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Suggestions for Reform of the Texas School Finance System

SUMMARY OF THE ISSUES

The Texas school finance system is a very complicated method for distributing funds to independent school districts (ISDs) and charter schools. There are multiple components of the system and outside factors that have an impact on funding.

SUMMARY OF THE RECOMMENDATIONS

This paper suggests three major areas of inquiry in conducting a comprehensive review of the Texas Foundation School Program (FSP): simplification of the structure of the system; adequacy of funding; and confronting the major student performance challenges for the 21st century.

There are suggestions for six subareas within the subject of the structure of the system: the high school allotment, transportation allocation, Tier 2 of the Foundation School Program, charter school funding, calculation of Weighted Average Daily Attendance (WADA), and local control; one in the adequacy area: adjusting for standards and economics; and two within performance challenge area: compensatory education and bilingual education. These areas of inquiry should be incorporated into the existing system over a period of years.

RECOMMENDATION RATIONALE

When the elements of the Foundation School Program are examined thoroughly, the need for a modernized program becomes evident. Despite the strengths of the current system, political compromises and band-aid solutions have produced a system in which the exception is often greater than the rule. This report establishes a base line for potential changes in the system while leaving critical issues such as the Cost-of-Education Index (CEI), the facilities support system and salary issues yet to be addressed.

ISSUE BACKGROUND

The following recommendations attempt to simplify the system and advance student performance for all students on multiple measures.

STATUTORY OR RULE CHANGES

In each of the recommendations, changes to Chapter 42 of the Texas Education Code (TEC) are noted. In addition, in accord with the historic tradition of local control over education programs

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and finances, the proposal for a new program should eliminate many of the mandates and restrictions currently in law, especially those that were adopted prior to modern accountability systems. In particular, the restrictions in Chapter 29 (on special program direct funding for special education, career and technology, compensatory education, bilingual education and gifted and talented education) should be eliminated.

RECOMMENDATION ONE

Summary of the Issue: SIMPLIFICATION OF THE STRUCTURE OF THE SCHOOL FINANCE SYSTEM

Summary of the Recommendation: Repeal the high school allotment and increase the basic allotment by an equivalent amount.

Issue Background Information:

The basic structure of state school finance is contained in the provisions of the Foundation School Program in Chapter 42 (TEC). Under this proposal, the structure would be maintained with modifications designed to simplify complex elements of the program. Simplification of the current system through elimination of political compromises and outdated formula elements is prioritized.

- **Recommendation and How Recommendation Resolves Issue:**
 1. High school allotment - The current high school allotment of \$275 per ADA would be eliminated with the amounts folded into the basic allotment. Removing a line item will simplify the calculation.
- **Recommendation Rationale:** See above
- **Recommendation Cost or Cost Savings:** See recent TEA cost estimate
- **Recommendation Pros:** Simplification and slight increase in funding for high need districts
- **Recommendation Cons:** Disturbs the status quo
- **Does Recommendation Require Statutory or Rule Change:** Yes, requires rule change under §42.160 (TEC)
- **Other considerations:** None
- **How Recommendation Resolves Issue:** See above
- **How would Recommendation's Success be Measured:** By legislative reaction to simplification

RECOMMENDATION TWO

Summary of the Issue: SIMPLIFICATION OF THE STRUCTURE OF THE SCHOOL FINANCE SYSTEM

Summary of the Recommendation: Repeal the transportation allotment and increase the basic allotment by an equivalent amount.

Issue Background Information:

The basic structure of state school finance is contained in the provisions of the Foundation School Program in Chapter 42 (TEC). Under this proposal, the structure would be maintained with modifications designed to simplify complex elements of the program. Simplification of the current system through elimination of political compromises and outdated formula elements is prioritized. Districts receive funding for school transportation on a density formula that allocates between \$.68 and \$1.43 per mile of approved bus routes, based on the number of students per square mile. The reimbursement rates have not been changed since 1983, despite large increases in the cost of transportation. Reallocation of these funds will permit district flexibility in addressing transportation needs.

- **Recommendation and How Recommendation Resolves Issue:**
 2. Transportation allotment - The current transportation allotment would be eliminated with the amounts folded into the basic allotment. Removing this element simplifies the structure by reducing the number of calculation steps.
- **Recommendation Rationale:** See above
- **Recommendation Cost or Cost Savings:** No statewide cost savings would occur since funding would be reallocated to the basic allotment.
- **Recommendation Pros:** Simplification and recognition. The state does not undertake responsibility for ensuring transportation. (Very high cost of transportation districts may need supplemental allotment.)
- **Recommendation Cons:** Potential funding inequity for high cost districts
- **Does Recommendation Require Statutory or Rule Change:** Requires repeal of §42.155 (TEC), and of TEA rules related to transportation.
- **Other considerations:** If State is prepared to undertake a state role in improved transportation financing, additional study would be required.
- **How Recommendation Resolves Issue:** See above
- **How would Recommendation's Success be Measured:** By legislative reaction to elimination

RECOMMENDATION THREE

Summary of the Issue: SIMPLIFICATION OF THE STRUCTURE OF THE SCHOOL FINANCE SYSTEM

Summary of the Recommendation: Eliminate the current structure of Tier 2 of the Foundation School Program (golden pennies, copper pennies), and provide a single Tier 2 allotment with equalization based on prior year property wealth and current year tax rates, and a guaranteed yield equal to Tier 1 guaranteed yield.

Issue Background Information:

The multi-part Tier 2 structure is a political result of a 2006 11th hour compromise which has no place in a fully-equitable school finance system.

- **Recommendation and How Recommendation Resolves Issue:**
 3. **This recommendation would only be implemented after state commitment to adequacy is significantly improved.**

Tier 2 of the Foundation School Program (golden pennies, copper pennies) - The current two-part structure of the equalized enrichment program would be simplified by eliminating the current structure and providing for a single Tier 2 allotment with equalization based on prior year property wealth and current year tax rates, with a guaranteed yield equal to Tier 1 guaranteed yield. Tier 2A (golden pennies) would remain intact until the basic allotment was increased to an adequate level.
- **Recommendation Rationale:** Variable funding levels and use of the Austin yield result in complexity and inequity.
- **Recommendation Cost or Cost Savings:** Estimate of the additional costs are not available at this time.
- **Recommendation Pros:** This recommendation would reduce the complexity.
- **Recommendation Cons:** This recommendation could have a negative impact on selected high-wealth districts.
- **Does Recommendation Require Statutory or Rule Change:** Requires modification to Chapter 42 Subchapter F (TEC).
- **Other considerations:** None
- **How Recommendation Resolves Issue:** See above
- **How would Recommendation's Success be Measured:** Increase in equity measures

RECOMMENDATION FOUR

Summary of the Issue: SIMPLIFICATION OF THE STRUCTURE OF THE SCHOOL FINANCE SYSTEM

Summary of the Recommendation: Calculate the adjusted allotment for charter schools and school districts in an identical manner.

Issue Background Information:

Currently, “adjusted allotments” for charter schools are calculated in a manner differently than the method used for traditional ISDs.

The “basic allotment” is an amount that every school district is guaranteed to receive from the combination of state and local funds for each student in Average Daily Attendance (ADA). The basic allotment was \$5,140 per ADA for 2017-18 and 2018-19 for those districts with a compressed maintenance and operations (M&O) tax effort of \$1.00 per \$100 of taxable value in 2016 as certified by the Comptroller.

The basic allotment for each traditional school district is adjusted for certain district characteristics to determine the “Adjusted Allotment” or AA, which is then used in the formulas. The basic allotment is multiplied by the “Cost-of-Education Index” (CEI). Each ISD is assigned a CEI that is designed to recognize cost differences beyond the control of the school district, and includes variables for the average beginning salary of teachers in contiguous districts, the number of economically disadvantaged students in the district, the size of the district, and whether the district is in a rural county. CEIs range from 1.02 to 1.20. The CEI is applied to 71 percent of the basic allotment.

In addition, to recognize that small or mid-sized districts cannot take advantage of economies of scale, a small size adjustment is added for districts with less than 1,600 ADA. Also, small districts with over 300 square miles in area receive a 37 percent larger increase. Beginning in 2019, the adjustment for districts with less than 300 square miles will be increased over five years until the two adjustments for square miles will be equal.

In Tier 1, the “Adjusted Allotment” is the greater of the adjusted basic allotment (includes the CEI adjustment), the adjusted basic allotment modified for a small district, or the adjusted basic allotment modified for a mid-size district. For 2017-18, the adjusted allotment varied by school district (depending on the characteristics of the district) from \$4,631 to \$9,008, and averaged \$6,519.

All charter schools have the same “basic allotment” and “adjusted allotment” funding level based on state ISD average “basic allotment” and “adjusted allotment.” The simple unweighted state average of each adjusted allotment is summed and divided by the count of districts to create a charter level adjusted allotment for all charter schools, \$6,508 for 2017-18. After this stage, the allotment for a charter school is supplemented by the same adjustments used for ISDs. The formula for charter schools is substantially different from the formula for districts in that amounts

are based on state average allotments, not an allotment based on the individual characteristics of the charter. In particular, the basic allotment, the adjusted basic allotment, and the adjusted allotment amount are all set to state averages that were determined using a district-level analysis (all district amounts are summed and then divided by the number of districts). Use of the unweighted averages for the charter schools effectively treats charter schools as if they were all small districts with less than 1,600 students.

If traditional school districts were funded like charter schools, state funding for ISDs would increase by \$5.4 billion.

- **Recommendation and How Recommendation Resolves Issue:**

4. Charter school funding - Calculate the adjusted allotment for charter schools and school districts in an identical manner. The current disparity between charter school and traditional ISD funding would be eliminated to create a unified structure. Under this proposal, the “adjusted allotments” would be established in an identical fashion for charter schools and ISD schools, with the exception of Tier 2 financing, which would require special treatment.

- **Recommendation Rationale:** See above
- **Recommendation Cost or Cost Savings:** State appropriations to charter schools would decrease approximately \$75 million.
- **Recommendation Pros:** Creates level financial playing field between types of districts.
- **Recommendation Cons:** Would reduce funding for large charter school systems to levels in place for similar-sized traditional districts.
- **Does Recommendation Require Statutory or Rule Change:** Requires change to §12.106 (TEC) and TEA rules
- **Other considerations:** None
- **How Recommendation Resolves Issue:** See above
- **How would Recommendation’s Success be Measured:** Equitable funding for operations between traditional ISDs and charter schools of similar size

RECOMMENDATION FIVE

Summary of the Issue: SIMPLIFICATION OF THE STRUCTURE OF THE SCHOOL FINANCE SYSTEM

Summary of the Recommendation: Maintain the current method of calculating WADA (Weighted Average Daily Attendance) with the exception of the 50% deduction of the Cost-of-Education Index impact on WADA.

Issue Background Information:

In 1990, the Legislature established a formula for the calculation of WADA (Weighted Average Daily Attendance). The rationale for adoption at the time was a political consideration between the House and Senate versions of a school finance bill. No other rationale has been suggested for this calculation.

- **Recommendation and How Recommendation Resolves Issue:**
 5. WADA (Weighted Average Daily Attendance) - The calculation of WADA would be maintained, with the exception of the 50% deduction of the Cost-of-Education Index impact on WADA. Use of the 100% factor will eliminate an historic source of inequity between high-cost districts and lower-cost districts.
- **Recommendation Rationale:** See above
- **Recommendation Cost or Cost Savings:** Approximately \$400 million additional cost.
- **Recommendation Pros:** Creates greater equity between large and smaller districts
- **Recommendation Cons:** Will require additional state funding
- **Does Recommendation Require Statutory or Rule Change:** Require change to §42.302 (TEC)
- **Other considerations:** Issue may be paired with retention of small school adjustment factors over the next six years.
- **How Recommendation Resolves Issue:** See above
- **How would Recommendation's Success be Measured:** Increase in equity measures

RECOMMENDATION SIX

Summary of the Issue: SIMPLIFICATION OF THE STRUCTURE OF THE SCHOOL FINANCE SYSTEM

Summary of the Recommendation: Eliminate many of the mandates and restrictions currently in law, especially those that were adopted prior to modern accountability systems.

Issue Background Information:

In accord with the historic tradition of local control over education programs and finances, the proposal for a new program should eliminate many of the mandates and restrictions currently in law, especially those that were adopted prior to modern accountability systems. In particular, the restrictions on special program direct funding for special education, career and technology, compensatory education, bilingual education and gifted and talented education should be eliminated.

Most of the statutes relating to state control of special program funding date to the 1980s. These statutes provide specific legislative direction over the district expenditure of funds in various terms. The target populations for the funds are specified. In some cases, the specific types of expenditure are directed. Program outputs are also defined for the programs. Over thirty years later the restrictions remain in place, but the ill-defined accountability system of the 1980s has been dismantled. Today the robust accountability system of the current era is based on a variety of measures of student performance. This system, the product of significant study and debate, is far superior to the old system. Repeal of the outmoded systems of the past will permit local control of resources to be blended with student performance standards.

- **Recommendation and How Recommendation Resolves Issue:**
 6. Local control – Restrictions on special program direct funding for special education, career and technology education, compensatory education, bilingual education and gifted and talented education should be eliminated.
- **Recommendation Rationale:** The current accountability system should be used to define student success. Restrictions on local use of funds to meet local circumstances is inappropriate.
- **Recommendation Cost or Cost Savings:** No state cost or cost savings would take place with this recommendation. There would be savings resulting from increased local control.
- **Recommendation Pros:** Increased alternatives for school districts to meet local needs including adequate ratings under the State’s accountability system.
- **Recommendation Cons:** Implementation of recommendation requires information systems for use of funds to be tightened.
- **Does Recommendation Require Statutory or Rule Change:** Statutes regarding indirect cost allotments of FSP programs would need to be enhanced. Would require modification to §42.151, 42.152, 42.153, 42.154, 42.156 and Subchapters A, B, C, D, and F of §29 (TEC).
- **Other considerations:** Additional savings could take place by elimination of other specific mandates.
- **How Recommendation Resolves Issue:** See above
- **How would Recommendation’s Success be Measured:** Performance measures in accountability and related systems

RECOMMENDATION SEVEN

Summary of the Issue: ADEQUACY – EVERY SCHOOL DISTRICT SHOULD HAVE A FUNDING LEVEL SUFFICIENT TO PROVIDE PROGRAMS DESIGNED TO PERMIT THE DISTRICT TO HAVE AT LEAST A “B” ACCOUNTABILITY RATING.

Summary of the Recommendation: Each biennium, adopt a process for determination of the basic allotment with appropriate adjustments for inflation, enrollment growth, and accountability standards. Fully implement the process within five years.

Issue Background Information:

The concept of adequacy under the finance program has been a stable element of the Foundation School Program since 1950. Under these proposals, the program would continue with modifications to provide a higher level of funding for adequacy. General Appropriations Bills of the future would make specific findings relative to the impact of enrollment growth and inflation on school finance.

- **Recommendation and How Recommendation Resolves Issue:**

7. Basic allotment - The basic allotment is a central component of the calculation of a variety of adjusted costs spread through Tier 1 of the Foundation School Program. The allotment itself should in the future include adjustments for the cost of inflation and modifications in the accountability system and other requirements. Pending a variety of additional studies, the proposed index should be set at an amount, [given accountability ratings (due August 15, 2018), enrollment growth, and projected inflation] to have a funding level sufficient to provide programs designed to permit each district to have at least a “B” accountability rating. This target level should be established by the end of the six-year implementation period. Levels of inflationary adjustments would be established each biennium by the Comptroller. Historically, the Legislature has provided a commitment to fund enrollment growth with additional state aid. A less formal structure has been adopted to incorporate the impact of actual or projected inflation on school finance. Greater transparency for the impact of these costs on school districts should be included in biennial budget considerations.

- **Recommendation Rationale:** Modifications to the basic allotment and other Tier 1 provisions have not kept pace with the overall cost-of-education adjusted for inflation and enrollment growth. This recommendation suggests a process under which a biennial determination of inflation and enrollment growth would be made by the state comptroller and used by the Legislature to modify the appropriations process during legislative sessions.
- **Recommendation Cost or Cost Savings:** Annual enrollment growth of 1.0% and an inflation rate of 2.0% will require additional funding of \$1.5 billion per year. It is recommended that this number be refined by the TEA and the Comptroller of Public Accounts in concert. The process for determination of the methodologies to employed for these calculations would be subject to action by the LBB at the same time the biennial spending limits are calculated.
- **Recommendation Pros:** Adjust for inflation and growth will provide school districts with a stable basis for financial planning in the future.

- **Recommendation Cons:** Commitments of additional state funding would be necessary.
- **Does Recommendation Require Statutory or Rule Change:** Yes. A new statutory process would need to be adopted similar to that in place from 1950 to 1990.
- **Other considerations:** A stable funding base is the lynch pin to developing a new public school finance system for Texas. Without it, biennial funding requirements will continue to be set by the political process rather than taking into account biennial needs.
- **How Recommendation Resolves Issue:** See above.
- **How would Recommendation's Success be Measured:** By biennial studies.

RECOMMENDATION EIGHT

Summary of the Issue: CONFRONTING THE MAJOR STUDENT PERFORMANCE CHALLENGES FOR THE 21ST CENTURY

Summary of the Recommendation: Modify the weight for Bilingual Education based on a concentration factor.

Issue Background Information:

The funding formulas make use of weightings for special categories of students, in recognition of the additional costs of providing an adequate education to students. The count of students in 2017-18 in each of several special categories is shown in Table 1.

TABLE 1: Selected Educational Variables for 2017-18, State Totals

	All Students	Bilingual/ELL Students	Comp. Education Students	Economically Disadvantaged Students	Gifted & Talented Students	Special Education Students	Dyslexia Students	Career & Technology Students	% At Risk Students
NUMBER	5,399,682	1,035,072	3,507,107	3,168,294	427,021	498,320	169,043	1,392,261	2,739,303
PERCENT	100%	18.8%	64.95%	58.68%	7.91%	9.23%	3.13%	25.78%	50.73%

Source: PEIMS data analyzed by Moak Casey & Associates

On June 14, 2018, TEA released the statewide results for the spring 2018 administration of the STAAR tests. Except for English I, statewide the majority of students taking the tests met the grade level standard. The results are significantly different for economically disadvantaged, special education, or bilingual/ESL/limited English proficient students. Table 2 displays the percentage of students meeting the grade level standard for the English I, English II, Algebra I, Biology, and U.S. History tests. Under state law, students must pass these tests to receive a high school diploma, except in special cases. For all of the five tests, the percentage of students who are classified as economically disadvantaged, special education, or bilingual/ESL/limited English proficient who met the standard was less than the percentage of students who are not in these special needs categories.

TABLE 2: Spring 2018 Performance on STAAR Percent of Students Who “Meet Standard”

District	English I	English II	Algebra I	Biology	U.S. History
STATE TOTALS (Contains Charters)	44%	50%	56%	60%	72%
Economically Disadvantaged (Contains Charters)	33%	38%	48%	49%	63%
Non-economically Disadvantaged (Contains Charters)	61%	67%	69%	75%	82%
Special Education (Contains Charters)	6%	8%	14%	17%	27%
Non-Special Education (Contains Charters)	48%	54%	61%	65%	75%
Bilingual/ESL/Limited English (Contains Charters)	9%	8%	32%	23%	32%
NON-Bilingual/ESL/Limited English (Contains Charters)	48%	54%	57%	64%	75%

Source: Texas Education Agency data released June 14, 2018 analyzed by Moak Casey & Associates

One of the keys to increasing educational funding to meet the challenges that face Texas schools is the Bilingual Education Allotment. Although the bilingual education weight has not been changed since its original enactment in 1984, the amount of funds distributed through the program has been modified on several occasions. This section will describe the current method of distribution and provide information on the methodology used to allocate funds.

One of the first targeted student funding created by the Texas Legislature was for bilingual education. In 1975, the U.S. Supreme Court upheld a lower court ruling that found that “failure to consider and adapt instruction for children who do not speak English violates federal equal protection requirements.” The state responded by creating a per pupil allocation for students enrolled in a bilingual or English as Second Language (ESL) program.

The bilingual allotment is calculated by multiplying the count of each student in average daily attendance in a bilingual or special language program by 0.1 times the adjusted basic allotment. Over the past decade, the bilingual allotment has been increased only through changes in the basic allotment, which serves as the base funding level for the multipliers known as “weights” in the Foundation School Program (FSP). No other adjustment has been made to the weight.

Expenditures from the bilingual allotment are divided into two categories: direct and indirect costs. Of the total, a minimum of 52 percent must be spent on direct program costs, and up to 48 percent may be spent on indirect costs. All funds allocated for bilingual education must be spent for providing bilingual or special language programs, and direct costs must be accounted for and reported under the Texas Education Agency’s (TEA) accounting procedure. Indirect expenditures do not have to be reported.

State law provides that any district with an enrollment of 20 or more students of limited English proficiency in any language classification in the same grade level must offer a special program for that language. Several districts have reported having to offer bilingual education in as many as 20 different languages. This points out that a “concentration” factor may be needed in a funding formula.

Most districts are spending more of the allocation than required to meet the needs of bilingual children. Texas aims for each of these students to be college and career ready, without respect to how poorly or well students in a similar demographic group perform in other states.

English Language Learners (ELL) students face myriad obstacles to educational attainment that are distinct from poverty-related educational needs. ELL students face additional problems such as lacking the cognitive academic language needed for school readiness, anxiety issues at not knowing the language primarily spoken in school, cultural issues that inhibit them from asking questions, and more. Furthermore, this group of students has a wide range of characteristics and abilities related to their proficiency in English and their native language and related to their general educational background and content knowledge. Some ELL students were born in the United States, others are immigrants who have been in the United States for several years, and others have just arrived in the country. ELL students who arrive in the United States with limited literacy in their native language and an interrupted school experience need much higher levels of support than those who possess strong native-language literacy skills.

An added complexity to educating ELL students is that many schools have experienced an increase in the number of refugee students. Not only are schools required to address their English acquisition skills, but many have “severe emotional and psychological trauma, which provides a barrier to education if it is not addressed.”

Despite these added challenges, ELL students are expected to meet the same college and career-readiness standards as non-ELLs. Unfortunately, many ELL students are not. (See Table 2.) The resources provided by the state for ELL students fall far short of the additional costs incurred by school districts to provide reasonable opportunities for all ELL students to achieve the state standards and achieve their full potential.

The proposed alternatives to the current structure of bilingual education financing are based on issues that were explored over the last decade. This research presented substantial evidence that the relationship between language proficiency and educational performance was not only strong, but overwhelming. Other studies also have arrived at the conclusion that funding for bilingual or alternative language education must be significantly higher than funding for the regular education program if substantial progress is to be made in reducing the language-based gaps in educational performance found in public schools throughout the state.

The Education Commission for the States (ECS) summarized funding mechanisms used by the states for programs for English Language Learners. ELL is provided for in funding formulas in three ways: weights (like Texas uses), dollar amounts, and teacher allocations. Weights are applied to all school districts by multiplying an amount per student through an additional weight. Weights may vary depending on needs, as judged by language proficiency exams or density of students within a district.

Table 3 displays the weights used by those states that include additional funding through the base formula. Weights vary from 0.096 in Kentucky to 0.99 in Maryland.

TABLE 3: Weights Used by States for Bilingual Education

State	Weight
Alaska	20%
Arizona	11.5%
California	20%
Connecticut	15%
Florida	14.7%
Hawaii	18%
Iowa	22%
Kansas	39.5%
Kentucky	9.6%
Louisiana	22%
Maine	50% to 70%, depending on density of ELLs
Maryland	99%
Massachusetts	7% to 34%, depending on grade level
Missouri	60%
Nebraska	25%
New Hampshire	50%
New Jersey	50%

New Mexico	50%
New York	50%
North Dakota	20% to 30%, depending on students' language ability
Oklahoma	25%
Oregon	50%
South Carolina	20%
South Dakota	25%
Texas	10%
Vermont	45%

Source: Education Commission of the States

- **Recommendation and How Recommendation Resolves Issue:**
 8. Bilingual Education – Modify the bilingual education weight to include a concentration factor by varying weight from .15 to .25 depending on the percentage of ELL students in the district. Higher student performance levels are anticipated with additional funding.
- **Recommendation Rationale:** Performance levels of ELL students are substantially lower in Texas than most other states.
- **Recommendation Cost or Cost Savings:** \$488.1 million increased cost in the Foundation School Program.
- **Recommendation Pros:** Anticipated increase in performance levels of ELL students.
- **Recommendation Cons:** Additional costs.
- **Does Recommendation Require Statutory or Rule Change:** Modifications to §42.153 and Subchapter B of §28 (TEC).
- **Other considerations:** None
- **How Recommendation Resolves Issue:** See above.
- **How would Recommendation's Success be Measured:** Increased performance levels of ELL students.

RECOMMENDATION NINE

Summary of the Issue: CONFRONTING THE MAJOR STUDENT PERFORMANCE CHALLENGES FOR THE 21ST CENTURY

Summary of the Recommendation: Modify the weight for Compensatory Education based on a concentration factor.

Issue Background Information:

The funding formulas make use of weightings for special categories of students, in recognition of the additional costs of providing an adequate education to students. The count of students in 2017-18 in each of several special categories is shown in Table 1.

TABLE 1: Selected Educational Variables for 2017-18, State Totals

	All Students	Bilingual/ELL Students	Comp. Education Students	Economically Disadvantaged Students	Gifted & Talented Students	Special Education Students	Dyslexia Students	Career & Technology Students	% At Risk Students
NUMBER	5,399,682	1,035,072	3,507,107	3,168,294	427,021	498,320	169,043	1,392,261	2,739,303
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Source: PEIMS data analyzed by Moak Casey & Associates

On June 14, 2018, TEA released the statewide results for the spring 2018 administration of the STAAR tests. Except for English I, statewide the majority of students taking the tests met the grade level standard. The results are significantly different for economically disadvantaged, special education, or bilingual/ESL/limited English proficient students. Table 2 displays the percentage of students meeting the grade level standard for the English I, English II, Algebra I, Biology, and U.S. History tests. Under state law, students must pass these tests to receive a high school diploma, except in special cases. For all of the five tests, the percentage of students who are classified as economically disadvantaged, special education, or bilingual/ESL/limited English proficient who met the standard was less than the percentage of students who are not in these special needs categories.

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Source: Texas Education Agency data released June 14, 2018 analyzed by Moak Casey & Associates

The key to increasing educational funding to meet the challenges that face Texas schools is the Compensatory Education Allotment. This allotment is the largest of the multiple allotments made within the Texas Foundation School Program (FSP). Texas provides compensatory education funding for children who are at some economic disadvantage in recognition of the fact that children living in poverty or in homes with less than the average income require additional resources to be successful in school. For purposes of state funding through the Foundation School Program (FSP), the definition of students counted in compensatory education is “the average daily attendance for the **best 6 month average of free and reduced price eligible students for the prior federal fiscal year October 1 through September 30.**” This is not the same definition used in the count of students identified as “economically disadvantaged.” Because it is the count from the prior year, percentages may be greater than 100.

Although the compensatory education weight has not been changed since its original enactment in 1984, the amount of funds distributed through the program has been modified on several occasions. This section describes the current method of distribution and provides information on the methodology used to allocate funds.

The compensatory education allotment for each student who is classified as educationally disadvantaged is calculated by multiplying 0.2 times the adjusted basic allotment. For the purposes of this calculation, the number of educationally disadvantaged students is determined by averaging the best six months’ numbers of students eligible for enrollment in the national school lunch program of free or reduced-price lunches for the preceding school year. In other words, the count of students is students in the preceding school year.

Funds allocated for compensatory education must be used to fund supplemental programs and services that are designed to eliminate any disparity between educationally disadvantaged students and other students in performance on assessment measures, in high school completion. [See § 42.152 and § 29.081(TEC).] Funds may be used for compensatory, intensive, or accelerated programs (for disadvantaged students) supplementary to the regular education program, and may be used for student evaluations, instructional materials and supplies, salaries of teachers, for programs for students with dyslexia, or for mentoring programs. In addition, compensatory education funds may be used in any school that is classified a “Title I” school, i.e., campuses at which at least 40 percent of students are educationally disadvantaged. Just as with Bilingual funding, at least 52 percent of the expenditures must be for direct costs, and up to 48 percent may be for indirect costs.

Districts are required to provide compensatory education programs to any student who has not performed satisfactorily on the STAAR tests, who is of limited English proficiency, is homeless, or who is otherwise at risk of dropping out of school.

Research confirms the continuing strong relationship between academic performance and family income. The 2015 annual report completed by ACT and the National Council for Community and Education Partnerships confirms that students from low-income backgrounds continue to lag in college readiness. Half of the low-income students tested failed to meet any of the four ACT college readiness benchmarks, compared to 31 percent of all students. Other research has examined funding approaches to increase compensatory education allocations. Several states also have examined the potential of increasing allocations in this area.

Student performance data on the state’s accountability system reveal wide gaps between economically and non-economically disadvantaged students. (See Table 2.) These gaps are not narrowing and will not be narrowed, much less closed, without adequate funding for economically disadvantaged students.

Research also has shown that, as the percentage of economically disadvantaged students in a district increases, the percentage of students passing [state assessment] exams decreases. Notably, the pattern of lower performance appears for both the economically disadvantaged and non-economically disadvantaged student populations in schools with higher percentages of economically disadvantaged students. For districts in South Texas with a higher than average percentage of students that are economically disadvantaged, this finding is especially worrisome as it shows the systemic challenges these students face in meeting state-wide standards compared to students in districts with lower percentages of economically disadvantaged students.

Even one of the state’s expert witnesses in the school finance case acknowledged “that the concentration of economically disadvantaged students within a district can have a significant negative impact on student learning.” The court claimed that “under nearly every student performance metric, economically disadvantaged ... students chronically underperform. This is especially evident when comparing their performance to their non-economically disadvantaged ...classmates. In many cases, the achievement gaps have worsened since [the last school finance lawsuit before the Texas Supreme Court], at the same time the bar has been raised by the State. Those students, taken on average and as a whole, are not achieving the standards established by the State – much less their full potential. Many do not even graduate high school, and a large number of those who do are not graduating college and career ready.” Economically disadvantaged students also are more likely to be retained a grade than non-economically disadvantaged students.

While the statutory school finance formulas reflect the Legislature’s acknowledgement that economically disadvantaged students cost more to educate, the result of the funding system does not actually send more dollars to districts with higher concentrations of economically disadvantaged students.

National Bureau of Economic Research

...models reveal that a 20 percent increase in per-pupil spending each year for all 12 years of public school for children from poor families leads to about 0.9 more completed years of education, 25 percent higher earnings, and a 20 percentage-point reduction in the annual incidence of adult poverty...

The proposed alternatives to the current structure of compensatory education financing are based on issues that were explored in the school finance litigation known as Texas Taxpayer v. Williams. This litigation research presented substantial evidence that the relationship between family income and educational performance was not only strong, but overwhelming. In addition to the research presented in the case, other studies have also arrived at the conclusion that funding for compensatory or alternative education must be significantly higher than funding for the regular education program if substantial progress is to be made in reducing the income-based gaps in educational performance found in public schools throughout the state.

Among the states, 41 provide funding for low income/compensatory/at risk students. Weights are used by 24 states, varying from 2.5 percent to 100%, and are shown in Table 6. Georgia, Illinois, Kansas, Minnesota, and New Jersey use a concentration factor where the weight increases as the percentage of low income/compensatory/at risk increases.

TABLE 6: Weights Used by States for Compensatory/Low Income/At Risk

State	Weight
Georgia	30.92% to 47.17%
Hawaii	10%
Illinois	10% to 70% depending on concentration
Indiana	33%
Iowa	25%
Kansas	45.6% with additional funding if density is >35% of enrollment
Kentucky	15%
Louisiana	22%
Maine	15%
Maryland	97%
Massachusetts	25% to 33%, depending on grade level
Michigan	11.5%
Minnesota	50% to 100% depending on density
Mississippi	5%
Missouri	25%
Nebraska	5% to 30% depending on family income
New Hampshire	50%
New Jersey	47% to 57% depending on density
New York	Variable weight based on cost of education
North Dakota	2.5%
Oklahoma	25%
Oregon	25%
Rhode Island	40%
Texas	20%
Vermont	45%

Source: Deborah Verstegen's State of the States 2014-15

- **Recommendation and How Recommendation Resolves Issue:**
 9. Compensatory Education – Modify the weight for compensatory education by using a concentration factor varying from .225 to .275 based on percentage of low-income students in the district. Research has shown that the cost of providing the additional services to at risk or low-income students increases as the percentage of such students in the district increases.
- **Recommendation Rationale:** See background information.
- **Recommendation Cost:** \$1.126 billion increase.
- **Recommendation Pros:** Anticipated increase in student performance.
- **Recommendation Cons:** Additional cost.
- **Does Recommendation Require Statutory or Rule Change:** Modifications to §42.152 and Subchapter C of §28 (TEC).
- **Other considerations:**
- **How Recommendation Resolves Issue:** See background information.
- **How would Recommendation's Success be Measured:** Student performance results.