

Comments by David M. Lindsay to Texas State Senate Education Committee

October 20, 2008

My name is David Lindsay and I am retired from Lyondell Chemical Company, now LyondellBasell Industries where I held corporate leadership positions in purchasing, quality and strategic planning. I previously held corporate financial analysis and consolidation and plant engineering positions with Atlantic Richfield Corp (ARCO) and Exxon Chemicals.

I have served, in volunteer roles, for about 15 years in support of Houston-area and state-wide secondary education and adult basic education initiatives, boards and committees. I also periodically serve as an Examiner for the Malcolm Baldrige National Quality Award under the US Department of Commerce.

My brief comments today draw from my industry and education experience and are focused on quantifying the cumulative and annually increasing costs to Texas taxpayers from the approximate 2.6 million working-age dropouts in Texas and offering several remediation path recommendations.

Considering the dropout costs to Texas taxpayers - my analysis, based on conservative assumptions, determines the annual cumulative costs to be \$2.7 billion per year, increasing by roughly \$123 million per year with each new dropout class (estimated at about 33%). I have developed this analysis using data from the 2007/2008 published study on Texas Dropout Costs by the Milton Friedman Foundation, and their Director of Research has approved the analysis and summary report as an accurate representation of their data.

This analysis captures the additional taxpayer costs caused by dropouts as compared to the costs caused by students who attained a high school diploma or GED. These Texas dropouts have much worse life outcomes compared to high school graduates. They have higher unemployment rates (7.4% vs. 5.5%), lower annual earnings (\$12,700 vs. \$21,900), and higher use of Medicaid (35% vs. 20%), and are more than twice as likely to be incarcerated.

To quantify the costs to Texas taxpayers, the study extends these cost factors, focusing on lost tax revenue (caused by lower earnings), higher Medicaid costs and increased incarcerations of dropouts vs. high school graduates. The cumulative tax bill we now cover every year is \$1.9 billion in lost tax and fee revenue, \$522 million in Texas's share of Medicaid costs and about \$270 million in incarceration costs – which adds up to the \$2.7 billion per year figure.

To help address and turn around this large and increasing taxpayer burden, I suggest two parallel remediation approaches.

First - dramatically reduce the dropout rate by providing our high school students with more **flexible** and **relevant** curriculum and career options. Specifically, I'm suggesting expansion (rather than restriction) of the High School Career and Technology programs, with emphasis in areas, such as Construction, where there are high paying jobs and large workforce shortages right now in Texas. These CTE programs bridge to our community colleges and offer excellent career enhancement opportunities through lifelong learning.

My second recommendation is to significantly increase funding and beef-up the state's Adult Basic Education programs. These programs directly target the individuals who have already dropped out to help them raise their literacy and English skills, attain their GED and capture decent paying jobs, which will then allow them to better provide for their families and become **taxpayers** so they too can help "**pay back**" to the community to help solve this major problem.

Thank you for the time today. A copy of my one-page Summary Report is included the handout package.

David M. Lindsay

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Total Current Year Incremental Dropout Costs for Texas Taxpayers Estimated at \$2.7B/yr and Growing based on Friedman Foundation Study

By David M. Lindsay – Texas LEARNS State Advisory Committee – Business Representative² (June, 2008)

The Friedman Foundation for Educational Choice published a comprehensive study authored by Brian J. Gottlob in February 2007¹ that estimates the costs of dropouts to Texas taxpayers. This study highlights the incremental cost of the 2005 class of dropouts, meaning the additional taxpayer costs caused by those dropouts as compared to the costs caused by students who attained a high school diploma. This 2005 class of dropouts is estimated to be 119,000. However, the Friedman study also projects the total number of dropouts in Texas in the 20-64 working-age group to be about 2,595,000, and that is the number the Texas taxpayers must now support or subsidize in each year's State Budget. An understanding of public costs and benefits is fundamental to debates about education reform.

The Friedman study notes that Texas's high school graduation rate is only about 67%, with rates in the state's largest cities as low as 50%. These Texas dropouts have much worse life outcomes compared to high school graduates. They have higher unemployment rates (7.4% vs. 5.5%), lower annual earnings (\$12,700 vs. \$21,900), and higher use of Medicaid (35% vs. 20%), and are more than twice as likely to be incarcerated. To quantify the costs to Texas taxpayers, the study focuses on lost tax revenue (caused by lower earnings), higher Medicaid costs and increased incarcerations of dropouts vs. high school graduates.

Mr. Gottlob's modeling estimates that the dropouts' reduced earnings and associated multipliers totaled \$24 billion in 2005 and their associated reduced consumer spending totaled about \$19 billion. This reduced economic activity costs Texas about 300,000 jobs. He also finds that it reduces tax and fee revenues for state and local governments in Texas by about \$727 for each Texas adult without a high school diploma. This translates into roughly \$86.5 million per year for the 2005 dropout class and approximately \$1.887 billion per year for the total working-age dropout population in Texas.

The study focused on Medicaid to illustrate the impact of high school graduation on social safety-net expenditures in Texas, of which Medicaid is the largest and most costly. In 2005, the Medicaid bill for Texas exceeded \$17 billion, with more than \$7 billion coming from Texas taxpayer funds (Texas's share is 39.1% of the total). The study's analysis found that incremental Medicaid costs for dropouts (the additional costs they generate as compared to graduates) were about \$514 per dropout, making Texas's share about \$201 each. Thus, Texas's share of the incremental costs for the 2005 dropout class conservatively totals about \$24 million per year. The total for the entire working-age dropout population in Texas is approximately \$522 million per year.

Regarding incarceration, the study found that eliminating dropouts in Texas would reduce the number of incarcerations of a graduating class by about 44%, or about 670 fewer incarcerations for the 2005 class. The cost to house each prisoner averaged about \$18,000 in 2005. Thus, the study estimated that the incremental annual incarceration cost for the 2005 class is about \$12 million. To produce a rough estimate of the costs for the total working-age population, we can take the average annual incarceration cost over 2001-2005 (\$10.8 million per dropout class) and multiply it by a conservative 25 year cumulative factor, producing a figure of \$270 million.

In summary, combining the incremental costs of dropouts from lost tax revenue and higher spending on Medicaid and incarceration produces a current-year cost to Texas taxpayers of \$123 million for the 2005 dropout class and \$2.679 billion for the total working-age dropout population.

Notes:

- (1) "The High Cost of Failing to Reform Public Education in Texas," prepared by Brian J. Gottlob, Senior Fellow, Friedman Foundation for Educational Choice, February 2007, revised January 2008. The Friedman Foundation approved this summary report as an accurate description of its data.
- (2) David M. Lindsay is retired from Lyondell Chemical Company, recently merged into LyondellBasell Industries. He currently serves in a volunteer role as the Business Representative on the Texas LEARNS State Advisory Committee and the Texas Workforce Literacy Resource Team. He also has served as an Examiner for the Malcolm Baldrige National Quality Award under the U.S. Department of Commerce in 1992, 1993 and 2006. Mr. Lindsay has a M.S. in Chemical Engineering from the University of Texas at Austin and a B.S. in Chemical Engineering and MBA from Louisiana State University at Baton Rouge.

BRIEF BIO

DAVID M. LINDSAY

Employment and Education:

David Lindsay has broad-based work experience in the petrochemical and oil industry. He retired in December, 2004 from Lyondell Chemical Company, now LyondellBasell Industries. From 1999-2004, he was in the Corporate Planning and Business Decision Support organizations. During this period, his responsibilities included business intelligence and industry evaluation processes, macroeconomics, supply chain planning, and enterprise alignment. He also led cross-functional project teams that developed and implemented customer e-business systems, internal e-collaboration systems and variable cost savings initiatives. Former positions in the industry included: Lyondell – Director, Quality and Corporate Purchasing Manager; Atlantic Richfield Corp – Corporate financial consolidation and analysis; Exxon Chemicals– Divisional financial consolidation and analysis, business planning, energy management and process and project engineering in manufacturing. He also served for three years as an Officer in the U.S. Army Chemical Corps. He has a Masters Degree in Chemical Engineering from the University of Texas at Austin and a B.S. in Chemical Engineering and an MBA from LSU.

Volunteer and Professional Activities:

Mr. Lindsay has served as an Examiner for the Malcolm Baldrige National Quality Award Program under the US Department of Commerce in 1992, 1993 and 2006. He has also been active as a volunteer in public education initiatives in Texas for over 15 years, including serving as President of the Advisory Board for Houston's School to Careers Program, Vice-President of the Board of Directors for Literacy Advance of Houston and other projects with Houston Community College and the Houston Independent School District. His current focus is in adult basic education where he serves as the Business Representative on both the Texas LEARNs State Advisory Committee and the Texas Workforce Literacy Resource Team. He was a member of the Writing Team for TWC's recently published Limited English Proficient (LEP) Guide for Workforce Professionals and served on the Planning Committee for the First Annual Texas Workforce Literacy Summit held in April, 2008 in San Antonio sponsored by Alamo Community College.