

Texas Taxpayers, et. al v. Morath (before the Supreme Court)

Participants: Five plaintiffs (Edgewood, Fort Bend, Calhoun County, Texas Taxpayers and Charters); Efficiency Intervenors and State Defendants.

Claims (in general terms):

1. Adequacy – Does the system established by the legislature achieve a general diffusion of knowledge?
2. Suitability – Is the system structured, operated and funded so it can accomplish its purpose?
3. Efficiency – Two different claims
 - a. Equity – Do districts have substantially equal access to similar revenues per pupil at similar levels of tax effort?
 - b. Qualitative efficiency – Is the system effective or productive of results?
4. State Property Tax - Do districts have meaningful discretion in the levy, assessment, and disbursement of property taxes?

Note: The trial court explored these claims not only at maximum tax rates but at levels where districts could access without voter approval.

Judgment:

Trial Court: The legislature acted arbitrarily in structuring and funding the Texas school finance system establishing an unconstitutionally inadequate, inefficient, and unsuitable system while imposing an unconstitutional state property tax.

Supreme Court: The Supreme Court stated “But our judicial responsibility is not to second-guess or micromanage Texas education policy or to issue edicts from on high increasing financial inputs in hopes of increasing educational outputs.” And further concluded that despite the imperfections the school funding regime met constitutional requirements.

Judgment– Highlights:

1. Standard of Review by the Supreme Court: “If the Legislature’s choices are informed by guiding rules and principles properly related to public education – that is, if the choices are not arbitrary—then the system does not violate the constitutional provisions. At bottom, the ‘crux’ of this standard is ‘reasonableness,’ and the lens through which we view these challenges maintains a default position of deference to the Legislature—that political branch responsible for establishing a constitutionally compliant system.”
2. Adequacy:

Trial Court

- The trial court ruled the system inadequate because all measures examined (STAAR tests, End Of Course exams, SATs, ACTs, performance gaps, graduation rates, etc.) demonstrated that the state was not accomplishing a general diffusion of knowledge.
- The trial court ruled the system inadequate based on its finding that school districts were unable to meet a general diffusion of knowledge at \$1.04 (without holding a tax ratification election) or at \$1.17 (the tax cap). The system is inadequate for charters since they are funded on the average of an inadequate system.
- The trial court held the system is unconstitutionally inadequate as a whole and with regard to economically disadvantaged students and English language learners.

Supreme Court

- The Supreme Court concluded that the performance of the system as measured by outputs does not establish a violation of the adequacy requirement. The Supreme Court could not conclude that the legislature acted arbitrarily or unreasonably in its efforts to produce that result.
- The Supreme Court rejected the trial courts analysis of adequacy saying:
 - adequacy determinations should not depend on inputs such as funding per student; instead the determination is plainly result-oriented looking to the results of the educational process measured in student achievement;

- fact findings as to the specific amount of funding needed to achieve a general diffusion of knowledge are beyond the current state of science in this field and the trial court erred in assigning a minimum dollar figure as constitutionally necessary to achieve a general diffusion of knowledge;
- the legislature is not constitutionally required to assure that districts statewide impose specific inputs in the form of myriad best practices;
- While not foreclosing completely a ruling of constitutional inadequacy as to subgroups, the Supreme Court concluded that the showing necessary would have to be truly exceptional and was not made in this case.
- Charter plaintiffs have not shown a difference in treatment so arbitrary as to rise to a constitutional violation.

3. Suitability:

Trial Court

- The cost of providing a general diffusion of knowledge exceeds the funding provided in the current system, making the system unsuitable.

Supreme Court

- The Supreme Court determined the plaintiffs failed to prove the school finance system was unsuitable. The Supreme Court indicated suitability is a separate constitutional requirement, a defect reserved for some fundamental and insurmountable structural flaw. The Supreme Court noted that the trial court held the school system unsuitable because the system was underfunded, which essentially tied the suitability analysis to the trial court's flawed conclusion of inadequacy due to underfunding, which conclusion the Supreme Court rejected.

4. Efficiency:

Trial Court:

- The trial court held the system financially inefficient because the system did not afford substantially equal access to tax revenues (both maintenance and operations (M&O) and Interest and Sinking (I&S)) to provide a general diffusion of knowledge at similar tax effort.

- The trial court determined having both a formula and target revenue makes it impossible for the system to be efficient.
- The trial court also ruled that if the system continues to rely on disparate property values, then the system would need to retain the mechanisms of equalized wealth level, guaranteed yields, recapture and caps on maximum tax rates.
- The trial court held that the state’s failure to provide sufficient facilities funding to all districts also resulted in the system being unconstitutionally inefficient.
- The trial court rejected claims of “qualitative inefficiency” promoted by the intervenors.

Supreme Court

- The Supreme Court indicated that financial efficiency turns not on absolute tax rates or levels of funding but the relative difference between wealthier and poor districts that can be represented mathematically with ratios. It further indicated that while no single magic number or ratio determines financial efficiency, current ratios are in the range of similar ratios in Edgewood IV and WOC II that did not present a constitutional violation; the ratios are far below the ratios in Edgewood I where a constitutional violation was presented.
- The Supreme Court determined that the trial court did not err in rejecting the qualitative inefficiency claim. The court indicated that a plaintiff faces a stiff challenge in establishing that a system, once found to be constitutionally adequate, is nevertheless constitutionally deficient under a separate qualitative efficiency requirement. It further made clear that the court focuses on results and does not micromanage programs and methods and recognized that some inefficiency must be tolerated when governments are charged with ‘Augean’ tasks.

5. State Property Tax:

Trial Court

- The trial court held that districts lack meaningful discretion in the levy, assessment, and disbursement of property taxes; therefore, the system imposes an unconstitutional state property tax.
- The trial court determined that districts are either legally or practically unable to raise their rates and could not decrease their local rates without jeopardizing their ability to meet state standards, so their current tax rates are both a floor and a ceiling.

Supreme Court

- The Supreme Court held that the current system did not impose a statewide property tax while noting that analysis of a state property tax does not submit to simple rules or formulae. The Supreme Court referenced evidence that indicated the untapped capacity in the system has risen from 3% in West Orange Cove II to 6-7%; and that no showing was made that a district had been forced to tax at the cap and forego most or all desired enrichment expenditures.
- The Supreme Court indicated that while obtaining voter approval for a tax increase may impose political challenges, letting the local voters decide whether to raise taxes is the exact opposite of a state imposed property tax rate and rejected the trial court's analysis at \$1.04.

6. The trial court awarded \$8.4 million in attorney fees, along with an additional \$1.55 million for appeals plus 5% interest per year. The Supreme Court remanded the issue of attorney fees.

Other Issues of Note:

7. In the Supreme Court's review of previous school finance cases, the court noted that it has never held the system constitutionally inadequate, unsuitable, or "qualitatively" inefficient under Article VII, Section 1.

Texas Constitutional Provisions (School Finance)

Article VII, Section 1 (*emphasis added*)

A 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.

Article VIII, Section 1-e

No State ad valorem taxes shall be levied upon any property within this State.

School Finance Litigation (with selected excerpts)

1989 *Edgewood v. Kirby* (“Edgewood I”)

“Efficiency . . . does not allow concentrations of resources in property-rich school districts that are taxing low when property-poor districts that are taxing high cannot generate sufficient revenues to meet even minimum standards. There must be a direct and close correlation between a district’s tax effort and the educational resources available to it; in other words, *districts must have substantially equal access to similar revenues per pupil at similar levels of tax effort.*”

1991 *Edgewood v. Kirby* (“Edgewood II”)

“Most property owners must bear a heavier tax burden to provide a less expensive education for students in their districts, while property owners in a few districts bear a much lighter burden to provide more funds for their students. Thus, Senate Bill 1 fails to provide ‘a direct and close correlation between a district’s tax effort and the educational resources available to it.’ To be efficient, a funding system that is so dependent on local ad valorem property taxes must draw revenue from all property at a substantially similar rate.”

BUT

“Once the Legislature provides an efficient system in compliance with article VII, section 1, it may, so long as efficiency is maintained, authorize local school districts to supplement their educational resources if local property owners approve an additional local property tax.”

1992 *Carrolton-Farmer’s Branch v. Edgewood* (“Edgewood III”)

“An ad valorem tax is a state tax when it is imposed directly by the State or when the State so completely controls the levy, assessment and disbursement of revenue, either directly or indirectly, that the authority employed is without meaningful discretion.”

BUT

“If the State required local authorities to levy an ad valorem tax but allowed them discretion on setting the rate and disbursing the proceeds, the State’s conduct might not violate article VIII, section 1-e.”

1995 Edgewood v. Meno (“Edgewood IV”)

Recapture system (Chapter 41) upheld as constitutional.

“Eventually, some districts may be forced to tax at a maximum allowable rate just to provide a general diffusion of knowledge. If a cap on tax rates were to become in effect a floor as well as a ceiling, the conclusion that the Legislature had set a statewide ad valorem tax would appear to be unavoidable because the districts would then have lost all meaningful discretion in setting the rate.”

2005 West Orange-Cove v. Neeley (“West Orange-Cove”)

“[T]he undisputed evidence is that standardized test scores have steadily improved over time, even while tests and curriculum have been made more difficult. . . . [W]e cannot conclude that the Legislature has acted arbitrarily in structuring and funding the public education system so that school districts are not reasonably able to afford all students the access to education and the educational opportunity to accomplish a general diffusion of knowledge.”

BUT

“There is substantial evidence . . . that the public education system has reached the point where continued improvement will not be possible absent significant change, whether that change take the form of increased funding, improved efficiencies, or better methods of education.”

“Meaningful discretion cannot be quantified; it is an admittedly imprecise standard. But we think its application in this case is not a close question. . . . The current situation has become virtually indistinguishable from one in which the State simply set an ad valorem tax rate of \$1.50 and redistributed the revenue to the districts.”