A Cost Analysis for Texas Public Schools

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2008 Update

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A Cost Analysis for Texas Public Schools–2008 Update

Texas public schools spent $46.1 billion from all fund sources in 2006-07 to educate 4.5 million students[1]. Of this, $6.2 billion was spent on capital outlay, $4 billion was related to paying the principal and interest on debt, and $35.2 billion was spent on "basic educational costs."[2] The remaining expenditures include other operating costs such as payments into a shared service arrangement, payments into a Tax Increment Financing arrangement, and administrative costs associated with chapter 41 status. This report is intended to describe the current condition of the Texas public school finance system with respect to adequacy, equity, and capacity; explain how school districts are allocating resources; and discuss changes in public school expenditures over the past five years.

The 2006-07 data reveal that Texas still needs to improve in the areas of adequacy, equity, and capacity.

- State funding continues to lag behind the national average.
- Revenue has not kept pace with inflationary pressures on a per-student basis, much less provided additional resources for improvements to school outcomes.
- Systemic inequity persists in spite of formula modifications, and differences in student outcomes appear to be related to this systemic inequity.
- The system has little capacity left to enable schools to create programs to meet local demands, rising costs, and changing educational expectations.

Each year, districts are required to account for expenditures using codes to indicate the object, function, and fund of expenditure allowing the analysis of what was purchased, its purpose, and the source of revenue.

School districts appear to be allocating resources in much the same way as in 2003-04, which was the year upon which the last version of this report was based. As in past years, personnel continued to drive educational costs in 2006-07 when school districts spent 80 percent of all operating funds on salaries and benefits. The bulk of personnel-related expenditures (62 percent of all funds) went to pay for classroom teachers. Teachers' share of the personnel budget rises to 65 percent when limiting the analysis to the general fund, primarily because the bulk of the cost of food service is not part of the general fund. Because personnel costs are such an integral part of school budgets, an increase or decrease in school district revenue is likely to result in changes in staff salaries. Further, although teachers are certainly the staff most directly associated with educating Texas' large public school population, a significant number of other staff work directly with students on a day-to-day basis in the public schools.

In terms of the purpose of educational expenditures, the largest share of dollars goes to instruction (61 percent)[3]–also unchanged since 2003-04. Included in the area of instruction are the salaries and benefits costs of 299,000 teachers and 56,000 instructional aides who work in Texas classrooms. The cost associated with 4,800 librarians, library materials, and staff development is also included in the area of instruction.

District operations–including facilities maintenance and operations, transportation, food service, data processing, and security–accounts for the next largest share at 21 percent. Included in this area is the cost of nearly 49,000 auxiliary staff who work maintaining school buildings and 22,000 full-time equivalent staff who drive and maintain school buses. Utilities and fuel costs are also a significant portion of costs included in this area.

Instructional support accounts for the third-largest share of the all-funds budget (15 percent). Funded in this area are 6,800 campus principals, 7,900 assistant principals, 10,000 school counselors, and 5,300 school nurses.

Central administration accounts for the smallest share of the all-funds budget at 3 percent. Superintendents, associate superintendents, business managers, and human resources directors are funded in this category. Also funded here is the cost of tax appraisal and collection, legal services, and audit and accounting services.

Educational expenditures have not outpaced inflation, on a per-student basis, since 2001-02. However, spending has increased by $1,116 per student (in dollars that have not been adjusted for inflation). This growth has largely gone to fund instructional costs, particularly salary and benefits increases for classroom teachers. Operations costs have also grown, particularly with regard to utilities and transportation.

This report provides data regarding the operation of the Texas school finance system, expenditure patterns among school districts, and a historical look at school district cost patterns. Data were obtained from the Texas Education Agency Actual Financial database for 2006-07.

A Progress Report on Texas Public School Finance

School finance is commonly discussed in terms of three values: adequacy, equity, and capacity. Policy makers share a constitutional responsibility to ensure that sufficient resources are available to meet the educational expectations of the state, that local school districts with varying levels of property wealth have a similar ability to access this revenue, and that school districts have enough remaining capacity to meet increasing cost pressures and to provide for meaningful levels of local supplementation.

Texas lags other states in per-student spending. Further, although our educational aspirations are growing, at least as reflected in increased requirements for public school students, spending has not kept pace with inflation over the past several years. Our state has made formula modifications that were designed to improve the equity of the finance formulas, but the school finance system does not use those formulas in its actual operation, leaving some school districts with significantly less to spend than others. Finally, school districts have little available room to increase revenue by altering tax rates.

Adequacy

Article 7 of the Texas Constitution requires the legislature to provide adequate educational resources for all Texans:

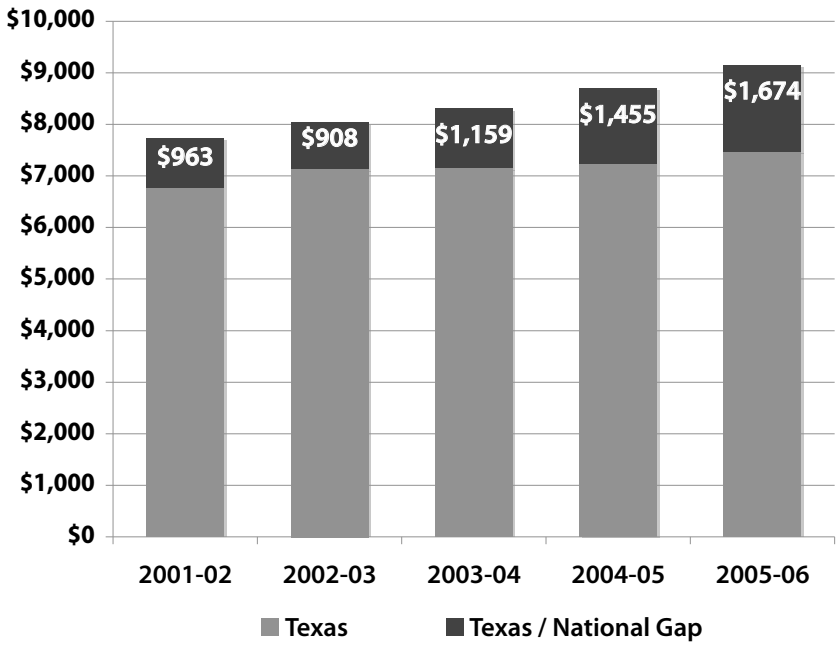
> *"The general diffusion of knowledge being essential to the preservation of the liberties and rights of the people, it shall be the duty of the Legislature of the State to establish and make suitable provision for the support and maintenance of an efficient system of public free schools."*

Texas has been raising expectations for schools and students over the last several years as the state has focused on preparing students to compete in a 21st-century global economy. To that end, the State Board of Education is embedding college and workforce readiness standards into the required Texas curriculum. Students are now expected to take four years of math and science in order to graduate under the recommended high school program, and they will soon have to pass end-of-course examinations at the high school level, which should ensure a standard level of rigor across the state.

Though determining a specific level of funding that enables all districts to meet these goals is a challenge, some easily constructed measures can indicate whether Texas is on the right track. Such measures include comparisons of Texas to the national average, analyses of school district revenue over time compared to inflation, and comparisons of average target revenue with the target revenue[4] of exemplary and recognized districts.

Texas has under-spent the national average in each of the five years between 2001–02 and 2005–06, and except for the 2002–03 school year when the legislature provided additional revenue for school employee benefits, that gap grew larger every year during this timeframe. The growing gap in per-student educational expenditures between Texas and the national average can be seen in **Exhibit 1.**

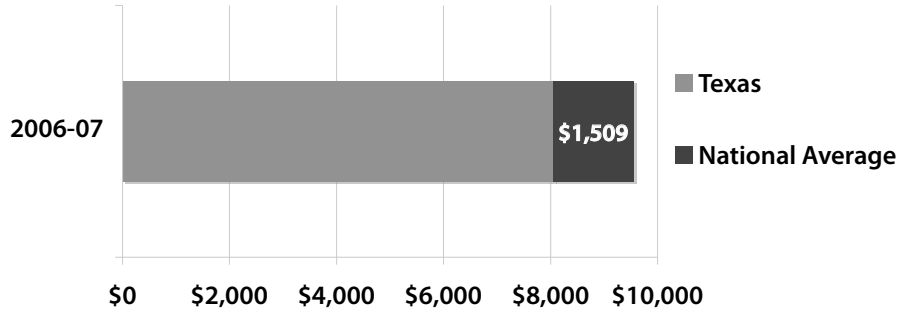
Exhibit 1.
Current Expenditures per Student in Average Daily Membership: 2001-02 through 2005-06



Source: NCES Revenues and Expenditures for Public Elementary and Secondary Education, various years

Though the National Center for Educational Statistics does not yet provide data more recent than the 2005-06 school year, the National Education Association provides estimates of state level expenditures. According to its estimates, Texas continued to lag behind the national average in 2006-07, the first year after the passage of school finance modifications and property tax reductions from the 79th Legislature. **Exhibit 2** indicates that school finance changes made prior to the 2006-07 school year may reduce the gap slightly, but a significant gap was projected to remain.

Exhibit 2.
Estimated Current Expenditures per Enrolled Student: 2006-07



Source: NEA Rankings and Estimates 2007. Available online: http://www.nea.org/edstats/images/07rankings.pdf

…Texans are getting more value from their educational dollars than their counterparts in many other states.

Although Texas lags behind the nation in expenditures per student, our state meets or exceeds the national average on the National Assessment of Educational Progress (NAEP) in reading and mathematics in both the 4th and 8th grade levels. Given our state's lower than average expenditures, **Exhibit 3** suggests that Texans are getting more value from their educational dollars than their counterparts in many other states. Data disaggregated by ethnicity for the NAEP also shows performance levels that exceed the national average.

Exhibit 3.
2007 Average NAEP Scale Scores in Reading and Mathematics

Subject Area	Grade Level	Texas	National Average
Mathematics	4	242	239
	8	286	280
Reading	4	220	220
	8	261	261

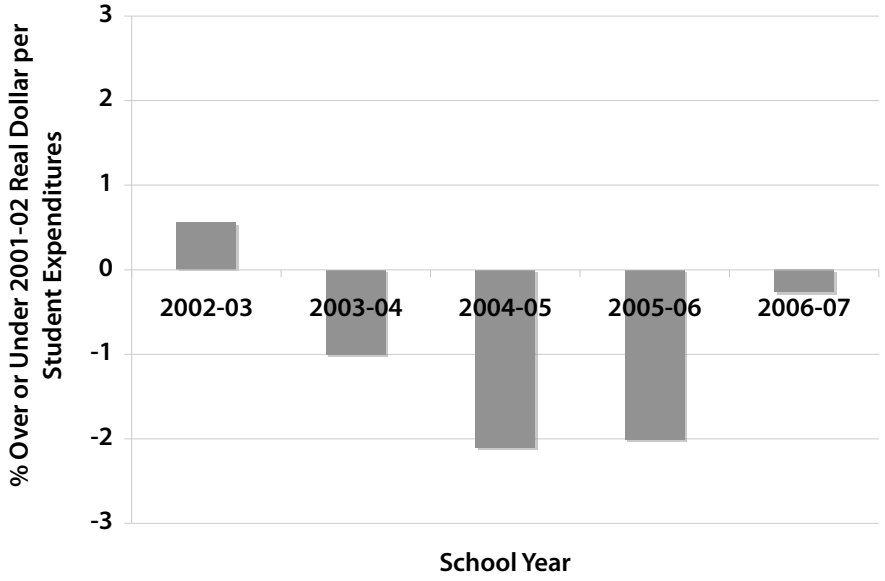
However, Texas continues to have significant performance issues that need to be addressed. In 2007-08, for example, 55 percent of the state's public school students qualified for the federal free and reduced-priced lunch program, but only 59 percent of those students passed all sections of the state exit examinations on the first attempt, and only 69 percent completed high school within four years. Using either a college-ready proxy on the exit level TAKS assessment or the ACT or SAT, state Academic Excellence Indicator System reports for 2007-08 indicate that only about a third of Texas students graduate ready for college level work in both reading and mathematics. Taken as a whole, **Exhibit 4** indicates that significant improvements are needed in the public school system.

Exhibit 4.
Academic Excellence Indicator System Data: 2007-08

	Economically Disadvantaged	At-Risk	State Average
Percent of Total Population	55	48	100
Percent Passing All Tests—Grade 11	59	52	72
Completion Rate	69	65	78
Percent Completing Advanced / Dual Enrollment Courses (prior year)	16	12	22
College-Ready Graduates in Both English/Language Arts and Math	21	12	37

On a per-student basis, spending lags below levels needed to keep pace with inflation since 2001-02. Texas schools spent $21 per student less in 2006-07 than necessary to have kept pace with real-dollar 2001-02 spending levels and $65 less than 2002-03 levels. During this same time-period, Texas changed testing programs, added assessments for science and social studies, and embarked on a program to make the recommended high school program (which now requires four years of mathematics and science) the default graduation program for all students. Districts are now trying to prepare for end-of-course assessments, expanded mathematics and science course opportunities, and tougher college readiness standards soon to be embedded into the Texas curriculum. As we increase expectations for students, we must consider what additional academic supports to put in place if we do not want to exacerbate an already significant problem in the state's graduation rates. **Exhibit 5** suggests that increased inflationary costs may be outstripping our state's investment in educational improvement efforts.

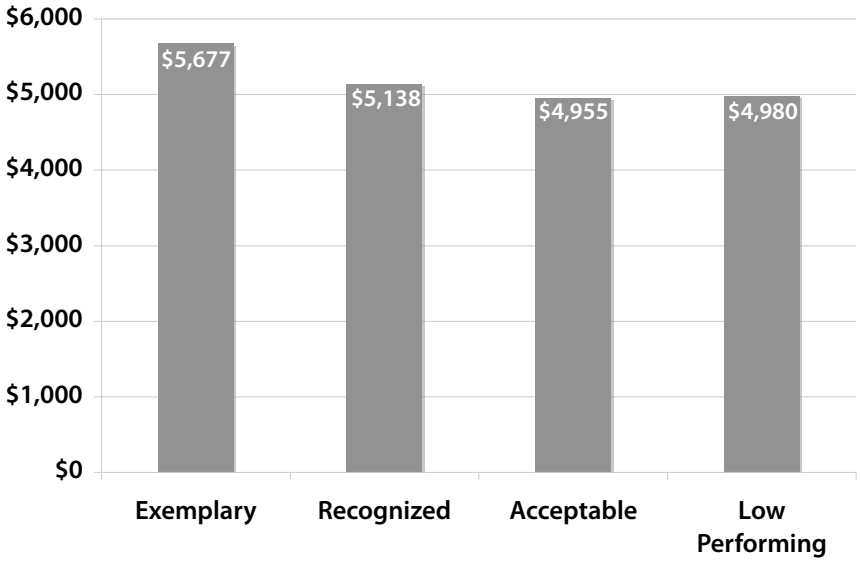
Exhibit 5.
Percent Change in Inflation Adjusted per Student Basic Educational Spending Compared to 2001-02



Source: PEIMS Actual Financial Database: Object codes 6100 through 6499, basic educational cost functions. Expenditures reported in 2007 dollars using Bureau of Labor Statistics Employment Cost Index.

There is evidence that access to revenue affects educational outcomes in Texas. Under the current school finance structure, district target revenue comprises the bulk of available state and local revenue for districts. Districts with higher guaranteed target revenue amounts tend to out-perform other districts. **Exhibit 6** shows that, on average, districts that were rated exemplary had access to approximately $700 more per WADA than those rated acceptable or low performing in 2006-07.

Exhibit 6.
Average Target Revenue by Accountability Rating: 2006-07



Source: TEA-provided target revenue per WADA and accountability data available online: www.tea.state.tx.us

…on average, districts that were rated exemplary had access to approximately $700 more per WADA than those rated acceptable or low performing in 2006-07.

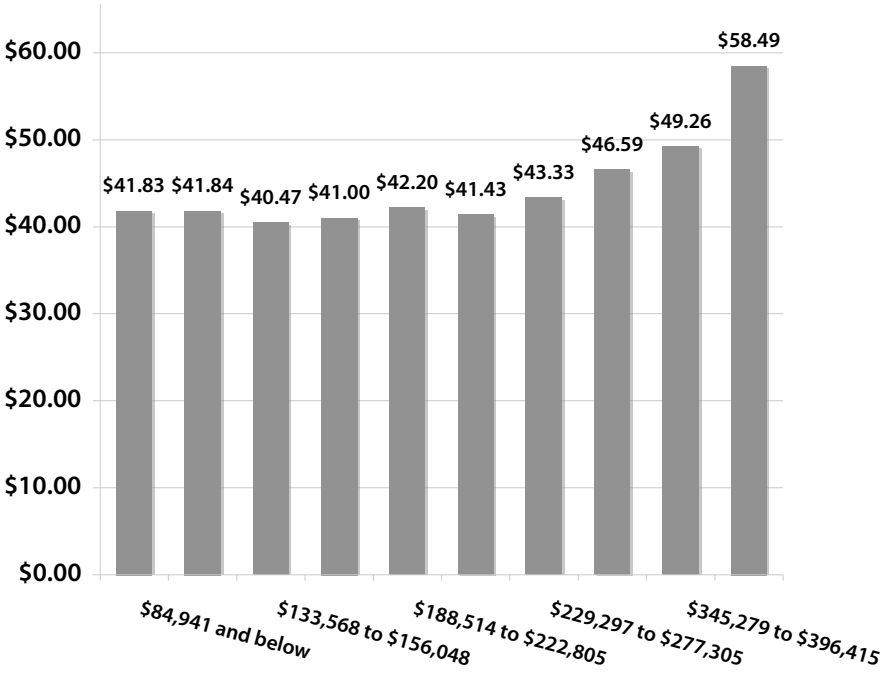
Equity

Texas has long measured school finance equity against a standard requiring access to similar revenue for similar levels of tax effort, given similar cost structures. The Texas Supreme Court has relied on the state constitutional requirement for an "efficient" system of schools to demand an equitable funding structure.

For more than a decade, Texas used the construct of the percentage of students within an equalized funding system as a measure of school finance equity (that is to say, those that have property wealth levels lower than the levels necessary to generate state guaranteed revenue). Some districts were able to generate more revenue than was provided by the system, but so long as the number of students outside the system did not become too significant, and so long as the state's recapture system kept those districts from being able to spend at levels too far from their non-wealthy counterparts, the system was deemed constitutional. However, this construct ignored the facilities side of the school finance equation. In addition, over the years the state has put increasing levels of resources into programs that are not part of the equalized system. These programs include across the board per WADA or per teacher allotments as well as special grant programs. Further, the inception and reliance on the "target revenue hold-harmless provision" along with the failure to increase the formula yields as the state has reduced local property tax rates have significantly eroded the equalizing effects of the underlying formulas put in place prior to the 2006-07 school year. The bulk of school district revenue is now determined based on a district target rather than a set of funding formulas. This target is based on what districts were able to receive under old law in a particular prior year. Consequently, it is important to examine actual revenue, rather than formula components in a particular year, to measure the efficiency of the system.

Exhibit 7 below illustrates variations in the yield per penny of tax effort per student in weighted average daily attendance that is available to districts with various levels of property wealth in 2006-07. The data include all state and local funds, adjusted for recapture, and an effective tax rate is used based on total tax collections divided by current year property values. Among the first six deciles of wealth, there appears to be little relationship between wealth and available revenue. However, districts in the highest property wealth deciles have the ability to generate more revenue than their lower wealth counterparts. On average, districts with wealth levels above $396,416 generate $16.66 per penny per WADA more than their counterparts in the lowest decile. Since the average tax rate for 2006-07 among the lowest wealth districts (including district I&S tax rates) was $1.43[5], this difference amounts to $2,382 per student in weighted average daily attendance. This difference is spread between operating and facilities related funds. Exhibit 7 shows the variations in available revenue per penny of tax effort per student in weighted average daily attendance in 2006-07.

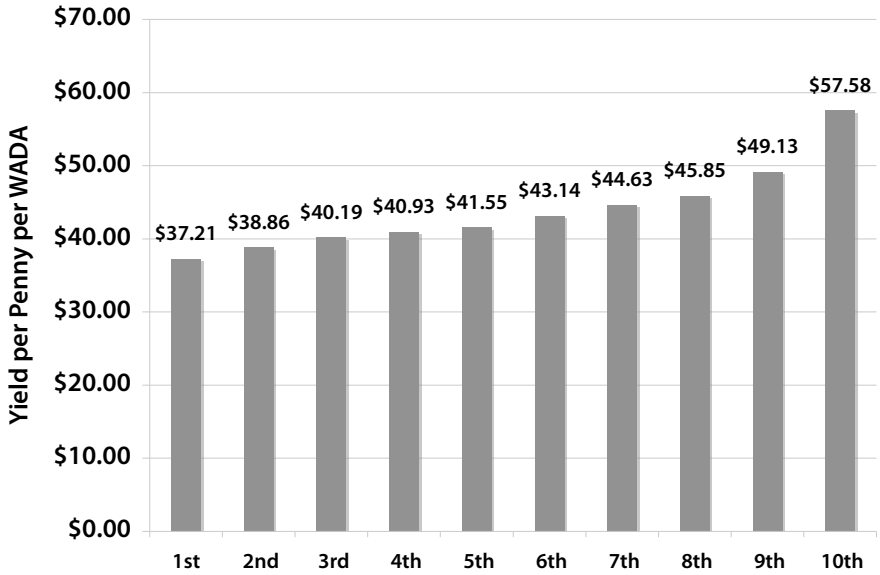
Exhibit 7.
Yield per Penny of Tax Effort by Decile of Property Wealth per WADA: 2006-07



Source: 2006-07 PEIMS Actual Financial Data and TEA FM Database. Revenue includes all state and local funds (both formula and nonformula, operations as well as facilities).

As is indicated by **Exhibit 8**, property wealth is one source of inequity in the finance system, but not the only one. When school districts are sorted into deciles based on yield per penny, there is a $20.37 difference between the highest and lowest levels of available revenue. Given the average tax rate among the lowest yield districts of $1.59 per $100 of valuation, this translates into an average difference in available revenue of $3,239 per WADA.

Exhibit 8.
Yield per Penny of Tax Effort by Decile of Yield: 2006-07



Source: 2006-07 PEIMS Actual Financial Data and TEA FM Database. Revenue includes all state and local funds (both formula and nonformula, operations as well as facilities).

A set of standard measures is often used to determine levels of equity within a system, and these measures can be easily applied to district revenue per penny of tax effort per student in weighted average daily attendance. The restricted range (the difference between the values at the 5th and 95th percentiles of yield per penny WADA) is $15.87. That amount is up from 2001-02 when the restricted range was $8.95. However, it is expected that the difference between values at the upper and lower ends of the distribution will grow as overall yields grow. The federal range ratio compensates for this by looking at the difference in percentage terms. In 2006-07, the district at the 95th percentile of yield per penny was able to generate 42 percent more revenue per penny of tax effort than the district at the 5th percentile. The increase from 37 percent in 2001-02 suggests some increase in overall inequity.

The McCloone and Verstagen indices allow us to examine where system inequities lie. The McLoone index measures equity among the districts with the lowest yield per penny of effort. The sum of the median value is compared to the yield those same districts could generate if they were able to generate a yield equal to the median value. In this case, these districts are able to generate 94.2 percent of the funding that would be available to them if they were funded at the median level in 2006-07. That is up from 91.7 percent in 2001-02, suggesting that our system is doing a slightly better job of bringing districts at the bottom end of the distribution up toward the median. The Verstagen index examines equity at the upper end of the distribution. Here, Texas' performance has fallen. Districts that can generate more than the median yield per penny of tax effort per WADA are able to generate almost 20 percent more than the district at the median level. That compares to roughly 14 percent in 2001-02. **Exhibit 9** indicates that, with the exception of the McLoone index, most equity measures show a system that is less equitable than it was in 2001-02.

Exhibit 9.
Standard Equity Statistics Applied to the Yield per Penny of Tax Effort: 2006-07

Measure	Value 2001-02	Value 2006-07
Restricted Range	$8.95	$15.87
Federal Range Ratio	0.37	0.42
McCloone	.917	0.942
Verstagen	.860	0.809

Capacity

The Texas Constitution prohibits a statewide property tax in Article 8 Section 1(e). The Texas Supreme Court has interpreted this section to prohibit a de facto state property tax in which local school districts are left without meaningful local discretion to set tax rates. Consequently, the school finance system needs to maintain sufficient capacity to enable local districts to meet state requirements and to fund programs locally to meet community expectations. If too many districts must tax at or near the state authorized tax rate limitation just to meet minimum state expectations, then the state is in jeopardy of running afoul of this provision, as it did in 2005.

In 2007-08, 97 school districts were already taxing at the maximum authorized tax rate for maintenance and operations of $1.17 per $100 of valuation, and an additional 522 were at or above $1.04. Districts below $1.04 will be required to hold a tax rate election if they wish to levy a higher rate. **Exhibit 10** shows the number of districts taxing at or near the maximum allowed tax rates.

Exhibit 10.
Number of Districts at Various M&O Tax Rates: 2007

Tax Rate	# of Districts
More than or equal to $1.17	97
More than or equal to $1.04 and less than $1.17	104
Equal to $1.04	418
More than or equal to $1.02 and less than $1.04	263
More than or equal to $1.00 and less than $1.02	46
More than $1.00	98

Source: Comptroller's Property Tax Division. A handful of districts have authority to exceed the $1.17 tax rate cap.

Overall, the system has remaining capacity to generate 8 percent additional revenue if all districts were to increase rates to the maximum statutory limitation.

But the revenue capacity remaining in the system is as important as the adopted tax rate. As indicated in **Exhibit 11,** only 8 percent of students were in a district that had more than 10 percent capacity remaining within the current system. As increasing numbers of school districts seek voter approval to hold tax rate elections, more and more students will attend school in a district with little or no ability to generate additional revenue to meet rising costs or changing community expectations. Overall, the system has remaining capacity to generate 8 percent additional revenue if all districts were to increase rates to the maximum statutory limitation.

Exhibit 11.
Percentage of Capacity Remaining in the System: 2008-09 Projection

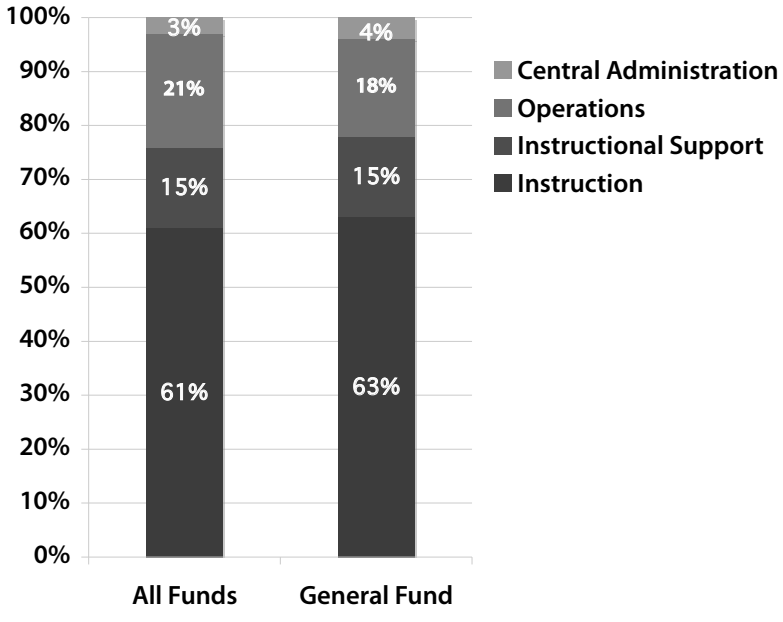
Percent Capacity Remaining	Number of Districts	Number of Students in ADA	Percentage of Students in ADA
0.0 percent (no remaining capacity)	95	153,593	4
0.0 to 2.5	11	12,479	0
2.5 to 5.0	20	74,805	2
5.0 to 7.5	222	791,580	18
7.5 to 10.0	584	2,900,828	68
10.0 to 12.5	52	239,803	6
12.5 to 15.0	30	73,685	2
> 15.0	12	10,840	0

Source: MCA Revenue Estimates

How are Educational Dollars Spent?

The following tables show how education dollars were allocated in the 2006-07 school year. Consistent with prior years[6], school districts spent roughly 61 percent of basic educational dollars across all funds in the area of instruction. The remainder of expenditures was allocated to instructional support (15 percent), operations (21 percent) and central administration (3 percent). Roughly 82 percent of basic educational costs in all funds come from the general fund. The area of operations appears larger when analyzing all funds than when limiting the analysis to the general fund, primarily because the bulk of food services expenditures are funded by the federal free and reduced-price lunch program or through fees paid by students for a school-provided meal. Generally speaking, school districts have less freedom to reallocate expenditures in special funds than they do in the general fund. **Exhibit 12** illustrates expenditures by function for all funds and for the general fund.

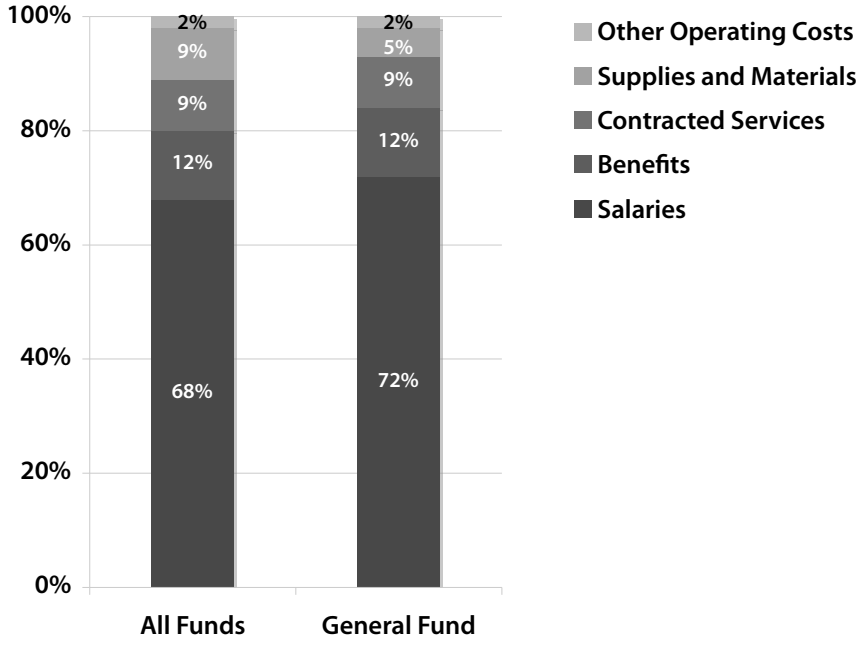
Exhibit 12.
2006-07 Allocation of Operating Expenditures by Function



School districts also report expenditures by object. Also consistent with prior years, Texas school districts spent 80 percent of their all-funds budgets on salaries and benefits. Nearly 40 percent of benefits costs were for group health and life insurance expenditures. An additional 30 percent were for payments to the Teacher Retirement System. Other costs in this category include Social Security and Medicare costs, workers compensation, and TRS-Care payments.

Contracted services (9 percent) and supplies and materials (9 percent) account for the next largest share of expenditures. Utilities are by far the largest component of contracted services, accounting for 35 percent of this category in 2006-07. Food was the largest contributor (accounting for 20 percent) of supplies and materials. **Exhibit 13,** showing all funds and general funds expenditures by object, illustrates the dominating effect of personnel costs.

Exhibit 13.
2006-07 Allocation of Operating Expenditures by Object



Since salaries and benefits account for such a substantial proportion of expenditures, it is important to examine who is paid with public school funds. The bulk of salary expenditures (62 percent for all funds and 65 percent for the general fund) are used to pay teachers. An additional 15 percent for all funds and 14 percent for the general fund go to pay auxiliary staff–the individuals who clean and maintain buildings, drive buses, and serve food. Student services staff account for an additional 7 percent of funds from both the general fund and all funds. This category includes nurses; counselors; librarians; special education providers such as occupational therapists, physical therapists, and diagnosticians; and athletic directors and trainers. **Exhibit 14** shows the percent of salary costs going to fund the various kinds of staff employed in Texas public schools.

Exhibit 14.
Salary Expenditures by Job Classification: 2006-07

	All Funds	General Fund
Teachers	62%	65%
Auxiliary	15%	14%
Student Services	7%	7%
Campus Administration	7%	6%
Central Administration	5%	4%
Educational Aides	4%	4%

Instruction—61 percent of all funds, 63 percent of the general fund

Four functional areas were combined to create the area of instruction: direct instruction (accounting for 94 percent of expenditures in this category), instructional resources (3 percent), curriculum and staff development (3 percent), and juvenile justice alternative education programs (less than .5 percent).

In the category of direct instruction, more than 90 percent of expenditures go to salary and benefits. The bulk of salary expenditures go to fund the 299,000 teachers and 56,000 instructional aides who work in Texas classrooms. Within instructional resources, just over 79 percent of expenditures go to salaries. The largest proportions of staff funded in this area include over 4,800 librarians and more than 2,900 auxiliary staff (presumably library aides). Nearly 2,000 educational aides work in this area as well. An additional 17 percent of operating expenditures in this area went to supplies and materials. In the area of curriculum and staff development, salaries and benefits accounted for just under 63 percent of operating expenditures. The largest proportion of staff in this area include the just over 1,000 teacher facilitators who serve as mentors and work with teachers to improve classroom instruction across Texas campuses. Also included in this category are instructional officers, teachers, teacher supervisors, and other professional staff responsible for working with teachers to improve curriculum and instruction. The second largest proportion of operating expenditures in this category went to the area of contracted services. Included here are tuition payments that a district makes for a teacher to attend professional development, the cost of bringing in outside staff to provide professional development, and any staff development or curriculum fees that a district pays to an education service center. Expenditures in the area of Juvenile Justice Alternative Education Programs are almost entirely for contracted services.

Instructional Support—15 percent of all funds, 15 percent of the general fund

Instructional support consists of six functional areas: school leadership (38 percent), guidance counseling (24 percent), co- and extra-curricular activities (18 percent), instructional leadership (10 percent), health services (7 percent), and social work (2 percent).

Within the area of school leadership, school districts spent most of their resources (95 percent) on payroll costs. These expenditures provide for 6,800 campus principals, 7,900 assistant principals, and their support staff. Just over 90 percent of expenditures in the area of guidance counseling paid for the salaries and benefits of more than 10,000 counselors and 3,300 educational diagnosticians. Extracurricular activities account for 18 percent of this category. Salaries and benefits in this area account for just under half (49 percent) of the total. A category called "other operating costs" accounted for 23 percent of expenditures in this category, and more than half of that pays for student travel and transportation. School health services were almost 7 percent of instructional support expenditures. Salaries and benefits were 92 percent of this total, funding 5,300 nurses out of these expenditures. Social work accounted for less than 2 percent of the total.

Operations—21 percent of all funds, 18 percent of the general fund

The area of operations includes plant maintenance and operations (52 percent), food services (25 percent), transportation (13 percent), data processing (6 percent), and security and monitoring (4 percent). Less than half (49 percent) of expenditures in the area of district operations went to pay salaries and benefits. By far, the largest portion of salaries and benefits in this area went to the nearly 49,000 auxiliary staff who work to maintain school buildings. Utilities are the second largest component of operations costs, accounting for more than half (55 percent) of non-payroll costs in the area of plant maintenance and operations. Payroll costs account for 71 percent of transportation costs, and the largest proportion of staff funded in this area are also auxiliary staff who account for more than 22,000 FTEs. Also included here are fuel costs, which are 39 percent of non-payroll transportation costs.

Central Administration—3 percent of all funds, 4 percent of the general fund

Just under three-fifths of central administration costs (59 percent) went to payroll. Superintendents, associate superintendents, business managers, human resource directors, and for some districts tax collectors are funded within this category as are their support staffs. Required payments to appraisal districts and the cost of tax collection account for the next largest proportion of central administration spending—it is 41 percent of the non-payroll related costs in this area. Legal services were 12 percent of non-payroll central administration costs.

Why Has Educational Spending Increased?

Texas public schools increased expenditures for basic educational costs by an average of $1,116 per student from the 2001-02 school year to the 2006-07 school year (the first year of implementation of HB 1). This is a roughly 17 percent increase, which amounts to an average annual increase of 3.2 percent. While that doesn't exceed the typical rate of inflation by most measures, difficult economic times require the careful examination of expenditures so that taxpayers know where increases are taking place. The chart below breaks this $1,116 into its component pieces, depicting the per-student dollar and percentage increase for each item.

Exhibit 15.
Five-Year Change in Educational Spending

Expenditure Category	5-Year per Student $ Increase	5-Year per Student % Increase
Direct Instructional Costs: On a per-student basis, the salaries of classroom staff increased 14 percent over this time, or by an average of 2.6 percent per year, but benefits costs increased at a faster pace: by 26 percent. This category also includes other costs such as classroom supplies and materials.	$600	16
Operations: Texas school districts have seen significant increases in the cost of operations. A large cost driver here has been utilities costs, which increased 41 percent over the 5 years (or 7.1 percent per year on average). Transportation costs increased 22 percent, driven in part by rising fuel costs. Districts spent nearly 3 times as much in 2006-07 on a per-student basis than they did in 2001-02 on transportation fuel costs. The cost of food services increased 20 percent.	$294	23
Student Services: The cost of providing additional services to students, such as counseling, social work, access to school libraries and school nurses, and extracurricular activities, increased during this time, but not as quickly as some other district functions.	$93	15
Instructional and Campus Leadership: The salaries and benefits of principals and assistant principals increased 17 percent during this time. Other cost increases included in this area are curriculum development, staff training, and instructional leadership.	$105	18
Central Administration: Central administration spending went up by roughly 10 percent during this timeframe. Expenditures in this area include the superintendent's office, accounting and payroll costs, and tax collection and appraisal costs.	$24	10

Texas school districts have seen significant increases in the cost of operations. A large cost driver here has been utilities costs, which increased 41 percent over the 5 years…

Texas public schools report annually on how they allocate tax dollars. These data describe the source of funds, what is purchased, and the purpose of each expenditure. They also describe who works in public schools. A number of conclusions can be drawn from this data regarding the shape of our school finance system as well as how our schools are allocating dollars to serve students.

Across the constructs of adequacy, equity, and capacity, our school finance system has issues that ought to be addressed. Texas lags behind other states in per-student operating expenditures and is generally not keeping up with inflationary costs on a per-student basis. Without legislative attention, this lag is likely to prevent districts from investing in the programs that are needed to address important educational performance issues. Further, equity issues persist in the system with some districts having the capacity to generate more revenue than others. Performance data suggest that our state's highest revenue districts are able to turn this financial advantage into a performance advantage. Finally, school districts generally lack significant capacity to address financial issues locally. Even if all districts were to raise the maximum amount of revenue allowed by law through increased tax rates, only 8 percent additional revenue remains available within the system.

School districts are allocating resources in largely the same way they have been in prior years—the largest proportion of funding goes to salaries and benefits. Most of the salary and benefits costs go to provide for teachers, although a large number of other staff work in public schools from educational aides, bus drivers, and custodians to campus principals, assistant principals, librarians, and school nurses.

While salary and benefits cost increases account for the largest share of spending increases over the past five years, other costs such as utilities, fuel, and food services were important components as well.

Endnotes

[1] Charter schools are excluded from this analysis.

[2] Basic Educational Costs exclude operating expenditures (object codes 6100 through 6499) within functions 71,81 (facilities and debt services), 61 (community services), 92 (incremental costs associated with chapter 41), 93 (shared services), 97 (tax increment finance payments), and 99 (other). These costs total $775 million for 2006-07.

[3] Instruction includes functions 11 (direct instruction), 12 (instructional resources and media services), and 13 (curriculum and staff development). Instructional support includes functions 23 (school leadership), 31 (guidance counseling), 36 (extracurricular activities), 21 (instructional leadership), 33 (health services), and 32 (social work). District operations includes functions 51 (facilities maintenance and operations), 34 (transportation), 35 (food service), 53 (data processing), and 52 (security and monitoring).

[4] Target revenue is a construct implemented in conjunction with property tax relief provided by the legislature in 2006. Within this construct, the bulk of school district revenue is determined based on available revenue from 2005-06 or 2006-07 under prior law and 2005 tax rates.

[5] This was the first year of tax compression when base rates for maintenance and operations were compressed to $1.33 per $100 of valuation. Districts could add additional pennies for local enrichment, and taxes associated with bonded debt are also included in this calculation.

[6] See A Cost Analysis for Texas Public Schools 2006 Update.

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