

The School Budget Problem: Causes and a Proposed Solution

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Floridians enjoy one of the lightest tax burdens in our country. We do not pay a personal income tax, inheritance tax, or gift taxes. According to the Tax Foundation, our state and local tax burden over the past three decades has been 7.4% of income (vs. a national average of 9.4%), placing us 47th out of the 50 states. Moreover, we rank a very favorable 5th in terms of the Foundation's Business Tax Climate Index. (By contrast, neighboring Georgia and Alabama rank 29th and 19th, respectively.) Comparatively speaking, we pay considerably lower taxes than the average American citizen.

Here in Okaloosa County, we also enjoy the lowest county millage rate (3.2899) in the entire state, along with a cost-of-living index well below and an average per capita income well above the statewide average (thanks in part to a significant number of financially well-off retirees). All things considered, the citizens of Okaloosa County are doing much better than those in the rest of the state.

Nonetheless, judging from a variety of sources, including informal surveys, newspaper editorials, letters-to-the-editor, "spout off," and public forums, our citizenry is an unhappy lot when it comes to taxes. We hear more and more demands for lower taxes or at least holding the line on new taxes, often along with the view that significant cuts can be made without the loss of essential services or educational quality. Whether that goal can be achieved remains to be seen.

The latest victim in this assault on all forms of public spending is our school system. Now that the sales tax proposal has been defeated, the School Board is faced with finding additional cuts in the budget or imposing a millage increase as have done most of the other 66 counties in Florida. It is doubtful that our citizens will take kindly to an initiative of this kind. "After all," as one reasonably well-informed citizen recently put it, "...we had a great system 10 years ago at 165 million, we now have about 225 million, the dollars per student have increased dramatically, and the district is crying 'poor mouth.' They don't need more money; they need better management."

So what can the School Board do to live within its budget, meet infrastructure needs, and maintain the educational quality we have come to expect? Our analysis of this problem has led to the conclusion that the Board's only recourse, other than

a millage increase, which may not be enough anyway, is to restructure its salary and benefits system. Here is the rationale for our conclusion:

First of all, those who argue that the problem can be solved by reducing various non-instructional costs fail to recognize that both current Superintendent Alexis Tibbetts and former Superintendent Don Gaetz have already created a very lean administrative structure in our school system. Various measures of so-called overhead costs reveal that our district ranks at or close to the top when it comes to administrative efficiency.

Secondly, for the past year or so, the administration and Board have worked very hard to cut costs even further, to the point that an objective look at school spending will reveal a very, very lean operation. Unlike many districts, there's not a lot of "fat" left remaining in the budget.

Thirdly, calls for the elimination of various "non-essential" educational programs (e.g., Arts, Athletics, Embry-Riddle), which seem short-sighted from an educational perspective, would actually free up only a very small percentage of the dollars needed to address the problems identified in the defeated sales tax proposal. Contrary to what many seem to believe, educational programs account for a very small portion of the overall school district budget. Significant cuts are possible only by looking at the primary cost factor in the budget, i.e., salaries and benefits, which comprise more than 80% of the total annual expenditures.

Based upon these considerations, we are fairly confident in saying that the roughly \$13 million needed each year to meet the projected needs is not going to materialize without an additional source of revenue, or unless a way is found to significantly reduce the current expenditures for salary and benefits.

So what about salaries and benefits? Should this issue become part of the discussion? This is a very delicate issue that appeared to be a taboo topic in the meetings held last spring. Nobody even mentioned teacher salaries and benefits. We raise the issue understanding that it will be quite controversial.

There is a considerable degree of consensus that Okaloosa's school system is quite good and that we have excellent teachers. Moreover, many believe that teachers are underpaid compared to their counterparts in other states. State-to-state comparisons are fraught with various methodological difficulties, most states have an income tax but some do not, and the cost of living varies widely from one state to the next. Given these disclaimers, we can report that Florida ranks about 30th

among the 50 states in terms of average teacher salary. Since many of Florida's teachers also receive bonuses as part of the School Recognition Program, plus pay no state income taxes, the situation is actually somewhat more favorable than the ranking itself would suggest.

A more reliable measure of teacher pay can be made within each state. Compared to other districts, Okaloosa's teachers fare very well. The following table shows the average teacher salary along with a measure of the cost of living for the highest paying districts in the state.

Teacher Salaries and Cost of Living for the Highest Paying Districts

<u>District</u>	<u>Salary (2009-10)</u>	<u>Rank Among 67 Districts</u>	<u>Cost of Living (FPLI)</u>	<u>Rank Among 67 Districts</u>
Monroe	\$56,674	1st	100.85	10th
Sarasota	55,886	2nd	101.71	6th
Collier	53,571	3rd	107.01	1st
Okaloosa	51,598	4th	95.22	39th
Miami-Dade	50,749	5th	101.06	9th
<u>Broward</u>	<u>50,423</u>	<u>6th</u>	<u>103.29</u>	<u>3rd</u>
Statewide	\$46,696	(a -.52% decrease compared to 2008-09)		

Note that, with the exception of Okaloosa County, the top paying Florida school districts are located in South Florida or the Sarasota area, all of which have a higher than average (100.00) cost of living index. Note also that the average teacher salary for each district more or less reflects the cost of living in that district, the one obvious exception being Okaloosa County. We rank 4th in salary and 39th in the cost of living.

It is worth noting that the average salaries for Okaloosa's principals are also among the highest in the state. High school and middle school principals rank 3rd and elementary principals rank 9th out of the 67 districts. Our teachers and principals are doing quite well compared to other school districts. However, this is not true for our Superintendent. Her salary is well below those in the districts with the highest teacher salaries. In fact, our Superintendent earns less than the statewide average in spite of the high marks achieved by the schools in our district. Looking at other administrative salaries overall, excluding those for principals, we find that most fall within the middle one-third of the statewide distribution.

What Should Salaries Be?

Most business people would agree that the salaries they offer are more or less determined by market forces. How much must we offer to get the type of employee we want? The answer to this question depends on a number of factors, including supply and demand, cost of living, the appeal of the community in which the business is located, and the prevailing economic climate. For example, given our lower cost of living in this region of the state, it is not surprising that the average salary for most occupations in our area fall well below those for the southern part of the state. In fact, Okaloosa County's average income for all occupations is \$29,410 and the statewide average is \$30,500 (State of Florida Labor Market Statistics). A closer analysis of these figures reveals that the salaries for almost all occupations in Okaloosa County fall within the middle one-third of the statewide salary distribution, the two primary exceptions being the salaries for teachers and government employees.

Thus one thing we should be able to agree on is that, comparatively speaking, especially when cost of living is taken into consideration, the teachers of Okaloosa are very well paid indeed. However, we may not agree on whether our teachers are paid too much or too little. From a strictly business perspective, the salaries we offer would appear to be considerably higher than what market forces would require in order to attract the kind of teachers we want to teach our children. Of course, we assume the teachers' union would take strong exception to even using such a yardstick for determining salaries. As one union member put it, "We have the highest FCAT scores, thus we have the best teachers, and therefore we deserve the highest salaries." While not wishing to discount the claim that we have a very good school system, our research and that of many others has demonstrated fairly convincingly that the best predictor of FCAT scores is the socioeconomic profile of a district, not any known measure of teaching effectiveness. It is simply a well-established fact that FCAT scores tell us more about the level of poverty in a school district than the quality of that district's teachers. (Note: It needs to be emphasized that school grades are determined primarily by absolute FCAT scores, which are strongly correlated with socioeconomic status, not changes in scores from one test period to the next; were the grades based primarily on change scores, the correlation with socioeconomic status becomes much less or even disappears altogether.)

We wish to stress that this issue is not about whether teacher salaries and benefits are too high or too low. In these economic hard times, especially when we are now hearing that programs will likely be cut and classroom needs put on hold, the question becomes, "In a time of decreasing revenues for the foreseeable future, can we sustain the current salary structure and continue to meet the programmatic

needs of our schools?" We don't think so. It would seem that the time has come for the Board of Education, if it hasn't already, to establish a policy on salaries that is more closely aligned to standard business practices and which views salaries in the context of other pressing educational needs. What is our goal for salaries in order to attract the best faculty? Given our cost of living and attractive community, do we have to be in the top 5 percent in order to attract the kind of faculty we seek?

Suppose, for example, by freezing salaries or reducing the size of annual salary increases, the Board established a 5-year objective to achieve an average teacher salary at about the 75th percentile instead of the current 94th percentile, a figure which, combined with our lower cost of living, would likely still make our school system an attractive place to live and work. While we don't have the figures needed to give a precise answer, our best guess is that 8 to 10 million dollars would ultimately be freed up annually for the district. Extrapolated over an even more extended period, say, 20 years, we can readily see the financial impact of the revised salary structure would have on the school budget and funding for capital projects and educational programs.

Our understanding is that the Board voted to freeze salaries for next year but later reversed itself. That action would have been a reasonable first step, especially if we the citizens are going to be asked to provide more support for the school system. Our further recommendation would be for the Board to undertake a systematic review of its salary structure and develop a more rational, market-oriented methodology for establishing salary guidelines. In the absence of additional revenue, the current course is surely unsustainable over the long run without negatively affecting the educational program and meeting current and projected infrastructure needs.

In closing, it is worth noting that some of the financial challenges currently faced by the school system would appear to be a product of long-term neglect of the inevitable infrastructure needs that were identified in the defeated sales tax proposal. Even in the absence of the significant cuts imposed by the Legislature, we do not believe that the annual 2 mill allocation for capital projects would have been sufficient to address all of those needs. As Superintendent Tibbetts put it recently, the system has practiced a "band-aid" approach when it comes to capital projects, funding only those needs deemed to be absolutely essential. Sooner or later, and the loss of revenue made it sooner rather than later, another source of revenue would have been necessary to meet these needs, either by additional dollars or the reallocation of existing dollars. These considerations further serve to

reinforce the conclusion that a restructuring of the salary and benefits system must be an essential component of a plan to meet current and projected infrastructure and educational program needs in the year ahead, if our community continues to oppose new taxes for the school system.

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