HOUSE
RESEARCH
ORGANIZATION
Texas House of Representatives

focus REPORT

March 31, 2004

Formula Adjustments and the School Finance System

One of the major ways that the Texas school finance system creates equity in funding public schools is through weights and adjustments to the state aid distribution formulas. Since 1984, there have been two kinds of weights in the formulas — those that adjust for student characteristics and those that adjust for district characteristics. Student weights increase district funding for students who require extra resources, such as students with disabilities or those enrolled in bilingual education or gifted and talented programs. District adjustments increase funding for districts that, because of their size or location, are likely to face higher costs. The sparsity adjustment, for example, compensates districts that serve a small number of students in a very large geographic area.

The trend toward linking school finance with the accountability system has led some policymakers to examine the weights more closely in an effort to determine whether added financial investments in special programs do in fact yield improved student performance. A greater focus on student outcomes combined with a perception that the current school finance system is too complicated has led some to look for ways to simplify the funding system. In such a debate, one of the first areas to come under scrutiny would be the weights and adjustments in the formulas.

This report describes how the formula weights and adjustments affect the current school finance system and explores the pros and cons of weighted funding as a method of finance.

Advocates of simplifying the formulas say that over the years the true cost of educating a child has become obscured by special interests, represented by the formula adjustments. They say that adjustments for certain students or districts originally may have been added for good reasons, but some of the costs they represent have become overstated. The complication of factoring numerous adjustments into the formulas distorts the bigger picture of what a quality education costs and takes the focus away from student performance as the "bottom line."

Defenders of the various weights in the school finance formulas say that simplicity is a naive goal for a $30 billion funding system that covers such a variety of school districts and economic conditions. They say it is unfair to label certain children or districts — who are represented by the weights in the formulas — as "special interests." Weights and adjustments in the school finance formulas should be maintained to protect the right to an adequate and equitable education for all children, regardless of their abilities or where they happen to live.

This report describes how the formula weights and adjustments affect the current school finance system. It explores the pros and cons of weighted funding as a method of finance, the implications of not updating weights over time, and the relationship of weights and adjustments to the concepts of equity and adequacy in the Texas public schools system. For purposes of illustration, it spotlights several of the individual weights and adjustments, particularly those costing the most to fund.

How program weights operate in the school finance system

School finance basics. The Texas school finance system has evolved through legislative responses to three decades of legal challenges by school districts and taxpayers. Most notably, Edgewood ISD, a property-poor district in San Antonio, filed four major school-finance lawsuits against the state between 1989 and 1995. Three times in 20 years, courts declared the system inequitable and unconstitutional. Finally, in 1993, the 73rd Legislature enacted SB 7 by Ratliff and created the so-called "Robin Hood" system, which guarantees all districts a certain revenue base and essentially shifts money from districts with high property wealth per student to property-poor districts to equalize educational funding.

The basic concepts of "equity" and "adequacy" were set forth as constitutional guarantees more than 100 years ago in Texas Constitution, Art. 7, sec. 1. The Texas Supreme Court, ruling in *Edgewood ISD v. Kirby* in 1989 (*Edgewood* I), defined equity as "substantially equal access to similar revenues per pupil at similar levels of tax effort." In its ruling in *Edgewood ISD v. Meno* in 1995 (*Edgewood* IV), the court acknowledged that the state had set the standard for adequacy as "an accredited education," as defined by the state curriculum and tested by the state accountability system.

To achieve equity, the current system requires most property-wealthy districts (also known as Chapter 41 districts) to deliver property tax revenues to the state in excess of $305,000 per student. Some wealthy districts that were already above the equalized property wealth level of $280,000 per student in 1995 were "held harmless" from recapture, a temporary provision of SB 7 that was made permanent in 1997. This "recapture" revenue, which is expected to exceed $2.4 billion in fiscal 2004-05, is redistributed to property-poor districts, which constitute nearly 90 percent of Texas' 1,000-plus school districts.

Public education financing in Texas is a three-tiered system intended to ensure all school districts equalized access to revenue based on local property tax effort. The

HB 72: The origin of weighted-pupil funding

Most of the present-day formula adjustments and program weights date back to HB 72 by Haley, enacted during the June 1984 special session. HB 72 made a significant change to the school finance system's basic distribution method by introducing the concept of weighted-pupil units. Prior to 1984, the state distributed money through adjusted personnel units, meaning that "weighting" in the formulas happened at the classroom level, according to the number of teachers employed, and not according to the number of students in attendance.

HB 72 established student weights for compensatory, gifted and talented, bilingual, vocational, and special education. At the district level, HB 72 broadened existing adjustments for small and sparsely populated districts and created a "price differential index" that adjusted for the cost of delivering education services in different parts of the state. The bill also established the linear density method for calculating the transportation allotment. The charts on pages 6 and 7 describe the current student and district weights, dating their origin, their cost to the state, and any major changes since their inception.

formulas are designed to equalize the effect of low and high property values, because property-poor districts cannot collect as much revenue per penny of tax effort as property-wealthy districts can. A simple example illustrates the equalizing effect of this system. Without any state aid, property-poor San Elizario ISD, located southeast of El Paso, could raise approximately $258 per student at a $1.50 tax rate. At the same tax rate, Highland Park ISD, among the wealthiest districts in Texas, could raise more than $17,000 per student.

Under state law, districts cannot raise their local property tax rate for maintenance and operations (M&O) higher than $1.50 per $100 of property value. Tiers 1 and 2 guarantee a certain level of state funding based on a district's tax effort up to $1.50. The total amount of state and local revenue earned through Tiers 1 and 2 constitutes a district's M&O budget.

In Tier 1, all districts receive a "basic allotment" of $2,537 per ADA (an unweighted count of students in average daily attendance) for the first 86 cents of local tax effort. The cost of Tier 1 is shared by the state and the local district, and the district's share — the amount that can be raised with 86 cents of local tax effort — is called "the local fund assignment." The size of a district's Tier 1 entitlement is based on the number of students in ADA, the number of students who participate in special programs, and the size and location of the district. Tier 1 funding also includes a transportation allotment that helps offset the cost of transporting students to and from school.

Tier 2 guarantees districts that they will earn $27.14 per WADA (a weighted count of ADA, determined by the student weights in Tier 1) per penny of local tax effort between 87 cents and $1.50. Districts with wealth below a certain threshold are given additional state aid to help them reach their "guaranteed yield." One difference between Tier 1 and Tier 2 is that under Tier 2 a district has tax rate discretion, meaning it can set its tax rate according to local needs, up to the $1.50 cap. The state currently is involved in a lawsuit brought by nearly 300 rich and poor districts alleging that they have lost all meaningful discretion to set their Tier 2 tax rates.

Tier 3, created in the mid-1990s, authorizes equalized debt assistance for school facilities, land, and school buses. The Instructional Facilities Allotment helps qualified school districts pay debt service for new instructional facilities, while the Existing Debt Allotment helps qualified districts pay debt for which a district made payments before September 1, 2001. These programs cost the state about

Early relationship between weights and data

In 1974, a decade prior to the enactment of HB 72, the Governor's Office of Educational Research and Planning (GOERP) published a report on restructuring school funding with the goal of improving vertical equity in the system, i.e., leveling the playing field for students with different needs and abilities.

Data for the GOERP recommendations came from a program-by-program cost audit of 42 school districts of varying size, nominated as exemplary by 1,500 educational leaders. An in-depth cost analysis of all state and local funds (except debt service) spent by these districts yielded a recommendation for a range of program weights for regular education (from kindergarten at 1.2 to high school at 1.15); vocational-technical programs (from agriculture at 2.63 to industrial arts at 2.25); and special education (from visually handicapped at 4.45 to emotionally disturbed at 3.77). The GOERP recommended a beginning weight of 0.15 for "programs" such as compensatory, bilingual, and migrant education, with an increase to 0.40 in two years. Finally, it suggested the creation of a sparsity adjustment ranging from 1.15 to 1.50 to help geographically large districts serving small populations.

Over the next decade, three sources of data provided the working assumptions for the program-weight system enacted under HB 72: the GOERP study, Catherine Mincberg's dissertation research, which developed a cost differential index for special education, and the recommendations of the School Finance Working Group, an informal coalition of most of the education organizations and associations. However, most of the recommended program weights were reduced by more than half during the appropriations process in order to enact HB 72 with a feasible fiscal note. Current program weight values appear in the tables on pages 6-7.

$1.5 billion in fiscal 2002-03. Before Tier 3 was created, districts had to pay for facilities funding through local tax revenue.

The role of program weights. After adjusting the basic allotment for district size, sparsity, and variations in the cost of education, the formulas apply program weights to compensate districts for students with special needs — bilingual or compensatory educational programs, for example. Other adjustments are made for districts that do not offer all grade levels and for districts that have experienced rapid property value decline.

Program weights generally are expressed as a ratio of WADA to ADA. For example, an "average student" at an "average district" is assigned a weight of 1.0. The weight increases at the district level according to the Cost of Education Index, district size, and population density in rural areas. The weight also increases when a district has many students in special, vocational, or compensatory education, or many students in gifted-and-talented or bilingual education programs. Increasing the size of the weight increases the amount of money received by that district. The average weighted student ratio is 1.37. The ratio for poor urban districts is somewhat higher, and some small rural districts have ratios that exceed 2.0. Some higher-income Chapter 41 districts have ratios closer to 1.1.

Debate about weights and adjustments

This section will examine the debate around the system of weighted funding for school finance using the five costliest adjustments as examples — the compensatory education weight, small district adjustment, special education weight, transportation allotment, and Cost of Education Index.

Block grants vs. weighted funding. Some have suggested granting local districts more flexibility in how program dollars are spent so long as accountability standards are met. Those who wish to streamline the formulas and move toward a block grant system say that the state is entrenched in a funding system that relies on categorical program weights. They say that consolidating weighted funding into block grants would promote flexibility, increase local control, promote cost effectiveness, and simplify future discussions of school finance. Weighted funding obscures the true cost of educating a child and rewards those special interest groups who are most vocal. They argue that while each adjustment for certain students or districts originally may have been added for good reasons, some of the costs they represent have become overstated. This excessive focus on specialized funding is expensive to monitor and distorts the bigger picture of what a quality education costs.

Those in favor of preserving weighted funding argue that block grants would fail to recognize the special costs associated with special needs or situations that confront children and districts. A school finance system that fails to protect all children, regardless of their abilities or where they live, is too high a price to pay for "simplicity." Most importantly, block grants would result in a loss of focus on identified problems or needs across the state. Block grants are more vulnerable to funding cuts than individual programs, and while they may start out granting more local control, over time the Legislature inevitably will attach strings to an ever-shrinking pot of money, eventually reducing both flexibility and funding for school districts. Finally, say supporters of weighted funding, block grants will lead to less accountability, not more, because pooling state dollars would make it easier for local districts to obscure how tax dollars really were being spent.

Compensatory education. The program weight for compensatory education, or "comp ed," clearly illustrates the block grants vs. weighted funding debate. The concept of comp ed began in the mid 1960s with two federal programs enacted as part of President Johnson's War on Poverty — Head Start and Title I of the Elementary and Secondary Education Act. These programs were designed to "compensate" for low-income children's environmental disadvantages by providing intensive instruction. Studies have found that the higher the percentage of educationally disadvantaged students in a district, the more likely a district will have a lower accountability rating.

In 1984, HB 72 created a program weight for comp ed and tied it to federal census percentages of school-age children below the poverty level. However, because of population changes over the 10-year period between censuses, some districts' comp ed programs began to gain an increasing number of "phantom students" — i.e., districts continued to receive funding based on the original census figures even though the percentage of enrolled students who qualified for state comp ed funding had decreased during the decade between censuses. To avoid

Constitutional issues around weighted funding

A pending lawsuit filed in 2001, *Hopson v. Dallas ISD*, has raised constitutional objections to weighted funding within the school finance system. One of the arguments advanced in *Hopson* holds that the use of WADA in determining equalized wealth for the purpose of distributing state aid to schools violates the constitutional principle of equal and uniform taxation set forth in the Texas Constitution, Art. 8, sec. 1(a). The *Hopson* plaintiffs claim that calculating the state yield on the basis of non-weighted average daily attendance (ADA) would be fairer and that the weighted system gives poor districts an unfair advantage.

Supporters of the current system argue that adjusting funding to reflect inherent cost differences among students and districts is an essential component of equalized educational funding — or equity — required by the Texas Constitution. Calculating the state yield on the basis of ADA rather than WADA would fail to recognize inherent cost differences and would underfund districts with high costs relative to districts with low costs. In high-cost districts, including all property-poor districts, taxpayers would pay more and/or their children would get less.

The case originally was filed in the 134th District Court in Dallas County but was transferred to Travis County District Court. Subsequent appeals by the plaintiffs regarding the change of venue were denied. At a hearing on March 23, 2004, the *Hopson* plaintiffs argued that their case should be considered as part of *West Orange-Cove Consolidated ISD v. Alanis, et. al*. This lawsuit challenges the current finance system on the ground that forcing districts to tax at or near the $1.50 M&O tax-rate cap to provide a basic education amounts to the imposition of an unconstitutional state property tax. State District Judge John Dietz rejected this request and scheduled the *Hopson* case for trial on October 4.

that problem, comp ed now is tied to student enrollment in the federal free and reduced price (FRP) lunch program, a number that is updated every six months.

Some advocate separating comp ed from the FRP lunch program. They say that many children who qualify for the FRP lunch program are "A" and "B" students and that the state could save money by requiring school districts to provide an actual count of students who are at-risk of failing in order to receive comp ed funds. On the other hand, say school districts, many middle-class and wealthy students also are at-risk of failing classes or even certain portions of state accountability tests, yet they receive no additional funding for these students. School districts say that they are spending more money, not less, than the state provides for comp ed services and that manual student counts not only are inefficient but also would drive up administrative costs that could be spent on helping students.

While Education Code, sec. 44.007(d) requires school districts to account to TEA for their expenditures down to the program level, because 15 percent of state comp ed money can be spent on administrative or indirect costs, TEA requires districts to report only 85 percent of their state comp ed expenditures — that is, only the portion that is spent on instructional programs for at-risk children. Districts say that they actually spend more than this, but because the state does not require excess comp ed expenditures to be reported, and since tracking these expenses would create an extra administrative burden, they often remain unaccounted for.

Until the 2003-04 school year, Education Code, sec. 42.152 specified that comp ed funds be used only to meet the costs of providing a compensatory, intensive, or accelerated instruction program for at-risk students and economically disadvantaged students. State law also required that no more than 18 percent of comp ed funds be used to fund disciplinary alternative education programs (AEPs) and that school districts pay for an annual audit of the use of these funds. SB 894 by Bivins, enacted by the 78th Legislature in 2003, gave school districts more flexibility in the use of comp ed funds and eliminated the requirement for an annual audit, creating an electronic monitoring system instead.

Supporters of SB 894 said it gave school districts more flexibility in deciding how to use comp ed funds and eliminated burdensome auditing and reporting requirements. School districts still have to use the funds to help bridge academic gaps for at-risk and economically disadvantaged students, but they may do so without the

Table 1:
Adjustments for district characteristics

Program	Description	Origin	Cost	Changes over time
Small District Adjustment	Adjusts for extra costs for districts with fewer than 1,600 regular program students in ADA	HB 72 (1984)	$330 million per year	No changes since its creation
Mid-size District Adjustment	Adjusts for extra costs for districts with between 1,600 and 5,000 regular program students in ADA. Chapter 41 (property-wealthy) districts do not receive the mid-size adjustment.	1995	$91 million per year	No change since the five-year phase in of the adjustment.
Sparsity Adjustment	Adjusts for extra costs incurred by districts with low enrollment and a geographic area of more than 300 square miles	HB 72 (1984)	$6 million per year	No changes since its creation
Cost of Education Index (CEI) Adjustment	Originally called the "Price Differential Index," the CEI accounts for varying costs of educating students in different areas of the state, primarily based on teacher salaries in neighboring districts, school district size, and concentrations of low-income students.	HB 72 (1984)	$1.1 billion per year	Updated by rule in 1987 and 1991. The Dana Center study in 2000 recommended another update, as did the Texas A&M study in 2004 (see page 11).
Transportation Allotment	Calculated according to "linear density groupings," or the number of riders and bus route miles in a district. Chapter 41 districts do not receive credit for the allotment although law does allow them to be funded.	HB 1176 (1975)	$340 million per year	No changes to the groupings or reimbursement rates since 1984.
Adjusted Property Value for Districts not Offering all Grade Levels	Adjusts the property value used for calculating state aid or recapture payments for those districts that pay tuition to educate above-grade students	1999	$3 million per year	No changes since its creation
Rapid Property Value Decline Adjustment	Provides some financial relief to districts that experience rapid declines (more than 4 percent) in local tax base that are beyond the control of the district. Historically funded only when surplus funds are available	HB 72 (1984)	$26 million per year	HB 72 established a property-decline threshold of 8 percent for all districts. The threshold was lowered to 0 percent for property-wealthy (Chapter 41) districts in 1993. It became 4 percent for all other districts in 1995 and for property-wealthy districts in 1999.

Source: Texas Education Agency

Table 2:
Adjustments for student costs

Program	Description	Origin	Cost	Changes over time
Special Education (weight varies depending on services)	Extra funding goes to support services for students with disabilities. Services are delivered in various instructional settings, depending on a student's individual needs.	HB 72 (1984)	$1.2 billion in Tier 1 per year+	In 1993, graduated weights were added or revised for about a dozen different instructional settings.
Compensatory Education (0.2)	Provides extra funding for at-risk students who are performing below grade level. Eligibility is tied to student enrollment in the Federal Free and Reduced Price Lunch program. Non-disabled students in a residential placement facility also receive the 0.2 weight. Remedial and support programs for pregnant students receive a weight of 2.41.	HB 72 (1984)	$1.2 billion in Tier 1 per year	The weight originally was tied to federal census percentages of school-age children below the poverty level.
Career and Technology Education (1.35)	Originally called vocational education, provides extra funding to teach career and vocational skills for students in grades 7 to 12.	HB 72 (1984)	$190 million per year++	Enacted in 1984 with a weight of 1.45. Reduced to 1.37 in 1989. Reduced to 1.35 in 2003 and the commissioner was directed to identify courses that should not receive weighted funding
Bilingual Education (0.1)	Funds the incremental costs of bilingual education or special language programs for students whose native language is not English.	HB 72 (1984)	$150 million per year	Prior to 1984, the law allocated $50 for each student in a bilingual class and $12.50 for each student in an English as second language class.
Gifted and Talented Education (0.12)	Extra funding goes toward programs and services for gifted and talented students, such as Advanced Placement programs and the International Baccalaureate. Total funding is limited to 5 percent of ADA.	HB 72 (1984)	$68 million per year	Enacted in 1984 with a weight of 0.032. The weight steadily increased until 1991 and has since stayed at 0.12.

+allotment totals nearly $1.7 billion, but about $500 million still would occur as regular program funding if the weights were removed

++allotment totals nearly $700 million, but more than $500 million still would occur as regular program funding if the weights were removed

cumbersome and impractical requirement that comp ed funds be used only for these purposes. Separating activities that benefit students who qualify for comp ed funds from other activities can result in duplication and confusion about which expenses can be paid from these funds. Supporters also said that requiring school districts to pay for an annual audit of the use of comp ed funds is expensive and unnecessary and eliminating that requirement and replacing it with electronic oversight will save Texas school districts about $10 million per year.

Opponents of SB 894 said that the bill dilutes the purpose of the comp ed allotment by giving school districts broad discretion to fund programs that might benefit other students at the expense of those who need extra help. The purpose of the restrictions under former state law was to prevent districts from using comp ed funds to supplant funding for regular programs. Without these protections, districts could be more likely to use at least part of the funds to cover the cost of programs that benefit students who are not at risk. Further, the bill allows school districts to use comp ed funds to pay the full cost — not simply the additional cost — of alternative education programs for students at risk of dropping out. This has the potential of draining the resources of regular campus programs for at-risk students because the cost of operating an AEP is about six times higher than the cost of operating a regular program.

There is debate about whether the extra costs that result from operating small school districts warrant an adjustment that costs $330 million per year.

Small district adjustment. The small district adjustment is designed to benefit districts with fewer than 1,600 regular program students in ADA on the ground that the costs per student of operating smaller districts are higher than those of larger districts. There is some debate, however, about the necessity and value of this adjustment, which costs $330 million per year.

Supporters of the small district adjustment say that it costs relatively little and helps districts. Because studies have shown that student performance in smaller districts exceeds the Texas average, this is money well spent. In addition, they say that the identity of many small communities is tied to their local schools and that forcing smaller districts to consolidate would hurt community pride as well as cause economic hardship. Further, the small district adjustment has not prevented the natural process of consolidation. In 1948, there were slightly more than 5,000 school districts, and today there are only 1,038 districts. This trend is expected to continue, and some predict that within a decade there will be fewer than 1,000 districts.

Opponents of the small district adjustment question the data supporting its value and necessity. Unlike the sparsity adjustment, which is justified by clear diseconomies of scale that result from serving a very small population of students in a geographically large area, the data supporting the small district adjustment are less solid. Many of the districts that benefit from the adjustment are small by choice, not by necessity, and some of them are only two miles away from another school district. This is inefficient, opponents say, and flies in the face of sound business management. While consolidation may be politically difficult, it needs to be addressed, especially if by doing so lawmakers could grant taxpayers much-needed property tax relief. In times of fiscal constraint, opponents say, everything should be on the table.

Special education weights. Numerous studies show that children with disabilities require more specialized attention and intensive resources than students in the regular education program. Texas provides districts with extra funding for students with disabilities through a system of weights based on the instructional setting, which is determined by a student's individual needs. Current special education weights range from 1.1 for mainstreamed kids to 5.0 for homebound children. Federal law requires that students receive a free and appropriate education in the least restrictive environment, which means that districts must mainstream special education students whenever possible.

A common criticism of special education funding is that it encourages districts to "game the system" by diagnosing children with learning disabilities for financial benefit. However, districts say the incentives to mainstream kids with disabilities are greater than the incentives to move

Linking weights with equity, adequacy, and accountability

In the decades following the enactment of HB 72, the trend toward linking school finance and accountability systems has led some policymakers to examine the research behind the weights in an effort to determine whether added financial investments in special programs do in fact yield improved student performance. When equity, adequacy, and accountability intersect with school funding, it raises a number of questions about whether the current school finance system is built to accommodate all these goals.

As the school finance debate shifts away from program resources (or inputs) and more toward student achievement (or outputs), in part led by the federal No Child Left Behind (NCLB) Act, increasing government scrutiny will focus on whether weighted funding is linked by evidence to improved outcomes. The easiest way to measure outcomes is with a quantitative or data-driven approach, which has come to be represented by student performance on state achievement tests.

When equity, adequacy, and accountability intersect with school funding, it raises questions about whether the current system is built to accommodate all these goals.

Understanding the link between the formula weights and adequacy means recognizing that there are several different kinds of equity. School finance policies can promote equity among children or taxpayers or districts. They also can differentiate between the goals of horizontal equity and vertical equity. Horizontal equity attempts to level the playing field among the similarly situated, while vertical equity attempts to level the playing field for the differently situated.

When most people discuss equity in Texas school finance, they generally mean horizontal equity for taxpayers, defined as fiscal neutrality by the *Edgewood* courts, or "substantially equal access to tax revenues for similar levels of tax effort." The Legislature has set three guideposts for horizontal equity: 85 percent of the students and 98 percent of the money must be in an equalized system; and the revenue gap per student between the wealthiest and poorest district may not exceed $600. An example of a formula adjustment that contributes to horizontal equity is the CEI, which adjusts for varying levels of purchasing power of otherwise similar districts located in geographically diverse areas of the state.

The formula weights tend to focus more on achieving vertical equity, thus ensuring that differently situated children receive comparable funding for their educational needs. For example, the special education weight supports the premise that children with disabilities should be given extra resources because educating a child with special needs requires a greater investment of time and money than educating a child in the regular education program. The same theory holds true for children in bilingual education, gifted and talented, or career and technology programs. Federal education funding also is aimed primarily at creating vertical equity for educationally disadvantaged children (through Title I) and for children with disabilities (through special education programs).

In general, a system designed around horizontal equity will tend to be more concerned with money and outputs, or "the bottom line," while a system designed around vertical equity tends to be more concerned with resources and inputs, or whether the needs of every child are met. This is where equity and the formula weights can be linked to adequacy, insofar as the state is concerned with providing the appropriate level of resources to bring all children up to an acceptable (or adequate) performance level.

regular program kids into special education programs because current funding levels do not come close to paying for the time and resource intensive job of educating a child with learning disabilities. Besides, federal law requires a certain maintenance of effort for special education funding, meaning that the state and local districts cannot spend less from year to year regardless of economic conditions.

Do the formulas still support fiscal neutrality?

One of the biggest complaints by school districts is that unless the formulas are updated on a regular basis, the equity they were intended to create becomes skewed over time. Two of the most frequently cited examples of this problem are the transportation allotment, which has not been updated since 1984, and the Cost of Education Index (CEI), which has not been updated since 1991.

The effect of not updating these two portions of the formula creates a greater impact on equity than not updating other weights or adjustments because of the interaction with a district's count of weighted students, or WADA, in Tier 2. None of the transportation allotment and only 50 percent of the effect of the CEI is included in the calculation of a district's WADA. When an allotment is excluded from WADA, it means that a district with higher costs in that area will have an understated WADA count, which means that a district receives less Tier 2 aid.

Transportation allotment. The cost of transporting public school students is shared between local districts and the state. The transportation allotment determines how much each district receives from the state for this purpose. HB 72 established the current method for calculating the Tier 1 transportation allotment according to "linear density groupings." Linear density is calculated by dividing the district's regular bus route miles by its number of riders. The district's linear density then is matched with one of seven density groupings and its corresponding per-mile allotment rate, as established in the appropriations process. Linear density is considered one of the most accurate and efficient measures of transportation costs, as it is based on actual ridership rather than ADA, and it creates an incentive for school districts to minimize bus route miles in relation to riders. The per-mile allotment rates have remained unchanged since 1984. The rates immediately prior to 1984 were about 30 percent lower.

Texas currently pays about 40 percent of the total cost of student transportation. By contrast, some other large states, including Florida, Illinois, New York, and Ohio,

The cost of adequacy in the Select Committee report

In March 2004, Texas A&M economists presented to the Joint Select Committee on Public School Finance a report that used data on school district expenditures and outcomes to determine more precisely the actual cost of delivering an adequate education to Texas students. The report defines adequacy as a passing rate on the TAKS exam of 55 percent in all grades and demographic categories for each school district. To achieve this goal, the authors estimate that the state must spend on average between $6,172 and $6,271 per pupil, some $300 less than it spends today. They estimate that it would cost an additional $226 million to $408 million per year to bring all districts up to the 55 percent standard without reducing the spending of districts that already meet or exceed the standard.

The report accounts for differential costs associated with certain student characteristics. The authors estimate, for example, that the additional cost in 2002 dollars to educate a comp ed student ranges between $1,573 and $2,077 above the cost of educating a student in the regular program. Educating a student with limited English proficiency might cost up to $1,707 extra, while the additional cost of educating a special education student could range between $2,414 and $7,433, depending on the disability. Finally, they calculate the differential cost of educating a high school student at between $2,717 and $4,736. Differential cost means that a district with greater than the state average share of these types of students would have this additional cost for each student above the average share. A district with less than the average state share of these types of students would have a lower cost for each student below the average share. The authors plan soon to release a technical supplement that contains additional data and detail on the calculation of student costs in the report.

contribute more than 50 percent of transportation costs, while California contributes two-thirds of the cost. School districts say that as the cost of transporting students grows, not only has the financial burden shifted to local districts, but it also has created inequity for school districts with higher transportation costs.

As a district's transportation costs increase, it must draw money from other sources to make up the difference in what the state does not fund through the transportation allotment. The only alternate sources for transportation funding are the (Tier 2) guaranteed yield and local tax dollars comprising the district's M&O budget. The more M&O revenue a district must use on transportation, the less is available for instructional programs otherwise funded through Tier 2. To the extent that local tax dollars are equalized by the state, the state still funds local transportation expenses — it simply shifts them out of Tier 1 and into Tier 2. The differing tax revenue available to districts with a range of transportation costs creates a potential inequity for taxpayers who reside in districts where transportation costs are high and for students in those districts who may be deprived of certain educational programs as a result.

Cost of education index. HB 72, in 1984, created a complex adjustment to the basic allotment called the "price differential index," now called the CEI. This adjustment reflects the varying costs of educating students in different parts of the state based on teacher salaries in neighboring districts, school district size and location, and concentrations of low-income students. The purpose of this adjustment was to account for the tremendous variation in the purchasing power of districts across the state. Texas was only the third state in the nation to adopt a CEI (after Florida and Missouri). The CEI was updated by rule in 1987 and 1991, but not since.

While the CEI was designed to equalize geographic price differentials among school districts, critics argue that it does not adequately perform this function. When the CEI was enacted in 1984, many districts objected to the use of teacher salaries as the primary proxy for education resource costs. The prevailing belief was that the CEI formula benefitted large, urban, and wealthy districts more than others because these districts generally paid their teachers higher salaries.

Critics said that the CEI ignored a host of other variables that affect educational costs. Teacher salary costs remain the major proxy for education resource costs, but a Charles E. Dana Center study released in November 2000 found that other factors, such as teacher certification status, affect the cost of hiring teachers. Further, the Dana Center study recommended that certain community characteristics, such as the average price of housing, be factored into the CEI, as housing prices influence a teacher's willingness to live and work near a school. In an analysis that builds on the Dana Center study, researchers at Texas A&M University presented a report to the House Joint Select Committee on Public School Finance in March 2004. This study also recommends the adoption of a new CEI to account for uncontrollable cost factors that affect teacher compensation and estimates that Texas' highest-cost district must pay at least 29 percent more than the lowest-cost district to hire a comparable teacher.

Another recent study of the cost of improving student performance (Reschovsky and Imazeki, 2003) concluded that the current Texas school finance formulas give small school districts more aid than would a foundation formula based on cost adjustments. According to this analysis, replacing the current weights with a cost-function formula could increase financial assistance to large urban school districts at the expense of smaller school districts.

Because the CEI has not been updated since 1991, critics argue that costs formerly paid by the state have now shifted to local school districts. The Alvarado ISD plaintiffs, a group of 240 school districts that recently joined the *West Orange-Cove* suit (see *Constitutional issues around weighted funding*, page 5), argue that by leaving the CEI unchanged the state has ignored data demonstrating the need to provide additional resources to meet its obligation to adequately fund education. As uncontrollable costs have risen over the past 13 years, such as the price of wages or employee benefits or the cost of electricity or insurance, local districts have had to take money from their M&O budget to make up the difference. When school districts must shift revenues away from instructional costs in order to keep up with inflationary pressures, it creates an inequity for taxpayers and students who reside in districts with higher uncontrollable costs, say critics of the CEI.

— by Dana Jepson

HOUSE RESEARCH ORGANIZATION

Steering Committee:

Roberto Gutierrez, *Chairman*
Dianne White Delisi, *Vice Chairman*
Harold Dutton
Peggy Hamric
Bob Hunter
Carl Isett
Mike Krusee
Jim McReynolds
Geanie Morrison
Elliott Naishtat
Joe Pickett
Robert Puente
Elvira Reyna
G.E. "Buddy" West
Steve Wolens

John H. Reagan
Building
Room 420
P.O. Box 2910
Austin, Texas 78768-2910

(512) 463-0752
FAX (512) 463-1962

www.capitol.state.tx.us/hrofr/hrofr.htm

Staff:

Tom Whatley, *Director;* Ben Davis, *Editor;*
Rita Barr, *Office Manager/Analyst;* Betsy Blair,
Kellie Dworaczyk, Patrick K. Graves,
Tedd Holladay, Dana Jepson, Kelli Soika,
Research Analysts