

Budget Workshop #2

2021-2022

Date: April 15, 2021
Presenter:
Glenn Reed
Chief Financial Officer



Agenda

- 2021-2022 Compensation Update
- 2021-2022 Updated Budget Projections
- Fund Balance
- Magnet
- Health Insurance
- Wrap-up

Compensation

Draft 2021-2022 Teacher Step Table

Yrs Exp\ Step	10M Salary	10.5M Salary	11M Salary	11.5M Salary	12M Salary	10 Month Proposed 2021/2022 Step Diff.
0	\$54,369	\$57,087	\$59,806	\$62,524	\$65,243	Average Increase = \$686
1	\$54,519	\$57,245	\$59,971	\$62,697	\$65,423	\$150
2	\$54,669	\$57,402	\$60,136	\$62,869	\$65,603	\$150
3	\$54,819	\$57,560	\$60,301	\$63,042	\$65,783	\$150
4	\$54,981	\$57,730	\$60,479	\$63,228	\$65,977	\$162
5	\$55,512	\$58,288	\$61,063	\$63,839	\$66,614	\$531
6	\$56,042	\$58,844	\$61,646	\$64,448	\$67,250	\$530
7	\$57,320	\$60,186	\$63,052	\$65,918	\$68,784	\$1,278
8	\$57,590	\$60,470	\$63,349	\$66,229	\$69,108	\$270
9	\$57,860	\$60,753	\$63,646	\$66,539	\$69,432	\$270
10	\$58,685	\$61,619	\$64,554	\$67,488	\$70,422	\$825
11	\$58,957	\$61,905	\$64,853	\$67,801	\$70,748	\$272
12	\$59,518	\$62,494	\$65,470	\$68,446	\$71,422	\$561
13	\$59,792	\$62,782	\$65,771	\$68,761	\$71,750	\$274
14	\$60,066	\$63,069	\$66,073	\$69,076	\$72,079	\$274
15	\$60,341	\$63,358	\$66,375	\$69,392	\$72,409	\$275
16	\$60,615	\$63,646	\$66,677	\$69,707	\$72,738	\$274
17	\$61,183	\$64,242	\$67,301	\$70,360	\$73,420	\$568
18	\$61,734	\$64,821	\$67,907	\$70,994	\$74,081	\$551
19	\$62,286	\$65,400	\$68,515	\$71,629	\$74,743	\$552
20	\$63,708	\$66,893	\$70,079	\$73,264	\$76,450	\$1,422

Draft 2021-2022 Teacher Step Table

Yrs Exp\ Step	10M Salary	10.5M Salary	11M Salary	11.5M Salary	12M Salary	10 Month Proposed 2021/2022 Step Diff.
21	\$64,153	\$67,361	\$70,568	\$73,776	\$76,984	\$445
22	\$66,518	\$69,844	\$73,170	\$76,496	\$79,822	\$2,365
23	\$66,657	\$69,990	\$73,323	\$76,656	\$79,988	\$139
24	\$67,102	\$70,457	\$73,812	\$77,167	\$80,522	\$445
25	\$68,628	\$72,059	\$75,491	\$78,922	\$82,354	\$1,526
26	\$69,189	\$72,648	\$76,108	\$79,567	\$83,027	\$561
27	\$70,200	\$73,710	\$77,220	\$80,730	\$84,240	\$1,011
28	\$71,155	\$74,713	\$78,271	\$81,828	\$85,386	\$955
29	\$71,436	\$75,008	\$78,580	\$82,151	\$85,723	\$281
30	\$72,109	\$75,714	\$79,320	\$82,925	\$86,531	\$673
31	\$73,120	\$76,776	\$80,432	\$84,088	\$87,744	\$1,011
32	\$73,570	\$77,249	\$80,927	\$84,606	\$88,284	\$450
33	\$74,244	\$77,956	\$81,668	\$85,381	\$89,093	\$674
34	\$75,142	\$78,899	\$82,656	\$86,413	\$90,170	\$898
35	\$76,097	\$79,902	\$83,707	\$87,512	\$91,316	\$955
36	\$78,062	\$81,965	\$85,868	\$89,771	\$93,674	\$1,965
37	\$80,309	\$84,324	\$88,340	\$92,355	\$96,371	\$2,247
38	\$80,809	\$84,849	\$88,890	\$92,930	\$96,971	\$500
39	\$81,309	\$85,374	\$89,440	\$93,505	\$97,571	\$500
40+	\$81,809	\$85,899	\$89,990	\$94,080	\$98,171	\$500

Proposed Updates for 21-22 Teacher Step Table

- The step increase for steps 1, 2, and 3 is now a \$150 increase for each.
- In order to increase steps 1, 2, and 3, step 7 changed from \$1,628 to \$1,278.
- Increased the cap from 37 years to 40 years by adding steps 38, 39, and 40 to the end of the table with a \$500 difference between each step.

2021-2022 Updated Budget Projections

2021-2022 Assumptions

- Projecting a budget deficit for 2021-2022
- Updated Enrollments:
 - 2020-2021 budget based on – 207,809
 - 2021-2022 - March 25, 2021 projected - 201,550 (gaining back 5,000 students)
 - 2021-2022 - April 10, 2021 updated projections from campus principals – 197,937
- Property Values – will receive certified estimated values by April 30, 2021
 - Flat over current values (\$198B)
 - An increase in values increases recapture, does not provide any significant additional revenues
 - Collection rate 97.00%
 - An increase in collection rate increases recapture, does not provide any significant additional revenues
- Maintenance & Operations (M&O) tax rate
 - 2020-2021 current rate is \$0.9664
 - 2021-2022 based on \$0.9664
 - TEA will notify districts of their maximum tax rate in late summer 2021 based on certified values and surveys of districts
- No COVID costs included in the general fund – expect ESSER to be able to cover these future costs.

Updated Projections

	2021-2022	2022-2023
5700-Local Sources	1,834,398,507	1,895,477,047
5800-State Sources	159,742,130	190,386,904
5900-Federal Sources	17,230,000	17,230,000
7900-Other Sources	42,366,685	20,000,000
Total Revenues	2,053,737,322	2,123,093,951
2020-2021 Oriignal budget	2,028,542,973	2,130,568,925
Appropriatons with offsetting Revenue		
Capital lease recognition	22,366,685	(22,366,685)
TRS on-behalf	7,000,000	-
Tax Increment Reinvestment Zones	5,806,238	2,694,919
Total Appropriatons with offsetting Revenue	35,172,923	(19,671,766)
Change in recapture payment	\$132,601,909	\$87,330,637

Updated Projections

	2021-2022	2022-2023
Increases to appropriations		
Special education	18,954,831	-
Teacher step	8,000,000	-
Performance contract schools	7,000,000	-
Wraparound Specialists	6,259,959	-
Device maintenance from COVID device purchases	4,569,000	-
Elementary Principals and AP's / Deans	2,000,000	-
Verizon Innovative Learning Support	1,636,946	1,221,310
Property, liability, auto insurance	1,000,000	-
Bilingual education setaside	900,000	-
Total increases to appropriations	50,320,736	1,221,310
Decreases to appropriations		
Campus PUA enrollment decline	(52,470,674)	-
Proposed PUA reduction of \$123	(19,255,404)	-
(except for campuses in the top quartile of eco dis students in the district, F Rated, or Comprehensive)		
Transfers out	(18,434,625)	-
SCE	(7,000,000)	-
EEA	(6,433,346)	-
Districtwide	(5,000,000)	-
Department cuts	(4,800,000)	-
Harris County Appraisal District (HCAD)	(1,121,580)	-
Total decreases to appropriations	(114,515,629)	-

Updated Projections

	2021-2022	2022-2023
One-time increase/decreases to appropriations		
Retention stipends 2021-2022	14,000,000	(14,000,000)
Retention stipends 2020-2021	(15,553,987)	-
Total one-time increases/decreases to appropriations	(1,553,987)	(14,000,000)
2021-2022 Appropriations	2,130,568,925	2,185,449,107
2021-2022 Deficit	(76,831,603)	(62,355,156)
Minimum fallout	40,000,000	40,000,000
Unassigned fund balance ⁽¹⁾	14,000,000	22,355,156
Assigned fund balance reserve for Instructional stabilization ⁽²⁾	22,831,603	-

Note 1: For 2022-2023 this is the amount that the district will need to reduce the budget by to get to a balanced budget net of fallout.

Note 2: Use of the instructional stabilization fund is to help minimize the impact to the districts's operations in 2021-2022, however for 2022-2023 the district will need to make budget reductions referenced in note 1.

PUA Reduction Recommendation

- No PUA reduction to campuses that are:
 - In the top 25th percentile of economically disadvantaged students, or
 - F-Rated, or
 - Comprehensive status.
- Excludes 86 campuses from PUA reduction.
- PUA restoration of \$7 million.
- Future Impacts
 - Creates a differentiated PUA based on the criteria above.
 - Campuses could move into and out of the differentiated PUA based on any of the criteria above.
 - Once an F-rated or comprehensive campus moves out then their PUA would be reduced.

PUA Reduction Recommendation

25 th Percentile Only	25 th Percentile and F Rated	25 th Percentile, F Rated, and Comprehensive	25 th Percentile and Comprehensive Only
54	5	2	4
Not 25 th Percentile and F Rated	Not 25 th Percentile, F Rated, and Comprehensive	Not 25 th Percentile and Comprehensive Only	
10	3	8	

Recapture Estimates

2020-2021	2021-22	2022-23	2023-24	2024-25
\$ 110,338,634	\$144,685,800	\$232,016,437	\$241,002,193	\$321,619,030

- Assumes property value growths of:
 - 2021-2022 – flat
 - 2022-2023 – 4 percent
 - 2023-2024 – 5 percent
 - 2024-2025 - 5 percent
 - An increase in property value growth increases recapture and vice versa.
- Enrollment flat for 2022-2023 through 2024-2025
 - An increase in enrollment decreases recapture and vice versa.

Fund Balance

Fund Balance

- What is fund balance?
 - Fund balance is the difference between assets and liabilities – it is NOT cash.
- How much fund balance should a school district have?
 - Three months of expenditures is a common rule of thumb.
 - This rule of thumb is included by TEA in the Financial Integrity Ratings System of Texas (FIRST).
- What can impact the need for additional fund balance?
 - Located in an area more at risk for natural disasters like hurricanes, fires, or floods.
 - Located in areas more easily impacted by economic recessions (i.e. mineral dependent districts).
 - District's that are self-funded for certain types of insurance. HISD is self insured for Health Insurance and Workers' Compensation.

Fund Balance

- Recapture vs. non-recapture district
 - A recapture district receives less state funding. State funding payments begin in September each fiscal year.
 - Majority of cash in a recapture district isn't collected until late December / early January from property taxes.
 - Recapture districts need more fund balance to pay bills until those tax collections are received.
- Benefits of a sufficient fund balance
 - Prevents borrowing costs to pay for cash deficits.
 - Results in higher bond ratings, lowering interest costs for taxpayers.
 - Helps districts respond to unforeseen interruptions such as Hurricanes and the current pandemic costs.
 - Helps districts fund some one-time costs such as system upgrades, system implementations and facility emergencies.

Fund Balance

	Unassigned fund 06/30/2020	Assigned Fund Balance Instructional Stabilization 6/30/2020
	\$ 655,054,226	\$ 133,930,224
Use of fund balance		
Original Budget (excluding PFC)	\$ (15,553,987)	\$ -
Amendments through February 2021	(142,325,576)	-
May and June amendments (anticipated)	13,147,319	-
Use of fund balance from approved amendments	\$ (144,732,244)	\$ -
2020-2021 minimum fallout	40,000,000	-
Revenues, budget reductions and fallout	\$ 40,000,000	\$ -
2020-2021 anticipated use of unassigned fund balance	\$ (104,732,244)	\$ -
Anticipated fund balance as of June 30, 2021 (estimated)	\$ 550,321,982	\$ 133,930,224
April 15, 2021 Budget Workshop (2021-2022 use of fund balance)	\$ (14,000,000)	\$ (22,831,603)
2021-2022 unassigned fund balance June 30, 2022 (estimated)	\$ 536,321,982	\$ 111,098,621

Unassigned Fund Balance Policy (Coming in May)

Recommendation will be three months of operating expenditures net of recapture and non-cash expenditures such as TRS on-behalf and capital lease recognitions.

Recommended Fund Balance Policy Estimate (2021-2022)		
2021-2022 original budget	\$	2,130,568,925
Less TRS on-behalf		(87,000,000)
Less Recapture		(144,685,800)
Less capital leases		(22,366,685)
2021-2022 budget for board policy fund balance calculation		1,876,516,440
Per month		156,376,370
Months for board policy		3
Minimum fund balance	\$	469,129,110

2021-2022 estimated fund balance compared to recommended board policy	\$	67,192,872
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Use of fund balance should be limited to non-recurring costs as a future revenue source is not guaranteed.

- Working on an RFP for a district Timeclock system.
- Working on an RFP for a district contract management system.

Magnet Expansion

MPERC – 2018 & 2019

The Magnet Program Evaluation Review Committee (MPERC) met for two consecutive years.

The committee was comprised of thirty-one members including:

- Parents
- Community members
- Higher education partners
- Principals from all levels and school types
- Central office departmental leaders



MPERC Recommendations Implemented

Extend Pre-K enrollment timeline to ensure eligible students are granted access into magnet pre-kindergarten programs

Neighborhood Pre-K programs prioritize TEA eligible students

Adjust Magnet and Choice application timelines to 1. align with budget and staffing timelines, and 2. to coordinate student transportation

Middle School magnet programs will no longer use a matrix as criteria for entry

- In 2018-2019, 2,014 of the 9,597 5th grade applicants were deemed ineligible prior to this change

High School magnet programs will maintain a matrix for admission criteria

Expansion of special population consideration points from 8 to 10 points, and added Special Education and 504 students in addition to EL and Economic Disadvantaged

- In 2020-2021, 1,529 additional High School students were deemed eligible for Magnet programs due to this change

MPERC Pending Recommendations

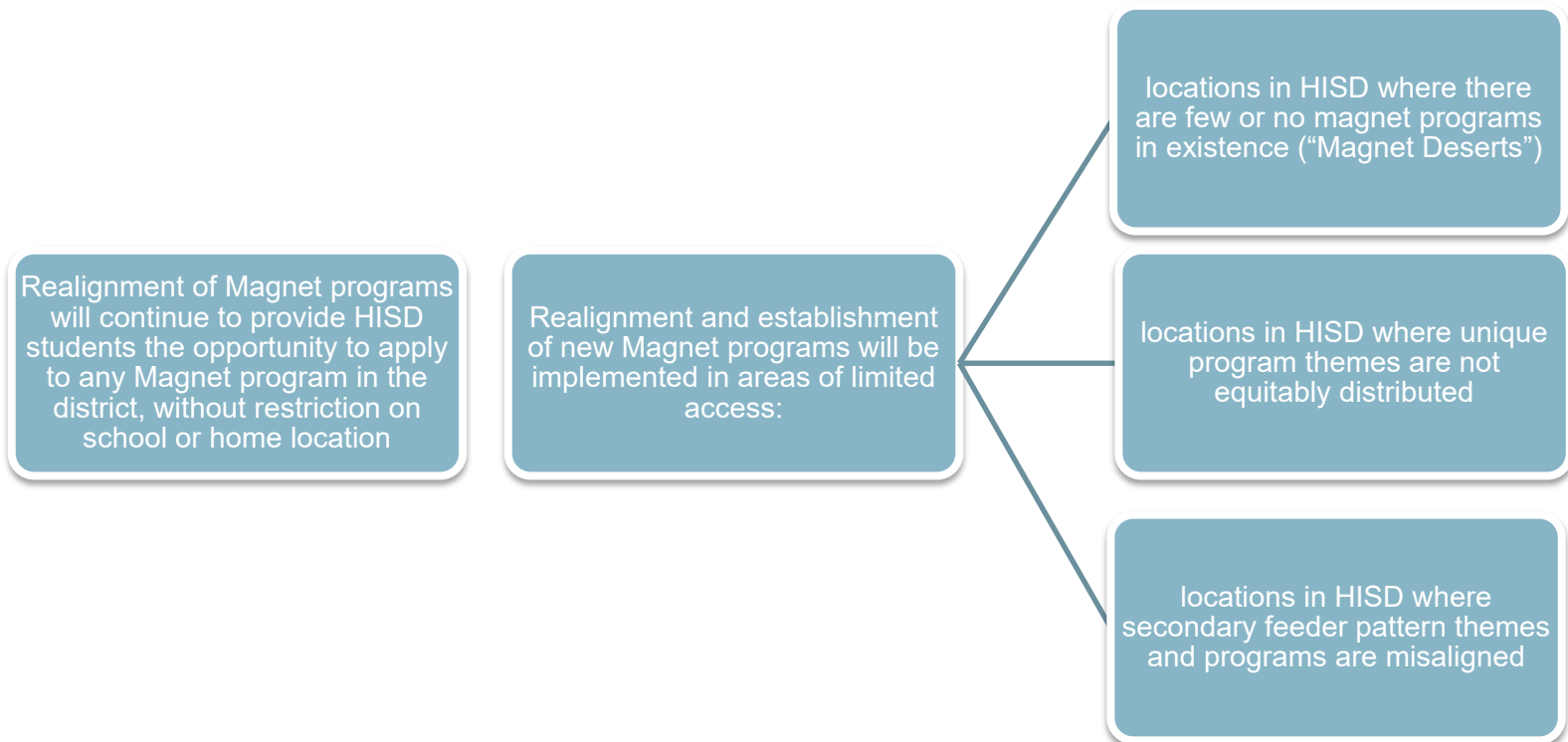
Creation of 21 new Magnet programs in Secondary schools without one to ensure equitable access in all regions of HISD

Transition 29 non-Fine Art Elementary Magnet programs to school-based programs using alternate transfer options for student access

Continue to fund all 19 Fine Arts Elementary Magnet programs to maintain HISD's commitment for access to arts district-wide

To ensure fidelity of Magnet programming, Magnet positions and services will be modified

Secondary Realignment



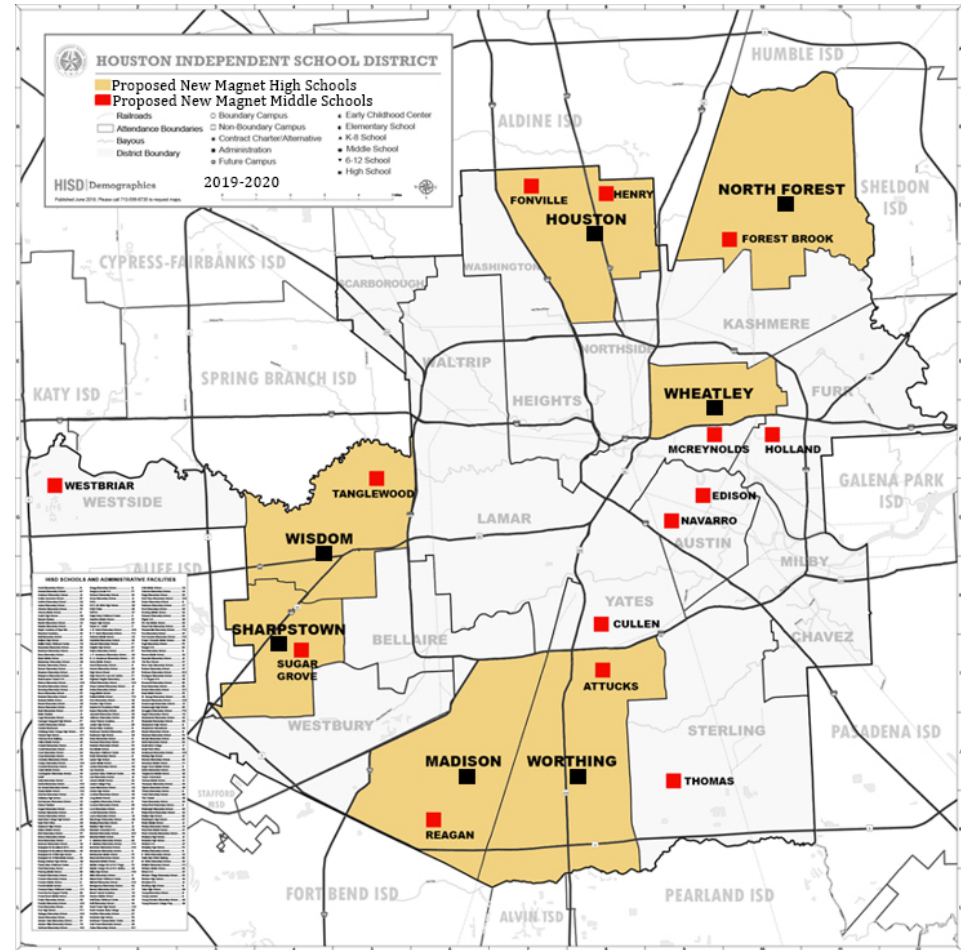
Secondary Expansion Map

Expansion of new Magnet programs will be implemented in:

- Locations in HISD where there are few or no magnet programs in existence (“Magnet Deserts”)
- Locations in HISD where unique program themes are not equitably distributed
- Locations in HISD where secondary feeder pattern themes and programs are misaligned

High School zones without a Magnet program are highlighted in yellow with a black dot

Middle Schools without a Magnet program are highlighted by a red dot



Secondary Realignment Timelines



Budget Implications

	SY 2021-2022	SY 2022-2023	SY 2023-2024
(ES Funding)	(\$1,471,000)	(\$2,922,000)	(\$4,383,000)
(Magnet Personnel)	\$0	(\$4,536,000)	(\$4,536,000)
(One-Time Funding)	(\$1,861,000)	(\$1,861,000)	(\$1,861,000)
Magnet Campus Personnel	\$1,302,000	\$6,200,000	\$6,200,000
Campus Funding	\$190,000	PUA-Based	PUA-Based
Magnet Innovation Fund	\$1,468,000	\$1,600,000	\$2,956,000
School Choice Support	\$372,000	\$1,119,000	\$1,224,000

***Realignment of funds each SY does not require a budgetary increase**

Health Insurance

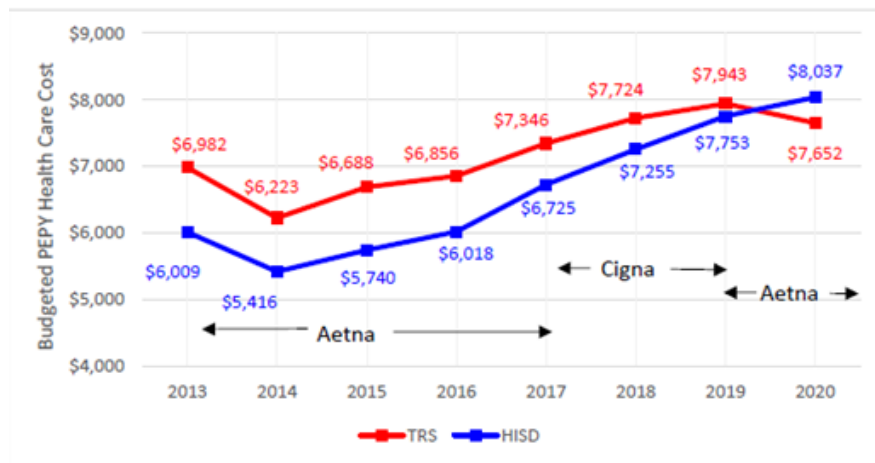
Health Fund - Future Projections

	7/1/2018 - 6/30/2019 ¹	7/1/2019 - 6/30/2020 ¹	7/1/2020 - 6/30/2021 ²	7/1/2021 - 6/30/2022 ³	7/1/2022 - 6/30/2023
Average Subscribers ⁵	19,234	18,879	19,229	19,386	19,386
Medical Claims	\$123,937,038	\$121,608,081	\$124,707,000	\$129,117,000	\$136,735,000
Prescription Drug Claims	\$34,346,054	\$35,477,560	\$39,123,000	\$43,527,000	\$47,227,000
Stop Loss Recoveries	\$0	-\$622,480	\$0	\$0	\$0
Non-Claim Cost (Fixed Cost)	<u>\$15,122,803</u>	<u>\$15,068,504</u>	<u>\$16,711,000</u>	<u>\$17,681,000</u>	<u>\$17,359,000</u>
Total Plan Cost	\$173,405,895	\$171,531,665	\$180,541,000	\$190,325,000	\$201,321,000
Plan Cost PEPM	\$751.29	\$757.17	\$782.42	\$818.14	\$865.41
Total Plan Cost	\$173,405,895	\$171,531,665	\$180,541,000	\$190,325,000	\$201,321,000
Total Revenue	<u>\$168,490,123</u>	<u>\$185,970,548</u>	<u>\$173,675,000</u>	<u>\$184,264,000</u>	<u>\$185,766,000</u>
Surplus/(Deficit)	-\$4,915,772	\$14,438,883	-\$6,866,000	-\$6,061,000	-\$15,555,000

Plan Participation

- Participation by Plans
 - Kelsey Seybold AC) – 49%
 - Memorial Herman ACO – 25%
 - Texas Medical Neighborhood – 26%
- Participation by Tiers
 - Employee Only – 13,360 (69%)
 - Employee and Spouse – 1,191 (6%)
 - Employee and Child(ren) – 3,154 (16%)
 - Employee and Family – 1,681 (9%)

Plan Performance Overview (TRS and HISD)



Houston ISD Cumulative Trend from 2014	2014	2015	2016	2017	2018	2019	2020
Annual Year Over Year TRS Trend	-10.9%	7.5%	2.5%	7.2%	5.1%	2.8%	-3.7%
Annual Year Over Year HISD Trend	-9.9%	6.0%	4.8%	11.7%	7.9%	6.9%	3.7%
Average Enrollment	18,397	19,094	19,634	19,579	19,683	18,885	19,299
Year Over Year Enrollment Percent Increase	18.1%	3.8%	2.8%	-0.3%	0.5%	-4.1%	2.2%

Options – TRS

- Pros
 1. HISD would no longer need to maintain a Health Fund balance, so residual funds once current claims have been paid can be returned to the General Fund
 2. Lower expected cost to HISD based on current rates of both plans
 3. Costs would become fixed annually once TRS releases rates, subject to plan enrollment fluctuations

Options – TRS Active Care

- Cons
 - TRS could apply a surcharge to join, or not allow HISD to join TRS Active Care
 - Decision to move to TRS is irrevocable
 - Select Plan would no longer be available (15% of population)
 - No control over future costs
 - Plans are either High Deductible health plans or plans that require primary care referrals to see specialists.
 - Very narrow networks and high provider disruption. It is assumed 60% of HISD membership would be impacted
 - No financial incentive to maintain onsite and near-site clinic services
 - Must follow TRS eligibility requirements

Options – TRS – Area Districts

Districts Self-Insured

- Aldine ISD
- Alief ISD
- Austin ISD
- Conroe ISD
- Fort Bend ISD
- Katy ISD
- Lamar ISD
- Pasadena ISD
- San Antonio ISD

Districts in TRS Active Care

- Alvin ISD
- Clear Creek ISD
- Cypress Fairbanks ISD
- Dallas ISD
- Galena Park ISD
- Klein ISD
- Pearland ISD
- Spring Branch ISD

Options – Market as Fully Insured

Fully insured plans carry significant extra costs, such that HISD has not been in a fully insured plan.

Some significant costs unique to a fully insured plan are as follows:

1. Premium Tax (1.75% on total plan cost, which includes paid claims)
2. Not required to include all State mandated coverage - .75%
3. Higher expense load in filed rates – 2.25%
4. Higher trend assumptions than self-insured – 1.3%
5. Higher costs due to integrated pharmacy and reduced rebate credits – 1.5%

Total additional costs 8.8% or about \$14.5 Million in additional cost using current year budget.

Any network changes will also include provider disruptions for participating employees and dependents.

If the medical plan is marketed before the end of the five-year term with Aetna, Aetna will be under no obligation to provide current fees and terms to HISD.

Options – Maintain Program

- Pros
 - Stabilize program (changed plans in 2020)
 - Strong participation in Accountable Care Organizations (74%)
 - Customize plans for HISD, such as Select Plan and no required referrals to see Specialists
 - Flexibility to change plans in future
- Cons
 - Potentially higher costs compared with TRS Active Care
 - Changing to TRS does not solve the problem of increasing health care costs and would still financially impact HISD employees and the district in future years.

Wrap-up

Workshop Wrap-up

- **Budget** has been updated to anticipate a loss of 10,372 students over 2020-2021 budgeted students.
- Changing PUA reduction to exclude campuses in the top quartile of economically disadvantaged students in the district (65 schools).
- District has a \$74 million expected budget deficit.
 - Propose \$14 million from the unassigned fund balance for the 2021-2022 employee retention stipend.
 - Propose \$21 million from the assigned fund balance for instructional stabilization.
 - Allows time to see what 2021-2022 enrollment is to determine true impact to 2022-2023.
 - Allows time to see how TEA will allow districts to use ESSER II and ESSER III funds.
- **Magnet**
 - Under the current proposal, 21 new magnet programs will be created in HISD secondary schools that currently do not have one. This means that:
 - Every HISD neighborhood will have an innovative magnet-themed program for grades 6 through 12.
 - Programs will be aligned from middle to high school so that families can continue their education in one HISD community.
 - The new programs will be created with input from the campus families, leadership, local community members, and industry partners.
 - There will be increased opportunities for students to engage in advanced learning options, as well as teachers and staff to engage in theme-based professional development.

Workshop Wrap-up Cont.

- **Compensation** for employees on the teacher step schedule:
 - The step increase for steps 1, 2, and 3 is now a \$150 increase for each.
 - In order to increase steps 1, 2, and 3, step 7 changed from \$1,628 to \$1,278.
 - Increased the cap from 37 years to 40 years by adding steps 38, 39, and 40 to the end of the table with a \$500 difference between each step.
- **Health Insurance** costs continues to rise
 - Expecting a deficit.
 - No increase in district contributions.
 - Employee rates will have to increase on January 1, 2022 – about 10% increase.
 - We will see increases in employee rates for the foreseeable future.
 - Continuing to look at ways to save costs in the health and prescription plan.
 - TRS could provide savings initially to the district and employees, however medical costs continue to rise.
- No assumptions on legislative actions.
- No information at this time from TEA on the Coronavirus Response and Relief Supplemental Appropriations Act (ESSER 2) or American Rescue Plan (ESSER 3) funding.
- No COVID costs included at this time.

Next Workshop May 20, 2021 Thank you

