

February Budget Workshop

Thursday, February 16th, 2023



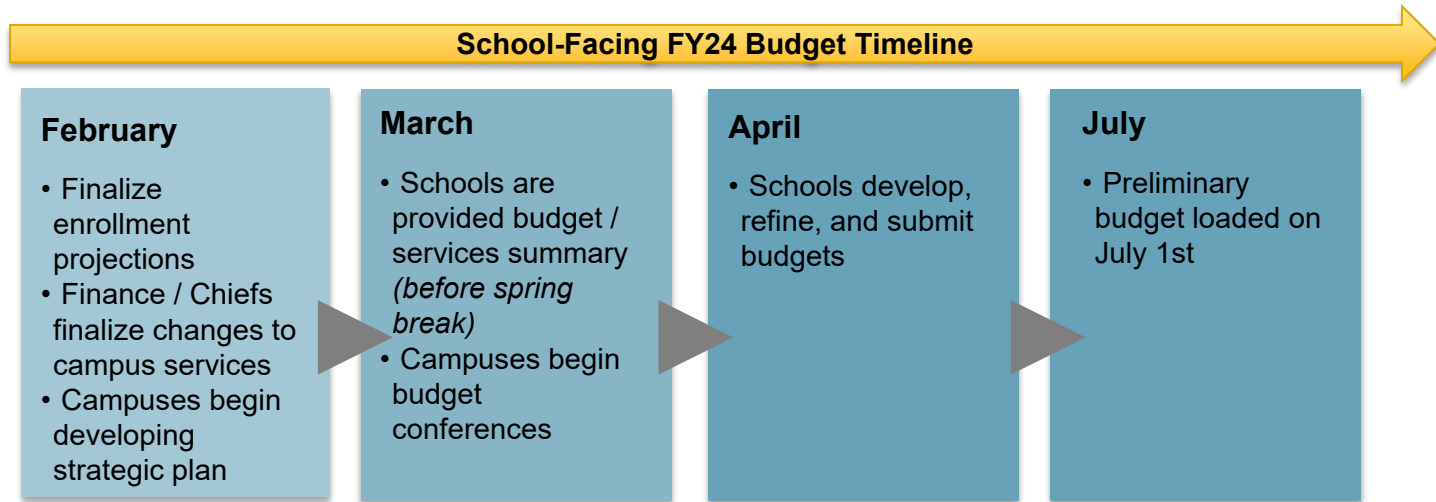
Agenda

1. **Timeline**
2. **Adopted FY23 Budget Overview**
3. **Adopted FY23 Budget: Expenditure Detail**
4. **Case for Change in FY24**
5. **Addressing the Deficit: *Solutions Overview***
6. **Preview: FY24 Budget Forecast**
7. **Appendix**

TIMELINE

FY24 Budget Timeline

In this initial budget workshop, we will review our adopted budget from FY23 and lay out our current thinking regarding the deficit and potential solutions for FY24. **In the March Board Workshop, we will share our initial recommended budget for FY24. This timeline compliments our rollout of budgets to schools.**



ADOPTED FY23 BUDGET OVERVIEW

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.

ADOPTED FY23 BUDGET: EXPENDITURE DETAIL

FY23 Adopted Budget Expenditures: Schools

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

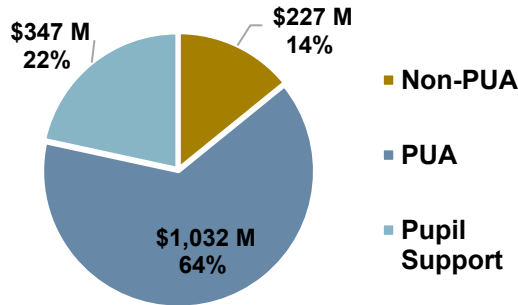
- Funding to schools includes \$1,259M in direct funding (via the school funding model) and \$347M in pupil support provided directly from departments to schools.
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- Estimated “fallout” for adopted budget expected to reduce total expenditures by \$70M.

Schools: Expenditure Overview

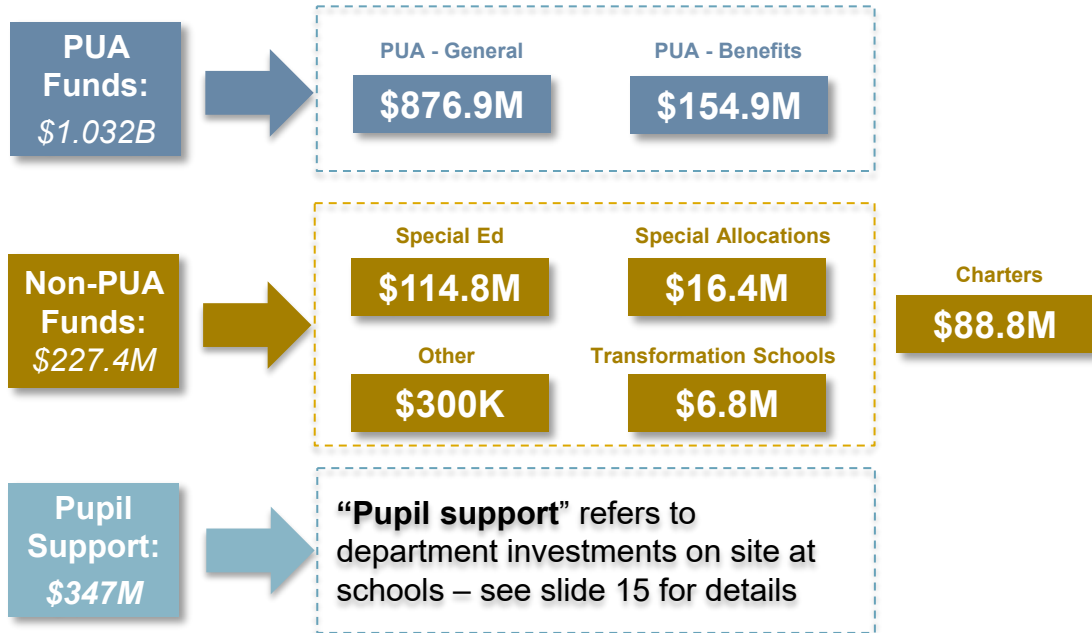
Below is a breakdown of the budgeted expenditures for **schools** in FY23 Adopted Budget. The majority (~65%) of school funding can be attributed to PUA funding.

Total Support Expenditures

➔ **\$1.606B**



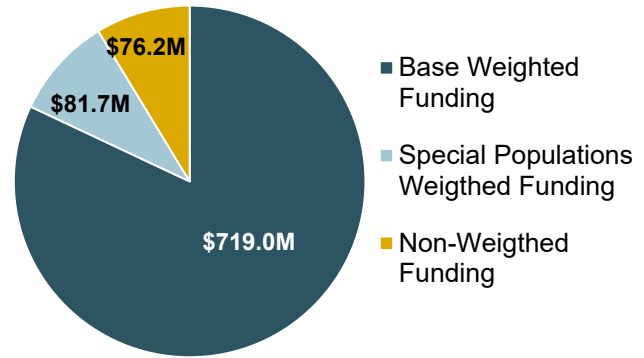
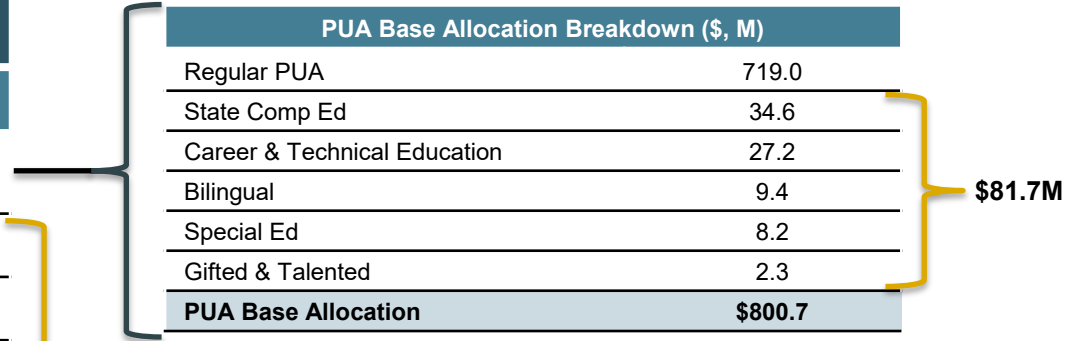
Notes: Benefits embedded in Special Allocations, Special Ed, Charters, and Transfer Schools



Schools: FY23 Resource Allocation Model Detail

Resource Allocation Model	
Component	Funding (\$, M)
Base Allocation (Includes Weights)	800.7
Small School Subsidy	33.2
Magnet Funding	21.8
High School Allotment	10.0
General Fund Transformation	5.4
Stipends	4.1
Campus Capital	1.8
Total PUA Funding	\$876.9

PUA Base Allocation Breakdown (\$, M)	
Regular PUA	719.0
State Comp Ed	34.6
Career & Technical Education	27.2
Bilingual	9.4
Special Ed	8.2
Gifted & Talented	2.3
PUA Base Allocation	\$800.7

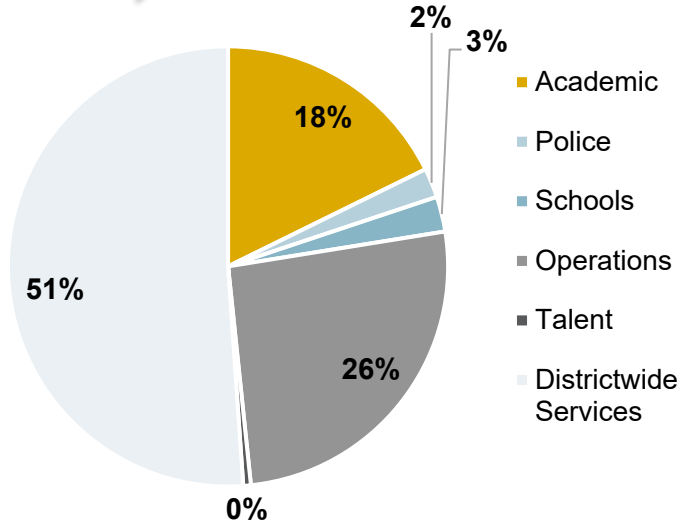


Note: Resource allocation model is based on salaries and non-salary together but does not include benefit costs associated with positions funded by PUA. Small mathematical inaccuracies may be present due to rounding.

Schools: “Pupil Support” Expenditures

FY23 Adopted Budget “Pupil Support” Expenditures:

➔ **\$347M**




Pupil Support Departments	Major Service Offerings <i>*65% of all pupil support costs are in payroll for employees who touch schools</i>
Districtwide Services (\$177.2M)	<ul style="list-style-type: none"> • Benefits (health/life, TRS, workers comp, Medicare) • School Utilities (Water, Gas, Electric) • Stipends • Misc. Operating Costs (including summer school operations, etc.)
Academics (\$61.4M)	<ul style="list-style-type: none"> • Early Education Support • Special Education Services in Schools
Operations (\$89.7M)	<ul style="list-style-type: none"> • Transportation Terminal Operations • Fleet Operations
Police (\$7.4M)	<ul style="list-style-type: none"> • Officers in Schools
Schools (\$8.9M)	<ul style="list-style-type: none"> • Transformation Schools • On-Time Grad Academy
Talent (\$1.9M)	<ul style="list-style-type: none"> • Employee Relations • Human Capital Management

FY23 Adopted Budget Expenditures: Departments

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%



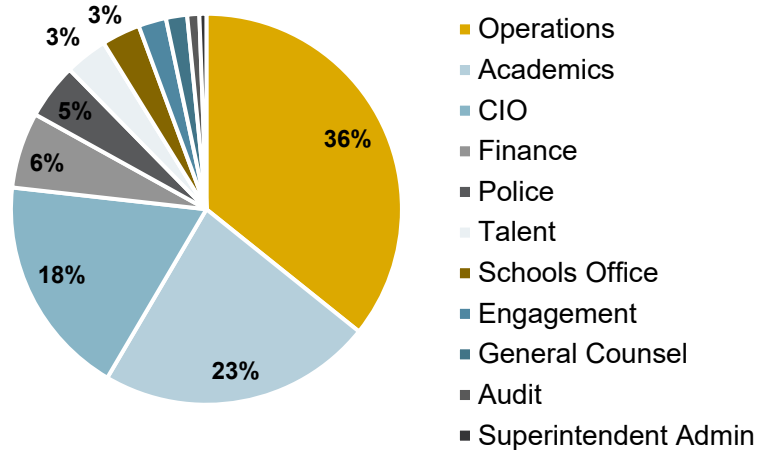
Notes

- Funding to schools includes \$1,259M in direct funding (via HISD's school funding model), \$347M in pupil support provided directly from departments to schools
- "Other" represents payments for Tax Increment Reinvestment Zones
- Estimated "fallout" expected to reduce total expenditures by \$70M

Departments: Expenditure Overview

Adopted Budget FY23
Department Expenditures:

 **\$279M**



Departments	Major Service Offerings <i>*66% of all department costs are in payroll</i>
Operations (\$99.8M)	<ul style="list-style-type: none"> Facilities Maintenance and Operations Transportation – Ops and Management Fleet Operations Facility Services Administration
Academics (\$63.4M)	<ul style="list-style-type: none"> Specialized Learning Services Research and Accountability Student Support Services
CIO (\$51.1M)	<ul style="list-style-type: none"> IT Operations and Support Power UP 1:1 Program Support Software Maintenance and Support
Finance (\$17.5M)	<ul style="list-style-type: none"> Purchasing Services Budget Operations Accounts Payable Payroll
Police (\$12.8M)	<ul style="list-style-type: none"> Security Police Officer
Other	<ul style="list-style-type: none"> General Council & Audit Superintendent Admin Engagement & Talent

CASE FOR CHANGE IN FY24

Long-term Forecast: From FY23 Adopted Budget

Due to **declining enrollment**, long-standing cost structures that have not been adjusted, and recent critical investments to improve compensation, our deficit is expected to continue to grow.

		<u>ADOPTED BUDGET</u>		
		2022-2023	2023-2024	2024-2025
Total Revenues	\$	2,133	2,178	2,239
Appropriations	\$	2,336	2,395	2,525
Surplus / (Deficit) Before One-Time Funds and Fallout	\$	(203)	(217)	(287)
Use of One-Time ESSER Funds		102	50	-
Fallout Adjustment		70	70	70
Surplus / (Deficit) after fallout	\$	(31)	(97)	(217)

When federal funds are exhausted in FY25, **HISD's deficit was projected to reach \$217M.**



Note: The ADOPTED budget has changed throughout FY23 to incorporate approved budget changes.

Long-term Forecast: From FY23 Amended Budget

Changes incorporated into the FY23 Amended Budget do not significantly change our forecasted outlook. **Without introducing cost-saving measures, our deficit is still expected to grow in excess of \$200M.**

	Adopted	Adjustments	Amended	2023-2024	2024-2025	2025-2026
	2022-2023	2022-2023	2022-2023			
Total Revenues	\$ 2,133	15	2,148	2,193	2,227	2,268
Appropriations	\$ 2,336	57	2,393	2,383	2,513	2,553
Surplus / (Deficit) Before One-Time Funds and Fallout	\$ (203)	(42)	(245)	(191)	(285)	(285)
Use of One-Time ESSER Funds	\$ 102	-	102	39	-	-
Use of Fund Balance Reserves to Address Carryover	\$ -	54	54	-	-	-
Fallout Adjustment	\$ 70	25	95	70	70	70
Surplus / (Deficit) After Use of One-Time Funds and Fallout	\$ (31)	36	6	(82)	(215)	(215)

Note: This forecast holds enrollment flat and does not include impact of future enrollment declines.

ADDRESSING THE DEFICIT: *SOLUTIONS OVERVIEW*

Solutions for Addressing the Deficit

Navigating this challenging deficit will inherently impact our schools and operations; however, we are committed to **prioritizing solutions that have the *least negative impact on students***. The tools at our disposal for addressing the deficit include stabilizing and increasing revenue and decreasing costs.

Revenue

- Increasing usable tax revenue
- Stabilizing and increasing enrollment and attendance

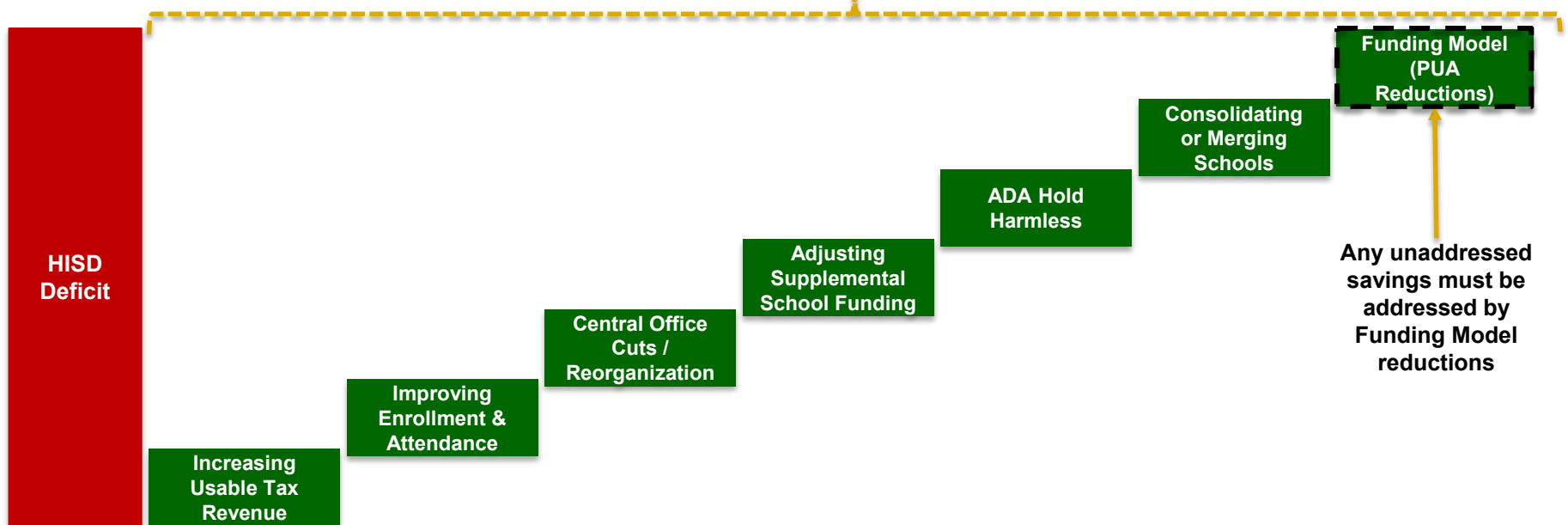
Costs

- Central office cuts / reorganization
- Adjusting supplemental school funding
- Sunset ADA Hold Harmless provision (to align with state revenues)
- Reducing the PUA
- Consolidating or merging schools

HISD must consider multiple options to address the significant deficit 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 Fiscal Year 26 (before reserves are exhausted).

Methods for Addressing the Deficit



Any unaddressed savings must be addressed by Funding Model reductions

Solutions Overview: Revenue

While options to stabilize and increase revenue to solve the deficit would have the least negative impact, the below options are not fully within HISD's control.

Potential Revenue Increase

~\$65M

Voter Approved Tax Ratification Election

- HISD has the option to pursue a Voter Approved Tax Ratification Election (VATRE) for a 3-cent tax increase per \$100 of property value.
- If this tax ratification passes through a community election, this measure may generate ~\$65M revenue based off current estimates, not subject to recapture.
- This would require public support and taxpayer approval, which is not guaranteed.

Potential Revenue Increase

N/A - expected to mitigate losses at best

Stabilizing and Improving Enrollment & Attendance

- While HISD has focused on stabilizing enrollment, there are a lot of variables that are out of our control, which is why this option is less reliable.
- While increases in enrollment will increase revenue, those revenues will be partially offset by increasing costs.
- Increasing average daily attendance (ADA) can improve state funding to the district.

Solutions Overview: Costs (Part I)

HISD is planning to utilize the following solutions to address the deficit in FY24 budget.

Potential Savings

~\$20M

Central Office Cuts / Reorganization

- Chiefs have pursued efficiencies in their departments and have developed plans for additional savings for next year.
- These cuts will have impact of service levels to schools.

Potential Savings

~\$4.9M

High School Allotment (HSA)

- Cut the current high school allotment in half (from \$170 to \$85 per high school student).
- Most of the impact of this reduction will be concentrated at large schools which already benefit from economies of scale.
- Historical Context:
 - Until the passage of HB3, the state had allocated the HSA, and HISD just passed these funds onto schools. Following HB3, the state removed this specific allocation.
 - When TEA removed HSA, HISD continued a per-student allotment to high schools.

Solutions Overview: Costs (Part II)

HISD is planning to utilize the following solutions to address the deficit in FY24 budget.

Potential Savings

~\$7.4M

Small School Subsidy (SSS)

- Standardize per unit funding for small schools to \$1,500 per SS unit beginning in FY24.
- For background on the SSS, please see Appendix.

Potential Savings

~\$28M

Removal of ADA Hold Harmless

- Beginning in FY20, due to the pandemic, the state held districts “harmless” for attendance.
- As a result, HISD held campuses “harmless” for ADA reductions. This allowed HISD to fund campuses fully to maintain allocations despite attendance losses in FY20, FY21, FY22.
- Beginning in FY23, the state did not provide the hold “harmless” provision; however, even though the state began using current attendance data to determine revenue, HISD continued to hold schools harmless for their ADA losses.
- For FY24, we are reverting to our pre-pandemic approach to resourcing campuses based on ADA %. This will ensure that campus expenditures more closely mirror district revenues.

PREVIEW: FY24 BUDGET 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 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; decreases tax rate
- **Enrollment assumed to be flat** - won't adjust until principal projections are received
- **ADA ratio excludes hold harmless adjustment** and updated to latest thinking i.e., attendance through first semester of FY23 (~88%) – cut of ~\$27M in FY24
- **Department cuts** of ~\$20M included in FY24
- **HS Allotment and SSS Reductions** of ~\$12M included in FY24
- **FY23 salary compensation increases** of ~\$52M funded by ESSER in FY23 **return to the General Fund in FY24**

Pro Forma (Forecasted) Budget: Proposed FY24 Adjustments Included

The realization of Department/Central Office cuts, supplemental school funding adjustments, and the end of ADA “hold harmless” contribute to a year-over-year reduction in our forecasted deficit.

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Fallout Adjustment	\$ 70	25	95	70	70	70
Surplus / (Deficit) After Use of One-Time Funds and Fallout	\$ (31)	36	6	(22)	(155)	(155)

Note: This pro forma **holds enrollment flat** and does not include impact of future enrollment declines. Further refinement of this pro forma is ongoing and will be presented in future workshops.

Cost-saving measures introduced in FY24 are expected to reduce the **FY25 deficit from \$215M to \$155M**

Key Takeaways

1. If HISD continues with the status quo, the district will continue to run a significant deficit.
2. However, HISD has several options to begin to address the deficit, which should be considered for FY24.
3. The realization of Department/Central Office cuts, Supplemental School Funding adjustments, and the end of ADA “hold harmless” contribute to a year-over-year reduction in our forecasted deficit.