding public schools.

School district accounting systems do not differentiate expenses related to state mandatory activities from optional district activities nor do districts differentiate spending on the state mandated academic program of instruction from elective district programs.

There is no public information system directed to parents and students that would allow them to make intelligent choices among schools based on performance, even if they were willing to make a great economic sacrifice to move from one district to another, or to request exemption to home-school or attend private school.

Instead, the focus is on cost justification for managers of the monopoly. Furthermore, the Freedom of Information Act that is intended to guarantee open access is too easily used to prevent information flow because the motives of the requestor are perceived to be adversarial. The experience during the current study is a case in point.

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- Texas statutes and regulations are designed to provide accountability of both student performance and financial management but accountability is limited by the type and quality of information recorded by the districts and the TEA.
- The school district accounting and reporting systems are among the best in the nation, which should mean that taxpayers have easy access to transparent information about the use of their tax dollars, but the multitude of reports are confusing at best and sometimes misleading.
- The study summarized here depended to a significant extent in its initial design on data and other information requests of the three school districts under the Freedom of Information Act; the limitations of this report are largely the result of difficulties using the act.
- The requests should have been relatively straightforward to produce, and provided within the time intended in the law.

RECOMMENDATIONS

- In the short term, the state school finance system should refocus the attention of school districts on instruction as the primary mission of public schools through incentive programs such as matching teacher pay with measurable student achievements. In the long term, state policy should change the current tendency to promote the growth of large school districts that require high costs of administration without any promise of improvement through economies of scale.
- The current incentives that encourage increased spending regardless of outcomes can be improved through adoption of a state funding formulas based in part on an economic efficiency measure.
- Market-like outcomes of education, that discipline spending through competition, can be created through voucher systems that make the education system responsive to consumers (students and parents) rather than the bureaucracy.
- Accounting procedures should be developed to distinguish discretionary spending from expenditures on state required activities, and the school accountability system should report these different types of expenditures.
- School districts should be required to provide an economic rationale for professional/contractor spending decisions.
- Districts should be required to publish the more detailed information described in this report that is currently not available on district web sites so that parents can make informed decisions about student enrollment, taxpayers can hold districts accountable for rational spending, and policymakers can make wise decisions about financing public schools.
- Public accountability and public information access of the current system can be improved by creating a dialogue in the process of responding to requests in order to identify the available options for creating and transferring information.

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ENDNOTES

¹ A recent study of the extent of school district mandates details the mandates effecting school district operations, including those of class size, teacher certification, state salary scales, special education, testing, reporting etc. The report also details many environmental, health and energy conservation mandates that are common to other government and private sector enterprises. The report does not attempt to estimate the incremental costs due to the mandates that would not otherwise occur, or even to estimate the gross costs of such mandates. See Texas Association of School Administrators, September 2002.

² The median school district would conceptually be a better comparison than the average since the districts do not follow a normal distribution. There are a few very large districts and many very small districts in Texas. Archer City ISD is the median school district. Comparisons were made of the three districts in this study with Archer City ISD rather than the Texas average, and it appeared that all of the essential conclusions would be the same as from a comparison with the average.

³ FY 2002-03 data are not included in Table 3 and selected other tables and charts because DISD did not report actual 2002-03 financial data for the full year making complete comparisons for the year impossible. Also, the TEA data sets do not report actual 2002-03 data until all districts have reported and therefore are not yet available.

⁴ The Texas School Finance Project is undertaking a study of this topic. A first in kind data collection effort is under way to allow facility funding needs to be projected over time and to examine alternative approaches to improve state funding for facilities. See Descriptive Analyses of Public Education Facilities, Texas School Finance Project.

⁵ In a review of studies pertaining to spending on school administration and facilities, Eric Hanushek finds between 83-86% that show no significant improvement in student achievement when spending is increased; between 9-12% show a positive affect on achievement; and 5% show a negative affect. (See Eric A. Hanushek, February 2003, pages F64-F98, Table 3). In a multi-state study of school district spending (a study which included Texas), the Southwest Regional Educational Development Laboratory found that higher student performance was associated with lower spending on administration as a share of total expenditures. (See Diane Pan et al., 2003, page 38). Higher student performance is associated with increased spending on instruction in another study (See Jane Hannaway et al., 1999-2000, page 69).

⁶ In a multi-state study of school district spending (a study that included Texas), the Southwest Regional Educational Development Laboratory found that higher student performance was associated with higher spending for instruction and lower spending for administration and administrative staff as a share of total expenditures. (See Diane Pan et al., 2003, page 38).

⁷ The efficiency measure suggested by Vedder introduces the important relationship between a measure of the value of output and the value of scarce resources used in the enterprise (per student expenditures), a measure that surely is superior to a simple comparison of either expenditures without regard to performance, or performance without regard to expenditures. The measure suggested by Vedder, however, results in a ranking among districts that is very sensitive to the expenditures basis for calculating the expenditures per student, and the adequacy of the percentage passing as a measure of the value of the school's output. That is, the ranking of the three districts studied here changes depending on whether debt service and capital are included in the expenditures per student, and when making the transition from TAAS to TAKS.

The efficiency measure suggested by Vedder ignores the matter of percentage dropouts, which is part of the measure of aggregate performance of the district. A way to include the importance of low dropout rates is the modify Vedder's formula by multiplying the denominator by one minus the dropout rate. As is, Vedder's formula would incorporate the dropout matter only if a district was able to keep a kid in school and also pass the tests, a prospect that ignores the value of keeping the kid in school even if he can not pass the test. This addition was tested and the ordering of the three schools in this study, however, did not change. Other measures that might be included are the extent of preparation for college by college-bound students and competitiveness in the job market for the others. The matter of adequately measuring the value of output of the school system is a topic of much debate and is surely a complex study of its own (see the research studies of the Texas School Finance Program).

⁸ See Vedder, Richard and Joshua Hall, *Effective, Efficient, Fair: Paying for Public Education in Texas*, Texas Public Policy Foundation, Austin, Texas, February 2004, pages 11-13.

⁹ Papers by a number of economists writing under Texas Public Policy Foundation sponsorship deal in some detail with both the research literature that support market-based approaches, and with the policy

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alternatives that will achieve such ends. See Vedder, Hanushek, Taylor and Merrifield. Also, Governor Rick Perry has proposed a major program of incentive pay in recent public appearances.

¹⁰ Several economic studies identify the extent to which spending on various school activities are related to student achievement. See Vedder, 2004, Eric Hanushek, 2003, Fowler, 2000 and Pan, 2003.

¹¹ The foundation school program was established by the Gilmer-Aikin Laws in 1949. The state distributes funds from the Available School Fund to local school districts through the two-tiered program. Tier One of the FSP provides funds to meet the expenditures of basic education programs that meet state accreditation standards. Tier Two provides schools with equal access to revenue for educational enrichment. Both tiers contain a state and local share, with the latter depending on the property wealth of each district. Under Tier One of FSP, additional funding is made available to school districts for special, vocational, compensatory, bilingual, and gifted and talented programs. The Texas Education Code provides a specific schedule for payments to school districts, based on wealth categories, from the Foundation School Fund. The three wealth categories are as follows:

Category 1 - districts have a property wealth per pupil of up to one-half the statewide average wealth;

Category 2 - districts have a property wealth per pupil of at least one-half the statewide average wealth, but not more than the statewide average; and,

Category 3 - districts have more than the statewide average wealth. See Foundation School Program.

¹² Taylor explains the process that encourages school districts to raise local property tax rates in order to be able to fund increased expenditures of education. See Taylor, 2003.

¹³ The provisions of House Bills 2879 and 3343 as passed by the 77th Session of the Texas Legislature applies only to classroom teachers, full-time librarians, full-time counselors, and full-time nurses. (HB 3343 specifically excludes the amount attributable to the increase in the guaranteed yield level when computing the salary schedule.) There is no state minimum salary for any other position. In no instance may a school district pay classroom teachers, full-time librarians, full-time counselors, or full-time nurses less than the state base salary listed for their years of experience. If a classroom teacher, full-time librarian, full-time counselor, or full-time nurse is employed by the same district in 2002-2003 as in 2000-2001, the employing district can not pay that person less than the salary paid in 2000-2001. Section 21.401 of the Texas Education Code specifies that an educator employed under a 10-month contract must provide a minimum of 187 days of service.

¹⁴ The Texas Education Code authorizes the board of trustees of each school district, county unit system, charter school, or other local education agency to establish and operate, or alternatively contract with a mass transit authority or commercial transportation company, to provide an economical public school transportation system, and provides for the allotment of state Foundation School Program funds for eligible student transportation. The code further authorizes the commissioner of education to prescribe a uniform system of forms, reports, and records to fulfill reporting and record keeping requirements necessary for the Texas Education Agency to appropriately administer these transportation allotments. This handbook is intended to serve as an administrator's reference manual or resource guide for relevant statutory authority citations (shown in brackets), regulations, and corresponding agency policy standards which determine those route services that are eligible for transportation allotments. For additional information on eligible route service see "Instructions for Completing School Transportation Route Services Report (May 2003)." Effective with 2001/2002 reporting, the Transportation Route Service and Transportation Operation Reports must be submitted via the new web-based Foundation School Program payments system accessed via TEA Secure Environment login at <https://seguin.tea.state.tx.us/apps/logon.asp>.

¹⁵ There are many excellent economic studies of the effects of and failures of regulation to serve the interests of consumers. The clear winners in the economic regulation of business are usually the corporate leaders and stockholders rather than the consumer. See Argyris et al, 1978 for an older, but enlightening set of papers on the topic.



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