

May Budget Workshop

May 4, 2023



FY24 Budget Timeline

March

- Schools provided with prelim budget summary (3/9)
- Principals input strategic goals (3/20)
- Campuses begin conferences (week of 3/27)

Board Budget Workshop: 3/23

April

- Campuses continue budget conferences
- Schools develop, refine, and submit budgets (by 4/28)

Board Budget Workshop: 4/20

May

- Internal financial reconciliation, update to financial schedules, newspaper notice

Board Budget Workshop: 5/18

June

- Public hearing on budget and tax rate – June 8th
- Board votes to approve budget – June 8th

July

- Preliminary campus budgets loaded – July 1st

ADOPTED FY23 BUDGET SUMMARY

General Fund Revenue Overview: Adopted Budget

HISD's General Fund (GF) is supported by local, state, and federal sources, in addition to some transfers. **When HISD proposes its annual budget, it seeks to balance the GF revenues with GF expenditures.**

FY23 Adopted Budget		
	(\$, M)	(% of Total)
Local Sources	1,901	87%
State Sources	191	9%
Federal Sources	72	3%
Transfers	20	1%
Total General Fund	2,183	100%

Notes

- The table above includes General Fund sources in the **adopted FY23 budget**.
- In addition to GF revenue, HISD also administers Internal Service Funds and Federal Funds, which are not included in this view.

General Fund Expenditures Overview: Adopted Budget

FY23 Adopted Budget		
	(\$, M)	(% of Total)
Schools	1,606	70%
Departments	279	12%
Districtwide Services	83	4%
Recapture	247	11%
Other	69	3%
Total General Fund	2,284	100%

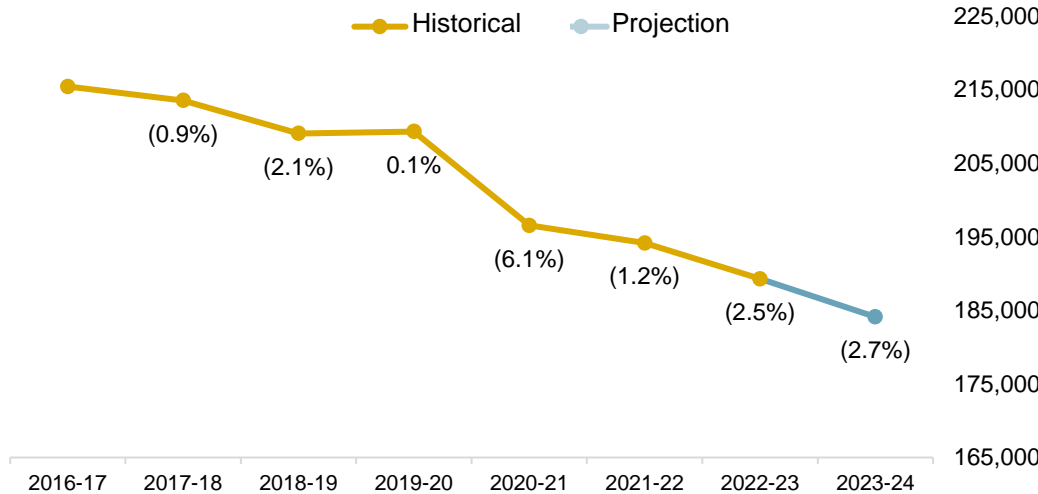
Notes

- Funding to schools includes \$1,259M in direct funding (via the Resource Allocation Model) and \$347M in pupil support provided directly from departments to schools.
- “Other” represents payments for Tax Increment Reinvestment Zones.
- Estimated “fallout” for adopted budget expected to reduce total expenditures by \$70M.

ENROLLMENT UPDATE

Enrollment Trends

Historical and Projected Enrollment



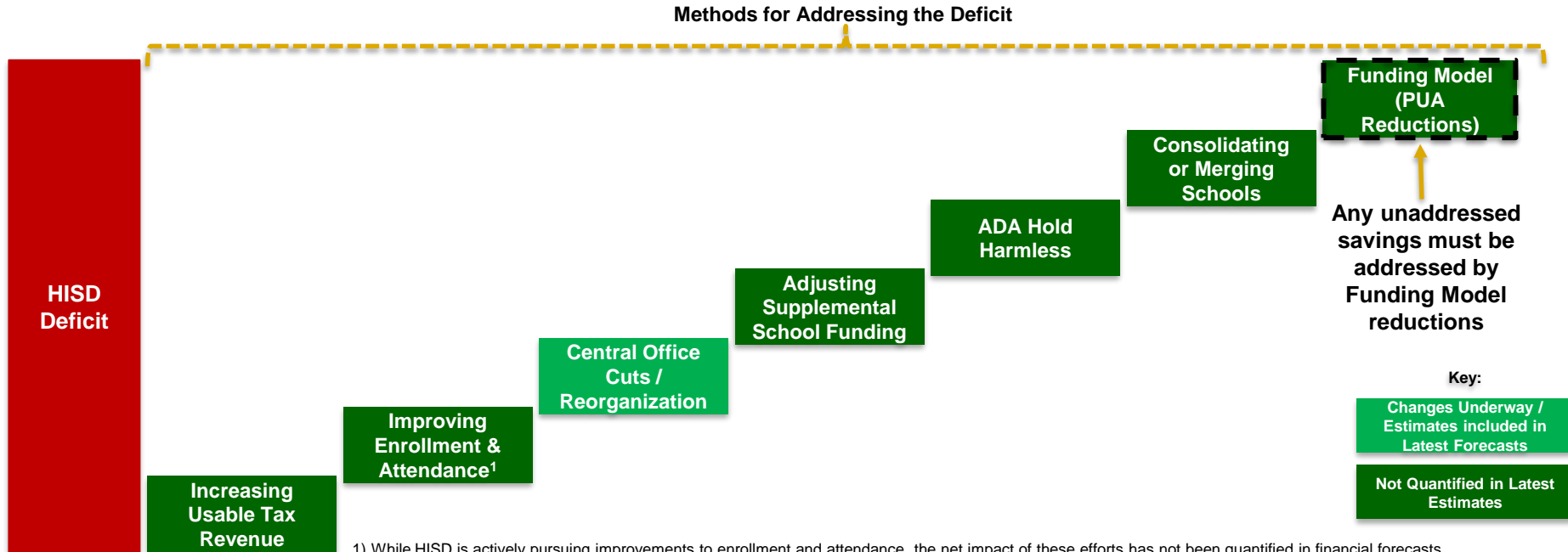
- Using the latest principal enrollment projections, the district will have decreased by ~31,000 students from FY17 to FY24 (a roughly 14.5% decline)
- HISD should consider the long-term budget implications if projected enrollment loss is realized next year and continues to decline at a similar rate in future years

Year	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Enrollment	215,408	213,528	209,040	209,309	196,550	194,141	189,290	184,099
% Change	-	(0.9%)	(2.1%)	0.1%	(6.1%)	(1.2%)	(2.5%)	(2.7%)

REVIEW: SOLUTIONS FOR ADDRESSING THE DEFICIT

HISD must consider all these solutions over time.

This visual represents the effects of a *potential* combination of solutions, *in no particular order*. HISD has set a target of eliminating this deficit by FY26 (before reserves are exhausted).



1) While HISD is actively pursuing improvements to enrollment and attendance, the net impact of these efforts has not been quantified in financial forecasts

General Fund Central Office Cuts: Overview

Central Office Cuts / Reorganization (\$15.3M)

- The central office departments used a program-based process to prepare the FY23-24 budget. During this process Chiefs:
 - Were encouraged to pursue efficiencies in their departments
 - Identified potential service-level impacts of program adjustments
 - Tied their budget requests to board goals and strategic plans
- Today, we will review the specific cuts that are included in the central office departments budgets.
- While some cuts will affect services to schools, Chiefs have worked diligently to ensure these cuts have the least impact on students.
- The below equation is what we have used to clearly show how the total reduction for each department is calculated:

Vacancy Fallout	+	Non-Salary Fallout	+	Expenditure Reduction	=	Total Reduction
\$5.8 M		\$5.1 M		\$4.4 M		\$15.3 M

Impact of Central Office Reductions

✓ : Impact Identified

	Central Office Admin Impact	Schools Impact	FY23 Total Adopted Budget (\$)*	Reduction for FY24 (\$)	% Reduction
Academics Office	✓	✓	113.9 M	10.8 M	9.5%
CTIO	✓		48.4 M	1.8 M	3.7%
Talent Office	✓	✓	10.6 M	1.6 M	15.4%
Engagement Office	✓	✓	5.8 M	0.9 M	15.1%
Schools Office		✓	10.9 M	0.4 M	4.0%
Offices with No Reductions	COO, CFO, Audit, Police, General Counsel, Superintendent & Deputy Superintendent		191.7 M	(0.2 M)**	0%
Totals:			381.3 M	15.3 M	4.0 %

*Department Budget totals exclude benefits and \$15M Pay-Go

** Budget request increase of \$200K in General Counsel Department

LATEST THINKING FORECAST

FY24 Budget Assumptions

The below assumptions reflect our latest thinking and are incorporated in the FY24 budget. These will continue to be refined and will be presented to the Board in future updates.

- **Increase in state revenue for golden pennies** from SB1 and HB1; about \$30M included in the budget
- **Property value growth at 5%:** This increases recapture and decreases tax rate
- **FY24 enrollment updated to be in line with FY24 principals' projections**
 - A decline from 189,290 in Final FY23 to 184,099 in latest thinking for FY24
- **Department cuts** of ~\$15M included in FY24
- **SSS, HS Allotment, and ADA Hold Harmless** school budget reductions no longer included in FY24
- **Fallout** (budgeted but unspent funds) forecasted at \$70M for FY24, FY25 and FY26
- **Note:** In addition to the changes outlined above, FY23 salary compensation increases of ~\$52M funded by ESSER in FY23 return to the General Fund in FY24

Pro Forma (Forecasted) Budget: Latest Thinking as of April 2023

(\$, In Millions)

This pro forma incorporates the removal of school-facing budget reductions.

	Adopted 2022-2023	Adjustments Adopted to LTF	Latest Thinking as of 4/20/23 2022-2023	Adjustments FY23 to FY24	2023-2024	2024-2025	2025-2026
Total Revenues	\$ 2,133	1 30	2,164	2 19	2,182	2,222	2,260
Appropriations	\$ (2,336)	(82)	(2,419)	9	(2,410)	(2,550)	(2,589)
<i>Fallout Estimate</i>	70	25	95	(25)	70	70	70
Surplus / (Deficit) Before One-Time Funds	\$ (133)	(27)	(160)	3	(157)	(258)	(258)
Use of One-Time ESSER Funds	\$ 102	-	102	3 (63)	39	-	-
Use of Reserves from Encumbrances and ERP Projects to Address Carryover	\$ -	54	54	(54)	-	-	-
Surplus / (Deficit) After Use of One-Time Funds	\$ (31)	26	(4)	(114)	(118)	4 (258)	(258)

1 Adjustments Included:

- 5% property growth, golden pennies
- Recapture increases
- FY23 Enrollment update
- Carryover expense
- Updated fallout projections

2 Adjustments Included:

- 5% property growth, golden pennies
- Recapture increases
- FY24 Enrollment decline
- Department budget cuts
- Conservative fallout projections

3 Adjustments Included:

- Reduction of \$11M in use of ESSER indirect costs
- \$52M of compensation package moving from ESSER to general fund

4 Adjustments result in a forecasted deficit in excess of \$250M

Note: This pro forma does not include impact of future enrollment changes in FY26.

Pro Forma (Forecasted) Budget: Changes from March Workshop to April Workshop

(\$, In Millions)

Changes to FY24 re-incorporate \$38M of expenditures related to Small School Subsidy, HS Allotment, and the ADA Hold Harmless provision.

	FY24 Latest Thinking as of March 2023 2023-2024	FY24 Adjustments from March to April 2023-2024	FY24 Latest Thinking as of April 2023 2023-2024
Total Revenues	\$ 2,182	-	2,182
Appropriations	\$ (2,372)	(38)	(2,410)
<i>Fallout Estimate</i>	70		70
Surplus / (Deficit) Before One-Time Funds	\$ (119)	(38)	(157)
Use of One-Time ESSER Funds	\$ 39	-	39
Surplus / (Deficit) After Use of One-Time Funds	\$ 1 (81)	2 (38)	3 (118)

1 \$81M deficit as presented in March Workshop

2 Removal of SSS, HS Allotment, and ADA related budget cuts

3 Updated deficit projection of \$118M in FY24

FUND BALANCE OUTLOOK

Forecasted Use of Fund Balance

(\$, In Millions)

HISD will likely remain above reserve requirements through most of FY25, but depletion of reserves is forecasted in FY26. **Cost savings opportunities must be identified to mitigate our anticipated operating deficit.**

	Adopted 2022-2023	Adjustments 2022-2023	Latest Thinking as of April 2023 2022-2023	2023-2024	2024-2025	2025-2026
Beg. Instructional Stabilization Fund Balance	147	117	264	260	141	-
Change due to Surplus / (Deficit)	(31)	26	(4)	(118)	(141)	-
End. Instructional Stabilization Fund Balance	117	143	260	141	-	-
Beg. Unassigned Fund Balance	556	108	664	664	664	547
Change due to Exhausted Instructional Stabilization Fund Balance	-	-	-	-	(117)	(258)
End. Unassigned Fund Balance	556	108	664	664	547	289
Total Ending Fund Balance	673	251	924	806	547	289
<i>Board policy minimum fund balance</i>	<i>487</i>	<i>-</i>	<i>487</i>	<i>489</i>	<i>499</i>	<i>500</i>
Total Fund Balance in Excess of Board Requirement	186	251	437	316	49	(211)

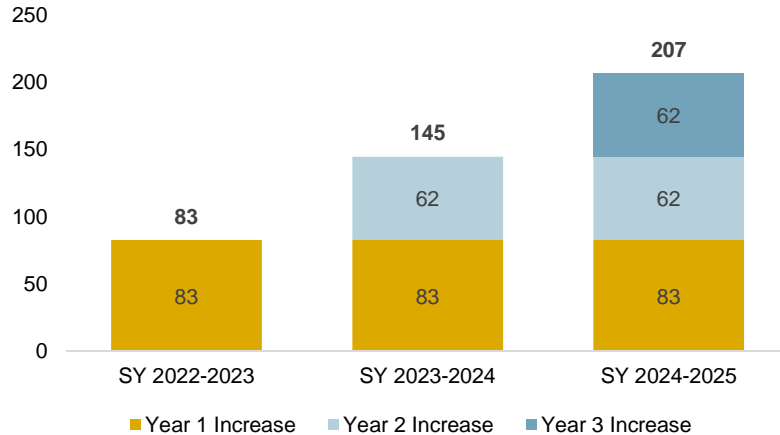
Fund balance is expected to fall below Board Minimum Reserve Requirement in FY26

COMPENSATION REVIEW

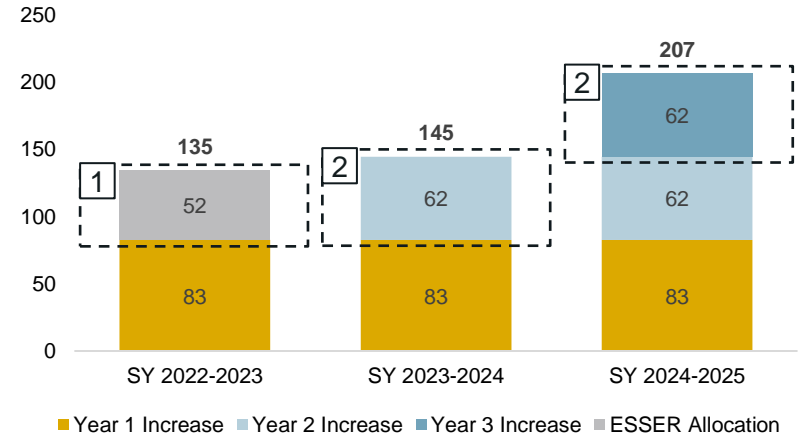
Board-Approved Compensation Increases

(\$, In Millions)

As Proposed by HISD Leadership (April 2022)



As Modified Based on Board Feedback (May 2022)



Key Points:

- During the FY23 budget process, the Board approved a historic investment in compensation of \$408M total increases over 3 years
- In May of 2022, the Board voted to accelerate compensation increases relative to the original proposal, meaning two years of administration planned increases have been received by employees in FY23

Please note: These compensation increases are in addition to \$33M in compensation increases approved in August of 2022

1 \$52M increase funded by ESSER in FY23 will be added to General Fund Costs in FY24

2 Represents \$52M in salary increases plus an additional \$10M to fund step increases out of the General Fund. This increase repeats in FY25

Review of 3-Year Compensation Plan

- Apply a 9.8% average COLA to the steps on the teacher salary scale in SY 2022-2023; apply a 3.7% average COLA in SY 2024-2025; and grant a step increase each year for the next three years. 95% of step increases are \$500+.
- Raise principal and assistant principal/dean salaries by **upgrading flat rates** in SY 2022-2023 and in SY 2024-2025, while incorporating a school complexity factor and a principal experience factor to differentiate salaries.
- Provide three annual **step increases** to police officers.
- **Update the Master Pay Scale**, which determines wages and salaries for *all of HISD's other support staff*, in two phases: in SY 2022-2023 and SY 2024-2025.
 - Many job categories were shown to be 20% or more below the regional market for similar jobs.
- Maintain our current status as one of the regional leaders among school districts for **minimum wage**, increasing all but one grade of the Master Pay Table to at least \$15 per hour for current employees at the start of SY 2022-2023.

Additional Employee Compensation Funded by ESSER

(\$, In Millions)

As part of HISD's ESSER plan, we have made significant new investments to retain and reward employees and have provided opportunities for additional compensation to HISD employees.

New ESSER II & III Stipends by Fiscal Year

	FY22	FY23	FY24	Total
Program Name	Actuals	Allocation	Allocation	Actuals + Allocations
Stipends (HISD Employee, Teacher, New Teacher and Critical Shortage, Bus Drivers, ESL, Covid Safety)	57	24	20	102
All Other Stipends	16	3	3	22
	73	27	23	124

Note: Other stipends are related to COVID vaccinations, Principal retention, Wraparound, Parent Navigator, Accelerated Learning, CCMR, GT Testing and Career Pathways Expansion

What This Means for Employees

- **\$5,000 Commit: HISD incentive** - Any Teacher or Specialist who committed to stay with HISD through the 2024-2025 school year received a \$5,000 incentive (over course of 3 years)
- **\$2,000 or \$5,000** for teachers in identified critical shortage content areas in any HISD school in 2022-2023 school year
- **\$6,000 – \$10,000** for teachers in any content area serving in one of the 24 RISE schools
- Additional Stipends for extra work

When combined with the \$52M in compensation acceleration, these programs represent a \$176M in new investments in employee compensation funded by ESSER.

Thank you

