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\*This document will be updated frequently

## Why is the district facing a \$208 million shortfall for the 2018-19 school year?

The district is dealing with a perfect financial storm in the aftermath of Hurricane Harvey. School districts depend on local property tax dollars as a primary source of funding, and property values are expected to decrease in the wake of the storm. We also anticipate a decrease in student enrollment. HISD lost about 1,800 students who left the district because of Harvey, and that number may grow in September if families trying to rebuild after the storm decide to leave Houston. These factors, combined with our upcoming recapture payment, have led to significant budget challenges that will require us to shift our thinking about how we allocate funds for the 2018-19 school year.

## How will HISD prepare a 2018-19 budget with a \$208 million shortfall?

HISD's chief financial officer and budget team are in the process of analyzing the district's current expenditures and budget needs and are examining areas where cuts can be made at both the school and department level.

## What does a more centralized budgeting model look like?

The predictability of what happens at every school will provide greater efficiency of scale in a large school system.

Currently, schools receive funding in a weighted student funding model, which allocates dollars per student and allows principals to decide how those dollars are used on their campus. Under a staffing model, schools are assigned positions rather than dollars based on the number of students they serve. Principals will still decide whom they will hire, but we as a district will ensure that every school has essential positions, such as a nurse or counselor.

Programs that would be centrally funded include special education, career and technical education, the hiring of substitutes, athletics and athletic stipends, and UIL academics.

## Do principals have a voice in how the new staffing model will work?

A Principal Advisory Committee that includes representatives from elementary, middle, K-8, high, and specialty schools began meeting and will collectively provide input on the staffing model that will eventually be recommended for approval. The committee includes representatives from all trustee districts, school levels, and types of schools. All principals gave feedback on the draft staffing model proposal on Jan. 23 via an electronic survey. The Principal Advisory Committee will hold a series of meetings, and all principals will have an opportunity to review the staffing proposal.

## How does our funding model compare with other Texas ISDs?

Currently, HISD is the only district in Texas that uses a fully decentralized funding model. The weighted student funding model is used sparingly across the nation.

## Will layoffs within the district be necessary to address the shortfall?

Unfortunately, yes. All HISD departments and schools are taking a hard look at their budgets and staffing to determine essential services and areas that can be streamlined.

### **Can cuts at the central office and within district departments cover the \$208 million deficit so schools won't be impacted?**

HISD currently has one of the lowest central office staffing ratios in the state. Departments are now being asked to cut \$116 million for the upcoming 2018-19 school year, which is 56% of the \$208 million deficit. Unfortunately, the entire deficit cannot be covered by cuts to the central office without eliminating essential services provided to schools.

### **When will we know how property taxes will affect the district's deficit numbers?**

The Harris County Appraisal District may provide some early guidance in February and certified estimated values in April. The district receives certified values every August.

### **If property values are expected to go down, won't our recapture payment also decrease?**

Recapture payments are based on the previous year's property values, and this year HISD's recapture payment is \$241 million based on last year's property values. While recapture goes down when tax collections go down, the district will continue to lose more in revenue than the reduction in recapture. Property values generate wealth for the district, and recapture causes us to send some of that wealth to the state.

### **Will HISD's recapture payment decrease because the Texas Education Agency is going to recognize half of the local homestead exemption in their recapture calculations?**

Last year, the TEA did agree to recognize half of the local homestead exemption, reducing HISD's first recapture payment. Two property-poor Texas school districts sued the state in response, and that decision remains in the courts. A decision in that case could come after a hearing in the spring. A win in this case would reduce our recapture payment by approximately \$50 million.

### **Does HISD have a savings or "rainy day fund" that can be applied toward the deficit?**

Yes, we are using \$56 million of our rainy day fund toward the 2018-19 budget, \$20 million from our reserve for insurance programs, and \$28 million from our unassigned fund balance until we receive funds from our insurance carrier or FEMA. That significantly impacts the district's fund balance, which is used to help fund the district every year until we start receiving property tax revenues each year in December.

### **Can taxes be increased in order to help with deficit?**

The Board of Education has the option to decide in May whether or not it wants to put a Tax Ratification Election before voters to raise the tax rate of our maintenance and operations from \$1.04 to \$1.17, which would bring the deficit down by \$118 million to help offset the loss in property tax values. It would go to voters in a June election. If voters approve a new tax rate, some budget cuts and layoffs could be prevented.

The \$0.13 increase in the tax rate for a homeowner with a taxable value of \$100,000 would cost an additional \$130.

### **Can small schools possibly share positions like a counselor?**

The Principal's Advisory Committee is exploring this possibility.

## Can schools use “other funds” to pay for teachers besides what is allocated to their campus through the staffing model funding formula?

Yes, a school can use Title I, magnet, or funds from partial staffing positions to pay for campus positions such as teachers, reading specialists, and other currently funded positions.

## How will access to wraparound services and the expansion of fine arts programs to every student be affected?

Those remain priorities for the district. We are recommending this change so we can maximize our austere funding and continue to drive the district’s initiatives – providing wraparound services to support the social and emotional needs of students, expanding fine arts to all students, and ensuring every school has essential staff to meet the needs of all students.

## How will the budget deficit impact Nutrition Services?

Funds used for carrying out Nutrition Services’ mission do not come from the district’s general fund. The department’s funding is from the federal government, specifically the U.S. Department of Agriculture. Despite the budget deficit, Nutrition Services will work to ensure it continues to fulfill its mission of delivering “good food” to students each day without interruption.

## Will the shortfall impact school support staff?

Unfortunately, yes. Though no final decisions have been made, the budget shortfall is expected to lead to a reduction in service and staff across all school support areas at both the campus and district level.

## Will the budget deficit impact 2012 Bond Program projects?

No. State law requires that bond dollars be spent only on the projects approved by voters during the bond election. Per state law, these projects are limited to facility construction and renovation, land acquisition, and the purchase of capital items, including technology, transportation, and equipment. Additionally, contracts already have been executed for all but one of the 2012 Bond projects, which means their bond funding has either already been allocated or spent.

## Will the budget deficit impact plans to repair or rebuild schools damaged by Hurricane Harvey? Could we divert rebuilding funds to help meet the budget deficit?

No. The district is moving forward with its plan to rebuild four elementary schools — Braeburn, Scarborough, Kolter, and Mitchell — that sustained significant damage during Hurricane Harvey. Facilities assessments found significant property damage, as well as a strong need to raise the building elevation to prevent potential future flood damage. Rebuilding the schools was determined to be the most cost-effective and time-efficient option, allowing for a quicker return of students and staff who have been relocated to temporary campuses. The rebuilding projects are funded by a combination of Tax Incremental Refinance Zone (TIRZ) funds and reserves from the Board’s reserve for operations.

## What is the timeline for action on the budget?

The Board of Education could vote as early as May on a new budget. The board will hold a series of workshops and public meetings before then, and state law dictates we adopt a final budget by June 30.