

Interim School Finance and Policy Study Proposal

Legislative Budget Board

Public Education Fiscal and Policy Studies

February 4, 1998

The Legislative Budget Board (LBB) is required to study school finance allotments and adjustments under Chapter 42 of the Education Code for the purpose of improving the efficient distribution of state funds. The LBB is to report its findings to the legislature prior to the beginning of the 76th Legislative session. The primary focus will be on the studies of the basic allotment, fiscal neutrality, special educational, compensatory education and school facilities funding.

Attached is a proposed time line for completion. The following are summaries of each study as envisioned at this point.

FISCAL STUDIES

Regular Program

The *Edgewood IV* Supreme Court decision upholding the state's school finance structure points repeatedly to the Legislature's adoption of an accountability system as the mechanism for ensuring that the state lives up to its Constitutional obligation to provide for a "general diffusion of knowledge." The Court says that the Legislature has developed statutorily defined goals for a "general diffusion of knowledge" and districts receiving an "accredited" rating, as measured and identified by the accountability system, have met the goals. Since the Court is using an accredited program as the yardstick for measuring "qualitative efficiency," the basic allotment study will look at costs in accredited and higher-performing school districts and explore the relationships between spending and student achievement.

Fiscal Neutrality

The fiscal neutrality of the state's current school finance system will be assessed using the equity measures employed by the LBB during the 1996-97 biennium. The appropriateness of additional measures will also be explored. In addition, fiscal neutrality of a system based on the recommendations from the other fiscal studies will be measured.

School Facilities

This study will report on the distribution and use of the \$200 million in new guaranteed yield funds provided for facilities by the 75th Legislature. The report will also provide projections of future funding requirements based on varying assumptions of school bond issuances.

POLICY STUDIES

Compensatory Education

The 1998-99 Foundation School Program entitlement for the Compensatory Education Program is \$2.2 billion and will provide services to approximately 1.4 million at-risk students in each year.

The entitlement is calculated based on the number of children who are enrolled in the Federal Free and Reduced Price Lunch Program. The number of children actually *enrolled* in the lunch program may be significantly less than the number of children *eligible* for the lunch program. In addition, the population of students triggering the funding

allotment are not necessarily the same population of students receiving services: school districts are required to provide compensatory education services to all students at risk of dropping out of school as defined by TEC 29.081(d), whether or not they are enrolled in the federal program. Therefore, significant discrepancies exist among the number of children in need of compensatory services, the number of children receiving the services, and the number of children used as a funding trigger for the services.

This study will:

- evaluate the appropriateness of the entitlement calculation methodology;
- examine other possible methodologies;
- examine ways in which local school districts expend compensatory education funds; and will
- seek to determine the educational benefits derived from programs funded with compensatory education funds, including both district-level expenditures and programs funded by the state as set-asides from the allotment.

Special Education

Special Education Funding

The size of the special education population in Texas schools has grown steadily for the past several years, and the number of students served is predicted to increase at a rate of approximately 4.4 percent annually in future years. This is twice the predicted rate of growth in the overall student population, estimated to be 2.2 percent annually.

For the 1998-1999 biennium, Texas will serve 481,198 students in 1998 and 502,341 students in 1999, in special education programs for which \$3 billion in state and local funds is allocated. An additional \$520 million in Federal funds has also been appropriated for the biennium for these populations.

The Special Education Funding study will examine the reasons for growth in the population of special education students. Special emphasis will be placed on two areas:

- the impact of the mainstream weight on student identification;
- the relationship between identification of special education students and the exemption from accountability reporting for test scores.

The study will also look at the relationship between the size of the special education population as it compares to the overall student population, and to the population of children born with mental or physical impairments or other characteristics that might indicate a future need for special education, as reported to the Texas Department of Health in their statewide registry of birth defects.

Review of the ARD (Admission, Retention and Dismissal) Process

The ARD process is the mechanism used to place students in special education program in the public schools, and its implementation is directly related to the growth in special education enrollments. This review will examine the extent to which this process is appropriately implemented and degree to which the process is consistent across all districts in the state.