

TEXAS ASSOCIATION OF RURAL SCHOOLS

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Texas Small/Rural Schools and the Diseconomy of Scale

School Finance in Texas was significantly changed in 1949 with the passage of the historically renowned Gilmer-Akin Laws (GAL). The legislation initiated a finance distribution system based on a teacher for every 25 students in average daily attendance (ADA). Various administration and support personnel were added based on the subsequent number of teachers in a given school system. The GAL also required local financial support based on a district's ability to pay. The "ability to pay" was derived from a complicated formula called an "Economic Index," based on several factors that did not rely on the district's only source of income, i.e. the local property tax base. Still, this was a significant improvement for the school children of Texas, with the exception of small/rural districts, as the system did not address the "diseconomy of scale" that small schools experience. Hundreds of small Texas school districts did not have at least 25 ADA at each grade level, and some progressively larger districts did not have combinations of 50, 75, or 100 ADA for multiple classrooms at each grade level. Consequently, thousands of small/rural districts closed and/or were consolidated. This was not all bad at the time, since by 1950, Texas was becoming less rural and more urban due to a changing economy and a less labor-intensive approach to agriculture.

By 1975, the number of school districts in Texas had been reduced from over 6,000 to approximately 1200, and then Governor Dolph Brisco instituted a Governor's Office of Educational Research (GOER) under Dr. Richard Hooker, as it had become clear that after 25 years, GAL was not providing the support necessary for the changed needs of the public school system of Texas. (The first Edgewood lawsuit had, by then, worked its way through the judicial system and was in the United States Supreme Court. The Edgewood suit was about equity in school finance, but did not specifically address the diseconomy of scale in small districts.)

In 1975 the Legislature adopted many of the GOER recommendations, including a modest equity component and a diseconomy of scale adjustment in the form of additional teacher units for school districts with fewer than 1000 ADA. Unfortunately, many legislators at that time felt there were still numerous small districts that needed to be consolidated and they created a lower-yielding formula for small districts with fewer than 300 square miles that was designed to starve them into consolidation. This created a double-standard with respect to diseconomy of

scale adjustments in which districts over 300 square miles were considered “sparse” and therefore deserved state support, while those under 300 square miles were deemed “small by choice,” and funded at a lower amount than the state recognizes for diseconomy of scale costs. Those districts with fewer than 130 ADA and 30 miles from the nearest high school were guaranteed one teacher for each grade level taught, with similar guarantees for K-6 and K-8 districts.

There was one other provision during the 1977 through the 1983 legislative sessions that again almost destroyed the rural schools. The GOER statues eliminated the old Economic Index, and the districts’ ability to pay their share of the program based solely on their property tax base. This was as it should be; however, urban and suburban legislators felt that the constitutional provision to tax agricultural and timber land on the basis of productivity was being abused and that “tax havens” were being perpetuated. This led to a provision that required a district’s share, i.e. the local fund assignment (LFA), to be calculated on the average of market value and productivity value. With the impact of land speculation, market values in rural Texas were exploding at this time and rural schools’ LFAs were artificially inflated. Once again, we were put in an untenable position.

In 1984 with the passage of HB 72, in a special session of the legislature, and with the leadership of then Comptroller Bob Bullock and House Ways and Means Chairman Stan Schlueter, the small school adjustment was increased for districts under 1600 ADA and the LFA was returned to productive value for agriculture and timberland. This gave rural/small districts a “one time” double increase that has been the life-blood for the education of children in small schools. Unfortunately, the 300 square mile penalty continues to place children in these assumed “small by choice” districts at a disadvantage with their peers. The factors in this two-tier system of adjustment continue to be 0.00025 for districts under 300 square miles and 0.00040 for those above that threshold. This 15 point difference is exponentially greater for districts the farther below the 1600 ADA threshold they fall. In other words, the percentage of adjustment loss is greater for a district of 400 ADA than one of 800 ADA. For Example:

$$(1600-400)*0.00025 = 0.30 \text{ vs. } (1600-400)*0.0004 = 0.48, \text{ thus a } 0.18 \text{ loss}$$
$$(1600-800)*0.00025 = 0.20 \text{ vs. } (1600-800)*0.0004 = 0.32, \text{ thus a } 0.12 \text{ loss}$$

Thus, a district of 400 ADA has a 0.06 greater loss for being under 300 square miles than a district of 800 ADA that is under 300 square miles.

Finally, in 1995, the midsize school adjustment was phased in over a period of five years and thus the state has recognized the diseconomy of scale to be currently at 5000 ADA and below. This creates a much larger number of districts with an interest in this diseconomy. And, unknown to many, the state charter schools are also receiving the benefit of the small and

midsize adjustment. Therefore, the number of allies supporting increasing diseconomy of scale funding is growing each year, particularly as a result of the increased requirements of the 4X4 curriculum.

Additionally, one of the main priorities of small/rural districts for the next legislative session, and into the future, is to eliminate the 300 square mile "penalty." This will cost the state several million dollars, but this change can be phased in over a reasonable period of time to avoid creating a one-time large outlay. Budget experts predict a \$12 to \$19 billion deficit for the 2012-13 biennium. If so, this necessary change, along with others could be addressed but not implemented until the following biennium. Equally important, vigilance is required to protect the constitutional right to use productivity only as a means to determine the value of agricultural and timberland and to calculate a district's wealth and therefore assign the LFA of the Foundation School Program (FSP).