

**Testimony to the  
Senate Education Committee  
Presented by Richard Middleton, Ph.D.  
February 22, 2010**

Good morning. I am Richard Middleton, superintendent of North East Independent School District in San Antonio. I have been asked to provide testimony today on Senate Interim Charge 4.

- Texas school districts are facing tough decisions unparalleled in my 20 years as a superintendent.
- I have seen the State abandon a financial system that better reflected growth, tax effort, student need and equity. While our formula funding system was complex and needed updating, it distributed money according to the needs of children; it equalized funding and recognized tax effort.
- Since 2006, we have a system where revenue is based on a frozen point in time—state funding is capped and is not dynamic. It does not fully recognize growth, student need or equalization, even though the state is still in a period of dynamic student growth.
  - For example, we project to receive <sup>1</sup>\$2,972 per student in state revenue. However, our adopted 2009-2010 budget reflects expenditures of <sup>2</sup>\$7,448 per student.
- In 2009, the legislature did provide NEISD an additional \$120 per Weighted Average Daily Attendance, but little of that money was discretionary.
- It is time for the State to establish a revenue adjustment that provides sufficient funding to address today's cost drivers.

I would like to talk with you about four significant cost drivers impacting public school budgets today:

1. Inflation
2. Enrollment growth
3. Employee compensation; and
4. Technology.

1. Latest estimate for NEISD's total state revenue is \$194,684,749. This includes all state funding, including the stabilization funds. Using 65,505 as the enrollment, it comes to a total of \$2,972.
2. The NEISD adopted 2009-2010 budget was for \$487,915,039 in expenditures. This comes to \$7,448 per student.

## Inflationary pressures

- You may wonder why I bring up inflation at a time when the economy is not producing a high inflation rate.
- My concern is not about today's increases in cost but rather the inflation we have experienced this decade, which is not adequately funded in the current school finance system.
- From 2000 to 2009, North East ISD's total revenue increased 26 percent or \$1,608 per student. That sounds like a sizeable increase. However, when adjusted for inflation, total revenue per student is actually **down 13 percent**.
- We have seen significant increases in **utility costs**. In NEISD, costs per student for utilities have increased by \$36 up to \$197 per student. This is an increase of **22 percent** from 2004-2009.
  - State funded universities enjoy a 20 percent discount on utilities. Why treat us differently when public schools rely far more on state funding compared to universities that can charge tuition and adjust costs as expenses increase? Recommendation: Add public school districts to Texas Utility Code Section 36.351.
  - Or allow all school districts to buy electricity off the grid if it provides a cheaper alternative – including those districts that are restricted from doing so because they reside in an area serviced by a municipal utility. This may result in more competitive rates.
- North East also faced increased **transportation costs** of **11 percent** over the past 5 years, even though the transportation formula has not changed since 1984 to reflect these costs. In fact, funding (which is already reduced by local share) has actually **declined by 4 percent**.
  - Recommendation: a state consortium for school districts, which could include state vehicles as well. The buying power of a statewide program should drive down fuel costs.

## Enrollment Growth

- Enrollment growth is another cost driver for school districts.
- For North East ISD, about 70 percent of our property value is residential and our district continues to grow. Homeowners buy homes in North East because of our programs and academic successes, thus improving values and adding more students to our district.
- Since 2005, North East has opened 4 new Elementary schools, 2 new middle schools and 1 new high school. These new schools increased the district's **fixed costs** by about \$11.8 million.
- We know that our quality schools help drive appraisal growth, and our schools should benefit from this growth to offset the cost of additional students.
- Given the Target Revenue System, I am trying to explain to my community that their higher property valuation and subsequent tax bill does not mean the district is getting more money. It is simply reducing the amount of state aid we receive – dollar for dollar – to fund the state property tax reduction. When taxpayers pay higher bills, they expect additional services.
  - Recommendation: Reinvest the additional revenue from value growth back into the system to allow us to provide those additional services our customers expect and adequately fund the 1,000 to 2,000 new students we get each year. Increasing the New Instructional Facilities Allotment would partially address this issue.

## Employee Compensation

- Competing for high quality staff is the most significant cost driver that public schools face.
- The increased competition for teachers in our area of the state has required salary increases over the past several years that are not reflected in the current Cost of Education Index (CEI.)
- Although the legislature has provided for some increases for teachers, counselors, nurses, speech pathologists and librarians in recent years, nothing has been done for other district staff to maintain a competitive and attractive salary package.
  - The mandated salary step increase from HB 3646 in the 2009 session added an unexpected \$2.3 million expense to NEISD's budget. While North East ISD believes in rewarding its employees, the district had planned to freeze salaries to adopt a balanced budget for 2009-2010. HB 3646 called for a mandatory step increase funded with local dollars, which we believe will be required the second year of the biennium as well, for another \$2.4 million expense. (We are also concerned that the state will not be able to fund the pay raise in future years since federal stimulus dollars were used to pay for it.)
    - The 2009 mandated salary increase and mandated step increase represented 75 percent on the "new" money given to NEISD.
    - While the state funded a pay increase for five employee groups, NEISD had to consider an equitable 2.87 percent for other employee groups to maintain competitive salaries and attract teachers to campus leadership positions. This represented another \$3.5 million expense for NEISD.
      - Unanticipated consequence of funding only certain groups: compression of pay scales. If we don't increase assistant principal and principal salaries, we cannot recruit into those positions. So districts end up funding that out of local funds.

## Compensation (continued)

- The mandated pay increase of \$425 per teacher for 2007-2008 was partially funded based on district WADA. NEISD received \$1.7 million, or \$23.63 per WADA, but the actual cost for this raise was about \$2 million. Additionally, as our enrollment grows and we add teachers, the funding amount per WADA will actually decline since it has been frozen at \$1.7 million. This year, that represents \$23.08 per WADA.
  - Likewise, in order to maintain equity between teachers and campus administrators, mandated salary increases for teachers must be at least partially matched by districts. North East funded raises for other employees to the tune of \$5.3 million.
- For both raises granted in the last two bienniums, the costs of benefits associated with the raises-- such as Medicare and unemployment, etc -- were not funded.
- Recommendation: Consider salary requirements for all employees and adequately fund the mandate for the long-term.

## Compensation (continued)

- Other cost drivers associated with employee compensation are **health insurance** and **retirement**.
- All school districts are required to contribute to health insurance premiums. North East ISD's share of health insurance costs was \$30.8 million in 2008-2009. (Our employees contributed \$14.8 million.)
  - During the past five years, the district's health insurance costs have gone up by \$515 per employee. This is an increase of 17 percent.
  - NEISD has made a commitment to not pass the expenses back to the employee. Since 2007, NEISD has not raised employee premiums for health insurance even though the district's costs for health insurance have gone up.
- School districts are also required to cover the State's share of an employee's retirement cost during the first 90 days of employment.
  - In 2003-2004, the state implemented a 90-day waiting period for Teacher Retirement System membership. Once the law was reversed in 2005, districts picked up the costs that the state had paid prior to 2003-2004. For North East, that cost was more than \$421,000 in 2008-2009.
- School districts also pick up the TRS above state minimum, costing NEISD \$5 million last year.

## Technology

- Many school districts fund technology improvements in bond packages because the state does not provide adequate funds to bring classrooms into the 21st century. In 2007, NEISD asked voters to approve a bond package that included \$52 million for instructional technology and technology infrastructure upgrades.
  - Recommendation: The technology allotment should be improved so that districts can make use of recent technological innovations and can meet state goals related to online testing.
  - Or, If the state doesn't have the resources to fund technology, let us sell Technology only bonds without voter approval. State could put a limit on duration of life of bonds, like 5 years to match usefulness of tech.



## Capturing Cost efficiencies

- Before I close, I'd like to also briefly touch on the second part of Senate Interim Charge 4: recommending opportunities for achieving cost efficiencies.
- Going back to my earlier discussion about utilities, I believe that this is a logical place to explore efficiencies.
- School districts have already been asked to reduce energy consumption, and NEISD has embraced that. Why not take it to another level?
- The state could provide grants or participate in cost-sharing for districts to convert their schools to green practices. The start-up cost to convert buildings to be more energy-efficient is prohibitive for many districts, but the long-term benefits are tangible.
- North East ISD is a local leader in incorporating energy efficiency measures into remodeling and new construction efforts. We track our usage per square foot for all of our facilities and report energy savings monthly. Just for the first semester of this school year, NEISD has saved more than \$100,000 despite utility rates increasing.
- Several of our newer buildings include abundant natural light and other energy efficient elements. Additionally, construction is well underway on two new facilities that will meet the Leadership in Energy and Environmental Design standard (LEED), making the facilities pioneers in our community and in our state.
- North East ISD is in favor of a state program that encourages schools in Texas to "go green." Providing a financial incentive to meet certain energy efficiency criteria would yield long-term cost savings to our taxpayers, while helping to improve our quality of life.

## Closing Remarks:

- Our growth is a result of the excellent programs we offer. But providing only new funding through ADA growth is insufficient. It is not enough to maintain the services our customers expect and keep pace with cost drivers.
  
- It is more expensive to educate a child today, but the system has capped our revenue per student. Growing requirements and changing demographics impact the cost per student.
  - In Texas, 56 percent of students are on free/reduced lunch, with a half percent growth each year. NEISD has also seen that number grow to 43 percent this year.
  
  - The Texas English Language Learner growth is also remarkable.
  
- I understand that the Legislature faces a difficult financial picture in the next biennium. At the very least, provide school districts with flexibility in how we spend our money. Remove some rules that bind us, like mandated salary increases or unfunded program requirements.