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Texas school finance equalization and student performance

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TEXAS SCHOOL FINANCE EQUALIZATION AND STUDENT PERFORMANCE

A Thesis

by

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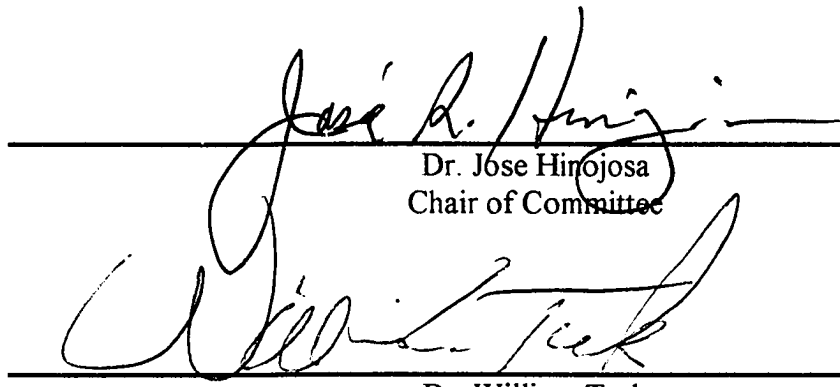

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ABSTRACT

Duque, Christopher, Texas School Finance Equalization and Student Performance, Master of Public Administration (MPA), December, 2002, 103 pp., 4 tables, 53 titles.

The thesis examines which factors or school district inputs, i.e., financial, socio-economic, and administrative have a significant effect on student performance in Texas' school districts.

The thesis is divided into five chapters, the introduction and the legal history of school finance reform, the history of Texas school finance policies and the current school finance policy, the literature review, the hypothesis and methodology, and the findings and conclusion of the thesis.

The percentage of economically disadvantaged students was found to be significantly related to student performance in the thesis. And the thesis concludes that the state's school finance equalization policy has generally succeeded in negating the importance of local revenue to fund education.

DEDICATION

I dedicate the thesis to my loving wife, Sandy.

ACKNOWLEDGEMENTS

I wish to acknowledge and thank Drs. Jose Hinojosa, William Turk, and Miguel A. de los Santos for their immense help and patience through the thesis process. Additionally, I wish to acknowledge and thank my wife for providing me support through this arduous process and never letting me lose faith in my abilities, my loyal cat Rusty for calming me when I was bewildered with the thesis process, and myself for my own perseverance.

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CHAPTER I

INTRODUCTION & LEGAL HISTORY

Introduction

Government performs no greater function than the education of its citizenry. In *Brown v. Board of Education,* 347 U.S. 483, 493 (1954), Chief Justice Earl Warren of the United States Supreme Court recognized the importance of education by stating:

> Today, education is perhaps the most important function of state and local governments...In these days, it is doubtful that any child may reasonably be expected to succeed in life if he is denied the opportunity of an education. Such an opportunity...must be made available to all on equal terms.[1]

State and local school districts have further reinforced the importance of education by earmarking the majority of their respective budgets for education.

Although the importance of education is immeasurable, educational problems persist. United States' students generally lag behind students from other countries in performance on standardized academic mathematics and science exams.[2] In addition, there are problems related to educational revenue and

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[1] *Brown v. Board of Education*, 347 U.S. 483, 493 (1954). n.d. 1 June 2002 <http://web.lexis-nexis.com>.

[2] The Texas Educational Excellence Project. "Examining the Effects of School Finance Reform in Texas." n.d. 1 June 2002 <http://www.bushschool.tamu.edu/kmeier/teep/reports/report005.pdf>, p. 2.

spending. Even after three decades of court litigation and state school finance equalization efforts, wide disparities in school revenue among states and in per-pupil expenditures intra- and inter-states persist.[3] Texas is not immune from similar educational problems. Texas ranks 31st out of the 50 states in per pupil spending and spends $484 less per pupil than the national average.[4]

During the past 30 years, much of the research on education has studied the relationship between educational revenue and/or expenditures and school or student performance. At best, a tenuous relationship between educational money and student performance has been discovered.

The thesis will be divided into five chapters. Chapter one is the introduction of the thesis and the legal history of school finance reform. The second chapter examines the history of Texas' school finance policies. The third chapter will include a review of the literature, journal articles, books, and government studies that have examined school finance reform. The fourth chapter provides the hypothesis and methodology of the thesis. The fifth chapter includes the findings and conclusions drawn from the thesis.

Legal History

An analysis of the legal history of school finance is necessary for a comprehensive study of the relationship between school finance and student performance because during the past thirty years, the courts have served as a primary catalyst for school finance reform. The analysis of the legal history of

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[3] "Trends and Issues: School Finance." n.d. 3 May 2002 <http://eric.uoregon.edu/trends_issues/finance/02.htm>.

[4] Center for Public Policy Priorities. "School Finance In Texas." 22 Oct. 1998 3 May 2002 <http://www.cppp.org/kidscount/education/finance.html>.

school finance is divided into three categories: litigation based on federal constitutional provisions, litigation based on state constitutional provisions, and litigation based on an education section of the state's constitution.

The first category, which is litigation based on federal constitutional provisions includes two significant cases. The first case to delve into the issue of school finance was *Serrano v. Priest*, 5 Cal. 3d 584; 487 P.2d 1241: 1971.[5] John Serrano, as well as Los Angeles County public school children and their parents were the plaintiffs; the defendants were State Treasurer Ivy Baker Priest, the Superintendent of Public Instruction, the Controller of the State of California, and the tax collector, treasurer, and superintendent of schools of the County of Los Angeles. Among the plaintiffs' arguments was that California's public school finance system violated the Equal Protection Clause of the 14th Amendment of the U.S. Constitution.

The plaintiffs alleged that California's public school finance system, made the quality of one's education a function of their parents and neighbors' wealth, as well as a function of the geographic location of the school district one attended. Furthermore, the plaintiffs argued that the finance system failed to account for the different educational needs of different school districts, provided students living in certain school districts with material advantages in selecting and pursuing their educational goals over students in different school districts, failed to provide children with equal educational resources, and perpetuated marked differences in the quality of educational services, equipment, and facilities. Finally, the

[5] *Serrano v. Priest*, 5 Cal. 3d 584; 487 P.2d 1241: 1971. n.d. 1 June 2002 <http://web.lexis-nexis.com>.

plaintiffs alleged that because of the finance system they were charged a higher tax rate to maintain lower quality educational opportunities than those afforded those who paid lower tax rates and were still able to provide higher quality educational opportunities.[6]

At the time of the lawsuit, California's school financing system relied heavily on local property taxes, and the amount of state aid school districts received depended largely on the school district's tax base and average daily attendance. Article IX, section 6 of the California Constitution authorized the governing body of each county or city and county to levy a tax on the real property within a school district at a rate necessary to meet the district's annual education budget.[7] State aid included basic state aid consisting of a grant to each school district of $125 per pupil, regardless of the relative wealth of the school district and equalization aid, which was distributed in reverse proportion to the school district's wealth. Additional supplemental aid was available to subsidize poor school districts willing to make an extra local tax effort.[8]

Although the state provided equalization and supplemental aid to prevent potential funding disparities, great funding disparities continued in the revenue available to school districts and in the level of educational expenditures. The California Supreme Court found that the state's school finance system and the equalization and supplemental aid it provided were inadequate to compensate for the inequalities resulting from the reliance on local tax bases. Furthermore, the

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[6] Ibid.
[7] Ibid.
[8] Ibid.

basic aid provided by the state actually widened the school finance gap between rich and poor school districts.[9]

Because the school finance system was mandated in every possible detail by the California Constitution and additional statutes, the California Supreme Court ruled that the state's action was the cause of wealth classifications with regards to the requirements set by the Equal Protection Clause of the 14th Amendment of the U.S. Constitution, and as such, the state's school finance system discriminated on the basis of the wealth of a school district and its residents. This violated the Equal Protection Clause of both the U.S. and California Constitutions.[10] In addition, the Supreme Court stated that education is a major determinant of an individual's potential for economic and social success and has a unique influence on a child's development.

The other case in the first category is *San Antonio Independent School District v. Rodriguez*, 411 U.S. 1; 93 S. Ct. 1278; 36 L. Ed. 2d 16; 1973.[11] Demetrio Rodriguez and other Mexican-American parents of students attending schools in the school district initiated a class-action lawsuit on behalf of students attending property poor school districts in the state. The defendants were the State Board of Education, the Commissioner of Education, the State Attorney General, and the Bexar County Board of Trustees. After the U.S. District Court's ruling, the San Antonio Independent School District, which was initially named as a defendant, filed an *amicus curiae* brief in support of the plaintiffs.

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[9] Ibid.
[10] Ibid.
[11] *San Antonio I.S.D. v. Rodriguez*, 411 U.S. 1; 93 S. Ct. 1278; 36 L. Ed. 2d 16; 1973. n.d. 1 June 2002 <http://web.lexis-nexis.com>.

The plaintiffs challenged the constitutionality, under the Equal Protection Clause of the 14th Amendment of the U.S. Constitution, of Texas' public school finance system and argued that the state's considerable reliance on local property taxation to fund schools created significant interdistrict disparities in per-pupil expenditures. The finance system in question was adopted after the passage of the Gilmer-Aikin bills in 1947 that established the Texas Minimum Foundation School Program, which provided approximately 50% of the revenue for Texas school districts.[12]

The U.S. District Court ruled that the Texas public school finance system was unconstitutional under the Equal Protection Clause because the finance system discriminated on the basis of wealth, that wealth was a suspect class, and that education was a fundamental interest, which required the state under the strict judicial scrutiny test to show a compelling state interest for the school finance system that the state had failed to establish. In a 5-4 ruling, the United States Supreme Court reversed the District Court's ruling and held that wealth was not a suspect class as determined by the strict judicial scrutiny test, that education is not a fundamental right, and that the state's school finance system furthered a legitimate state purpose and thus, did not violate the Equal Protection Clause.[13]

Because education is not among the rights afforded explicitly or implicitly by the U.S. Constitution, the U.S. Supreme Court found that education is not a fundamental right. The Supreme Court recognized that funding disparities may result due to the state's reliance on local taxes to fund schools but decided that

[12] Ibid.
[13] Ibid.

educational expenditures and funding disparities were insufficient to invalidate the entire school finance system.

Of keen interest is the comparison made by the U.S. Supreme Court regarding the quality of one's education. The Supreme Court cited *Douglas v. California*, 372 U.S. 353 (1963), which focused on an indigent defendant's right to court-appointed counsel but did not address relative differences in the quality of counsel acquired by an indigent. This suggested that if education were a fundamental right protected by the U.S. Constitution the quality of one's education would not protected or ensured because of one's financial status.[14] The ruling of *San Antonio I.S.D. v. Rodriguez* closed the door on school finance litigation based on federal constitution provisions. Now, school finance reform would have to find another avenue.

The second category is litigation based on state constitutional provisions. One of the key cases in this category is the second *Serrano v. Priest*, 18 Cal. 3d 728; 557 P.2d 929; 1976, case or *Serrano II.* Both the plaintiffs and defendants were the same as those in the previous *Serrano v. Priest* case. Although Priest, the former State Treasurer had died, the case continued to use his name for consistency and convenience.[15]

In response to the previous *Serrano v. Priest* ruling, which invalidated California's public school finance system, the California State Legislature passed Senate Bill 90 and Assembly Bill 1267 to amend the finance system. The amended finance system contained three main features, basic state aid, state

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[14] Ibid.

[15] *Serrano v. Priest*, 18 Cal. 3d 728; 557 P.2d 929; 1976. n.d. 1 June 2002 <http://web.lexis-nexis.com>.

equalization aid, and school district tax rate limitations and overrides. The finance system's key changes were state equalization aid and the school district tax rate limitations and overrides. Additionally, the two bills established the Educationally Disadvantaged Youth Programs to offer greater state assistance on a project basis to school districts with a great incidence of poverty, bilingualism, and pupil transiency and the Early Childhood Education Programs, which authorized millions in state aid on a project basis to school districts to restructure education in grades kindergarten through third. A crucial result of these two bills was a substantial increase approximately $410 per adjusted daily attendance for elementary school districts and approximately $462 per adjusted daily attendance for high school districts in the foundation level, which constituted the minimum amount per pupil guaranteed to each district by state.[16]

The state trial court ruled that the amended public school finance system was unconstitutional. Because of the U.S. Supreme Court's ruling in *San Antonio Independent School District v. Rodriguez*, the trial court ruled that the finance system did not violate the Equal Protection Clause of the 14th Amendment of the U.S. Constitution but instead, violated Article IV, section 16 and Article I, section 7 of the California Constitution, which are the state's equal protection provisions.[17]

In addition, the California Supreme Court ruled that the state's school finance system was not significantly different from the prior finance system found unconstitutional in *Serrano I* mainly because the increases in the foundation

[16] Ibid.
[17] Ibid.

levels of state aid failed to eliminate the unconstitutional aspects of the finance system. Also, the Supreme Court stated that the continued utilization of basic state aid created an anti-equalization effect benefiting school districts not eligible for equalization aid, that the revenue limit aspect of the finance system had serious flaws, and that after five to twenty years, significant disparities in expenditures and revenue between wealthy and poor school districts would likely persist. Finally, the Supreme Court stated that "substantial disparities in expenditures per pupil from district to district that are the result of differences in local taxable wealth will continue to exist under S.B. 90 and A.B. 1267."[18]

In other states, similar litigation was filed. In *Pauley v. Bailey,* 255 S.E. 2d 859 (W.Va. 1979), the West Virginia State Supreme Court ruled that the state's school finance system was unconstitutional because the clause in the state constitution requiring a "thorough and efficient system of free schools" was sufficient to establish education as a fundamental right.[19] Similarly in *Washakie v. Kerschler,* 606 P.2d 310 (Wyo. 1980), the Wyoming Supreme Court found that education was given considerable emphasis by the state constitution, which made the education of children "a matter of fundamental interest" and served as the basis for finding the state's school finance system unconstitutional.[20]

Also included in the second category are three additional cases. In *Horton v. Meskill,* 376 A.2d 359 (Ct. 1977), the Connecticut Supreme Court overturned the state's public school finance system based on the state constitution's equal

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[18] Ibid.
[19] *Pauley v. Bailey,* 255 S.E. 2d 859 (W.Va. 1979). n.d. 1 June 2002 <http://web.lexis-nexis.com>.
[20] *Washakie v. Kerschler,* 606 P.2d 310 (Wyo. 1980). n.d. 1 June 2002 <http://web.lexis-nexis.com>.

protection clauses, and the Supreme Court concluded education is a fundamental right due to the state's historical support for education.[21] In *Dupree v. Alma,* 651 S.W.2d (Ark. 1983), the Arkansas Supreme Court overturned the state's public school finance system. Rather than focus on the equal protection clause of the state's constitution, the Supreme Court used a rational basis test to determine whether the government had a rational basis for the school finance system and found that the financing system was irrational stating: "we can find no constitutional basis for the present system, as it has no rational bearing on the educational needs of the districts."[22] Finally in *Harper v. Hunt,* WL 204083 (Ala. Cir. Ct. Montgomery County Apr. 1, 1993), an Alabama county circuit court ruled that the state's entire public school system, including the school finance system was unconstitutional because the school system was both inadequate and inequitable. School district funding disparities resulted in inequality of education resources and opportunities, which violated both state education clauses and the equal protection provisions of the state constitution.[23]

The third category is litigation based on state education clauses. Two New Jersey court cases are included in this category. In *Robinson v. Cahill,* 62 N.J. 473, 515-19 (1973), the New Jersey Supreme Court mandated school finance reform after finding the state's constitution required a "thorough and efficient" education, which required equal educational opportunities for all children that was

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[21] *Horton v. Meskill,* 376 A.2d 359 (Ct. 1977). n.d. 1 June 2002 <http://web.lexis-nexis.com>.
[22] *Dupree v. Alma,* 651 S.W.2d (Ark. 1983). n.d. 1 June 2002 <http://web.lexis-nexis.com>.
[23] *Harper v. Hunt,* WL 204083 (Ala. Cir. Ct. Montgomery County Apr. 1, 1993). n.d. 1 June 2002 <http://web.lexis-nexis.com>.

not being realized because of the funding disparities resulting from the state's school finance system. The Supreme Court's decision was based on a particular clause of the state constitution, not the equal protection provisions of the state constitution.[24]

In 1985, school finance litigation re-surfaced in New Jersey in *Abbot v. Burke,* 495 A.2d 376 (N.J. 1985). In its ruling, the New Jersey Supreme Court went to the *Robinson v. Cahill* ruling and found that the "thorough and efficient" clause of the state constitution required the public educational system to provide economically and socially disadvantaged children the opportunity to compete with advantaged children and thus, ruled that for the twenty-eight poorest school districts in the state the state's school finance system was unconstitutional. Subsequent school finance reform legislation was returned to the State Legislature after failing to meet the Supreme Court's requirements.[25]

Other state supreme courts have made similar rulings. In *Seattle School District No. 1 v. State,* 585 P. 2d 71 (Wash. 1978), the Washington Supreme Court found the state's public school finance system was unconstitutional because the state's education clause imposed a duty on the state that the state had failed to meet. This ruling overturned the Supreme Court's previous ruling in *Kinnear* when the state's school finance system was found constitutional.[26] In *Helena Elementary School District No. 1 v. State,* 769 P.2d 684 (Mont. 1989), the Montana Supreme Court ruled the state's school finance system unconstitutional

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[24] *Robinson v. Cahill,* 62 N.J. 473, 515-19 (1973). n.d. 1 June 2002 <http://web.lexis-nexis.com>.
[25] *Abbot v. Burke,* 495 A.2d 376 (N.J. 1985). n.d. 1 June 2002 <http://web.lexis-nexis.com>.
[26] *Seattle School District No. 1 v. State,* 585 P. 2d 71 (Wash. 1978). n.d. 1 June 2002 <http://web.lexis-nexis.com>.

because the finance system failed to provide equal educational opportunities, which the state constitution required in providing a "basic system of free quality public elementary and secondary schools."[27] In *Rose v. Council for Better Education, Inc.*, 790 S.W. 2d 186 (Ky. 1989), the Kentucky Supreme Court ruled that the state's school finance system and the entire public school system were unconstitutional and ordered the state's General Assembly to establish a new school system.[28]

In *McDuffy v. Secretary of Office of Education,* 414 Mass. 545; 615 N.E.2d 516; 1993 Mass., the Massachusetts Supreme Court ruled that the state's public school finance system was unconstitutional because the lack of financial support by the state had led to education opportunity disparities in poorer school districts, and as a result, children attending poor school districts were not provided the education they were constitutionally guaranteed.[29] In *Tennessee Small School Systems et al. v. McWherter et al.,* 894 S.W.2d 734; 1995 Tenn., seventy-seven rural school districts filed suit challenging the constitutionality of the state's school finance system. The Tennessee Supreme Court found the finance system unconstitutional because the system failed to provide equal educational opportunities for wealthy and poor school district students.[30] In *Roosevelt Elementary School District 66 v. Bishop,* 179 Ariz. 233; 877 P.2d 806; 1994 Ariz., the Arizona Supreme Court ruled that the state's finance system was

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[27] *Helena Elementary School District No. 1 v. State,* 769 P.2d 684 (Mont. 1989). n.d. 1 June 2002 <http://web.lexis-nexis.com>.
[28] *Rose v. Council for Better Education, Inc.*, 790 S.W. 2d 186 (Ky. 1989). n.d. 1 June 2002 <http://web.lexis-nexis.com>.
[29] *McDuffy v. Secretary of Office of Education,* 414 Mass. 545; 615 N.E.2d 516; 1993 Mass. n.d. 1 June 2002 <http://web.lexis-nexis.com>.
[30] *Tennessee Small School Systems et al. v. McWherter et al.*, 894 S.W.2d 734; 1995 Tenn. n.d. 1 June 2002 <http://web.lexis-nexis.com>.

unconstitutional because the reliance on local property taxes to fund education resulted in inequities in expenditures and revenue between school districts in the state. The ruling was based on the education clause of the Arizona Constitution that guaranteed "general and uniform" public schools.[31]

Four Texas court cases are included in the third category. After *San Antonio Independent School District v. Rodriguez*, Texas again found itself at the center of school finance litigation with the four *Edgewood* cases. In the first three *Edgewood* rulings, the Supreme Court of Texas found the state's public school finance system unconstitutional, and in the final *Edgewood* case, the finance system was found minimally acceptable.

In 1989, the first *Edgewood v. Kirby,* 777 S.W.2d 391; 1989 Tex., case or *Edgewood I* was tried.[32] The plaintiffs included the Edgewood Independent School District, sixty-seven other school districts, individual parents, and the Mexican American Legal Defense and Education Fund, who argued that the state's public school finance system violated the Texas Constitution. The 205th Texas District Court ruled that the finance system violated the equal rights guarantee of Article I, Section 3, as well as the due course of law guarantee of Article I, section 19.[33] Also, the finance system violated the "efficiency" mandate of Article VII, Section 1 of the Texas Constitution, which mandates the State Legislature to "establish and make suitable provision for the support and

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[31] *Roosevelt Elementary School District 66 v. Bishop,* 179 Ariz. 233; 877 P.2d 806; 1994 Ariz. n.d. 1 June 2002 <http://web.lexis-nexis.com>.
[32] *Edgewood Independent School District v. Kirby*, 777 S.W.2d 391; 1989 Tex. n.d. 1 June 2002 <http://web.lexis-nexis.com>.
[33] Ibid.

maintenance of an efficient system of public free schools."[34] The court of appeals reversed the district court's ruling because they believed school finance was a political question not to be decided by the judiciary. The Supreme Court of Texas reversed the court of appeals' ruling and affirmed the district court's ruling.[35]

To make its ruling, the Supreme Court of Texas used the 1985-1986 school year as a test year. During this school year, Texas public schools were funded approximately 50% by local funds raised by local school districts, approximately 42% by the state, and approximately 8% by the federal government.[36] Local funds derived from local ad valorem property taxes, and state funds derived from the state sales tax and various other sources of revenue.

The Supreme Court of Texas recognized the state's efforts to fund public schools, primarily through the Foundation School Program, which sought to ensure school districts had sufficient funds to provide all students with a basic education. Under the Program, property-poor school districts received greater amounts of state aid than property-rich school districts, but the Supreme Court found that the Program failed to meet minimum state-mandated requirements and failed to provide funds for allotments for school facilities or for debt service. Also, the finance system forced property-poor school districts to spend greater amounts on debt service and construction bonds, while property-rich school

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[34] "The Texas Constitution, Article VII, Section 1-Support and Maintenance of System of Public Free Schools." n.d. 1 June 2002 <http://www.capitol.state.tx.us/txconst/sections/cn000700-000100.html>.
[35] *Edgewood Independent School District v. Kirby*, 1989.
[36] Ibid.

districts were able to use their additional revenue to further improve their school districts.[37]

In addition, the Supreme Court of Texas recognized the vast disparities between property-poor and property-rich school districts. For example, the wealthiest school district had over $14,000,000 of property wealth per student, while the poorest school district had approximately $20,000 of property wealth per student. This was an unbelievable ratio of nearly 700 to 1. Also, the average property wealth per student of the 100 wealthiest school districts was nearly twenty times greater than the average property wealth per student of the 100 poorest school districts, and wealthier school districts spent approximately $2,000 more per student than poorer school districts. Finally, property-rich school districts had the luxury of charging a low tax rate and having considerable revenue and expenditures, while property-poor school districts charged a high tax rate in order to raise minuscule revenue.[38]

The Supreme Court of Texas added that property-poor school districts were trapped in a cycle of poverty with no opportunity to escape. The Supreme Court recognized that the ability to attract new economic development and industry is in part a function of the local tax rate and the quality of the school districts. Because property-poor school districts are forced to charge a higher tax rate and produce lower quality schools, those areas are unlikely to attract coveted

[37] Ibid.
[38] Ibid.

new economic development and industry. This leaves the property-poor school districts with little potential to develop their tax base.[39]

In its opinion, the Supreme Court of Texas stated that the amount of money spent on a student's education has a "real and meaningful impact on the educational opportunity offered that student."[40] Property-rich school districts are able to provide technological equipment, better research facilities, lower student-teacher ratios, better school facilities, and to attract and retain experienced teachers and school administrators, while property-poor school districts, generally offer little if any extracurricular activities, minimal honors or advanced courses, and often fail to meet the state-mandated standards for maximum class size.[41]

In addressing the efficiency clause, Article VII, section 1 of the Texas Constitution, the Supreme Court of Texas stated that the requirement for an efficient system should not be confused with the establishment of an inexpensive or cheap system and that had the framers of the Texas Constitution sought an inexpensive or cheap public school system they would have better phrased this section of the Constitution, as the word "economical" is used in other sections of the Constitution.[42] Also, the Supreme Court stated that the framers of the constitution did not intend for the school finance system to create the current funding disparities; rather, the framers sought a system to provide a general diffusion of knowledge that the current finance system prevented.[43]

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[39] Ibid.
[40] Ibid.
[41] Ibid.
[42] Ibid.
[43] Ibid.

To meet the efficiency clause requirements, the State Legislature focused its efforts on increasing the state's share of education funding, but the Supreme Court of Texas stated these efforts would only postpone the needed finance system reform, not solve funding disparities. In addition, the Supreme Court stated that there is no requirement for the state to mandate per capita distribution in order to meet the efficiency requirements and that at the same time, the concentration of education revenues and resources in property-rich school districts did not meet the efficiency requirements. Finally, the Supreme Court stated that children must be afforded equal educational opportunities and educational revenue, regardless of whether they attend a property-rich or property-poor school district and that an efficient system does not preclude the ability for local municipalities and school districts to exercise control of the education of their children.[44]

In summary, the Supreme Court of Texas ruled that the state's public school finance system was unconstitutional, in large part because it failed to meet the efficiency requirements of the Texas Constitution. The Supreme Court did not mandate the particulars of what legislation the State Legislature should pass to meet constitutional requirements or order the State Legislature to raise taxes to provide additional revenue for the school finance system.[45]

In response to the *Edgewood I* ruling in 1989, the State Legislature passed Senate Bill 1, after the fifth special session called by former Governor Mark

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[44] Ibid.
[45] Ibid.

White, which was an equalization plan that would have amended section 16.001(c)(1) of the Education Code to read:

> the yield of state and local educational program revenue per pupil per cent of effective tax effort shall not be statistically significant related to local taxable wealth per student for at least those districts in which 95 percent of students attend school.[46]

In addition, S.B. 1 stated the objective of detecting deviations from fiscal neutrality, which is the concept of similar revenue yields for similar taxation and informing policymakers when additional state aid was required by school districts, which would be accomplished through the use of biennial studies. Based on the results of these studies, biennial adjustments in school funding would be used to prevent existing and growing gaps between property-poor and property-rich school districts.[47]

Plaintiffs again filed suit arguing that the public school finance system established by S.B. 1 was unconstitutional. The Texas district court ruled that the amended finance system was unconstitutional because the finance system still did not meet the requirements established by *Edgewood I.* In the second *Edgewood v. Kirby* 804 S.W.2d 491; 1991 Tex. case or *Edgewood II* in 1991, the Supreme Court of Texas ruled that the public school finance system was unconstitutional because S.B. 1 left the finance system intact with similar disparities and deficiencies found in *Edgewood I.*

While S.B. 1 altered the Foundation School Program, which includes a two-tiered education finance structure, the Supreme Court of Texas stated that S.B. 1 failed to address the major cause of funding disparities between property-

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[46] *Edgewood Independent School District v. Kirby*, 804 S.W.2d 491; 1991 Tex. n.d. 1 June 2002 <http://web.lexis-nexis.com>.
[47] Ibid.

poor and property-rich school districts. Also, the new finance system did not alter the boundaries of any school district in the state, which allowed the wealthiest school districts to continue to benefit from a wealthier tax base. Neither did the finance system change the allocation of education funds, as local funds continued to provide the majority of education funding. Finally, the finance system did not equalize access to education funds for all school districts.[48]

After the adoption of the finance system established by S.B. 1, the Supreme Court of Texas stated wealthier school districts would continue to be subsidized at the expense of property-poor school districts. To meet the efficiency requirement of the Texas Constitution, the Supreme Court provided two methods. The state could collect revenue from all property at an approximately similar rate if the state were to continue to rely on local ad valorem property taxes or attempt tax base consolidation. Because the State Legislature has been granted considerable discretion to create school districts and their taxing powers and because no prior court precedent prevents consolidation, there are no legal barriers to tax base consolidation.[49] The Supreme Court of Texas found the school finance system unconstitutional because the finance system established by S.B. 1 did not meet the Texas Constitution's efficiency requirement.

After the *Edgewood I* and *Edgewood II* rulings, the State Legislature passed Senate Bill 351 in 1991 to create 188 county education districts (CEDs). The majority of the newly created CEDs would consist of school districts in a single county, but some would include school districts in more than one county.

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[48] Ibid.
[49] Ibid.

CEDs would only be allowed to perform the tax functions of school districts. The tax rate CEDs may charge was set by the state, not by the CED itself. The sole function of the CEDs was to levy, collect, and redistribute property taxes as prescribed by the State Legislature; all educational services would continue to be performed by local school districts.[50]

Besides this amendment, S.B. 351 left the other features of the school finance system intact, namely continuing to utilize a two-tiered funding system. The first tier ensured sufficient funding was provided to meet state educational standards, and the second tier provided supplemental funding. S.B. 351 also, established a revenue limit for school districts, which was defined as an amount equal to 110% of the state and local funds guaranteed under the Foundation School Program per student to each school district.[51]

After Senate Bill 351 was passed, a number of property rich school districts filed suit, *Carrollton-Farmers Branch Independent School District v. Edgewood Independent School District,* 826 S.W.2d 489; 1992 Tex. or *Edgewood III*, arguing that S.B. 351 levied a state wide ad valorem tax and that the tax was levied without voter approval. In 1992, the Supreme Court of Texas ruled that the school finance system established by S.B. 351 was unconstitutional.[52]

The appellants argued that S.B. 351 violated Article VIII, section 1-e of the Texas Constitution, which states that "no state ad valorem taxes shall be

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[50] *Carrollton-Farmers Branch Independent School District v. Edgewood Independent School District*, 826 S.W.2d 489; 1992 Tex. n.d. 1 June 2002 <http://web.lexis-nexis.com>.
[51] Ibid.
[52] Ibid.

levied upon any property within this state."[53] The Supreme Court of Texas found that S.B. 351 allowed the state to dictate the tax rate CEDs charge because the state required CEDs to levy a tax and the CED could not charge a tax rate greater or less than what the state mandated. As such, the Supreme Court stated that the inherent purpose of S.B. 351 was to levy a uniform statewide tax and the distribution of the funds from the tax was controlled by the state. In addition, the Supreme Court stated that a statewide ad valorem tax exists when either the tax is either imposed directly by the state or the state completely controls the levy, assessment, and distribution of the revenue raised. S.B. 351 met the second condition, and as a result, the Supreme Court concluded the tax system established by S.B. 351 was unconstitutional, violating Article VIII, section 1-e of the Texas Constitution.[54]

Next, the Supreme Court of Texas examined the appellants' argument that S.B. 351 violated the Texas Constitution by not allowing voters to approve the tax to be levied. Article VII, section 3-e of the Texas Constitution states:

> the Legislature may authorize an additional ad valorem tax to be levied and collected within all school districts... provided that a majority of the qualified voters of the district voting at an election to be held for that purpose, shall approve the tax.[55]

In *Freer Municipal Independent School District v. Manges,* 677 S.W.2d 488, 1984 Tex., the Supreme Court of Texas stated that after school district boundaries are altered, the governing body of that school district has the power to

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[53] "The Texas Constitution, Article VIII-Taxation and Revenue, Section 1-e-Abolition of Ad Valorem Property Taxes." n.d. 1 June 2002 <http://www.capitol.state.tx.us/txconst/sections/cn000800-01-e00.html>.

[54] *Carrollton-Farmers Branch Independent School District v. Edgewood Independent School District*, 1992.

[55] "Texas Constitution, Article VII-Education, section 3-e-Taxes for Benefit of Schools; School Districts." n.d. 1 June 2002 <http://www.capitol.state.tx.us/txconst/sections/cn000700-000300.html>.

levy and collect ad valorem property taxes without another election authorizing the levying and collection of the tax revenue. The Supreme Court stated that the newly created Freer Municipal I.S.D. was not required to have a tax authorization election after Freer citizens voted to separate from the Benavides Independent School District because a tax had already been voted on and approved while the Freer citizens were part of Benavides I.S.D. Because only the boundaries of school districts' taxing power would be altered by S.B. 351, not their physical boundaries, S.B. 351 did not meet the standards in *Freer*.[56] Also, S.B. 351 would transfer part of a school district's taxing power to a CED, which would significantly alter the tax system voters had approved. Under S.B. 351, citizens would no longer only pay taxes to fund the school district they reside in; they would have to share the cost of funding all the school districts with that CED, which voters never approved. Rather, the change has been mandated by the state, and therefore, S.B. 351 was ruled unconstitutional.[57]

Former Supreme Court of Texas Justice John Cornyn, who is the current Texas Attorney General, as well as Republican candidate for the U.S. Senate provided a dissenting opinion. One of Justice Cornyn's comments was his demand for an "efficient" school system to include a monitoring system, not just the control of the inputs to the school system. Also, Justice Cornyn stated his concern that Texas could become like New Jersey, which has been besieged with litigation challenging the state's school finance system. Justice Cornyn felt that if this were to happen it could damage the general quality of Texas' public school

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[56] *Carrollton-Farmers Branch Independent School District v. Edgewood Independent School District*, 1992.
[57] Ibid.

system. Finally, Justice Cornyn states that "any correlation between funding and educational results is tenuous at best" and provides numerous studies that support this statement.[58]

After the *Edgewood III* ruling, the State Legislature proposed a constitutional amendment to authorize CEDs to levy, collect, and distribute ad valorem taxes, but voters adamantly rejected this proposal. In response, the State Legislature passed Senate Bill 7.[59]

Under S.B. 7, the Foundation School Program would continue to maintain a two-tiered school finance structure. The most significant feature of S.B. 7 was a cap on a school district's taxable property set at a level of $280,000 per student. School districts exceeding this value were provided five methods to decrease the value, consolidate with another school district, detach taxable property, purchase average daily attendance credits from the state, contract to educate students from another school district, or tax base consolidation with another school district. In addition, S.B. 7 made significant reforms in Chapter 35, "Public School System Accountability" of the Texas Education Code to meet the constitutional mandate to provide a "general diffusion of knowledge," which was accomplished by listing seven public education goals for the state. Included was a system of student assessment and school district accreditation; by school districts meeting accreditation standards, the state has met the constitutional mandate for the provision of a "general diffusion of knowledge."[60]

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[58] Ibid.
[59] *Edgewood Independent School District v. Meno*, 893 S.W.2d 450; 1995 Tex. n.d. 1 June 2002 <http://web.lexis-nexis.com>.
[60] Ibid.

After S.B. 7 was passed by the State Legislature, numerous plaintiffs filed suit, including groups representing property-poor and property-rich school districts. Property-poor school districts argued that the finance system established by S.B. 7 was not efficient, while property-rich school districts' focused their complaint on the revenue system established by S.B. 7. The Texas district court ruled that S.B. 7 was constitutional but that the State Legislature failed to provide efficiently for educational facilities and ordered that no bonds for any school district could be approved until the State Legislature remedied this deficiency. In *Edgewood Independent School District v. Meno,* 893 S.W.2d 450; 1995 Tex. or *Edgewood IV*, the Supreme Court of Texas ruled that S.B. 7 was constitutional and minimally acceptable.[61]

The Supreme Court of Texas ruled that the accreditation provision of S.B. 7 met the constitutional requirement for a "general diffusion of knowledge" and met the constitutional requirement for financial efficiency, which requires school districts to have equal access to funding to achieve a "general diffusion of knowledge." Under the school finance system established by S.B. 7, the ratio between the wealthiest and poorest school districts was drastically reduced from 700-to-1 to 28-to-1, mainly due to the increased revenue provided by Tier 2 of the Foundation School Program. Also, S.B. 7 reduced the disparity in tax rates which have existed since *Edgewood I*; this reduction had, in part, been the result of Tier 2 that had eliminated the tax rate disparity for 85% of all students.[62]

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[61] Ibid.
[62] Ibid.

The complaint of property-rich school districts focused on the mechanism through which S.B. 7 provided the funds to achieve financial and educational efficiency, namely the per-student cap on a district's taxable property. In *Edgewood I* and *Edgewood II*, the Supreme Court of Texas found that an efficient system failed to exist when there were large concentrations of revenue in certain school districts, namely property-rich school districts. The cap established by S.B. 7 sought to ensure that the large concentrations of revenue were abolished, and as such, this complaint by property-rich school districts was struck down by the Supreme Court.[63]

In addition, property-rich school districts argued that S.B. 7 imposed a statewide ad valorem tax in violation of the Texas Constitution. The Supreme Court of Texas stated the difficulty in classifying what constitutes a statewide ad valorem tax but believed that the finance system established by S.B. 7 lay in the "spectrum of possibilities" between what qualifies as a statewide ad valorem tax. The property-rich school districts further argued that S.B 7 gave the state complete control over the school finance system leaving school districts with minimal discretion in this area. The Supreme Court agreed that in fact this may be true, but it was insufficient to find S.B. 7 unconstitutional.[64]

Finally, the property-rich school districts argued that it was established in *Love v. City of Dallas,* 40 S.W.2d 20, 1931 Tex., that local tax dollars can only be spent on local school district students. In *Love v. City of Dallas*, the Supreme Court of Texas ruled that the State Legislature could not compel school districts

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[63] Ibid.
[64] Ibid.

to use its resources to educate students from other school districts. Because school districts exceeding the cap set by S.B. 7 have numerous options to avoid paying to educate non-residents of the school district, the Supreme Court found S.B. 7 does not violate the *Love v. City of Dallas* ruling, and thus, the arguments of the property-rich school districts were rejected.[65]

The arguments against Senate Bill 7 were examined, and the Supreme Court of Texas ruled that the finance system established by S.B. 7 was constitutional. Since 1995, this finance system has been utilized by the state with a few amendments, and since 1995, property-rich school districts have filed lawsuits alleging the state's public school finance system was unconstitutional. For example in *West-Orange Cove Consolidated I.S.D. v. Nelson,* Cause No. GV1-00528, 250th Judicial District Court, Travis County, Texas, the members of the property-rich school district, West-Orange Cove Consolidated Independent School District sought to dismiss the $1.50 cap and argued the finance system established a statewide ad valorem tax, but the trial court dismissed the lawsuit.[66]

School finance reform litigation gained the greatest attention during the past 30 years. The rulings in these cases have both provided and then removed education as a basic right protected by the U.S. Constitution, and as a result of these rulings, school finance reform has had to rely on state constitutions, which has lead to the majority of the states amending their school finance system. Almost every state has had litigation filed challenging the constitutionality of the

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[65] Ibid.

[66] Jeffrey S. Boyd. "The Texas Public School Finance System: An Outline Summary of Legal Challenges and Constitutional Standards." Presented to the Joint Select Committee on Public School Finance. Austin, TX, 25 Oct. 2001, p. 8.

state's public school finance system. Likely, the judges or justices in these cases have in part based their decision on the premise that equalized or increased educational revenue will improve overall student performance. Therefore, it becomes necessary to examine the effects of school finance reform litigation and to discover which inputs influence student performance.

CHAPTER II

HISTORY OF TEXAS' SCHOOL FINANCE POLICY

Before analyzing the relationship between school finance and student performance an examination of the history of the state's school finance policies is necessary. This history includes the early state of school finance in Texas, including changes made during the past one hundred years, as well as the current school finance laws.

The framers of the 1876 Texas Constitution provided a flat grant system to fund education.[67] In 1901 and 1909, state policymakers authorized the State Board of Education to invest in the Permanent School Fund for school district boards, and in 1911, the State Legislature established county boards of education, which were authorized to consolidate common school districts into rural high school districts.[68] The State Legislature, in 1915, recognized the disparities in the local tax resources of different school districts and as a result, made a special appropriation of equalization aid for rural school districts that were taxing at the maximum rate allowed by the state. In *Mumme v. Marrs*, 120 Tex. 383, 40

[67] Liz Kramer. "Achieving Equitable Education Through the Courts: A Comparative Analysis of Three States." *Journal of Law & Education*, vol. 31, no. 1 Jan. 2002, p. 26.
[68] Catherine Clark. "Texas State Support for School Facilities, 1971 to 2001." *Journal of Education Finance* 27 (Fall 2001), p. 683.

S.W.2d 31, 36 Tex. 1931, the Supreme Court of Texas found that this special equalization appropriation by the State Legislature was constitutional.[69]

Modern Texas school finance began with the passage of the Gilmer-Aikin Act in 1949. This Act established the Minimum Foundation Program to serve as the primary method to provide funding to local school districts. Lawmakers envisioned the Program providing a guaranteed minimum amount of educational resources per student, with approximately 80% of the funds for education to come from the state and the other 20% from local school district revenue.[70] The Gilmer-Aikin Committee, which proposed the Act, had proposed a new finance plan for facility construction, but this provision was not adopted.[71] As a result of the Gilmer-Aikin Act during the 1950s and 1960s, school district consolidation began but failed to ease the funding burden of small, rural, and poor school districts throughout the state.[72]

During the 1970s additional changes to the state's school finance system were adopted. After the *San Antonio Independent School District v. Rodriguez* decision, the Minimum Foundation Program was renamed the Foundation School Program and altered the local fund assessment by the state to focus on the wealth of a school district, rather than the wealth of the county in which the district is located. During the 1975 Legislative Session, the State Legislature established State Equalization Aid, which served as the second tier of school finance providing greater state aid to poor school districts. In 1977, the second tier was

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[69] *Carrollton-Farmers Branch Independent School District v. Edgewood Independent School District.*
[70] Ibid.
[71] Clark, p. 683.
[72] Clark, p. 684.

amended to provide even greater amounts of funding. Finally in 1979, the State Legislature established county appraisal districts to create a more uniform local property appraisal system and increased the state's share to fund education.[73]

From the 1980s to the early 1990s, Texas school finance underwent a radical transformation due to court decisions and lawmakers' efforts. In 1989, the Supreme Court of Texas found that the state's school finance system, which operated under the conditions previously described, was unconstitutional in *Edgewood v. Kirby.*[74] The Supreme Court suggested that the State Legislature create a new school finance system. After the fifth special session called by Governor White, Senate Bill 1 was passed. The key provision of S.B. 1 was amending section 16.001 (c)(1) of the State Education Code to read

> "the yield of state and local educational program revenue per pupil per cent of effective tax effort shall not be statistically significantly relate to local taxable wealth per student for at least those districts in which 95 percent of students attend school." [75]

In *Edgewood II*, the Supreme Court found the school finance system established by the adoption of S.B. 1, unconstitutional.

In 1991, the State Legislature established a new school finance equalization system through the adoption of Senate Bill 351. Under S.B. 351, public education would continue to be predominately funded by local ad valorem taxes raised by school districts. The key change was the creation of 188 county education districts (CEDs) that would only carry out the tax functions and not any educational functions of a school district. CEDs would levy, collect, and

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[73] *Carrollton-Farmers Branch Independent School District v. Edgewood Independent School District.*
[74] Texas Educational Excellence Project, p. 4.
[75] *Edgewood Independent School District v. Kirby,* 1991.

distribute property taxes, while educational functions would remain the responsibility of local school districts. The tax rate to be charged by the CEDs would be set by the State Legislature.[76] In *Edgewood III*, the Supreme Court of Texas ruled this method of school finance unconstitutional.

To circumvent the *Edgewood III* ruling, the State Legislature proposed a constitutional amendment that would have included the provisions of S.B. 351. Proposition One, which would have authorized the implementation of CEDs was put before Texas voters as required by the Texas Constitution. A special election was held in 1993, and Proposition One was strongly defeated with 63% of voters voting against the Proposition.[77]

In response to the rejection of Proposition One, the State Legislature passed Senate Bill 7 in 1993.[78] S.B. 7 continued to utilize the Foundation School Program but included two significant changes. The first change was imposing a cap on school districts' taxable property; the second change was the adoption of Chapter 35 of the Education Code entitled "Public School System Accountability."[79] In *Edgewood IV*, the Supreme Court of Texas ruled that public school finance system established by S.B. 7 was "minimally acceptable" and has since been utilized by the state.[80]

The current education finance system is found in the *Texas Education Code*, specifically, Chapters 41 and 42, the Equalized Wealth Level and the

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[76] *Carrollton-Farmers Branch Independent School District v. Edgewood Independent School District.*
[77] Douglas S. Reed. "Court-Ordered School Finance Equalization: Judicial Activism and Democratic Opposition." n.d. 1 June 2002 <http://nces.ed.gov/pubs97/97535.html>.
[78] Texas Educational Excellence Project, p. 5.
[79] *Edgewood Independent School District v. Meno.*
[80] Texas Educational Excellence Project, p. 5.

Foundation School Program. The state mandates the public school finance system to "provide substantially equal access to similar revenue per student at similar tax effort, considering all state and local tax revenues of districts."[81] To fund education, school districts may levy a property tax on both residential and commercial properties within the boundaries of the school district. School districts may use bonds to help finance education and educational facilities.[82]

Primarily, Texas school districts are funded through the Foundation School Program (FSP), which provides adequate resources for school districts to provide students basic instructional programs, facilities suitable to student educational needs, and access to an equalized program of school finance divided into two tiers. Tier one ensures school districts have sufficient resources to provide students with a basic education, and tier two ensures school districts have substantially equal access to education funds.[83] The Foundation School Program also, provides special allotments to students requiring special education, such as disabled students or bilingual students.[84] The key measurement used by the state in allotting aid to school districts is the school district's weighted average daily attendance (WADA), which is calculated by dividing the sum of a school

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[81] *Texas Education* Code, Chapter 42. Foundation School Program, Subchapter A. General Provisions, § 42.001 (b).
[82] *Vernon's Texas Codes Annotated: Education Code Section 1.001 to 40* (St. Paul, Minnesota: West Publishing Co., 1996), 102.
[83] *Texas Education Code*, Chapter 42. Foundation School Program, Subchapter A. General Provisions, § 42.002.
[84] *Texas Education Code*, Chapter 42. Foundation School Program, Subchapter C. Special Allotments, § 42.151-153.

district's allotments excluding allotments for transportation or allotments for the new instructional facilities by the basic allotment for the school district.[85]

Another key feature of the current school finance policy is that school districts are limited to the property tax rate they may levy. Currently, school districts are not allowed to charge a tax rate greater than $1.50 per $100 property value.[86] School districts may only exceed this rate to provide for debt service. Also, school districts cannot have a wealth per student exceeding $300,000; effective September 1, 2002, school districts cannot exceed a wealth per student of $305,000.[87]

By law, no later than July 15 of each year, the Commissioner of Education shall review the wealth per student of each school district and shall notify the school districts that exceed the maximum wealth per student level or that the Commissioner proposes annexing property detached from another school district, or consolidating.[88] The cap on the tax rate a school district may charge and the limit of school districts' wealth per student are attempts by the state to prevent educational revenue disparities. School districts exceeding the maximum wealth per student are provided five options to achieve the required wealth per student level.[89]

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[85] *Texas Education Code*, Chapter 42. Foundation School Program, Subchapter F. Guaranteed Yield Program , § 42.302.
[86] Susan Parrott. "Dallas Taxpayers Challenge State's 'Robin Hood' School Finance Law" *The Monitor* 6 Apr. 2001, 4C.
[87] *Texas Education Code*, Chapter 41. Equalized Wealth Level, Subchapter A. General Provisions, § 41.001-41.002 (a).
[88] *Texas Education* Code, Chapter 41. Equalized Wealth Level, Subchapter A. General Provisions, § 41.004 (a).
[89] *Texas Education* Code, Chapter 41. Equalized Wealth Level, Subchapter A. General Provisions, § 41.003.

The first method by which a school district may achieve the maximum allowed wealth per student level is through consolidating with another school district. The governing bodies or school boards of two or more school districts may consolidate their school districts, which must be certified by the Commissioner of Education. The newly consolidated school district shall operate under the provisions of the *Texas Education Code*, Subchapter D, Chapter 13.[90]

Secondly, a school district may detach territory to achieve the maximum allowed wealth per student level. The governing boards of two school districts may agree to detach territory from one school district and have the other annex the detached territory, which requires the certification of the Commissioner of Education. Once the agreement has been made and certified, the school districts involved are required to notify the property owners of the detached and annexed territory and the appraisal district of the affected territory.[91]

Thirdly, a school district may purchase average daily attendance credits to reduce its wealth per student to the required maximum allowed level; the purchase of the credits must be arranged with the Commissioner of Education and gain voter approval. The weighted average daily attendance of the school district purchasing the daily attendance credits is increased by one student with the purchase of each credit, and the credits are not used in determining a school district's student population, average daily attendance, or weighted average daily attendance for the purposes of Chapter 42 of the *Texas Education Code*. The cost

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[90] *Texas Education* Code, Chapter 41. Equalized Wealth Level, Subchapter B. Consolidation by Agreement, § 41.031-41.034.

[91] *Texas Education* Code, Chapter 41. Equalized Wealth Level, Subchapter C. Detachment and Annexation by Agreement, § 41.061-41.065.

of a daily attendance credit is equal to the amount of the purchasing school district's maintenance and operations tax revenue per student in weighted average daily attendance or the amount of the statewide school district average of maintenance and operations tax revenue per student in weighted average daily attendance. Purchasing school districts pay for the credits in equal monthly payments from February 15 to August 15 of the school year; the purchasing agreement only applies for the school year the credits were purchased. The funds the state gains from the purchase of the daily attendance credits are deposited in the state treasury and are earmarked for the Foundation School Program.[92]

Fourthly, a school district may educate non-school district students to achieve the required maximum allowed wealth per student level. This requires voter approval and certification by the Commissioner of Education. Also, a school district may educate non-school district residents and not charge tuition.[93]

Fifthly, a school district may consolidate its tax base with another school district to achieve the required maximum allowed wealth per student level. The board of trustees of two or more school districts may make an agreement to conduct an election to authorize the creation of a consolidated tax district for the maintenance and operation of the school districts. Tax base consolidation must gain a majority of voter approval and be certified by the Commissioner of Education. The consolidated tax base school district shall distribute maintenance tax revenue to the member school districts on the basis of the number of students

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[92] *Texas Education* Code, Chapter 41. Equalized Wealth Level, Subchapter D. Purchase of Attendance Credit, § 41.091-41.099.

[93] *Texas Education* Code, Chapter 41. Equalized Wealth Level, Subchapter E. Education of NonResident Students, § 41.121-41.124.

in weighted average daily attendance.[94] The two most common choices are the purchase of attendance credits from the state and contracting to education non-resident school district students.[95]

Senate Bill 7, which is established the state's current school finance policy, also, established the state's school district accountability system; school districts are monitored by the state to ensure they provide a basic education to their students. State funding is not a function of a school district's performance rating, but the accountability system provides a method of analyzing differences in school district performance and includes the rankings of Exemplary, Recognized, Academically Acceptable and Academically Unacceptable. Exemplary school districts have 90% or greater of their student passing all three sections of the state's basic education assessment exam, the TAAS test and a 1% or lower drop-out rate. Recognized school districts have 80% or greater of their students passing all three sections of the TAAS test and a 3% or lower drop-out rate. Academically acceptable school districts have 50% or greater of their students pass all three sections of the TAAS test and a 5.5% or less drop-out rate. Academically unacceptable school district have less then 50% of their students pass all three sections of the TAAS test and a dropout rate greater than 5.5%.[96]

The history of Texas' school finance policy has evolved greatly in the past 100 years and much of its evolution has been the result of successful court

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[94] *Texas Education* Code, Chapter 41. Equalized Wealth Level, Subchapter F. Tax Base Consolidation, § 41.151-41.160.
[95] Legislative Budget Board. "Financing Public Education in Texas Kindergarten Through Grade 12, Legislative Primer." 3rd Edition. (Austin, TX, Oct. 2001), p. 23.
[96] Texas Education Agency. "2001 Accountability Manual: Section III-2001 Accountability Rating Criteria and Standards." n.d. 1 June 2002 <http://www.tea.state.tx.us/perfreport/account/2001/manual>.

litigation. The earliest state school finance policies have relied extensively on local revenue, but litigation in the past twenty years has shifted the reliance to state revenue to fund public schools. The current state school finance policy was in part adopted because the Supreme Court of Texas' justices believed that there was a relationship between educational money and student performance. Testing for this relationship has been facilitated by the adoption of the state's school district accountability system.

CHAPTER III

LITERATURE REVIEW

School finance equalization policies and their impact have been studied extensively in different journals, books, and government studies. In this thesis, the literature review will be divided into four sections, examining the different aspects of school finance equalization reform. The first section examines school finance reform litigation; the second section examines the relationship between money and student performance; the third section reviews the effect of school finance equalization policies; and the fourth section studies Texas' school finance equalization policy and its affect on student performance.

The first section of the literature review examines school finance reform litigation. In 1994, "School Finance Litigation: A Review of Key Cases" was prepared for the Finance Project, which is a non-profit policy research organization.[97] The article examines court rulings of school finance reform litigation decided in the past twenty years in the United States and discusses several issues policymakers must address in the process of amending the state's public school finance system as mandated by a court's ruling.[98]

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[97] Dore VanSlyke, Alexandra Tan, and Martin Orland. "School Finance Litigation: A Review of Cases." Dec. 1994 1 Jun. 2002 <http://www.welfareinfo.org/school.htm>.
[98] Ibid.

The authors divide school finance reform litigation into three categories as follows: 1) litigation based on federal constitutional provisions, 2) litigation based on state constitutional provisions, and 3) litigation based on state constitution education clause provisions. The first category includes two significant cases, *Serrano v. Priest* and *San Antonio Independent School District v. Rodriguez*, both of which focused on the Equal Protection Clause of the 14th Amendment of the U.S. Constitution. The ruling of *Serrano* paved the way for school finance litigation based on federal constitutional provisions, but the *Rodriguez* ruling ended litigation on this basis.[99] The second category is litigation based on state constitutional provisions, namely the state constitution's equality guaranty provisions and includes *Serrano v. Priest II*, *Pauley v. Bailey, Washakie v. Herschler, Horton v. Meskill, Dupree v. Alma*, and *Harper v. Hunt.*[100] The third category is litigation based on state education clauses, such as *Robinson v. Cahill, Abbott v. Burke, Seattle School District No. 1 v. State,* and the four Texas *Edgewood v. Kirby* cases.[101]

Additionally, the article discusses two policy issues raised by successful school finance litigation, defining resource adequacy in state allocations and defining an appropriate state role in resource collection and allocation.[102] To define resource adequacy in state allocations, state governing bodies must allocate resources to provide all students an adequate education, which requires policymakers to decide what the required level of expenditures should be and

[99] Ibid.
[100] Ibid.
[101] Ibid.
[102] Ibid.

what is the basis of this level, should expenditures for facility maintenance and construction be included in resource allocation, and should variation from the required level be permitted and at what basis.[103] In defining the appropriate state role in resource collection and allocation, policymakers must decide how to redistribute the tax burden from property-poor school districts to property-rich school districts. In conclusion, the authors state that the future will bear witness to fiscal and ideological constraints to an "assertive government role in ensuring educational equity."[104]

The second section of the literature review includes two articles that examine the relationship between educational revenue or expenditures and student performance. The first article is Harold Wenglinsky's "When Money Matters: How Educational Expenditures Improve Student Performance and How They Don't," which examines school revenue and its effect on student performance.[105] The article provides the background of school finance equalization policies, discussing the legal history of school finance reform and school finance reform in different states.[106]

A chief strength of Wenglinsky's article is the examination of previous research studying the relationship between educational expenditures and student achievement. The Coleman Report examined this relationship and found that differences in school resources, including revenue, did not have a significant

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[103] Ibid.
[104] Ibid.
[105] Harold Wenglinsky. "When Money Matters: How Educational Expenditures Improve Student Performance and How They Don't." 1997 1 June 2002 <http://www.nocheating.org/research/pic/wmm.pdf>.
[106] Ibid.

impact on student achievement; however, the poverty or wealth of a student's family was significant.[107] Wenglinsky also, examined meta-analyses by Hanushek and byHedges, et al., which reviewed thirty-eight studies conducted between 1967 and 1987. Hanuskek found no significant relationship between education expenditures and student achievement, while Hedges, et al. concluded that there is potentially a positive relationship between education expenditures and student achievement.[108] Another meta-analysis examined is Glass and Smith's 1979 study, which found that teacher-student ratios have a positive relationship with student achievement.[109] This lends support to the thesis' expected negative relationship between the number of students per teacher and student performance.

Wengslinsky also, examines the problems with previous research. The meta-analyses were not nationally representative, failed to distinguish between different types of education spending, did not address how additional school factors influenced the relationship between education expenditures and student achievement or address the influence education expenditures have on the school environment, did not provide "rich measures" of students' backgrounds, failed to control for cost variations between different regions, and used simple measurements of student performance, such as whether a student passes a

[107] Wenglinsky, p. 10.
[108] Wenglinsky, pp. 10-11.
[109] Wenglinsky, p. 11.

minimum competency test.[110] Because of these problems, Wenglinsky argues that the prior research provides an incomplete understanding of the relationship.[111]

For his study, Wenglinsky gathered data from three national sources for fourth and eight graders and formed a base set for each grade. In order to illustrate the relationship between educational revenue and student performance, school districts were divided into subgroups and comparisons were made between the subgroups.[112]

Wenglinsky produced a description of United States' school districts. Roughly 60% of total U.S. school district spending is reserved for instruction.[113] Also, there were large differences in spending patterns between the fourth and eight graders samples. The differences however, were not as large in comparing students' socio-economic characteristics. In addition, the average teacher-student ratio was not considerably different. For fourth graders, the ratio was .05 teachers per student, and for eight graders, the ratio was .06 teachers per student.[114]

Wenglinsky also found that for fourth graders increases in instructional and central office administration spending increase teacher-student ratios, which in turn, appear to positively influence student achievement.[115] A similar relationship for eight graders between increased central office administration and instructional spending and increased teacher-student ratios exists but that increase does not necessarily improve student achievement. The study concluded that

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[110] Wenglinsky, pp. 11-13.
[111] Wenglinsky, p. 13.
[112] Wenglinsky, pp. 14-17.
[113] Wenglinsky, p. 18.
[114] Wenglinsky, pp. 19-20.
[115] Wenglinsky, p. 21.

students' socio-economic status is of greater importance and has the largest effect on poor students living in high-cost areas.[116] Finally, Wenglinsky argued that not all instructional spending is of equal worth in improving student achievement, which suggests that equalizing revenue for poor school districts will not be beneficial if the increased revenue is not spent on areas found to improve student achievement.[117]

Also, included in the second section of the literature review is "Making Money Matter: Financing America's Schools," which argues that money allocated for educational purposes "can and must be made to matter more than in the past if the nation is to reach its ambitious goal of improving achievement for all students."[118] Ladd and Hansen proposed three goals for education finance systems as follows: 1) facilitate increased levels of student achievement in an efficient manner, 2) facilitate efforts to diminish the relationship between student characteristics and their achievement, and 3) generate revenue in a fair and efficient manner.[119] The authors also, state that although student achievement in the United States may not be as poor as often thought, student achievement among the most disadvantaged is poor and many schools are not serving these students as well as they should. In addition, the historical reliance on local revenue to fund education has resulted in substantial spending level variations among school districts within and across states.[120]

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[116] Wenglinsky, pp. 22-25.
[117] Wenglinsky, p. 27.
[118] Helen F. Ladd and Janet S. Hansen, eds. "Making Money Matter: Financing America's Schools." 1999 1 June 2002 <http://bob.nap.edu/html/money_matter>.
[119] Ibid.
[120] Ibid.

Next, the article examined the relationship between money and student performance. After the *Brown v. Board of Education* ruling, unequal educational opportunities began to be addressed by policymakers, and during the 1970s, litigation challenged many states' public school finance systems. Even with increased state legislative attention and mandates from state courts, school financial disparities persisted. Studies examining the relationship between money and performance, such as the Coleman Report stated that there was not a significant relationship. Ladd and Hansen disagree and argue that the relationship is significant.[121]

Finally, the article provides four strategies to make money matter in schools and how to meet the proposed goals. The four suggested strategies are to reduce funding inequities and inadequacies, to invest more resources, to alter incentives to make academic performance matter more, and to empower school districts and parents to make decisions about the use of public revenue.[122] Detailed strategies are provided to meet the three proposed goals. To meet the first of the three goals, providing adequate funding, school districts should change the traditional approach to teacher training and retraining and be provided greater local control. To meet the second goal, greater revenue should be provided to school districts with large numbers of disadvantaged students and class sizes should be reduced. To meet the third goal, a shift in reliance on local revenue to a reliance on state aid and increasing the amount of revenue the federal government

[121] Ibid.
[122] Ibid.

provides for education should be employed.[123] Ladd and Hansen believe the employment of these strategies would positively strengthen the relationship between education revenue and student achievement, which in turn would improve the likelihood of meeting the stated goals and expectations of educational systems.

The third section of the literature review examines the impact of school finance reform. Kenneth Wong's *Funding Public Schools* provides a broad examination of school finance in the United States.[124] Wong analyzes per pupil expenditures and sources of education revenue during the past forty years. Wong states that the greatest growth in per pupil expenditures was during the 1970s but the growth has considerably slowed since. Also, Wong maintains that state educational spending has increased with a decline in local spending, but the reliance on local revenue is constant.[125] Wong further states that the allocation of educational revenue has been shaped by social targeting by the federal government to promote equal opportunity, an increased role by the states in financing education, "leveling-up" poor school districts, and the allocation of educators without the recognition of the needs of students.[126]

Wong observes that states have expanded their role in funding education mainly because of states' broader revenue base compared to local school districts, which allows states to remedy interdistrict taxing and spending disparities.[127]

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[123] Ibid.
[124] Kenneth K. Wong. *Funding Public Schools: Politics and Policies.* (Lawrence, Kansas: University Press of Kansas, 1999).
[125] Wong, p. 7.
[126] Wong, pp. 9-14.
[127] Wong, p. 47.

Wong concludes that although the states' role in funding education has grown, there are constraints on state activism, namely the traditional role of local school district control of education, the failure to gain political support for reform due to fragmented power in the legislative process, fiscal constraint by policymakers and the public, and constitutional limits[128] Wong also, states that social equity has gained greater attention because of federal social equity policies have led to states increasing funding for programs for the disadvantaged, because of advocacy or interest groups for the handicapped, migrants, and minorities , and because of increasing minority representation.[129]

Finally, Wong examines the strategy of leveling-up poor school districts, which provides state aid in a manner to favor those districts with low property values and high tax burdens, and Wong states that with the employment of this strategy, educational expenditure gaps persist and have in fact widened between 1992 and 1994, which has contributed to unequal access to education opportunities for poor and disadvantaged students.[130] In conclusion, Wong proposes how to improve schools, advocating the necessity to further address the growing needs in poor school districts, to end the decline of urban schools, to enhance the professional development of educators, and potentially to provide school choice and charter schools.[131]

Two studies by the National Center for Education Statistics that examine the spending patterns of school districts are included in the third section of the

[128] Wong, pp. 60-62.
[129] Wong, pp. 94-95.
[130] Wong, pp. 72-86.
[131] Wong, pp. 140-161.

literature review. "Do Rich and Poor Districts Spend Alike?" examines the spending patterns of United States' poor and rich school districts in the 1989-1990 school year, using three different measurements of spending, dollars spent on education, the relative power of a school district to purchase education resources or its buying power, and the ratio of students to teachers.[132]

The study found that the poorest school districts spend $4,375 per student compared to the wealthiest school districts that spend $6,827 per student. Moderate to high income school districts spend approximately $637 more per student than low to moderate income school districts.[133] In terms of the second measurement, buying power, the study found that the wealthiest school districts enjoy a 36% advantage compared to the poorest school districts; this is reduced to 5% when comparing moderate to high income and low to moderate income school districts. The study found that school districts with the lowest and highest income households have the lowest student to teacher ratios, while the highest student to teacher ratios are found in the moderate income household school districts.[134] The article concludes by stating that poor and rich school districts do not spend alike; spending per pupil is considerably different in these different school districts.[135]

"Do Districts Enrolling High Percentages of Minority Students Spend Less?" by the National Center for Education Statistics examines the spending

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[132] National Center for Education Statistics. "Do Rich and Poor Districts Spend Alike?" Dec. 1996 1 June 2002 <http://nces.ed.gov/pubs/97916.pdf>.
[133] Ibid.
[134] Ibid.
[135] Ibid.

patterns of school districts with significant numbers of minority students.[136] The measurement of school district spending is the school district's buying power, which is the school district's ability to purchase education resources and is adjusted for differences in regions' cost of living and differences in students' educational needs.[137]

Before examining school districts' spending differences, school districts are divided into four categories by the percentage of minority students enrolled in the school district. The study found that in school districts with less than 50% minority enrollment, school district spending was fairly equal, but in school districts with 50% or greater minority enrollment, school district spending increased. In school districts with 50% or more minority enrollment, per pupil spending exceeded the spending in school districts with less than 5% minority enrollment by $431, but a school district's buying power decreased as its minority enrollment increased.[138] The study concludes that a positive relationship exists between school district spending and minority enrollment and that a negative relationship exists between a school district's buying power and minority enrollment. It is important to note that the spending inequities do not seem to be associated with minority status; rather, it is likely a result of poverty and income status.[139]

The next article of the third section of the literature review is Moser and Rubenstein's "The Equality of Public School District Funding in the United

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[136] National Center for Education Statistics. "Do Districts Enrolling High Percentages of Minority Students Spend Less?" Dec. 1996 1 June 2002 <http://nces.ed.gov/pubs/97917.pdf>.
[137] Ibid.
[138] Ibid.
[139] Ibid.

States: A National Status Report," which examines the distribution of education funding across school districts in 49 states between 1992 and 1995.[140] Initially, the article studies the legal aspect of school finance and educational equity by examining *Brown v. Board of Education*, *Serrano v. Priest*, and *San Antonio School District v. Rodriguez*.[141]

Moser and Rubenstein found that states with fewer school districts, less than 1.87 school districts per 10,000 students, tend to have a more equitable distribution of education revenue than states with more school districts.[142] At the same time, states with greater numbers of school districts have made greater educational revenue equity gains between 1992 and 1995.[143] Also, the authors found that southern states tend to have lower levels of per pupil expenditures, while northeastern states tend to have the greatest levels of per pupil expenditures.[144] In conclusion, Moser and Rubenstein found that overall interstate educational funding equity improved somewhat between 1992 and 1995, that states with fewer school districts tend to have a more equitable distribution of educational revenue, and that states providing a higher proportion of educational revenue tend to a more equal distribution of education resources than those states more dependent on local revenue.[145]

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[140] Michele Moser and Ross Rubenstein. "The Equality of Public School District Funding in the United States: A National Status Report." *Public Administration Review*, vol. 62, no. 1 (Jan/Feb. 2002), p. 63.
[141] Moser and Rubenstein, p. 64.
[142] Moser and Rubenstein, p. 66.
[143] Moser and Rubenstein, p. 67.
[144] Ibid.
[145] Moser and Rubenstein, p. 70.

Reed's "Court-Ordered School Finance Equalization" analyzes the impact of school finance reform in four states and the public reaction to these reforms.[146] Reed contends that some state supreme court decisions have achieved educational finance equalization, while other decisions have been less successful.[147] Reed examined the effects of school finance reform in New Jersey, Connecticut, Kentucky, and Texas and found that in these states school finance equalization occurred after the state's court decision mandating school finance reform. Reed stated that Kentucky had the greatest improvement in equity, while the other states have had modest improvements.[148]

Reed also, examined public opposition to school finance reform in New Jersey and Texas and produced three theories. The first theory is based on economic self-interest. Because of the zero-sum nature of school finance and state aid and because of potential tax increases or decreases to provide state aid, opposition may form. The second theory is based on the anti-tax and anti-government ideology. Because of an anti-tax sentiment and whether one would be economically affected by school finance reform, opposition may form. The third theory is based on racial-geography where one's race or geographic location shapes one's likelihood to oppose school finance reform, which is built on the belief that school finance reform mainly benefits those attending urban school districts and non-white students.[149]

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[146] Reed.
[147] Ibid.
[148] Ibid.
[149] Ibid.

In New Jersey, Reed found that Whites and non-Whites with school age children perceive school finance reform differently. Among those without children, race does not influence one's perception of school finance reform; rather, economic costs are of greatest importance. In addition, Whites living in new suburbs are less opposed to school finance reform than Whites in the inner city.[150]

In Texas, Reed studied Proposition One, which would have amended the state constitution to include school finance equalization. Using regression analysis, Reed found that per capita income, the percentage of non-Hispanic Blacks, and the percentage of Hispanics were significant variables affecting the likelihood of a vote against Proposition One and concluded that race played the strongest role in determining how one voted. Further research by Reed found that conservative Republicans who voted for Kay Bailey Hutchinson were more likely to vote against Proposition One. Reed concluded that school finance equalization is not a taxation and economic issue; rather, it is a racial and class issue.[151]

Liz Kramer's "Achieving Equitable Education Through the Courts" examines the impact of school finance reform.[152] Kramer provides a historical analysis of school finance in the United States, including the three waves of school finance reform litigation.[153] Kramer states that previous research has found that successful school finance litigation has reduced educational expenditure disparities between school districts in the same state 19 to 34%, and

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[150] Ibid.
[151] Ibid.
[152] Kramer, p. 1.
[153] Kramer, pp. 6-7.

at the same time, property-rich school districts did not diminish their level of education spending. Also, the state's share of funding education has increased because of successful litigation.[154]

Kramer proposes five goals of school finance reform that have been advocated by different groups. First is adequacy, which means all students receive an equal, high equality education. Second is fiscal neutrality, which means school districts have relatively equal expenditures, regardless of its property wealth. Third is need-blind equity, which ensures equal spending for all school districts. Fourth is need-driven equity, which is a new concept recognizing certain students require greater amounts of educational expenditures. Fifth is local control, which is the traditional role of local school district autonomy.[155] Kramer argues that equity should be the appropriate goal of school finance reform because equity is the central concept of a public education, because equity can be understood and analyzed by policymakers and the courts, and because the other goals are laced with difficulties and shortcomings.[156]

After explaining the appropriate goals of school finance, Kramer lists five different models of school finance. The first model is full state funding, which is employed by Hawaii, New Mexico, and Vermont. In this system, the state sets the level of expenditures per pupil school districts may spend and a combination of state and local revenue fund the school finance system. The second model is flat grants; the state legislature determines the amount of revenue provided to school districts based on per pupil, classroom, or another measurement. The third

[154] Kramer, pp. 7-8.
[155] Kramer, pp. 8-10.
[156] Kramer, pp. 10-15.

model is a foundation program, which ensures all school districts a set level of education revenue regardless of the school district's tax efforts. The fourth model is a guaranteed tax base program; under this system, school districts are allowed to tax as if they had the same property wealth as wealthier school districts because the state believes this will achieve fiscal neutrality and provide property-poor school districts with greater amounts of revenue. The fifth model is a combination foundation and guaranteed tax base program; under this program, the foundation program aspect ensures that the guaranteed tax base program aspect has a minimum expenditure level for school districts and the guaranteed tax base program ensures that the foundation program does not provide an unequal access to funds.[157]

Finally, Kramer examines the impact state demographics have on educational revenue equity in California and Texas. Kramer argues that the two states have had equity problems in part because of the large influx of immigrants, who have created great demands for bilingual education programs and other programs requiring increasing school district expenditures.[158] In addition, Kramer notes that large states, such as California and Texas, have additional problems including having a great number of school districts spread throughout the state that vary in population, wealth, student socio-economic demographics, and transportation needs. And state legislatures have a difficult task in weighing the

[157] Kramer, pp. 15-17.
[158] Kramer, p. 42.

different needs of each school district making spending formulas difficult to write.[159]

Equity is further complicated by race and ethnic concerns. The perception that school finance reform will provide benefits to poor minority students, while non-white students are penalized, is in part correct. Tax increases to fund school finance reform tend to be progressive taxes, which tax the wealthier, including many whites at greater levels.[160] Kramer concludes that school finance reform can make a positive difference in achieving educational finance equity but has yet to reach its intended goals, in large part because of flaws in the legislation passed.[161]

Verstegen and King's "The Relationship Between School Spending and Student Achievement" examines thirty five years of research of the relationship between educational spending and student performance.[162] Verstegen and King first review the Coleman Report, which found that school inputs besides student socio-economic characteristics explained little of any variance in student achievement.[163] Other research, such as Hanushek's study found no significant relationship between school expenditures and student achievement, which meant that "throwing money at...schools" would not improve school performance.[164]

New research has surfaced countering the arguments of those that concluded that no significant relationship existed between educational

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[159] Kramer, p. 42.
[160] Kramer, pp. 42-43.
[161] Kramer, p. 50.
[162] Deborah A. Verstegen and Richard A. King. "The Relationship Between School Spending and Student Achievement: A Review and Analysis of 35 Years of Production Function Research." *Journal of Education Finance*, 24 (Fall 1998), p. 243.
[163] Verstegen and King, p. 243.
[164] Verstegen and King, p. 244.

expenditures and revenue and student achievement. For example, research by Card and Krueger found a relationship between school spending and adult success in the labor market outcomes and found higher spending by schools leads to higher earning by students after school. Because of this, equal education opportunities were necessary to make a difference in a student's future.[165] A study by Hedges, Laine, and Greenwald also, examined the relationship between education revenue and student achievement and found that money does matter and a relationship exists between the two.[166]

MacPhaail-Wilcox and King found that teacher characteristics relate positively to student performance. A study by Ferguson concluded that greater investments in teacher quality are positively related to student achievement on test scores in Texas. Finn and Achilles found that lower pupil-teacher ratios are positively related to student achievement, while Cooer and Associates found a significant relationship between per pupil expenditures and student performance. The finding of Finn and Achilles lends support to the thesis' expected negative relationship between the number of students per teacher and student performance. Fortune and O'Neil found a positive relationship between instructional expenditures and educational achievement, and Verstegen wrote that money mattered the most for children in predominately poor school districts. Additional studies by Hartman, by Ferguson and Ladd, and by Baker found a strong relationship between educational expenditures and student achievement.[167]

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[165] Verstegen and King, pp. 244-245.
[166] Verstegen and King, p. 245.
[167] Verstegen and King, pp. 246-249.

After analyzing previous research, Verstegen and King examined which teacher characteristics are related to student performance and found that the significant teacher characteristics are teacher's verbal ability, years of experience, and salary paid.[168] Also, the article contends that smaller class sizes, as well as per pupil expenditures are strongly associated with student achievement.[169] The authors conclude that the current revenue levels schools have is insufficient for schools to be effective.[170]

Caroline Hoxby in "All School Finance Equalizations are not Created Equal" studies how school finance equalization policies affect property prices, private school attendance, and student achievement.[171] Hoxby emphasizes the importance of school finance equalization stating that these policies have affected every school in the United States in some way.[172] Although Hoxby found positive results from school finance equalization, she states there have been unintended consequences, namely "leveling down" that results in greater spending equality but decreased average spending by school districts.[173]

Hoxby proposes four prototypical school finance schemes. The first scheme is pure local property tax financing; under this scheme, school districts only spend the revenue they have raised. The second scheme is categorical aid, which is a combination of different state funding sources and is based on particular school district characteristics. The third scheme is foundation aid,

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[168] Verstegen and King, pp. 250-251.
[169] Verstegen and King, pp. 253-257.
[170] Verstegen and King, p. 262.
[171] Caroline M. Hoxby. "All School Finance Equalizations Are Not Created Equal." n.d 1 June 2002 <http://post.economics.harvard.edu/faculty/hoxby/papers/asfeance2.pdf>, p. 1.
[172] Hoxby, p. 1.
[173] Hoxby, p. 2.

which is the most common school finance equalization scheme; aid is awarded based on per-pupil property values. The final scheme is power equalization or a guaranteed tax revenue scheme, which seeks to ensure school districts in a state generate similar amounts of revenue although the school districts do not charge similar tax rates.[174]

Hoxby writes that only 14 states have yet to adopt a school finance equalization policy.[175] Also, Hoxby found that changing the inverted tax price that a school district faces can generate considerable changes in spending and flat grant categorical aid have little chance of producing "leveling-down."[176] Furthermore, Hoxby states that stringent foundation aid programs might lower property value per pupil but neither equalization-related income taxes nor flat grants have a significant effect on property values. In addition, Hoxby found that stringent leveling-down schemes increase the proportion of students attending private schools and concluded that a school district's drop-out rate is only affected in school districts funded by a flat grant.[177]

Ultimately, Hoxby determines that school finance equalization has had the greatest effect on student achievement in school districts that would have minimal spending if left on their own.[178] Interestingly, Hoxby also, states that students from poor households may actually have had greater funded schools if the state, specifically California and New Mexico had not attempted school finance

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[174] Hoxby, pp. 4-8.
[175] Hoxby, p. 21.
[176] Hoxby, p. 26.
[177] Hoxby, pp. 30-33.
[178] Hoxby, p. 33.

equalization.[179] Thus, Hoxby concludes that states must be careful in selecting which method of school finance equalization they employ.

"Education-Finance Reform and the Distribution of Education Resources" examines the results of court-ordered school finance reform.[180] The article begins by examining school finance reform litigation, including the three waves of school finance reform litigation and provides a comprehensive list of school finance challenges in each state and the results of the cases.[181]

To analyze how the intra-state distribution of educational expenditures has changed after successful school finance reform litigation, data from the *Census of Governments: School System Finance File* was utilized. In addition, the authors define four measurements of funding inequality, the Theil index, the Gini coefficient, the natural logarithm of the ratio of spending at the 95th percentile to spending at the 5th percentile, and the coefficient of variation.[182]

The authors found that within-state school spending inequalities were reduced by 19 to 34% after court-mandated school finance reform. Increases in equality were the result of greater spending in the poorest school districts and did not preclude decreases in spending in the wealthiest school districts.[183] This contradicts the expectation that school finance is a zero-sum game.[184] The authors conclude that decreases in equality are the direct result of successful court

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[179] Hoxby, p. 35.
[180] Shelia E. Murray, William N. Evans, and Robert M. Schwab. "Education-Finance Reform and the Distribution of Education Resources." *American Economic Review*, vol. 88, issue 4 (Sept. 1998), p. 789.
[181] Murray, Evans, and Schwab, pp. 791-794.
[182] Murray, Evans, and Schwab, pp. 796-798.
[183] Murray, Evans, and Schwab, p. 790.
[184] Murray, Evans, and Schwab, p. 807.

decisions in school finance reform litigation and that successful school finance reform litigation has expanded the state's role in funding education.[185]

The final article of the third section of the literature review is Fitzpatrick and Yoels' "Policy, School Structure, and Sociodemographic Effects on Statewide High School Dropout Rates." The authors begin by emphasizing the critical nature of the dropout problem in the United States.[186] The study examines the dropout rate in 1980 and defines dropouts as those students who leave school without graduating within a specific time period, whether or not they return to school or receive a GED.[187]

The authors conclude that southern states had the highest average dropout rates and that in 1980 the average national dropout rate increased by approximately 6%.[188] Previous research has found that dropout rates increase with increasing percentages of economically disadvantaged and minority students.[189] Fitzpatrick and Yoels found that educational expenditures, measured by average daily attendance, was negatively related to the dropout rate and that the pupil-teacher ratio was positively related to the dropout rate. These findings will serve as the basis of the thesis' model 3, which examines the dropout rate in Texas.

The fourth section of the literature review includes four articles that examine school finance reform in Texas and its effects. Clark's "Texas State

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[185] Murray, Evans, and Schwab, pp. 802-805.
[186] Kevin M. Fitzpatrick and William C. Yoels. "Policy, School Structure, and Sociodemographic Effects on Statewide High School Dropout Rates." *Sociology of Education*, vol. 65 (January), p. 76.
[187] Fitzpatrick and Yoels, p. 83.
[188] Fitzpatrick and Yoels, p. 85.
[189] Fitzpatrick and Yoels, p. 77.

Support for School Facilities, 1971 to 2001" examines school finance reform in Texas and its effect on school facilities and equity.[190] Clark begins by examining the background of school finance in Texas starting with the passage of the Gilmer-Aikin Act in 1949, which established the Foundation Program to finance public schools and then, describes amendments to the school finance system in response to educational funding disparities.[191] Clark also, discusses committees, task forces, and studies that have examined the need for school facility funding, such as the 1988 Select Committee on Education, the School Facilities Advisory Committee, and the Governor's Task Force on Public Education, as well as the *Edgewood v. Kirby* cases and their effect on school facility funding. The failure to provide adequate facility funding was a key issue in the *Edgewood* cases.[192]

Subsequently, Clark explains the state's school facility funding system, the Instructional Facilities Allotment, which was created by House Bill 4 of 1997. Under this program, a guaranteed yield of $35 per student per penny of a local school district's tax effort in state aid is awarded to school districts, and the aid is equalized because property-poor school districts receive greater funding than property-rich school districts.[193] In 1999, the State Legislature adopted the New Instructional Facilities Allotment, which provides aid for rapidly expanding school districts.[194] Clark concludes that facility allotments provide the greatest amount of aid to property-poor school districts able to gain voter approval for school bonds but have failed to assist those school districts too poor to make this

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[190] Clark, p. 683.
[191] Clark, pp. 683-686.
[192] Clark, pp. 686-689.
[193] Clark, pp. 692-693.
[194] Clark, p. 696.

effort or gain voter approval.[195] Unfortunately, because facility funding is only approximately 6% of state education funding, its successful equity ability does not ensure equity throughout the state's entire school finance system.[196] In conclusion, Clark notes that with the fast-paced expansion of school districts' population, additional facilities and facility improvement will be necessary, and aid must be provided to those school districts too poor to afford the facility allotments programs.[197]

"The Influence of Educational and Political Resources on Minority Students' Success" by Polinard, Wrinkle, and Meier is also, included in the fourth section of the literature review. The article uses regression analysis to identify which educational and political resources influence minority student performance and begins by emphasizing the importance of education for minorities, as well as the significant educational discrimination minorities have faced.[198]

For African American students, the article found that the percentage of Blacks with a high school diploma or greater education was positively related to the African American student TAAS test pass rate. The percent of Black teachers and the percent of Blacks with a high school diploma or greater education were positively related to the ratio of African American students passing all sections of the TAAS test compared to all students passing the test, while the percentage of

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[195] Clark, p. 697.
[196] Clark, p. 698.
[197] Clark, p. 698.
[198] J.L. Polinard, Robert D. Wrinkle, and Kenneth J. Meier. "The Influence of Educational and Political Resources on Minority Students' Success." *Journal of Negro Education*, vol. 64, no. 4 (1995), p. 463.

low-income persons in the school district was negatively related to this dependent variable.[199]

For Hispanic students, the article found that revenue per pupil, the percent of Hispanic teachers, and Hispanic student attendance were positively related to the Hispanic student TAAS test pass rate. Revenue per pupil, the percent of Hispanic teachers, the percent of Hispanics with a high school diploma or greater education, and Hispanic student attendance were positively related to the ratio of Hispanic students passing all sections of the TAAS test compared to all students passing the test, while the Hispanic student dropout rate and the percent of low-income persons in the school district were negatively related to this dependent variable.[200]

Polinard, Wrinkle, and Meier's findings lend support to the methodology of the thesis. Specifically, the finding that the percent of low-income persons in a school district supports the expected relationship between the percent of economically disadvantaged students and both the percentage of students passing all three sections of the TAAS test and the percentage of Hispanic students passing all three sections of the TAAS test. In addition, the findings of Polinard, Wrinkle, and Meier support the thesis' expected relationship between total revenue per pupil and the percentage of Hispanic students passing all three sections of the TAAS test.

In the fourth section of the literature review, Harter's "How Educational Expenditures Relate to Student Achievement" provides a detailed study of the

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[199] Polinard, Wrinkle, and Meier, p. 468.
[200] Polinard, Wrinkle, and Meier, p. 470.

relationship between educational spending and student performance of 2,800 Texas elementary schools and classifies instructional spending into eleven categories.[201] Harter found that school resources have a greater impact on student mathematics achievement and a student's background has a greater impact on student reading achievement.[202] Also, Harter found that teacher salary supplements and school upkeep are positively related to both student math and reading achievement. Substitute pay is negatively and significantly related to student mathematics and reading achievement, which Harter states is likely the result of a reliance on substitute teachers, rather than full time teachers to educate students. In addition, Harter found support personnel was negatively related to student reading achievement, and spending on reading materials was found to be positively and significantly related to student math achievement.[203] Interestingly, Harter found that certain types of instructional spending, such as expenditures for teacher salaries, for school administration, or staff development were not significant.[204] In sum, Harter found a significant relationship between student mathematics and reading achievement and the variables representing student academic potential, socio-economic background, and school size and location, as well as the rate of economic disadvantage among students.[205]

Next, Harter narrowed the study to high- and low-poverty schools. High-poverty schools are defined as schools with a concentration of economically

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[201] Elizabeth A. Harter. "How Educational Expenditures Relate to Student Achievement: Insights from Texas Elementary Schools." *Journal of Education Finance* 24 (Winter 1999), pp. 281-282.
[202] Harter, pp. 292-293.
[203] Harter, pp. 292-294.
[204] Harter, p. 296.
[205] Ibid.

disadvantaged students above the median rate, and low-poverty schools have a percentage of economically disadvantaged students at or below the median level.[206] In low-poverty schools, expenditures for salary supplements and school upkeep were found to be positively and significantly related to student mathematics and reading achievement.[207] In high-poverty schools, Harter found that expenditures for salary supplements and reading materials were positively related to student mathematics and reading achievement, while expenditures for substitutes' pay were negatively related to student mathematics and reading achievement. Additionally, Harter found that expenditures for support personnel were negatively related to student reading achievement, that expenditures for school upkeep were positively related to student mathematics achievement, and that expenditures for guidance services were negatively related to student mathematics achievement.[208]

Harter concludes that the relationship between school expenditures and student achievement exists and more specifically, the relationship depends on how school expenditures are spent. As such, Harter states that small amounts of expenditures can be spent to improve student performance, and the importance depends on the allocation of resources, which enhances the importance of policymakers with the power to allocate revenue, such as local school boards.[209]

The final article of the fourth section of the literature review is "Examining the Effects of School Finance Reform in Texas," which analyzes

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[206] Harter, p. 297.
[207] Harter, p. 298.
[208] Harter, p. 299.
[209] Harter, p. 301.

Texas' school finance equalization policy adopted after 1994.[210] The authors state there are two major lines of thinking regarding the use of revenues to improve schools. The first line of thinking is increasing spending on educational inputs, such as increasing teacher salaries or raising instructional expenditures per student, and the second line of thinking is finance equalization.[211] The authors focus on finance equalization and examines whether the state's school finance equalization policy has affected student performance.

The article begins by examining the history of school finance litigation in Texas, which includes *San Antonio I.S.D. v. Rodriguez* and the four *Edgewood* cases. Included in this examination are the outcomes of the cases and the basis of the decision. In addition, the article examines the policies proposed in response to the court's rulings ranging from S.B. 1 to S.B. 7.[212] The authors examine the effects of the current school finance equalization policy with the use of time series regression analysis.

The study includes data from 1043 school districts over three years, 1994-1997. The 1994-1995 period is classified as pre-policy, and the 1996-1997 period is classified as post-policy.[213] To measure student performance, the authors use the score of White, African-American, Hispanic, and low-income students on the Texas Assessment of Academic Skills or TAAS test.[214]

The article found that teacher salaries and teacher experience were positively related to student performance. Increased class size and the student

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[210] The Texas Educational Excellence Project, p. 1.
[211] The Texas Educational Excellence Project, p. 2.
[212] The Texas Educational Excellence Project, pp. 3-5.
[213] The Texas Educational Excellence Project, pp. 5-7.
[214] The Texas Educational Excellence Project, p. 7.

body composition, namely the percentage of African-American, Hispanic, and low-income students are negatively related to student performance. In addition, overall school district poverty was negatively related to student performance, and the percentage of adults living in a school district with a high school degree was positively related to student performance.[215]

For White student performance, state revenue per pupil during the 1994-1995 period had no effect on performance on the TAAS test, but during the 1996-1997 period, there was a weak negative relationship between state revenue per pupil and student performance. The same was true for African-American students in the pre-policy period, but in the post-policy period, a weak positive relationship between state revenue per pupil and student performance was evident. For Hispanic and low-income students in the pre-policy and post-policy periods, state revenue per pupil was positively related to student performance.[216]

In the pre-policy period, local revenue per pupil was significant for White, Hispanic, and low-income student performance on the TAAS test, but in the post-policy period, local revenue per pupil was not significant for any student group in large part, because the policy had minimized the overall importance of local revenue.[217] Similarly, school district wealth in the pre-policy period was a significant factor for all of the student groups, but in the post-policy period, district wealth had no effect on the performance of any student group.[218]

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[215] The Texas Educational Excellence Project, p. 11.
[216] The Texas Educational Excellence Project, p. 12.
[217] Ibid.
[218] The Texas Educational Excellence Project, p. 13.

The authors conclude that the state's school finance equalization policy has played a "role in dampening the effects of local wealth on the performance of White, African-American, Hispanic, and low-income students" and that state funding plays an important role in shaping Hispanic student performance. Finally, the authors propose that by eliminating local revenue and local wealth as significant factors influencing student performance the school finance equalization policy has succeeded at eliminating the advantages of local wealth to benefit all Texas students.[219]

The Texas Educational Excellence Project's study provides significant support to the methodology of the thesis. Two of the three dependent variables of the thesis, the percentage of students passing all three sections of the TAAS test and the percentage of Hispanic students passing all three sections of the TAAS test, were utilized in the Texas Educational Excellence Project's study. In addition, the first six independent variables of the thesis are based on the Texas Educational Excellence Project's study. The study found that a school district's taxable value per pupil was positively related to White and Hispanic student performance, that a positive t-score existed between local revenue and student performance, that state revenue is positively related to student performance, that the percentage of Hispanic students is negatively related to student performance, that the percentage of economically disadvantaged was negatively related to student performance, and that increased class sizes or the number of students per teacher was negatively related to student performance.

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[219] The Texas Educational Excellence Project, pp. 13-14.

CHAPTER IV

HYPOTHESIS AND METHODOLOGY

Hypothesis

The purpose of the thesis is to examine which factors have a significant effect on student performance in Texas' school districts. The question that must be answered is which school district inputs, i.e., financial, socio-economic, and administrative have an effect on student performance. It is likely that because of the adoption of the state's school finance equalization policy in 1994 that the policy-related independent variables, a school district's taxable value per pupil, the percentage of a school district's total revenue from local sources, and the percentage of a school district's total revenue from state revenue, have a positive effect on student performance in a given school year.

Methodology

To test the hypothesis, regression analysis shall be employed using the software program, SPSS, analyzing the 2000-2001 school year. This school year was selected because it is the last school year the state has a complete data set available. By examining one school year, the thesis' findings only apply to that school year. The population of the model is 150 randomly selected Texas school districts, excluding Texas charter school districts. In the 2000-2001 school year,

there were 1,040 Texas school districts and 4,059,619 students attending Texas schools, of which 58% were minority students.[220]

Dependent Variables

The thesis will utilize three separate measures of student performance. The first measurement of student performance and the dependent variable (DV) of the model one is the percentage of students passing all three sections of the TAAS test. This includes all third through eighth grade students and tenth grade students tested in reading and mathematics and all fourth, eighth, and tenth graders tested in writing. Data for this dependent variable comes from the Texas Education Agency's *Snapshot 2001: 2000-01 School District Profiles*.[221] Performance on the TAAS test is a key measurement used by the state for the school district accountability system that evaluates school district performance. Prior research, such as the Texas Educational Excellence Project's "Examining the Effects of School Finance Reform in Texas" has utilized the TAAS test scores as a measurement of student performance.[222]

The second measurement of student performance and the dependent variable of model two is the percentage of Hispanic students passing all three sections of the TAAS test. This includes the performance of third to sixth grade special-education Hispanic students and students taking the Spanish TAAS test.[223] The source of this data is the Texas Education Agency's *Snapshot 2001: 2000-01 School District Profiles*. This measurement of student performance has been

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[220] Division of Performance Rating, Office of Accountability, Reporting & Research. *Snapshot 2001: 2000-01 School District Profiles*. (Austin, TX), Winter 2002, pp. 3-5.
[221] *Snapshot 2001: 2000-01 School District Profiles*, p. 402.
[222] The Texas Educational Excellence Project, p. 7.
[223] *Snapshot 2001: 2000-01 School District Profiles*, p. 402.

chosen because Hispanic students are the largest population group attending Texas' schools, comprising approximately 40.6% of all Texas' students in the 2000-01 school year and because Hispanics have served as the primary catalysts for much school finance reform litigation.[224] In addition, prior research, such as the Texas Educational Excellence Project's "Examining the Effects of School Finance Reform in Texas" and Polinard, Wrinkle, and Meier's "The Influence of Educational and Political Resources on Minority Students' Success" have utilized this measurement of student performance.

The third measurement of student performance and the dependent variable of model three is the school district's annual dropout rate during the 1999-2000 school year of students between the seventh and twelfth grades. The data for this measurement comes from the Texas Education Agency's *Snapshot 2001: 2000-01 School District Profiles.*[225] This measurement focuses greatly on school district performance rather than individual student performance but has been included because this measurement is utilized in the state's school district accountability system. A study should examine the affects of school finance on the dropout rate because of the importance in combating school dropout rates. Fitzpatrick and Yoels article "Policy, School Structure, and Sociodemographic Effects on Statewide High School Dropout Rates" examines which school inputs affect the drop out rate.[226] Hoxby found that school finance equalization policies affect the dropout rate of schools that would have minimal levels of revenue without state

[224] *Snapshot 2001: 2000-01 School District Profiles*, p. 6.
[225] *Snapshot 2001: 2000-01 School District Profiles*, p. 401.
[226] Fitzpatrick and Yoels, p. 76.

support.[227] In addition, Polinard, Wrinkle, and Meier utilized the dropout rate for their study.[228]

Independent Variables

The first independent variable (IV) is a school district's taxable value per pupil, which is simply a school district's wealth and is calculated by dividing the school district's total taxable property value in 2000 by the total number of students attending the school district. Data for this independent variable comes from the Texas Education Agency's *Snapshot 2001: 2000-01 School District Profiles*.[229] In its study, the Texas Educational Excellence Project utilized this independent variable and found that prior to the implementation of the state's school finance equalization policy in 1994 taxable value per pupil was positively related to student performance.[230] Because the literature suggests a greater taxable value per pupil or greater school district wealth positively relates to student and school performance, a positive relationship is expected between the taxable value per pupil and both the percentage of students passing all three sections of the TAAS test and the percentage of Hispanic students passing all three sections of the TAAS test. For similar reasons, a negative relationship is expected between the taxable value per pupil and a school district's annual dropout rate.

The second independent variable is the percentage of a school district's total revenue from local sources, which includes local taxes, other local sources,

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[227] Hoxby, p. 33.
[228] Polinard, Wrinkle, and Meier, p. 465.
[229] *Snapshot 2001: 2000-01 School District Profiles*, p. 406.
[230] The Texas Educational Excellence Project, p. 21.

and intermediate sources. The data for this variable comes from the Texas Education Agency's *Snapshot 2001: 2000-01 School District Profiles*.[231] Prior research has utilized a local revenue variable but not as a percentage of a school district's total revenue. For example, the Texas Educational Excellence Project utilized a local revenue variable and found that after the implementation of the state's school finance equalization policy local revenue was not significant to student performance but a positive t-score was found.[232] Therefore, a positive relationship is expected between the percentage of a district's total revenue from local revenue and the percentage of students passing all three sections of the TAAS test and the percentage of Hispanic students passing all three sections of the TAAS test. A negative relationship is expected between this independent variable and the school district's annual dropout rate.

The third independent variable is the percentage of a school district's total revenue from state revenue, which includes per capita and foundation program payments, as well as revenue from other state agencies and the Teacher Retirement System benefits. The source of this data is the Texas Education Agency's *Snapshot 2001: 2000-01 School District Profiles*.[233] The Texas Educational Excellence Project utilized this variable and concluded that state revenue is positively related to student performance after the implementation of the state's school finance equalization policy.[234] Therefore, a positive relationship is expected between this independent variable and the percentage of students

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[231] *Snapshot 2001: 2000-01 School District Profiles*, p. 406.
[232] The Texas Educational Excellence Project, p. 20.
[233] *Snapshot 2001: 2000-01 School District Profiles*, p. 406.
[234] The Texas Educational Excellence Project, p. 20.

passing all three sections of the TAAS test and the percentage of Hispanic students passing all three sections of the TAAS test. A negative relationship is expected between this independent variable and the school district's annual dropout rate based on Fitzpatrick and Yoels' findings.[235]

The fourth independent variable is the percentage of a school district's total students that are Hispanic; data for this variable comes from the Texas Education Agency's *Snapshot 2001: 2000-01 School District Profiles*.[236] The Texas Educational Excellence Project utilized this variable in their study and concluded that since the implementation of the state's school finance equalization policy this independent variable is significant for Hispanic student performance.[237] Therefore, a negative relationship is expected between this independent variable and the percentage of students passing all three sections of the TAAS test. A positive relationship is expected between this independent variable and the school district's annual dropout rate as previous research has concluded that dropout rates increase in minority and racial ethnic groups.[238]

The fifth independent variable is percentage of a school district's total students that are economically disadvantaged; students are categorized as economically disadvantaged if they are eligible for free or reduced-priced meals under the National School Lunch and Child Nutrition Program. Data for this variable comes from the Texas Education Agency's *Snapshot 2001: 2000-01*

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[235] Fitzpatrick and Yoels, p. 88.
[236] *Snapshot 2001: 2000-01 School District Profiles*, p. 400.
[237] The Texas Educational Excellence Project, pp. 26-28.
[238] Fitzpatrick and Yoels, p. 77.

School District Profiles.[239] Previous research, such as the Texas Educational Excellence Project's study examined this independent variable and found it was significant for White, African-American, and Hispanic student performance since the implementation of the state's school finance equalization policy.[240] In addition, Polinard, Wrinkle, and Meier found that the percent of low-income persons in a school district, similar to the percentage of economically disadvantaged, was negatively related to African-American and Hispanic student performance.[241] Therefore, a negative relationship is expected between this independent variable and both the percentage of students passing all three sections of the TAAS test and the percentage of Hispanic students passing all three sections of the TAAS test dependent variables. A positive relationship is expected between this independent variable and the school district's annual dropout rate as dropout rates increase in poor families.[242]

The sixth independent variable is the number of students per teacher, which is calculated by dividing the total number of students attending a school district by its total number of teachers. Data for this variable comes from the Texas Education Agency's *Snapshot 2001: 2000-01 School District Profiles*.[243] The Texas Educational Excellence Project employed this variable and concluded that a negative relationship exists between the student-teacher ratio and White and Hispanic student performance since the adoption of the state's school finance

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[239] *Snapshot 2001: 2000-01 School District Profiles*, p. 401.
[240] The Texas Educational Excellence Project, pp. 26-28.
[241] Polinard, Wrinkle, and Meier, pp. 468-470.
[242] Fitzpatrick and Yoels, p. 77.
[243] *Snapshot 2001: 2000-01 School District Profiles*, p. 401.

equalization policy.[244] In addition, Glass and Smith conducted a meta-analysis in 1979 and found a positive relationship between teacher-student and student-teacher ratios and student achievement.[245] A study by Finn and Achilles found that lower pupil teacher ratios are positively related to student outcomes or performance.[246] Also, a study by Hanushek, as well as a study by Hedges, Laine, and Greenwald concluded a relationship between pupil-teacher ratios and student performance exists.[247] Therefore, a negative relationship is expected between the number of students per teacher and the percentage of students passing all three sections of the TAAS test and the percentage of Hispanic students passing all three sections of the TAAS test. Fitzpatrick and Yoels found that student to teacher ratios were positively related to the dropout rate; therefore, a positive relationship is expected between this independent variable and a school district's annual dropout rate.[248]

The seventh independent variable is total revenue per pupil, which is calculated by combining the revenue budgeted in a school district's general fund, the National School Breakfast and Lunch Program funds, and debt service funds and dividing this amount by the number of students in the school district. Data for this variable comes from the Texas Education Agency's *Snapshot 2001: 2000-01 School District Profiles*.[249] Polinard, Wrinkle, and Meier examined this independent variable and found that revenue per pupil was positively related to

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[244] The Texas Educational Excellence Project, pp. 26-28.
[245] Wenglinsky, p. 11.
[246] Verstegen and King, p. 247.
[247] Verstegen and King, p. 254.
[248] Fitzpatrick and Yoels, p. 88.
[249] *Snapshot 2001: 2000-01 School District Profiles*, p. 406.

Hispanic student performance.[250] Therefore, a positive relationship is expected between this independent variable and both the percentage of students passing all three sections of the TAAS test and the percentage of Hispanic students passing all three sections of the TAAS test, and a negative relationship is expected between the total revenue per pupil and the school district's annual dropout rate.

[250] Polinard, Wrinkle, and Meier, p. 470.

CHAPTER V

FINDINGS AND CONCLUSION

Findings

The three models have 150 total cases, or an N that equals 150. Also, the three models share the same degrees of freedom, 142 df. Model one examined the effects of the seven independent variables on the first dependent variable, the percentage of students passing all three sections of the TAAS test and has an r-square equaling .464, which means that the model's regression equation encompasses 46.4% of the variation of the dependent variable. The model's F ratio or F equals 17.577.

Table 1. Model 1

Independent Varialbe	**Coefficient**	**Std. Coefficient**	**T-Score**
Taxable Value Per Pupil	7.859E-6 (.000)	.160	1.187
% of Total Revenue from Local	.126 (.291)	.384	.435
% of Total Revenue from State	.165 (.292)	.486	.566
% Hispanic	3.201E-2 (.030)	.123	1.077
% Economically Disadvantaged	-.254 (.048)	-.695	**-5.320*** **

Students per Teacher	-.508 (.408)	-.108	-1.243
Total Revenue per Pupil	6.505E-4 (.001)	.074	.826

N=150
DF=142
R^2=.464
Standard Error in Paranthesis
*p<.1
**p<.05
***p<.01

The significant independent variable of model one is the percentage of economically disadvantaged students in the school district, which is significant at the p<.01 level. The negative relationship between this independent variable and the dependent variable confirms the expected negative relationship between the two variables.

Table 2. Model 2

Independent Varialbe	**Coefficient**	**Std. Coefficient**	**T-Score**
Taxable Value Per Pupil	3.359E-6 (.000)	.055	.322
% of Total Revenue from Local	-.171 (.458)	-.416	-.374
% of Total Revenue from State	-.145 (.460)	-.342	-.316
% Hispanic	6.530E-2 (.047)	.201	1.394
% Economically Disadvantaged	-.219 (.075)	-.481	**-2.916*** **
Students per Teacher	-.284 (.643)	-.048	-.442

Total Revenue per Pupil	1.826E-3 (.001)	.167	1.471

N=150
DF=142
R^2=.147
Standard Error in Paranthesis
*p<.1
**p<.05
***p<.01

Model two examined the effects of the seven independent variables on the second dependent variable, the percentage of Hispanic students passing all three sections of the TAAS test and has an r-square of .147, which means the model's regression equation encompasses 14.7% of the dependent variable's variation. The F-ratio of model two is 3.491, and the model's degrees of freedom is 142.

In model two, there is one significant independent variable, the percentage of economically disadvantaged students. The percentage of economically disadvantaged students is significant at the p<.01 level, and the findings confirm the expected negative relationship between this independent variable and the dependent variable.

Table 3. Model 3

Independent Varialbe	**Coefficient**	**Std. Coefficient**	**T-Score**
Taxable Value Per Pupil	-5.190E-7 (.000)	-.113	-.670
% of Total Revenue from Local	-3.047E-2 (.034)	-.992	-.896
% of Total Revenue from State	-3.558E-2 (.034)	-1.120	-1.041
% Hispanic	4.960E-4 (.003)	.020	.143

% Economically Disadvantaged	1.040E-2 (.006)	.305	**1.861***
Students per Teacher	2.634 E-2 (.048)	.060	.551
Total Revenue per Pupil	-2.338E-5 (.000)	-.029	-.259

N=150
DF=142
R^2=.157
Standard Error in Paranthesis
*p<.1
**p<.05
***p<.01

Model three studies the effects of the seven independent variables on the third dependent variable, the school district's annual dropout rate. Model three has an r-square of .157, which means the model's regression equation encompasses 15.7% of the dependent variable's variation. The F-ratio of model three is 3.783, and the model's degrees of freedom is 142.

The significant independent variable of model three is the percentage of economically disadvantaged students in the school district, which is significant at the p<.1 level. The negative relationship between this independent variable and the dependent variable confirms the expected relationship.

Conclusion

In the three models, the percentage of economically disadvantaged students in a school district was significantly related to the respective model's dependent variable, negatively related to the percentage of students passing all three sections of the TAAS test and the percentage of Hispanic students passing all three sections of the TAAS test and positively related to the annual drop out

rate. Simply, an increase in the percentage of economically disadvantaged students in a school district will decrease the percentage of students passing all three sections of the TAAS test and the percentage of Hispanic students passing all three sections of the TAAS test and will increase the annual dropout rate of a school district. Although there is only one significant independent variable, the other findings are of interest.

The first three independent variables, the taxable value per pupil, the percentage of the school district's total revenue from local sources, and the percentage of the school district's total revenue from state sources are important because they are closely related to the state's school finance equalization policy. But in the three models, none were significant.

A school district's taxable value per pupil is simply a measurement of a school district's wealth, and the state's school finance equalization policy sought to ensure a school district's wealth did not determine its student performance. Because this independent variable is not significant, it indicates that the state's school finance equalization policy has negated the influence of a school district's wealth. In addition, although the relationship is not significant, the taxable value per pupil has a positive t-score for the first two dependent variables, the percentage of students passing all three sections of the TAAS test and the percentage of Hispanic students passing all three sections of the TAAS test, which was expected. Although the relationship is not significant, the taxable value per pupil has a negative t-score for the annual drop out rate dependent variable, which

was expected. Future research should be conducted to further examine the findings of this independent variable.

The percentage of the school district's total revenue from local sources independent variable is not significant in the three models either. As with the school district's taxable value per pupil, the state's school finance equalization policy sought to minimize the reliance on local revenue and its influence on student performance. A positive t-score exists between the percentage of total revenue from local sources and the percentage of students passing all three sections of the TAAS test, which suggests that while the relationship is not significant increases in local revenue may slightly affect student performance. The percentage of total revenue from local sources and the percentage of Hispanic students passing all three sections of the TAAS test has a negative t-score, which suggests that while the relationship is not significant increases in local revenue may slightly decrease student performance. Likely this is the result of Hispanic students attending property-poor school districts, which makes increasing the reliance on local revenue damaging to student performance. The percentage of total revenue from local sources and the annual dropout rate also, has a negative t-score, which means increases in the reliance on local revenue may slightly decrease the dropout rate.

In addition, the percentage of a school district's total revenue from state revenue was not significant in the three models. This is surprising considering recent increases in state funding of education, which in part, has been undertaken to improve overall student performance. In model one, a positive t-score resulted

between the independent variable and the percentage of students passing all three sections of the TAAS test, but in model two, a negative t-score resulted between the independent variable and the percentage of Hispanic students passing all three sections of the TAAS test. In model three, there was a negative t-score between the independent variable and the annual dropout rate. Although the relationships were not significant, the opposite direction of the relationships between the independent variable and the first two dependent variables is interesting and demands additional research.

The percentage of Hispanic students and the percentage of economically disadvantaged students are the two socio-economic independent variables of the thesis. In the three models, there was no significant relationship between the percentage of Hispanic students passing all three sections of the TAAS test or the annual dropout rate and the percentage of Hispanic students independent variable, which suggests that a student's race does not significantly affect their academic performance. This should abolish the possibility of lawsuits challenging the state's school finance policy based on racial discrimination. In contrast, the percentage of economically disadvantaged students was significant in each model and must be addressed by the state or local governmental bodies.

The number of students per teacher independent variable focuses on school district and local school decisions, in terms of using their revenue to hire additional teachers and reduce class sizes to improve student performance. In none of the models was this independent variable significant. The findings suggest further research should be conducted into the relationship between the

number of students per teacher and the percentage of Hispanic students passing all three sections of the TAAS test because of the abundance of research that has found a significant relationship between decreasing class sizes and increased student performance.

The final independent variable of the models is the total revenue per pupil and in none of the models was this independent variable significant. It is surprising that there is not greater support between the relationship between revenue and performance, in terms of the percentage of students passing all three sections of the TAAS test, which suggests additional research is necessary.

As a result of the three models' findings, it is clear that the method to improve student performance is to address the percentage of economically disadvantaged students, which can be accomplished by increasing students' family income or a community's wealth. Tax abatements are a common method of attracting new businesses and economic development to an area, but often, this cannot be employed by many school districts. School districts lose state funding if they charge lower tax rates or elect to offer tax abatements so property-poor school districts cannot offer a tax break or reduction. Therefore, the state and local school districts must find different methods to decrease the percentage of economically disadvantaged students. Also, the state may have to pass legislation to allow poor school districts or communities greater opportunities to increase their tax base.

Although the findings fail to show a significant relationship between revenue, in terms of total revenue per pupil and the percentage of total revenue

from state revenue, and student performance, the state should not abandon much of the current school finance equalization policy. I agree with the Texas Educational Excellence Project's assertion that the state's school finance equalization policy has generally succeeded by reducing the importance of local school district wealth and local revenue, which was often the source of school funding disparities.[251] The thesis and recent research has failed to show a strong connection between a school district's wealth and student performance. Likely, this is the result of state school finance equalization policies succeeding in negating the importance of local wealth and revenue. While it is clear that local revenue and school district wealth are not significant, it has become clear that, in fact, what educational revenue and expenditures are earmarked for may be more significant to student performance and warrants intensive future research.

The thesis has shown that there is no relationship between the policy-related independent variables and student performance, which fails to support the hypothesis. At the same time, many of the findings confirm the expected relationship between the independent variables and the different measurements of student performance.

Each model has studied a different measurement of student performance, but there are limitations to these measurements. For instance, both the percentage of students passing all three sections of the TAAS test and the percentage of Hispanic students passing all three sections of the TAAS test are measurements of student performance on a minimum skills test, and thus, only measure whether students have gained minimum educational skills. In addition, the school district

[251] The Texas Educational Excellence Project, p. 14.

annual dropout rate measures whether students remain in school and like the other measurements does not provide a complete analysis of student performance. A complete examination of student performance should provide a more advanced measure of student performance, such as the SAT.

Governor Rick Perry has stated he believes the state's current public school finance system is "unworkable and unfair."[252] House Speaker Pete Laney has stated that "economic and social changes" require the State Legislature to re-examine how schools are funded.[253] Therefore in the next legislative session, the State Legislature is expected to propose a new state public school finance system. Already, Lieutenant Governor Bill Ratliff, the author of the state's current school finance system, has proposed the state levy a statewide property tax of $1.40 per $100 of a property's assessed value and the revenue collected be distributed to school districts on a per-pupil basis.[254] I agree that this proposal should be adopted by the state with certain amendments.

The adoption of a statewide property tax to replace the property tax levied by local school districts would require a constitutional amendment and a special election. Providing aid should be based on the different needs of students, not solely on a per-pupil basis. Different students, such as bilingual students or disabled students require additional revenue to be educated, and greater aid should be provided to those school districts with these greater needs students.

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[252] Susan Parrott. "Perry: Robin Hood is Unfair System, Must be Reformed." *The Monitor* 16 Mar. 2002, p. 5C.
[253] "Legislative Leadership Appoints Select Committee to Study Public School Finance in Texas." 5 Sept. 2001 19 May 2002 <http://www.house.state.tx.us/post/releases/010905.htm>.
[254] Jane Elliot. "Ratliff Wants Statewide Property Tax in Lieu of Local Levy." 4 Apr. 2002 4 Apr. 2002 <http://www.chron.com/cs/CDA/printstory.hts/topstory/1339935>.

In addition, the recapture method of the current state finance equalization policy should be abolished. Although I do not believe property-rich school districts subject to the state's recapture plan are negatively affected in terms of student performance, there is no legitimate basis to take revenue from these school districts to provide for property-poor school districts. Rather, it is the state's responsibility to fund education, and as such to further fund property-poor school districts, the state should increase their share of funding education. The state must find additional sources of educational revenue, whether that requires a tax increase or other sources, such as increasing lottery funds. Likely, property-rich school districts would not file additional lawsuits if the state focused the majority of its funding toward property-poor school districts and minimally funded property-rich school districts in place of recapturing revenue raised by property-rich school districts.

Finally, the $1.50 cap per $100 assessed property value feature of the current school finance equalization policy should be abolished. In the 2000-01 school year, 19% of Texas school districts were at the $1.50 cap, and soon, more school districts will approach this limit and will not be able to provide sufficient revenue to fund educational service, which will become more costly in the future. As more school districts fall into this situation, education disparities will result and may ultimately necessitate a new lawsuit challenging the constitutionality of the state's public school finance system. The practice of "leveling-down" property-rich school districts should instead be replaced with "pushing-up" property poor school districts.

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% of Total Revenue from Local	.126 (.291)	.384	.435
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Students per Teacher	-.508 (.408)	-.108	-1.243
Total Revenue per Pupil	6.505E-4 (.001)	.074	.826
N=150 R^2=.464 Standard Error in Paranthesis *p<.1 **p<.05 ***p<.01			

Table 2. Model 2

Independent Varialbe	Coefficient	Std. Coefficient	T-Score
Taxable Value Per Pupil	3.359E-6 (.000)	.055	.322
% of Total Revenue from Local	-.171 (.458)	-.416	-.374
% of Total Revenue from State	-.145 (.460)	-.342	-.316
% Hispanic	6.530E-2 (.047)	.201	1.394
% Economically Disadvantaged	-.219 (.075)	-.481	**-2.916*****
Students per Teacher	-.284 (.643)	-.048	-.442
Total Revenue per Pupil	1.826E-3 (.001)	.167	1.471
N=150 DF=142 R^2=.147 Standard Error in Paranthesis *p<.1 **p<.05 ***p<.01			

Table 3. Model 3

Independent Varialbe	Coefficient	Std. Coefficient	T-Score
Taxable Value Per Pupil	-5.190E-7 (.000)	-.113	-.670
% of Total Revenue from Local	-3.047E-2 (.034)	-.992	-.896
% of Total Revenue from State	-3.558E-2 (.034)	-1.120	-1.041
% Hispanic	4.960E-4 (.003)	.020	.143
% Economically Disadvantaged	1.040E-2 (.006)	.305	**1.861***
Students per Teacher	2.634 E-2 (.048)	.060	.551
Total Revenue per Pupil	-2.338E-5 (.000)	-.029	-.259
N=150 DF=142 R^2=.157 Standard Error in Paranthesis *p<.1 **p<.05 ***p<.01			

Table 4. Model 4

Independent Varialbe	Coefficient	Std. Coefficient	T-Score
Taxable Value Per Pupil	-7.110E-5 (.000)	-.145	-1.071
% of Total Revenue from Local	-.332 (2.917)	-.101	-.114
% of Total Revenue from State	-1.556 (2.933)	-.458	-.531
% Hispanic	.355 (.298)	.137	1.191
% Economically Disadvantaged	-2.341 (.479)	-.641	**-4.883*****
Students per Teacher	-9.709 (4.097)	-.207	**-2.370****
Total Revenue per Pupil	-7.345E-3 (.008)	-.084	-.929
N=150 R^2=.458 Standard Error in Paranthesis *p<.1 **p<.05 ***p<.01			

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APPENDIX B. LIST OF SCHOOL DISTRICTS EXAMINED

1. Cayuga I.S.D.
2. Westwood I.S.D.
3. Andrews I.S.D.
4. Hudson I.S.D.
5. Aransas County I.S.D.
6. Archer City I.S.D.
7. Holiday I.S.D.
8. Windthorst I.S.D.
9. Jourdanton I.S.D.
10. Pleasanton I.S.D.
11. Bellville I.S.D.
12. Muleshoe I.S.D.
13. Medina I.S.D.
14. Bastrop I.S.D.
15. Smithville I.S.D.
16. Seymour I.S.D.
17. Beeville I.S.D.
18. Bartlett I.S.D.
19. Killeen I.S.D.
20. Temple I.S.D.
21. Troy I.S.D.
22. Alamo Heights I.S.D.
23. Edgewood I.S.D.
24. North East I.S.D.
25. San Antonio I.S.D.
26. Southwest I.S.D.
27. Johnson City I.S.D.
28. New Boston I.S.D.
29. Texarkana I.S.D.
30. Alvin I.S.D.
31. Brazosport I.S.D.
32. Sweeny I.S.D.
33. Bryan I.S.D.
34. College Station I.S.D.
35. Bangs I.S.D.
36. Early I.S.D.
37. May I.S.D.
38. Snook I.S.D.
39. Marble Falls I.S.D.
40. Lockhart I.S.D.
41. Luling I.S.D.
42. Brownsville I.S.D.
43. La Feria I.S.D.
44. Point Isabel I.S.D.
45. Santa Rosa I.S.D.
46. South Texas I.S.D.
47. Pittsburg I.S.D.
48. East Chambers I.S.D.
49. Jacksonville I.S.D.
50. Midway I.S.D.
51. Whiteface Consolidated I.S.D.
52. Robert Lee I.S.D.
53. Community I.S.D.
54. Plano I.S.D.
55. Rice Consolidated I.S.D.
56. Comal I.S.D.
57. New Braunfels I.S.D.
58. Valley View I.S.D.
59. Gatesville I.S.D.
60. Carrollton-Farmers Branch I.S.D.
61. Cedar Hill I.S.D.
62. Dallas I.S.D.
63. Duncanville I.S.D.
64. Highland Park I.S.D.
65. Cooper I.S.D.
66. Denton I.S.D.
67. Lake Dallas I.S.D.
68. Cuero I.S.D.
69. Yoakum I.S.D.
70. San Diego I.S.D.
71. Eastland I.S.D.
72. Avalon I.S.D.
73. Midlothian I.S.D.
74. Palmer I.S.D.
75. Waxahachie I.S.D.
76. El Paso I.S.D.
77. Bonham I.S.D.
78. La Grange I.S.D.
79. Fort Bend I.S.D.
80. Lamar Consolidated I.S.D.
81. Teague I.S.D.
82. Seminole I.S.D.
83. Friendswood I.S.D.
84. Texas City I.S.D.
85. Fredericksburg I.S.D.
86. Goliad I.S.D.
87. Gonzalez I.S.D.
88. Sherman I.S.D.
89. Longview I.S.D.
90. White Oak I.S.D.
91. Schertz-Cibolo-U City I.S.D.
92. Seguin I.S.D.
93. Abernathy I.S.D.
94. Deer Park I.S.D.
95. Houston I.S.D.
96. Katy I.S.D.

97. Pasadena I.S.D.
98. Spring I.S.D.
99. Dripping Springs I.S.D.
100. San Marcos Consolidated I.S.D.
101. Donna I.S.D.
102. Edcouch-Elsa I.S.D.
103. McAllen I.S.D.
104. Sharyland I.S.D.
105. Weslaco I.S.D.
106. Hillsboro I.S.D.
107. Whitney I.S.D.
108. Levelland I.S.D.
109. Sulphur Springs I.S.D.
110. Big Spring I.S.D.
111. Caddo Mills I.S.D.
112. Quinlan I.S.D.
113. Edna I.S.D.
114. Buna I.S.D.
115. Jasper I.S.D.
116. Alice I.S.D.
117. Premont I.S.D.
118. Cleburne I.S.D.
119. Venus I.S.D.
120. Karnes City I.S.D.
121. Comfort I.S.D.
122. Kerrville I.S.D.
123. Kingsville I.S.D.
124. Riviera I.S.D.
125. North Lamar I.S.D.
126. Littlefield I.S.D.
127. Lexington I.S.D.
128. Buffalo I.S.D.
129. Dayton I.S.D.
130. Liberty I.S.D.
131. Mexia I.S.D.
132. Three Rivers I.S.D.
133. Lubbock-Cooper I.S.D.
134. Roosevelt I.S.D.
135. Jefferson I.S.D.
136. Bay City I.S.D.
137. Eagle Pass I.S.D.
138. Crawford I.S.D.
139. McGregor I.S.D.
140. Midway I.S.D.
141. Midland I.S.D.
142. Calallen I.S.D.
143. Corpus Christi I.S.D.
144. Robstown I.S.D.
145. White Settlement I.S.D.
146. Lake Travis I.S.D.
147. Pflugerville I.S.D.
148. Raymondville I.S.D.
149. Kermit I.S.D.
150. Zapata County I.S.D.

APPENDIX C. CORRELATIONAL MATRIX

	Taxable Value Per Pupil	% Local	% State	% Hisp.	% Econ. Dis.	# of Students per Teacher	Total Rev. Per Pupil
Taxable Value Per Pupil	1.000	-.056	.072	-.022	.013	.088	-.267
% Local	-.056	1.000	.988	-.079	.470	.082	-.062
% State	.072	.988	1.000	-.082	.449	.114	-.069
% Hisp.	-.022	-.079	-.082	1.000	-.743	.114	-.264
% Econ. Dis.	.013	.470	.449	-.743	1.000	.207	.095
# of Students per Teacher	.088	.082	.114	-.346	.207	1.000	.618
Total Rev. Per Pupil	-.267	-.062	-.069	-.264	.095	.618	1.000

VITA

The author of the thesis, Christopher Duque was born September 11, 1976. He graduated from Weslaco High School in May 1995. He then attended the University of Texas-Austin from the Fall of 1995 to the Spring of 1997. In the Fall of 1997, he transferred to the University of Texas-Pan American and attended classes there until receiving his Bachelor's of Arts degree in Political Science in May 2000. He enrolled in the Master's of Public Administration program in the Spring of 2001 and plans to graduate in December 2002.

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