



## Donald R. McAdams' Expert Report for School Finance Litigation

by The Honorable  
Kent Grusendorf and  
Dianna Muldrow

*In 2012, Judge John Dietz, Travis County District Court, began to hear yet another case about public school finance. This follows in a long line of lawsuits from the late 1980s where school districts have sought a declaration that the Texas system of public schools is unconstitutional due to claims of either inequitable or inadequate funding for public education. The Texas Supreme Court has issued six rulings on school finance in these cases determining whether the state satisfies Article 7 of Texas' Constitution, which requires the state "to establish and make suitable provision for the support and maintenance of an efficient system of public free schools."<sup>1</sup>*

### Key Points

- Increased productivity and efficiency in education are clearly linked to higher achievement by students.
- Higher productivity is more beneficial for students than just higher spending.
- Labor regulations are restricting innovation in the teaching profession, thereby driving down job satisfaction and wages.
- Labor laws need to be eliminated for schools to increase productivity and efficiency for kids.

*In each of these cases, the focus has been on money, and how that money is distributed among districts. However, the current case has the potential to change this trend. For the first time, a party in the lawsuit (The Efficiency Intervenors) began advancing the argument that the real problem is that the Texas public school system is constitutionally inefficient, at least in part because they lack competition.<sup>2</sup> Numerous experts submitted reports supporting this argument; the Foundation is publishing a series of summaries of these reports. Below is the summary of the expert report and testimony by Donald R. McAdams.*

**A**ccording to Dr. Don McAdams, Texas has the potential for significant increases in student achievement without spending more money, merely by increasing current productivity in our schools.

Defining productivity as output divided by input designed to produce effective and efficient results, McAdams' expert report to the court in the current school finance case before Travis County District Judge John Dietz focuses on how productivity and efficiency can be increased in Texas public schools. His two primary recommendations are: 1) provide more freedom over controllable inputs, such as teaching staff; 2) restructure the business side of schools.

In his report he noted that some falsely argue that the public schools cannot be subjected to productivity management. Because education is fundamentally different from manufacturing or other automated processes, they claim the same principles cannot be applied to increase productivity. Educators cannot control their "inputs" in the sense that children are assigned to them and they lack control over a child's life at home.

Another claim is that education cannot be significantly changed through innovation. The core processes are fixed and the main structure, group instruction and individual study, won't be changed. This argument rests on the theory that the talent, labor, and time that go into education can't be expedited, and that schools are about as productive as they could be. This argument was examined using Baumol's disease, a theory stating that productivity in labor-intensive business sectors would lag behind manufacturing sectors. The theory was that salary and benefit costs were increasing rapidly, and because labor-intensive groups could not utilize technology to decrease their staff base, productivity decreases. Baumol's disease, however, has been cured in many labor-intensive services. This has occurred primarily through deregulation, using information technology, and employing process innovation. The same must be done for schools.

*continued*

**Educators work in a fluid labor market. A district that does not provide a professional and nurturing work environment or offer competitive compensation will soon lose its best educators to neighboring districts that do. Accountability and the marketplace provide professional educators with all the protection they need.**

McAdams acknowledges that schools cannot control one of their “inputs”: children. However, the healthcare industry similarly cannot determine the patients that they will be required to treat, yet they are still expected to increase productivity. McAdams suggests that schools should be held to a higher standard, especially since they can control other inputs, such as teachers and principals. McAdams also urges several innovative ideas such as contracting out the teaching process to qualified groups like universities, and lowering the barriers to entry put in place by labor laws and teachers unions. He states:

Educators work in a fluid labor market. A district that does not provide a professional and nurturing work environment or offer competitive compensation will soon lose its best educators to neighboring districts that do. Accountability and the marketplace provide professional educators with all the protection they need. The state does not need to protect them from mean-spirited principals, dictatorial superintendents, and exploitative school boards. The world has changed. Texas must not lag behind and find itself being dragged into this new world. Rather, it should and can be at the vanguard and lead the charge. The time has come for the Texas Legislature to give the school districts significantly more flexibility in the management of their professional educators.<sup>3</sup>

McAdams points out that there have been efforts by some districts to implement a more productive and efficient business structure in schools. The Council of the Great City Schools (CGCS) launched the Performance Measurement and Benchmarking Program, which instituted goals such as establishing key performance indicators for school districts, comparing these indicators nationally, and documenting the management practices of the top-performers. The data gathered by this group has been utilized by some of the best-managed urban schools in the nation.

McAdams believes that productivity improvement in Texas must start with the Texas Legislature as well as the local school boards. As delineated below, he recommends several foundational requirements for productivity management in the public sector.

1. Establish clear goals and performance metrics. While both the legislature and the school boards should define goals, productivity would improve if they focused on different levels. The legislature should limit themselves to academic standards and assessments in core subjects, and the school districts should add goals and standards on a more local level.
2. Performance accountability is key and can be achieved through evaluations conducted by an immediate supervisor. McAdams also advocates competition through school choice which would spur self-accountability.
3. Financial information linking costs to outputs must be transparent. The Texas Education Accountability Project (TEAP), for example, found that education finance was so incomprehensible that it was impossible for local school boards or parents to know if schools were making good cost/benefit decisions. McAdams suggests that district financial reporting should be transformed so that anyone can see how funds are being spent.
4. Deregulation is necessary; specifically districts must have greater latitude regarding employee relations. There are also many well-established regulations that prevent innovation, such as a teacher being assigned to semester-long, fixed groups of same-age children. These boundaries must be flexible to truly innovate and optimize education.

Once these steps have been taken, McAdams believes that innovation will follow naturally. He highlights several possible innovations: how students are grouped, how frequently these groups change, time scheduled for instruction, how much work should be assigned to students and where should this work occur, how should teachers be chosen and trained, and how technology can expedite these processes.

Finally, McAdams referred to a study by the Center for American Progress (CAP),<sup>4</sup> which compared the educational productivity of different school districts in various states and revealed several surprising findings. CAP showed that 41 states had the potential for double-digit percentage increases in student achievement without spending more money, merely by increasing current productivity. They also found that low productivity is currently costing the nation an estimated \$175 billion annually. In addition, the study discovered that high-spending districts did not consistently correlate to high-achieving districts. These facts, combined with others, painted a compelling picture for focusing on productivity rather than funding.

He concludes: “The days when the state needed to regulate certification, contracts, compensation, and class size are passing. The factory model of education is an artifact of the last century. It is a new day, and Texas needs to, indeed must, adapt. There is no other way to significantly improve achievement, even if huge amounts of new money were available.” ★

View the full report by McAdams here.

*Donald R. McAdams served for 12 years on the Houston Independent School Board. He went on to found and chair the Center for Reform of School Systems, be appointed by the U.S. Secretary of Education to the National Advisory Council on Institutional Quality and Integrity, as well as being appointed by Gov. Rick Perry to a Select Committee charged with preparing legislative proposals for a new public school finance system for Texas. McAdams is the author of “Fighting to Save Our Urban Schools... and Winning! Lessons from Houston” and “What School Boards Can Do: Reform Governance for Urban Schools”. He has also had numerous articles published in academic journals and editorials on education reform published in major newspapers.*

<sup>1</sup> “Edgewood I, II, III, & IV; West Orange Cove I, West Orange Cove II”

<sup>2</sup> “Texas Taxpayers and Student Fairness, et. al. v Michael Williams, Plea of Intervention by the Efficiency Intervenors.”

<sup>3</sup> Donald R. McAdams, *Local Control with Accountability for Results, Flexible Workforce Management for Performance and Productivity*, Texas Institute for Education Reform Special Report, March 2011.

<sup>4</sup> Ulrich Boser, *Return on Educational Investment: A District-by-District Evaluation of U.S. Educational Productivity*, Center for American Progress (Jan. 2011).

## **About the Texas Public Policy Foundation**

The Texas Public Policy Foundation is a 501(c)3 non-profit, non-partisan research institute. The Foundation's mission is to promote and defend liberty, personal responsibility, and free enterprise in Texas and the nation by educating and affecting policymakers and the Texas public policy debate with academically sound research and outreach.

Funded by thousands of individuals, foundations, and corporations, the Foundation does not accept government funds or contributions to influence the outcomes of its research.

The public is demanding a different direction for their government, and the Texas Public Policy Foundation is providing the ideas that enable policymakers to chart that new course.

