

Title: Resource Allocation Advisory Committee Meeting

Date/Time: March 9, 2019 – 4:00 PM

Location: Hattie Mae White Building -- Room 2E02

I. Welcome — Ashlea Turner, Chief Governmental Relations & Strategy Officer

— RAAC came up with substantive changes that could philosophically help inform the development of our funding model and improve equity.

— RAAC will continue to meet as a committee to continue to advise the administration and the board on what can be improved in how we fund schools at HISD

— The purpose of this kickoff meeting is to give you an update on the 2019-2020 budget for the district and what's pending in both chambers of the legislature for House Bill 3 (school finance).

II. 2019-2020 HISD Budget Update from Finance

— 19-20 Assumptions

- Property Value Increase – 2%
 - **RAAC Staff Member Comment:** Every 1% is a 14-million-dollar reduction to our deficit.
- Maintenance & Operations (M&O) tax rate-\$1.04
- Enrollment of 208,246- reduced 1,500 from 2018-2019 snapshot
- Decrease in Per Unit Allocation (PUA) amount
- State-related:
 - No recapture relief from the State
 - No change in the basic allotment
 - Increase in Tier II Allotment (HB1 and SB1)
 - Six golden pennies:** It's six pennies that we have in our tax rate that are not subject for recapture.
 - RAAC Staff Member Comment:** Every biennium, this is new money to us because it's tied to how wealthy Austin is. As Austin continues to grow and becomes more wealthy, it gives us additional dollars because we're guaranteed to generate the same amount per penny that Austin does. That's the number one reason for the deficit going down.
- No change in PUA student weights
- Additional district contribution for health insurance
- No additional budgeted Achieve 180 costs
- Salaries
 - No raises for employees on master or hourly schedules
 - No pay increase for step movement/experience
 - No raises for any other employee group/classification
- Current Deficit of \$36 million

— Budget Comparisons

	December 3, 2018	February 28, 2019	Change
2018-2019 Original Budget Deficit	(17,163,996)	(17,163,996)	-
Revenue Changes			
Change in property taxes	\$ 37,297,630	\$ 41,129,285	\$ 3,831,655
Foundation School Program	(2,694,752)	30,579,537	33,274,289
Build America Bonds Subsidy	6,164,281	6,164,281	-
Federal Revenue - indirect costs	-	1,519,273	1,519,273
Revenue other governments	-	500,000	500,000
Revenue in Lieu of taxes	-	244,958	244,958
Federal Revenue - Army, Air Force, Navy	-	6,041	6,041
Assigned Fund Balance - North Forest PFC Projects	-	375	375
Interest earnings	(2,000,000)	-	2,000,000
Other state revenues	-	(740,000)	(740,000)
Tuition regular day	-	(940,000)	(940,000)
Transfers in from Medicaid	(7,900,000)	(7,900,000)	-
Available School Fund	(31,931,852)	(32,022,883)	(91,031)
2019-2020 Surplus / (Deficit) before appropriation changes	\$ (18,228,689)	\$ 21,376,871	\$ 39,605,560

Assumes Tier II remains in HB1

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- **RAAC Staff Member Comment:** This is the revenue side. The Foundation School Program is the Tier II six golden pennies.

Appropriation Changes	December 3, 2018	February 28, 2019	Change
Change in recapture payment	\$ 39,995,855	\$ 22,554,006	\$ (17,441,849)
Wrap Around Specialists	10,695,909	10,695,909	-
State Compensatory Education	9,091,972	8,922,186	(169,786)
Health insurance	-	7,500,000	7,500,000
2018-2019 step schedule salary increases	4,331,902	4,331,902	-
Achieve 180	4,168,844	4,303,151	134,307
Bus driver budget increase	3,000,000	3,000,000	-
Charter school enrollment Increase	2,727,968	2,727,968	-
Tax Increment Reinvestment Zone	2,188,323	2,495,718	307,395
Property, Liability, Auto Insurance	-	2,000,000	2,000,000
CTE	-	1,834,770	1,834,770
College readiness grant matching funds	600,000	600,000	-
Athletics bond related transportation	500,000	500,000	-
Harris County Appraisal District Fees	320,000	402,268	82,268
Automated external defibrillator machines	400,000	400,000	-
2 Sr. Sourcing Specialists - Procurement	303,088	303,088	-
Equity and Outreach Department	237,348	237,348	-
2 Human Resources Investigators	143,862	143,862	-
Performance review	(1,000,000)	(1,000,000)	-
Transfers Out from sale of Maintenance Tax Notes	(1,188,632)	(1,188,632)	-
Kandy Stripe closing	(1,529,199)	(1,529,199)	-
District-wide Operating	(3,200,000)	(3,200,000)	-
Campus PUA enrollment 2018-2019 decline	(14,384,406)	(9,200,026)	5,184,380
2019-2020 Budget Surplus/(Deficit)	\$ (75,631,523)	\$ (35,457,448)	\$ 40,174,075

**Assumes \$30m in
Tier II Revenue**

- **RAAC Staff Member Comment:** This is where we're spending our money. Recapture payment went down. Property insurance went up \$2 million and will probably increase next year.
- **RAAC Staff Member Question:** Is that related to the flooding issues? Harvey?
- **RAAC Staff Member Response:** Yes. The insurance companies haven't finished paying everything out. Once we get into our new schools, that's probably going to force our property insurance to go up even more going into 2021.
- **RAAC Staff Member Comment:** Campus enrollment decline, when we did our early numbers back in November, it looked like we were going to take back about 14 million dollars from campuses. When everything was done in January, we were only able to take about \$9.2 million back.

— **19-20 Tier II Increase (HB1)**

- Tier II guaranteed yield (Austin Yield) based on the six "golden pennies."
- HISD is guaranteed to generate the same amount of revenue per penny of tax effort as Austin ISD on the six "golden pennies"
- Additional revenue received from Tier II
 - 2017-2018: \$99.41 per penny (58, 304, 783)
 - 2018-2019: \$106.28 per penny (\$61,141,609)
 - 2019-2020 Proposed in HB1: \$126.88 per penny (\$90,730,041)
 - 2020-2021 Proposed in HB1: \$135.92 per penny (\$103,140,700)
 - **RAAC Staff Member Comment:** This is the only new money that we get every biennium as a Chapter 41 district.

\$30m

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- Risk:
 - School Finance Commission Report recommends decoupling from the Austin ISD yield and tying to another unknown rate. This current revenue increase could be lower or completely eliminated and folded into the school finance bill.
 - **RAAC Staff Member Comment:** So far, the risk has happened under House Bill 3. What they've done now is put in there a 160% of the basic allotment (BA). Right now, the number that they are using is \$6,030 for BA. If you take 160% of that, it comes out to lower than what we got back in 17-18. So, they've devalued those dollars. It also means in future years, if they don't change the basic allotment, we get no new money.
 - **RAAC Staff Member Comment:** In previous sessions, that was the one thing that we can rely on, is getting the benefit of revenue from the golden pennies. The 2017 session for instance, they did not raise the basic allotment, but they did give us that yield increase. This time around, they're talking about true new money. Question is, is it politically viable for both chambers to put 9 billion dollars extra into education.
- Current Deficit of \$36 million + \$30 million = \$66 million potential deficit

— **Recapture Projections**

	2018-2019 Original	2018-2019 Mid-Year*	2019-2020	2020-2021	2021-2022	2022-2023
Estimated Recapture	\$ 272,492,039	\$ 275,258,452	\$ 295,046,045	\$ 321,205,154	\$ 354,088,060	\$ 386,648,025
Roll Value Increase	0.97%	1.24%	2.00%	2.00%	2.00%	2.00%
Enrollment	213,528	209,746	208,246	208,246	208,246	208,246
WADA	267,011	267,111	266,259	266,259	266,259	266,259

*2018-2019 not adjusted for Hurricane Harvey reimbursement

Recapture estimates adjusted based on latest Texas Comptroller values.

— **Budget Reductions**

- Budget Deficit Allocation

2019-20 Current Budget Deficit Distribution	
Schools	\$(17,652,099)
Departments	\$(17,805,349)
Total	\$(35,457,448)

- 19-20 Per Unit Allocations (PUA)

Level	2018-2019 PUA	2019-2020 Budget cut (\$17.6M)	2019-2020 PUA
Elementary Schools	\$3,432	(\$73)	\$3,359
Middle Schools	\$3,468	(\$73)	\$3,395
High Schools	\$3,432	(\$73)	\$3,359

- PUA History

Fiscal Year	Elementary	Middle	High	Change ES	Change MS	Change HS
2016-2017	\$ 3,522	\$ 3,558	\$ 3,522	\$ (67)	\$ (67)	\$ (67)
2017-2018	\$ 3,522	\$ 3,558	\$ 3,522	\$ -	\$ -	\$ -
2018-2019	\$ 3,432	\$ 3,468	\$ 3,432	\$ (90)	\$ (90)	\$ (90)
2019-2020	\$ 3,359	\$ 3,395	\$ 3,359	\$ (73)	\$ (73)	\$ (73)

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- The PUA amounts will be used by principals to develop their budgets.
- Budgets will be rolled out to principals on March 18, 2019
- Cut Distribution

Chief_Rollup	Current Cut
Schools	\$ (17,652,099)
Districtwide Services	\$ (3,200,000)
Chief Operating Officer	\$ (8,647,778)
Chief Academic Officer	\$ (2,283,587)
Chief Technology Information Officer	\$ (1,337,974)
Chief Strategy & Innovations Officer	\$ (277,779)
Chief Financial Officer	\$ (800,412)
Chief Human Resource Officer	\$ (630,025)
General Counsel	\$ (139,173)
Chief Communications Officer	\$ (129,511)
Chief Audit Executive	\$ (104,414)
Chief Development Officer	\$ (83,863)
Superintendent of Schools	\$ (67,099)
Chief of Staff	\$ (66,061)
Chief Govnmnt'l Relations Officer	\$ (37,673)
Grand Total	\$ (35,457,448)

- **RAAC Member Question:** We were told last time we had budget cuts that we were sharing them with the schools and the district office. But then you start pulling records after the budget's finalized, you have teachers and principals looking at the previous year budget, downtown budgets and the new positions that were created. When we were supposed to be doing cuts on the administrative side, they were adding to it. What is the explanation for that?
- **RAAC Member Response:** We added money to special education, dyslexia, and wrap around specialists. Some of that is departmental costs. We also added money in CTE, so they also had some additional cost. I'll have to see specifics to be able to explain.
- **RAAC Member Comment:** I'll have to send it to you, but I think it was basically slicing off Hattie Mae White. I know that some of it all rolls against different departments but looking at the higher level of the administrative positions in all those departments, and if you aggregate those together, there weren't cuts but additions of approximately \$2.2 million. This is where you start getting the narrative that there isn't some level of equity between cuts at the schools and Hattie Mae White.

III. School Finance Legislations Update from Government Relations

— *Side-by-Side Comparison of 2019 Texas School Finance Proposals*

- This chart was done by Raise Your Hand Texas, shortly after the committee substitute a revised version of House Bill 3 that was rolled out and approved by the House Public Education committee.
- **RAAC Staff Member Comment:** There is a ton of momentum for additional education funding during the 86th legislature. The House and Senate budgets are talking about \$9 billion of additional money for education. Now, when you look at the Senate plan currently, the Senate is saying, of that 9 billion, 4 billion is going to go to teacher and librarian pay raises. That's a five-thousand-dollar annual pay increase to those two groups for the next two years guaranteed. The Senate is also saying; we're

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going to put 2.3 billion into school finance and 2.7 billion into tax relief. They haven't said how they're going to do the tax relief yet, but tax relief of some nature will happen this session. When you look at the House plan, HB 3 has 9 billion as well, but the House is looking at putting 6.3 billion into school finance and 2.7 billion into tax relief via tax rate compression.

- **RAAC Member Question:** Does that subtract, leaving the \$6.3 billion to support the \$2.7 billion?
- **RAAC Staff Member Response:** No, the challenge is you have the Senate who's saying we want the bulk of this money to be spent on teachers and tax relief. The House is saying we want the bulk of this money to be spent on school finance and tax relief. The House is wanting local discretionary authority for districts to decide how to give those raises by putting the \$6.3 billion into schools. The Senate is saying, we want to make sure teachers know that the state is giving them this raise of \$5,000 per year.
- **RAAC Member Question:** Is it \$5,000 per year or \$5,000 one time?
- **RAAC Staff Member Response:** It's per year, for two years guaranteed. Come next session, the state could say we can no longer afford this pay raise at the state level, so we need districts to take on the costs. That's just the reality of it. Could cost us roughly \$60 million.

— **Basic Allotment**

- **House:** Increases the current \$5,140 basic allotment to \$6,030.
- **Senate:** Increase in the basic allotment to be determined.

— **Full Day Pre-Kindergarten**

- **RAAC Staff Member Comment:** One of HISD's main objectives this year is to secure additional funds for a fully funded full day pre-k. As you know, we operate a great system across the district. We've been asking the state for a fully funded full day pre-k for years and now both chambers are talking about it. Now, they're going to fund it with an early reading allotment, which is something that the school finance commission discussed last year. So, it's not really formula funded but they're going to put some money in there for a full day pre-k and that's a good thing.

— **Tax Rate Compression**

- **House:** Provides \$2.7 billion in uniform tax rate reduction for the biennium
- **Senate:** Not in the Senate bill just yet.

— **Recapture**

- **House:** Will reduce recapture by an estimated amount of \$3 billion over the next biennium.
- **Senate:** Amount to be determined

— **Teacher Incentive and Compensation**

- **RAAC Staff Member Comment:** Teacher incentive pay has been a big topic this session. It's sometimes called merit pay, where teachers are paid based on student outcomes. The governor, lieutenant governor, and the speaker liked the idea. However, teachers didn't like it. The teacher groups were very forceful in saying it's inappropriate to attach our pay increases to a flawed STAAR test.
- **House:** Chairman Huberty took the merit pay provision out and is giving additional funds to districts who want their best teachers to teach at their most struggling campuses. HB 3 also does not specify salary increase for teachers or support staff.

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- **Senate:** Does include merit pay for teachers. Creates an Educator Effectiveness Program that could provide merit-based salary increases to educators based on evaluation of the effectiveness of the educator, which is then tied to how much money they get based on student testing.

— **Test-Based Funding**

- **RAAC Staff Member Comment:** Another big issue of controversy when HB 3 was laid out in committee, was the idea of outcomes-based funding. Where school districts will get additional funds from the state if performance improved at the third grade level or at certain benchmarks related to college and career readiness. There was tons of pushback from the school community against outcomes-based funding. Superintendents, trustees and administrators testified against it.
- **House version:** Contains no test-based funding provision in the final version passed by House Public Education Committee.
- **Senate version:** Includes, outcome-based funding for 3rd grade reading scores as well as career, college and military readiness related improvements.

— **Compensatory Education Allotment**

- **RAAC Staff Member Comment:** Compensatory Education Allotment. This is basically a new provision to give more money to schools with higher concentrations of poverty, and they're doing it as a spectrum weight. So, based on a school's level of concentration, the school would get more money as their poverty concentration grows. The challenge that we have as a school community is this Comp. Ed. Allotment adjustment is not calculated with the right metrics. So, when you use census data, a student's zip code or the school's zip code, you're not necessarily getting the true and accurate assessment of poverty for that community. We're sharing that with the leadership in both chambers so they understand it. Not sure where they land on it though.
- **RAAC Staff Member Comment:** Right now, we generate our dollars based on free and reduced lunch kids. For us, we're a CEP (Community Eligibility Provision) district, which means all our kids eat for free. So, we're getting state comp. ed. funding for all our kids. If you go to economically disadvantaged numbers, it's a significantly lower number than our enrollment. For us, depending on what these blocks look like, it could be less state comp ed. funding. So, they intended to give us more money based off that, but it didn't because we're a CEP district.
- **RAAC Member Comment:** If they use census blocks, they're presuming everyone in the census block attends our schools and they don't. This would significantly decrease our funding.
- **House version:** Directs the Commissioner to create an index for a compensatory education allotment based on census blocks. The index must contain five tiers categorized according to the relative severity of economically disadvantaged students. Weights range from 0.225 to 0.275.
- **Senate version:** Educationally-disadvantaged student means either an eligible student participating in the national free and reduced-price lunch program or economically disadvantaged in any manner that may reasonably impact educational achievement, as determined by the commissioner. Weights to be determined.

— **Gifted and Talented Allotment**

- **House version:** Repeals gifted and talented allotment to increase the basic allotment. Each school district shall annually certify it has a program for gifted and talented students. Allows Commissioner to reduce funding if a district has failed to comply.

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- **Senate version:** Repeals gifted and talented allotment to increase basic allotment. Required a report to ensure the number of students identified as gifted and talented does not decline for any school year.

—Efficiency Audits

- **RAAC Staff Member Comment:** This is a concern for school districts simply because it's an unfunded mandate and we already conduct regular audits. The state is requiring districts to have an efficiency audit on what they do right/wrong before they ask for a tax increase. That would cost the district half a million dollars, according to our CFO, if we were to conduct such an audit.
- **House:** School districts shall conduct an efficiency audit before seeking voter approval to adopt M&O tax rate. School district must pay for the costs and choose from an approved list of auditors.
- **Senate:** No similar provision.

—Other Weights and Allotments

- **Dyslexia**
 - They've added an allotment for children with dyslexia. They've created a dyslexia weight that is new, that will provide additional funds to identify and educate children with dyslexia.
- **Dual Language**
 - There is a dual language allotment that is going to be tied to the bilingual education allotment for non-English speaking and English speaking students in dual language programs. This is where students spend half the day learning in English and half the day learning another language. HISD has 60 of those programs and would profoundly benefit if the dual language piece stays in HB 3 and SB 4.
- **Career and Technical Education (CTE)**
 - Both bills also tackle CTE funding. This is vocational or workforce readiness training that we do at HISD. We have a number of those programs too. Specifically, with the CTE allotment, the House bill is going to give us funding all the way to sixth grade. So, we would have funding for 6th through 12th graders at HISD and across the state. In the Senate bill, you only have funding going to eighth grade. Currently, the state funds CTE from 9th-12th grade. These bills would change that to middle school level, which is good, but 6th grade would be ideal.
- **New Instructional Facility Allotment (NIFA)**
 - This is mainly for districts that are busting at the seams and growing by the numbers when it comes to student enrollment. The House bill increases appropriations to \$100 million per year. The Senate bill just asked for an interim study on the cost of NIFA.
- **Cost of Education Index (CEI)**
 - The cost of education index has not been updated since 1991. The cost of living adjustments have been made, quality of life has changed, and you have developments that have occurred all over the state that have boosted or depressed the economy. The cost of education index is \$2.9 billion worth of money that hasn't changed since 1991. It probably should be \$20 billion right now. Both versions of the bill eliminate the CEI and put that money into the basic allotment and into other elements of legislation.