WORKING
PAPER

School Finance Systems and Their Responsiveness to Performance Pressures

A Case Study of Texas

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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.