



North East Independent School District

8961 TESORO DRIVE - SAN ANTONIO, TEXAS 78217

December 9, 2009

Dear Friend,

As superintendent of North East ISD, I have been faced with many challenges – yet not any as tough as the current financial situation of the district. Just as the country is in an economic downturn, our households are hurting and NEISD is no different. We have been making steps to protect our future financial viability, and there is a long road ahead of us. The steps we are taking in preparation for the 2010-2011 budget year will help us avoid a financial crisis in future years.

As you may have heard in the news, our Board of Trustees approved a resolution to declare a "financial exigency" and a need for program changes. I must note here that exigency doesn't mean emergency. The district is not currently broke or bankrupt. In fact, exigency is a proactive, planning tool that allows leaders to take quick action to prevent an emergency. The board's resolution authorizes me and district staff to implement budget cuts starting in 2010-2011. This is a major change, and the Board's action acknowledges the district's financial need in coming years.

Since 2006, Texas school districts operate under a state finance system where state and local funding is capped based on revenue per student. This is commonly referred to as the Target Revenue System. The state has capped NEISD's revenue per student at about \$5,500. Even if property values go up and property tax bills increase, we don't realize any more money per student for daily operations. Your higher school district tax payment simply reduces the state's obligation to the district.

Additionally, the 2007 and 2009 legislative sessions provided little relief. There was new money allocated to school districts, however, 75 percent of our new funding was used for state mandated salary increases this year. Plus, the state has mandated a salary step increase for our teachers and librarians in 2010-2011, and NEISD must find local funds for this. While I agree our employees

deserve more pay, it is hard to find \$2.4 million to meet this unfunded mandate when reductions are necessary.

Since local property tax revenue growth no longer benefits us in our daily operations, the only way the district can raise revenue significantly is through a maintenance and operations tax rate election. Given the current state of the economy and feedback from employees and taxpayers, it does not appear likely that district voters would approve increasing their tax rate at this time. I am also hearing that building Johnson High School and Heroes Stadium is the cause of our current financial situation. This is not true at all. The money we receive from bonds can only be used for capital projects that our taxpayers have approved at the ballot box. It would be illegal for the district to use these funds for any other purpose, such as teacher salaries.

NEISD is in this current financial situation because we maintained the same student offerings even though our financial system had changed. We made budget reductions outside of the classroom but continued to provide expensive programs like the high school A/B block schedule because of its popularity with parents and students. The district also believed that offering eight periods across two days under the A/B block schedule provided flexibility for changing academic requirements, supported academic success, and enabled students to participate in extracurricular activities and advanced courses. However, we have observed other districts replace their block scheduling successfully while still responding to new academic mandates, scoring well on standardized tests, competing strongly in extracurricular competitions and enrolling students in advanced courses. NEISD is no longer justified in the extra expense of a block schedule and can no longer afford to offer it. Replacing our high school A/B block schedule with a seven-period day would reduce the number of teachers needed to staff each high school, saving NEISD about \$6.5 million annually.

If we continue a "business as usual" approach, the district would head toward a financial crisis in 2011-2012. There would be cash flow shortages, the district's fund balance would be depleted, and we would likely have to take out a loan just to make payroll. Currently, we have less than 1.5 months of operating expenses in reserve. This reserve is needed to ensure adequate cash flow to pay bills during periods of the year with small cash inflows; in case of emergencies; to allow for lower than anticipated tax collections; in case the state "prorates" school funding or delays payments (which happened over a three-year period in the 1990s); and to receive high bond ratings. Our goal is to save three months worth of our expenses, or 25 percent. To accomplish this, we are implementing phase three of our budget austerity plan.

NEISD has outlined a spending reduction plan for the 2010-2011, 2011-2012 and 2012-2013 school years. Across these three years, the district plans to reduce approximately \$27 million. The cumulative savings would add up to \$63 million.

In addition to replacing the high school A/B block schedule with a seven-period day, we are pursuing other options such as freezing salaries for 2010-2011 and reducing staff at campuses and central office. As an example, freezing salaries next year would provide a \$15 million savings.

A common question I have been asked is why now or why so quickly. NEISD is up against several roadblocks, and we have run out of options. What we are facing is not a surprise. In fact, when the state froze our revenue in 2006, we began discussing the possibility of a financial shortfall with our board, principals, staff and public. It is apparent that the state's ability to offer more money to fund education is doubtful in the 2011 legislative session. In the past, the district was able to use the additional revenue from property value growth to provide both educational basics and enrichment programs. That is no longer an option under the Target Revenue System. As our constituents face long term and deep financial crises at home, NEISD feels we must be responsible by reducing costs rather than ask for more taxes through an election. Making the tough decisions now to cut back expenses enables us to address revenue shortfalls in the future.

NEISD will not sacrifice student success in this process. We have studied how other districts have replaced their high school block schedule with a seven-period day while maintaining high student performance and extracurricular offerings. I believe that as a district, we can all work together and move forward to achieve a healthy financial picture and continue the NEISD tradition of excellence. The Board of Trustees and I are committed to ensuring that we are fiscally responsible and dedicated to providing our students the best education they deserve.

Sincerely,

Richard A. Middleton
Superintendent of Schools
North East ISD