School Finance Reform: An Update

One year ago, the Supreme Court of Texas declared the state school finance system unconstitutional and ordered the legislature to make significant changes in education finance. In its decision, the court found that "because of the disparities in district property wealth, spending per student varies widely." The court's wording implies that eliminating disparities in wealth would lead to a more equal distribution of expenditures. However, the authors' research indicates that even a reform that completely equalizes tax bases per pupil would not generate a substantially more equal distribution of educational expenditures.

Equalizing tax bases would not equalize expenditures because school districts with roughly similar tax bases per pupil may choose widely dissimilar tax rates. For example, during the 1988–89 school year Kress Independent School District (ISD) chose a tax rate that was almost three times greater than the tax rate that Broaddus ISD chose, yet the authors' analysis indicates that the two school districts had effectively equal tax bases per pupil.

School districts with the same tax base choose different tax rates for several reasons, primarily because of differences in the populations served by the district. Some parents stress education more strongly than other parents and are willing to tax themselves to pay for it. Further, in a reflection of local tastes, some school districts focus on vocational programs, while others focus on college-bound programs. Local expenses depend on the program offered.

To examine whether unequal property values per pupil cause an unequal distribution of educational expenditures, the authors construct a hypothetical finance reform that, in effect, equalizes property values across school districts.[1] The analysis relies on current tax rates as estimates of future tax rates. Undoubtedly, some school districts would decrease tax rates in response to a base change while other districts would increase tax rates, but the evidence does not indicate which districts may change rates or by how much.

The authors found that without systematic changes in local tax rates, reform that equalizes property values would not yield a substantially more equal distribution of educational expenditures than the system used during the 1988–89 school year.[2] Therefore, while removing differences in property wealth from the school finance formula would make educational opportunities more fair, differences in school district preferences would continue to make educational expenditures unequal.

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[1] The authors assume the reform is a guarantee program with recapture. (For a complete discussion of guarantee programs, see "School Finance Reform in Texas" in the May 1990 issue of *The Southwest Economy.*)

[2] The authors use a Gini coefficient to measure the degree of inequality of school spending across Texas school districts. A Gini coefficient of 1 would indicate a distribution of expenditures that is completely unequal; a Gini coefficient of 0 would indicate a distribution that is perfectly equal. Both the hypothetical reform and the actual 1988–89 finance formula yield Gini coefficients of 0.15, which indicates that a reform that equalizes tax bases will not lead to a more equal distribution of educational expenditures.

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