The Need for Transformation
Superintendent Millard House II

Board of Education Meeting
October 13th, 2022
Agenda

1. Case for Change
2. Transformation Plan & Current Work
3. Looking Ahead
Case for Change: Enrollment Decline

- Since FY16-17, HISD enrollment has decreased by 12.1%, while the number of schools has decreased just 4.5%.
- Schools on average now serve 58 fewer students, a decrease of 8%.
- Projections show that enrollment will continue to decline, and as enrollment reductions outpace cost-saving mechanisms, the cost to educate an HISD student will continue to grow.

Enrollment vs. Number of Schools and Change Over Time (%)*

*Excludes enrollment at Texas Connections Academy (10,127 in FY21-22)
Case for Change: Projected Growth in Deficit

HISD’s bold action to increase compensation has been critical to addressing recruiting and retention issues. However, compensation cost growth has led to an increasing deficit.

<table>
<thead>
<tr>
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<th>2022-2023</th>
<th>2023-2024</th>
<th>2024-2025</th>
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</thead>
<tbody>
<tr>
<td>Total Revenues</td>
<td>$2,183</td>
<td>$2,228</td>
<td>$2,239</td>
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<tr>
<td>Appropriations</td>
<td>$2,284</td>
<td>$2,395</td>
<td>$2,525</td>
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<tr>
<td>Surplus / (Deficit)</td>
<td>$(101)</td>
<td>$(167)</td>
<td>$(287)</td>
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<tr>
<td>Fallout Adjustment</td>
<td>70</td>
<td>70</td>
<td>70</td>
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<tr>
<td>Surplus / (Deficit) after fallout</td>
<td>$(31)</td>
<td>$(97)</td>
<td>$(217)</td>
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- Deficits in FY23 and FY24 will be **partially offset by use of Federal funds**.
- However, when Federal funds are exhausted in FY25, **HISD’s deficit is projected to reach $217M**.

Note: These numbers are based on enrollment projections from May 2022. As the enrollment continues to drop (as it has this year), the deficit will grow.
Additional Financial Pressures on HISD’s Budget

In addition to revenue decline due to enrollment loss and an increase in projected deficits, HISD faces two additional financial pressures: (1) the expiration of Federal funds in FY25 and (2) schools’ reliance on Small School Subsidy (SSS).

**ESSER Expiration**
Beginning in FY25, HISD will no longer be able to rely on ESSER to balance the budget, and the general fund will need to cover certain costs which have been assumed by ESSER. These potential investments include:
- Tutorial stipends
- Wraparound specialists
- Necessary technology upgrades

**Small School Subsidy**
HISD does not fully capture savings from enrollment losses concentrated in smaller schools. The SSS provides supplemental funding for nearly half of HISD schools. This equates to over $600 per student on average.

- As enrollment decreases, more schools are subsidized.
- As small schools’ enrollment decreases, subsidies will cost more on a per student basis.

SSS funds are expected to reach $32.5M in FY23;
TRANSFORMATION PLAN & CURRENT WORK
Executive Leadership

- Provide strategic direction and hold leadership accountable to the HISD Board and public expectations

Program Management

- Lead project management and oversight
- Consolidate inputs from execution workstreams into master decision support models

School Footprint

- Develop Capital planning and bond package

Fiscal Sustainability

- Develop long-term financial model
- Quantify savings opportunities

System of Great Schools

- Ensure student outcomes are at the center of all transformation initiatives

Cross-Functional Coordination

- Info & Communication
- Considerations & Guidance
- Data & Insights

Communications

Community Engagement

Research and Accountability
Phase I: Central Office Reorganization & Rationalization

Evaluate Central Office Efficiency and Alignment with Strategic Priorities

Implement Central Office Reorganization and Rationalization

Phase II: Organization Transformation

Analyze school alignment with community needs and develop Transformation Plan

Assess and revise funding model to reflect pillars of strategic plan

Engage HISD stakeholders/community members

Implement a Refined Transformation Plan

Completed
- Near-term department cuts
- Targeted department reorganizations
- Financial capacity-building initiatives

HISD is committed to this timeline of activities, which will help the district reach sustainability in FY25.

<table>
<thead>
<tr>
<th>2021 - 22</th>
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<th>2024 - 25</th>
<th>2025 - 26</th>
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<td>Evaluate Central Office Efficiency and Alignment with Strategic Priorities</td>
<td>Implement Central Office Reorganization and Rationalization</td>
<td>Analyze school alignment with community needs and develop Transformation Plan</td>
<td>Assess and revise funding model to reflect pillars of strategic plan</td>
<td>Engage HISD stakeholders/community members</td>
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System of Great Schools Updates

- System of Great Schools is a partnership with TEA to ensure a best-fit, high-quality school for every student.

- Entails a quality seat analysis to identify schools to consider for school actions (currently in this process).

- Examples of school actions already underway: T-CLASS & ACE.

- Additional school actions for 2023-2024 will be identified by January 2023.