

WORKING P A P E R

School Finance Systems and Their Responsiveness to Performance Pressures

A Case Study of Texas

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PREFACE

This study is one of four state case studies conducted under the auspices of the School Finance Redesign Project (SFRP) at the University of Washington. SFRP encompasses research, development, and public engagement activities that examine how K-12 finance can be redesigned to better support student performance. It addresses the question, “How can we help schools achieve the higher levels of student performance that state and national education standards now demand?”

One element of SFRP’s research agenda involved case studies of the school finance systems in North Carolina, Ohio, Texas, and Washington State, aimed at identifying the formal rules and conditioning influences that described these systems and exploring if and how the systems were changing in response to heightened performance pressures. RAND was commissioned to prepare the North Carolina and Texas case studies; University of Washington researchers undertook parallel studies in Ohio and Washington.

Researchers will combine the findings from all the case studies in a cross-state analysis. When completed, the cross-state study will be available on the SFRP website, <http://www.schoolfinanceredesign.org/>.

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CONTENTS

Preface.....	ii
Figures.....	v
Tables.....	vi
Summary.....	vii
Overview of the Study	vii
The School Finance System in Texas	viii
Local Resource Allocation: Changes, Enablers, and Constraints.....	ix
State-Level Perspectives: Issues and Concerns Affecting School Finance Decision-Making.....	x
Conclusions.....	xi
Acknowledgments.....	xii
Key Abbreviations	xiii
1. Introduction.....	1
2. Approach and Methods	3
3. Education Reform in Texas: A Brief History	7
4. The State Role in School Finance.....	11
Constitutional Responsibility.....	11
The Structure of K-12 Education in Texas	11
Paying for K-12 Education	12
Key Features of the School Finance System.....	15
5. State Context for Current Policy Making	24
Demographic Changes	24
Political Environment	25
Economic and Budget Climate	26
Judicial Challenges	28
6. District- and School-Level Perspectives on the School Finance System	31
District Goals Mirrored State Achievement Expectations.....	31
Challenges to Meeting Goals.....	32
The changing demography of the student body	32
Inadequate funding.....	33
Hiring and keeping teachers with special skills and those willing to teach at-risk students	33
High schools.....	34
Uncertainty over school finances	34
Reforms and Innovations	34
A new view of “equity” in resource allocation	34

Capacity-building	36
Incentives.....	39
New approaches to decision-making: management and governance changes	42
Enablers.....	48
District-specific enablers	49
Accountability systems.....	50
Creative and united leadership	50
Flexibility	51
Supportive communities.....	52
Outside funding	52
Constraints	53
Inadequate funding.....	53
Unfunded mandates and set-asides.....	55
Rules and “strings”	57
Creeping re-control.....	58
Traditional attitudes.....	59
Concluding Thoughts on Local Perspectives.....	59
Summary	61
7. State-Level Perspectives on the School Finance System.....	62
A New Political Environment.....	62
Political tensions.....	62
Success in the 2006 special session.....	64
Taxes and the School Finance Debate	66
Ambiguities in Court Decisions.....	67
Uncertainty Over the Desirable Shape of a New School Finance System	69
Summary	70
8. Conclusion	72
References.....	74

FIGURES

Figure 1. A Conceptual Framework Linking School Finance to Student Outcomes.....	6
Figure 2: Key Features of the Foundation School Program (following 2006 reform)	20

TABLES

Table 1. Improvement in TAAS Passing Rates Over Time.....	9
Table 2. Texas Students' Performance on NAEP, 1992-2005.....	10
Table 3. School District Revenue by Source, 1991-2005 (\$ in billions).....	13
Table 4. School Programs Funded Through State and Local Funds.....	15
Table 5. School District Adjustments for 2005-06.....	17
Table 6. Student Weights for 2005-06.....	17
Table 7. Texas Public Education Appropriations, 2006-07 Biennium.....	22
Table 8. Public Education Equity Measures.....	23
Table 9. Trends in State Government Expenditures (dollars in millions).....	27

SUMMARY

OVERVIEW OF THE STUDY

To improve student performance to the levels called for in current state and federal accountability programs, “business as usual” approaches to public education are likely to be insufficient. Along with other elements of education policy such as standards, accountability, curriculum, and teacher training, school finance needs to be rethought. The School Finance Redesign Project (SFRP) at the University of Washington’s Center on Reinventing Public Education is undertaking this task through a number of research projects and through the deliberations of an expert panel which will synthesize and draw conclusions from the project’s work about future directions for school finance.

As a foundation for these efforts, SFRP, in collaboration with RAND Education, undertook case studies in four states aimed at understanding how school finance systems are currently operating and changing in light of increased performance pressures. This working paper presents the findings for Texas. The findings will contribute to a cross-state analysis based on the four case studies that will be prepared by SFRP.

The case studies were designed to help SFRP address four questions:

- What formal mechanisms do school finance systems use to deploy educational resources and how do they operate?
- Have heightened state and national performance expectations altered educational resource allocation processes and decisions?
- Would school finance decision-makers deploy resources differently if they could, and what prevents them from doing so?
- What factors enable or constrain efforts to link resources to student performance?

The case studies drew on document reviews to describe both the formal rules and procedures of existing school finance systems and the conditioning factors (e.g., demographic changes, politics, economic context, litigation) that influence how finance systems perform the functions of collecting, distributing, allocating, and using resources. Interviews (59 in Texas) with district-level and state officials provided information on (1) if and how educators and policy makers were changing their approaches to resource decision-making in response to pressures to improve student performance and (2) the factors enabling and constraining their efforts to change.

The findings describe the Texas school finance system and provide insight into how study-district and state-level officials responsible for finance policies and practices responded to performance pressures. Because of the small number of districts in the study, it is inappropriate

to generalize the findings to other districts in Texas. Similarly, factors influencing state-level finance policy making in Texas may not be generalizable to other states. The cross-state analysis being undertaken by SFRP will use information gleaned from all the case study states, districts, and schools in seeking to identify common patterns and effects.

THE SCHOOL FINANCE SYSTEM IN TEXAS

At the time of our study in 2005 and 2006, the school finance system in Texas was under attack. The finance system was restructured in 1993 in response to a court decision demanding more equal access to per-pupil revenues for districts taxed at similar rates to support public schools. As a result, a Foundation School Program (FSP) was adopted, which took into account both state and local revenues in determining the dollars to be available in each district. The FSP incorporated a base funding level for all students in the state, plus a “guaranteed yield” program that provided additional funding based on local tax rates, as well as facilities funding. The FSP adjusted funding levels for local costs and included weights that took into account district characteristics such as local costs, population “sparsity,” and various categories of student need. An unusual feature of the FSP was its so-called “Robin Hood” requirement that “recaptured” local revenues from wealthy districts to reassign to poorer ones. In addition to the FSP, the state made monies available to districts through set-aside funds and categorical programs.

While these state rules defined the structure of the school finance system in Texas, funding was provided primarily by local districts. In 2004-05 the state share of total district revenues was only 36 percent.

A rapidly growing population, political changes in state government that decreased support for public education, and a slow recovery from recessionary conditions in the state economy all created challenges for the school finance system. But at the time of our study the greatest pressure was being felt from the courts. The system created in 1993 was challenged in a new court case in 2001. From 2003-05 the Legislature tried unsuccessfully to enact school finance reforms. The Texas Supreme Court decreed in November 2005 that the existing system was unconstitutional because it depended too heavily on local property taxes. The court did not find at that time that the funding being provided to Texas schools was as yet constitutionally inadequate (although it raised the possibility that it would soon become so). Facing a court deadline of June 1, 2006 to remedy the property tax problem, the Legislature in special session in May 2006 enacted state tax increases and made other changes that were intended to increase state responsibility for funding the public schools. It did not, however, alter the fundamental nature of the FSP, eliminate the “Robin Hood” feature of the system, or update the cost and other

weights in the system that had remained unchanged (despite changing local circumstances) for many years.

LOCAL RESOURCE ALLOCATION: CHANGES, ENABLERS, AND CONSTRAINTS

Study districts in Texas reported high awareness of the importance of raising achievement, spurred especially by the state's accountability system and by rising academic requirements. Federal performance pressures were noted less frequently and were felt primarily as requirements to improve teacher quality. Districts also reported high awareness of the importance using education resources effectively and efficiently to improve their performance. They cited an impressive array of actions they had taken to link their resource allocation decisions to student needs, to build the capacity for teaching and learning, to create financial incentives rewarding teachers based on test scores and other indicators of student performance, and to make their decision-making more strategic and data-driven. Some of the new initiatives challenged traditional finance mechanisms such as the staff-based model of allocating resources to schools and the centralization of major resource allocation decision making in the district office. Even though the number of new initiatives was large, they did not appear to be what one administrator called "random acts of improvement," but rather deliberate steps aligned with district goals.

District personnel cited a number of factors as contributing to their efforts to connect resource allocation decisions to educational objectives. Some were district-specific: a new governance structure in one district, a focus on continuous improvement in another, decentralized decision-making to the school level in a third, and the leadership style of central office administrators in a fourth. Other enabling factors common to the study's districts included accountability systems, creative and united leadership, flexibility, a supportive community, and outside funding.

Inadequate funding was the chief barrier cited by local officials in meeting expectations for higher student performance. (Our interviews were conducted before passage of the 2006 finance reforms that aimed to increase the state share of the burden for education spending.) Interviewees also complained about unfunded state mandates and about legislative set-asides that reduced district FSP revenue entitlements. Some local officials specifically noted that state rules about how districts must spend money were not particularly restrictive; what really constrained them were the things the state required but did not fund and a state-imposed tax rate limitation that prevented districts from raising more local revenue. Outside rules that did feel constraining were federal requirements related to the Title 1 compensatory aid program, state restrictions that

accompanied special-purpose funding, and philanthropic foundation-supported initiatives. District officials acknowledged that their sense of being short of needed funding led them to seek state, federal, and philanthropic grants even when they were not convinced that the required approaches were effective or when they felt that outside funding contributed to “policy churn.” They also noted that state policy makers, who had deliberately reduced state control over local districts in the mid-1990s, seemed to be moving to reassert some of that control. Finally, they acknowledged that resistance to change among educators themselves sometimes got in the way of efforts to more effectively link resource use to performance objectives.

STATE-LEVEL PERSPECTIVES: ISSUES AND CONCERNS AFFECTING SCHOOL FINANCE DECISION-MAKING

State policy makers in Texas have focused major attention on school finance issues in this decade, responding to several pressures for reform. The “Robin Hood” recapture provisions of state finance law became increasingly unpopular with the public. A number of school districts went to court arguing that the finance system was unconstitutional because of its reliance on local property taxes and because state funding was inadequate to meet rising performance expectations.

At the same time, the Legislature became more divided and less bipartisan in its approach to education issues. New leaders expressed skepticism about the performance of public schools and put a number of highly contentious proposals (e.g., vouchers, performance pay for teachers, charter schools) on the reform agenda. Tension among the leaders of the political party that controlled the legislative and executive branches was reportedly high. The result was a political impasse that prevented significant finance reform from being enacted despite its central place on the agendas of two regular legislative sessions and three special sessions between 2003 and 2005. Only when facing an ironclad deadline from the state Supreme Court were political leaders able in 2006 to enact changes shifting more education funding to the state and increasing state taxes to compensate for the loss of local property revenues for schools.

Tax issues had become an important influence on school finance decision-making and seemed likely to remain so. Some observers questioned whether the 2006 reforms would bring in enough revenue to cover the costs of property tax reductions or to provide a long-term protection against another constitutional challenge. One consequence of the centrality of tax reform to school finance debates was that business leaders, once strong supporters of education reform, appeared to have become more divided in their attitudes towards the schools and more open to calls for structural changes in education as a way to keep costs down.

Another uncertainty continuing to hang over Texas school finance was the involvement of the courts. While the November 2005 Supreme Court decision ended litigation for the time being and made it clear that reliance on local property taxes had to be reduced, a number of other important issues remained unresolved. Without prescribing specifics, the court suggested that more money, structural changes, improved efficiencies, and/or better methods of education might be needed to keep the Texas education and school finance systems in constitutional compliance.

In the face of such continuing demands for reform, Texas policy makers expressed frustration about the lack of knowledge available to help them shape a new school finance system that would more effectively link resource decisions to the goal of improving student performance.

CONCLUSIONS

Texas has a distinctive set of formal school finance mechanisms, with state funding based on formulas that take into account a variety of district and student characteristics and a “recapture” provision that forces wealthy districts to explicitly subsidize poorer ones. At both the state and district levels, pressures for improved student performance provided an impetus for rethinking resource allocation and (notably at the district level) the processes through which these decisions were made. The most important influence on statewide finance reform was a series of court decisions mandating changes to bring the system into constitutional compliance.

Policy makers differed in their views about how best to deploy educational resources. Their ability to implement their particular preferences was influenced by a variety of factors, including the existence or absence of political consensus, economic conditions affecting the availability of funding, specific state and federal requirements, and the effectiveness of local leadership, among other things. Over and above these considerations, however, loomed uncertainty over how to redesign school finance so that resource allocation decisions result in improved student outcomes.

ACKNOWLEDGMENTS

We wish to express our appreciation to the many individuals in Texas who agreed to be interviewed for this study and to those who helped to make arrangements for site visits. Our RAND colleagues Susan Bodilly and Cathleen Stasz made many helpful suggestions for the presentation of the case study findings; Elizabeth Whitaker and Lisa Spear assisted us in preparing the working paper for external distribution. Larry Picus and Ron Zimmer reviewed the study, and we are grateful for their comments and suggestions

KEY ABBREVIATIONS

ADA	Student in Average Daily Attendance
AEIS	Academic Excellence Indicator System
ASF	Available School Fund
FSP	Foundation School Program
NAEP	National Assessment of Educational Progress
NCLB	No Child Left Behind Act
M&O	Maintenance & Operations (TX term for school operating, not capital, expenditures)
PEIMS	Public Education Information Management System
PSF	Permanent School Fund
TAAS	Texas Assessment of Academic Skills
TAKS	Texas Assessment of Knowledge and Skills
TEKS	Texas Essential Knowledge and Skills
SFRP	School Finance Redesign Project
WADA	Weighted (student) in Average Daily Attendance

1. INTRODUCTION

For at least two decades policy makers and the public have been demanding better performance from American elementary and secondary education. The No Child Left Behind Act (NCLB) of 2001 institutionalized this demand, aiming at proficient achievement by all students and imposing challenging requirements and deadlines on states, districts, and schools. Educators will have to boost student achievement significantly to meet state and federal expectations.¹

Many new policies have been adopted in hopes of raising student achievement. Standards-based reform, for example, has encouraged the alignment of various aspects of schooling—including testing, accountability programs, curriculum, teacher training, and professional development—around state-specified content standards. A market-based approach to reform has resulted in new forms of public education, such as charter schools, that give parents more choice about the kind of school their children will attend.

In 2003 the Center on Reinventing Public Education at the University of Washington (UW) launched the School Finance Redesign Project (SFRP) on the premise that school finance, too, would need to be reformed to support improved student performance. With funding from the Bill & Melinda Gates Foundation, SFRP set out to examine how educational resources could better support student learning and how school finance systems would need to change in order to foster better linkages between school finance decisions and educational performance objectives. SFRP initiated a number of research projects addressing various aspects of school finance and resource use and also convened an expert panel to synthesize and draw conclusions from the project's work about future directions for school finance. SFRP research papers and the report of the expert panel will be released (and made available on the SFRP website²) at various times during 2007.

¹ For example, in Washington State in 2006, only 52 percent of 10th grade test-takers passed the reading, writing, and math sections of the Washington Assessment of Student Learning, a requirement that all students in the Class of 2008 and beyond must meet to graduate from high school (Washington State Office of the Superintendent of Public Instruction, 2006). In Texas in 2002-03 and 2003-04, campuses could meet their Adequate Yearly Progress requirement under NCLB by achieving passing rates on the Texas Assessment of Knowledge and Skills of 46.8 percent for reading/language arts and 33.4 percent for mathematics (Texas Education Agency, Adequate Yearly Progress, 2003). By 2013-14, to meet AYP campuses will have to achieve 100 percent passing rates on these tests.

² <http://www.schoolfinanceredesign.org/>.

One SFRP project involved a series of case studies in four states. This project aimed at describing how school finance systems were currently operating and if and how they were changing in light of increased performance pressures. SFRP engaged the RAND Corporation to conduct two of the case studies, in North Carolina and Texas, while University of Washington (UW) researchers carried out parallel studies in Ohio and Washington State.

The case studies were designed to help SFRP answer four questions:

- What formal mechanisms do school finance systems use to deploy educational resources and how do they operate?
- Have heightened state and national performance expectations altered educational resource allocation processes and decisions?
- Would school finance decision-makers deploy resources differently if they could, and what prevents them from doing so?
- What factors enable or constrain efforts to link resources to student performance?

This case study reports on findings from Texas. The findings are meant to inform a cross-state analysis that SFRP plans to produce based on all the case study states.

This report is organized as follows. Chapter 2 describes the approach and methods used in our Texas research and the limits to the generalizability of the findings. Chapter 3 outlines a brief history of education reform in Texas which provides a backdrop for current policy discussions. Chapter 4 describes the formal structure of the state's school finance system at the time of our study. Chapter 5 describes demographic, political, economic, and judicial factors which (as explained in the next chapter) researchers expected to influence the school finance decisions made by policy makers. Chapter 6 summarizes the perspectives of district- and school-level individuals about if and how their resource allocation decisions were being affected by performance pressures and how the finance system enabled and constrained their efforts to link resources to performance. Chapter 7 provides information on the key issues and concerns influencing state school finance policy making in Texas at the time of our study. Chapter 8 presents conclusions about the structure of Texas's school finance system and how it has been affected by performance pressures.

2. APPROACH AND METHODS

This case study was conducted through document reviews and interviews with state and district level officials and school principals.

A necessary step before data collection was to identify the elements of a school finance system. Researchers adopted a model (illustrated on the left-hand side of Figure 1) that defines a school finance system as a set of formal rules and conditioning influences which affect how those rules are structured and implemented.

In carrying out the Texas case study, we used policy documents, court decisions, newspaper articles, and analyses by other researchers to describe the state's formal school finance structure and key conditioning influences (such as demographic changes, political and economic contexts, and litigation). These written resources supplemented the information collected through interviews. The latter were the primary sources of data on if and how Texas's school finance policies and practices were changing in response to performance pressures and on the factors that enabled and constrained efforts to link resources to student performance.

Researchers carrying out the four case studies visited districts and state capitals in 2005. In Texas we conducted 59 interviews in four districts and in Austin. District interviewees included board chairs; district superintendents (and, where appropriate, subdistrict superintendents); human resources, finance, and academic/curriculum officers; teacher association representatives; and 3-6 principals per district. State officials included state board and department administrators, gubernatorial aides, legislators and legislative staff, and state teacher association officials. Interviewees were promised that neither they nor their districts or schools would be identified.

In selecting study districts, we worked with University of Washington researchers to identify districts in each case study state that differed in size, demography, and academic performance.³ We attempted to include in each state a district with a reputation for educational innovation, a district that appeared (based on regressing test scores on district characteristics) to be "beating the odds" academically, a district with similar characteristics to the "beating the

³ In Texas, case study districts ranged in size from a little under 20,000 students to over 100,000. In one district, fewer than 10 percent of students were white; in another, nearly 60 percent were (the other two districts were in between). In one district, fewer than 40 percent of students were considered to have some kind of economic disadvantage; in another over 80 percent had such disadvantages. None of the districts could be considered rural, and they were located fairly near urban centers.

odds” district but with relatively low performance, and a high-performing district. SFRP is undertaking separate analyses in hopes of determining if districts that differ on these dimensions also differ in how finance policies and practices are linked to school improvement efforts.

We conducted interviews using a semi-structured protocol based on the research questions and on a framework adapted from the National Research Council Committee on Education Finance’s 1999 report (illustrated in the middle section of Figure 1). That report suggested that policy makers have available to them four generic reform/innovation strategies to use in attempting to change finance systems to encourage greater student achievement and more effective resource use: (1) reducing funding inequities and inadequacies; (2) investing in developing capacity, both the capacity of the formal education system to provide services and the capacity of students to learn; (3) altering incentives to make performance count, thus motivating both educators and students; and (4) changing governance and management structures, in particular allowing previously-powerless actors such as school-level educators and/or parents or both to make decisions about the use of public funds.

District- and school-level interview protocols, therefore, began with questions about the goals and challenges facing the district (to provide context). Interviewers then sought information about (1) reform/innovation strategies being pursued in the district or at the school, (2) factors enabling local educators to use resources in ways they felt would help them reach their goals, and (3) factors they saw as limiting their ability to use resources most effectively. State-level interviews focused on the key issues and concerns currently driving policy discussions about state financing of education and the forces and influences that interviewees felt were shaping policy decisions.

Figure 1 also indicates that better student outcomes (academic achievement and other performance indicators such as graduation rates) should be the ultimate objective of changes in school finance systems.⁴ Improving the connection between finance policies and outcomes is a motivating concern of SFRP. The case studies, however, were not designed to assess whether changes in finance systems were in fact resulting in improved performance. The outcomes achieved by teachers and students in classrooms are determined by many factors, only some of which are affected by the formal and informal policies and practices and the conditioning influences that comprise school finance systems. Instead, the case studies focused on what the

⁴ As the National Research Council (1999) report emphasized, cost-efficient use of resources is also an important objective for efforts aimed at designing finance systems that facilitate improved student learning.

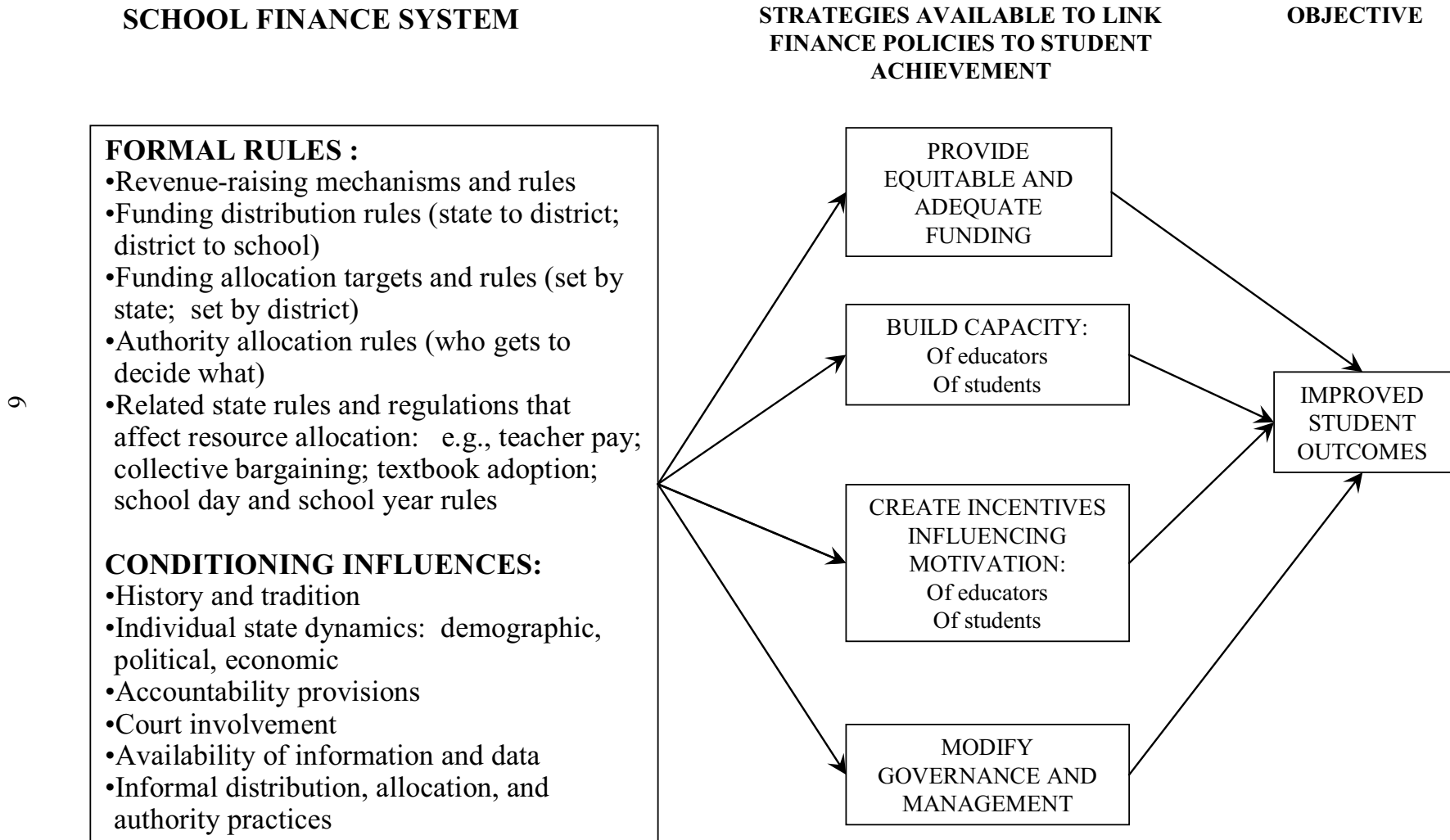
existing finance structure looked like, whether and how it was changing in response to performance pressures, and what factors enabled and constrained strategic changes. The elements described in Figure 1 (i.e., the formal rules and conditioning influences of the school finance system and the strategies available to link finance policies to student achievement) were used to classify and analyze the findings from the document reviews and interviews.

This study provides insights into how some educators were attempting to use resources to improve performance and the factors influencing their choices. Given the small number of districts in this case study, however, it is inappropriate to generalize the findings to other districts. Likewise, the factors influencing state-level finance policy making in Texas may have different outcomes in other states. The cross-state analysis being undertaken by SFRP will seek to identify common patterns and effects.

It is also important to keep in mind that data about reform/innovation strategies being undertaken in response to performance pressures are largely based on the self-reports of state, district, and school leaders. We did not attempt to verify independently the extent to which these strategies were in fact being implemented, although the interviews provided some insight into this issue.

NOTE: Texas has a biennial Legislature which meets in regular session in odd-numbered years. (The governor can call a special session at any time.) Revenues, expenditures, appropriations, and budgets are often expressed in amounts covering a two-year biennium: e.g., appropriations for 2006-07, which would cover fiscal years 2006 and 2007 and would have been approved by the Legislature in its 2005 session. This can be confusing since school years, which represent only a 12-month period, are generally expressed in similar fashion: e.g., school year 2006-07. The text that follows will clearly indicate when references are to biennia and when to school years.

Figure 1. A Conceptual Framework Linking School Finance to Student Outcomes



3. EDUCATION REFORM IN TEXAS: A BRIEF HISTORY

In order to place this study of school finance changes in context, this chapter provides a brief historical overview of education reform in Texas.

Texas is often cited as an exemplar of a consistent, coherent approach to education reform that has resulted in demonstrable improvements in student achievement (A+ Education Foundation, 2003; Achieve, Inc., 2002; Grissmer and Flanagan, 1998). Texas committed itself early to a standards-based approach to school improvement and to holding districts and schools accountable for results.⁵ By the mid-1990s, it was one of a handful of states that had standards, assessment, and accountability in place as a result of steps taken over the preceding 15 years. For example:

1979: the Legislature established the Texas Assessment of Basic Skills (TABS), the state's first statewide student testing program, which was first administered in 1980 and remained the statewide assessment until 1984.

1981: the Legislature created the state's first statewide curriculum; the State Board of Education defined the "essential elements" of each of the 12 specified subjects.

1984: following on the heels of the "A Nation at Risk" report, the Texas governor appointed a Select Committee on Public Education, headed by businessman Ross Perot. The Legislature enacted many of the committee's recommendations into law in a special 1984 legislative session, including new academic and testing requirements for students, an exit-exam requirement for students desiring a high-school diploma, a teacher pay raise and a short-lived career ladder, lower class sizes for the early grades, creation of accountability measures and establishment of the Public Education Information Management System (PEIMS) to collect and make available information on schools and students, and revisions to the school finance system directing more state money to property-poor districts. PEIMS collected data for the first time in the 1987-88 school year.

1985: A new Texas Educational Assessment of Minimum Skills (TEAMS) replaced the TABS exam.

⁵ For a more complete history of education reform in Texas see Kuehlem, 2004.

1990: A new, more rigorous test, the Texas Assessment of Academic Skills (TAAS), replaced TEAMS.

1993: The Legislature created the Texas public school accountability system to accredit school districts and rate schools. The first district and campus accountability ratings were awarded in school year 1993-94. The scores on state tests that districts and schools would have to achieve to reach each rating (i.e., exemplary, recognized, academically acceptable, academically unacceptable) were specified to rise over time. Also, after several earlier attempts to reform the state's school finance law to comply with a series of court orders, a revamped Foundation School Program was enacted.

1995: the Legislature rewrote the state education code, increasing local control and providing additional opportunities for local ownership of education through provisions for charter schools and home schooling.

Texas has continued to revise and augment its standards-based approach to school improvement. In 1997, the State Board of Education replaced the "essential elements" curriculum with new curriculum standards called the Texas Essential Knowledge and Skills (TEKS). TEKS became the basis for a new, more rigorous state assessment, the Texas Assessment of Knowledge and Skills (TAKS), which was mandated by the Legislature in 1999 and first administered in school year 2002-03. Texas also created the Student Success Initiative in 1999 which called for ending "social promotion" through a series of new requirements that would take effect over a period of years and eventually require third, fifth, and eighth graders to pass specified tests in order to be promoted to the next grade. Under the Student Success Initiative, districts had to provide accelerated instruction to students in danger of being held back. The state also sponsored initiatives to improve reading, math, and science education and raised standards for high school graduation. Beginning with the class of 2004-05, students had to pass the 11th grade TAKS test and their classes in order to receive a diploma. Beginning with the 9th grade class of 2004-05, all students must complete the state's Recommended High School Program unless their parents specifically approve enrollment in the minimum program.

An outside review team from Achieve, Inc., evaluating Texas's reform history in 2002, said:

Through the administrations of five different governors and four state chiefs, as well as the transition of the Texas State Board of Education from elective to appointed and back to elective body, the state has created or revised solid policies and programs that support Texas' goal of high performance from every student and school....Achieve found a notable and unusual degree of alignment among

standards, tests, curriculum, instruction, and teacher preparation and professional development (Achieve, Inc., 2002, p. 17).

Texas’s efforts to improve student performance have shown results on both state and national assessments. Despite rising standards, the proportions of students passing various TAAS tests increased noticeably for all subjects and student groups between 1995 and 2002, the last year TAAS was administered (Table 1). Texas scores on the National Assessment of Education Progress or NAEP (Table 2) grew faster between 1992 and 2005 than the national average in mathematics. Texas NAEP scores in reading kept pace with national scores, even though Texas’s population of Hispanics (many of whom are second language-learners or recent immigrants) grew more rapidly than that of the nation as a whole.

Table 1. Improvement in TAAS Passing Rates Over Time

1994→2002 Reading Math, and Writing Passing Rates

1995→2002 Social Science and Science Passing Rates

Subjects	All Students	African-American	Hispanic	White	Economically Disadvantaged
Reading	76%→92%	60%→87%	64%→88%	87%→97%	62%→87%
Math	59%→93%	37%→86%	46%→90%	72%→97%	44%→98%
Writing	78%→89%	65%→85%	69%→84%	87%→94%	67%→83%
Social studies	65%→84%	46%→77%	48%→76%	80%→92%	47%→76%
Science	76%→93%	56%→87%	63%→90%	90%→98%	62%→89%

Note: Reading, math, and writing tests were administered in grades 3-8 and 10. Social science and science tests were administered in grade 8

SOURCE: *West Orange-Cove* Supreme Court decision, 2005, p. 30, online at <http://www.supreme.courts.state.tx.us/Historical/2005/nov/041144.pdf> (as of December 6, 2006).

Table 2. Texas Students' Performance on NAEP, 1992-2005

Subject	Grade	Year	Scaled Score		Achievement Level Percent at or Above		
			State Avg.	(Nat Avg.)	Basic	Proficient	Advanced
Mathematics (scale 0-500)	4	1992 ⁿ	218	[219]	56	15	1
		1996 ⁿ	229	[222]	69	25	3
		2000	231	[224]	76	25	2
		2003	237	[234]	82	33	4
		2005	242	[237]	87	40	5
	8	1990 ⁿ	258	[262]	45	13	2
		1992 ⁿ	265	[267]	53	18	3
		1996 ⁿ	270	[271]	59	21	3
		2000	273	[272]	67	24	2
		2003	277	[276]	69	25	4
		2005	281	[278]	72	31	6
	Reading (scale 0-500)	4	1992 ⁿ	213	[215]	57	24
1994 ⁿ			212	[212]	58	26	6
1998			214	[213]	59	28	6
2002			217	[217]	62	28	6
2003			215	[216]	59	27	6
2005			219	[217]	64	29	6
8		1998	261	[261]	74	27	1
		2002	262	[263]	73	31	2
		2003	259	[261]	71	26	2
		2005	258	[260]	69	26	2

ⁿAccommodations were not permitted for this assessment

SOURCE: National Center for Education Statistics, The Nation's Report Card, State Profile: North Carolina, online at <http://nces.ed.gov/nationsreportcard/states/> (as of December 1, 2006).

As Chapter 5 will further describe, Texas also was the target of one of the earliest court challenges in the country against its school finance system, alleging violations against constitutionally-guaranteed rights to a public education. As a result, Texas made numerous changes in its finance system in the years preceding our study, notably in 1993. A new legal challenge to the system was filed in 2001, however, and during the time of our interviews the state was first awaiting the state Supreme Court's decision in the case and then awaiting the Legislature's response to the state Supreme Court's final ruling in November 2005 that the systems reliance on local property taxes had to be reduced. A school finance bill was passed in special session in May 2006.

4. THE STATE ROLE IN SCHOOL FINANCE

The formal structure of the school finance system in Texas is shaped by the constitutional responsibility assigned to the state for providing public education and by the laws that have been passed to carry out this responsibility. This chapter describes that responsibility, the structure of the K-12 system, and key features of the school finance system.

CONSTITUTIONAL RESPONSIBILITY

The Texas state constitution⁶ contains two provisions that together guarantee equal rights to public education and on which legal challenges (described below) to the state school finance system have centered.

Article I, section 3 is the state's so-called equal protection clause: "All free men, when they form a social compact, have equal rights, and no man, or set of men, is entitled to exclusive separate public emoluments, or privileges, but in consideration of public services."

Article VII, section 1 is the so-called education clause: "A general diffusion of knowledge being essential to the preservation of the liberties and rights of the people, it shall be the duty of the Legislature of the State to establish and make suitable provision for the support and maintenance of an efficient system of public free schools." Court decisions about the constitutionality of Texas's school finance system under this clause focus on what is meant by three key concepts: "general diffusion of knowledge," "suitable provision," and "efficient system of public schools."

THE STRUCTURE OF K-12 EDUCATION IN TEXAS

The Gilmer-Aikin Act of 1949 created the modern structure for public education in Texas. State responsibility for schools is vested in the Texas Education Agency, which is currently overseen by a gubernatorially-appointed commissioner and an elected State Board of Education.

In school year 2005-06 (Texas Education Agency, 2006), Texas had 1,033 school districts and 194 charter operators that together oversaw 7,956 campuses (including 312 charter schools) enrolling 4.5 million students. Many districts were quite small; over half enrolled fewer than

⁶ Available online at <http://tlo2.tlc.state.tx.us/txconst/toc.html>.

1,000 students. Fourteen large districts enrolled 50,000 or more students and accounted for 26 percent of total enrollment. School districts in Texas were empowered to raise revenues directly through local property tax assessments.

Texas supported 20 regional Educational Service Centers which provided training, technical assistance, administrative support, and other services to school districts as instructed by the Legislature.

PAYING FOR K-12 EDUCATION

Before the reforms enacted in May 2006, Texas relied heavily on local school districts to fund its K-12 education system. Table 3 shows the amount and percentage share of district revenues from local, state, and federal sources since school year 1991-92. Over this period, the high point of state funds as a proportion of total district revenues occurred in 1999-2000, when the state share was 46 percent. By 2004-05 the state share had dropped to 36 percent because local revenues were rising faster than state appropriations. The state share of district revenues was expected to continue declining in 2005-06 and 2006-07 (Texas Legislative Budget Board, 2005, p. 177).

The low state share of K-12 revenues reflected Texas's tax structure. The state ranked 49th nationally in state taxes per resident in 2003, but 13th in local taxes per resident in 2002 (Lavine and Castro, 2005, p. 14). Overall, in 2004 Texas ranked 46th among the states in tax burden when state and local taxes were calculated as a percentage of state income (Tax Foundation, 2005, Table B7).

Texas had no state income tax and no statewide property tax. Thus, the state depended largely on sales taxes (estimated before the recent reforms to be 26 percent of state revenue collections in the 2006-07 biennium), a variety of other taxes, including a corporate franchise tax (totaling 19 percent pre-reform), and federal receipts (35 percent) for its revenues (Texas Legislative Budget Board, 2005, p. 21). Federal receipts jumped markedly between the 2003 and 2004 fiscal years and were expected to remain near the higher levels.

Table 3. School District Revenue by Source, 1991-2005 (\$ in billions)

Academic Year	Local	State	Federal	Total
2004-2005	\$19.5B 53.4%	\$13.2B 36.0%	\$3.9B 10.7%	\$36.6B
2003-2004	\$18.0B 51.42%	\$13.4B 38.3%	\$3.6B 10.3.0%	\$34.9B
2002-2003	\$16.8B 50.2%	\$13.7B 40.8	\$3.6B 9.0%	\$33.5B
2001-2002	\$15.4B 54.9%	\$11.8B 41.9%	\$0.9B 3.2%	28.1B
2000-2001	\$13.9B 53.0%	\$11.4B 43.6%	\$0.9B 3.4%	\$26.2B
1999-2000	\$12.5B 50.5%	\$11.5B 46.1%	\$0.9B 3.4%	\$24.9B
1998-1999	\$11.7B 52.3%	\$9.9B 44.3%	\$0.8B 3.4%	\$22.4B
1997-1998	\$11.0B 51.4%	\$9.7B 45.2%	\$0.7B 3.3%	\$21.4B
1996-1997	\$10.3B 52.0%	\$8.8B 44.5%	\$0.7B 3.6%	\$19.8B
1995-1996	\$9.6B 49.3%	\$8.4B 43.1%	\$1.5B 7.7%	\$19.5B
1994-1995	\$9.1B 50.4%	\$7.5B 41.2%	\$1.5B 8.4%	\$18.1B
1993-1994	\$8.7B 50.4%	\$7.2B 41.6%	\$1.4B 8.0%	\$17.3B
1992-1993	\$8.8B 52.3%	\$6.8B 40.5%	\$1.2B 7.2%	\$16.8B
1991-1992	\$8.0B 52.2%	\$6.2B 40.5%	\$1.1B 7.3%	\$15.3B

SOURCE: Texas Education Agency, Pocket Edition, Texas Public School Statistics, various years, online at <http://www.tea.state.tx.us/perfreport/pocked/> (as of December 1, 2006).

At the local level, property taxes were levied by school districts, counties, cities, and special districts. In tax year 2003 school districts raised \$17.3 billion of the \$28.9 billion in total local revenues raised via property tax levies (Legislative Budget Board, 2005, p. 30).

State revenues devoted to public schools came from the state General Revenue Funds and from several dedicated sources.⁷ One such source was the Permanent School Fund (PSF), an endowment fund established by the state constitution and managed by the State Board of Education. It consisted of fixed income and equity holdings, state lands, mineral rights, and royalty earnings. It was a permanent, perpetual source of funds for public education and also provided guarantees for school district bonds. An annual distribution based on the total return on the PSF's holdings was deposited into the Available School Fund, along with 25 percent of the state's motor fuel tax revenue. ASF revenue was used to support the State Textbook Fund that provided free textbooks and technology for public school students and a per-pupil allocation to school districts.

Texas also had a Foundation School Account, comprised of funds from the state lottery and from occupation taxes. The Legislature had dedicated the net proceeds of the lottery to public education. The constitution provided that one-quarter of occupation taxes (e.g., oil production tax; national gas production tax; and gas, water, and electric utility tax) was to be dedicated to school funding.

For fiscal year 2005, state and local revenues available for public schools were estimated to be \$27.5 billion. Table 4 shows how the costs of public school programs and the funding for these costs were distributed across various sources. The "recapture" items in this table will be explained in the next section, which describes the structure of the Texas school finance system.

Finally, legislators sometimes tapped into the state's Economic Stabilization Fund (or "rainy day" fund) to aid schools. In 2005 the Legislature included money from this fund to cover some of the costs of textbooks and the Student Success Initiative in the 2006-07 biennium.

⁷ The information in the remainder of this section is from Texas Legislative Budget Board, 2005.

Table 4. School Programs Funded Through State and Local Funds

	Fiscal Year 2005 (<i>\$ in thousands</i>)
Cost of the Public School Programs	
State Share of the Foundation School Program	\$9,834,000
State Share of the Other School Programs	\$244,531
Local Recapture-Attendance Credits	\$1,040,000
Local Funds Assignment and Other Local Funds	<u>\$16,388,462</u>
Total Cost of Public School Programs	<u>\$27,506,993</u>
Funding	
<i>State Funds</i>	
Available School Fund	\$1,602,180
Foundation School Fund Account-Opening Balance	\$680,655
Foundation School Fund Account-Occupation Taxes	\$894,750
Foundation School Fund Account-Lottery Proceeds	\$1,035,809
General Revenue	<u>\$5,865,137</u>
Total State Funds	\$10,078,531
<i>Local Funds</i>	
Recapture Education Code Chapter 41, Subchapter D	\$259,022
Recapture Education Code Chapter 41, Subchapter E	\$780,978
Local Funds Assignment and Other Local Funds	<u>\$16,388,462</u>
Total Local Funds	\$17,428,462
Total State and Local Funding	<u>\$27,506,993</u>

SOURCE: Texas Comptroller, Biennial Revenue Estimate, 2006-2007, January 2005, online at <http://www.cpa.state.tx.us/taxbud/bre2006/> (as of December 6, 2006).

KEY FEATURES OF THE SCHOOL FINANCE SYSTEM

The basic outline of the school finance system in Texas at the time of our study was set in 1993 in response to a series of lawsuits challenging the constitutionality of earlier financing arrangements (see section below on judicial challenges). Its centerpiece was the Foundation School Program (FSP), which consisted of two funding tiers designed to achieve a high degree of revenue equity for maintenance and operation (M&O) expenses. “M&O” in Texas refers to annual operating expenses, not to the costs of facilities. (In other states, the term for basic operating costs may be “general fund expenditures.”) There were provisions apart from Tiers I and II for funding facilities; these were sometimes referred to as Tier III. There were also some state dollars made available to districts outside the FSP formulas.

Reforms in 2006 were designed to layer on top of the previous structure. The easiest way to explain how the new arrangements were intended work is to describe the school finance system that was in effect through school year 2005-06 and then explain how it will be modified in coming years.⁸

Tier I was designed to ensure that all districts had base or “foundation” funding for their students. The base funding level consisted of a Basic Allotment of \$2,537 per student in Average Daily Attendance or ADA, an amount that had not changed since 1999. The Basic Allotment was adjusted by a series of weights that took into account district characteristics such as cost and population sparsity (see Table 5) and then was further adjusted by applying weights to individual students who qualify for special programs such as bilingual education, compensatory education, and special education (see Table 6). Each district also qualified for a transportation allotment based on the number of students riding buses divided by the approved route miles. The Basic Allotments plus the adjustments and the transportation allotment added up to the district’s per pupil entitlement under Tier I.

The amount of state aid that each district received under Tier I depended on how much per pupil entitlement it could raise from local funds at a tax rate of \$.86 per \$100 of assessed value. This amount constituted the district’s Local Fund Assignment. State aid equaled the Tier I Entitlement minus the Local Fund Assignment. Based on this calculation, relatively wealthy districts might not have qualified for any state money under Tier I, although all districts regardless of wealth received a per capita distribution of roughly \$250-300 per year from the Available School Fund, which was described in the previous section.

⁸ The Texas school finance as it operated in 2005-06 is described in Texas Legislative Budget Board, 2001, although a few of the numbers in that document are out of date (and are accurately reported in this case study). The 2006 reforms are described in Texas House of Representatives, House Research Organization, May 25, 2006.

Table 5. School District Adjustments for 2005-06

Classification	Description	Assigned Weight
Cost of Education Index	Accounts for differences in resource costs that are beyond the control of the district. The five components are: (a) the average beginning salary of teachers in contiguous school districts, (b) the percent of economically disadvantaged students, (c) district size (in terms of ADA), (d) location in a rural county (with a population of less than 40,000), and (e) whether the district is classified as an “independent town” or “rural.” The CEI is based on a 1991 regression analysis of factors affecting variation in payroll costs among districts. It is applied to 71% of the Basic Allotment.	1.02 to 1.20
Small & Mid-sized Adjustments	Designed to compensate for the higher fixed costs of operating schools in less populated areas. “Small” districts are classified as those with fewer than 1,600 ADA. “Mid-sized” are those with 1,600 to 5,000 ADA.	1.0 to 1.61
Sparsity Adjustment	Eligibility is based on the number of students in the district, the range of grade levels available, and if high school is not available, the distance to a district with a high school. Depending on these factors, the student head count in a district is automatically increased by 60, 75, or 130 students for funding purposes.	

SOURCE: Texas Legislative Budget Board (2001).

Table 6. Student Weights for 2005-06

Classification	Description	Assigned Weight
Regular Education		
Special Education	There are 12 special education instructional arrangements with varying weights based on duration of the daily service and location of the instruction.	1.7 to 5.0
Compensatory Education	Additional funding to assist students performing below grade level. Funding is based on the number of students that are eligible for a free or reduced-price lunch under the national school lunch program. A separate component of the compensatory education program serves pregnant students.	0.2 or 2.41 if pregnant (add on)
Career & Technology Education	Funds pay for materials and salaries and are based on the amount of time students spend in eligible career technology courses.	1.35
Bilingual/ESL	Additional funds are used for salaries and additional resource needs. Funding is based on the number of students that elect to participate in the program.	0.1 (add on)
Gifted/Talented	Additional funding pays for salaries and resources. The number of eligible students for this funding is capped at 5% of each district’s ADA.	0.12 (add on)

SOURCE: Texas Legislative Budget Board (2001), updated to reflect 2003 reduction in career & technology education weight.

Tier II was a guaranteed-yield program that, like Tier I, guaranteed that districts would have available certain revenues. Unlike Tier I, Tier II state funding was based on the M&O tax rates set by local districts. In 2005-06 state law allowed districts to tax property for M&O purposes at up to \$1.50 per \$100 of assessed value.⁹ For every cent of tax the district levied between \$.86 and \$1.50, it was guaranteed to receive \$27.14 per weighted pupil (so-called Weighted Average Daily Attendance or WADA). Districts with more than \$271,400 of taxable property wealth per WADA therefore did not qualify for state aid under Tier II. In fact, as will be described below, some of these comparatively wealthy districts actually had to share some their revenues with other districts via a recapture requirement.

Under Tier III, two state programs helped districts pay for facilities. The Instructional Facilities Allotment (IFA) assisted with the costs of new instructional facility debt obligations. While it was structured as a guaranteed yield similar to Tier II, it was based on fixed state appropriations and not all qualifying districts received IFA funds. The Existing Debt Allotment helped pay for bonded debt on which a district had already made payments. It was also provided through a guaranteed yield system. Districts bore the primary responsibility for facilities costs, which they could fund through a property tax assessment for “interest and sinking” or I&S expenses of up to \$.50 per \$100 of assessed value.

While the three-tiered FSP represented the core of the Texas school finance system, the monies flowing to districts from the state were affected by several other key features of the system, notably set-asides, recapture, and categorical programs (with most of the categorical money actually consisting of federal funds passed through the state to districts).

Each biennium the Legislature set aside some of the revenues that would otherwise be distributed to school districts under Tier I and designated it for special purposes. For the 2006-07 biennium set-asides amounted to \$252 million for programs such as TAKS assessments and study guides, an optional extended-year program, early childhood intervention, and the dropout prevention program Communities in Schools (Texas Legislative Budget Board, 2005, p. 176).

The recapture provision of Texas’s school finance program, widely-known as the “Robin Hood” provision, limited the revenue-generating capacity of wealthy districts. For 2005-06 the Legislature set an “equalized wealth level” of \$305,000 per WADA and required any district

⁹ A few districts operated under a “hold harmless” provision that allowed them to tax above this level for M&O. In addition, all districts could tax up to \$.50 per \$100 for so-called “Interest and Sinking” expenses; i.e., debt associated with construction, renovation, and purchase of property and equipment.

with wealth above this level to share it with other districts. Districts subject to recapture (called “Chapter 41 districts” after the relevant section of the state education code) could share their wealth by choosing one of five options:

1. Consolidate with a poorer school district.
2. Detach property to another school district for taxation purposes.
3. Purchase average daily attendance credits from the state.
4. Contract for the education of non-resident students by partnering with a poorer district.
5. Consolidate the tax base with one or more other districts.

Most Chapter 41 districts chose either the third or fourth option. Revenue received by the state under option 3 was counted as state revenue when state aid was distributed to districts. Recapture had been a growing source of state revenue. In the 1993-94 school year, 99 Chapter 41 districts transferred \$433 million.¹⁰ In 2005-06 152 districts were expected to qualify for recapture, at a cost to them of over \$1.8 billion.¹¹

The 2006 school finance reforms were designed to reduce dependence on local property taxes and increase the share of state funding supporting public schools. The revised FSP is outlined in Figure 2.

M&O property taxes were to be reduced by 11.3 percent in tax year 2006 and by one-third in tax years 2007 and beyond. Thus, a district that was taxing at the \$1.50 maximum allowed rate in 2005-06 would be expected to reduce its tax rate to a “compressed level” of \$1.33 in 2006 and \$1.00 in 2007.

Tier I was modified to increase the per-pupil basic allotment level and to tie the allotment level to a specific measure of tax revenue: the property tax wealth per WADA in the 88th percentile of all school districts in the state. Previously, the basic allotment level was set by the legislature and often remained unchanged for years at a time. For fiscal 2007 the basic allotment rose from \$2,537 to \$2,748.

¹⁰ Cited in the Texas Supreme Court’s 2005 decision in the West Orange-Cove Consolidated ISD v. Neeley school finance case, p. 18. Online at <http://www.supreme.courts.state.tx.us/Historical/2005/nov/041144.pdf> (as of December 6, 2006).

¹¹ The number of districts subject to recapture in 2005-06 can be found at Texas Education Agency website at http://www.tea.state.tx.us/school.finance/funding/ch41/ch41_06_prelim_1st.xls (as of December 1, 2006). The estimate of revenue available from recapture is from Center for Public Policy Priorities, 2006.

Figure 2: Key Features of the Foundation School Program (following 2006 reform)

TIER I: BASIC ALLOTMENT	
Local Fund Assignment:	district revenue from property tax of \$.0.86 per \$100 of assessed value
Basic Allotment:	\$2,749 (for FY 2007) per ADA
Tier I Entitlement =	Basic allotment + district level adjustments + student level adjustments + transportation allotment
State aid to district =	Tier I Entitlement – Local Fund Assignment
TIER II: GUARANTEED YIELD	
Level 1: Basic equalization	
FY 2007 yield:	\$31.95 per penny of M&O tax between \$0.86 and “compressed level”
Equalization basis:	property tax wealth per WADA in 88 th percentile of all school districts
Subject to recapture:	yes
Requires voter approval:	no
Level 2: Enrichment level	
FY 2007 yield:	\$41.22 per penny of M&O tax above “compressed level” (up to \$0.4)
Equalization basis:	yield per penny of M&O tax in Austin Independent School District
Subject to recapture:	no
Requires voter approval:	no
Level 3: Above enrichment level	
FY 2007 yield:	\$31.95 per penny of M&O tax above enrichment level (maximum M&O tax = \$1.17)
Equalization basis:	property tax wealth per WADA in 88 th percentile of all school districts
Subject to recapture:	yes
Requires voter approval:	yes
TIER III: FACILITIES FUNDING	

Tier II was modified to include three levels of equalization. In Level 1 (similar to the old Tier II), districts are guaranteed to receive a certain yield for every cent of M&O taxes they levy between \$0.86 and their “compressed level.” The Level 1 formula is also tied to the property tax wealth per WADA in the 88th percentile of all school districts. Under this formula the guaranteed yield to each district for each penny of M&O taxes eligible for Level 1 rose from \$27.14 to 31.95 in fiscal 2007. The so-called “equalized wealth level,” above which districts are subject to recapture, rose to \$319,500.

Under a new Level 2 of Tier II, districts can tax up to 4 cents above their “compressed” rate (6 cents beginning in 2009) in “enrichment taxes” without voter approval. These enrichment funds are not subject to recapture and are “equalized” to ensure that every district will receive enrichment funding per penny of tax at the same level as the Austin Independent School District (currently \$41.22 per penny per WADA). Districts that do not generate this per penny amount of revenue from each penny of enrichment tax will receive make-up funding from the state.

Under a new Level 3, districts can tax above the enrichment level (up to a maximum of \$1.17 per \$100 valuation), but these taxes must be approved by a majority of voters in an election. Revenues received from taxes above the compressed and enrichment rates are subject to recapture. They are equalized at the same dollar amount as in Level 1.

The Legislature always appropriates some funds for categorical programs outside the FSP, largely targeted on “student success and achievement” objectives. In addition, some of the funds from the Available School Fund are used to provide free textbooks to schools plus a \$30 per ADA allotment for technology which is distributed to districts.

Finally, for the 2004-05 biennium the Legislature created a school district allotment of \$110 per WADA per year which was distributed to districts outside the FSP (and thus outside the “equalized” school finance system). This allotment was extended through the 2006-07 biennium. The 2006 Legislature created two new allotments. An allotment of \$275 allotment for each student in grades 9-12 in average daily attendance (ADA) is to be used for dropout prevention and college readiness programs. Districts will also receive \$2,500 for each classroom teacher and full-time nurse, librarian, and counselor to pay for across-the-board salary increases. In addition to these allotments, districts are assured that they will not receive less per WADA in state and local revenues than they had available or were eligible for in 2005-06.

Before the 2006 reforms, the Legislative Budget Board reported a total of \$33.6 billion in state appropriations for the public school programs of the Texas Education Agency (including the FSP) for the 2006-07 biennium (Table 7). One note of caution in reading this table: Federal funds that flow through the state agency are counted as “appropriations” because they are state receipts (albeit restricted ones) that the Legislature appropriates in its budget bills.

The 2006 finance reforms constitute a major change to Texas school finance because of the shift to greater state responsibility for providing public school revenues. In general, though, the FSP tiers, adjustments, and recapture provision enacted in 1993 to enhance revenue equity across the state remain largely in place.

Table 7. Texas Public Education Appropriations, 2006-07 Biennium

TEXAS EDUCATION AGENCY, GOALS AND STRATEGIES

GOAL / STRATEGY	MAIN USE OF FUNDS	2006-07 APPROPRIATION (IN MILLIONS)
GOAL A: PROGRAM LEADERSHIP		
<i>OBJECTIVE 1: PUBLIC EDUCATION EXCELLENCE</i>		
FSP - Equalized Operations	Foundation School Program state aid payments for school operations; also includes funds for instructional materials, technology allotment, and teacher health insurance pass-through	\$22,687.0
FSP - Equalized Facilities	State aid for debt payments for facilities	\$1,539.0
<i>OBJECTIVE 2: STUDENT SUCCESS & ACHIEVEMENT</i>		
Student Success	Major state-funded programs: Student Success Initiative, Pre-Kindergarten grants, Texas High School Initiative, Advanced Placement, etc.	\$823.0
Achievement of Students at Risk	Federal formula aid for low-income students (Title I), federal English acquisition and migrant education grants	\$2,634.2
Students with Disabilities	Federally funded programs for mentally and physically disabled students	\$1,923.4
School Improvement & Support	Grants for intervention programs targeting students at risk of dropping out	\$318.2
Adult Education & Family Literacy	Primarily federal grant dollars for adult and family literacy programs	\$149.8
GOAL B: OPERATIONAL EXCELLENCE		
<i>OBJECTIVE 1: ACCOUNTABILITY</i>		
Assessment & Accountability System	Statewide TAKS development and administration	\$122.4
<i>OBJECTIVE 2: EFFECTIVE SCHOOL ENVIRONMENTS</i>		
Educational Technology	Federally funded technology grants	\$84.5
Safe Schools	School safety programs and education at the Texas Youth Commission and in Juvenile Justice Alternative Education Programs	\$114.2
Child Nutrition Programs	Federal Free and Reduced-price Lunch and Breakfast Program (program administered by the Texas Department of Agriculture)	\$2,190.8
Windham School District	State funding for the school district within the Texas Department of Criminal Justice	\$115.1
<i>OBJECTIVE 3: TEACHER RECRUITMENT, RETENTION, AND SUPPORT</i>		
Teaching Excellence & Support	Federal Funds for professional development and state funds for Regional Education Service Centers	\$744.7
Agency Operations	Agency program administration	\$63.2
Central Administration	Agency internal day-to-day operations	\$20.7
Information Systems - Technology	Agency computer systems and information resources	\$29.5
GOAL C: EDUCATOR CERTIFICATION		
<i>OBJECTIVE 1: EDUCATOR CERTIFICATION AND DEVELOPMENT</i>		
Educator Quality and Credentialing	Educator credentialing and educator preparation programs	\$8.3
Certification Exam Administration	Costs related to certification exam services	\$20.8
Retention, Recruitment	Programs targeting retention, recruitment, and continuing professional development	\$0.2
Educator Professional Conduct	Educator investigations and disciplinary rules enforcement	\$7.6
TOTAL		\$33,596.6

NOTES: TAKS = Texas Assessment of Knowledge and Skills.
 Amounts reflect appropriations made in House Bill 10, Seventy-ninth Legislature, Regular Session, 2005 and House Bill 1, Seventy-ninth Legislature, First Called Session, 2003.

SOURCE: Texas Legislative Budget Board, 2005, p. 173.

Table 8. Public Education Equity Measures

EQUITY MEASURE	TARGET	FISCAL YEAR							
		ACTUAL						PROJECTED	
		2000	2001	2002	2003	2004	2005	2006	2007
Percentage of students in districts with substantially equal access to revenues	85.0%	90.8%	90.2%	88.0%	87.6%	81.7%	80.9%	74.9%	74.7%
Percentage of equalized revenue in the Foundation Schools Program*	98.0%	96.3%	97.1%	97.5%	97.9%	94.9%	94.5%	94.7%	94.5%

*Equalized revenue refers to the extent to which the state provides districts with equal access to funds independent of wealth and the extent to which districts have taken advantage of that access.

SOURCE: Texas Legislative Budget Board, *Fiscal Size-Up* reports, various years, online at http://www.lbb.state.tx.us/Fiscal_Size-up_Archive/FSU_Documents.htm (as of December 6, 2006).

5. STATE CONTEXT FOR CURRENT POLICY MAKING

Conditions within Texas—demographic, political, economic, and judicial—are important influences on the formal policies and practices that constitute the state’s school finance system. They raise challenges for state policy makers and help define the options that these policy makers can reasonably consider. This chapter briefly reviews these four important influences on school finance.

DEMOGRAPHIC CHANGES

Between 1990 and 2000 Texas was one of the 10 fastest growing states in the nation in both numerical and percentage terms, adding 3.9 million new residents for a 23 percent increase. Between 2000 and 2005 the state remained in the top ten, adding 2 million new residents for a 9.6 percent increase. Between 2000 and 2004, 103 of 254 Texas counties lost population, while 61 gained between 5.5 and 35.2 percent. Counties losing population were heavily concentrated in the western part of the state and in the panhandle, while gainers were along the central and eastern part of the border with Mexico and in the regions surrounding Dallas-Fort Worth, Austin-San Antonio, and Houston (Murdock, 2006).

The U.S. Census Bureau projects that the state will continue to grow much faster than the nation as a whole and the southeast region through 2025, adding approximately 16 percent more residents in each of the next two decades, compared with 8 percent nationally in each decade and 12 percent in each decade among the 16 states belonging to the Southern Regional Education Board.¹²

Aside from sheer numbers of people the most dramatic aspect of Texas’s population change has been the size of and growth in the Hispanic population. Between 1990 and 2000, Hispanic residents increased by 54 percent, compared to 8 percent for Anglos and 23 percent for Blacks. Between 2000 and 2004, while the Anglo and Black populations were growing by 1 percent and 6 percent respectively, the Hispanic population grew by 18 percent (Murdock, 2006).

In 2000, 40 percent of elementary and secondary enrollees were Hispanic; this proportion is expected to grow to 66 percent by 2040. Over that period, limited English proficient students

¹² These data are from the data library at the Southern Regional Education Board, online at <http://www.sreb.org/main/EdData/DataLibrary/03/demographics/popanddemographics.asp> (as of November 24, 2006).

and immigrant students (obviously overlapping categories) are each projected to grow over 180 percent. The major shift that is taking place in Texas has drawn attention to education issues because of the historically lower educational attainment of the group that will soon be in the majority. The state demographer has pointed out how the overall educational attainment of the state's future workforce is likely to decline over the next several decades unless rates of attainment among various ethnic groups can be raised to more closely resemble that of today's Anglo majority. Similarly, the proportion of families living above the poverty level and the level of aggregate incomes, consumer expenditures, and tax revenues will also reflect the state's success (or lack of it) in closing education gaps (Murdock, 2006).

Thus demographic changes present Texas with the challenges of financing schooling for a growing population, adjusting funding to reflect shifting patterns of enrollment within the state, and meeting the needs of an increasing population of students whose backgrounds have historically been correlated with relatively low educational attainment.

POLITICAL ENVIRONMENT

Political factors are important influences on public policy decisions. Where school finance and resource allocation policies are concerned, two considerations that can matter are the political orientation of the state (as reflected in the party affiliation of state office holders) and whether educators are permitted to form unions and engage in such union activities as collective bargaining and strikes.

Texas has been gradually moving from a solidly Democratic state to a Republican one. All the Texas governors after Reconstruction were Democrats until a Republican won in 1978. Since then, Democrats have held the office for only eight years (4 under Mark White, who served from 1983-87; 4 under Ann Richards, 1991-95). Republican George Bush was elected in 1994 and re-elected in 1998; Republican Rick Perry took over upon Bush's resignation in 2000 and won re-election in 2002 and 2006.

The Legislature remained in Democratic hands for much longer. The first two Republican senators to win election since the 1920s took office in 1967, but the party held fewer than 30 percent of the seats until the early 1990s. In the election of 1996, Republicans won control of the Senate.

Democrats controlled the House from Reconstruction until the election of 2002. When the current Republican Speaker (Tom Craddick) entered the House in 1969, his party held fewer

than 10 percent of the seats. Only in the mid-1980s did the party win as many as 40 percent of the House elections.

Texas law does not allow collective bargaining for public school employees. Chapter 617 of the Texas Government Code prohibits officials of the state or its political subdivisions from entering into collective bargaining agreements with labor representatives or recognizing a labor organization as a bargaining agent for public employees. Chapter 617 also prohibits organized strikes and work stoppages by public employees. It specifies that individuals may not be denied public employment because of membership or non-membership in a labor organization. State law does allow districts to enter into “meet and confer” agreements with teachers’ unions and organizations.

Texas educators are represented by a number of organizations that represent their interests at the state and local level. These include the Association of Texas Professional Educators, a non-union professional organization with over 100,000 members; the Texas Federation of Teachers, an AFT affiliate with 46,000 members; the Texas State Teachers Association, an affiliate of the NEA; and the Texas Classroom Teachers Association (Wright and Gundersen, 2004).

ECONOMIC AND BUDGET CLIMATE

The Texas economy was battered in the late 1990s and early 2000s, first by a downturn in the computer and Internet economy and then by the repercussions from the September 2001 terrorist attacks. The latter deepened the national recession that began in March 2001. As a result of the slowdown in economic activity, total state revenue (excluding federal income), which had grown 28 percent from FY 1995 to FY 2000, grew only 23 percent between FY 2000 and FY 2005. The change in tax revenue was even starker; it grew 36 percent in the earlier period, but only 16 percent in the latter. State tax revenue actually declined between FY 2001 and 2002 and between FY 2002 and 2003 before beginning a recovery in 2004.¹³ Table 9 indicates how these revenue developments affected the expenditure side of the Texas state budget. Particularly noticeable is how expenditures from General Revenue funds declined in FY 2001, 2003, 2004, and 2005 when adjusted for population growth and inflation.

¹³ Data on state revenue is from the state comptroller’s office, online at <http://www.window.state.tx.us/taxbud/revenue> (as of May 11, 2006).

Table 9. Trends in State Government Expenditures (dollars in millions)

ALL FUNDS					GENERAL REVENUE FUNDS				
Fiscal year	UNADJUSTED		ADJUSTED FOR POPULATION AND INFLATION		Fiscal year	UNADJUSTED		ADJUSTED FOR POPULATION AND INFLATION	
	Amount	% Change	Amount	% Change		Amount	% Change	Amount	% Change
1991	27,226	N/A	27,226	N/A	1991	15,365	N/A	15,365	N/A
1992	29,368	7.9	27,932	2.6	1992	16,703	8.7	15,887	3.4
1993	33,416	13.8	30,167	8.0	1993	18,152	8.7	16,387	3.1
1994	35,765	7.0	30,755	2.0	1994	19,751	8.8	16,995	3.7
1995	37,004	3.5	30,326	-1.5	1995	20,674	4.7	16,943	-0.3
1996	39,986	8.1	31,245	3.0	1996	22,238	7.6	17,377	2.6
1997	40,123	0.3	29,919	-4.2	1997	22,448	0.9	16,739	-3.7
1998	43,014	7.2	30,910	3.3	1998	24,007	6.9	17,251	3.1
1999	45,278	5.3	31,299	1.3	1999	24,883	3.7	17,201	-0.3
2000	49,453	9.2	32,513	3.9	2000	27,322	9.8	17,963	4.4
2001	52,000	5.2	32,520	0.0	2001	28,319	3.7	17,710	-1.4
2002	56,621	8.9	34,246	5.3	2002	30,006	6.0	18,149	2.5
2003	59,295	4.7	34,418	0.5	2003	29,911	-0.3	17,362	-4.3
2004	61,507	3.7	34,276	-0.4	2004	29,380	-1.8	16,373	-5.7
2005	65,204	6.0	34,911	1.9	2005	29,711	1.1	15,908	-2.8
2006	69,368	6.4	35,795	2.5	2006	32,283	8.7	16,658	4.7
2007	68,794	-0.8	34,144	-4.7	2007	31,843	-1.4	15,790	-5.2

SOURCE: Texas Legislative Budget Board, 2005, p. 8.

Although the Legislature that convened for the 2006 special session on school finance enjoyed predictions of an \$8.2 billion budget “surplus” (i.e. funds available to be appropriated or reappropriated for the 2006-07 biennium),¹⁴ Texas, like many other states, faced charges that its tax system was inadequate for funding a 21st century government. Even before the economic downturn of the early 2000’s, tax expert Harold A. Hovey (1999) found that 39 states, including Texas, faced “structural deficits”: tax revenues that would be insufficient to fund “baseline” (i.e., current services) levels. In 2003, the Government Performance Project of *Governing* magazine declared that the Texas tax system was both inadequate and unfair (though well-managed from an administrative point of view) (Barrett et al., 2003). Lavine and Castro (2005) pointed out that Texas’s state and local tax system was the 5th most regressive among the states.

¹⁴ Estimate from the state comptroller, online as <http://www.window.state.tx.us/taxbud/revest0607-3rd/> (as of July 17, 2006).

They also noted that taxes paid by Texans have been falling as a percentage of their income: had state residents continued to pay the same percentage of personal income in taxes as they did in 1994, the state would have had \$12 billion more in revenue to fund the 2004-05 biennial budget.

Tax reform was high on the list of issues facing Texas lawmakers because of the unpopularity of local property taxes and a November 2005 state Supreme Court decision in a school finance case (see below) which ruled the state's reliance on property taxes for school funding as unconstitutional. In September 2005 Governor Rick Perry created a bipartisan Texas Tax Reform Commission to "develop proposals to modernize the state tax system and provide long-term property tax relief as well as sound financing for public schools."¹⁵ The Commission's recommendations (Texas Tax Reform Commission, 2006) were largely adopted in the revenue bills passed by the 2006 special legislative session to fund changes in the school finance formulas: notably a new business tax to replace the corporate franchise tax and a new cigarette tax. Nevertheless, the tax reform debate appeared only to be momentarily quieted, not ended, given projections that the 2006 revenue changes would fall \$25 billion short of meeting the costs of the new school finance package over the period 2007-2011 (Center for Public Policy Priorities, 2006).

The long-term financial challenge facing Texas is particularly daunting because the state has constitutional as well as political barriers to revising its tax system. The state constitution requires approval of a majority of voters in a statewide referendum to establish an income tax,¹⁶ which is an important source of state revenue in many states. The Texas constitution prohibits outright the imposition of a statewide tax on property.¹⁷

JUDICIAL CHALLENGES

As the Legislative Budget Board noted in its most recent primer on public school finance: [T]he system has been continuously adjusted to a greater or lesser extent every two years. The driving force behind these adjustments have been court rulings. The courts are not in a position to design an acceptable structure but, by repeated rulings on the constitutionality of the system, have played a central role in shaping the school finance system" (Texas Legislative Budget Board, 2001, p. 27).

¹⁵ Texas Tax Reform Commission website, online at <http://www.ttrc.state.tx.us> (as of February 2, 2006).

¹⁶ Texas Constitution, Article 8, section a.

¹⁷ Texas Constitution, Article 8, section 1-e.

The first challenge¹⁸ to Texas's funding system was filed in 1968 (*Rodriguez v. San Antonio*) on the grounds that the system violated the "equal protection" clause of the federal Constitution (the 14th amendment). This case, which was ultimately argued before the U.S. Supreme Court, resulted in a decision declaring that education is not a "fundamental interest" under the Constitution that warrants involving federal courts in state school finance issues. The case had national ramifications; henceforth, school finance lawsuits have been argued in state, not federal, courts.

In Texas, a case first filed in 1984 challenging the equity of the school finance system resulted in a series of decisions known as *Edgewood* decisions after the initial plaintiff. The primary challenge to the school finance system in *Edgewood* related to the equity of funding. In so-called *Edgewood I*, the state Supreme Court in 1989 affirmed a lower court ruling that the school finance system violated both the equal protection and "efficient system" guarantees of the state constitution. The court created a standard of "substantially equal access to similar revenues per pupil at similar levels of tax effort" and set a May 1, 1990 deadline for a legislative remedy. This began a period of legislative attempts to change the finance system and legal challenges to the remedies in the so-called *Edgewood II* and *III* decisions. After a couple of false starts, the Legislature in 1993 created a finance system based on tiered allocation formulas and recapture of revenues from the wealthiest districts. In *Edgewood IV* in 1995 the state Supreme Court took up a challenge to the new finance system filed on the grounds that it violated the "efficiency" standard and also that it violated the adequacy or "suitable provision" clause of the constitution. The Supreme Court upheld the new system because it gave rich and poor school districts substantially equal access to the funds necessary to provide an accredited program of education. Remaining disparities in the level of tax effort needed in each district to generate the necessary funds were judged acceptable by the court.

In April 2001 a new lawsuit, *West Orange-Cove*, was filed on behalf of four districts. They charged that the state's statutory cap on tax rates for school maintenance and operations (M&O) constituted an unconstitutional statewide property tax as more and more districts had to tax near the maximum rate in order to address their educational needs. As this case wound its way through the courts, additional plaintiffs and challenges to the constitutionality of the school finance system were added. In addition to the original argument over the constitutionality of the property-tax-based scheme for raising education revenue, plaintiffs also charged that the system

¹⁸ The Texas Legislative Budget Board (2001) provides an overview of school finance litigation and legislative responses to it through 2001 as summarized in this section. Subsequent cases are cited below.

was unconstitutional because public schools were under-funded and failed to provide children in property-poor districts with substantially equal access to education revenue.

In 2004 the district court ruled¹⁹ in favor of the plaintiffs and enjoined continuing use of the existing school finance system, setting a deadline of October 1, 2005 for a new system to be put in place. In one regular session (2005) and three special sessions (one in 2004 and two in 2005), however, legislators were unable to agree on a new approach.

In November 2005, on appeal from the state, the Texas Supreme Court upheld the lower court's findings that the finance system had evolved into an unconstitutional statewide property tax but refused to declare the current system's funding inadequate. The court found²⁰ that:

- “M&O tax rates have migrated to the \$1.50 maximum.” In 1993-94 6 percent of TX districts (enrolling 6 percent of TX students) taxed at \$1.45 or above. In 2003-04 the comparable numbers were 67 percent of districts enrolling 81 percent of students. In that year, 48 percent of districts (enrolling 54 percent of TX students) taxed at \$1.50. In 1993-94 districts spent 83 percent of the revenues they could have generated at maximum tax levels for public education; now they spend over 97 percent.
- The current school finance system is not (in constitutional terms) presently inefficient or inadequate but is drifting toward constitutional inadequacy.
- Property taxes used to fund public schools, though imposed locally, have become in effect a state property tax prohibited by the state constitution, because the state leaves districts no meaningful discretion to tax below minimum rates. The state was enjoined from using the current system after by June 1, 2006.

On May 26, 2006, the district court dissolved the injunction based on steps taken by the Legislature in its 2006 special session to reduce the state's reliance on property taxes for funding education. Plaintiffs did not oppose the dissolution, but promised to closely watch whether the next Legislature would address their remaining concerns about the future financial stability and adequacy of education funding (Albanese, 2006).

¹⁹ See the trial court's “findings of fact and conclusions of law” at <http://www.tea.state.tx.us/legal/FindingsofFactandConclusionsofLawWOC.pdf> (as of December 6, 2006).

²⁰ The Supreme Court's 2005 ruling in the West Orange-Cove case is online at <http://www.supreme.courts.state.tx.us/Historical/2005/nov/041144.pdf> (as of December 6, 2006).

6. DISTRICT- AND SCHOOL-LEVEL PERSPECTIVES ON THE SCHOOL FINANCE SYSTEM

We conducted interviews in four study districts to gain a deeper understanding of local resource allocation and how it was being affected by performance pressures. This chapter discusses findings related to several study questions, including how officials viewed their districts' and schools' use of resources, whether they thought the resources could be better deployed, and what factors enabled or constrained allocating resources in ways they believed would best foster student achievement.

This chapter summarizes what we learned from our study district inquiries. In one instance, in order to acknowledge a widely-publicized development related to our study questions, we include information about a new teacher pay program in Houston (which may or may not have been among our case study districts) to provide a fuller picture of how performance pressures are spurring changes in resource allocation.

DISTRICT GOALS MIRRORED STATE ACHIEVEMENT EXPECTATIONS

Rising academic expectations (as embodied especially in the TAKS-based accountability system and in new state standards for promotion and graduation) set the stage for all four districts: all aimed to increase student achievement and reduce achievement gaps among subgroups. Districts varied in the specificity with which they expressed their goals. One district, for example, identified district-wide objectives to be accomplished over a five-year period and performance indicators to track progress on meeting each objective. Another translated district goals into specific targets for each school.

While all the study districts were cognizant of NCLB, the Texas accountability system appeared to be a much more immediate influence on district goal-setting. The rising performance requirements of TAKS; the expansion of testing to embrace additional subjects besides reading and math; the promotion “gates” for third, fifth graders, and eighth graders; and the TAKS high school graduation tests were frequently mentioned in relation to goals. NCLB was explicitly mentioned mostly with respect to that law’s requirements for highly-qualified teachers.

After improving academic performance, the next most frequently mentioned goal concerned resource use. One district placed “increasing management efficiency” as second among its five broad district goals. Another similarly cited “effective and efficient operations for all components.” A third district went beyond just targeting improved operational efficiency to

embracing the goal of a more far-reaching kind of efficiency: “resource decisions will be reflective of strategically identified needs.” In fact, all districts worked to link resource use more explicitly to school and student needs, whether or not they stated this objective formally. As one superintendent said:

We work from a playbook, and that is the district goals, which are very specific. And we keep that in mind as we’re allocating resources. The Board, now, is very familiar with that and likewise works with that roadmap. That is certainly different than when I first arrived in the district six years ago, where [sic] resources...were just distributed on a per head basis, and one of the main emphases of the organization was to ensure that everybody got exactly the same thing.

CHALLENGES TO MEETING GOALS

Several themes emerged as interviewees talked about the challenges facing their districts and schools in meeting their goals.

The changing demography of the student body

Changes in the student body were a key challenge mentioned in three of the four case study districts (the fourth had enrolled primarily minority and economically-disadvantaged students for some time). In the five year period from school year 1999-2000 to 2004-05, for example, the percentage of economically-disadvantaged students in one study district increased from 55 to 77 percent. During this same period the percentage of Hispanic students in a second district increased from 46 to 55 percent. In the third, formerly almost all-white district, 43 percent of its students were from non-white groups, including 20 percent who were Hispanic.

Newly-arrived immigrants posed a special challenge because they often arrived with very limited English skills and sometimes with little previous formal schooling. For some districts, this new kind of student population posed challenges for teachers who were not well-prepared to teach “at risk” individuals. Some districts needed to overcome the low expectations that teachers had for such students. The superintendent of a heavily minority, low-income district (our “beating the odds” district) that now performed very well on state assessments reported that one of his early challenges was to get rid of the “excuse syndrome” attached to teaching at-risk children. A central office administrator in a historically high-performing district said:

The systemic problem is that a lot of our teachers haven’t changed the way they approach instruction, and we were able to coast by on our demographics in the past. We can no longer do that. So we’re having to convince people that they can’t conduct business as they’ve always done it.

Inadequate funding

With expectations rising at the same time that the student population was increasingly diverse and “at risk” by conventional measures of economic status and ethnicity, three of four study districts reported resource limitations. Officials said that their allocations from the state had been dropping. Because at the time of our interviews these districts were at or near the \$1.50 maximum tax rate for local funding of M&O expenses, they were unable to raise the additional money they felt they required.

It is not surprising that this problem was oft-discussed during our interviews, as the Legislature was in session at the time; and school finance reform was the key item on the agenda. Some of our study districts were plaintiffs in the lawsuit under appeal to the state Supreme Court at the time. Funding limitations were much on the local officials’ minds.

Recent history in Texas suggested that local worries about funding would probably have surfaced in any event. From school year 1991-92 to 2004-05, district revenues in Texas increased by 60 percent, even after adjusting for inflation, while the student population grew by only 27 percent. Revenue from state sources went up by 51 percent in adjusted terms, while locally-supplied revenues increased by 58 percent. From 1999-2000 to 2004-05, however, the state contribution to district revenues increased not at all after adjusting for inflation, while local revenues increased by 23 percent in adjusted dollars.²¹ The pervasive feeling in the districts that the state was raising academic expectations without sending new dollars had a basis in fact. Moreover, two of our study districts were sending part of their property tax revenues to the state for equalization purposes. One principal in a newly-designated Chapter 41 district described achieving that status, combined with decreasing resources from the state, a rapidly-changing student body, and higher state and federal academic expectations as “a perfect storm.”

Hiring and keeping teachers with special skills and those willing to teach at-risk students

Districts also described challenges in hiring and keeping special education and English as a Second Language (ESL) teachers, math and science teachers, and those willing to take on the challenge of teaching at-risk students. One study district, with concerns about student mobility, was trying to counter that challenge by stabilizing its staff, especially ESL and special education teachers who were hard to get and keep. Another, traditionally considered “a good place to

²¹ Calculations by the authors based on various editions of the Pocket Editions, Texas Public School Statistics, available online at <http://www.tea.state.tx.us/perfreport/pocked/> (as of December 6, 2006). Rising local property values were one reason why districts saw their local revenues rise faster than state appropriations.

work” in part because it enrolled comparatively few at-risk children, was having more difficulty attracting and keeping high quality staff as its students became more diverse.

High schools

All four districts cited challenges to improving high school education. Concerns over high dropout rates were frequently mentioned. Overall achievement levels were increasingly problematic, especially now that students must meet new requirements for graduation. One principal was frustrated with the attitude of many of his high school students about their schoolwork: “We will never do well as long as it’s more important for a high school student in America to have a car and a job than it is to have an education.” One of the challenges this principal faced was finding ways to push these students into doing homework and making advanced courses like AP as rigorous as they should be (e.g., by requiring students who take the courses to take the AP exams).

Uncertainty over school finances

When asked directly about challenges in meeting their goals, few interviewees specifically mentioned uncertainty, but in fact uncertainty resulting from the state’s then-existing impasse over revising its school finance system came through in many of their comments. They did not know whether the state was going to find ways to cut back on local reliance on property taxes as a revenue source and, if it did, whether this would result in more state funds coming to public education. Local officials did not know what other changes might accompany legislation to revamp the finance system and how their budgets might be affected.

REFORMS AND INNOVATIONS

Although research has identified a separation in American education between decisions about education reforms and decisions about resource allocation (National Research Council, 1999), the districts in this study demonstrated a noteworthy variety of initiatives aimed at linking the two.

A new view of “equity” in resource allocation

From resource allocation practices based on equal distribution to schools, all four districts had moved toward a view of equitable allocation based on the idea that different schools and students had different needs. As one district superintendent put it:

We have so much data now that we can collect on the needs of individual campuses. And so we will have a better idea of what the issues are on the campus. And there is certainly recognition that not every campus has the same needs and issues.

Similarly, the academic officer in another district commented:

In past years, maybe 8, 9, 10 years ago, there was more a focus on equal distribution of resources. So if we had [some kind of intervention initiative], it would have been equally distributed across all campuses. We have moved from that to a distribution based on identified student needs according to academic student data.

One district was very clear about the link, writing in its statement of district goals that the budget development process “will ensure that resource allocations continue to be aligned with student-centered needs.”

Two of the study districts had built the idea of resource allocation linked to needs explicitly into their funding formulas, by budgeting for individual schools using “weighted funding” based on the enrollment in different student subgroups. This approach was familiar in Texas, since the state funding formulas had for many years been weighted by student needs. Statewide, however, it appeared to us that use of weighted formulas for distributing district funds to schools was still very much the exception rather than the rule.

Whether or not districts formally used weighted funding, they focused extra resources on schools with special needs. One district placed its schools into one of three tiers on the basis of various performance measures; schools in the bottom tier received more resources, including staff development and student support services. Bottom-tier schools also received significantly more oversight and attention from central office administrators who spent time in the schools visiting classrooms, identifying weaknesses, and helping principals and teachers find ways to address them. Two districts used the discretion permitted under some federal funding programs (e.g., Title II) to give high-need schools more money by providing them with additional “facilitators” or master teachers, who assisted regular classroom teachers in various ways (teaching model lessons, helping with lesson planning, conducting staff development, etc.). One generally high-performing district was directing extra resources to an elementary school that officials feared was in danger of getting an “academically unacceptable” rating on the state accountability system. Among other things, this enabled the principal to offer \$5,000 stipends to lead teachers.

Resource reallocation was taking place within as well as between schools. Several interviewees, for example, reported shifting resources toward fifth-grade science after the first administration of a TAKS science test in 2003 indicated that students were performing less well in this subject than in others that had been tested for some time.

The movement away from one-size-fits-all resource allocation strategies to more targeted funding reflected the growing diversity in these districts and pressure from the state accountability system (and now NCLB) to improve the achievement of subgroups of students as well as bringing up overall performance. But the budget constraints of recent years had also contributed to the change, as districts struggled to meet rising expectations with flat or declining budgets. Officials had recognized the need to use their resources as efficiently and effectively as possible and had acknowledged the inefficiency of some across-the-board approaches.

Capacity-building

All the study districts increased efforts to build teachers' and principals' skills in response to higher student achievement expectations. Districts reported so many initiatives that only a representative sample can be described here. Districts also aimed some initiatives directly at enhancing the capacity of students to learn. While the plethora of initiatives might suggest the ineffective "spinning wheels" of typical public school reform cycles (see Tyack and Cuban, 1995, and Hess, 1998), our impression was that these districts wanted to ensure capacity-building initiatives were aligned with district goals and expectations rather than amounting to what one academic officer called "random acts of improvement".

Professional development and curriculum guides. Since the study districts aimed to achieve higher performance while adjusting to more diverse and disadvantaged student bodies, it was not surprising that they focused on strengthening professional development for teachers. These efforts aimed at improving instruction for all students and also (by helping especially new teachers meet the demands placed on them) reducing attrition levels and the churn of new teachers in and out of the profession.

As was customary around the country, Texas teachers were paid for a certain number of days to be devoted to professional development. In the past, teacher professional development had often been criticized for ineffectiveness, in part because it was unfocused and not geared to the school's needs. At the time of our study some districts were attempting to become more strategic with the resources they spent on training. One district had identified a handful of initiatives to drive professional development for the next several years: programs aimed at improving students' higher order thinking skills, providing "sheltered instruction" for English-language learners, and training administrators and teachers on the Continuous Improvement management model and Core Knowledge curriculum that the district had adopted. This district also worked with a local university to develop graduate programs for math and science teachers that were keyed to district needs. This initiative allowed teachers to move up the pay scale (by

acquiring a master's degree) as they acquired skills specifically related to teaching the curriculum.

All four districts addressed the instructional challenges posed by the more rigorous required state curriculum (Texas Essential Knowledge and Skills, TEKS, on which the new TAKS testing program is based) by devoting resources to developing local curriculum frameworks or guides. As one superintendent said, TEKS and especially TAKS have “upped the ante”: when standards were lower, the alignment of curriculum with the testing program mattered less. Now, to encourage teachers to teach what the state says students are expected to know and be able to do, districts were providing curriculum materials that might include guidelines on content and pacing, sample lessons, teaching tips, local assessments to monitor student progress throughout the school year, and so forth. These efforts were intended to overcome what one district administrator described as a curriculum that was “in anarchy”:

I mean, [previously] government curriculum was what I [the teacher] said it was and nobody ever measured it. And that's really not the case any more for anybody.... This year we passed a Board policy that teachers have to teach the curriculum. You would think that would be a given, but it wasn't.

Before, common instructional approaches mattered less in this traditionally high-performing district with a comparatively homogenous student body. Now, diversity and higher standards required change.

Teacher had mixed reactions to using resources to develop curriculum materials. According to some principals and teacher association representatives, some teachers liked the materials and found them useful, while others felt that the resources spent on curriculum guidelines (and on things like laptop computers for teachers to help them access the guides and student test results) would have been better spent “directly on instruction.” Part of the difference of opinion appeared to relate to district size. We heard the most criticism in the largest district studied, where some interviewees objected to a “one size fits all” approach to the needs of a large number of diverse schools. The larger districts in our study, however, were lower-performing overall than the smaller ones; so more guidance on curriculum might have been warranted in those districts. Finally, some part of teacher reaction to curriculum guidelines appeared to be related to how flexible district officials were with regard to implementation of the guidelines and periodic local testing.

New-teacher preparation, mentoring, and coaching. Resources were also being directed toward capacity-building via expanded preparation and mentoring of new teachers and coaching for both new and experienced teachers. Texas districts needed to reduce the number of teachers who leave the field (or move to more attractive districts) early in their careers. One

district required all teachers new to the district to participate in a five-day induction program prior to the school year, covering such things as instructional strategies and classroom management. In addition, teachers received one-on-one mentoring from more experienced teachers (who received \$300 - \$500 stipends) during their first two years in the classroom. The district was hoping to initiate a program that would have teachers with certification from the National Board for Professional Teaching Standards work with teachers in their third, fourth, and fifth years of teaching. All the study districts had mentoring programs for new teachers (and in at least one case new principals) that involved paying stipends to the mentors. The three largest study districts also ran alternative-certification programs to help address teacher shortages. One used this mechanism to bring more bilingual teachers into the district.

Three districts provided extra staff (called coaches or facilitators) to schools identified as high need or low performing. These individuals performed a variety of functions, including on-site help with lesson planning, guiding new teachers, assisting with testing, and/or working with small groups of students. (The fourth of our study districts put decision-making over staff in the hands of principals, some of whom probably also allocated funding for similar kinds of positions.)

Leadership development. A major thrust in all of the study districts involved leadership development activities. Districts provided professional development for current principals and training for assistant principals (and sometimes teachers) aspiring to principalships. One district, having successfully addressed its principal shortage, was focusing its school leadership activities on supporting assistant principals in their current roles.

Three of the study districts made most decisions about what kinds of developmental activities to support at the district level. In one of those districts, school-level personnel and a representative of the teachers' association were extraordinarily complimentary about the district's effort and responsiveness to local schools' needs.

By contrast, another district allowed school leaders to make decisions about what training opportunities to buy and how much to spend on them. In this district, the central professional development office had been turned into an internal service center which depended for its revenues on schools that purchased its services. Because the office was so responsive to their needs, schools were heavily using it as well as exercising their freedom to choose outside vendors; and the office budget was expected to double over the period 2004-05 to 2005-06.

Improving students' capacity to learn. While most resource decisions aimed at capacity building focused on staff, some were aimed at students, particularly low-performing ones. In particular, it was common for districts to provide tutoring (both in and out of school) and

extended-day and weekend learning opportunities. Some efforts were aimed specifically at encouraging students to consider and prepare for going to college. One district's College Readiness Initiative, funded by a private foundation, supported several programs targeting extra academic support to students and helping students with the steps involved in applying to and enrolling in postsecondary education.

Incentives

At the time of our interviews, the discussion about using financial incentives to encourage improved performance, especially for teachers, was a lively one, in part because of strong interest by the Legislature and governor. Texas has a history of creating and abandoning policies on financial awards linked to student achievement. Our interviews suggested that it was much more common for districts to use dollars to reward people for extra work (such as serving as coaches) or for attendance and to attract people to meet special needs (such as serving as special education teachers) rather than for their job performance measured by student learning. There were some signs in the study districts, however, of a growing willingness to consider linkages between educator's performance and compensation.

Incentives tied to accountability rankings. The most powerful performance incentives operating on Texas districts and schools were the largely nonfinancial ones created by the highly public ratings established by the state accountability system. As already discussed, Texas districts and schools were rethinking the way they allocated funds and built capacity in order to improve student test scores and other performance indicators (like high school graduation rates) that were measured and widely reported. One principal succinctly summarized the new thinking encouraged by Texas's approach to accountability and the labeling of every school as exemplary, recognized, acceptable, or unacceptable:

We all bash the new TAKS test—I mean educators in general...you will hear teachers say that it's taking the fun out of teaching...But there are some positive things that have come out of testing and this push for achievement that one has to recognize to be fair. And I will give you a succinct example. Back in 1996 or 1997 we missed obtaining a recognized rating, which was the rating we wanted, by just a few kids. And those kids happened to all be socio-economically challenged kids or minority kids. We felt like we were doing a wonderful job for every kid on our campus. We truly believed that. But when we missed that rating by just a little bit, that focus became narrowed, if you will, and we began to put more resources onto those kids at an earlier stage. And their performance came up...So a positive side of testing is that has caused us to truly become data driven and really look at what we're doing and focus our resources where they need to be focused. Even though we thought we were doing the best that we could, we were not.

Districts in Texas responded to the accountability system even though state financial rewards were no longer available. Between 1995 and 2001 the state made awards to schools ranging from \$250 to \$10,000 based on their accountability ratings; but the Legislature did not appropriate funds for the Texas Successful Schools Award System for awards after school year 1999-2000. The Texas Education Agency made available some funds to be distributed during the 2001-02 year based on campus performance in 2000-01.²²

District-level financial incentives. Two of the study districts offered their own financial rewards tied to test scores and other indicators. In both, campus teams were rewarded for attaining exemplary or recognized status, a reflection of both test score performance and dropout rates. In one, schools received higher rewards if they had higher enrollments of economically disadvantaged students. Base awards for teachers in this district were approximately \$650 in recognized schools and \$840 in exemplary schools. Principals could get from \$1,200 to \$2,200, while for other school personnel (paraprofessionals and auxiliary staff) base awards were \$100 or less. Performance pay steering committees on each campus might raise these levels when they decided how to distribute “bonus” money beyond the base guaranteed levels. The second district had a separate performance pay for regional superintendents and principals, who generally worked on at-will contracts. Regional superintendents could earn performance awards of \$20,000; principals could earn \$5,000.

In January 2006 the Houston Independent School District (HISD) board of education approved what the *New York Times* described as “the nation’s largest merit pay program” (Blumenthal, 2006). It provided rewards to individual teachers, unlike a predecessor plan that offered only school-wide rewards. Teachers in core subjects would be able to earn up to \$3,000 annually (noncore teachers could earn \$1,500) and senior administrators could earn up to \$25,000 annually under the program. Core teachers could earn incentives from one or more “strands.” The first strand rewarded teachers on how well their school improved compared with 40 schools around the state matched on demographic characteristics. The second strand rewarded individual teachers based on the improvement in their students compared to students in similar classrooms around HISD. The third strand rewarded core teachers for progress made by their students in reading and math on the TAKS test. Teachers could earn an add-on bonus to their incentive pay of up to 10 percent for good attendance records. Other arrangements were made for teachers of noncore subjects.

²² <http://www.tea.state.tx.us/tssas/> (as of December 6, 2006).

Districts offering some kind of achievement-related performance pay are atypical in Texas (*Dallas Morning News*, 2006). Incentives were more often of the nonfinancial kind (e.g., recognition of outstanding teachers or principals) or were aimed at keeping overall salaries competitive. Most districts still based pay mainly on the traditional salary schedule, sometimes supplementing base salaries for one or more of three reasons: (1) to reduce teacher absenteeism by rewarding attendance; (2) to provide stipends for extra work such as mentoring, tutoring, or coaching; and (3) to fill hard-to-staff positions and/or attract teachers to hard-to-staff schools. All of the study districts employed the second and third strategies. One district, for example, provided \$6,000 annual stipends to principals who agreed to lead a low-performing school for three years. The district offered signing bonuses for bilingual education, special education, and math teachers and might also pay moving expenses. Another district gave \$5000 annual stipends to lead secondary school teachers of subjects tested by TAKS, but these teachers were also expected to work an extra hour a day to accomplish additional responsibilities. This same district also offered \$5,000 to lead teachers in a low-performing elementary school targeted for extra investment.

Political interest in performance pay. Growing interest in performance pay, including a proposal in Governor Rick Perry's 2004 Educational Excellence initiative to financially reward effective teachers, spurred the House Research Organization of the Texas House of Representatives to prepare an analysis of teacher performance incentives for legislators (Texas House of Representatives, House Research Organization, April 21, 2004). Following the failure of a 2005 education reform bill which included a performance pay program, Governor Perry issued an executive order establishing a performance pay plan (using \$10 million in federal funds) for teachers who succeeded in economically-disadvantaged schools. In the 2006 special session, the Legislature approved a much larger incentive pay plan (as noted in the next chapter).

Even before the governor's executive order was issued, one superintendent told us he was actively trying to develop an acceptable incentive plan for his district. Part of his motivation was political. Recognizing that some key legislative leaders were deeply interested in creating a more incentive-oriented culture in schools through vouchers among other things, this individual said:

I'm against vouchers, and the only way I can convince these Republicans that I'm a decent guy is if I incentivize because they like incentives. So I tell them what I mean – I'm against vouchers....[But] I believe in choice and charters, and I believe in incentives; and I'm hoping if I behave properly they might get off my back.

Although performance pay was unpopular among teachers, they had not been able to stop its adoption. As a teacher association representative in a district which has created school-wide

rewards for performance said: “We tried to stifle performance pay, but it came anyway.” The new Houston Independent School District performance pay plan received board approval despite opposition from the Houston Federation of Teachers (Radcliffe, 2006).

Financial incentives for students. Study districts provided a few examples of financial incentives aimed at students going beyond the common “pizza party” kind of reward. One district was paying the Advanced Placement exam fees for all students who completed AP courses. Another was paying college tuition for students who enrolled in a dual high school-and-college program.

New approaches to decision-making: management and governance changes

All four study districts demonstrated efforts to orient school governance and management toward coherent, strategic decision-making aimed at accomplishing clearly-stated district goals and objectives. One way this was manifested was through a greater emphasis on data. Study districts had also embraced reforms such as decentralization, policy governance, continuous improvement, and more inclusive approaches to decision-making.

Data-driven decision-making. Educators in the four districts reported adopting a data-driven approach to decision-making. Information about student achievement, in their own districts as well as others, was now readily available to district and school-level personnel. This in itself might have spurred some individuals to become serious users of data to drive decision-making, but it was clear that the state accountability system had been an important impetus. Pressure to improve performance had not only increased the use of test scores and other performance indicators but also led educators to seek out research evidence to help them choose among programs and spending priorities.

Texas was a pioneer in developing statewide systems that bring together a wide range of information on schools and students. Both the Academic Excellence Indicator System (AEIS) and the Public Education Information Management System (PEIMS) had their origins in the 1984 legislation aimed at basing accountability on student performance. AEIS reports state-, district- and school-level data on a variety of performance indicators, disaggregated by ethnicity, sex, special education, low income status, and limited English proficient status, plus information on school and district staff, finances, programs, and student demographics. PEIMS provides a standardized electronic format for collecting organization data, budget data, actual financial data, staff data, student demographic and program participation data, student attendance and course completion data, and retention and “school leaver” information. AEIS reports were first made available for the 1990-91 school year.

All four study districts had also developed or purchased their own data management systems, especially for disaggregated student data, to provide teachers and school-level administrators with online access to information about how students were performing. These systems generally included indicators beyond those collected by the state, such as student scores on “benchmark” tests that were administered throughout the year to monitor student progress on curriculum objectives and readiness for the state tests. Two of the study districts provided laptop computers or classroom workstations to teachers so the latter could access student performance data.

Interviewees at both the district and school level in all four study districts cited many ways in which they used data to make decisions about resource use. At the district level, for example:

Administrators reported having to justify budget requests with data. One chief academic officer said that anyone proposing an addition to the budget should expect to answer questions about the student achievement data that support the request and how the request is expected to affect outcomes.

Results from state assessments disaggregated by student subgroups had exposed problems lying beneath the surface of school-wide averages. Administrators (and principals and teachers) used such data to identify students who could benefit from individual or small group tutoring, block scheduling in math and/or reading, and other nonstandard instructional approaches.

Likewise, results from the science assessments which were administered for the first time in 2003 identified unexpected weaknesses and resulted in resources being directed or redirected into science instruction and materials.

Data were being used to make resource allocation decisions aimed at using funds more efficiently and effectively. One district facing budget cuts reduced funding for music, PE, and art in order to protect core academic subjects and because data showed that even after the cutbacks the district still had an above-average investment in these noncore areas. The same district also looked at its investment in a costly reading program and decided that the results did not justify the expense. Likewise, another district ended an incentive-pay program aimed at encouraging greater teacher attendance when data indicated that extra pay was not reducing absenteeism. The chief financial officer in a third district cited several examples of how the district was now looking hard at “sacred cows” and refusing to fund programs just because they had always been funded. In particular, administrators wanted to assess whether programs were improving academic scores or graduation rates.

In one district, surveys of principals, assistant principals, and teachers along with student performance data were used to make decisions about the content of professional development programs.

One district reported that it was using benchmark tests and other data to strengthen its teacher appraisal processes, working with principals to evaluate probationary teachers and looking hard at whether teachers were effective before they recommended them for contracts.

School-level administrators also reported using data in decision-making. For example:

- One principal started a science camp for girls when the first-year test results showed a score gap between the girls and the boys.
- Another principal used data to convince central office administrators that activities in his school were working, even though not prescribed by the district.
- A test score gap between black and Hispanic students prompted one school to invest more resources in bring up the scores of African-American students, such as the introduction of accelerated courses and the purchase of special software for instruction.
- Low math scores led one principal to initiate a school-wide focus on math and to make investments in new teaching materials and a math specialist.
- An elementary school principal hired an outside organization to undertake detailed analyses of student test data to help teachers identify the specific needs of students who would receive tutorial support.

Students were sometimes encouraged to become data users. In at least one district, each student had a “TAKS folder” where she could see how she did on the state tests last year and how she was doing on the district’s benchmark tests during the current year.

Moreover, a climate fostering data use could also affect non-instructional staff throughout the system. In a district where administrators claimed that looking at data was an important part of every meeting, the health services director examined the statistics on time spent in the school nurse’s clinic and discovered that one school was an outlier. The district determined that teachers in this school were not placing a high priority on keeping students in the classroom. After focusing on this issue, the number of hours students spent in the clinic dropped noticeably in the following semester.

District and school personnel also cited numerous instances in which they sought out research findings and experience of other districts in making decisions or choosing programs to adopt. The formerly homogeneous and high performing district whose student body was rapidly

diversifying sought out other Texas districts that were having success with minority and economically disadvantaged students and, after visiting them, adopted some of their approaches. A district considering performance pay for individual teachers brought in outside experts from out-of-state districts that had deeply examined such an initiative. Other topics on which interviewees cited research as one basis for the actions included high school reform, teaching children from poverty backgrounds, making use of teachers with certification from the National Board for Professional Teaching Standards, understanding teacher retention and quality issues, and tutoring. One district used research to identify the characteristics of highly effective schools and strategic planning best practices and also consulted examples of strategic plans from other school districts in developing its first-ever strategic plan.

These examples give only a flavor of the intensity of data use that was described to us in the study districts. One principal provided the best summary of the attitude that seemed to pervade these districts with respect to data-driven decision-making:

Oh, well, you can't do anything without data. I mean, you have to know where you are and what your students' results are....Any decisions that you make must be driven by your student data.

Planning and prioritizing. The Texas Education Code²³ required each district and campus to have an improvement plan developed, reviewed, and revised annually for the purpose of improving the performance of all students. Interviewees indicated that in years past these plans were “shelf documents” or “dust catchers.” This appeared no longer to be the case. In all the study districts, interviewees often referred to planning documents when they described the process of making resource allocation decisions. One principal's comments were typical, as he described a decision-making process in which the campus improvement plan was central. At his school, every departmental meeting started with the plan and a review of where they were in meeting their objectives. When it came time to ask for resources, the departments referred to things that were needed to address performance shortcomings in making requests to the principal. In a second district, a supervisor said:

[A]ll our campuses have to have a campus improvement plan. And all the money that is spent on their campuses has to be part of that plan. It has to support the goals and objectives that they've set in order to raise student achievement. That's what the plan is about. And this is the same way with our district improvement plan. It supports what the campus plans say, as well as our resources are allocated based on that.

²³ Chapter 11, Section 11.253.

Said the financial officer of another district, “We’ve made people stop and talk about how the dollars they’re recommending fit into the [district’s] priorities, and that’s what we hadn’t done before.”

Rethinking the balance between centralized and decentralized decision-making. One study district had been working for 15 years toward a vision which set goals and objectives at the district level, but decentralized an unusually high level of budget authority to the school level, empowering principals to allocate resources as they deemed best to meet performance objectives. Over the years, they had reformed their central office to play less of a regulatory role and more of a service role. In fact, some offices had been explicitly turned into internal service agencies, with no district funding. They survived or not depending on whether or not they could sell their services to schools, which had the option of using external vendors.

This district had a remarkably sustained commitment to a vision and set of goals for the district but until recently had not set annual priorities for these goals. It began the process of setting such priorities several years ago for academic achievement and then for all its five main goals. Objectives had been set for each goal under a new board monitoring system, and formal reporting to the board of education was scheduled to take place on a mandated periodic basis. Specific methods and timetables for review were set out in the plan.

Policy governance. Another district, plagued by rapid turnover of leaders in the 1990s and by school boards characterized by infighting and micromanagement, had moved to bring order and coherence to its leadership by adopting a program called “policy governance.” Under this approach the board of education articulated policies that spelled out results policies (desired achievement and outcomes for students), executive limitations (the boundaries within which the board delegates responsibility for day-to-day operations to administrators), and governance process (specifics of how the board conducts business). Agenda items for board meetings were tied explicitly to one or more of these policies, limitations, or processes. A calendar for the board to review results policies and executive limitations was set out well in advance, so that administrators could be adequately prepared to provide the board the materials it needed for informed discussion.

Most of the interviewees in this district agreed that policy governance had brought order to what had been a chaotic governance climate. As one administrator described it:

[Policy governance] has given us an incredible focus on results policies... We don’t write a memo, we don’t talk about something, we don’t meet about something, unless I can tell you which result policy it’s connected to. So we have constant focus on our efforts. And it really helps drive the budget.... We’re very systems oriented now, where before it was very ad hoc.

The governance process policies that were part of policy governance set “rules of engagement” for the board itself.

The board has seven or eight policies that talk about board code of conduct, governing style, the role of the president, the role of board committees, board conflict of interest—so they try and regulate each other. And they rate themselves; they have monitoring visits of themselves where they sit down [after every meeting, with the cameras off]...and debrief: “You talked too much tonight; you weren’t prepared on one of those reports; it’s clear you didn’t do your homework; and that’s not how we are going to govern.” So it gets tough; this is real tough stuff.

Continuous improvement. The traditionally high-performing district among our study districts formally adopted a continuous improvement model based on the Baldrige criteria for performance excellence.²⁴ The Baldrige criteria provide a framework for a systems approach to organization-wide goal alignment and a goal-based means for diagnosing the effectiveness of an organization. Continuous improvement served as a mechanism for this district to focus its efforts. The district discovered the model when visiting other districts to learn about successful approaches to addressing challenges related to changing student demographics. It invested in consultants and training to help the district and schools apply the Baldrige processes to the seven Baldrige categories: leadership, strategic planning, student/stakeholder focus, information and analysis, faculty/staff focus, process management, and results. The superintendent explained why the district needed the Baldrige approach:

We needed to have a mechanism in which we were focusing our efforts. In the past it was [like] the flavor of the month. You know, our social studies or math coordinators or whatever may go off to some national meeting and the latest pedagogy would be out there and they’d bring it back; and, we’d then say, well, teachers, we gotta teach this way. And the teachers get jaded after being whipped around this way and that way. And then on top of that the resources were not going to be abundant. So we need [to keep focused on] the main thing. And continuous improvement allows you to do that. We had so much data available that we need to use it effectively. And that’s the purpose behind continuous improvement.

A school principal felt that the process provided a common vocabulary and specific analytical techniques, which were useful not just at the policy level but also in suggesting data-oriented ways of helping students track their progress in the classroom.

²⁴ The Malcolm Baldrige Criteria were created in 1987 in honor of a former U.S. Secretary of Commerce and are the basis for the Malcolm Baldrige National Quality Award, administered by the National Institute of Standards and Technology. Originally formulated for businesses, the criteria have been adapted for other kinds of organizations such as education.

Embracing inclusiveness in decision-making. New approaches to governance in these districts embraced more inclusive approaches to decision-making. The language of “customers” and “stakeholders” or “owners” was evident in all the study districts. Exactly who was involved in resource allocation decisions varied from district to district: one, for example, included noneducators such as city council members on its budget task force, while another had handed over significant budget-making authority to principals, who were expected to act with the advice of school teams. But all demonstrated in various ways that closed-door, top-down decision-making with little teacher or community input was undesirable. And interviewees often noted that the large amounts of data available on districts and schools, much of which was web-accessible, made decision-making more transparent than it used to be. The budget-cutting mode that had characterized many Texas districts in recent years had also contributed to transparency. As one principal put it, people did not care so much about having input if they were going to get what they ask for anyway. It was when their budget requests were denied that they wanted more information about why and how the decision was made and where the money was going.

The district using continuous improvement, with its emphasis on valuing the workforce and seeking customers’ and stakeholders’ views, had taken an innovative approach to formalizing inclusiveness with its extensive use of surveys, including a web-based instrument called Survey Monkey. One particularly striking example of how this tool was used to solicit wide input into resource allocation occurred during a recent budget season when cuts were going to have to be made. The district put two alternative budget worksheets online, each with a list of possible cuts. On one worksheet, respondents had to choose cuts that added up to \$1.8 million; on the other, \$3.6 million. District officials used the results in deciding on the final budget to be recommended to the superintendent and board. Teachers, parents, and community members thus had real input into the decision-making process while also developing an appreciation for the tough tradeoffs involved. Faced with the evidence that raising salaries would require staff cutbacks, teachers preferred to forego increases. One principal described this as a “fabulous process,” though not fun to do, because it was open and “everybody came out of the back room.”

ENABLERS

As discussed, districts reported a number of ways in which heightened performance expectations influenced financial decisions. The study also sought to learn about the specific factors that school district personnel believed contributed to their efforts to connect resource allocation decisions with educational goals. Interviewees were most likely to emphasize district-

specific enablers, but they also cited common factors such as accountability systems, creative and united leadership, flexibility, a supportive community, and outside funding.

District-specific enablers

Interviewees most often stressed factors that reflected major emphases in their individual districts. For example, in the district that had adopted “policy governance,” this approach was mentioned by almost everyone we interviewed at the district level as key to fostering the ability to focus on results in making allocation decisions. In a situation where the budget had remained relatively flat for several years, the practices associated with policy governance had enabled administrators and the board of education to do “triage” and set priorities for how the available dollars would be spent. The district was able “to drive dollars to academic achievement.” According to one administrator, even with tight budgets, “[w]e’re still doing new and better things. So we’re working smarter and harder.” Likewise, in the district that had adopted “continuous improvement” as a formal model to guide decision-making, there was a similar degree of emphasis on this as a key enabler by central office administrators. (There was less unanimity among school-level personnel, perhaps in part because training in the new approach was just being extended to teachers.)

In a third district, by contrast, the key enabling factor was the leadership style of central office personnel, especially the superintendent. The frequency with which interviewees mentioned this one factor was notable. The superintendent was viewed as a powerful instructional leader who accepted no excuses for low-performance in his high-poverty, heavily Hispanic district. He fostered a culture in which employees felt good, students and teachers had input into decisions, the environment was widely viewed as caring, and risk-taking was encouraged. He had been in the district over 10 years at the time of our visit and emphasized his belief that leadership stability was crucially important in order to transform a district. He and other central office administrators visited schools frequently to provide encouragement, observe classrooms, review data, work with teams, get input, and give assistance. As one principal said about the superintendent:

He cares about the kids. He cares about the people who work for him. And I think that when you have a caring environment you’ll do whatever you need to do to make people successful. He hires people that [sic] are on a mission. They’re not just there for the money. They are truly trying to make a difference. And he has a lot of people like that.

Said a teachers’ association representative about the central office, “They are constantly...analyzing what’s going on....[T]hey are very quick at reacting and trying to keep on the cutting edge of what the children need in this school district.”

In the fourth district, the key enabling factor was the board's decision to give principals extraordinary authority over how their schools allocated resources, supplemented by administrative reforms aimed at turning central offices into service (not regulatory) entities supporting the instructional needs of schools.

Accountability systems

While accountability systems had put pressure on administrators and teachers to improve academic performance, interviewees also described them as enablers of more efficient and effective resource allocation. This was especially true in one study district which had only recently become strongly focused on raising achievement. The superintendent of this district felt that a "highly focused academic accountability system can have a positive effect in helping a leader and his board make those allocation decisions when you're on a fixed income."

In this district, the board set priorities among the district's six broad goals to help guide the superintendent when funding tradeoffs had to be made. He had been instructed to focus on two of them, relating to academic achievement and college/career preparation, "if anything has to slide." Thus, the arts, citizenship, personal development skills, and health and safety education, while important to the district, had lesser call on district funds in tight times.

The chief academic officer of another district contrasted the situation before and after accountability. Before accountability, and in his role as school principal, he would be satisfied if his school performed better than other schools in his district. Accountability provided more specific performance goals that a school could aim for. The superintendent in a district that focused on performance before outside accountability kicked in felt that state and federal accountability systems sharpened the district's awareness of and focus on student achievement.

Creative and united leadership

All four study districts cited leadership as an important enabling factor in finding and using resources to improve performance. By leaders, interviewees meant not just the superintendent, but the heads of central district offices and schools whose daily decisions affected how resources were used. Interviewees in one district gave numerous examples of ways in which assistant superintendents and principals worked creatively with resources (both financial and time) to make changes in school buildings that supported student learning. One high school principal, for example, was planning on moving some students who weren't succeeding in regular-day programs into after-school and evening programs. This would allow him to focus more resources on these students, to make better use of equipment that was

otherwise unused at those times and to tap funding that could be used to supplement teacher salaries but not hire additional teachers.

In another district, leaders found creative ways to save money on the noninstructional side of the budget and simultaneously increase the funds available for instruction. This district sank wells on their athletic fields to reduce irrigation costs, changed bus and custodial schedules, and saved enough money through an energy saving program to pay for teacher pay raises one year.

In all districts, we saw examples of principals who not only made creative use of resources within the rules, but who practiced “creative insubordination” when they felt it was necessary to work around rules that got in the way of focusing resources on their teachers’ and students’ needs. One principal echoed a repeated theme in describing working around district constraints as “something you just learn to do as a principal.” Experienced principals, interviewees said, were better at this and more willing to do it; they also had better central and regional office contacts that helped them “work the system.” Newer principals had less access to these informal ways of exercising leadership.

Finally, several interviewees in different districts explicitly mentioned the advantage of having a united school board, which one described as “a rarity around here.”

Flexibility

Those trying to improve performance of a diverse set of students in diverse circumstances welcomed the flexibility to adjust staffing, schedules, class sizes, professional development, and other factors to meet the needs of particular schools.

Among our study districts, one explicitly devolved authority over many of these areas (within state law and a common district curriculum) to individual campuses, along with the budgetary authority to implement campus-level decisions. Principals could make many decisions on their own that in most other districts, if allowed at all, required specific permission from the central office. Most significantly, principals had flexibility in how they used staff, whose salaries represented the largest item in school budgets.

A second district practiced “site-based management” and allowed principals to make many decisions about things like professional development and schedules, though it did not explicitly devolve budget authority the way the first district did. The district used an instructional improvement model that, if administered differently, could have seemed very restrictive: it involved curriculum guides, ongoing training, timelines and benchmarks, and very active monitoring (including three or four visits per year per campus) by central office personnel, who visited classes, collected data, and met with teachers and principals. Administered flexibly,

however, as this district seemed to do, school personnel found the program helpful and did not resent the oversight. The model was viewed as more guidance than binding nuisance. One principal described it as a “safety net;” “as long as you are being successful with your kids, you’re given free rein to do what you want.” Central office administrators seemed genuinely to support flexibility for principals to try something innovative “as long as they’ve done their research and they’ve got sound facts behind it to support it.”

Similarly, school principals in the district using a continuous improvement model reported that they had a great deal of autonomy and noticed in recent years a movement away from micromanaging decisions (such as how many minutes must be devoted to each subject in the curriculum).

Principals in the study districts generally felt that they had almost complete discretion over hiring. Only one district gave transfer rights to senior teachers. Except where senior teachers exercised these rights, principals chose among a selection of candidates for open positions. In the study districts, there also appeared to be more flexibility in teachers’ work schedules than is often found in districts where teachers time is tightly controlled by union contracts.

Supportive communities

Interviewees in three districts explicitly mentioned community support as an enabler. Sometimes this reflected a general sense that the community was behind them in their efforts. In two districts, interviewees mentioned specific community support, such as voters passing bond issues in a tough economy or at a time when bond issues in surrounding districts were going down to defeat. District and school officials also mentioned parents and community groups stepping in with financial support to help individual schools meet needs that district budgets could not address.

Outside funding

Outside funding, whether from federal programs or from grants or other fundraising efforts, was widely cited as an enabling (sometimes as a “critical”) factor for many school leaders trying to meet their performance objectives. Federal Title 1 funds, which go only to schools with higher proportions of disadvantaged students, provided most of the flexible funding for many school-level leaders. The lean budget years recently experienced by Texas districts and schools heightened the importance of “marginal” funds, such as grants or contributions from parent groups, for many schools.

CONSTRAINTS

We now turn to constraints or barriers interviewees perceived when they attempted to link resource allocation decisions to performance goals. Chief among these were inadequate funding, unfunded mandates and set-asides, rules and “strings” that accompany funding and restrict its use, creeping re-control from the state level, and remnants of a traditional mindset towards resource allocation that inhibited creativity and innovation.

Inadequate funding

Many (though not all) district and school personnel we interviewed believed that they needed more money to meet higher performance expectations, especially for special needs students. Several issues were intertwined in interviewees’ responses to a question about the adequacy of funding: the fact that a state-imposed property tax limit precluded many districts from raising more local funds, the decreasing proportion of K-12 funding coming from the state, and the recent experiences in several study districts of having to actually cut their budgets.

The question of how much funding is “adequate” to meet some set of performance objectives is one that is confounding policy makers around the country. Researchers have yet to find totally persuasive methods for quantifying the connection between resources and outcomes; some doubt that it will ever be possible to give a scientific answer to the question “how much is enough?” The Texas Supreme Court in its November 2005 ruling addressed the specific question of whether the funding of Texas schools was inadequate from a *constitutional* perspective by declaring no constitutional violation.

But the court credited evidence presented at trial that many districts had insufficient funds to meet the challenges they face. The lower court decision made a number of findings pertaining to the focus districts in the case²⁵ that detailed the stresses and cutbacks that many Texas districts had experienced and demonstrated the kinds of expenditures districts needed to make but couldn’t afford. A few “findings of fact” (FOF) from the lower court decision²⁶ are representative of the unfunded needs also identified by our study district interviewees (the districts cited here were not necessarily study districts):

²⁵ Because of the large number of districts involved in the case, both the plaintiffs and defendant (the state) agreed to present their claims through a small number of “focus” or “representative” districts.

²⁶ The trial court’s “findings of fact and conclusions of law” are online at <http://www.tea.state.tx.us/legal/FindingsofFactandConclusionsofLawWOC.pdf> (as of December 6, 2006).

- FOF 153 Austin ISD has identified numerous programs and strategies that it would like to implement to accomplish goal of having all high school students graduating successfully under the Recommended High School curriculum. These include: (1) more TAKS remediation/acceleration, (2) class size reduction; (3) credit recovery courses; (4) more summer school; (5) block scheduling, (6) more programming to improve parent involvement; (7) a second campus for at risk students; and (8) expanded bilingual education programming. These programs and strategies would result in substantial additional costs in order to finance the hiring of additional teachers, teacher training, and additional materials. Because Austin ISD is at the \$1.50 cap, it has no means to raise additional revenue to pay for these expenses.
- FOF 185 Humble ISD has been unable to implement programs and services that it needs to provide in order to give all of its students an opportunity to improve performance and satisfy new 41 state standards, including the reduction of class sizes at middle and high schools, student intervention and remediation programs, and increased summer school and tutoring opportunities.
- FOF 228 Northside ISD has been unable to implement programs and services that it needs to provide in order to give all of its students an opportunity to satisfy new state standards including hiring more teachers to reduce class for at-risk students; providing intervention programs to remediate TAKS deficiencies and drop-outs; and providing staff development so teachers can more effectively deal with special needs of at-risk students.
- FOF 253 North East ISD has been unable to implement programs and services that it needs to provide in order to give all of its students an opportunity to satisfy new state standards, including intervention programs and services for at-risk students; longer class periods; and additional staff to reduce class size.

The judge also cited a finding of fact indicating that the state's three top political leaders, the governor, lieutenant governor, and the House speaker acknowledged the absence of a link between decisions about state funding and decisions about educational objectives.

- FOF 275 A letter signed by Governor Perry, Lt. Governor Dewhurst, and Speaker Craddick that was posted on a state-operated website conceded that "the current school finance system was developed with little consideration of the costs of achieving the state's educational goals." *See* <http://www.capitol.state.tx.us/psf> (visited May 6, 2004.) (WOC Ex. 640.) Rather, spending on education has been driven by litigation and the resources available in a given biennium.

At the time of the study's interviews in school year 2004-05, districts received state funding from the second year of the state's 2004-05 biennial budget. That budget included a number of cutbacks in state funding, so local districts were feeling the pinch of reductions and the local tax rate limitation and, in at least one case, of declining revenue from the local property tax.

Interviewees expressed concerns about specific aspects of the school finance formulas as well as overall funding levels. Individuals from one urban district noted that the Cost of Education Index had not been adjusted since 1991. Technical studies that had been done for the Legislature (but not yet adopted into law) indicated that the district would qualify for higher state funding under an updated formula. Interviewees also expressed concern about student weights in the FSP. The weights for compensatory education and English Language Learners, for example, were set in 1984 and even at that time were only about half of what had been recommended, to keep the costs of the enacting legislation down (Texas House of Representatives, House Research Office, March 31, 2004). Some local interviewees did not believe that the weights reflected the true cost of educating these increasingly numerous students, a view supported by the trial court judge in *West Orange-Cove*.²⁷

Interviewees often acknowledged that tight funding had made them more efficient, but they also said that they could not continue to raise performance in line with expectations without funding increases.

Unfunded mandates and set-asides

A major complaint in case study districts was the frequency with which the state imposed unfunded mandates and cut back on district formula funding by taking some of the FSP money for “set-asides” (described in Chapter 4). Some interviewees said that they did not feel terribly restricted by state rules about how they must spend money; what really constrained them were the things the state required but did not fund coupled with the tax rate limitation that prevented districts from raising more local revenue.

Interviewees in every district mentioned the School Employee Health Insurance Program passed by the Legislature in 2001. The law created a statewide pool which smaller districts had to join and larger districts would eventually be given the option to join. In terms of this discussion of unfunded mandates, the key provision was an “employee pass-through,” giving public education employees a flexible benefit by providing them \$1,000 each annually to pay for additional insurance coverage, for dependent coverage, to be deposited in a health-care reimbursement account, or to be taken as cash. Eligible employees were entitled to \$1,000 whether or not they participated in their district’s health insurance plan. In the very next

²⁷ See, for example, Findings of Fact numbers 437-459 on the inadequacy of the bilingual weight and 540-578 on the inadequacy of the compensatory education weight at <http://www.tea.state.tx.us/legal/FindingsofFactandConclusionsofLawWOC.pdf> (as of December 6, 2006).

biennium, however, the Legislature reduced the pass-through to \$500 for teachers and reduced or eliminated it altogether for other employees. This reduction in a basically unrestricted allotment felt like a pay cut to teachers and other staff. Many districts decided that they had to pick up the unfunded part of the pass-through themselves.

Another widely cited example of a costly state requirement that districts viewed as an unfunded mandate was the Legislature's decision to approve a \$3,000 across-the-board raise for teachers in 1999. Funding for the FSP was also increased, but the salary increase ate up the lion's share of the additional state funds for many districts.

Even though it had been in effect since 1984, the state-mandated class-size limit of 22 students per teacher in grades kindergarten through fourth grade continued to be felt as a serious constraint by district personnel. One superintendent said it was not the limit he objected to, but the inflexibility of it. Because it was applied to each classroom, the rule sometimes forced districts to make costly or instructionally-undesirable decisions. For example, to abide by the limit a school would sometimes place a few third-graders into a combined third/fourth grade class. If such an option was not available, the school might have to find the funds for another classroom and teacher.

Other examples of unfunded mandates cited by interviewees included the requirements to have a defibrillator in every school and for districts to develop personal graduation plans for any student who failed a state test or was judged unlikely to receive a high school diploma. One administrator said that this requirement forced his district to divert resources away from a successful program that involved individual meetings with students and families at two points in secondary school to discuss coursetaking and long-range academic and post-high school planning. Instead, for each at-risk student, the district had to hold:

...this trumped-up meeting with a checklist of things that is a paper exercise. And it took away from a great exercise and gave us a bureaucratic thing that doesn't make any difference whatsoever.

The trial judge in the *West Orange-Cove* case noted the unchallenged testimony of the superintendent of the Austin Independent School District that his district had to pay for these graduation plans for 10,503 students in one school year with no funding from the state. (At the time of the trial Austin ISD was a Chapter 41 district subject to recapture.)

Local personnel also felt constrained by legislative actions that "set aside" for special purposes money that would otherwise be distributed to districts through the FSP. While much of the money taken out of the FSP in set-asides found its way back to districts eligible for specific programs, some (such as costs of state test development) did not.

One consequence of the Legislature's penchant for earmarking FSP funds and enacting unfunded mandates, at least in the odd-numbered years when the Legislature meets, is that districts could not be sure, sometimes throughout the summer, what their state allocations would be or what new requirements they might have to fund. This disrupted planning processes and complicated the job of strategic, focused decision-making. It might be more of a problem in districts that get a significant part of their funding from the state as opposed to those who only get only 10-15 percent and might become more disruptive as state funding increases as a result of the 2006 reforms.

Rules and "strings"

Rules and "strings", the flip side of flexibility, were widely cited as barriers to using resources to improve performance. Restrictions accompanied special-purpose funding such as federal Title 1 compensatory aid money, state programs such as the Student Success Initiative or Communities in Schools, and philanthropic foundation-supported initiatives. While interviewees frequently acknowledged that it was legitimate for program sponsors to specify how special-purpose monies could be spent, they often bemoaned the fact that the rules did not necessarily align with local priorities. One oft-heard example concerned the restrictions in Title 1 concerning how principals could use Title 1 funds for personnel as opposed to nonpersonnel expenses. Districts receiving lower levels of state funding expressed frustration with having to comply with state rules on allocating FSP money toward specified programs such as compensatory education or special education. when most of their spending was funded out of local coffers. Texas also placed some constraints on how much districts could spend on administration versus direct instruction, constraints which are about to tighten as the state imposes the "65 percent" rule which was first mandated through an executive order of the governor in August 2005.²⁸

One district official specifically noted the "policy churn" and fragmented approach to policy that restricted funding can induce. Because districts felt short of dollars, they "chased" after state and federal grants and accepted philanthropic donations even when they were not convinced that the activities being funded were effective.

²⁸ The "65 percent rule" is a initiative being promoted around the country by an organization called First Class Education and is aimed at changing state laws to "make public schools more effective and efficient by requiring at least 65% of every K-12 education dollar be spent on 'in the classroom instruction' as defined by the National Center for Educational Statistics." See <http://www.firstclasseducation.org/ourmission.asp>.

Principals also complained about district rules restricting their flexibility in using both money and time. In the study district with the most centralized approach to decision-making, for example, some principals objected to the central office's decision to impose seven-period school days for high schools instead of permitting block scheduling. Study districts varied in the extent to which the use of Title 1 funds was mandated at the district level; some principals were content to have decisions made there while others would have preferred the flexibility to decide for themselves how best to use these funds to meet their students' needs. Some principals in the district that had nominally decentralized a great deal of budgetary discretion to the school level found that some of their supervisors were removing some of that discretion by forcing them to buy "packages" of services that they did not necessarily want.

As a state that does not permit teachers to bargain collectively, Texas districts do not operate under union contracts. However, teacher groups in Texas have been successful in pushing for state laws that place many teacher protections in the state education code. Thus Texas principals frequently complained about the difficulty of firing ineffective teachers.

Creeping re-control

In the mid-1990s, as Texas implemented its test-based accountability system, it also gave districts much more control over the education process (and, by extension, over how they could use their resources) by rewriting the Texas Education Code and eliminating many mandates and rules. By 1998, 55 percent of the state rules that had once applied to districts had been allowed to lapse. The state maintained authority over such things as accountability, curriculum standards, graduation standards, textbook adoption, and school funding. It ceded authority to districts over teaching methodology, curriculum design and implementation, budgeting, structure of the school day, staffing, and professional development (Ferguson, 2000).

District and school personnel reported a creeping tendency to re-exert state control, however, and state-level interviewees confirmed that current state leaders seemed more willing than their predecessors to impose mandates on local educators. A 2002 report by the Texas Association of School Administrators and the Texas Association of School Boards cited more than 60 unfunded or partially funded mandates that had been imposed on districts since the Education Code was rewritten in 1995; the report noted that these did not include agency rules (Texas Association of School Administrators and Texas Association of School Boards, 2002).

As will be further described in Chapter 7, the Legislature included in its 2006 school finance reform bill a number of provisions that seemed to confirm a turn back toward "process" accountability rather than performance accountability.

Traditional attitudes

A final constraint on educators' ability to link resource use to their performance objectives lay in the persistence of traditional attitudes within the educational community itself. Despite the growing willingness to allocate resources based on student needs, such efforts still often had to overcome resistance from individuals who clung to an older notion of equity. One school principal described how hard it was to get bonus pay for cluster leaders in his schools because the human resources director was against it: "In his world, everything has to be uniform. In my world, it doesn't have to be." This principal eventually used grant money to get bonus pay started; eventually the district picked it up. But the tradition of equal distribution of resources died hard.

Likewise, the tradition of centralized allocation of resources, typified by district staffing rules dictating specifically what kind of teachers and other resources each school would receive, left an "allocation mentality" among some principals that made them less innovative and dynamic leaders of their schools. One associate superintendent expressed this dilemma especially well. He believed that his principals had "more authority than they know" and was very supportive of principals who needed resources to do creative, "out of the box" things. He was working hard to convince his principals that they actually had the power to ask for what they needed. But he acknowledged both contrary messages coming from other offices and the weight of tradition that worked against this effort. The information sheets the budget director sent out to schools with very specific instructions about how resources were to be spent seemed to belie the message of flexibility, especially for a principal who "has always dotted [his] I's and crossed [his] T's" and tried to stay out of trouble.

CONCLUDING THOUGHTS ON LOCAL PERSPECTIVES

Viewed from the district and school perspective, much about resource allocation decisions and decision-making had changed in response to heightened performance expectations, especially because rising expectations had been coupled with constraints on funding. The key question, of course, was whether these changes were in fact contributing to higher levels of student achievement and more efficient resource use. Answering this question is beyond the scope of this study and is complicated for any analyst by the introduction of a new set of state tests in 2003 which are not "crosswalked" to the older ones or are in subjects that had not been tested before.

Nevertheless, the evidence from the earlier state tests and from NAEP tended to support the view of educators in our study districts that they had been making progress and that the

changes they had made were having good effects. We should not conclude our comments on local perspectives, however, without indicating that this positive view was, unsurprisingly, not universally shared. District-led initiatives were not always viewed favorably by school-level personnel. Teachers sometimes thought that district funds spent on things like curriculum guides or training in continuous improvement would have been better spent directly on classrooms. Some objected to reforms like continuous improvement, which began in the business community, as inappropriate for education. These individuals viewed continuous improvement as a “business model, and we’re not a business.” Principals would sometimes have preferred to make more decisions about where resources should be spent, rather than having the district decide, for example, that they needed facilitators or coaches or school nurses. Teachers and principals sometimes questioned whether organization and management changes made in central and regional offices would improve or diminish the quality of services schools receive. And there was evidence that despite signs of improvement many Texas students still weren’t performing very well. A recent report highlighted findings that many students were unable to pass state exit exams in math courses that they had taken, that many students who had completed the Recommended High School college preparatory course of study needed remediation when they enrolled in college, and that low income students in particular who took AP courses seldom passed AP exams (Dougherty, Mellor, and Jian, 2006).

One central office administrator was especially cynical about efforts to improve public schools:

A lot of things that schools do are for the benefit of the public, for the benefit of the board. We do political things that have a lot of pizzazz and flash....I’ve worked in seven school districts in the state of Texas. In 34 years, there hasn’t been a great change. The dropout rate has maintained about the same. So all those things collectively that everybody’s been doing have had little effect. That’s where I have to agree with politicians. The politicians say, “Well, we keep putting more money in schools, but we have the same dropout rate”....The verbiage that we use—that we need to do more with less, we need to reallocate our resources, we need to stop doing the things that don’t work—I have never, in my 34 years, witnessed stopping something that hasn’t worked. We continue to add on these fuzzy things out here that sound good, small good, feel good, and we’ll even have celebrations kicking them off. And then they kind of whither away and die after awhile, or they get assimilated into this big picture.

This viewpoint was decidedly unrepresentative of the district and local educators we interviewed and seemed to fly in the face of the evidence we observed. It suggests, though, that the skeptical views cited in the next chapter from some state leaders about the quality of local education decisions and decision-making were not completely absent at the district level.

SUMMARY

Chapter 6 presents the results of interviews with district and school personnel about how they made resource allocation decisions and how these decisions were being affected by performance pressures. It also discusses local officials' perspectives on their ability to deploy resources as they wished and on the factors that enabled and constrained them from linking resources to their student performance objectives.

Interviewees reported high awareness of the importance of raising student achievement and of using their resources efficiently and effectively. They cited many actions they had taken to link their resource allocation decisions to student needs, to build the capacity for teaching and learning, to create financial incentives that reward teachers based on indicators of student performance, and to make their decision-making more strategic and data-driven. District-specific factors (such as a new governance structure or the leadership style of central-office administrators) facilitated these changes, as did factors common to the study districts such as accountability systems, creative and united leadership, flexibility, a supportive community, and outside funding.

Local officials (in interviews conducted before the 2006 finance reforms) perceived inadequate funding as the chief barrier to meeting higher performance expectations. In addition, they objected to unfunded mandates from the state and to state restrictions on local revenue-raising. District-level personnel did not feel that state rules about how districts must spend money were particularly restrictive, so that (within the limits of available revenues) they were able to allocate resources as they thought most appropriate to their district's needs. School-level personnel, however, sometimes chafed at being told how their resources were to be used or viewed changes to district decision-making processes skeptically. Local officials acknowledged that their perceived need for more funding sometimes led them to seek outside funds with restrictions on use that they did not necessarily agree with. They worried that state policymakers appeared to be moving toward exerting more control over districts and feared that this would lead to more statewide and uniform rules about how they could use their resources. They recognized that these kinds of outside constraints were not the only factors inhibiting efforts to more effectively link resource use to performance objectives; sometimes resistance to change among educators themselves got in the way.

7. STATE-LEVEL PERSPECTIVES ON THE SCHOOL FINANCE SYSTEM

We interviewed state-level officials to obtain their views on the issues and concerns influencing state school finance policy making in Texas and to gain insight into how pressures to improve student performance and other factors might be affecting their finance decisions.

School finance reform has been a prominent concern of state-level policy makers in Texas for the last few years, spurred by public dissatisfaction over the “Robin Hood” reforms of the mid-1990s, attacks on the constitutionality of existing laws, and a desire to use funding more effectively to spur school improvement. Changes, however, were hampered by the political impasse that followed the Legislature’s 2003 decision to abolish the existing system in 2004, contingent on a new system having been enacted. In five regular or special legislative sessions from 2003 to 2005, policy makers were unable to agree on a new approach for funding public education in the state. This impasse was in marked contrast to the mid-1980s and the mid-1990s, when Texas was able to enact dramatic reforms in education and education finance policies.

The logjam was finally broken in the 2006 special session, under the gun of a final decree and deadline from the state Supreme Court. Despite that success, the earlier deadlock reflects the influence of factors besides performance pressures on the outcome of efforts to reform the school finance system. These factors, discussed in this chapter, include a new political environment and leaders with a controversial agenda, the centrality of divisive tax issues to the school finance debate, the ambiguities in court decisions, and uncertainty over what a school finance system that improved the linkage between money and performance would look like.

A NEW POLITICAL ENVIRONMENT

After the 2002 elections, with a new majority in the House, Republicans for the first time since Reconstruction controlled both houses of the Legislature as well as all major statewide offices in Texas. This might have augured a united approach toward reforming policies such as the school finance system, but in fact there appeared to be less unity than existed in the days when the state’s leadership came together (often across party lines) to pass major education bills.

Political tensions

The main explanation for disunity seemed to be tensions within the Republican ranks, as well as leaders who appeared less committed to bipartisan decision-making than some of their predecessors. As one interviewee described it to us, the party included social conservatives

eager to use their new majority status to enact long-standing conservative goals, “libertarian” Republicans who did not necessarily share the social conservatives’ views on the relationship of the state government to school districts, and moderates who might at an earlier time in Texas politics have been conservative Democrats. Even though the “big three” Texas lawmakers (the governor, lieutenant governor,²⁹ and speaker of the House) were all Republicans, interviews and contemporary newspaper accounts (e.g., Casey, 2006; Reeves, 2005) revealed personal animosities and political disagreements among them that hampered efforts to enact new policies. Though the Senate and the House of Representatives each had Republican majorities, the agendas of the two houses were different; and even within each house the Republicans had not been united about what they wanted on school finance and taxes. As one interviewee summarized the situation in late 2005: the state’s big-three leaders “haven’t been able to get together on much of anything.”

Tensions among Republicans and between Republicans and Democrats seemed especially high in the House. (The Senate has had a Republican majority since 1996, and Republican leaders have more incentive to work across party lines there since Senate rules effectively require a two-thirds majority even to bring a bill to the floor.) Newly-empowered House leaders finally were able to bring to the forefront education proposals that they had unsuccessfully promoted for years. Some of these, like private-school vouchers for students and merit pay for teachers, were hot-button issues guaranteed to spark serious controversy not only with education groups in the state but within the Legislature itself. A bitter battle over vouchers in the regular 2005 legislative session (described in Bernstein and Mann, 2005) marked the first major legislative defeat for the voucher-supporting speaker and left the GOP “at war with itself” (Dyer, 2006). The residue of conflict complicated the politics of compromise in the two 2005 special sessions on school finance which followed.

As population shifts had resulted in more members of the House hailing from urban and suburban districts, distrust of public schools and educators had grown. Whereas earlier leaders from rural districts were often among education’s biggest supporters,³⁰ the new leaders were

²⁹ The lieutenant governor in Texas has unusual power because he presides over the Senate, makes committee appointments, refers bills, and controls floor debate.

³⁰ Rural members tend to come from districts “where schools and prisons are the only economic engines [and] the school superintendent is one of the most powerful people in the county. As one rural House member, who wishes to remain anonymous, will say after [a contentious debate on school vouchers]: ‘I could [explicative (sic) deleted] a goat and my constituents might forgive me, but I could never mess with the public schools in my district.’” Quoted in Bernstein and Mann, 2005, p. 11.

more skeptical about the money being spent on schools. They were more “business-minded”, in one interviewee’s phrase: they wanted to see “a real transformation in terms of how schools are organized and do their business.” One of these new leaders repeatedly referred to the need to change the “culture” of education in Texas and to overcome “the resistance to change” among “school bureaucrats.”

A diversity of viewpoints on public education in the Legislature led in 2005 to an finance/education reform bill of 500+ pages that included not only new finance formulas but things like limits on recapture, performance pay for teachers, charter school reform, a prohibition against starting school before Labor Day, and a requirement that school board elections take place in November of even-numbered years, thus aligning them with general elections. Interviewees reported that education groups took an unprecedented joint stance in opposition to the finance/reform bill, preferring “no bill to a bad bill.” It is hard to say just how influential their opposition was in defeating the legislation in 2005. Some interviewees believed that the bill attempted to tackle too many issues and drew out too many opponents on specific provisions. Others argued that the finance/reform bill actually included more new money that education advocates seemed to realize. Nevertheless, legislative leaders blamed the bill’s defeat on education advocates’ unwillingness to compromise or break ranks with each other, while some of the advocates contended that with no agreement on tax reform likely, any promises about new funding for education would turn out to be meaningless.

Success in the 2006 special session

Several factors contributed to the successful passage of school finance and tax reform in 2006, after so many failures. A critical one was the threat by the Supreme Court to close down public schools if property tax reform was not enacted by June 1, 2006. As one legislator said in reply to a journalist’s question about what made the 2006 session different, “We had to. We didn’t have a choice.” Legislators did not want to face the voters in the fall having to explain another failure on school finance reform. Despite pre-session signs of continuing tension (Dyer, 2006), the leadership worked to overcome their traditional differences. The governor helped break the logjam over tax reform by appointing a tax reform commission headed by a Democrat and former political opponent that got business on board with essential changes in the business tax structure; he then supported their recommendations (Castro, 2006). He also agreed to go along with whatever education reform agenda the lieutenant governor and speaker could agree upon. These two worked together as they had not done in previous sessions; they also seemed ready to let through whatever proposals had the votes rather than stick tightly to their own agendas (*Austin American-Statesman*, 2006). The success of teachers and other public school

supporters in defeating a key ally of the speaker's (his appointee as chair of the Public Education Committee) in the March 2006 primary election was viewed as strengthening the hand of the Senate (Elliott, 2006), which had been more sympathetic than the House to education spending generally and across-the-board teacher pay raises specifically.

The resulting finance reform bill, HB 1 (Texas House of Representatives, House Research Organization, May 25, 2006), incorporated a diverse array of changes in addition to the specific finance modifications described in Chapter 4. Chief among these were the following:

- In addition to the \$2,500 across-the-board pay increase, two new incentive grant programs (with appropriations totaling \$200 million) will pay teachers for improving student performance.
- The Texas Education Agency (TEA) must annually establish proposed expenditure targets for each school district (for instruction, central administration, and district operations). School boards intending to exceed these targets must publish and adopt a resolution justifying their actions.
- Districts will be subject to new accreditation standards that take into account both their financial and academic performance. TEA can close districts that fail to achieve full accreditation status for two consecutive years.
- TEA's authority to reconstitute low-performing schools is strengthened.
- Students who enter 9th grade in 2007-08 or later will be required to complete four years each of mathematics and science (up from three years each now) in order to complete the recommended or advanced high school curriculum.
- Schools statewide (except those that operate year-round) must start on the fourth Monday in August, and no waivers will be granted. (Many Texas districts had been starting classes earlier, under provisions which allowed TEA to grant waivers for districts wanting to open before the week in which August 21 falls.)
- School board elections must be held on the same date as other local elections.

For the moment, then, and under the gun of an unavoidable court-imposed deadline, state policy makers had found a spirit of bipartisanship and compromise that permitted significant reforms to pass. As one interviewee said: to make progress "you have to have a mix of personalities that allows you to do business and work through issues." It was not clear whether

Texas could sustain such a mix at this point in its history, though strong leaders willing to work across party lines were critical to the state's earlier successes in education and finance reform.³¹

TAXES AND THE SCHOOL FINANCE DEBATE

The tax reform adopted in 2006 clearly represented a major shift in how Texas would fund its public schools. What was less certain was whether the Legislature had “solved” the revenue problem. One question was whether the new state revenue sources would bring in enough money to cover the costs of local property tax reductions. A second was whether districts would now have “meaningful discretion” over local taxes or whether, if the new state funding failed to keep up with local costs, districts would again find themselves in the kind of financial bind that had caused the finance system to be declared unconstitutional.

A Center for Public Policy Priorities (2006) analysis estimated that new tax revenue raised by 2006 legislation would fall short of meeting the costs of HB 1 by \$3.53 billion in fiscal 2007, rising to \$11.12 billion in fiscal 2011.

Strong anti-tax sentiment in Texas may complicate the task of addressing this gap. Some tax opponents have already questioned whether some parts of the new business tax violate the state constitution's prohibition against an income tax, raising the specter of a court challenge to this centerpiece of the 2006 finance reforms.

One consequence of the linkage between tax reform and school finance reform has been a decline in the once-strong support for education among business leaders. For the last few years it was widely agreed that any new state revenues for schools would require an increase in business taxes, given the constitutional barriers to either a state-wide property tax or an income tax. The March 2006 report of the Texas Tax Reform Commission appointed by Governor Perry pointed out that:

The Texas tax system does not reflect the Texas economy. Most symbolic and symptomatic of this failing is the state's business franchise tax....Today, the vast majority of business in the state escape the franchise tax, either through the deliberate use of tax-defeating organizational structures, or simply by avoiding the corporate form altogether (Texas Tax Reform Commission, 2006, pp. 13, 18).

³¹ See, for example, Robison, 2006, lauding the former Democratic lieutenant governor “who muscled the last tax bill into law” in 1991 and who, along with his fellow Democratic leaders, “had the ability to compromise and the will to act in the face of an emergency.”

With higher business taxes in the crosshairs of tax reformers, interviewees reported that the business community had become more divided than when it was a major supporter of education reform in Texas. Some business leaders had become focused on the tax issues, putting education issues to the side. Some had taken up the call for structural changes in education as a way to keep costs and the need for more revenue down. The skepticism about and mistrust of the public schools expressed by some legislative leaders had a counterpart in the views of some business leaders that schools were insufficiently accountable for their resources and insufficiently “transparent” in reporting how they spend their money (e.g., Governor’s Business Council, 2004). These views helped shape legislative proposals calling on TEA to develop financial accountability standards commensurate with academic standards and encouraged Governor Perry to mandate the so-called “65 percent solution” to ensure that each district used 65 percent of its total revenues on direct instructional activities.

AMBIGUITIES IN COURT DECISIONS

For 15 years policy making about school finance in Texas had taken place in the shadow of judicial rulings. Unlike courts ruling on school finance lawsuits in some other states (for example, Wyoming), Texas judges handed down decisions identifying problems with the state’s system but not specifying how to fix it. Thus the courts kept up the pressure for reform without providing much political cover for the difficult decisions legislators faced, at the same time giving ammunition to both critics and supporters of the public schools. The latest case, *West Orange-Cove*, was no exception.

The one definitive finding in the Supreme Court’s ruling in *West Orange-Cove*³² was that the current reliance on local property taxes to fund public schools was unconstitutional because there was no longer meaningful discretion for localities to set their own rates. The court, however, declined to define what “meaningful discretion” would look like, saying only that “[m]eaningful discretion cannot be quantified; it is an admittedly imprecise standard. But we think its application in this case is not a close question.”

The court declined to comment on various legislative proposals to remedy the reliance on local property taxes, restricting itself to saying:

³² Online at <http://www.supreme.courts.state.tx.us/Historical/2005/nov/041144.pdf> (as of December 6, 2006).

[W]e are constrained to caution, as we have before, that a [property tax] cap to which districts are inexorably forced by educational requirements and economic necessities... will in short order violate the prohibition of a state property tax.

The Legislature was left with the difficult task of figuring out what the court would be willing to approve as “meaningful” discretion. Plaintiffs were taking a wait-and-see attitude about whether the 2006 reforms would really give districts access to discretionary funding or whether the new enrichment taxes would have to be spent on basic services that the state did not fund.

Similarly, the court found that the current finance system was not in violation of the state’s constitutional obligation to fund a “general diffusion of knowledge,” but it strongly suggested that it might be close to violation. The court acknowledged that specific solutions were the responsibility of the Legislature but raised in explicit terms the possibility of “an impending constitutional violation”:

We recognize that the standard of arbitrariness we have applied is very deferential to the Legislature, but as we have explained, we believe that standard is what the Constitution requires. Nevertheless, the standard can be violated. There is substantial evidence... that the public education system has reached the point where continued improvement will not be possible absent significant change, whether that change take the form of increased funding, improved efficiencies, or better methods of education. Former Lieutenant Governor Ratliff, the author and principal sponsor of Senate Bill 7 in 1993, echoed the considered judgments of other witnesses at trial when he testified: “I am convinced that, just by my knowledge of the overall situation in Texas, school districts are virtually at the end of their resources, and to continue to raise the standards . . . is reaching a situation where we’re asking people to make bricks without straw .

Finally, the court repeated the mantra it has recited since Edgewood I that “structural changes, and not merely increased funding, are needed in the public education system to meet the constitutional challenges that have been raised.” It explicitly raised the politically-charged issue of school district consolidation:

The large number of districts, with their redundant staffing, facilities, and administration, make it impossible to reduce costs through economies of scale. Bigger is not always better, but a multitude of small districts is undeniably inefficient. The justification offered for this situation is that as a matter of public policy, public schools should be locally controlled, although it has never been clear why the legitimate benefits of local control are so entirely inconsistent with efficiency in funding.

More generally, as noted above, the court opined that more money was not the only route to further school improvement. “Improved efficiencies” or “better methods of education” might also pave the way.

While advocates for more education funding could thus take encouragement from the court's suggestion that the state needs to do more to provide a "general diffusion of knowledge," school critics were quick to point out that more efficient and effective education rather than greater spending would answer the court's challenge.

UNCERTAINTY OVER THE DESIRABLE SHAPE OF A NEW SCHOOL FINANCE SYSTEM

At the time of our interviews (pre-2006 reforms), it was evident that Texas policy makers were stymied by more than just anti-tax sentiment in their efforts to reform school finance. Equally daunting was the lack of consensus over how to shape a new school finance system so that it more effectively linked resource decisions to the goal of improving student performance. Awareness of the need to make the link appeared to us to be high, but agreement on how to do it was hard to find.

One way in which this uncertainty had manifested itself was in the debate over new and "radical" policy changes such as vouchers and merit pay. Texas mirrored the nation in being unable to bring much by way of persuasive empirical evidence to bear on these hotly-contested ideas. Following the approval of new merit-pay plans in 2006, the state faced the challenge of how to implement pay incentives effectively.

Texas's current leaders also seemed less persuaded than their predecessors that accountability for performance rather than process-oriented regulation and requirements was the best way to encourage school improvement. As noted earlier, in the mid-1990s Texas explicitly traded off regulation for accountability. State-level interviewees now agreed that state policy makers were again becoming more prescriptive.

Whether or not state-level interviewees viewed the reassertion of state control favorably, they expressed frustration at how little guidance was available on the level of resources needed to fund Texas schools and how to direct their use effectively. Texas, like a number of other states, has tried to find out how much money would be necessary to fund a "general diffusion of knowledge" by conducting a so-called "adequacy study," in this case by contracting for an econometric analysis.³³ As in other states, the results were controversial and (because of the analytical method used) difficult for policy makers to follow. Adequacy studies in general have

³³ Various approaches to studying adequacy, including econometric analysis, are described in National Research Council, 1999.

come under mounting criticism for offering what some have called “pseudo-scientific” answers to what are essentially political judgments.³⁴ Policy makers often want to believe that such research can provide a precise answer to the question of “how much is enough?” funding for public education. The fact that a widely-accepted, empirically-based answer to that question does not now exist makes school finance redesign all the more complicated. Said one interviewee:

There’s still a fundamental disconnect between what appears in our funding structure and some form of research-based analysis to say this is what it really should cost to provide [a] general diffusion of knowledge or even how best to go about figuring out what that should cost....That’s going to plague us for a long time if we can’t figure out a way where we can build a consensus around a funding level we all agree is an appropriate and adequate funding level for school districts. After all, if we don’t know what that is, how do you show that people have meaningful discretion? So all these things get linked....And it just becomes a point of argument, as opposed to a point of agreement.

SUMMARY

Chapter 7 reports on how Texas policy makers viewed the factors influencing their decisions about mechanisms to use for deploying educational resources.

The state’s school finance system had been crafted largely in response to court decisions demanding more equal access to per-pupil revenues for districts taxed at similar rates to support public schools. Aspects of that system had become increasingly unpopular with the public, and the finance system was under legal attack at the time of our interviews. Ultimately the Legislature was ordered by the Texas Supreme Court to reduce public schools’ reliance on local property taxes. This factor, more than any other, was driving school finance reform at the time of our interviews, although there was also a higher level of skepticism about the performance of public schools among lawmakers who dominated the Legislature after the 2002 election. Some of these lawmakers wanted any new finance law to embrace reforms such as performance pay for teachers, school vouchers, and charter schools, which would allocate education dollars in new and controversial ways . Other legislators favored more familiar approaches such as across-the-board pay increases for teachers or restrictions on the share of education dollars that could be spent on administration rather than in classrooms. The fact that tax reform had to be part of

³⁴ See, for example, Hanushek (2006) and Guthrie and Springer (2007).

school finance reform to fix the over-reliance on property taxes further complicated the politics of reaching compromise on school finance legislation. The resulting impasse stalled enactment of a new finance law for several years.

The Texas case study indicates how the conditioning influences identified in Chapter 2— notably in this case political disagreements and the involvement of the courts—can affect policy makers’ decisions about the structure and operation of a school finance system. A further factor constraining efforts to reform the Texas system at the time of our study was what policy makers perceived as a lack of knowledge to help them shape new school finance mechanisms that would more effectively link resource decisions to the goal of improving student performance.

8. CONCLUSION

This case study was undertaken to help the School Finance Redesign Project understand (1) the formal structure and operation of the Texas school finance system, (2) the effects of heightened performance pressures on educational resource allocation processes and decisions, (3) the ability of decision-makers to deploy resources as they thought appropriate, and (4) the factors enabling or constraining their efforts to link resources to student performance. The study addressed these issues by (1) documenting the state's school finance system and key conditioning influences that have shaped it and (2) reporting on the views of local and state officials about if and how Texas's school finance policies and practices were changing in response to performance pressures and what factors enabled and constrained reform efforts.

Texas has a complex set of statewide school finance mechanisms designed to ensure basic funding for all students, to recognize differences in district and student needs, and to equalize the availability of school funding throughout the state while providing local districts with the discretion to decide (within limits) how heavily to tax themselves to pay for public schools. The major influence on the structure of the system was a series of court decisions that initially forced lawmakers to adopt more equitable arrangements and more recently required changes to increase state funding and reduce reliance on local property taxes. To some extent, performance pressures also affected statewide school finance. For example, Texas was an early adopter of a standards-based accountability system with both financial and nonfinancial incentives aimed at boosting local performance; and lawmakers have funded various initiatives over the years aimed at improving student learning.

The effects of performance pressures were especially visible in the study districts, where officials indicated that they had "gotten the message" about the importance of raising student achievement. They provided many examples of reforms and innovations aimed at meeting this objective by allocating funding based on student needs, improving the capacity of teachers to teach and students to learn, using data to drive decision making, and becoming more coherent and focused in their planning. They also provided some evidence of efforts to use financial incentives to attract and retain teachers. There were signs of an emerging willingness to think about using money to reward good performance.

Both district-specific factors and more general ones (such as the accountability pressures, good leadership, flexibility, supportive communities, and outside funding) were reported to contribute to the ability of local officials to pursue resource strategies aimed at improving student outcomes. But constraints were cited as well. Many local officials argued that declining state

funding in the period before 2006 finance reform was severely hampering their ability to respond to the challenges they faced. Some were less worried about funding levels and more concerned that state policy makers appeared increasingly inclined to impose “unfunded mandates” and other rules that restricted local administrators’ ability to respond as they thought best to the specific needs in their schools.

For state policy makers at the time of our study the key finance challenge was increasing the state share of public school funding to bring the finance system into constitutional compliance. This necessitated state-level tax reform, a difficult political challenge at any time and one complicated in Texas by changes in the Legislature that made education policymaking less bipartisan and more ideological than it had been in earlier years. Despite evidence of achievement gains and of reform initiatives such as those observed in the study districts, some state leaders we interviewed appeared skeptical about the efficiency and effectiveness of Texas schools and determined to try to get more “bang for the buck” from their spending on education. Serious disagreements existed, however, about the best way to use resources to improve outcomes, disagreements that were only partially overcome in passing the 2006 school finance bill to satisfy the current court decree. Policy makers had different views about the most effective way to deploy educational resources, with some favoring highly contentious proposals such as vouchers and merit pay. Achieving the political compromises necessary to enact policy reforms was constrained by the absence of persuasive empirical evidence on such hotly-contested ideas. More generally, policy makers who wanted to enact school finance policies to support improved student learning expressed frustration over the absence of good models for making this connection.

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