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Digging Out: Restoring Equal Educational Opportunity in Texas

An independent cost-modeling analysis of Texas school finance, 1993–2024, with a review of the case law since Edgewood and a path forward for 2027

BRUCE D. BAKER · UNIVERSITY OF MIAMI

50%

Highest-poverty districts' spending as a share of the cost of national-average outcomes, 2024 (62% in 2009)

6th → 35th

Texas's rank in school funding effort (share of personal income), 1993 to 2024

87%

of children in majority Black and Hispanic districts attend districts below cost and below national-average outcomes (33% elsewhere)

Data: National Education Cost Model and School Finance Indicators Database, 2026 data runs; NAEP; Texas Comptroller. Estimates use national outcome benchmarks; see Data, methods and limitations.

> Texas has a chance in 2027 to start digging out of a hole it has spent two decades digging. In the 1990s, after *Edgewood*, Texas led: it ranked 6th in the nation in school funding effort, its state and local revenue was progressive with respect to poverty, and by 2000 its students outscored the nation in NAEP math. Since the mid-2000s the state has cut effort, let teacher pay fall behind, and left its highest-poverty districts at half the cost of national-average outcomes. Governor-elect Gina Hinojosa, a former Austin ISD board president and a longtime advocate for public school funding in the Legislature, takes office in January 2027 with that record in front of her. This report lays out the evidence and the steps to fix it.

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The bottom line

Thirty-seven years after *Edgewood I*, Texas funds its highest-poverty districts at about half the cost of national-average outcomes, and the children in them are overwhelmingly Black and Hispanic. The state's effort has fallen from 6th to 35th, its teachers earn 68% of what comparable workers earn, and its NAEP advantage has turned into a deficit.

TABLE 1

Indicator	Then	2024	Rank, 2024
School spending as % of state personal income	5.35% (1993)	3.31%	35th of 49
Teacher pay vs. similar non-teachers, age 35	85% (2000)	68%	45th of 49
Highest-poverty fifth, spending as % of cost of national-average outcomes	62% (2009)	50%	46th of 48
Lowest-poverty fifth, same measure	113% (2009)	70%	47th of 48
Grade 8 NAEP math, points vs. national average	+7.5 (2011)	−3.0	—
Children in majority Black/Hispanic districts below cost and below national outcomes	—	87% (2009–2024 avg.) vs. 33% elsewhere	—

The legal record matters because *Morath* (2016) upheld the system on a reasonableness test and on outcomes. Both have moved since. The Legislature's two main responses, HB 3 in 2019 and HB 2 in 2025, left the highest-poverty districts where they were, while the state launched a $1 billion voucher program pegged to an average that this analysis finds is below cost almost everywhere.

The estimates rest on national cost models and national outcome benchmarks, and the national model may overstate the level of Texas costs. The pattern does not depend on that level: cost rises 73% from the lowest- to the highest-poverty fifth of districts, and spending rises 22%. The author's 2012 Texas trial models found the same structure: a formula that treated costs as varying about 15% when they varied nearer 150%, and high-poverty districts about 30% behind. A Texas-specific cost study, in the tradition of the 2004 Gronberg–Taylor and Imazeki–Reschovsky work, should set the remedy.

Introduction: why money and formula design matter

The case for fixing Texas school finance rests on two bodies of work: rigorous evidence that money matters for children's outcomes, and a clear account of what a state school finance system is supposed to do.

How and why money matters

A 2025 review of the large and growing body of rigorous studies on school spending reaches four conclusions (Baker & Knight, 2025):

- **Money matters whether it is going up or down.** Increases in school funding lead to better student outcomes, and decreases lead to worse ones.
- **Money matters whether it goes to operations or capital.** More operating money typically buys better teacher wages and smaller classes, which raise outcomes. Capital spending, from better classrooms to working heating and cooling, also raises outcomes, often with a lag until students use the improved facilities.
- **Money matters more for some children than others.** Additional dollars in historically underfunded and higher-poverty settings often yield several times the return of the same dollars in lower-poverty settings, so progressive funding matters.
- **Money matters regardless of how it arrives.** Increases from legislative action, economic swings, federal stimulus, local voter approval or court orders all improve outcomes.

The benefits reach well beyond test scores. Recent studies find that added funding raises educational attainment and adult earnings and lowers mortality and crime.

Two principles of education cost analysis follow:

1. It costs more to achieve higher outcomes than lower ones.
2. It costs more to achieve the same outcomes in some places than others, and with some children than others.

What a state school finance system should do

The goal of a state school finance system is to raise and distribute the money every school in every district needs to give its students the programs and services required to reach common, adequate outcome goals (Baker, Atchison & Levin, 2026; Baker, 2025). Equity is attained when all children have equal opportunity to achieve those common outcomes. Adequacy is attained when those outcomes are sufficient for children to become productive, self-determined and civically engaged adults. A system that is both gives every child equal opportunity to reach sufficiently rigorous outcomes.

Designing such a system means identifying the costs of the education it is meant to provide, and identifying revenue sources that can fund those costs stably and equitably over time and across places. A well-designed system must:

1. Fully and publicly finance the cost of giving every child equal educational opportunity to achieve common, adequate outcomes.
2. Rest on public financing and taxation that treat taxpayers equitably and yield stable revenue that can be distributed equitably across the schools that serve all children.

This framework has two parts, and so does this report. The first is evaluating the current system against the cost of common outcomes: whether spending meets cost, and whether it does so equally for children in different places and circumstances. The second is calibrating a system that meets that cost. The sections that follow do the first for Texas; the final section sets out the second.

Legal background: from Edgewood to Morath

Texas courts struck down the finance system four times between 1989 and 2005, then in 2016 held that a system they called "Byzantine" still met "minimum constitutional requirements." The standard the courts set is a duty, under Article VII, §1, to make "suitable provision for the support and maintenance of an efficient system of public free schools" for "a general diffusion of knowledge." What changed over 35 years is how much proof the courts demanded that the Legislature was failing that duty.

TABLE 2

Year	Case or law	What it held or did
1973	*San Antonio ISD v. Rodriguez*, 411 U.S. 1	Education is not a fundamental right under the U.S. Constitution; property-wealth disparities in Texas survive federal review. Claims move to state court.
1989	*Edgewood ISD v. Kirby* (*Edgewood I*), 777 S.W.2d 391	Unanimous: the system is not "efficient." Districts must have "substantially equal access to similar revenues per pupil at similar levels of tax effort." Property wealth per pupil ranged roughly 700 to 1.
1991	*Edgewood II*, 804 S.W.2d 491	The 1990 response (SB 1) left the wealth-based structure intact; struck down.
1992	*Carrollton-Farmers Branch ISD v. Edgewood* (*Edgewood III*), 826 S.W.2d 489	County education districts (SB 351) were an unconstitutional state property tax levied without an election.
1993	SB 7 ("Robin Hood")	Wealth equalization through recapture from property-wealthy districts.
1995	*Edgewood IV*, 893 S.W.2d 450	SB 7 upheld; the Court signals that adequacy and facilities remain open questions.
2005	*Neeley v. West Orange-Cove CISD* (*WOC II*), 176 S.W.3d 746	The $1.50 M&O cap had become a de facto state property tax. No education-clause violation yet, but the Court warned the system was drifting toward inadequacy.
2006	HB 1	M&O rates compressed by one-third; districts given limited room above the compressed rate.
2011	82nd Legislature	About $5.4 billion cut from school funding. More than 600 districts sue.
2013–14	*Texas Taxpayer & Student Fairness Coalition v. Williams* (Travis County)	Judge John Dietz twice finds the system inadequate, unsuitable and financially inefficient, and unsuitable for low-income and English-learner students (oral ruling Feb. 4, 2013; 364-page judgment 2014). The author testified as a plaintiffs' expert.

Year	Case or law	What it held or did
2016	*Morath v. Texas Taxpayer & Student Fairness Coalition*, 490 S.W.3d 826	Unanimous reversal. The system is "undeniably imperfect, with immense room for improvement," but meets a reasonableness test; adequacy is judged on outputs, not inputs.
2019	HB 3	Roughly $11.6 billion package: basic allotment raised from $5,140 to $6,160, compensatory aid indexed to neighborhood poverty, and M&O compression.
2025	HB 2 and SB 2	$8.5 billion for schools, mostly teacher raises, but only $55 added to the basic allotment; $1 billion for Education Freedom Accounts (vouchers).

What the courts asked of the state

Edgewood I framed the problem as unequal access to revenue. Justice Mauzy's opinion read "efficient" to mean "productive of results with little waste" and rejected a system in which children's schooling depended on local property wealth. That is a fiscal-neutrality standard, close to the one *Rodriguez* refused to impose federally.

By *West Orange-Cove*, the question had become adequacy: whether districts are "reasonably able" to give all students "a meaningful opportunity" to meet state standards. Judge Dietz found in 2004 that the cost of a general diffusion of knowledge exceeded what the formulas provided. He relied on two competing cost-function studies, discussed under Data and methods. The Supreme Court in 2005 did not reach that finding, pointing instead to rising test scores.

Morath raised the bar further. Writing for the Court, Justice Willett said "our judicial responsibility is not to second-guess or micromanage Texas education policy." The Court asked whether the Legislature acted reasonably, and found that most districts met accreditation standards. It did not dispute the trial court's findings that economically disadvantaged children and English learners were underserved; it held those findings did not make the system arbitrary.

Why the record matters now

Morath leaves three openings. First, it measured adequacy against Texas's own accountability outcomes, and those outcomes have since fallen (see Outcomes). Second, it treated the Legislature's 2013 restorations as evidence of reasonableness; spending adjusted for costs has since fallen further (see Equity and adequacy). Third, equal-protection claims under Article I, §3, never decided on the merits in *Edgewood I*, remain available where a state-designed system predictably deprives identifiable groups of children.

The strongest counterargument is *Morath* itself: the Court said deficiencies are for the Legislature, and the Legislature has acted twice since, in 2019 and 2025. Any new claim must show that those acts did not change the underlying pattern. The data sections below test that.

How Texas funds schools

Texas runs a weighted foundation formula, the Foundation School Program, whose base has risen by $55 per pupil since 2019 while the state has spent most of its new money on property tax relief. The formula has never been set to what it costs to reach any outcome.

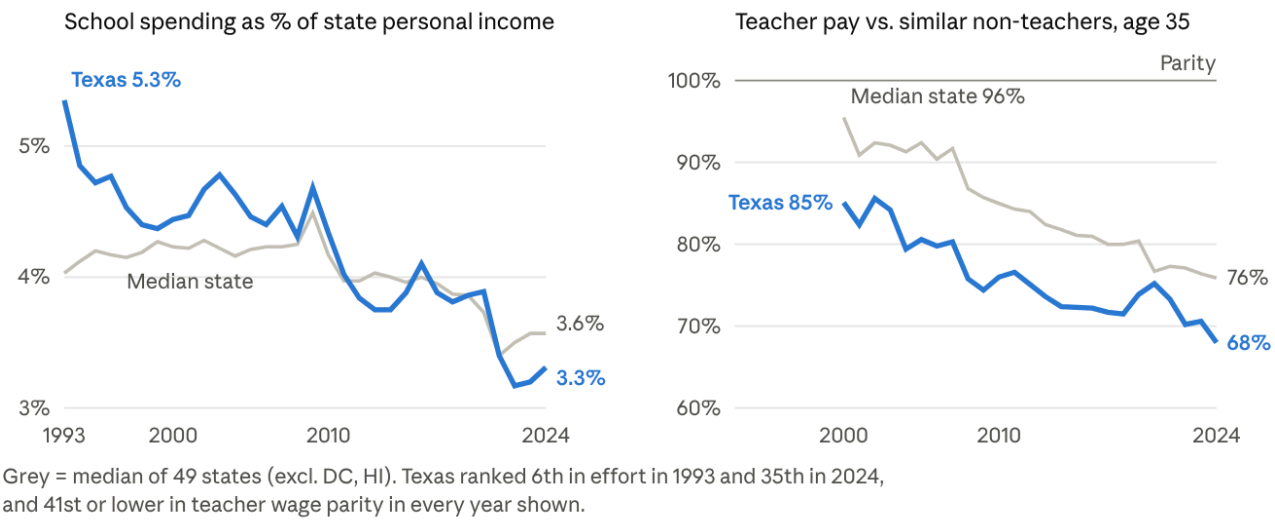
- **Tier I, the basic allotment.** $6,160 per student in average daily attendance from HB 3 (2019); $6,215 after HB 2 (2025). Districts levy a compressed M&O rate to raise their local share; the state pays the rest.
- **Weights.** Compensatory education for economically disadvantaged students (0.225 to 0.275, scaled since HB 3 by census-block poverty), bilingual/ESL, special education (moving in 2026–27 to a student-intensity model under HB 2), career and technical education, and small- and mid-sized district adjustments.
- **Tier II, enrichment.** Guaranteed-yield "golden" and "copper" pennies above the compressed rate, the remnant of *Edgewood*'s tax-effort equalization.
- **Recapture.** Property-wealthy districts above the equalized wealth level still remit local revenue to the state, the *Edgewood IV* mechanism.
- **What was removed.** HB 3 eliminated the Cost of Education Index, a geographic wage adjustment last updated in the early 1990s, and folded it into the base. Texas now has no regional cost adjustment.
- **Where new state money went.** The 2019, 2023 and 2025 packages each paired school money with tax compression and larger homestead exemptions. State dollars that replace local property taxes raise the state share without raising what districts can spend.

The 2025 session illustrates the pattern. HB 2 put most of its $8.5 billion into teacher retention raises ($2,500 to $8,000 depending on experience and district size), safety and operations. At $6,215, the basic allotment is worth about 20% less than its 2019 value of $6,160 once prices are accounted for (CPI-U, 2019 to 2025). In the same session, SB 2 created Education Freedom Accounts funded at $1 billion for 2026–27.

Effort and teacher wages

Texas now spends a smaller share of its economy on schools than most states, and its teachers are among the furthest behind comparable workers. In 1993, the first post-*Edgewood* year in the panel, Texas spent 5.35% of state personal income on schools, 6th in the nation. By 2024 it spent 3.31%, 35th, below the median state's 3.57%.

FIGURE 1



Source: SFID state panel, 2026 data runs (state_panel_analysis.dta), 1993–2024

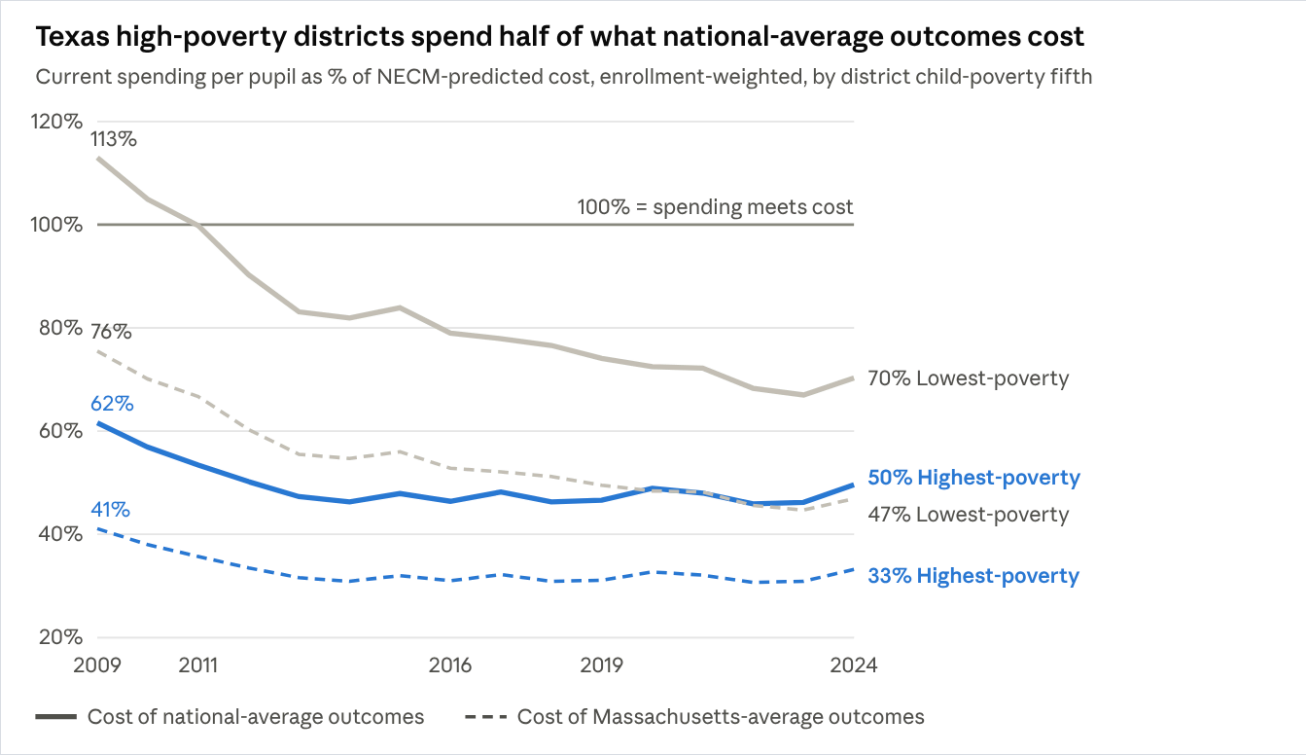
The decline came in two steps: the 2006 tax compression and the 2011 cuts. Effort recovered briefly to the median by 2016 and 2019, then fell again as property tax relief replaced, rather than added to, local revenue. Measured against state GDP, Texas spent 2.6% in 2024, 39th of 49.

Teacher pay tracks the same story. A 35-year-old Texas teacher earned 85% of what similarly educated non-teachers earned in 2000 and 68% in 2024. The median state fell too, from 96% to 76%, but Texas started lower and stayed lower. Competitive wages are a direct input to cost in the NECM, and teacher pay is one of the main channels through which money improves outcomes (Baker & Knight, 2025). HB 2's 2025 retention raises, worth $2,500 to $8,000 for experienced teachers, are the first sizable response; they exclude teachers in their first two years and will first appear in 2026 data.

Equity and adequacy

In 2024 the highest-poverty fifth of Texas districts spent about 50% of what the NECM predicts it would cost to reach national-average outcomes, and 33% of the cost of Massachusetts-average outcomes. Only Mississippi and Alabama were lower. Even the lowest-poverty fifth spent 70% of the national-average cost, down from 113% in 2009.

FIGURE 2



Source: NECM district cost estimates aggregated in the SFID state panel, 2026 data runs (pctadeq_1_q, pctadeq_2_q), 2009–2024

Three findings stand out.

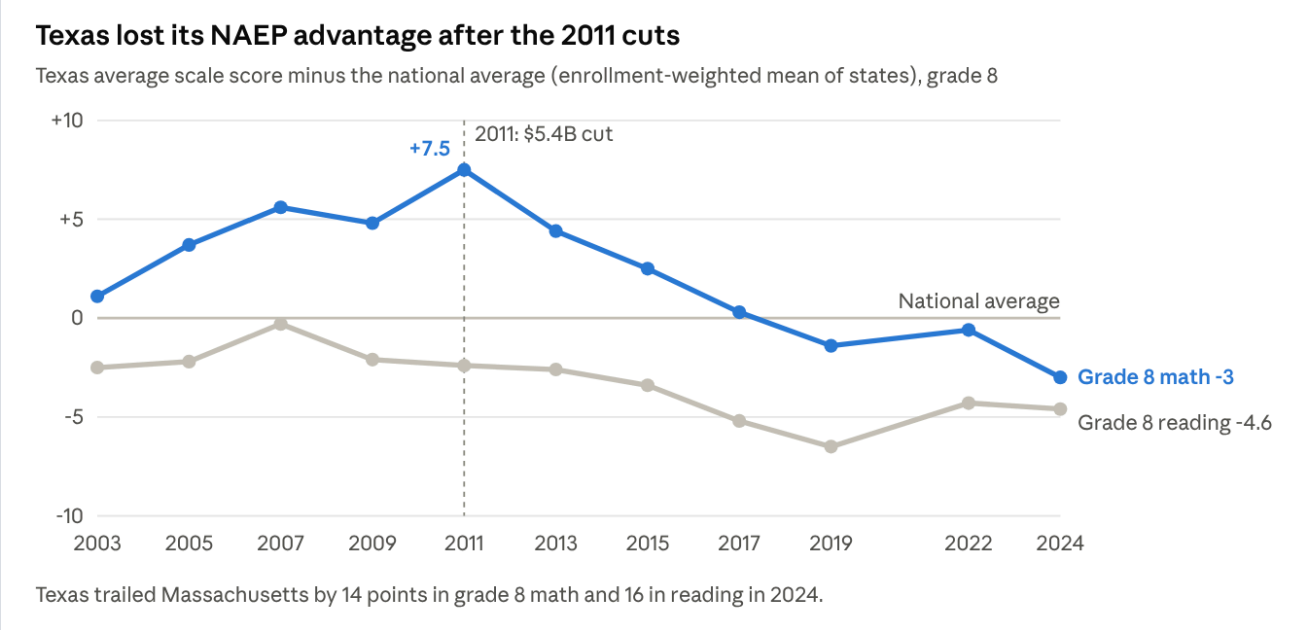
1. **The whole system fell below cost after 2011.** Every poverty group in Texas spent less than the cost of national-average outcomes from 2012 on. The 2011 cuts, the 2013 partial restoration and HB 3 in 2019 barely register on the high-poverty line, which has sat between 46% and 50% for twelve years.
2. **The opportunity gap narrowed for the wrong reason.** The gap between the lowest- and highest-poverty fifths shrank from 51 points in 2009 to 21 points in 2024 because low-poverty districts fell toward high-poverty districts, not because high-poverty districts gained.
3. **Nominal progressiveness hides cost.** Counting federal aid, Texas high-poverty districts spend about 35% more per pupil than low-poverty districts (ratio 1.35), close to the national median. Counting only state and local revenue, the ratio is 0.93: high-poverty districts receive less. Neither comes close to the difference in cost. In 2024 the highest-poverty fifth spent $14,014 per pupil against a predicted cost of $28,233; the lowest-poverty fifth spent $11,485 against $16,346. Cost rises 73% from the lowest- to the highest-poverty fifth; spending rises 22%.

Across all students, Texas ranks 47th of 48 states on adequacy and 46th on adequacy in its highest-poverty districts. Its cost-adjusted spending per pupil ranks 46th.

Outcomes

Texas students once outscored the nation in 8th-grade math by 7.5 points; by 2024 they trailed by 3. The turn came in 2013, two years after the 2011 cuts, and well before the pandemic. *Morath* relied on outcomes as the measure of adequacy; on that measure, the trend has run the wrong way since the record closed.

FIGURE 3



Source: NAEP state results via SFID state panel (math_8_all, read_8_all); national = enrollment-weighted mean of state averages, 2003–2024

Reading shows a slower, steadier slide, from roughly even with the nation in the late 1990s to 4.6 points below in 2024. Grade 4 math is the exception: Texas remains about 3 points above the national average. The gap to Massachusetts, the high outcome standard used here, is 14 points in grade 8 math and 16 in reading.

These are state averages. They understate the damage in high-poverty districts, which the district-level section below measures directly against the cost of common outcomes.

Who is harmed

The children harmed most are those in majority Black and Hispanic districts: 87% of them attend districts that spend below the cost of national-average outcomes and also score below the national average, against 33% of children elsewhere. Texas's majority Black and Hispanic districts enroll 3.4 million of the state's 4.9 million students in traditional districts.

TABLE 3

Group of districts	Students (millions)	Spending as % of cost	In districts below cost	Below cost and below national outcomes	Outcome index (SD)
All districts	4.95	68%	97%	70%	−0.14
Majority Black or Hispanic	3.37	60%	99%	87%	−0.27
All other	1.58	84%	91%	33%	+0.13
Lowest-poverty fifth	1.40	83%	92%	22%	+0.20
Highest-poverty fifth	1.34	52%	100%	100%	−0.39

Shares are enrollment-weighted. Each district's figures are its averages over 2009–2024 from the NECM district panel; poverty fifths here split districts into equal numbers, unlike the enrollment-weighted fifths in the state panel. Across districts, spending relative to cost correlates 0.46 with outcomes.

Edgewood, 37 years later

Edgewood I turned on the contrast between Edgewood ISD and nearby Alamo Heights ISD in San Antonio. The contrast remains.

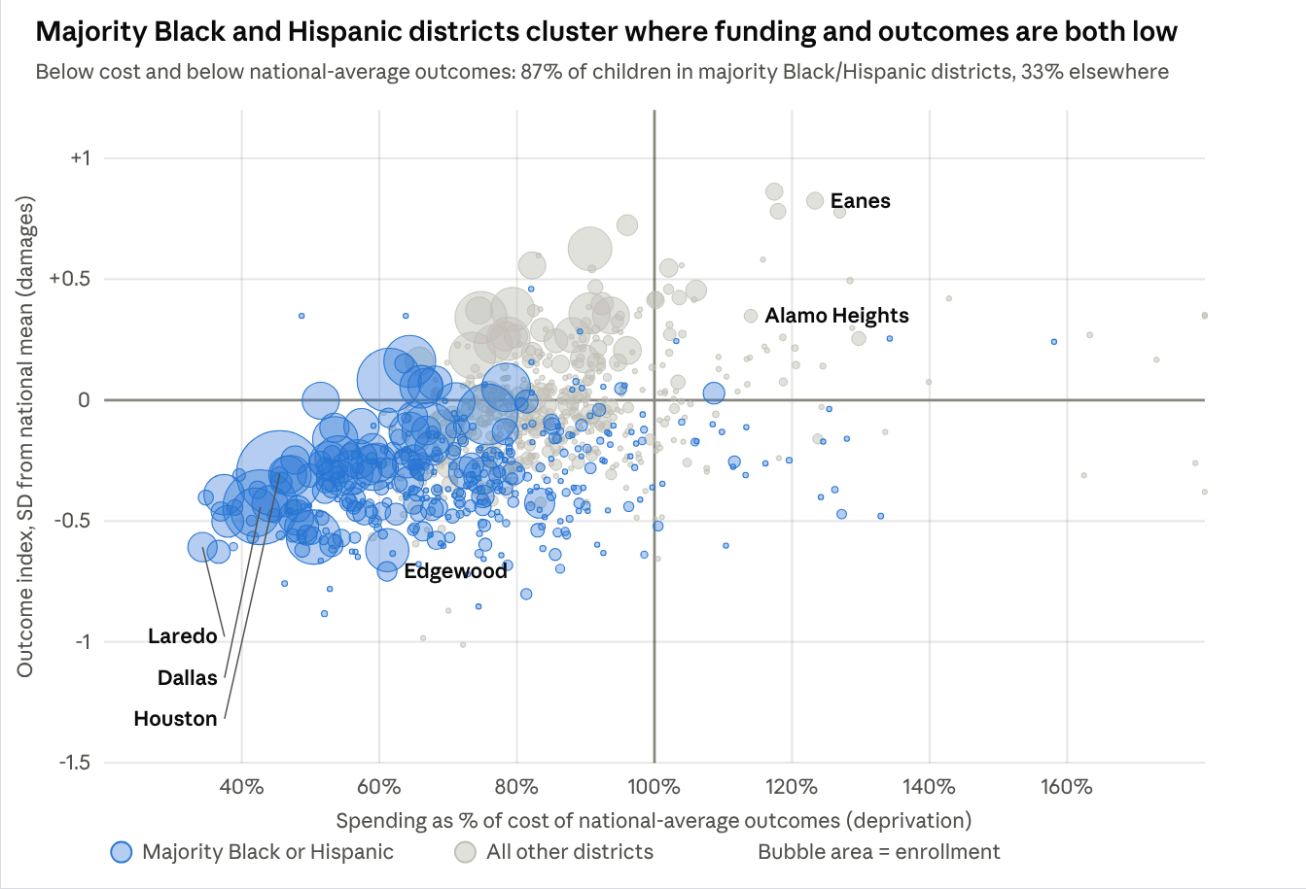
TABLE 4

District	Metro	Students	Child poverty	Black or Hispanic	Spending as % of cost	Outcome index (SD)
Edgewood ISD	San Antonio	10,625	38%	99%	61%	−0.71
Alamo Heights ISD	San Antonio	4,800	8%	41%	114%	+0.35
Dallas ISD	Dallas	153,718	29%	92%	43%	−0.44
Highland Park ISD	Dallas	6,777	4%	6%	118%	+0.78
Houston ISD	Houston	204,486	30%	86%	46%	−0.30
Katy ISD	Houston	74,406	10%	46%	75%	+0.34
Laredo ISD	Laredo	23,552	47%	99%	34%	−0.61
Eanes ISD	Austin	7,878	4%	13%	123%	+0.82

Edgewood spends 61% of what it would cost to give its children a chance at national-average outcomes, and scores 0.71 standard deviations below that mark. Alamo Heights, a few miles away, spends 14% more than that cost and scores above it. The state's two largest districts, Houston and Dallas, spend less than half their cost.

The figure below plots every district: deprivation (spending relative to cost) on the horizontal axis and damages (outcomes) on the vertical.

FIGURE 4



Source: tx_districts_adequacy_outcomes.csv · 922 Texas districts with outcome data, NECM district panel averages 2009–2024 (2026 data runs)

Vouchers and the public system

Texas's new voucher program already costs $1 billion a year and is on track to cost several times that, while the public-system shortfall it competes with is far larger. SB 2 (2025) created Texas Education Freedom Accounts for 2026–27, the program's first year.

TABLE 5

Measure	Figure	Source
Appropriation, 2026–27	$1 billion	Community Impact, Aug. 4, 2026
Award, private school	$10,474 (85% of statewide average state and local funding per student)	Comptroller
Award, students with disabilities	up to $30,000	Comptroller

Measure	Figure	Source
Applicants, first year	about 274,000; about 122,000 selected	Community Impact, Aug. 4, 2026
Selected students previously in Texas public schools	about 43%	Community Impact, Aug. 4, 2026
Students funded by September 2026	nearly 110,000; waitlist above 106,000	Community Impact, Sept. 2026
Comptroller request, 2028–29	about $2 billion; about $4 billion to fund enrolled, waitlisted and interested students	Community Impact, Sept. 2026
Legislative Budget Board projection	$3.3 billion by 2028; $4.8 billion by 2030	Community Impact, Sept. 2026

Three implications follow.

- **Most of the money is new spending on students not in public schools.** With 57% of selected students coming from private schools or homeschooling, most of the $1 billion pays for education the state was not previously funding.
- **Switchers leave stranded costs.** Each student who leaves a district removes formula aid, while the district's fixed costs (buildings, transportation routes, staff in a grade) fall slowly. Short-run stranded costs reach about 20% of per-pupil spending (Bifulco & Reback, 2014).
- **The voucher and the shortfall are not on the same scale.** The NECM puts the average gap between spending and the cost of national-average outcomes at about $8,900 per pupil in 2024. Across roughly 5 million students in traditional districts, that is on the order of $45 billion a year, assuming equal enrollment across poverty fifths. The first-year voucher budget equals about 2% of it; the 2030 projection, about 11%.

The award itself is pegged to average state and local funding per student, which this report finds is far below cost in most districts. The state is thus setting the private-school benchmark at a level it has not shown is adequate for public schools.

Prior Texas expert work

This report extends work the author has done on Texas school finance since 2004, first for the state and then as an expert in the 2012 trial. The 2012 findings and today's line up closely: the formula still under-adjusts for poverty, and the districts it shortchanges are the same ones.

TABLE 6

Year	Work	Role
2004	Baker, Taylor & Vedlitz, *Measuring Educational Adequacy in Public Schools*	Report for the Texas School Finance Project (Joint Select Committee on Public School Finance)

Year	Work	Role
2004	Consulting in *West Orange-Cove II*	Subcontractor for the State
2005	Comments on the Gronberg–Jansen–Taylor–Booker technical supplement	Peer review for the Texas School Finance Project
2005	Keller & Baker, *Using a Cost Function to Inform School Finance Policymaking*	Policy memo with the research director for Speaker Craddick
2008	Baker, Taylor & Vedlitz, *Adequacy Estimates and the Implications of Common Standards for the Cost of Instruction*	National Research Council paper using Texas data
2012	Baker, "Rearranging Deck Chairs in Dallas," *Journal of Education Finance*, 37(3)	Within-district resource allocation in Houston, Dallas, Fort Worth, San Antonio and Austin
2012	*The Texas School Finance System Fails to Provide Equal Educational Opportunity to Texas Schoolchildren* (July 31), supplements of Oct. 15 and Oct. 23, and trial testimony	Plaintiffs' expert, *Texas Taxpayer & Student Fairness Coalition v. Scott*, No. D-1-GN-11-003130 (Travis County)
2022	Levin, Baker, Lee, Atchison & Kelchen, *An Examination of the Costs of Texas Community Colleges* (REL 2023-142)	REL Southwest cost study

What the 2012 report found

- **The formula ignored most of the cost variation.** The Foundation School Program funded districts as if costs varied about 15% from lowest to highest need; the Texas cost models put the range nearer 150%.
- **The poverty adjustment was small and shrinking.** The effective poverty weight in current spending fell from about 21% in 2006 to 13.6% in 2011, and about 5.5 points of that came from federal Title I.
- **High-poverty districts had about 30% less.** After adjusting for the cost of equal opportunity, the highest-poverty fifth of districts spent about 30% less per pupil than the lowest-poverty fifth.
- **Taxing harder could not close the gap.** Even at the $1.17 maximum M&O rate, high-need, low-wealth districts could not reach the average district's cost-adjusted spending. Replacing Tier I adjustments with the cost index would have raised high-poverty districts by about $4,000 per pupil.
- **Lower funding went with lower outcomes.** Districts with less cost-adjusted spending had lower TAKS scores, college readiness and graduation rates, and higher dropout rates. Everman, Canutillo, Pharr-San Juan-Alamo, Aldine and Alief were singled out.
- **Teacher pay and course access were unequal.** Texas teacher wages were under 70% of comparable non-teacher wages. Teachers in property-poor districts were 66% more likely to be novices and about 65% as likely to teach advanced courses.
- **Charter chains did not show a cheaper path.** KIPP and YES Prep spent as much as or more than host districts.

In February 2013, Judge Dietz ruled the system inadequate, inefficient and unsuitable for low-income and English-learner students, the core of the 2012 analysis. *Morath* reversed in 2016 without disputing those findings of fact.

Counting students: enrollment versus attendance

One finding from the 2012 work became proposed legislation, and Governor-elect Hinojosa was its author, but the law has not changed. Texas counts students for Tier I and Tier II funding by average daily attendance (ADA), not enrollment. Because attendance is lower in higher-poverty districts, that choice quietly moves money away from the children the weights are meant to serve.

- **The 2012 expert report.** Attendance as a share of enrollment fell steadily from the lowest- to the highest-poverty fifth of Texas districts in every year from 2006 to 2011. Because ADA is both the base count and the count of students who generate need weights, the shortfall ripples multiplicatively through the formula. Only a handful of states relied as heavily on ADA, among them Illinois and Missouri, two other highly inequitable systems.
- **Baker and Corcoran (2012).** *The Stealth Inequities of School Funding*, published by the Center for American Progress, identified attendance-based counts in Texas and other states as a hidden source of inequity. Because higher-poverty and higher-minority districts have lower attendance, often for reasons outside their control, ADA-based funding "serv[es] effectively as an unpoverty weight."
- **Representative Hinojosa's bills.** Drawing on that analysis, Hinojosa filed HB 1246 in 2021 and HB 31 in 2022–23 (Senate companion SB 263, Sen. Nathan Johnson) to fund schools on average enrollment rather than attendance. "Those schools need more resources," she argued; districts should not be penalized "for serving more students in poverty." Commissioner Morath put the cost of the change at about $6 billion per biennium. Neither bill passed. Texas still counts students by average daily attendance: HB 2 (2025) changed only how often attendance is updated during the year, not the basis of funding. Every Texan estimates that attendance-based counts left about 460,000 students, 8% of enrollment, unfunded in 2023–24.

Funding on enrollment is the simplest structural fix available to a new administration. It needs no new cost study, and it moves money toward exactly the districts this report finds furthest below cost.

Then and now

The 2024 NECM estimates show the same structure the 2012 Texas models showed. In 2012 the cost-adjusted gap between the lowest- and highest-poverty fifths was about 30%. In 2024, cost rises 73% from the lowest- to the highest-poverty fifth while spending rises 22%, leaving the highest-poverty fifth at 50% of cost against 70% for the lowest. HB 3's 2019 move to scale compensatory aid by census-block poverty did not size that aid to the cost differences either model measures.

What Texas should do

Texas should do what it has not done since the 2004 cost studies: set the Foundation School Program to the cost of the outcomes the state demands. A new governor and the 2027 session are the opening; the 2029 session is the realistic target for a recalibrated formula.

1. **Study it.** Commission an independent, Texas-specific cost study during 2027, ahead of the 2029 session, that estimates what it costs every district and campus to give children equal opportunity to reach the state's accountability outcomes and a more ambitious standard.
2. **Recalibrate it.** Rebuild the basic allotment and weights so each district's formula target equals its estimated cost. That means compensatory weights sized to the measured cost of poverty, bilingual weights set by cost rather than appropriations (the defect Judge Dietz found in 2004), a restored and current geographic wage index to replace the abandoned Cost of Education Index, scale and sparsity adjustments estimated from data, and student counts based on enrollment rather than attendance.
3. **Fund it.** Index the basic allotment to inflation, stop counting property tax compression as new school funding, and phase in the gap over a fixed schedule. Before expanding Education Freedom Accounts, show that public districts are funded at cost.

Template language for the cost study

- Engage constituencies to set the desired outcomes and the programs and services needed for all children to reach them.
- Estimate the full per-pupil cost of meeting those outcomes, under current and more aspirational standards.
- Measure how student needs (economic disadvantage, English learners, disability, homelessness and foster care) and district conditions (scale, sparsity, transportation, regional wages) affect cost.
- Produce campus- and district-level cost estimates, including for charter schools, which enroll about 9% of Texas students.
- Evaluate whether districts are using resources efficiently toward those outcomes.
- Recommend how to reform the Foundation School Program to meet each district's cost, with a phase-in schedule and an annual update.

Data, methods and limitations

The estimates come from the National Education Cost Model (NECM) and the School Finance Indicators Database (SFID) state panel, 2026 data runs. The NECM is an education cost function estimated on every U.S. district, 2009–2024. It models current spending per pupil as a function of outcomes, student needs, structural conditions, regional wages and efficiency controls, with outcomes instrumented by neighboring-district characteristics. It then predicts what each district would need to spend to reach national-average and Massachusetts-average reading and math outcomes.

Data. Census F-33 school finance survey and SAIPE poverty; NCES Common Core of Data; American Community Survey; NAEP; Stanford Education Data Archive outcomes. District cost estimates aggregated in the SFID state panel cover 2009–2024; effort and wage-parity series start in 1993 and 2000.

Validation. District-level NECM estimates correlate 0.80 to 0.94 with state-specific cost models built for Colorado, Delaware, New York, New Jersey and Oregon (Baker & Losen, 2026).

Why a cost function fits Texas

Texas was one of the first states where competing cost functions were tested at trial, and the debate there shaped how they are done.

- **Gronberg, Jansen, Taylor and Booker (2004)**, for the Legislature's Joint Select Committee on Public School Finance, estimated a translog stochastic-frontier cost function on 695 Texas districts, 1998–99 to 2001–02. Outcomes were TAAS value-added, advanced-course taking and SAT/ACT performance. They put the statewide cost of the standard at $26.2 to $26.6 billion in 2004 dollars, against $27.6 billion in actual revenue, and the cost of lifting lagging districts at $226 to $408 million a year. Their marginal costs were about $1,960 per economically disadvantaged student and $1,248 per English learner, and their cost index ranged from 0.80 to 2.23. Report
- **Imazeki and Reschovsky** estimated a competing Texas cost function against TAKS passing-rate standards and found funding insufficient, a result they presented in *West Orange-Cove* and extended to No Child Left Behind targets (*National Tax Journal*, 2004; *Education Finance and Policy*, 2006). Their 2005 comparison of the two studies explains why one found a shortfall and the other did not. At trial they put the added cost of a 55% TAKS passing standard at $1.65 billion to $6.17 billion statewide (2004 dollars), $407 to $1,511 per pupil, rising to $10.06 billion for a 90% standard. Working paper
- **Judge Dietz (2004)** found both studies likely understated the cost of even minimal standards and that both supported the finding that districts taxing near the $1.50 cap lacked sufficient funds. He faulted the Taylor model for not weighting by enrollment (Houston counted the same as Grape Creek), for equating TAAS and TAKS gains, for a two-year value-added lag, and

for using actual beginning salaries rather than a wage index. He also found that higher-standard estimates, including $3.6 billion a year for a 90% TAKS standard, were removed from the March 2004 report at the request of legislative leaders. House Research Organization summary

- **Gronberg, Jansen and Taylor (2011)** used the two Texas studies to isolate five methodological decisions that drive cost estimates, and showed that some common practices substantially change the estimated cost of adequacy. The NECM follows the best practices that work identified: instrumented outcomes, efficiency controls, a wage index and nonlinear scale effects. For the 46 *West Orange-Cove* plaintiff districts, the 2004 estimates of added cost ranged from $861,000 (Gronberg–Jansen–Taylor–Booker) to $457 million (Imazeki–Reschovsky) and $683 to $830 million (the MAP professional-judgment study).
    - **Baker (2012)** re-estimated Texas cost functions for the *Texas Taxpayer* trial with out-of-sample validation (average absolute prediction error of about 6–8%). His TAKS cost index correlated 0.88 with the Imazeki–Reschovsky 2004 index and 0.715 with Taylor's; the Taylor model ranked districts similarly but compressed the differences in cost between them.
- **Taylor** went on to estimate the 2018 Kansas cost function for WestEd, which the Kansas Legislature used to respond to *Gannon*.

The main critique is Costrell, Hanushek and Loeb (2008): cost functions describe average spending of districts with given traits, not minimum cost. That bears more on the level of cost than on how cost varies across districts. The Texas studies themselves differed mostly in level, while agreeing that poverty, language status and scale raise cost.

Limitations

- **National, not Texas, standards.** The outcome targets are national-average and Massachusetts-average reading and math scores, not Texas accountability standards.
- **Level of cost in Texas.** Texas districts score closer to the national average than their spending relative to cost would predict. The national model may overstate the level of Texas costs; the pattern across districts and over time is more robust than the level, as are the comparisons by poverty and race.
- **Statewide totals are approximate.** The $45 billion gap assumes equal enrollment across poverty fifths and about 5 million students in traditional districts. A 2024 Texas district extract from the NECM file would replace this with an exact sum.
- **District table averages.** The Who is harmed figures average each district over 2009–2024. 2024-only district figures await the same extract.
- **Charter schools** (about 9% of enrollment) are not in the district estimates.
- **Outcomes** cover reading and math only.

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Data

SFID state panel (state_panel_analysis.dta) and NECM district panel, 2026 data runs, E:\SFID_NECM\2026 Data Runs.

Appendix A. Updating the 2012 Texas expert report analyses, 2006–2025

The core findings of my July 2012 expert report in *Texas Taxpayer & Student Fairness Coalition v. Williams* still hold in 2025. On several measures, the system has moved further from equal educational opportunity. This appendix re-runs the report's Section 2–5 analyses on public data through 2024–25 using the same definitions. The rebuilt figures reproduce the published 2009–2011 tables closely.

A.1 Summary

- **M&O revenue per WADA is still flat across poverty, and I&S revenue is still regressive, now by more.** In 2024–25, I&S revenue per WADA was $1,171 in the highest-poverty fifth of districts and $2,590 in the lowest-poverty fifth. In 2011 the figures were $586 and $1,259.
- **Funding on attendance still penalizes high-poverty districts.** Average daily attendance (ADA) is 89.0% of enrollment in the highest-poverty fifth of districts and 93.1% in the lowest-poverty fifth (in 2011: 91.2% vs. 94.9%).
- **State and local spending carries no poverty weight.** Excluding federal funds, high-poverty districts spend no more per pupil than low-poverty districts with similar size and wage conditions. The implicit weight ranged from −11% to +6% between 2009 and 2025.
- **A Texas-specific cost model, specified as in 2012, finds the highest-poverty fifth of districts spending 89% of the cost of average Texas outcomes.** The lowest-poverty fifth spends 120%. Of students in the highest-poverty fifth, 97% attend districts below that cost.
- **WADA tracks only about a third of modeled cost variation.** Allocating the same 2025 M&O revenue by the cost index would add about $1,800 per pupil in the highest-poverty fifth and remove about $2,100 in the lowest-poverty fifth.
- **Outcomes follow the funding gap.** The fifth of districts furthest below cost had 41% of tests at Meets grade level in 2025, against 65% in the fifth furthest above cost.

A.2 Data and methods

All analyses use a rebuilt Texas district panel for 2004–25 and follow the 2012 report's definitions. Years refer to the spring of the school year (2025 = 2024–25).

- **Sources:**
  - TEA AEIS (2004–12) and TAPR (2013–25) district files.
  - PEIMS actual financial data: TEA's summarized file for 2009–25, and transaction-level files for earlier years.
  - Foundation School Program files: ADA, WADA, wealth per ADA, adopted tax rates and ASATR.
  - Census SAIPE poverty estimates for ages 5–17.
  - From the 2026 NECM runs: the NCES Education Comparable Wage Index and NECM costs.
- **Matching 2012 conventions:**
  - Traditional ISDs only (charters excluded except in A.5).
  - SAIPE poverty quintiles with equal numbers of districts.
  - Quintile means and revenue regressions weighted by ADA.
  - M&O revenue = general-fund local M&O tax plus state revenue, gross of recapture. I&S = local I&S tax plus state debt aid.
- **Validation:**
  - 2009 M&O per WADA by poverty quintile matches 2012 Table 5 within about 1%. In 2010–11 the middle quintiles run 4–7% lower: the 2012 figures came from the state aid reports, the rebuild from year-end actuals.
  - I&S per WADA tracks Table 5 closely.
  - Revenue–poverty slopes for 2009–11 match Table 7 within about $60.
  - The implicit base spending in Tables 12–13 is reproduced (2006: $6,149 vs. $6,156).
- **Cost model:**
  - Outcome: STAAR % at Meets grade level, all grades and subjects, standardized within year. STAAR replaces TAKS.
  - Years: 2018, 2019 and 2022–25. This skips 2020 (no tests) and 2021 (disrupted testing).
  - Wages: district aggregates of early-career teacher salaries replace the individual teacher salary file, which is not public.

A.3 Revenue equity and implicit weights (2012 Section 2)

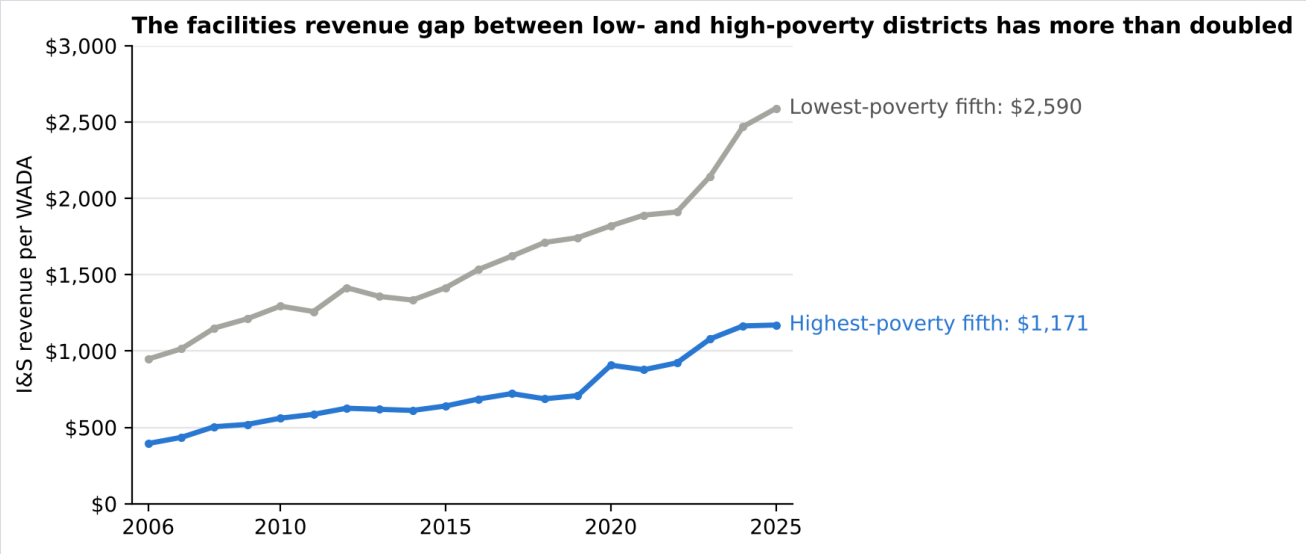
Texas equalizes M&O revenue per WADA roughly evenly across poverty, but leaves facilities revenue and actual spending unequal.

- **M&O revenue (Tables 5–6):** about $7,400–$7,500 per WADA in every poverty fifth in 2025. Per enrolled pupil, the highest-poverty fifth has about $760 more ($10,458 vs. $9,701). That margin

is smaller than the attendance and cost differences below.

- **Property wealth (Tables 8–9, 11):**
  - The M&O gap by wealth has narrowed since 2011, when the wealthiest fifth had $6,498 per WADA and the poorest fifth $5,286. In 2025 the figures are $7,696 and $7,393.
  - The I&S gap by wealth has widened: $2,775 vs. $708 per WADA in 2025, against $1,281 vs. $545 in 2011.
  - Wealth now explains 41% of the variation in I&S revenue per WADA, up from 19% in 2011.
- **Tax effort (Table 10):** higher I&S rates still buy more I&S revenue, but they buy less where wealth is low.
- **ASATR (Figure 12):** until it ended in 2017, this aid flowed mostly to wealthy districts: $1,239 per WADA in the wealthiest fifth in 2011, against $87 in the poorest.

FIGURE A1. THE FACILITIES REVENUE GAP BETWEEN LOW- AND HIGH-POVERTY DISTRICTS HAS MORE THAN DOUBLED.



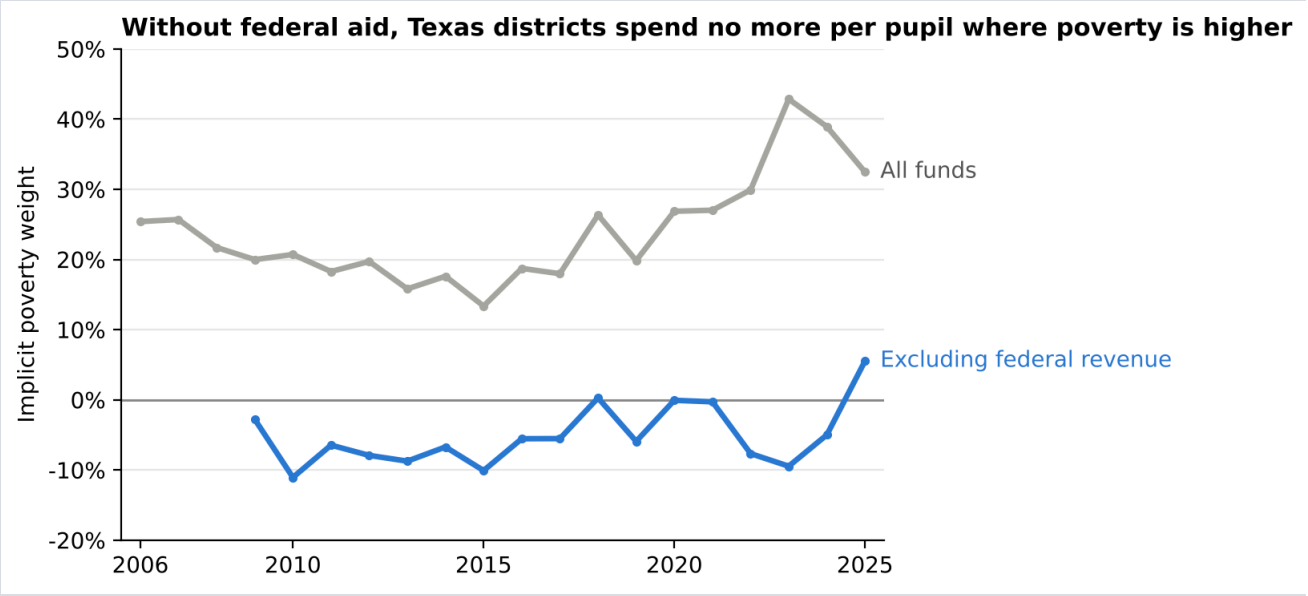
Source: TEA PEIMS actual financial data; SAIPE poverty quintiles of traditional ISDs, ADA-weighted.

ADA as a share of enrollment, by poverty fifth (enrollment-weighted):

TABLE 7

Poverty fifth	2006	2011	2025
Lowest	94.4%	94.9%	93.1%
2nd	93.4%	93.5%	91.7%
3rd	92.3%	93.0%	90.4%
4th	92.2%	92.0%	89.9%
Highest	91.7%	91.2%	89.0%

FIGURE A2. WITHOUT FEDERAL AID, TEXAS DISTRICTS SPEND NO MORE PER PUPIL WHERE POVERTY IS HIGHER.



Source: TEA PEIMS and TAPR; NCES ECWI; ADA-weighted OLS by year (2012 Tables 12–13 specification).

The implicit poverty weight in all-funds operating spending fell from 25% in 2006 to 13–20% in 2013–17, close to the 2012 report's 13.6% for 2011. It rose to 30–43% in 2022–25, when federal pandemic relief (ESSER) funds were spent. Excluding federal revenue, the weight is close to zero or negative in nearly every year: Texas's state and local system does not, in practice, deliver more per pupil where poverty is higher.

A.4 Costs of equal educational opportunity (2012 Section 3)

Re-estimated with STAAR outcomes, the 2012 cost model's structure holds almost coefficient for coefficient.

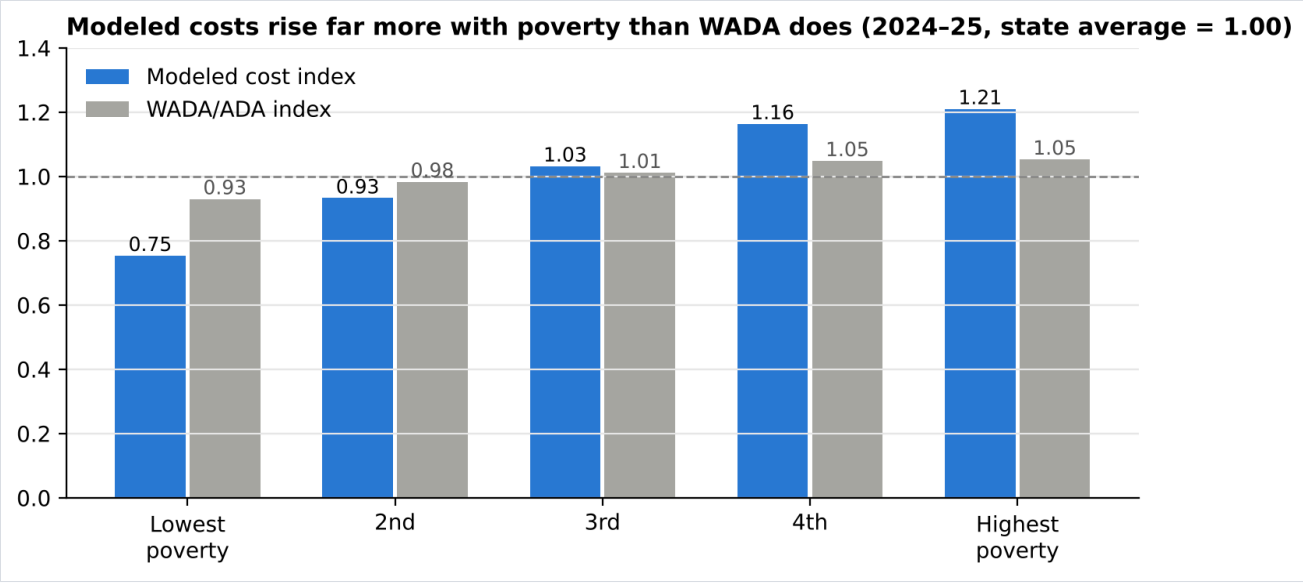
Cost function, 2012 Table 15 vs. 2018–25 update. The dependent variable is ln operating expenditure per pupil; outcome and wage are instrumented, with standard errors clustered by district.

TABLE 8

Term	2012 report (TAKS model)	Update (STAAR Meets)
Outcome	0.720 (per TAKS index unit)	0.166 (per SD)
Early-career wage, ln	0.107 (n.s.)	0.072 (n.s.)
% economically disadvantaged	0.894	1.028
% special education	0.763 (LD/speech); 1.081 (severe)	0.991 (all)
% LEP	0.605 (non-low-income)	−0.020 (n.s.)
200–299 students	0.197	0.285

Term	2012 report (TAKS model)	Update (STAAR Meets)
600–999 students	0.157	0.152
1,500–1,999 students	0.043	0.068
Wealth per pupil, ln	0.109	0.089
Labor-market enrollment share	−0.139	−0.146
N; R^2; first-stage F (outcome, wage)	—; 0.43; 10.8, 73.4	5,337; 0.52; 21.3, 412.6

FIGURE A3. MODELED COSTS RISE FAR MORE WITH POVERTY THAN WADA DOES.



Source: 2SLS cost model; TEA FSP WADA and ADA; 2024–25 traditional ISDs with 200+ students.

Spending against the cost of average Texas outcomes, by poverty fifth, 2024–25 (enrollment-weighted):

TABLE 9

Poverty fifth	Spending per pupil	Cost of average outcome	Spending / cost	Students below cost	M&O change if allocated by cost index
Lowest	$11,751	$10,014	120%	6%	−$2,084
2nd	$12,368	$12,397	101%	37%	−$544
3rd	$12,972	$13,716	95%	75%	+$331
4th	$13,431	$15,466	87%	93%	+$1,326
Highest	$14,328	$16,086	89%	97%	+$1,795

- **WADA vs. cost (Table 18):** WADA/ADA correlates 0.65 with the modeled cost index, and the slope of one on the other is 0.33. Texas's weights capture about a third of the cost differences, as in 2012.

- **Outcomes by funding gap (Section 3.7):** the fifth of districts furthest below cost (82% of cost, 79% economically disadvantaged) had 41% of tests at Meets in 2025. The fifth furthest above cost (137%, 27% disadvantaged) had 65%.
- **Against national-average outcomes (NECM, 2024):** spending is 71% of cost in the lowest-poverty fifth and 52% in the highest.

A.5 Teachers and charter networks (2012 Sections 4–5)

Teachers by district resource and outcome group, 2024–25 (enrollment-weighted). Resource = spending at or above modeled cost; outcome = STAAR Meets at or above the state average.

TABLE 10

Group	Districts	Spending / cost	STAAR Meets	% econ. disadv.	Avg. teacher salary	Teachers 0–5 yrs	Students per teacher
Low resource / low outcome	330	87%	40%	77%	$64,253	37.9%	17.2
Low resource / high outcome	87	89%	55%	67%	$63,792	28.8%	14.9
High resource / low outcome	188	109%	46%	51%	$62,171	32.9%	14.1
High resource / high outcome	281	119%	62%	36%	$64,969	30.7%	14.7

Low-resource, low-outcome districts enroll 45% of these students. They pay about the labor-market rate for early-career teachers, not the premium the 2012 report argued high-need districts need. They have more novice teachers and larger student-to-teacher ratios.

Major charter networks vs. host districts, 2024–25:

TABLE 11

Organization	Enrollment	Operating spending per pupil	% econ. disadv.	Avg. teacher experience (yrs)	Teachers 0–5 yrs	STAAR Meets
IDEA	79,430	$13,581	83%	5.0	68%	46%
Harmony (7 LEAs)	43,945	$12,326	68%	6.8	50%	56%
KIPP Texas	32,754	$14,066	90%	4.9	69%	39%
ILTexas	25,496	$16,248	74%	5.4	63%	37%

Organization	Enrollment	Operating spending per pupil	% econ. disadv.	Avg. teacher experience (yrs)	Teachers 0–5 yrs	STAAR Meets
Uplift	23,383	$13,184	81%	6.7	57%	40%
YES Prep	19,570	$14,187	91%	5.4	66%	49%
Houston ISD	176,039	$14,148	78%	10.1	43%	49%
Dallas ISD	139,776	$14,210	89%	10.3	38%	46%
San Antonio ISD	44,011	$15,286	87%	10.9	38%	32%
PSJA ISD	29,610	$16,329	94%	13.5	21%	48%

As in 2012, the networks' per-pupil spending is similar to their host districts', but their teachers average about half the experience. Their outcomes are not systematically higher.

A.6 Limitations and replication

- **Not replicated (data not public):**
  - The individual teacher salary and assignment files. District aggregates are used instead.
  - Certification-exam failure rates.
  - Fund balance after 2012.
  - Share of property value that is residential, and share of adults over 65.
  - ACS teacher-wage comparisons.
  - Advanced-course offerings and IRS 990 charter comparisons were not rebuilt.
- **Measurement changes:** STAAR replaces TAKS, with standards changes in 2016–17 and 2023, so the outcome is standardized within year. Revenue for 2004–08 is rebuilt from PEIMS transactions and calibrated to TEA's summarized file.
- **Replication:** every appendix table is produced by the Stata package `TX_2012_Replication` (`master.do`, six do-files, data and README). It ran end to end in StataNow 19.5 on November 5, 2026, and an independent Python implementation reproduces it.