

PUBLIC SCHOOL
FINANCE AND
THE FUTURE OF
PUBLIC EDUCATION



TEXAS CONSERVATIVE COALITION
RESEARCH INSTITUTE

April 22, 2004

Dear Colleagues:

The Texas Conservative Coalition Research Institute convened its School Finance Task Force in July 2003, in order to bring a conservative voice to the debate. From the beginning, the task force looked for input from people around the state with an historical perspective and new ideas on the school finance issue. Our mission, from the beginning, was to explore conservative principles as they relate to school finance, with an emphasis on improving public education while providing necessary tax relief.

As we approach a special session, the work is just beginning. The education reform recommendations and tax principles in this report begin to address the immediate needs of the state in dealing with this issue. It is our hope that this report lays out the conservative principles that will act as a guide to legislators through this special legislative session. However, we have come to the conclusion that there is still much to be done. Much of this will require a long-term commitment to changing culture and vision for public education in Texas.

We would like to extend our thanks to those who participated in the task force, as well as the many people that have so generously shared their insights with us. We look forward to working together in the upcoming session to address these issues and support our vision for education finance reform in Texas.

Sincerely,



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**Texas Conservative Coalition Research Institute
School Finance Task Force**

**Public School Finance
and the Future of Public Education**

April 2004

The contents of this document do not represent an endorsement from any individual member of the Board of Directors of the Texas Conservative Coalition Research Institute, any individual member of the TCCRI School Finance Task Force, or any individual member of the Texas Conservative Coalition. There may be some policy recommendations or statement of philosophy that individual members may be unable to support. We recognize and respect their position and greatly appreciate the work of everyone involved with the task force.

Executive Summary

The Texas Conservative Coalition Research Institute's School Finance Task Force began work in anticipation of a special session on school finance with several assumptions. First, the task force agreed that the greatest objective of reforming school finance lay in providing real property tax relief and abolishing Robin Hood. Second, the task force agreed that there was not overwhelming evidence that the education system needed more money (except for population growth). In particular, the task force concluded that the noxious system of recapture known "Robin Hood" was financially crippling school districts that heretofore had been preferred destinations for Texas families and that this system must be abolished. Third, the task force determined that inefficiencies could be found within education spending, as well as within the state budget as a whole, and that tax relief can and should originate from establishing priorities and demanding greater efficiency. Fourth, and finally, the task force found that regardless of the strides made in education to date, higher levels of performance could still be achieved through a combination of incentives and changes in the structure of public education.

After months of debate, study, and discussion, however, many have lost sight of the fundamental problem as well as the most straightforward solution. The task force's starting point is perhaps the most critical piece of this evaluation, as it provides direction not only to the solution, but also to the real problem. Ultimately, much of this debate relies on applying the first principles of conservatism to this debate, primarily: reducing the individual's tax burden and cutting spending, as a means of limiting government, valuing local control, and relying on the free market to initiate reforms. By laying out the fundamental problems from the beginning, as well as the guiding principles to find a solution, the task force recommendations not only provide other lawmakers with a map for evaluating these issues, but also specific recommendations to improve Texas' education system.

Finance Recommendations:

1. Create a Joint Select Committee on Public Education to recommend a long-term education reform plan to remodel and reshape the organizational structure of public education.
2. Clarify language in Article VII, Section 1 of the Texas Constitution, more precisely outlining the state's obligation to fund and operate a system of education.
3. Reduce property taxes up to seventy-five cents per \$100 of value.
4. Eliminate the current "Robin Hood" system of recapture.

5. Measure the success of a special session by the amount of real tax relief provided to Texas taxpayers.
6. Hold the line on spending.
7. Put a priority on closing exemptions in the current system.
8. Taxes on gambling, tobacco, drinking, or pornography are consumption taxes that, perhaps, should be considered but not as reliable central sources of revenue for public education given their track record of either failing to meet expectations or fluctuations in income.
9. Reject a personal income tax and Video Lottery Terminals as an option for revenue.
10. Reform the appraisal process to help arrest unjustifiable increases in valuations, and hold hearings to determine appropriate oversight of appraisal districts.

Principles of Tax Reform:

1. Consumers almost always pay all the taxes.
2. Any changes to the tax system must be transparent to the general public.
3. Especially if large-scale changes are made to the tax code, the new system must retain some measure of local financing and local control of spending.
4. While changing the system of taxation, remain keenly aware of the impact on job creation.
5. Changes to the tax system must take costs of compliance into account.
6. Before creating new taxes, focus on ending loopholes, exemptions, and exclusions in the current system.
7. If a new tax is created other taxes must be eliminated.
8. Revenue from a reformed tax system must be dedicated to education.

System Recommendations:

1. Remove protections for consistently low-performing teachers, and reform pay structures that weigh longevity over performance.
2. Recognize outstanding teachers as the state recognizes outstanding school districts and campuses.
3. Students in colleges of education should get classroom experience early and often throughout their time as a student.
4. Alternative teaching certification programs should be designed to encourage success and bring teachers to the classroom with experience and expertise in the content areas in which they will teach.

5. School superintendents should as readily come from business management as from the teaching corps.
6. Consolidate many administrative functions within the Regional Education Service Centers.
 - a. Hold Committee hearings on the organization of public school administration to identify areas of overlap, duplication and redundancy; and the increasing number of non-classroom employees which is now a 1:1 ratio with teachers.
7. Free school districts rated “exemplary” or “recognized” from certain mandates.
8. Require all Texas students to take a nationally-normed and curriculum-based achievement test to measure college readiness.
9. Pass a pilot school choice program to empower parents to use their tax dollars to send children to the school of their choice.
10. Adopt a block-grant funding formula.

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General Overview

The school finance debate began by evaluating the cause and impact of rising and burdensome residential property taxes and the adverse effects of the “Robin Hood” system of recapture. Over the course of a decade and, more recently, since the beginning of the 78th Legislature, the debate has morphed and mutated from a call to reduce residential property taxes to, alternatively, revamping the system of school finance to a complete overhaul of the tax code; simultaneously, various interests have ladled large servings of rhetoric to argue that more funding is necessary to redress chronic inequalities or to “improve” school performance. While reducing property taxes are a near certainty and eliminating the “Robin Hood” recapture plan a necessity, the debate has largely ignored the looming question: what is the future of public education and how do we get there?

Over the course of the past year, and particularly since the end of the 78th Regular Session, the Joint Select Committee on Public School Finance and various private organizations, including the Texas Conservative Coalition Research Institute (TCCRI) School Finance Task Force, have considered multitudes of proposals to deal with the problem of school finance and education within the existing system of public education.

Legislation for the better part of two decades has either dealt with the functional aspects of school finance, or only begun to initiate an overhaul of public education. In the past decade, a successful system of testing and measurement has been implemented, various programs, such as the reading initiative have been funded and have worked, and the Texas Education Agency (TEA) has streamlined grant-making and embraced quality assurance. The fiercest battles over the content of textbooks have improved the possibility of learning by school children, while major reform ideas, such as the Public Education Grant (PEG) program, have been tried and incorporated in President Bush’s “No Child Left Behind” Act. Challenges to conventional wisdom have worked: the system is more result-oriented, performance-based, and child-focused than ever before.

But even though Governor Perry (and Governor Bush before him) must be applauded for placing an emphasis on education reform, the system, at its core, is largely unchanged. A new vision for public education is necessary. The social, demographic, and economic conditions evident in 1854 with the signing of the Common School Law by Governor Elisha Pease do not exist today. The state is wealthier and more urbanized;

rapid transportation is available; instantaneous communications are commonplace; various forms of management techniques have been successfully implemented in the private sector; choice and competition work; knowledge is more freely acquired and universally exchangeable. It is time for a radical change in the operational structure of public education.

However, neither this report nor the report by the Joint Select Committee on Public School Finance has addressed or will address the larger imperative to change public education as we know it. That is a debate for another day, and the co-chairmen of this Task Force are hopeful that Speaker Tom Craddick and Lt. Governor David Dewhurst accept the challenge of establishing a Joint Select Committee to examine the future form of public education in Texas.

The more immediate task before the Legislature is to eliminate Robin Hood, fix the problem of burdensome local property taxes caused by rising property valuations and a broken appraisal system, and continue the process of reform within public education. Government does not have an unlimited claim to taxpayers' income, even for the noblest of causes such as public education. There is a limit that any taxpayer can bear; Texans have long passed that threshold. Taxes must be reduced.

How the Legislature grapples with the problem of providing local property tax relief while holding districts "harmless" from adverse ramifications of ending the current system of recapture is a difficult proposition. Arriving at a solution is facilitated by a reinvigoration and understanding of fundamental principles on which school finance must rest, and that is the purpose of this report.

Finance Recommendations

1. Since 2004 marks the 150th anniversary of state funding for public schools, it is imperative that the Legislature create a Joint Select Committee on Public Education to recommend a long-term education reform plan to remodel and reshape the organizational structure of public education.
2. Lawmakers should consider clarifying the language in Article VII, Section 1 of the Texas Constitution, with a focus on outlining the state's obligation to fund and operate a system of education. Lawmakers must specify the standards to which the state should be accountable, rather than relying on judicial fiat. For example, the state might only fund classroom instructors and principals because they are the heart of classroom instruction. All other personnel could be funded locally.

3. The success of a special session should be measured by the real tax relief (up to seventy-five cents per \$100 of value) provided to Texas property owners and by eliminating Robin Hood. The aggregate total tax burden for a resident of a Chapter 41 District (where the property tax problem is most acute) should be lower after the tax changes go into effect than before. Anything else is unacceptable.
4. Lawmakers must hold the line on new spending above “hold harmless” objectives. Any additional money for education should first come from within the existing budget by reordering the state’s budget priorities, and looking for reforms within public education. A special session is not the time to create new obligations for public education; it is time to fix the system of finance.
5. Tax equity should be a priority. There are enormous revenues to be generated for a reduction in property taxes within the parameters of the existing tax system mostly by ending exemptions and exclusions to the sales and use tax, exemptions to the property tax, and closing legislatively-created loopholes in the franchise tax, if retaining the franchise tax is ever a desirable option. The Joint Select Committee on Public School Finance, for example, has recommended a broadening of the sales tax base, which would involve closure of select exemptions and exclusions. Fewer exemptions create tax equity which would enable the Legislature to lower rates.
6. Taxes on gambling, tobacco, drinking, or pornography are consumption taxes that, perhaps, should be considered but not as reliable central sources of revenue for public education given their track record of either failing to meet expectations or fluctuations in income. Furthermore, state policy must be consistent. One agency of government should not expend money for the cessation, amelioration, or treatment of diseases and addictions related to those behaviors, while another relies on revenue generated by those behaviors. Culture matters, and the message the State sends to its citizens must be clear and unequivocal.
7. Reject a personal income tax and Video Lottery Terminals (VLT) as options for Texas.
8. Hold hearings on oversight and accountability of appraisal districts, and pass comprehensive reforms of the appraisal process. HB 6 (78-4) could serve as a model for reform.

Budget Crisis-Take Two

In the run up to the 78th Regular Session, many lawmakers and opinion leaders spoke of the state budget woes as if the end were near. Many people clamored for tax increases to balance a budget that had grown fat on a good economy. Many lawmakers and stakeholders reassured the public that there was no room to cut and that the state was already operating at the highest efficiency. In fact, the hyperbole was so thick that state agencies made dire predictions of what would happen if their budgets were cut: increased drunk-driving deaths, longer hold times for phone calls reporting child abuse, and declines in the percentage of baccalaureate recipients who are first-generation college students.¹ Conservatives, however, knew better and got to work. The liberals complained and talked about tax increases, while conservatives looked for innovative ways to balance the budget without new taxes.

With two camps coalescing around two distinctly different ideas -- one to increase taxes and the other to cut spending -- Texas voters had a clear choice to make at the polls in November 2002. Ultimately, Texas voters made it clear that they were taxed enough already and did not want to pay more. When conservatives talked about setting priorities, the people responded to their message. The comparison of the state to a family setting a budget was appropriate and well understood as many lawmakers promised that the state would live within its means, just as thousands of Texas families do every day. Lawmakers made it clear that they would not be strapped to a budget that was spiraling out of control, nor cowed into passing tax increases that were contrary to their constituent's expectations. Ultimately, with new leadership and a mandate from Texas voters, conservative lawmakers were able to deliver on their "no new taxes" pledge.

Now, a year later, nothing has changed. In the name of "children" and "education," liberals have had a megaphone in the media to advance their brand of big government through calls to increase taxes and spending. Whether from lawmakers, opinion leaders, or education advocates, the calls for new revenue for education have again shown a penchant for the dramatic. In talking about the virtues of a state income tax, an editorial in the *El Paso Times* expresses the imperative for action and increased spending for education by declaring that, "push is coming to shove and unless our lawmakers dig deep and find the gumption to do something about it, our kids will be adding 2 plus 2 in the dirt with a stick."²

As before, the fans for big government have piously wrung their hands over the need to raise taxes while taking every opportunity to attack or discredit the possible options floated around the Capitol. Offering no new or innovative ideas of their own, proponents of big government have renewed their interest in growing government on the coattails of education. Just as liberals declared the state would need as much as a \$12 billion tax increase before the Regular Session in 2003, Molly Ivins has again declared that we need more money: “We need at least \$10 billion in new taxes to fix this system without harming the schools. The alternative is a \$2 billion fix patch on the old system that will further decay the schools.”³ Calling for more money is not new. Had the state heeded the liberals’ suggestions over the last two years, Texas taxpayers would now shoulder more than \$20 billion in new taxes in the last year alone. Tellingly, Ms. Ivins would not be satisfied with just any increase in education spending, as she goes so far as to suggest that a \$2 billion *increase* would be injurious, resulting in decaying schools. Echoing Ms. Ivins, Judge Scott McCown, Executive Director of the Center for Public Policy Priorities, has called for an additional \$5.5 billion annually to be dedicated to education.⁴ Neither Ms. Ivins nor Judge McCown sets a ceiling for education spending and, given their parallel track records in calling for higher taxes and additional spending, it would be fair to suggest that both would advocate still more tax and spending increases in future years.

Furthermore, just as questionable new streams of revenue were openly discussed before the last regular session, tax increases on the purchase of tobacco, as well as expanded gaming in Texas have again been on the list of possible sources of new revenue. With a continuing desire to stake a greater claim to taxpayer dollars, the liberal philosophy has championed increased taxes for just about any purpose it can find. With education on the table now, many on the left have recognized an opportunity to drown out the discussion of tax relief and instead tap into new streams of funding for the state.

Calling for more money is not new. Had the state heeded the liberals’ suggestions over the last two years, Texas taxpayers would now shoulder more than \$20 billion in new taxes in the last year alone.

That liberals have begun to drown out the calls for tax relief with calls for increasing spending and increasing taxes, reinforces the need for a conservative voice to return focus to this debate. The fundamental objective of a special session should be to provide real tax relief, which will necessarily require stemming the tide of increased spending, setting priorities, and looking to innovative and efficient ways of providing education to Texas students. In truth, this will require rethinking much

of the conventional wisdom that has grown up out of empty standards and come to be regarded as truths. Meaningful and lasting reforms are necessary, but will not be achieved without comprehensive evaluation of why we are here and where we ultimately want to be.

First Principles

Taxes

This debate is about providing relief from the rising residential property tax burden and eliminating Robin Hood. While the debate has turned to other issues such as school finance in general, reforming the tax code, educational reforms, or increased appropriations for public education – all of which are either necessary or desirable – the outcome of the debate will be judged first and foremost on whether the elected leadership answered the call to reduce the state tax burden.

In fact, the effort to provide property tax relief began over a decade ago when candidate George Bush ran for Governor on the issue. Once elected, Governor Bush formed a citizens committee to consider alternatives to a property tax-based system of finance but with little success. The effort that former Governor Bush made is a warning to all conservatives: the limited relief derived from the Governor's efforts proved fleeting, and the new spending that resulted in 1997, 1999 and 2001 proved sacrosanct, setting new floors for education spending. Though certain programs funded by the Legislature have very little to do with meeting constitutional requirements for "making suitable provision" for "a general diffusion of knowledge," spending can and does extend the scope of the education bureaucracy and general administration, driving costs and adding pressure to the system.

The debate in 1996-97 serves as an important reminder to conservatives entering the school finance debate today. The debate was hijacked then because conservatives did not remain focused on the core problem of providing property tax relief. What was delivered was an increase in the state homestead exemption, which quickly evaporated while new dollars were appropriated for public education. Now, in the famous words of the Yankee great, Yogi Berra, "it's déjà vu all over again."

From 1990 to 1999, state and local taxes increased 74% respectively, with state local taxes, combined, totaling \$28 billion at the start of the decade and growing to nearly \$50 billion by the end of the decade.⁵ By fiscal year 2001, total state and local taxes exceeded \$53.7 billion, with property taxes accounting for 43% of the total collected with the school levy the greatest portion of property taxes collected.⁶ Clearly, population and economic growth contributed to the rising tax receipts but so did a system that facilitated raising such enormous sums of money from residential home owners and capital-intensive industries.

Texas property taxpayers never stopped demanding relief, but nothing has been accomplished to fundamentally solve the problem. As the “Property Taxes at a Glance” chart shows below, surveying statewide, taxpayers have seen large increases in their total property taxes from year to year.

**Property Taxes at a Glance:
Totals by Tax Year**

Tax Year	Total Tax Levy	% Increase over Previous
2002	\$27.3 Billion	7.9
2001	\$25.3 Billion	12.4
2000	\$22.5 Billion	11

Compiled from Texas Comptroller of Public Accounts’ Annual Property Tax Reports, Tax Years 2000, 2001, and 2002.

In 2002, school districts’ taxable property values totaled more than \$1 trillion, increasing 6% between 2001 and 2002.⁷ And statewide averages don’t begin to tell the whole story. In the Houston area alone, the home property tax burden has gone up 89% in six years.⁸ In response to these increases, particular groups of taxpayers have sought tax relief individually through a variety of exemptions and tax ceilings. According to the Comptroller’s office, “more than one-fourth of the property tax laws passed by the 78th Texas Legislature addressed property tax exemptions...”⁹ That property taxes seem to increase several times over,

and that the state Legislature recognizes the imperative to provide tax relief, is underscored by the fact that the Legislature has carved out a large number of exemptions (or allowed local governments to provide such exemptions) that deleteriously shift a greater portion of the burden to those who are left to

The Legislature has carved out a large number of exemptions (or allowed local governments to provide such exemptions) that deleteriously shift a greater portion of the burden to those who are left to pay the taxes.

pay the taxes, which impacts school finance. For example, as was noted in a report by the Dana Center, tax abatements allowed for by House Bill 1200 of the 77th Regular Session “could put fiscal pressure on the school finance system.”¹⁰ In fact, it is clear that all property-tax payers need relief, and a predictable and cost efficient system.

Lawmakers must remain focused on providing real tax relief to Texas taxpayers. Tax relief is not simply changing the way taxpayers remit property taxes—taxpayers are not unhappy that they write a check to a

central appraisal district instead of the state; they are upset about how much they pay in taxes and that the system seems so arbitrary. A change in the tax structure that fails to provide real tax relief and reform the process does not solve the underlying problem.

Clearly, some people are averse to the notion of tax relief. An editorial in the *Waco Tribune-Herald* notes that a special session on school finance will be difficult and complex and tells readers that, “(Governor) Perry appears not content to focus on this difficult matter. He wants the special session to consider more, including a ‘property tax relief measure.’”¹¹ The views expressed in this editorial would suggest that the issue of property tax relief is only a peripheral—rather than the central—force behind the debate. Instead, interest groups such as the Texas Classroom Teachers Association (TCTA), admit that their greatest concern is putting new money into the system: “figuring out where to get new money to replace the reduced property taxes doesn’t get schools ahead...that’s just switching dollars around. It just keeps us where we’re at right now.”¹² Clearly, property tax relief is not high on TCTA’s agenda and they are as discouraged as many fiscal conservatives have been that switching dollars around doesn’t do anything. In TCTA’s case, switching dollars around prevents the Legislature from meeting TCTA’s call for new revenue. In the case of property-tax relief supporters, switching dollars around fails to provide needed tax relief.

Whatever one may think of his so-called “Split Roll” tax plan, Governor Perry has rightly focused on the fundamental need for tax relief and has challenged those who merely want to shift the tax burden (rather than lowering it) or increase spending aimlessly (rather than getting more for every education dollar the state spends through incentives and reforms). In speaking to Texans demanding tax relief, Governor Perry challenged big government advocates saying that when they “show contempt for my property tax control plan, they are not just thumbing their noses at me, but at millions of homeowners and employers who have been under siege by skyrocketing property tax rates and valuations.”¹³ Governor Perry and other state leaders must stay the course on tax relief and the imperative of doing better with the education dollars that are currently appropriated before new dollars are poured into the system (aside from what is necessary to cover increased student enrollment).

Governor Perry has rightly focused on the fundamental need for tax relief and has challenged those who merely want to shift the tax burden (rather than lowering it) or increase spending aimlessly (rather than getting more for every education dollar the state spends through incentives and reforms).

But relief shouldn't just take any form. Tax relief, and more broadly tax reform, should be predicated on sound, fundamental principles. As we have determined they are:

1. Consumers almost always pay all the taxes. The Comptroller's Report, "Tax Exemptions & Tax Incidence," reinforces this very important point. "It should be recognized that any tax levied directly on a business will ultimately be paid by real, live people—if not consumers via higher prices, then business owners via reduced profits or employees via reduced wages ... In any case, or in any combination where the tax burden is borne jointly, the old cliché is true: 'Only people pay taxes.'"¹⁴ Recommendations to impose new and higher business taxes are mostly a charade. Business taxes are generally paid by consumers and workers – and not from the gross income of the business, as some would argue. Former Governor Bush's tax panel affirmed the point: "While both businesses and individuals pay taxes, ultimately the bulk of business taxes is passed on to individuals, either directly through higher prices, or indirectly through lower wages, dividends and investment returns."¹⁵ Imposing "business" taxes is merely a tool for making taxes less transparent to the general public, and therefore, less prone to debate and reconsideration.
2. Any changes to the tax system must be transparent to the general public. The fact that homeowners complain about their property taxes is manifestly one of the few good features of the current system: they know what they are paying and must write a check each year to a Central Appraisal District. The most insidious taxes are those hidden from view, or where the taxpayer doesn't have a clue that he is paying the bill anyway. This was a major issue exposed in the TCCRI poll on school finance. The best system would require direct payments from the taxpayer to the state, or to local school districts to fund public education.
3. If large-scale changes are made, the new tax system must retain some measure of local financing and local control of spending. One of the worst aspects of the federal income tax system is that there is no relation between the taxpayer and program outcomes. Money is taken from individuals, funneled through the IRS, and spent in a manner that has the highest degree of separation from the individual. As a consequence, the taxpayer has no direct or meaningful say in the program, and federal administrators are indifferent to taxpayer views. There must remain a direct connection between the taxpayer and the public schools that serve their area. New methods of statewide financing could end up severing all ties to local schools, which would be a mistake.

4. While changing the system of taxation, remain keenly aware of the impact on job creation. Some of the tax schemes being recommended to the Legislature could have a negative impact on economic development and the consumer. Given the Governor's commitment to driving new business locations to the state and the Legislature's interest in maximizing the benefits of the Texas Enterprise Fund, it is imperative that the new system be an improvement over the current one which tends to impose extremely high property taxes on capital-intensive industries. Lower overall rates would help improve the state's job picture, which is improving but must be better. A growing, healthy economy is required to provide for the future funding needs of our educational system.
5. Changes to the tax system must take costs of compliance into account. One of the chief problems with the property tax system is the burdensome and costly process of assessment and collection. The apparatus created to administer local property taxes is immense (taken from a statewide perspective), and the cost to local homeowners and businesses is equally high particularly in the degree of difficulty in challenging it. The features most common between the property tax and the federal income tax are (a) only those with substantial resources itemize deductions, maximize loopholes, and dispute what might be owed; and (b) the cost to administer the taxes is very high for both the public and private sectors. Simplicity is the key, which makes the sales tax one of the least intrusive taxes.
6. Before creating new taxes, focus on ending loopholes, exemptions, and exclusions in the current system. The Comptroller's "Tax Exemptions & Tax Incidence" report shows that in FY 2003, the value of all sales and use tax exemptions and exclusions was almost \$23 billion; the value of those exemptions is expected to grow to almost \$28 billion by FY 2008. Of the exemptions that the Comptroller's Office can estimate (including the homestead exemption), the value of exemptions to the school property tax are over \$4 billion annually now and are estimated to be worth over \$6 billion in five years. The state could scrap the Robin Hood system and provide substantial property tax relief just by ending exemptions and exclusions. According to a report by the Charles A. Dana Center, "Economist Ray Perryman has argued that just eliminating sales tax exemptions might raise enough revenue to replace property taxes as a source of revenue for schools."¹⁶
7. If a new tax is created other taxes must be eliminated.

8. Any new revenue from a reformed tax system must be dedicated to education.

Taxes on consumption tend to generally meet Principles 1-6, and have the additional benefit of “controllability” – in other words, taxpayers have some control over what they might spend. Furthermore, the apparatus to collect and remit sales and use taxes is already in place, and it is relatively inexpensive. The Office of the Comptroller collects over \$26 billion annually in sales, use and other taxes for a general revenue cost of just under \$150 million annually. The public sector cost of collection is .005 of the total taxes collected by the Comptroller.¹⁷

Perhaps for those reasons, and others, that the substance of Senate Bill 2 (78R), the final report of the Joint Select Committee on Public School Finance, and the Office of the Governor have generally turned to consumption taxes as a chief means of raising revenue to finance a cut in property taxes and to eliminate Robin Hood. According to the bill analysis, SB 2 “requires local revenue from state sales tax base expansion to be used for tax relief unless another use is authorized by local voters. There is a 40 percent sales tax exemption for certain financial assistance and food stamp recipients (i.e., Lone Star Card recipients). Health care services are exempt from sales tax.”¹⁸

Consumption taxes have been a remarkably reliable source of revenue. Subsequent to adoption of the sales tax in 1961, “the sales tax immediately proved that it could generate considerable amounts of money.”¹⁹

While questions about the regressive features of consumption taxes cannot be dismissed, consumption taxes tend to be superior to other forms of taxation.

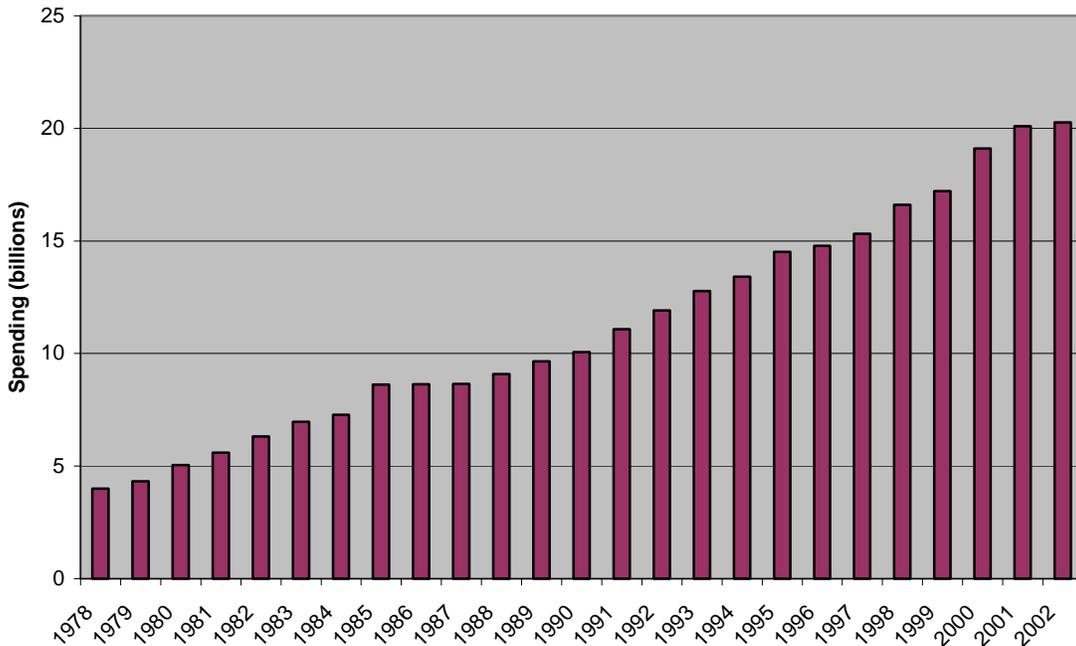
Nonetheless, the standards outlined above allow Legislators wide latitude to determine what system might be best suited to fund schools. There is no magic bullet solution to this problem; the best Legislators can create is a system of taxation that rests on key principles to avoid unnecessary and adverse economic and fiscal ramifications.

Spending

Cutting taxes has nothing to do with how taxes are collected, only how much is collected. Taxpayers are not upset about how they pay taxes, only how much they pay. Quite simply, providing tax relief means two things: reforming the current system of taxation and cutting spending. Unfortunately, not everyone is looking to provide tax relief—some are

actually looking for ways to increase spending in the name of children and education. Certain liberal interests and education advocacy groups recognize that a special session on school finance is an opportunity to take more from the taxpayer's pocket and have set up a straw man to convince Texans that the state doesn't care about education. However, accusations that the state is abdicating its responsibility to educate Texas children are hollow and misplaced when surveying the state's spending on education over the last twenty years. The graph below reflects state spending on education since 1978 and illustrates that each year, without exception, the state has put more money into education than the year before.²⁰ In roughly twenty-four years, state spending on education has grown about 500%.

State Spending on Education 1978-2002



Despite these constant increases, the percentage of the state budget that goes to education reached its high in 1985 at 52.2% and has declined to 36.3% in 2002.²¹ The decline in education spending as a percentage of the state budget is directly attributable to steady increases in health and human services spending. That the state contributes less to public education as a percentage of total education spending, thereby putting greater responsibility for financing public schools on local taxing units, is indisputable; however, in truth, this is a question of priorities. The state can quite easily put more money into education by drawing from other

areas of the budget that siphon money from education, but this requires the state to set education as its highest and unassailable priority, work within its available resources, and allocate money to education first, then to other areas of government accordingly.

Furthermore, a declining state share of overall spending on public education has led to two fictions that only distort the facts.

First, there is nothing to distinguish a “state” taxpayer from a “local” taxpayer. There is no system of federal, state, or local finance that changes the fundamental fact that almost all revenue is derived from individuals. The difference between using “local” tax dollars versus “state” tax dollars is merely the difference between taking money from one’s left pocket or right pocket. As certain advocates have devised schemes for the state to pick up a greater share of the education dollar, the source of that revenue remains the same: the individual. Regardless of the method of tax collection, the individual taxpayer bears the burden, so it is imperative that lawmakers convincingly weigh the overall impact of their changes, rather than only measuring the reduction in property taxes.

Second, there is no magic balance between the state share and local share of school funding. Many school districts and education advocates have gained traction by creating a fictitious distinction between state and local taxpayers, and that an optimal state-to-local funding balance exists (most argue the balance should be 60%-40%). In fact, former Governor Bush first raised this standard a decade ago without justification. It has re-emerged in the current debate, again without justification. Whether the “state” contributes one percent or 100 percent is irrelevant. The overarching mission is to ensure that schools are funded in order to meet constitutional obligations, and not from which pocket the dollars are taken. Therefore, if one accepts the premise that there is no meaningful distinction between state and local taxpayers, then the balance between state and local funding is, on its face, irrelevant.

These two fictions, however, lead to two problems.

First, many so-called equity advocates fail to acknowledge the higher tax burden borne by taxpayers in particular areas of the state is a problem. This apparent indifference to the taxpayer in districts that shoulder the burden for educating their students, as well as many other students around the state, is troublesome. The *Laredo Morning Times* quotes Judge McCown of the Center for Public Policy Priorities as telling a citizens group that changes in Robin Hood would mean that, “about half of all the money would go back to just 7 school districts.”²² While Judge McCown uses this fact to argue that any possible relief from changing

the present school financing scheme would impact relatively few districts, he neglects to account for the fact that, under his numbers, this would mean that these seven school districts disproportionately bear the burden in recaptured funds under Robin Hood. Drawing a distinction between state and local taxpayers is simply dishonest, while the evidence that there are some taxpayers riding on the tax bills of others is incontrovertible. The relatively few taxpayers that pay the majority of the redistributed funds need real relief.

Second, the success of the argument that an ideal state/local funding balance exists is critical to applying that same balance to a host of other budget items. In fact, this fiction underlies the Left's efforts to increase spending across the board and not just for public education.

Predictably, other interests are already poised to grab everything they can, should education begin to break open the state budget piñata. An editorial in the *San Antonio Express-News* suggested that if it were possible to raise taxes, the state should not stop there: "but raising taxes has always required real leadership, so if our state elected officials are brave enough to take that route, they shouldn't stop with the funding for K-12 schools."²³ The editorial goes on to suggest that there are other places to provide additional funding, including, most notably, higher education. Of course, health and human services stakeholders have also chimed in for more spending on things like indigent health care in county hospitals.

Ultimately, the campaign for new money for education may be only a precursor to future attempts to increase spending in other areas. Again, Judge McCown brings an old statistic back to life that best illustrates these divergent schools of thought saying, "Texas currently has about the weakest tax system in the country, ranking 48th in tax burden. This is a problem we need to fix."¹ Comments such as this should dispel any notion that certain parties clamoring for an overhaul to the tax code have the interests of the taxpayer in mind. Clearly, reforming the tax code is meant only to tap new revenue streams that will bring the state more revenue for new and higher spending.

Texas Comptroller Carole Keeton Strayhorn launched the 78th Legislature claiming to be an advocate for fiscal responsibility saying "unless we hear the voice of the people, unless we move in a new direction, the spending spree of the old legislature will become the misguided call for a state income tax in the sessions that lie ahead."²⁴ However, only slightly more than a year later, she has laid the groundwork for health and human services advocates to take up the mantle of state/local balance saying that "in Medicaid and the Children's Health Insurance Program, as in education, the state is abdicating its responsibilities."²⁵ Ultimately, the campaign for new money for

education is only a precursor to future attempts to increase spending in other areas. Again, Judge McCown brings an old statistic back to life that best illustrates these divergent schools of thought saying, “Texas currently has about the weakest tax system in the country, ranking 48th in tax burden. This is a problem we need to fix.”²⁶ Comments such as this should dispel any notion that certain parties clamoring for an overhaul to the tax code have the interests of the taxpayer in mind. Clearly, reforming the tax code is meant only to tap new revenue streams that will bring the state more revenue for new and higher spending.

Furthermore, one must remain skeptical about attempts to link overall student performance with increased per pupil spending. “What research clearly does show is that simply spending more money on public education is not a reliable way to improve student achievement.”²⁷ While it is unquestioned that the state’s system of assessment has helped improve performance in some areas, flat SAT scores cast increased funding in a very different light.

Year	SAT verbal	SAT math	SAT total	Total Expend. per pupil ²⁸
2003	493	500	993	\$7,088
2002	491	500	991	\$6,913
2001	493	499	992	\$6,638
2000	493	500	993	\$6,354
1999	494	499	993	\$5,853
1998	494	501	995	\$5,597

Similarly, average ACT scores for Texas reflect an inverse relationship: scores declined while spending increased. Arguably, despite increased funding, overall academic achievement has remained flat, which brings the debate full-circle back to the question of getting more for every education dollar.

Although education is so sacred in some quarters that questioning how education dollars are spent is heretical, it ought to be put under a microscope as much as any other state agency or program. Governed by individual school districts that have both taxing authority and budget authority, there are only weak checks, at best, on the growth of the education bureaucracy, defined here as any personnel beyond the classroom teacher and principal.

Certainly, many Texans believe there are additional efficiencies to be achieved in their own schools and school districts, pointing to things like

administration and athletics. In fact, in a TCCRI-commissioned statewide poll of likely voters, 43% of Texans polled identified administration as an area in which their school district could spend less money to achieve cost savings, with “athletics, like football stadiums,” coming in at second with 29%.²⁹ Certainly, this attitude is only bolstered by school districts that spend lavishly (and pointlessly) on extras, like Round Rock’s \$19 million, 11,000 seat athletic stadium.³⁰

Precisely because the state has been wary not to exercise its authority to eliminate waste which clearly exists (e.g., the number of district personnel that administer and develop curriculum), it is ever more incumbent on the school board and local

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leadership that they act as principled stewards of taxpayer dollars, and that local taxpayers hold their local officials responsible for such decisions. Local school boards are certainly in the best place to identify and address the unique needs of their local area and students; however, there are best practices that will make school districts run more efficiently and better enable the schools to focus on their core mission of delivering education to Texas students. The Texas School Performance Review program and the Just for the Kids Foundation have both identified best practices that could be adopted across the board.

Local Control

The notion of local control is among the deeply held, but often neglected, conservative principles. The fact that some conservatives would even question the very existence of local control illustrates the degree to which this principle has eroded. However, the argument to be made is not that local control is dead, only that it lies dormant with apathetic voters and lawmakers that are willing to encroach on this long-held belief.

Much of the school finance debate has centered on the state’s role and responsibilities in funding public education; responsibility for fixing a local property tax system has fallen to state lawmakers. School districts and local governments, knowing that most taxpayers are reaching their limit on property taxes, have taken this finger-pointing to mean that the state is to blame, though local officials are every bit as responsible. While the state can begin to address some of these problems, it is

incumbent upon voters to choose wisely in local elections and hold their local officials accountable.

Until recently, locally elected officials and local taxing units flew under the radar as the focus of the property tax question revolved around school districts alone. A look at statewide property tax receipts confirms that the majority of the property tax is for the school district, but indicates that other local taxing units have contributed to the rise. While the school levy is the single biggest source of the property tax receipts, non-school levies make up nearly 40% of all property tax revenues. As the chart below also demonstrates, property tax levies for each type of taxing unit increased over the previous year between 1999 and 2002, with the largest increase seen between 1999 and 2000 for special districts (and have grown consistently since 1985).

Property Taxes at a Glance: By Taxing Unit

Tax Levies Shown in Billions- Rounded

Taxing Unit	2000 Tax Levy	% Increase from 1999	2001 Tax Levy	% Increase from 2000	2002 Tax Levy	% Increase from 2001
School Districts	\$13.4	11.5	\$15.2	13	\$16.4	8.3
Cities	\$3.5	9	\$3.9	10	\$4.2	7.8
Counties	\$3.2	7	\$3.6	11.4	\$3.8	7.9
Special Districts	\$2.4	17	\$2.7	13	\$2.9	6

Compiled from Texas Comptroller of Public Accounts, Annual Property Tax Reports, Tax Years 2000, 2001, and 2002.

Governor Perry rightly identified the culprit for rising property taxes as the continual increase in property valuations, not simply inflation or population growth, as many have argued. In fact, an article in the *Dallas Morning News* refers to comments from Frisco ISD Superintendent Rick Reddy saying that a “likely \$1 billion growth in property values would help the district maintain tax rates,” and that “Administrators cite two reasons for Frisco’s lower [property] tax rate. The district has reaped benefits from booming growth and double-digit increases in property values. That has translated into more revenue.”³¹

Of course, as Governor Perry rolled out his plan calling for caps on local rates and revenues, local leaders objected. The Texas Municipal League posted a sample draft resolution on its website for each municipality to consider in light of the Governor's plan. It describes city tax administration as "frugal" and concludes with the resolution that each city "oppose all school finance or tax reform efforts by the Texas Legislature that negatively impact the ability of the City to provide basic essential services, conduct economic development activities, and ensure public safety by limiting our ability, beyond the provisions of current law, to collect property tax or sales tax revenues."³²

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Counties and cities have been particularly critical of the Governor's plan to force local governments to control property taxes, even though the Governor's plan would allow local taxing entities the ability to get revenue above and beyond inflation and population growth, so long as they have voter approval.³³ That local officials and taxing units would portray the cap on property values as requiring cuts in services is misdirected.

If voters were engaged in the process and motivated to go to the polls to hold their elected leaders accountable for disregarding the will of the people, then the state would not have to legislate such protections. Even in some of the most conservative areas of the state where the Republican Party, representing local control and fiscal responsibility, has control, taxpayers still argue that they are being gouged, but local leadership has not changed. In fact, voter participation is abysmal in local elections, with only a relatively small group of people exercising their right to vote and thereby making decisions for their neighbors. A survey of election results from different elections from around the state shows the slide in participation from a presidential election to a joint or special election. Given the voter turnout in many of these elections, individual votes may have the greatest impact on the result of an election; arguably, the voters are more likely to realize the results of exactly what they are voting for or against, as well. Interestingly, the archived election results for Harris County shows that the Constitutional Amendments and Special Elections results from 2003 had among the lowest voter turnout of any election, though the items on the ballot that day included tort reform, which was among the most contentious and purportedly controversial items both

during the 78th Regular Session and during the issue campaign preceding the election. Perhaps more troubling is the fact that amendments to the Constitution—or changes to the very framework of our state government and a document that is held up for examination by

The Harris County Election Results Archive provides complete election results for local, state, and national elections from 1996-2004.

General Election, Nov. 2000: 52.77%
General and Special Election, Nov. 2002: 35.01%
Joint Elections, Nov. 1997: 23.83%
Joint Elections, Nov. 1999: 19.94%
Joint Elections, Nov. 2001: 19.10%
Constitutional Amend. and Special Election, Sept. 2003: 13.34%

Dallas County Elections Archives show much the same picture:

General Election, Nov. 2000: 49.43%
Joint Elections, May 2001: 6.23%
Joint Elections, May 1999: 6.22%

<http://www.harrisvotes.org> and
<http://www.dalcoelections.org>

the courts—received among the fewest votes in recent Harris County elections.

In fact, the state is being forced to intervene despite the fact that voters could hold their locally elected officials accountable for levels of local taxation. Similarly, locally elected officials must be more conscious of fiscal discipline. Taxpayers must exercise their opportunities to vote to ensure that local leaders hear their message. Local control relies on local participation.

The Problem with Edgewood

Undoubtedly, spending is a critical issue and drives much of the discussion on the tax question. With this in mind, though, there is another question, perhaps even more important than the issue of taxes and spending. At the heart of this debate is the notion of “equity” which has continued to bind the state to a standard that it may never achieve, and which underscores every education decision in the state.

The standard of equity arose from court interpretation of the provisions for education made in the state Constitution in the *Edgewood I & II* decisions. Article VII, Section 1 of the Texas Constitution states that, “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.”³⁴ The courts have viewed the standard for meeting this obligation as providing a system that is “equitable.” The Legislative Budget Board’s primer on financing public education explains the notion in the context of “horizontal’ equity, which is defined as the ‘equal treatment of equals’ or roughly equal per pupil expenditures across school districts.”³⁵

In the current *West Orange* case³⁶, the Court wrote: “Thus, the Legislature has the sole right to decide *how* to meet the standards set by the people in article VII, section 1...” *West Orange* reaffirms that the Courts say it is the sole duty of the Legislature to define the terms: “Constitutional efficiency under Article VII, Section 1 requires only that “districts must have substantially equal access to funding up to the legislatively defined level that achieves the constitutional mandate of a general diffusion of knowledge.””

For more than a decade since the *Edgewood* decisions, the Legislature has not taken up the challenge. Until the Legislature defines “general diffusion,” “suitable provision,” and “efficient”, then the debate over school finance will be intractable. It is necessary that the Legislature adopt language to clarify the Constitution. The majority opinion in *Edgewood I* quotes the Court of Appeals, which made that fundamental point brilliantly. Quoting from *Edgewood v. Kirby*³⁷:

“The court of appeals declined to address petitioners’ challenge under this provision and concluded instead that its interpretation was a “political question.” Said the court: “That provision does, of course, require that the school system be “efficient,” but the provision provides no guidance

as to how this or any other court may arrive at a determination of what is efficient or inefficient. Given the enormous complexity of a school system educating three million children, this Court concludes that which is, or is not, "efficient" is essentially a political question not suitable for judicial review (761 S.W.2d at 867.)'

While the idea and ideal of equity is noble and compelling, it is a matter for the Legislature, not the Courts, to decide. The Mauzy Court, an activist Supreme Court, thought otherwise and set the state down the course it is now on.

The essential questions become: what is equity and how can it be achieved? Former Justice John Cornyn repeatedly raised problems associated with strictly defining school finance in terms of equity in his dissent in *Edgewood III*³⁸.

- “pure equity of input requirements do not require a positive correlation between dollars spent (input) and quality of education realized (output).”
- “...if equal money meant equal education, it would be impossible to explain why some schools, operating on a fraction of the money, consistently out-perform other better-funded schools.”
- “the Constitution does not require equalization of funds between students across the state. This means that the educational system in Texas is not constitutionally required to have equal funding per student.”

In response to the courts and in an effort to equalize funding, the state Legislature established the current method of school finance. The appropriately termed “Robin Hood” takes money from wealthier school districts to equalize the spending in the poorer school districts. Although many proponents of the Robin Hood system suggest that the name is misleading, the concept is clear to the people of Texas — the redistribution of tax dollars occurs every day, but not with such personal effects. It is not surprising that when it is personal, as it is with Robin Hood, the naked redistribution of wealth is very unpopular, as it ought to be. Redistributive policies and economics masquerade in the guise of “social justice” but are rooted in socialist economics and social schemes.

What began with advocates pointing to wide disparities in per pupil funding and asking for equalization has now come full circle, with many taxpayers pointing to wide disparities in tax bills and demanding relief. Advocates contend that property tax relief — unaccompanied by an imposition of a personal income tax, for instance — and any ensuing

reform of school finance are a threat to “equity.” One could reasonably infer that wide disparities in per pupil funding are inexcusable, while wide disparities in tax bills are justifiable. In truth, the state could never satisfy the standard of equity because there are no parameters to equity. It lacks definition. So despite the rise in redistributed funds from “wealthy districts” to “poor districts” and massive increases in state and local spending year after year, advocates have yet to declare that parity has been achieved. The concept of equity is so viscous that even now certain advocates talk about equity even for local enrichment. It has no bounds precisely because the equity argument is not about equality; it is about higher state spending in the aggregate.

Even at the inception of Robin Hood in 1993, the issue was never mostly about education itself. In what would become a landmark series of lawsuits brought against the state by public school districts, the issue at hand was, in truth, only about money and increasing the number of people employed by the public education system. The plaintiff in *Edgewood* was not a parent or group of parents alleging that the state had failed to meet an obligation in the education of the student, but rather a school district looking for more money from the state. Former Justice Oscar Mauzy captured the soul of that argument writing for the majority in *Edgewood v. Kirby*³⁹:

"High-wealth districts are able to provide for their students broader educational experiences including more extensive curricula, more up-to-date technological equipment, better libraries and library personnel, teacher aides, counseling services, lower student-teacher ratios, better facilities, parental involvement programs, and drop-out prevention programs. They are also better able to attract and retain experienced teachers and administrators."

Put another way, Edgewood ISD never alleged it didn't have buses, buildings, books, teachers and lunches - five fundamentals of public education. It had all those things. But Edgewood ISD wanted what Highland Park ISD had which were better buses, buildings, books and more money for teachers. It is a classic case of the politics of envy driving state fiscal policy.

In actuality, these court cases and decisions have merely been another avenue for making social policy. Thinly veiling the simple desire for more money, the plaintiffs in each of the cases rarely provide evidence to suggest that students are not learning, which is the standard for all educational systems. It is captured in the mission of the TEA⁴⁰: “The mission of the Texas Education Agency is to build the capacity of the Texas public education system to provide all students a quality

education that enables them to achieve their potential and fully participate now and in the future in the social, economic and educational opportunities of our state and nation.”

Instead, the cases focused on the inequities that are assumed when considering dollars, or, in other words, measuring mostly inputs and largely ignoring the outputs. Continued legal challenges in this same vein raise the question as to whether or not the state can ever truly achieve “equity” or whether this will be simply a figment that can never be realized. Certainly, it is right to be skeptical.

Were education advocates truly concerned about disparities in the funding and quality of education for all Texas children, these same questions would be raised with respect to students in private school. Comparing the money spent to educate a private school student, easily identified by surveying the tuition rates at the state’s private K-12 schools, with the money spent on public school students reveals great disparity in the amount of money invested in each child. In fact, a survey of private schools around the state shows that annual tuition can range from \$3,000 to \$18,000, each of which is respectively far less and far more than the money spent on public education (even allowing for federal subsidies for certain private schools). What is fascinating is that the disparity in private school tuition is equivalent to the disparity in per pupil spending that the Texas Supreme Court cited as grounds for declaring the system of public school finance unconstitutional: “Because of the disparities in district property wealth, spending per student varies widely, ranging from \$2,112 to \$19,333.”⁴¹

Assuming that money is the key to providing a quality education, shouldn’t education advocates be outraged by the presumably low-quality education that a student would receive for only \$3,000? Furthermore, were it the case that these students were performing well at only an annual cost of \$3,000, how could education advocates justify that any discrepancy in per pupil spending is meaningful? To be clear, there are not angry mobs of private school parents demanding that they pay an additional \$15,000 simply to bring the bottom up to the top in private school tuition, nor are there private school parents suggesting that their kids get short shrift when their child’s education only costs one-sixth of what another private school student’s education costs. The disparity in cost between private schools, as well as between public and private schools, is important as it obviates the concern that the public school advocates have, which is not concern first and foremost with the quality of education, but rather with having equal amounts of money for all children regardless of need and performance.

It is clear that *Edgewood* missed a rather fundamental, though obvious, point that equity in *input* (i.e., financing) is secondary to achieving *outcomes*. For instance, do some schools consistently fail to prepare their students for college and the workforce, while others consistently succeed? The answer is clearly yes to both questions. Also, across incomes and races, people and schools can do more with less, and many people can do less with more. Experience shows that students who attend poor schools can be intelligent, virtuous, and college-ready, while students who attend affluent schools drop out, become addicted to drugs, and fail academically. Per pupil spending is not necessarily indicative of per pupil performance. Even within “rich” or “exemplary” schools, students can succeed or fail; likewise within “poor” or “unacceptable” schools.

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The success of home-schooling is a profound counter to those who argue there is a meaningful and affirmative relationship between spending and outcomes, and that more spending is imperative. Home-schooled children succeed academically and socially – some have even made it to Harvard.⁴² The learning environments are much more critical to educational attainment than spending, and education can be delivered in varying forms and different price points, not just through a government-funded monopoly system. The fact that the state sanctions alternative forms of education that have worked demonstrably well with little or no state funding illuminates the notion that Article VII, Sec. 1 does have meaningful limits that should be debated.

Texas will undoubtedly continue to chase equity until the Legislature addresses the constitutional language that has been at the heart of this challenge. That the state must focus on defending itself on matters of social policy masquerading as educational policy, rather than on matters truly related to meeting the express educational needs of Texas children, is disappointing. The Legislature needs to establish what it expects from public education and clarify the state’s role in providing for a system of public schools, in order to narrow the ability of the court to define the standard through interpretation of abstract wording and judicial fiat.

System Recommendations

The Education Workforce

Teachers: Unquestionably, there are few people, outside of the family, that make a greater difference in the life of a child than a teacher. The impact of a good teacher is immeasurable and often lasts a lifetime, with adults often remembering their favorite childhood teachers fondly even after many years. Yet when teacher performance is discussed, it is not uncommon to hear teachers and education advocates suggest that there is no way to measure the performance of a teacher. Put simply, this is an insult to good teachers who make a positive and meaningful impact on the lives and education of their students. Teaching colleagues can identify the good teachers, as well as the bad. Administrators know the teachers that put in the extra effort and those who produce results—driving their students to success and lifting up the students that struggle. To suggest that evaluating teacher performance is an impossible task belies reality.

In truth, it is not enough to measure teacher performance with student grades or with test results. A successful teacher may be found teaching in the most affluent districts and pushing students beyond success achieved at minimum effort, or the successful teacher may be found teaching in the poorest of districts bringing students along from behind. Just as students learn in many different ways, there are a number of ways to measure performance and a number of things to be considered, including the value that a teacher adds to the education of a child. A teacher who allows gifted students to make good grades with minimal effort and without much true learning is as bad as any teacher, though the students may make their grades and pass the tests. Valuing teachers requires real performance measures to determine those teachers who help students learn and who push beyond the minimally acceptable, or easy-to-reach, standards. Teachers who consistently fail to add value to a child's education should be held accountable.

Current protections provide teachers with a safe haven of employment that is virtually unmatched in any other field, yet teachers are among the first to underscore their value to students and the state with statements about how important teachers are to the lives of Texas' students. That teachers are central to the success of a student only raises the inescapable truth that good teachers are critical to the education of students and that teachers ought to be measured according to the quality of their product. Insulating teachers from accountability only weakens the profession, by allowing the least capable to remain in the

ranks, often with the benefits of longevity promoting them up the pay scale regardless of their contribution to student achievement.

Teachers should seek to be treated as professionals by providing true merit increases and measuring performance against rigorous standards, not simply years of service. When teachers fail to meet expectations, school districts should be able to discipline and dismiss those teachers. The state must continually look for ways to strengthen its teaching profession, both by demanding results and providing real incentives for performance when teachers meet high expectations. Good teachers have nothing to fear and will reap rewards when they are noticed for their achievements and strengthen their abilities when they work among other teachers who strive for the top. Regardless of the pay raises that many teachers have received in the recent past, the teachers' unions give voice to teachers who are unable or unwilling to rise above expectations and silence those teachers who deserve recognition for outstanding performance and service. Texas teachers, like professionals in nearly every other field of work, should be rewarded for excellence with meaningful recognition of their work. Similarly, teachers who fail to meet expectations only make things more difficult for other teachers, to say nothing of the detriment to the education of their students. Teachers who cannot meet expectations should not be allowed in the classroom, and schools should have little difficulty dismissing those teachers.

1. Remove protections for bad teachers and pay structures that weight longevity over performance. School districts should have flexibility in hiring, terminating, and compensating teachers according to need and performance. Eliminate teacher contracts. Increases in pay should be directly linked to performance, rather than solely on the length of service or advanced degrees. Encourage and reward exceptional teacher performance and undertaking additional responsibilities, such as mentoring new teachers.

2. Recognize outstanding teachers as the state recognizes outstanding school districts and campuses. In 1993, the Texas Legislature enacted laws for the creation of the Texas Public School Accountability System. This system rates school districts and campuses according to performance and, for campus ratings, assigns one of four ratings: exemplary, recognized, acceptable, and low performing. Teachers ought to be measured in the same way, with a rating system that includes factors determined by the Commissioner and the Chair of the State Board for Educator Certification. These ratings would allow schools to give parents a snapshot of their child's teachers, allow school districts to hire experienced teachers with a uniform set of criteria used to measure teacher performance, and allow schools to publicize the strength of their teachers. Surely any school would be proud to show

that they have thirteen teachers rated “exemplary,” as would the parents of students in that school.

Teacher Preparation: Part of teacher preparation should acknowledge the changing trends in the teaching profession. News of teacher attrition is startling to many, but there are many reasons that teachers may leave the profession. From anecdotal observation, it is easy to see that the twenty-year teacher is slowly, but surely, becoming the exception and not the rule. In fact, when the 77th Legislature enacted its statewide teacher health insurance program, one frequent observation was that this was a mostly high-risk or high-cost group, due mostly to the large numbers of child-bearing age women. Considering this information, it is not surprising that many teachers right out of college may teach for a few years and then either temporarily or permanently leave teaching. This is a fact that the state must consider as it looks at the so-called teacher shortages and changing face of this particular area of the labor market.

With that in mind, however, the state must find ways to maximize the money it invests in teacher training by ensuring that new teachers are well prepared to begin teaching immediately.

3. Students in colleges of education should get classroom experience early and often throughout their time as a student. Getting education students in the classroom early is important for retention, so as not to allow students to get their first real taste of classroom life as late as student teaching. Unfortunately, almost anyone can point to a person who spent years in school to become a teacher, only to begin student teaching and discover that they did not like being in the classroom. Certainly there is some natural attrition to be expected, and not everyone graduating with a degree in education will step foot inside the classroom; however, for the many students with an intention to teach, getting them in the classroom faster and earlier in their career to observe the classroom environment, will strengthen not only their preparation for being a teacher, but also ensure that the student teacher or beginning teacher has had ample exposure to the classroom to make sure that this career is right for them.

4. Alternative teaching certification programs should be designed to encourage success and bring teachers to the classroom with experience and expertise in the content areas in which they will teach. The State Board of Education recently acted to make it easier to bring qualified individuals with expertise in particular subject areas into the classroom. This step is commendable and the state should continue to take similar action that will continue to bring individuals with valuable experience and skills to the classroom. In addition, state policy with regard to alternative teacher certification should not be structured

to make successful completion of an alternative certification program difficult. Statistics seeming to indicate that alternative certification programs have retention problems are often used to suggest that these certification programs are unsuccessful; however, these programs often require an initially burdensome load of teaching and coursework in order to complete the certification process, which is often prohibitive and virtually guaranteed to drive some qualified individuals away.

State policy with regard to alternative certification should recognize that good teachers do not solely come from colleges of education, and state policies should continue to look at continuing to improve means of alternative certification. The state continues to have a need for teachers, particularly in certain subject areas, and the state must continue to look for ways to bring individuals with valuable expertise into the classroom.

Administrators: In a poll commissioned by the TCCRI, Texans decisively pointed to administration as an area that could be cut. This is predictable because administrators are removed from the direct instructional aspects of school. Much of the criticism aimed at school administrators is driven by their unjustifiable numbers and the salaries paid, particularly as teachers and parents consider discussion of teacher layoffs and other cuts.

The National Center for Education Statistics' *Characteristics of the 100 Largest Elementary and Secondary School Districts in the United States: 2001-02*, includes fourteen Texas schools. The following chart shows a comparison of Texas' largest school districts, as well as a benchmark by which to compare Texas' numbers to the largest school districts in the country. Interestingly, most of the Texas school districts, in comparison to the 100 largest school districts in the United States were, as a percentage of staff types, below average in the percent of teachers, higher than average in percent of district administrators, and higher than average in percent of school administrators. Houston ISD was one of two districts nationwide with less than 40% of its staff counted as a teacher. Additionally, NCES reports that 25% of the 100 largest school districts classified 1% or more of its staff as district administration, whereas, exactly half of the Texas districts included in the survey had 1% or more of its staff as district administration.

Comparison of the Fourteen Largest Texas School Districts by Staffing Type
to the 100 Largest School Districts in the United States

<i>District</i>	<i>Total Staff</i>	<i>Teachers</i>	<i>District Admin.</i>	<i>School Admin.</i>	<i>Other Staff</i>
National	1,280,024	51.7	.8	2.8	31.9
Houston	30,590	39.5	1.1	4.0	45.1
Dallas	19,837	53.2	.8	5.4	28.7
Fort Worth	10,146	49.5	1.1	6.0	31.7
Austin	10,452	50.7	.8	5.5	32.5
Cypress-Fairbanks	8,964	49.7	1.3	4.7	29.5
Northside	9,424	46.2	.9	4.0	35.5
Arlington	8,101	49.9	.4	5.4	31.8
San Antonio	7,740	47.3	.8	4.7	34.5
Fort Bend	6,978	49.6	1.0	5.0	36.7
Aldine	7,700	46.4	1.1	5.1	29.7
North East	7,138	49.7	1.0	4.5	32.2
Garland	6,042	53.6	.9	5.3	29.7
Plano	6,078	58.0	1.2	4.5	22.9
Ysleta	6,010	49.7	.7	4.4	34.8

From the National Center for Education Statistics, www.nces.ed.gov/pubs2003/2003353.pdf

In addition to considering the size of school administration, one look at school superintendent salaries is staggering. The Texas Education Agency's website sorts superintendent salaries according to a number of factors; the charts below show superintendent salaries sorted according to district enrollment and base pay.

Superintendent Salaries: By Highest Enrollment 2002-03 and 2003-04

District	Base Pay 02-03	Enrolled 02-03	Base Pay 03-04	Enrolled 03-04
Houston	\$257,000	212,099	\$271,288	211,499
Dallas	\$322,000	163,347	\$337,500	160,584
Fort Worth	\$286,000	81,081	\$299,250	80,335
Austin	\$248,900	78,608	\$249,384	79,001
Cypress-Fairbanks	\$289,928	71,165	\$340,485	74,877
Northside	\$220,000	69,409	\$220,000	71,798
El Paso	NOT REPORTED	NOT REPORTED	\$185,000	63,200
Arlington	\$204,507	61,928	\$213,709	62,454
Fort Bend	\$200,000	59,489	\$206,000	61,248
San Antonio	\$230,587	57,120	\$254,237	56,914

Source: Texas Education Agency, 2003-2004 Superintendent Salary Reports

Considered alone, superintendent pay merits little comment, particularly from conservative free-marketers that believe in paying people according to their performance. However, it is important to note that in the ten largest school districts, superintendent salaries increased in almost every case from 2002-2003 to 2003-2004. Despite these pay increases, a number of school districts are reportedly starving for cash such that they are contemplating teacher layoffs or other means by which to achieve some savings, while many superintendents and other school district officials make it known that public schools are in desperate need of more money. Yet, this rings hollow. When administrators account for a higher percentage of staff in the ten largest Texas school districts than in the average district for the 100 largest districts nationwide, and when administrator salaries continue to increase by tens of thousands of dollars from one year to the next, it is difficult to be sympathetic to the calls for more funding. Administrative spending, no matter how important to the management and operation of the school, diverts resources from classroom instruction. The size of school administration and the increases in superintendent salaries are, no doubt, points of contention that drove respondents to the TCCRI poll to answer that school administration is a central source for wasteful spending in education.

5. School superintendents should as readily come from business management as from the teaching corps. Perhaps it is because teachers with a passion for children and education find themselves with few options for a growing career and steadily increasing salary that they choose to move out of the classroom and into an administration pipeline. Or perhaps it is because the world of public education is so insulated from competition that persons with a business background have not frequently been pursued or interested in taking positions in public school administration. Whatever the reason, though, school administrators are more likely to be former teachers and principals than MBA graduates with experience at the helm of a business. This is unfortunate.

Certainly the chief executive of a school district needs to understand the delivery of education, but so too does the school district CEO need to understand business management, which includes budgets, personnel, and long-term planning, among other things. Just as it would be arrogant to suggest that the only person who could teach children is someone with an education degree, it is equally difficult to understand why there would be an assumption, particularly in the ever-changing world in which we live, that a person prepared to lead any number of multi-million dollar companies would be somehow ill-prepared to lead a school district. A cursory look at the superintendents of the ten largest school districts in the state reveals that the majority of them hold advanced degrees in education and draw almost all of their experience

from within the walls of education. While these superintendents may ably and effectively lead their districts, there is no doubt that these districts serve large student populations and continue to more closely mirror a business than anything else. The school district business delivers services to their students, manages large numbers of people, plans for major capital projects, handles large budgets, and represents the organization to its many shareholders. As a result, it is increasingly obvious that school district superintendents are called to manage the business aspects far more than the exclusively educational aspects of a school district in which many of them are trained.

Importantly, none of this is to suggest that an individual with advanced degrees in education and education experience alone is unable to effectively manage a school district. In fact, the success of schools under the leadership of many one-time teachers and principals demonstrates that this is possible. However, the largely held perspective that a superintendent must be an educator is as erroneous as the similar belief that only those formally trained in education can be teachers. When school districts need new leadership, the private sector and business communities provide many choices for successful and proven leaders who can also bring new ideas and a new perspective to public school management.

School District Management:

6. Consolidate many administrative functions within the Regional Education Service Centers. In “Roadmap to Responsible Reform”, the TCCRI State Finance Task Force Report to the 78th Legislature, the State Finance Task Force recommended the abolition or reform of Texas’ system of Regional Education Service Centers (RESCs). Under the pressure of the report and the Legislature, the RESCs responded by engaging in a number of meaningful and noteworthy reform efforts designed to improve performance and increase accountability.

The first and most comprehensive of these efforts was the development and deployment of a management scorecard which aggregates more than thirty mission- and program-specific performance measures which are reported on a monthly basis. These performance measures are aligned with the service centers’ key missions as defined by Chapter 8 of the Texas Education Code. Data are currently being entered in this new management system, and regular strategic reviews will be conducted so that programs and activities can be adjusted to improve RESC performance and service delivery.

Texas' RESC system leaders have also shown considerable interest in other management and accountability techniques more commonly found in private sector organizations. Specifically, two RESCs have launched efforts to pursue international quality assurance certification under the ISO 9000 regime. This rigorous system of quality assurance standards provides organizations with an internationally recognized methodology for continuous improvement and documented procedural accountability.

The overall direction of the RESCs reform efforts and the aforementioned specific reform initiatives are to be applauded. These reforms must be continued, and TCCRI will closely monitor the progress of these and other efforts with the hope that other parts of Texas' public education system and other governmental institutions may benefit from the example set by the Regional Education Service Centers. These performance management and accountability system improvements open the possibility to a larger role for RESCs in helping to solve a potentially significant part of the school finance challenge.

Much of the work of this Task Force has been rightly focused on the revenue side of the school finance equation. Public education expenditures must also be scrutinized and efficiencies must be found if the Legislature is to preserve its credibility and faithfully discharge its duty to the taxpayers who are asked to shoulder the financial responsibility to fund public education.

Texas has more than 1,200 Independent School Districts (ISDs) and Charter Schools of widely varying size, environment, and composition. The diversity of these institutions adds much to Texas' public education system and to the character of the communities they serve. These 1,200 plus institutions also help to preserve the local aspect of the principle of local control.

However, the maintenance of this large number of education entities has also contributed mightily to the duplications, inefficiencies, and diseconomies that plague our public education system today. One challenge that must be answered is to preserve and protect the principle of local control of educational instruction, while simultaneously finding ways of eliminating non-instructional redundancy and the inefficiencies that follow.

One piece of the answer to this challenge may be found in the Legislature broadening a mandate already found in the Texas Education Code. Chapter 8.002 of the Code outlines three specific missions for Texas' RESC system. It states: "Regional Education Service Centers shall: 1) assist school Districts in improving student performance in each region of the system; 2) enable school districts to be operated more efficiently

and economically and; 3) implement initiatives assigned by the Legislature or the Commissioner.”

Specifically, the charge inherent in items two and three provide the rough framework for moving many administrative functions to the Regional Education Service Centers, which already provide a great number of services to ISDs and Charter Schools throughout Texas.

Modern systems, techniques, and technologies afford us the opportunity to find efficiency and avoid duplication in a host of administrative areas, such as human resources, accounting and payroll, legal staff, contracting, facilities maintenance, etc. Replicating these functions in more than 1,200 ISDs and Charter Schools throughout our state bloats the number of non-instructional employees in our public education system and detracts from the goal of focusing on the education of children.

It should be noted that RESCs, at the request of some ISDs and Charters, are providing many of these services now. Regional Education Service Centers, particularly now that they are performance managed and measured and are in the process of becoming internationally quality assured, would likely be able to provide expertise and professional capacity to school districts in these administrative areas.

Further, as much as RESCs derive most of their revenue from fee-for-service activities and RESCs rely heavily on contracted private sector education product and service providers, an element of private sector efficiency and competitiveness would be introduced into the vast area that constitutes school district administration. Especially in these “back office” functions, economies of scale do exist and the resultant savings should be found immediately.

6A. Hold Committee hearings on the organization of public school administration to identify areas of overlap, duplication and redundancy; and the increasing number of non-classroom employees which is now a 1:1 ratio with teachers.

7. Free school districts rated “exemplary” or “recognized” from certain mandates. House Bill 1479 of the 78th Regular Session is a model for this proposal. That bill would have exempted the highest rated school districts from reporting certain information to the state. Schools that are either “exemplary” or “recognized” should be free from mandates that are used mainly to monitor district performance, as their high rating already indicates the performance of these districts.

Among the mandates HB 1479 would have exempted high performing school districts from are: certain employment restrictions for educators; a report on expulsion alternative education placements; and restrictions on the use of allotments related to compensatory education, career and technology education, and gifted and talented students.

College Readiness:

8. Require all Texas students to take a nationally-normed and curriculum-based achievement test to measure college readiness. Tests like the ACT and the SAT measure college readiness and are used by institutions of higher education as a predictor of college success. House Bill 495 from the 78th Regular Session would have required TEA to administer such a test in grades 8, 10, and 12, which, according to the Legislative Budget Board Fiscal Note, would be accomplished by purchasing the ACT package of assessments. These assessments would measure student readiness in reading, English, math, and science and compare students within a district, the state, and the nation.

Information from the ACT reinforces the expected outcomes of such a wide-scale testing policy, noting in particular that the assessments will promote more rigorous high school coursework by showing the students who are ready for advanced coursework, as well as identifying students who may not normally have considered enrolling in more advanced courses but who would do well in them.⁴³ It makes sense that students who might otherwise be uninterested in pursuing advanced coursework, or even higher education, may be more interested in such options if they were already taking the necessary tests and had a sense of their expected performance. Under these circumstances, the system could be self-strengthening by boosting the number of students who choose more advanced classes and choose higher education.

Graduating high school students should be college ready, regardless of whether they choose to attend college or not. The ACT will show the state the students that are prepared for college courses, as well as students requiring remedial coursework. Such a test will benchmark students against themselves and their preparation for continued learning, but also compare students from across the nation with a test that is acceptable for college admission. Requiring all Texas students to take the ACT will provide a better indicator of learning readiness than the current TAKS test and will expose more students to a test that may drive them to continued achievement.

9. Pass a pilot school choice program. House Bill 2465 of the 78th Regular Session is a model for this proposal. Since the United States

Supreme Court has ruled on the constitutionality of school choice programs, Texas should build on its Public Education Grant (PEG) experiment and capitalize on the success of the Charter and Home School movements by allowing for parental choice in education starting with disadvantaged students in chronically low-performing schools.

10. Block grant certain state education funding to the local level.

More than \$400 million in state funds, including \$93 million in state compensatory education funds, is appropriated in Texas Education Agency riders for 2004-2005. Much of this rider funding is doled out each year through a series of competitive and narrowly-focused grant applications. Applying for and administering these grants is expensive and labor intensive. The application forms are long and complex, grant periods do not conform to the school year, and each grant requires its own record keeping. Moreover, the ability of a school district or charter school to compete successfully for these grant funds often comes down to its ability to hire and retain a quality grant writer, regardless of the quality of its instructional program or need of its students. For any given rider some districts will be successful in their pursuit of competitive grant funding while many will receive no funding at all.

Competitive grant riders are important to the legislative process. They provide the members of the legislature the ability to establish and fund pilot projects that implement key policies and critical priorities in a wide range of school districts and charter schools across the state.

Many of these riders, however, address the same group of students with very similar programs. They come with strings and fuzzy academic outcomes attached. They often go to the same grade levels at the same schools. School districts and charter schools expend administrative overhead not only managing these programs, but telling them apart. It is often as difficult for school districts and charter schools to manage these programs as it is for legislators to truly know whether or not the state's investment in these programs is paying off. There are more cost effective ways of doing the state's education business.

A life cycle, results-based approach should be taken to rider appropriations. The legislature should continue to use riders to fund highly-specific, top-priority pilot projects in education. Once the pilot stage is passed, however, specific rider funding should be eliminated and a block grant approach to funding should be used. We estimate that in the 2004-2005 biennium, a block grant approach to program funding would have provided Texas school districts and charter schools with an additional \$350 million. Block grants would have gone to all school districts and charter schools, not just the ones with good grant writers.

Block grants would also cut administrative overhead at the state and local levels.

Block grants free school districts from duplicative bureaucracy and management. They sharpen the focus on results. They work best when districts are held accountable to their local board of trustees for the specific academic achievement of the students served by these programs.

Final Thoughts

In summary, much of the school finance debate has been done inside the school finance box, despite agreement that the system is not working well. The proponents of big government and big spending argue that the present system doesn't do enough for equity, school districts argue that they need more money, and many taxpayers point to Robin Hood as the cause of their skyrocketing property taxes. Continuing to operate inside this "box" is not the solution. Instead, lawmakers must address the issues at the core of this debate and be willing to start anew in defining and developing a system that meets Texas' needs and expectations regarding public education for Texas' students. This is nothing less than a vision change requiring a thorough evaluation of the role of government as a whole, and of the state and the local governments independently.

Vision change will be years in the making, but is no less necessary. However, immediate reforms are needed and lawmakers are called upon to undertake a monumental task that cuts across constituencies. Ultimately, however, lawmakers are looking for ways to provide real tax relief to taxpayers who desperately need property tax relief and an end to Robin Hood. In order to give real and meaningful tax relief, the state must look at where money is spent and find ways to be more efficient and effective within its existing resources. Adding to this challenge is the continual need to raise standards and prepare Texas' students for a changing world that will demand ever-better education. For Texas lawmakers, this is once again about setting priorities and standards of performance that prepare our students for excellence.

Texas has an historic opportunity, and an obligation, to get it right with reform that is both meaningful and long-lasting.

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