

UPDATING THE TEXAS COST-OF-EDUCATION INDEX

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The Cost of Education Index (CEI) is the mechanism that Texas uses to adjust its school finance formula to compensate for uncontrollable variations in labor cost. The CEI increases the amount of state aid received by school districts in high cost areas and reduces the amount of local revenue redistributed among districts through recapture.¹ It affects not only the basic allocation to districts under Tier I of the Foundation School Program, but also the calculation of weighted average daily attendance (WADA) for Tier II. The CEI ranges from 1.02 to 1.20, and every school district receives some adjustment under the formula to compensate for uncontrollable variations in the costs of education.

The underlying premise of the CEI adjustment is undeniably sound. An educational dollar doesn't stretch as far in some parts of the state as it does in others. Districts in high cost environments need additional dollars just to be able to purchase the same resources and hire the same sort of teachers as other districts. Ignoring these differences in purchasing power would undermine the equity and adequacy goals of the Foundation School Program.

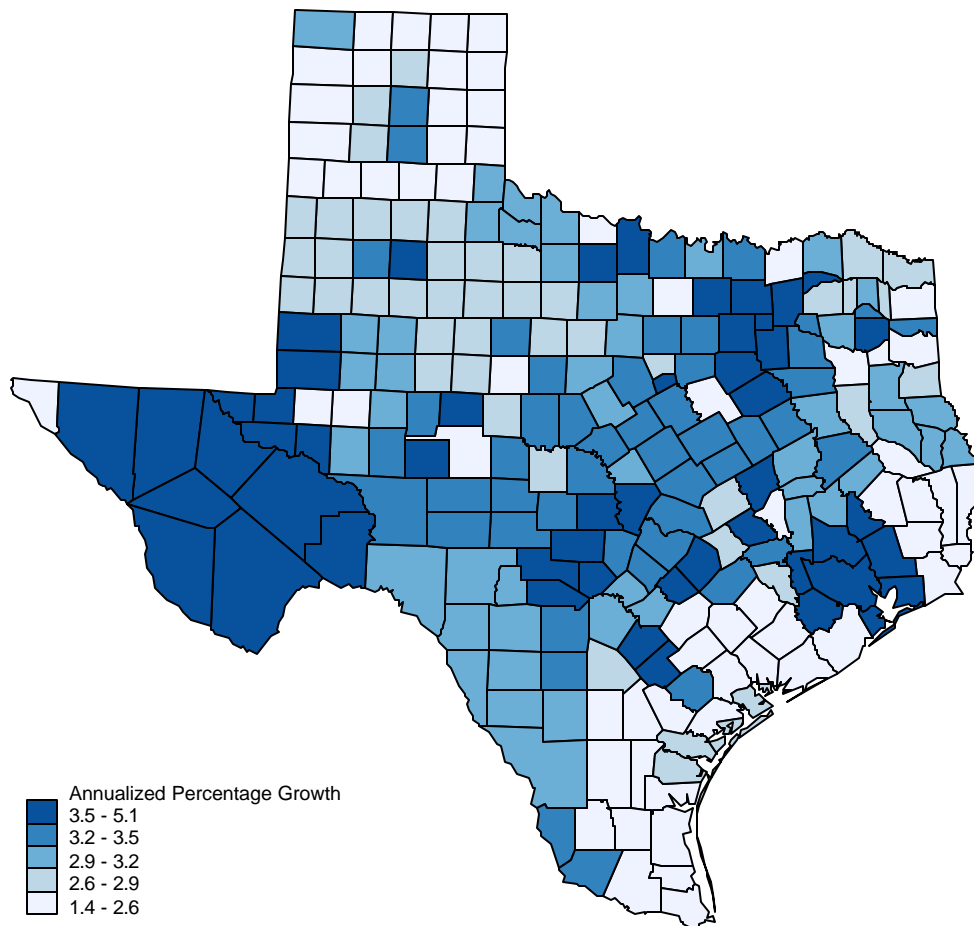
Unfortunately, the CEI has not been updated since its inception. Thus, today's CEI is a weighted average of 20-year-old values for five school district characteristics—district size, district type (independent town, rural, other), the percentage of low income students, the average beginning teacher salary in surrounding districts, and location in a county with a population of less than 40,000. Over the last 20 years, enrollment has grown from less than 1,300 to more than 30,000 in the Frisco ISD; the share of low income students has increased by 30 percentage points in the Houston ISD; the distribution of average beginning salaries has shifted statewide; and the number of counties with a population of less than 40,000 has declined from 197 to 180.

¹ For a more complete discussion of the Texas school finance formula and the CEI, see *Adjusting for Geographic Variations In Teacher Compensation: Updating The Texas Cost-Of-Education Index*, by Lori L. Taylor, available at <http://bush.tamu.edu/research/faculty/TXSchoolFinance/>.

These dramatic changes would not matter if the geographic distribution of labor costs had remained stable over the last 20 years. Individual cost factors would have changed, but they would have changed in similar ways for most districts, leaving the relative cost of education largely unaffected. However, there are good reasons to believe that the geographic pattern of cost has shifted over time.

For example, consider the changes in housing costs over the last 20 years. Housing costs are the primary determinants of regional variations in the cost of living. The U.S. Department of Housing and Urban Development (HUD) publishes annual estimates of the fair market rents for a two-bedroom apartment in each Texas county. Those estimates indicate that over the last 20 years, rents have increased by at least 34 percent in all Texas counties, and by more than 134 percent in 11 Texas counties (Bastrop, Burleson, Burnet, Caldwell, Delta, Hunt, Kendall, Llano, Navarro, Robertson

Figure 1: Annualized Percentage Growth in Fair Market Rents 1989-2010



and Wilson). Rents have gone up twice as fast in parts of the Austin and San Antonio metro areas as they have in Odessa, Victoria and a number of rural counties. Figure 1 illustrates the change in rents over the last 20 years.

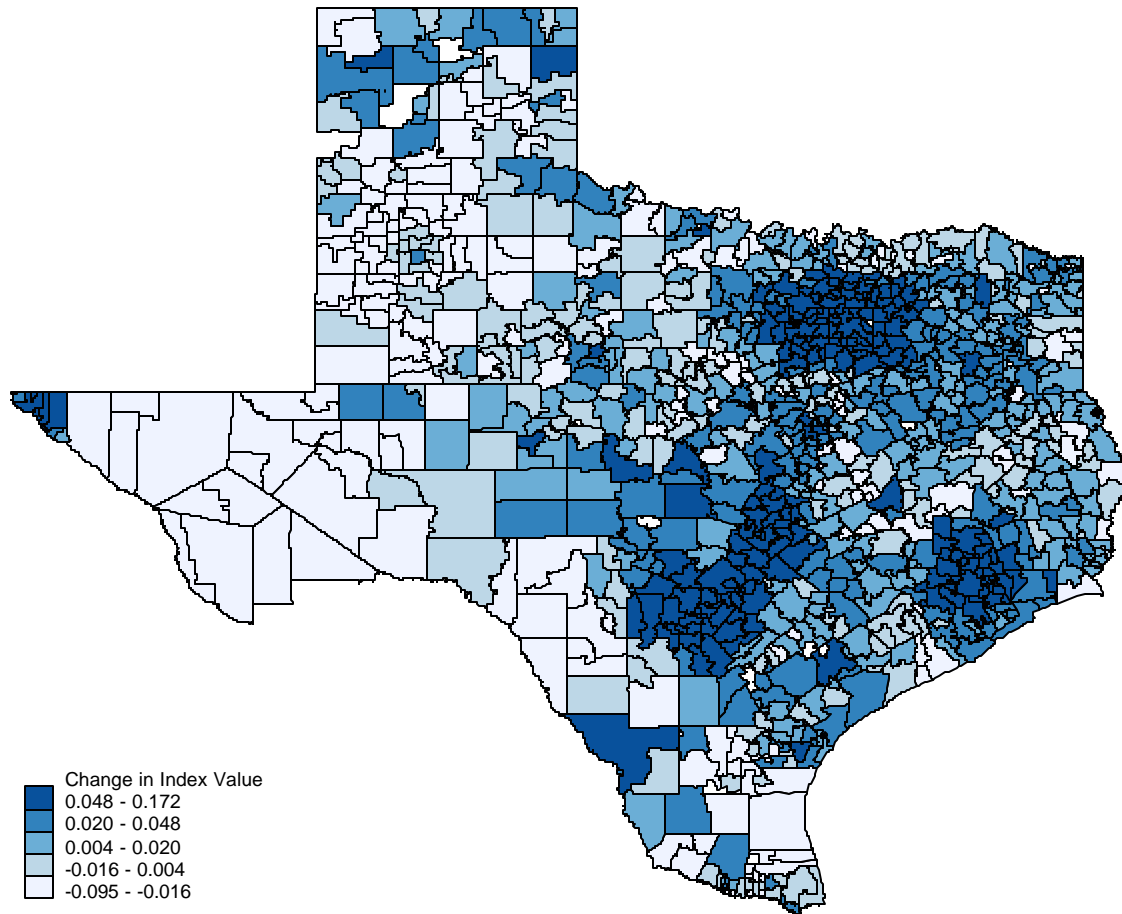
These striking changes in housing cost, not to mention the well known changes in student demographics and school district size imply that hiring costs have risen much more rapidly for some school districts than for others. Those changes should be reflected in an updated CEI.

The Texas Legislature has considered updating the CEI before. In 2000, the Charles A Dana Center published a study that presented four alternative strategies for updating the CEI. In 2003 and 2004, I led a study updating that report on behalf of the Joint Committee on Public School Finance.

Our 2004 analysis strongly suggested that school districts face substantial and uncontrollable differences in labor cost. By the most conservative estimate, the cost of educator labor was 29 percent higher in the highest cost district than in the lowest cost district. A Census-based Comparable Wage Index suggested that the highest cost districts must pay 36 percent more than the lowest cost districts in the state. The Census-based index—which was the inspiration for the Comparable Wage Index that I developed for the National Center for Education Statistics (NCES)—implied that variations in the price of teachers are double those reflected in the existing CEI and the Foundation School Program. Furthermore, pending updates to the NCES Comparable Wage Index suggest that the cost differentials in Texas have been growing over time.

The previous analyses also demonstrated that the geographic pattern of cost has shifted. For example, Figure 2 illustrates the ways in which the CEI would have changed, had it been updated using one of the 2004 analyses. This particular version represents updating using a model of teacher labor cost that incorporates teacher benefits and controls for all unobservable differences in teacher characteristics. As the figure illustrates, updating would substantially increase the index values for major urban areas, while generally reducing the index values for rural areas. Districts in the San Antonio and Austin metropolitan areas would particularly benefit from updating the CEI.

Figure 2: The Change in CEI Implied by Updating to 2004 Values Using the Teacher Fixed Effects Salary and Benefits Model



Of course, another six years have passed since the 2004 report. Undoubtedly even these updated values are out of date. Additional analysis should be done to incorporate the changes in cost since 2004.

The bottom line is that much has changed in Texas since 1989. As a result, the existing CEI has become badly outdated. Regardless of the updating strategy chosen by the legislature, accurately reflecting uncontrollable variations in the cost of education requires adoption of a new CEI.