

March Budget Workshop

Thursday, March 23rd, 2023



Agenda

- 1. Timeline Review**
- 2. Enrollment Update**
- 3. Review: Case for Change**
- 4. Review: Solutions for Addressing the Deficit**
- 5. Central Office Reductions: Deep Dive**
- 6. Updated FY24 Budget Forecast**
- 7. Keep Takeaways**
- 8. Appendix**

TIMELINE REVIEW

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 4/19)

Board Budget Workshop: 4/20

May

- Board votes on Bond – May 11th

Board Budget Workshop: 5/18

June

- Board votes to approve budget – June 8th

Board Budget Workshop: 6/1

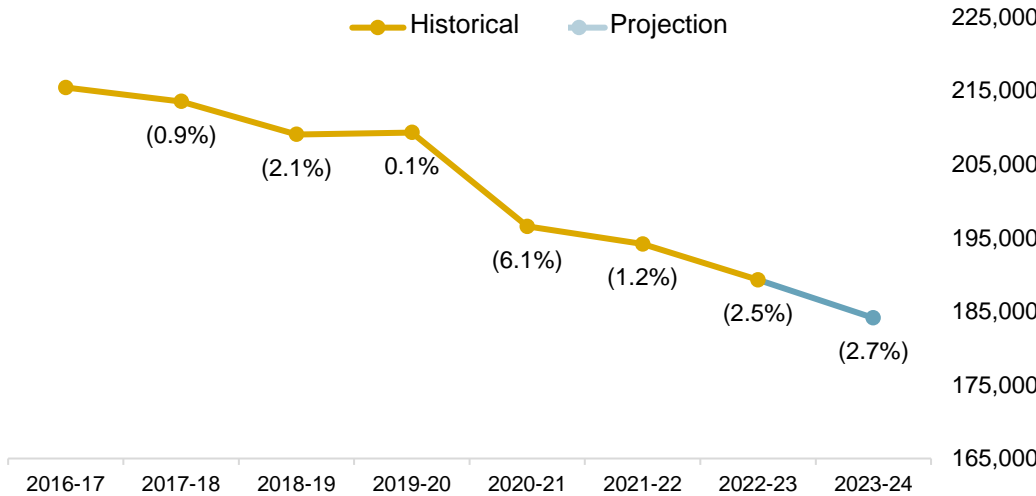
July

- Preliminary campus budgets loaded – July 1st

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

REVIEW: CASE FOR CHANGE

Pro Forma (Forecasted) Budget: Proposed FY24 Adjustments Not Included

(\$, In Millions)

Principals' enrollment projections for FY24 worsened the forecasted outlook presented in the February workshop. **Without introducing any cost-saving measures, our deficit is expected to grow in excess of \$280M.**

	Adopted 2022-2023	Amendments through 3/31/23 2022-2023	Approved as of 3/31/23 2022-2023	Adjustments to Forecast 2022-2023	Latest Thinking 2022-2023	2023-2024	2024-2025	2025-2026
Total Revenues	\$ 2,133	19	2,152	11	2,164	2,182	2,222	2,260
Appropriations	\$ (2,336)	(79)	(2,415)	(3)	(2,419)	(2,429)	(2,571)	(2,610)
<i>Fallout Estimate</i>	70	-	70	25	95	70	70	70
Operating Surplus / (Deficit)	\$ (133)	(60)	(193)	33	(160)	(177)	(279)	(279)
Use of One-Time ESSER Funds	\$ 102	-	102	-	102	39	-	-
Use of Reserve for Encumbrances and ERP Projects to Address Carryover	-	-	54	-	54	-	-	-
Surplus / (Deficit) After Use of One-Time Funds	\$ (31)	(60)	(37)	33	(4)	(138)	(279)	(279)

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

Forecasted Use of Fund Balance: Proposed FY24 Adjustments Not Included (as of March 2023)

(\$, In Millions)

Although HISD has a seemingly large fund balance today, these reserves can be rapidly depleted with large deficits. **Without introducing additional cost-saving measures, HISD's fund balance could drop below reserve requirements in early FY26.**

	Adopted 2022-2023	Latest Thinking 2022-2023	2023-2024	2024-2025	2025-2026
Beg. Instructional Stabilization Fund Balance	147	264	260	122	-
Change due to Surplus / (Deficit)	(31)	(4)	(138)	(122)	-
End. Instructional Stabilization Fund Balance	116	260	122	-	-
Beg. Unassigned Fund Balance	556	664	664	664	507
Change due to Exhausted Assigned Fund Balance	-	-	-	(157)	(279)
End. Unassigned Fund Balance	556	664	664	507	228
Total Ending Fund Balance	673	924	786	507	228
<i>Board policy minimum fund balance</i>	487	491	480	490	491
Total Fund Balance in Excess of Board Requirement	185	433	306	17	(263)

REVIEW: SOLUTIONS FOR ADDRESSING THE DEFICIT

Review: Solutions

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 / increasing revenue and decreasing costs.

Revenue

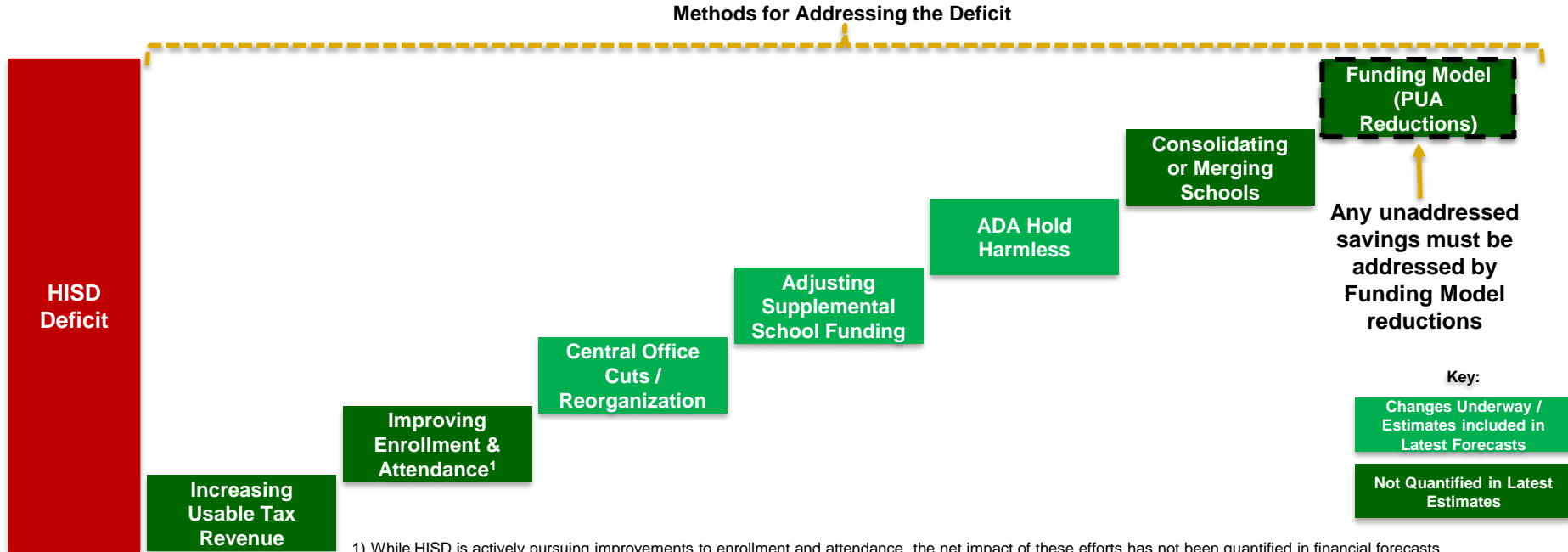
- Increasing usable tax revenue
- Stabilizing and increasing enrollment and attendance

Costs

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

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

School Specific General Fund Changes

**Small School
Subsidy**

Savings: ~\$8M

Standardizing per unit allocation to \$1,500

**High School
Allotment**

Savings: ~\$5M

Reduction from \$170 to \$85

**Removal of ADA
Hold Harmless**

Savings: ~\$29M¹

*Beginning in FY24, schools
will not be held harmless
for attendance*

**5% Cap on GF impact
Imposed for SSS and HSA**

1) Estimated impact based on change in policy applied to static enrollment at a unique point in time. Final impact may vary slightly due to enrollment changes

School Specific General Funds that are NOT Changing



Magnet School
Funding

*All magnet funding will remain the same
for FY 23-24*



PUA

*The Per Unit Allotment
(PUA) and weights will not
decrease for the FY 23-24*

Notes:

- Magnet funding on a school-level basis may fluctuate due to enrollment changes at the school level
- Principals will experience a Per Unit Allocation **increase** of \$409 to account for the average salary increase in FY23

CENTRAL OFFICE REDUCTIONS: DEEP DIVE

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

Academics Office: Budget Reduction Impacts

Sub-Department	Central Office Impact	Schools Impact
Curriculum & Instruction	Will close some unfilled positions (30.0 FTE)	<ul style="list-style-type: none"> All vacant GF positions will be closed Reduction in ability to provide the same level of instructional support to campuses (e.g., supplemental reading materials)
CCMR	Will close some unfilled positions (3.0 FTE)	<ul style="list-style-type: none"> Limited direct campus support and oversight of CCMR Advisors
Special Education	Will close some unfilled positions (23.3 FTE)	<ul style="list-style-type: none"> Sp. Ed. budget reduced back to FY22 Actuals (most of the cut was in unfilled positions) Services will not be reduced
Other Sub-Departments	<ul style="list-style-type: none"> Reduction impacts review for high quality instructional materials Will close some unfilled positions (62.6 FTE) 	None Identified

Vacancy Fallout	+	Non-Salary Fallout	+	Expenditure Reduction	=	Total Reduction
\$3.1 M		\$5.0 M		\$2.7 M		\$10.8 M

Schools Office: Budget Reduction Impacts

Sub-Department	Central Office Impact	Schools Impact
Schools Offices	Will close 1 unfilled position	<ul style="list-style-type: none"> Reduction in support, monitoring, and supervision across all schools' offices funded from GF. To mitigate risks and ensure there is no impact to schools, the cuts in in GF will be offset by Title I
On Time Grad Academy	Will close 1 unfilled position	<ul style="list-style-type: none"> Reduction in salary and non-salary budget allocation to align with enrollment in program
Other Sub-Departments	Will close 1 unfilled position	None Identified

Vacancy Fallout	+	Non-Salary Fallout	+	Expenditure Reduction	=	Total Reduction
\$0.2 M		\$0.03 M		\$0.2 M		\$0.4 M

Talent Office: Budget Reduction Impacts

Central Office Impact

- Positions will no longer be available to centrally fund administrative leave costs
- The Teacher Career Development team will become almost fully dependent on Title II and other grants
- Will close some unfilled positions (17.0 FTE)

Schools Impact

- Positions will not be available to fund personnel costs for administrative leave (**399 funds will be reduced**)
- Talent Office will no longer fund any costs for Teach Forward Houston

Vacancy Fallout	+	Non-Salary Fallout	+	Expenditure Reduction	=	Total Reduction
\$1.4 M		-		\$0.2 M		\$1.6 M

CTIO: Budget Reduction Impacts

Central Office Impact

- Campuses will need to be responsible for all future purchases of technology devices for students until there is an opportunity to invest with Bond funds
- Will close some unfilled positions (~18 FTE)

Schools Impact

None Identified

Vacancy Fallout	+	Non-Salary Fallout	+	Expenditure Reduction	=	Total Reduction
\$0.8 M		-		\$1.0 M		\$1.8 M

Engagement Office: Budget Reduction Impacts

Central Office Impact

- Could negatively impact ability to make equipment upgrades and engage in some service provider agreements
- Will decrease funds available for support work
- Will close some unfilled positions (5.0 FTE)

Schools Impact

Minimal Campus Impact

Vacancy Fallout	+	Non-Salary Fallout	+	Expenditure Reduction	=	Total Reduction
\$0.3 M		-		\$0.6 M		\$0.9 M

UPDATED 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 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
- **Removal of ADA hold harmless provision**, resulting in an aggregate reduction of ~\$29M to school budgets
- **Department cuts** of ~\$15M included in FY24
- **HS Allotment Reduction** of ~\$5M in FY24
- **SSS Reduction** of ~\$8M included in FY24
- **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: Proposed FY24 Adjustments Included

(\$, In Millions)

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

	Adopted 2022-2023	Amendments through 3/31/23 2022-2023	Approved as of 3/31/23 2022-2023	Adjustments to Forecast 2022-2023	Latest Thinking 2022-2023	2023-2024	2024-2025	2025-2026
Total Revenues	\$ 2,133	19	2,152	11	2,164	2,182	2,222	2,260
Appropriations	\$ (2,336)	(79)	(2,415)	(3)	(2,419)	(2,372)	(2,513)	(2,552)
<i>Fallout Estimate</i>	70	-	70	25	95	70	70	70
Operating Surplus / (Deficit)	\$ (133)	(60)	(193)	33	(160)	(119)	(222)	(222)
Use of One-Time ESSER Funds	\$ 102	-	102	-	102	39	-	-
Use of Reserve for Encumbrances and ERP Projects to Address Carryover	-	-	54	-	54	-	-	-
Surplus / (Deficit) After Use of One-Time Funds	\$ (31)	(7)	(37)	33	(4)	(81)	(222)	(222)

Note: This pro forma does not include impact of future enrollment changes in FY26. 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 \$283M to \$222M**

Forecasted Use of Fund Balance: Proposed FY24 Adjustments Included (as of March 2023)

(\$, In Millions)

Introducing cost saving measures may allow HISD to remain above reserve requirements through most of FY26.

Additional cost savings opportunities still must be identified to mitigate our anticipated operating deficit.

	Adopted 2022-2023	Latest Thinking 2022-2023	2023-2024	2024-2025	2025-2026
Beg. Instructional Stabilization Fund Balance	147	264	260	179	-
Change due to Surplus / (Deficit)	(31)	(4)	(81)	(179)	-
End. Instructional Stabilization Fund Balance	116	260	179	-	-
Beg. Unassigned Fund Balance	556	664	664	664	622
Change due to Exhausted Assigned Fund Balance	-	-	-	(42)	(222)
End. Unassigned Fund Balance	556	664	664	622	400
Total Ending Fund Balance	673	924	843	622	400
<i>Board policy minimum fund balance</i>	<i>487</i>	<i>491</i>	<i>480</i>	<i>490</i>	<i>491</i>
Total Fund Balance in Excess of Board Requirement	185	433	364	132	(90)

KEY TAKEAWAYS

Key Takeaways

1. Principal-projected enrollment numbers for FY24 indicate that HISD may face a decline in enrollment of ~5,200 students.
2. In order to begin to address enrollment decline and long-standing structural inefficiencies, the administration is proposing changes to both the central office and the schools General Fund allocations. These changes amount to ~\$62 M in savings and include:
 - **Standardizing Small School Subsidy allocation** (~\$8M)
 - **Cutting the High School Allotment in half** (~\$5M)
 - **Removing ADA Hold Harmless** (~\$29M)
 - **Central Office Cuts** (~\$15M)
3. Current financial forecast indicates that even though introducing cost saving measures will allow HISD to remain above reserve requirements through most of FY26, **additional cost savings opportunities must still be identified to mitigate our anticipated operating deficit.**
4. In the coming months, principals will be working on completing their FY24 budgets. As these are submitted, HISD leadership will assess the impacts of these cuts.
5. The next budget workshop **is scheduled for April 20th.**