

Title: Resource Allocation Advisory Committee Meeting

Date/Time: May 7, 2019 – 4:00 PM

Location: Hattie Mae White Building -- Room 2C12

I. Welcome — Glenn Reed, Officer of Budget & Financial Planning

II. RAAC Presentation

— Building Blocks for 2019-2020 Budget

- Property Value Increase-2%
- Maintenance & Operations (M&O) tax rate-\$1.04
- Enrollment of 208,246-reduced 1,500 from 2018-2019 snapshot
- State-related:
 - No recapture relief from the state
 - No change in the basic allotment
 - ***Increase in Tier II Allotment (HB1 and SB1)***
- No change in PUA student weights
- Additional district contribution for health insurance
- No additional budget 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
- Deficit of \$36 million

— Revenue Changes from 2018-19

| | | | |
|---|-----------|-------------------|-----------------------|
| 2018-2019 Original Budget Deficit | | (17,163,996) | |
| Revenue Changes | | | |
| Change in property taxes | \$ | 42,369,466 | } \$38,811,839 |
| Foundation School Program | | 29,911,905 | |
| Build America Bonds Subsidy | | 6,164,281 | |
| Federal Revenue - indirect costs | | 1,519,273 | |
| Revenue other governments | | 500,000 | |
| Revenue in Lieu of taxes | | 244,958 | |
| Federal Revenue - Army, Air Force, Navy | | 6,041 | |
| Assigned Fund Balance - North Forest PFC Projects | | 375 | |
| Interest earnings | | - | |
| Other state revenues | | (890,000) | |
| Tuition regular day | | (940,000) | |
| Transfers in from Medicaid | | (7,900,000) | |
| Available School Fund | | (32,174,460) | |
| 2019-2020 Surplus / (Deficit) before appropriation changes | \$ | 21,647,843 | |

Assumes Tier II remains in HB1

- **RAAC Staff Member Comment:**
 - Property Taxes: \$42 million in taxes, from the increase in values.
 - Foundation School Program: \$29 million, this is our Tier II money from the golden pennies. That is money that is not subject to recapture.
 - Available School Fund: This is a big one that went down. This is the money we get as a chapter 41 district.
 - Overall, we have a \$38 million increase in revenue.

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—Expenditure Changes from 2018-19

Expenditure Changes

| | |
|--|-------------------------------|
| Change in recapture payment | \$ 22,401,290 |
| Wrap Around Specialists (after mid-year adjustment) | 6,483,724 |
| State Compensatory Education | 13,134,371 |
| Health insurance | 7,500,000 |
| 2018-2019 step schedule salary increases | 5,030,470 |
| Achieve 180 (2018-2019 mid-year) | 4,303,151 |
| Facility and Custodial services | 3,000,000 |
| Charter school enrollment Increase | 2,727,968 |
| Tax Increment Reinvestment Zone | 2,495,718 |
| Property, Liability, Auto Insurance | 2,000,000 |
| CTE FTE Increase | 1,834,770 |
| Special Education | 1,614,373 |
| Fine Arts Positions for Campuses | 1,564,920 |
| College Readiness Grant Matching Funds (Houston Endowment) | 600,000 |
| Athletics bond related transportation | 500,000 |
| Harris County Appraisal District Fees | 402,268 |
| Automated external defibrillator machines | 400,000 |
| 2 Sr. Sourcing Specialists - Procurement | 303,088 |
| Equity and Outreach Department | 237,348 |
| 2 Human Resources Investigators | 143,862 |
| Performance review | (1,000,000) |
| Transfers Out from sale of Maintenance Tax Notes | (1,188,632) |
| Kandy Stripe closing | (1,529,199) |
| District-wide Operating | (6,200,000) |
| Campus PUA enrollment 2018-2019 decline | (9,200,026) |
| 2019-2020 Budget Surplus/(Deficit) | \$ <u>(35,911,621)</u> |

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\$57,559,464

Assumes \$30m in Tier II Revenue

• RAAC Staff Member Comment

- Recapture Payment: Is the biggest increase at \$22 million right now.
- Wraparound Specialists: We added wraparound specialists.
- State Compensatory Education: That has increased because we are now a CEP district. Meaning, all our kids are eating for free. What that did was, that started generating additional dollars for the district.
- Health Insurance: We're adding \$7.5 million dollars for health insurance and employees will see a 3% increase in rates.
- Special Education: We are adding \$1.6 million dollars to special education. They're adding some teams to go out and support teachers in identification of students.
- Fine arts: We have 25 campuses that will be providing a fine arts teacher.
- Campus PUA enrollment 2018-2019 decline: We did lose 4,000 students this year. We've cut \$9.2 million just from enrollment decreases.

—Recapture Projections (Current Law)

May 2, 2019

| | 2018-2019 Original | 2018-2019 Mid-Year* | 2019-2020 | 2020-2021 | 2021-2022 | 2022-2023 |
|---------------------|--------------------|---------------------|----------------|----------------|----------------|----------------|
| Estimated Recapture | \$ 272,492,039 | \$ 275,258,452 | \$ 294,893,329 | \$ 327,741,481 | \$ 360,632,923 | \$ 393,187,260 |
| 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 |

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—**Administration Recommends:**

- Adopt budget based on current school finance law.
- No \$73 per unit allocation (PUA) cut to campuses.
- No department cuts. However, it does not mean that departments will not implement a reorganization.
- Changes to budget be incorporated after staff has reviewed passed school finance legislation.

—**Why this recommendation?**

- Impact of school finance bill(s) unknown.
- Budget must be adopted by June 30, 2019. (TEC 44.004)
- Impact of potential revenue caps unknown.
- Impact of final TRS bill unknown.
- Special legislative session is possible.

—**Next Steps**

- Continue monitoring legislative actions
- Prepare 2019-2020 budget for board adoption on June 18, 2019.
- Bring amended budget back to the board in September 2019 once legislative impact is known.

III. 2019 Texas Legislative Session Update

—**86th Session**

- HB 3 by Huberty/SB4 by Taylor
 - HB 3 passed House on April 3
 - HB 3 passed Senate on May 6
 - Awaiting Conference Committee
 - **Conference committee** is typically a committee of ten members, five from each chamber, that meet to hash out the remaining differences.
- Noteworthy Remaining Priority Items for Leadership (to avoid special session)
 - Budget for next biennium (HB 1)
 - School Finance Reform (HB 3)
 - Property Tax Reform & Relief (SB 2 & HJR 3)

—**HB 3 Key Provisions (House vs. Senate)**

- Increase to Basic Allotment
 - **House:** Increases the basic allotment to \$6,030
 - **Senate:** Increases the basic allotment to \$5,880
- Prior Year vs. Current Year Property Values
 - **House:** Kept prior year values to calculate recapture and our entitlement
 - **Senate:** Moved over to current year values. It's a \$1.8 billion dollar savings to the state but it hurts school districts.
- Teacher Compensation
 - **House:** Creates an Educator Effectiveness Allotment designed to encourage high performing teachers to move to challenged campuses.
 - **Senate:** \$5,000 across-the-board pay raise for teachers and librarians. Provides additional funding to cover benefit increases. Creates a Teacher Incentive Allotment to provide additional salary increases to educators based on performance. They've also added an allotment to incentivize high performing teachers to work at low performing campuses.

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- **RAAC Member Question:** My understanding is, the Senate version is a one time \$5,000 increase. Then the next year, districts will have to come up with that money. Is that correct?
- **RAAC Staff Member Response:** The short answer is yes, depending on future legislatures determining whether that's a priority to keep funding and if they don't fund it, then districts certainly aren't going to take it away. So, it could ultimately be an unfunded mandate from this legislative session.
- Funding for Full-Day Pre-K
 - **RAAC Staff Member Comment:** It's kind of a half-truth because we still only get half day funding. We're still getting only half day ADA but they're creating a early childhood allotment for K-3 students that are economically disadvantaged or bilingual and they're saying those dollars are what are funding your full-day pre-k.
- Recapture Reduction
 - **House:** The increase in the basic allotment and other formula changes will mitigate recapture by an estimated \$3 billion over the next biennium. Allows districts to pay the recapture amount owed to the state in one payment no later than August 15
 - **Senate:** The increase in the basic allotment and other formula changes, including the teacher pay raise, will mitigate recapture by approximately \$3 billion over the next biennium.
- Property Tax Reform
 - Compression vs Caps and Homestead Exemption
- Weights & Allotments

— **What's Next...**

- Conference Committees (HB 1 & HB 3)
- HB1 Conferees:
 - Senate: Nelson, Huffman, Kolkhorst, Nichols, Taylor
 - House: Zerwas, G. Bonnen, S. Davis, Longoria, Walle
- HB 3 Conferees-TBD
- Last day of the legislative session: May 27th
 - 20 Days remaining (as of May 7)