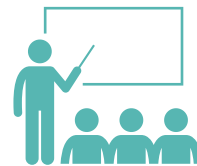


Public School District Expenditures

Key Takeaways



A combination of national trends such as inflation and rising teacher wages, and district specific needs such as changing student body demographics, are **increasing costs for many districts in our region.**



Staff salaries make up a supermajority of most district spending. **Despite declining enrollment, staffing levels for HISD had remained mostly unchanged** in the 2022-23 school year.



Districts in Houston's urban core have a **growing number of students in special populations and many struggling schools** that require additional costs for the districts across our region.



Those costs, combined with the upcoming end of Covid-19 related ESSER financial aid from the federal government, **present imminent budget challenges for HISD and others.**

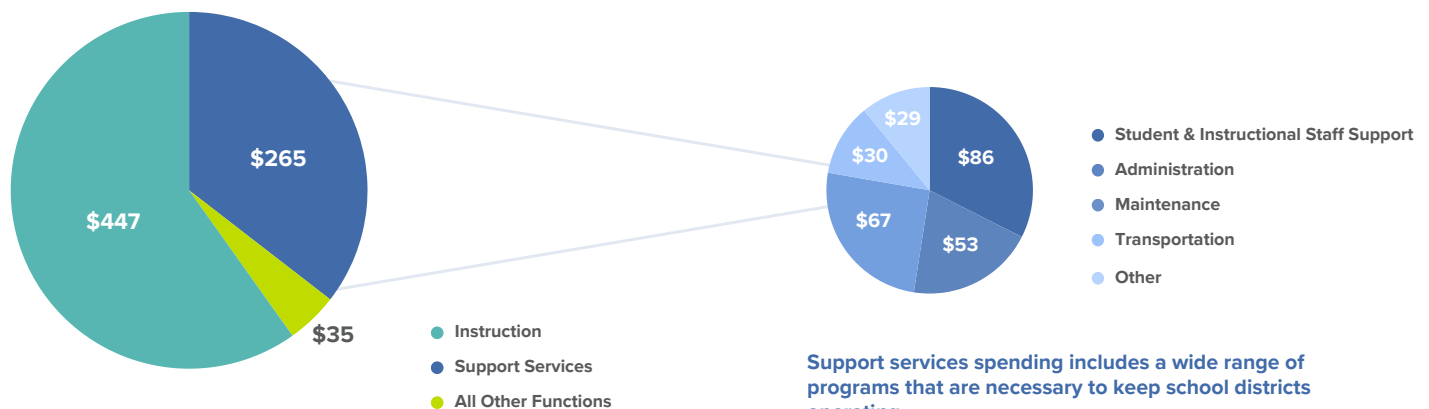
How do school districts in the United States typically spend money?

Essential Points

- School districts spend most of their money on employee costs such as salaries.
- In addition to direct instruction, districts must fund a wide range of other programs to serve students.

School districts spend approximately 60% on instruction and 35% on student support services, when accounting for expenses outside of facilities needs.¹

Total U.S. Public Schools Spending¹
(Billions of Dollars, 2022)



Support services spending includes a wide range of programs that are necessary to keep school districts operating.

Instructional spending reflects the direct cost of teaching students.^{1, 2, 3}

Nationally, districts spend over 78% of their money on salaries and benefits between instruction and support services.¹

Examples of student support services include counseling and medical services, and instructional staff support services, such as training and curriculum development. Other examples include administration, maintenance, and transportation.¹

District spending outside of instruction and support services includes food services, community services, and adult education.¹

Additionally, districts allocate much of their funding to individual schools, directing their spending through them. Some districts use a staffing model that allocates dollars based upon specific staff positions for each school,⁴ while others allocate money based upon student numbers and give principals autonomy to spend it.⁵

Does spending among Texas schools differ from the rest of the country?

Texas' schools spend their money similarly to other schools across the country.

They spend almost identical portions of their money on instruction and support services, as well as on salaries and benefits, as schools in the rest of the country.¹

How do districts pay for transportation?

Transportation costs are frequently included in district's general funds, although some related costs such as new vehicles may come out of separate funds.^{6, 7} States generally allocate additional money to districts for transportation.⁸

Data Sources

¹: U.S. Census Bureau, "Public Elementary-Secondary Education Finance Data"; ²: NCES, "Financial Accounting for Local and State School Systems: 2014 Edition"; ³: NCES, "Financial Accounting for Local and State School Systems: 2014 Edition"; ⁴: See e.g. DC Public Schools, "DCPS Comprehensive Staffing Model"; ⁵: See e.g. HISD, "2023-2024 Resource Allocation Handbook"; ⁶: See e.g. HISD, "2022-2023 Adopted Budget Book"; ⁷: See e.g. Washington State OSPI, "Capital Projects Fund and Transportation Vehicle Fund Accounting"; ⁸: Washington State Office of Financial Management, republished by Safe Routes Partnership, "State by State Information on School Transportation Expenditures..."

How did HISD spend money in the 2022-2023 school year?

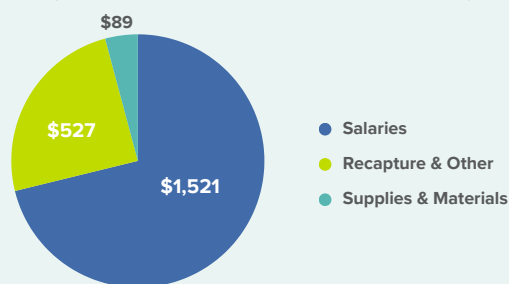
Essential Points

- Staff salaries were the largest part of HISD’s spending in the 2022-23 school year.
- HISD has also spent a significant amount of its budget on programs and services for students in special populations.

District spending can be broken down by either what the district spent the money on or what the district spent the money for.

HISD’s general fund, referenced below using the 2022-23 school year as it is the most recent year with complete data, contains all its money not set aside for specific purposes (such as paying for debt or building construction).⁹

HISD General Fund Spending by Item¹⁰
(Millions of Dollars, 2022-23 School Year)

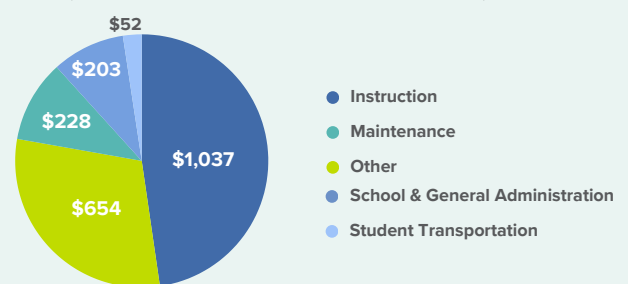


What the money was spent on

By far the largest share of HISD’s spending was on salaries, which made up almost two thirds of its total spending.¹⁰

The “Other” category in the chart above includes money that HISD loses to recapture, a state requirement to rebalance money between districts to ensure their funding targets are met.^{10 12}

HISD General Fund Spending by Purpose⁹
(Millions of Dollars, 2022-23 School Year)



What the money was spent for

HISD spent almost half (48%) of its money on instruction.⁹

Much of the remaining spending went towards administration (9%), maintenance (10%), and student transportation (2%).⁹ Around 17% of its expenditures were intended to support students in special populations.¹⁰

Much of HISD’s total budget and spending has been allocated to specific schools. HISD has allocated this money using a formula that resembles how Texas allocates money to districts. It has been based upon attendance and used a base amount per student of around \$3,754 for the 2022-23 school year.¹¹ HISD has also allocated additional money to schools based on their students in special populations, but frequently at a lower rate than the state.^{11 13}

How has HISD funded transportation?

HISD pays for almost all its student transportation costs from its general fund.¹⁰ While the state of Texas provides some money specifically for student transportation, the amount HISD received (\$11.6 million) was far less than its overall transportation spending (\$56.7 million).¹⁰

How has HISD funded special education?

HISD has funded much of its special education programs through its general fund, where they make up around 8% of total expenditures.¹⁰ As part of that spending, the district allocated \$563 to schools per special education student (in addition to the basic per-student funding of \$3,754) for the 2022-23 school year.¹¹

HISD also has a small separate fund for Special Education Shared Services, which has spent around \$8 million per year to centrally perform some special education services such as evaluation.¹⁰

What budget and spending challenges does HISD face today?

Essential Points

- National trends are driving challenging increases in HISD's costs.
- HISD-specific needs such as changing student body composition and struggling schools also create additional financial challenges.

Challenge #1: Salary Cost Growth

Many school districts across the country, including HISD, faced teacher shortages during and after the pandemic.^{14 15} In response, HISD used teacher salaries for recruitment and retention.¹⁶ Additionally, inflation in the overall economy has put pressure on wages to increase.¹⁷ And despite declining enrollment, HISD staffing had not declined, and in fact had steadily increased for non-instructional staff in recent years.⁹

Together, these factors resulted in a 7% increase in the total HISD spend on salaries from its general fund between the 2019-20 and 2022-23 school years.^{10 18}

Challenge #2: Growing # of Students in Special Populations

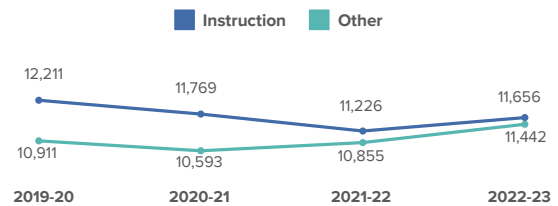
Between the 2017-18 school year and the 2022-23 school year, the share of HISD students eligible for free and reduced lunch increased by 6%, and the share of students in special education programs increased by 28%.^{19 20} Some students may require services such as counseling, speech therapy, and specially designed instruction.²¹ It is expensive for HISD to properly serve those students, indicated by how HISD provided around \$625 more to schools annually for each special education student they have during the 2023-24 school year.²²

Challenge #3: Aging Facilities

HISD has many old buildings and infrastructure – with lead remaining in some pipes and old heating and cooling systems resulting in classrooms either too cold or hot for students.²³

HISD has not passed a bond to pay for large scale facilities improvements since 2012, leaving the district to pay to maintain aging equipment.^{23 24} For comparison, the four next largest districts in Texas have each passed a bond since 2019.^{25 26 27 28} HISD spends more of its money on maintenance (around 12%) than the state average of 10%.²³

Number of HISD Employees⁹
(2019-20 to 2022-23 School Years)

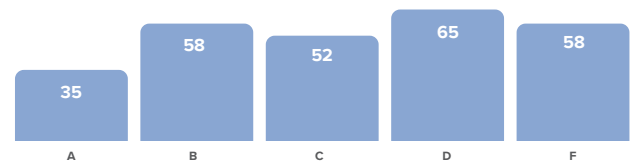


Challenge #4: The Cost of Turning Around Struggling Schools

HISD had 123 schools rated a D or F for the 2022-23 school year, indicating they were not properly serving their students and require difficult work to turn around.²⁹ The largest HISD initiative to address this issue is the New Education System (NES), which features a common curriculum and a more rigorous, structured approach to teaching.²⁹

However, NES is expensive to implement. For example, starting salaries at NES schools are around 25% higher than elsewhere.²⁹ As a result, HISD leadership expects NES to cost over \$100 million for the 2023-24 school year.³⁰

HISD Schools Ratings²⁹
(Number of Schools, 2022-23 School Year)



Challenge #5: The Expiration of ESSER Funding

School districts nationally have used ESSER funding (pandemic-era federal aid) to fund a wide range of programs.³¹ Examples of ESSER funding use included stipends for employees, campus-based tutoring, Advanced Placement program expansion, and operations costs for hearing, ventilation, and air conditioning.³²

HISD received around \$1.25 billion in ESSER funding across four and a half years, a total equal to over half a year of its general fund expenditures.^{9 33} However, ESSER funding expires next school year and HISD will have to determine how to fund or discontinue any programs using it.³²

Data Sources

⁹: HISD, "2023 Annual Comprehensive Financial Report"; ¹⁰: HISD, "2022-2023 Adopted Budget Book"; ¹⁴: Houston Public Media; ¹⁵: Click2Houston; ¹⁶: HISD, "Houston ISD Compensation Plan 2024-2026"; ¹⁷: Congressional Research Service; ¹⁸: HISD, "2019-2020 Adopted Budget Book..."; ¹⁹: HISD, "2017-2018 Facts and Figures"; ²⁰: HISD, "2022-2023 Facts and Figures"; ²¹: HISD, "Services"; ²²: HISD, "2023-2024 Resource Allocation Handbook"; ²³: Houston Landing; ²⁴: HISD, "Eyeing a multibillion dollar bond election..."; ²⁵: Dallas ISD, "HB1378"; ²⁶: Cypress Fairbanks ISD, "Bond 2019"; ²⁷: Northside ISD, "NISD Bond Home"; ²⁸: Houston Public Media, "School bond propositions..."; ²⁹: HISD, "HISD Announces 2023 School Ratings and New NES Schools"; ³⁰: Houston Public Media; ³¹: The Hill; ³²: HISD, "ESSER II and III 2022-2023 Spending Dashboard"; ³³: HISD, "ESSER I, ESSER II & ESSER III".