

InDepth

Understanding Texas School Finance

Published Quarterly

It's Time to...

Update the Cost of Education Index (CEI)

As we indicated in a recent *EC Xpress*, Texas school districts are being mugged by the use of weights and formulas that haven't been re-examined and updated in 30 years. The mugging is even more egregious when these outdated formulas are applied to data that is 25-30 years old, as is the case in transportation funding and in the cost of education index (CEI). The failure to update the CEI is particularly problematic because of its extremely large impact on determining a district's overall School Program cost.

History

Like most of the current weights and formulas, the CEI was initially established in 1984 under House Bill 72, where it was called the "Price Differential Index" or PDI. HB 72 created a temporary index and instructed the State Board of Education to replace it with a research-based model that was to be updated every two years. All of these weights and formulas were based on a recognition that, in a state as large and varied as Texas, a combination of the varying instructional needs of different types of students and the impact of the free market on the cost of goods and services could create substantial differences in the cost of helping each student achieve his or her potential.

With the assistance of an advisory committee of school officials – a majority of whom were school business officials – the SBOE reviewed "the effect of school district characteristics on the prices paid in the school district for goods and services." They determined that the only budget area where factors affecting prices could be uniformly determined and where the differences amounted to a significant impact on a district's budget was the cost of employees' salaries. The TEA staff then used an econometric model to identify district
(Continued on pg. 3)

Eliminate ^{Read} the Punitive ~~X~~ Small Schools Formula

Many of our funding levels and weights are underfunded, but why would the state purposely create a special formula just to penalize a group of districts?

In only one case of which we are aware, has that actually happened when the state created two small schools formulas. The small schools formula was meant to offset diseconomy of scale costs associated with small schools size. (How can you have a class "efficiently" sized at 22 when there are only 15 students in that grade and you still need one teacher?) Based on a modeling process that attempted to quantify how much more the cost per student increases as size decreases, the state created a small schools formula with a multiplier of .0004.

There were those in the Legislature, however, who felt that some of these districts were "small by choice." So, for districts that are less than 300 square miles in area – an arbitrary number – the state reduced the multiplier to .00025 – another arbitrary number. Altogether, a 37.5% reduction for which there was no study or cost basis – it was capriciously pulled out of thin air.

The openly stated intent was to "encourage" these districts to consolidate. But, because the school is often the center of the community and an essential part of maintaining the vitality of rural Texas, very few have chosen to consolidate.

For a district with 400 students covering an area of 301 square miles, the state recognizes an additional cost to offset the diseconomy of scale associated with a school of that size. But for their neighboring district of 400 students with only 299 square miles, the state provides for less than two-thirds of the additional cost.
(Continued on pg. 2)

Calhoun County ISD Plaintiff Group Seeks to Overturn Equity Victory

On October 11, 2011, the Texas Taxpayer & Student Fairness Coalition, a group of 443 Texas school districts, filed suit in state district court claiming the state funding system violated Articles VII and VIII of the Texas Constitution.

Over the next three years, this group, later joined by three other groups of school districts, fought through the difficult circumstances that come with any court case of this magnitude. Each of the groups agreed that the system was inadequately funded and that districts no longer had any meaningful discretion to adopt local tax rates below the statutory maximum. Three of the groups also pleaded that the system was unconstitutionally inequitable.

The Calhoun County ISD, et al. group of primarily wealthy districts joined the state by claiming all districts receive similar revenue when taxing at the same tax rate. During depositions prior to the trial, attorneys for the state and Calhoun County aggressively deposed expert witnesses on equity, trying to undermine the equity cases that were being brought by over half of the districts in the state.

During the trial, the Calhoun County group continued to abandon its plaintiff position, joining with the state against the equity experts for the Fairness Coalition and the Edgewood ISD, et al. plaintiffs.

In late August 2014, Judge John Dietz ruled in favor of all four school district groups on the three claims they held in common and on the equity claim pleaded by the Fairness Coalition, Edgewood ISD, et al., and Fort Bend ISD, et al.

In all, this was the widest-ranging, most comprehensive decision in seven Texas school finance trials and represented a major victory for more than five million children across the state.

The euphoria over the decision was short-lived, however, when the Fairness Coalition received an email from Richard Gray, one of its attorneys, advising that the school districts in the Calhoun County group had filed notice that it would appeal to the Supreme Court to overturn the equity victory won by the other three groups.

Shortly after the record is filed, the Supreme Court will decide how many days appealing parties need to file their respective briefs. They are entitled to 30 days, but will most certainly be given more time than that to file a brief explaining why children in other districts should not be entitled to the same funding levels its own members enjoy. Later, as part of their defense of their own victories in district court, the same attorneys will file a brief explaining why their own funding levels are unconstitutionally inadequate.

Eliminate the Punitive Small Schools

Formula (cont.)

If they gave us the .0004 we would get approx. \$729,783 in additional funds.

(Continued from pg. 1) This means fewer resources to offer quality science or career programs, it makes it likely that the better teachers in the second district will be lured away by higher salaries that the neighbor with greater funding can offer, or it means that local taxpayers will have to pay significantly higher property tax rates to prevent these things from happening.

No one can fairly argue there was ever a legitimate reason to refuse funding at the cost it recognized as appropriate for geographically larger small districts. After all, communities do not choose to be small. They choose to have a local school.

In a day that the state is putting such an emphasis on charter schools, which are quite small, it would appear

the state would not want to retain a formula that punishes students in small schools.

People often talk about how long formulas have gone without being updated. But this is worse than simple neglect. This is a punishment of schoolchildren based on an outdated antipathy for what the state now champions in the form of charter schools—small by choice!

There are many broken parts of our school finance system. This is certainly one of the most indefensible.

Readers can access a preliminary draft of the impact on these districts [here](#) or visit: <http://tinyurl.com/n7lx9ux>

How This Would Impact Small Schools Around Us

| District | Enrollment | Change in Revenue using |
|--------------------|------------|-------------------------|
| Scurry-Rosser ISD | 930 | \$729,783 |
| Cayuga ISD | 537 | \$656,033 |
| Sunnyvale ISD | 1326 | \$626,666 |
| Avalon ISD | 305 | \$465,916 |
| Italy ISD | 485 | \$670,574 |
| Milford ISD | 221 | \$358,008 |
| Palmer ISD | 1081 | \$783,817 |
| Maypearl ISD | 985 | \$717,907 |
| Cross Roads ISD | 567 | \$636,823 |
| Eustace ISD | 1376 | \$399,176 |
| Malakoff ISD | 1180 | \$755,825 |
| Tolar ISD | 635 | \$604,724 |
| Caddo Mills ISD | 1481 | \$270,169 |
| Commerce ISD | 1417 | \$436,338 |
| Lone Oak ISD | 908 | \$752,484 |
| Kemp ISD | 1328 | \$592,982 |
| Axtell ISD | 718 | \$903,929 |
| Blooming Grove ISD | 796 | \$718,568 |
| Kerens ISD | 564 | \$634,403 |
| Mildred ISD | 685 | \$67,187 |
| Rice ISD | 863 | \$712,371 |
| Edgewood ISD | 882 | \$824,212 |
| Grand Saline ISD | 1012 | \$878,349 |
| Martins Mill ISD | 457 | \$551,513 |
| Fruitvale ISD | 363 | \$531,994 |
| Alba-Golden ISD | 771 | \$716,007 |