

# Budget Workshop

## 1 of 5

2020-2021 Fiscal Year Budget

Date: 03/05/2020

Presenter: Office of Finance



# Agenda

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- 2020-2021 First Assumptions and Projections
- Health Insurance
- Continuing Steps

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2020-2021

# 2020-2021 First Assumptions

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- Presenting a balanced budget
- Property Value Increase – 6% over current values
- Maintenance & Operations (M&O) tax rate – based on \$.9458
  - This will change based on our roll values from HCAD
- Enrollment of 209,309 – flat from 2019-2020 snapshot.
- First year of excess revenue (old recapture) under HB3 – approximately \$60m
- \$170 increase over 2019-2020 in Per Unit Allocation (PUA) for average salary increase.
- No increase over 2019-2020 in student weights.
- Additional \$11m district contribution for health insurance.
- No additional budgeted Achieve 180 costs.
- Salaries:
  - \$24 million allocated
  - Assumes unanimous vote of an additional golden penny in September/October 2020

# 2020-2021 Per Unit Allocations (PUA)

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Level	2017-2018 PUA	2018-2019 PUA	2019-2020 PUA	2019-2020 Salary Increase	2020-2021 PUA
Elementary Schools	\$3,522	\$3,432	\$3,432	\$170	\$3,602
Middle Schools	\$3,558	\$3,468	\$3,468	\$170	\$3,638
High Schools	\$3,522	\$3,432	\$3,432	\$170	\$3,602

# General Fund Budget

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Revenue and Expenditure Category (Based on 209,309 students)  
Assumes unanimous board approval of a fifth golden penny (about \$24 million)

## Revenues and Resources

5700-Local Sources	\$1,830,597,172
5800-State Sources	\$ 196,149,158
5900-Federal Sources	\$ 19,724,182
7900-Other Sources	\$ 22,500,000
<b>Total Revenues</b>	<b><u>\$2,068,970,512</u></b>

<b>Total Expenditures (Base Budget)</b>	<b><u>\$1,963,877,171</u></b>
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<b>Change in excess revenue payment</b>	<b><u>\$ 60,000,201</u></b>
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<b>Total Expenditures (after excess revenue payment)</b>	<b><u>\$2,023,877,372</u></b>
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# General Fund Budget

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	<u>Cost / (Savings)</u>	<u>Balance</u>
<b>HB3 Expenditure Adjustments</b>		
Early Education Allotment compliance	\$ 27,000,000	
State Compensatory Education (SCE) compliance	\$ 10,000,000	
CTE Certification reimbursement	\$ 367,028	
SAT reimbursement	\$ 189,000	
College, Career, Military Readiness (CCMR)	\$ (1,056,471)	
<b>HB3 Expenditure Adjustments</b>	<b>\$ 36,499,557</b>	<b>\$ 8,593,582</b>

# General Fund Budget

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	<u>Cost / (Savings)</u>	<u>Balance</u>
<b>Budget Reductions</b>		
Capital Lease Recognition	\$ (15,089,788)	
Vacant Salaries	\$ (5,000,000)	
District-wide	\$ (3,000,000)	
Transfers Out for Debt Service	\$ (2,685,625)	
Utilities	\$ (2,000,000)	
Retention Stipends from 2019-2020	\$ (1,084,000)	
LBB Recommendation 1	\$ (412,078)	
Compensation Study from 2019-2020	\$ (175,000)	
LBB Recommendation 39	\$ (145,676)	
<b>Budget Reductions</b>	<b>\$ (29,592,167)</b>	<b>\$ 38,185,749</b>

# General Fund Budget

	<u>Cost / (Savings)</u>	<u>Balance</u>
<b>Budget Increases</b>		
Salary Package	\$ 24,000,000	
Health Insurance	\$ 11,000,000	
Campus Enrollment Increase	\$ 9,700,000	
Tax Increment Reinvestment Zone (TIRZ)	\$ 2,846,547	
Property, Liability, Auto Insurance	\$ 2,500,000	
Charter School Enrollment Increase	\$ 2,400,000	
Harris County Appraisal District (HCAD)	\$ 1,157,402	
Self Insurance	\$ 1,000,000	
Verizon Innovative Learning Support	\$ 864,527	
Liberty HS lease, maintenance, and custodial	\$ 455,922	
Family & Community Engagement	\$ 387,762	
Chief Audit Executive	\$ 229,021	
<b>Budget Increases</b>	<b>\$ 56,541,181</b>	<b>\$ (18,355,431)</b>
Use of assigned fund balance for North Forest construction	<b>\$ 18,434,625</b>	
<b>Budget Surplus / (Deficit) with unanimous vote of fifth penny</b>		<b>\$ 79,194</b>
<b>Budget Surplus / (Deficit) without unanimous vote of fifth penny</b>		<b>\$ (23,704,054)</b>

# State Compensatory Education (SCE Compliance)

<b>Purpose</b>	<b>The spending requirement for SCE is 55% of the allotment. To meet the district's spending requirement an additional amount needs to be appropriated.</b>
<b>Cost / (Savings)</b>	<b>\$10,000,000</b>

# Early Education Allotment (Compliance)

<b>Purpose</b>	The spending requirement for the early education allotment is 100% of the allotment. To meet the district's spending requirement an additional amount needs to be appropriated.
Cost / (Savings)	\$27,000,000

# CTE Certification Reimbursement

<b>Purpose</b>	<b>The district is eligible to receive funding to reimburse students for <u>passing</u> a CTE certification test.</b>
<b>Cost / (Savings)</b>	<b>\$367,028</b>

# SAT Reimbursement

<b>Purpose</b>	HISD has been funding SAT tests for several years prior to HB3. This is the amount estimated above what the district is currently funding to pay for <u>one</u> SAT test for every student in either their Junior or Senior year.
<b>Cost / (Savings)</b>	\$189,000

# College, Career, Military Readiness (CCMR)

<b>Purpose</b>	<p>The estimated allotment for the 2019-2020 adopted budget is lower than actual allotment.</p> <p>This amount will fluctuate year to year based on the number of students graduating above the threshold set by commissioner rule.</p> <p>\$5,000 – Economically Disadvantaged \$3,000 – Non-Economically Disadvantaged \$2,000 – Special Education</p>
<b>Cost / (Savings)</b>	<b>(\$1,056,471)</b>

# Capital Lease Recognition

<b>Purpose</b>	This is related to the Power-Up program and has an offsetting reduction to revenue therefore it has no actual budget impact.
<b>Cost / (Savings)</b>	(\$15,089,788)

# Vacant Salaries

## Purpose

The district is proposing reducing the amount budgeted for vacant positions to assist in funding the 2021 budget.

This reduces unspent funds from salaries which was used in the recent past to fund the budget deficits.

Cost / (Savings)

(\$5,000,000)

# District-wide Services

<b>Purpose</b>	The district is continuing to monitor district-wide expenditures to reduce or re-appropriate to other fixed cost increases such as property insurance and self-insurance.
<b>Cost / (Savings)</b>	(\$3,000,000)

# Transfers Out for Debt Service

<b>Purpose</b>	This is primarily a \$2,500,000 reduction in the planned transfer out to the Nutrition Services program for the increase in the hourly rate from \$12 to \$14 per hour in 2019-2020. Nutrition Services has since made program changes that has provided payroll savings to cover this cost increase.
<b>Cost / (Savings)</b>	(\$2,685,625)

# Utilities

<b>Purpose</b>	<b>The district changed to a new utility contract effective July 1, 2020. This has yielded savings to the district.</b>
<b>Cost / (Savings)</b>	<b>(\$2,000,000)</b>

# Retention Stipends from 2019-2020

<b>Purpose</b>	<b>This was a one-time retention stipend paid to employees making \$75,000 in the 2019-2020 budget. It will not be paid in 2020-2021 therefore it can be eliminated.</b>
<b>Cost / (Savings)</b>	<b>(\$1,084,000)</b>

# LBB Recommendation 1

<b>Purpose</b>	<b>Savings from the elimination of the Chief of Governmental Relations and Chief Development Officer.</b>
<b>Cost / (Savings)</b>	<b>(\$412,078)</b>

# Compensation Study from 2019-2020

<b>Purpose</b>	These were one-time funds set aside for 2019-2020 for a Compensation Study and can be eliminated for 2020-2021.
<b>Cost / (Savings)</b>	(\$175,000)

# LBB Recommendation 39

<b>Purpose</b>	The Human Resources department reduced two General Managers referenced in the LBB report, however there were other observations / concerns that were addressed reducing the savings. The LBB did not provide any estimates for addressing these other items.
<b>Cost / (Savings)</b>	(\$145,676)

# Salary Package

<b>Purpose</b>	This is the amount being assigned to build a salary package based on adding the fifth golden penny to the district's M&O tax rate. The fifth penny requires a unanimous vote of the board of education when adopting the tax rate.
<b>Cost / (Savings)</b>	\$24,000,000

# Health Insurance

<b>Purpose</b>	<b>Health Insurance continues to see increases in both medical and pharmacy. The district also reduced rates to for employees to move into an Accountable Care Organization (ACO). Without employees moving into the ACO plans the district's cost increase would have been significantly higher.</b>
<b>Cost / (Savings)</b>	<b>\$11,000,000</b>

# Campus Enrollment Increase

<b>Purpose</b>	<p>For 2019-2020 the district and campuses projected about 1,500 fewer students. Overall the district was relatively flat.</p> <p>For final budget settle-up the district owed campuses about \$5.2 million for increased enrollment over projections.</p> <p>Campuses also increased by over 12k at-risk students. The district does not receive funding for at-risk students but it is a part of the Resource Allocation formula. This was a cost of about \$4.5 million</p>
<b>Cost / (Savings)</b>	<b>\$9,700,000</b>

# Tax Increment Reinvestment Zone (TIRZ)

<b>Purpose</b>	The district participates in 13 TIRZ zones. Property tax collections from each zone are remitted to the city to fund those plans with a portion being returned to HISD for instructional facilities. As property values increase the TIRZ payments increase. The district receives a credit through the state funding formula for the M&O portion of our TIRZ payment.
<b>Cost / (Savings)</b>	\$2,846,547

# Property, Liability, Auto Insurance

Purpose	The district is currently negotiating insurance premiums. The largest increase will be from property insurance premiums due to Hurricane Harvey.
Cost / (Savings)	\$2,500,000

# Charter School Enrollment Increase

Purpose	Charter schools had an overall increase in enrollment primarily in Texas Connections Academy. This is the contractual increase amount that is projected to be owed to all charter schools.
Cost / (Savings)	\$2,400,000

# Harris County Appraisal District (HCAD)

<b>Purpose</b>	Based on the district's percentage of total HCAD property value the district pays that percentage of the appraisal district's budget. This value represents an increase experienced in 2019-2020 as well as an additional projected amount in 2020-2021.
<b>Cost / (Savings)</b>	\$1,157,402

# Self Insurance

Purpose	The district is self-insured for claims under \$250,000. The past two years the amount needed for these claims has continued to increase. The district will receive some of this increase back in insurance reimbursements.
Cost / (Savings)	\$1,000,000

# Verizon Innovative Learning Support

<b>Purpose</b>	<p>The district has received a grant to purchase laptops for six campuses (Henry MS, Holland MS, Edison MS, Hartman MS, Fleming MS, and Tanglewood MS).</p> <p>The cost includes cost sharing with Verizon for</p> <ul style="list-style-type: none"><li>• Campus Instructional Technologist for each campus</li><li>• IT Customer Service Reps</li><li>• IT Team Lead</li><li>• Contracted services (summer refresh and deployment)</li><li>• Supplies and Materials (bags, replacement chargers, replacement stylus, etc...)</li><li>• Spare devices</li><li>• One-time costs for campus tech room and charging station setup (about \$239,000)</li></ul>
<b>Cost / (Savings)</b>	<b>\$864,527</b>

# Liberty HS lease, maintenance, and custodial

<p>Purpose</p>	<p>Liberty HS will be moving in to the HCC Gulfton location beginning in the 2020-2021 school year.</p> <p>This is a larger property that will be used exclusively by HISD for Liberty HS and Middle College Gulfton.</p> <p>The increase is primarily the difference between the prior Liberty HS lease and what will be paid for the HCC Gulfton lease.</p> <p>This is a brick and mortar building, as opposed to a retail center or T-Buildings. Therefore, additional costs will be incurred including custodial, grounds, facility maintenance, and utilities, as required in the terms by HCC for the use of the site.</p>
<p>Cost / (Savings)</p>	<p>\$455,922</p>

# Family & Community Engagement

<p>Purpose</p>	<p>The Ascending to Men (ATM) and Resilient Outstanding Sisters Exemplifying Success (ROSES) Projects support disadvantaged students through mentoring programs.</p> <p>These projects support grades 3-12 with 'shadowing efforts' upon graduation.</p> <p>The Winter Ball (held in December) highlights the seniors students with a formal Ball, (suits and gowns) to be recognized for their work and efforts, with exposure of this event that culminates etiquette (attire, formal dance, and dinner).</p> <p>The Mentoring Summit (held in May) highlights the annual event for students that successfully participate in the ATM/ROSES projects with professional men and women of color from across the country, with college experiences and careers that will expose our students to future possibilities. This exposure celebrates these professionals and will give our students clear vision of future aspirations.</p>
<p>Cost / (Savings)</p>	<p>\$387,762</p>

# Chief Audit Executive

<b>Purpose</b>	This budget increase was added during the 2019-2020 fiscal year to support the audit plan of the district both in staffing and outside audit firm supports.
Cost / (Savings)	\$229,021

# Tier I Entitlement

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- What is HISD's Total Funding:
  - Cost of Tier I (Entitlement)
  - + Tier II (Golden Pennies)
  - + Other Programs (Supplemental TIF / TIRZ)
  - = Total District Funding

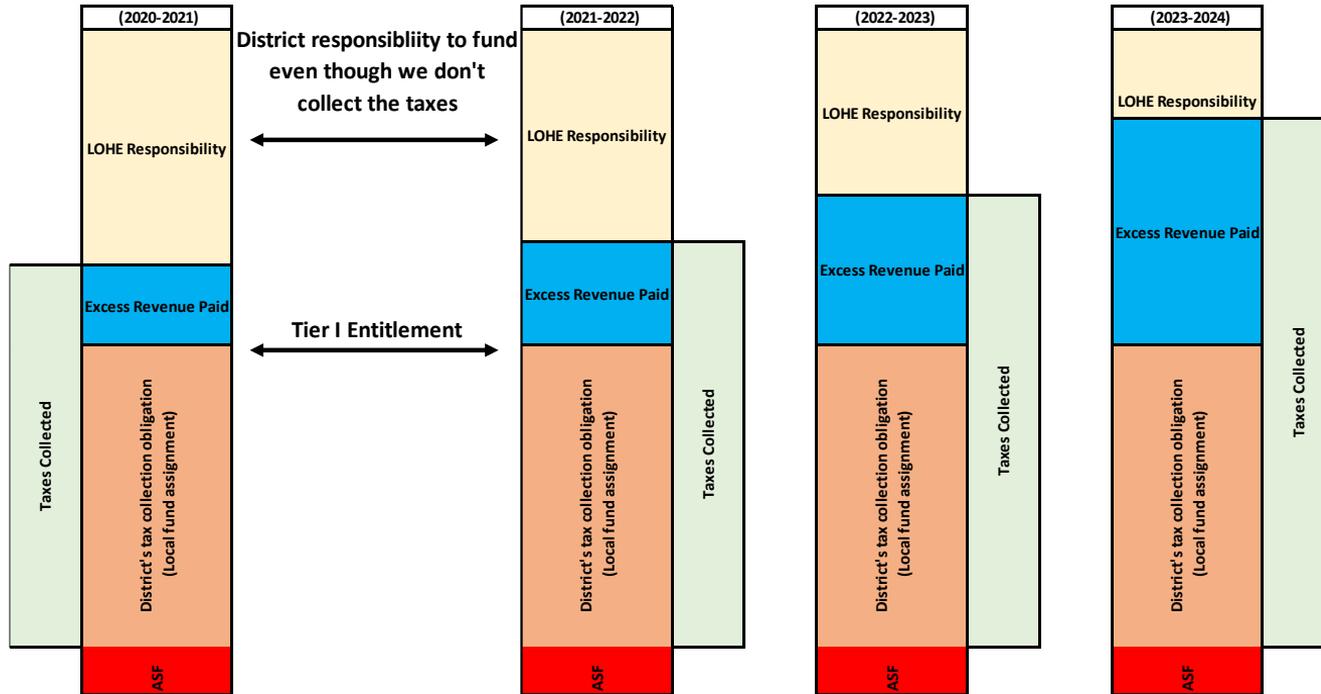
Note: Any tax collections or Available School Funds collected above entitlement are subject to excess revenue.

# Cost of Tier I

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- Student ADA
- Weighted Students
  - Special Education
  - Bilingual
  - Career and Technical Education (CTE)
  - State Compensatory Education (SCE)
  - Dyslexia
- Early Education Allotment
- College, Career, Military Readiness (CCMR)
- Teacher Incentive Allotment
- Teacher Mentor Program Allotment
- School Safety Allotment
- Transportation Allotment
- New Instructional Facilities Allotment
- College Preparation assessment reimbursement
- Certification examination reimbursement

# Revenue Box



As long as HISD has excess revenue the district generates funding from increases in the Tier I Entitlement  
 No increase in revenues net of excess revenue from an increase in property taxes due to the use of current year values

# Revenue Box Summary

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- As property values rise HISD doesn't see an increase in property taxes retained at the compressed tax rate (the largest portion of our tax rate).
- If Tier I entitlement increases the district must have an excess revenue obligation to actually keep the increase in entitlement.
- If excess revenue has been exhausted and Tier I entitlement increases then the district must self fund the increase from dollars it does not collect due to the Local Optional Homestead Exemption (LOHE).

# Excess Revenue Projections

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	<b>2019-2020</b>	<b>2020-2021</b>	<b>2021-2022</b>	<b>2022-2023</b>	<b>2023-2024</b>
Estimated Recapture	\$ -	\$ 60,000,201	\$ 61,596,413	\$ 143,404,814	\$ 151,276,521
Roll Value Increase	4.79%	6.00%	6.00%	6.00%	6.00%
Enrollment	208,246	209,309	209,309	209,309	209,309
WADA	266,422	267,523	267,523	267,523	267,523

Note: 2019-2020 roll value increase based on HISD estimated vs CAFR final value.

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# Health Insurance

# Health Insurance

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- HISD changed plan administrators to Aetna starting in January 2020
- HISD recently received a \$20.9 million recovery from Cigna for our 2019 stop loss payment. We will not receive this in plan year 2020.
- Revenues will decline more, primarily employee contributions and also other revenue, which is insurance recoveries, pharmacy rebates, COBRA premiums
- Overall employee contributions declined about 20%

# Improving Care in 2019/20

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- New onsite clinic providers – In January utilization was up 109% at both clinics to 1,122 clinic visits in the month.
- Near site urgent care for all plan members – 577 visits in December and 807 visits in January (9am to 9pm 7 days a week at 14 locations).
- New plan administrator in January 2020 with two Accountable Care Organizations (nearly 70% are participating in this plan).
  - Kelsey-Seybold ACO – 45% of HISD participants and has a \$30 primary office copay and a \$65 specialist office copay for all plan options.
  - Memorial Hermann ACO – 24% of HISD participants.
  - Texas Medical Neighborhood – 31% of HISD participants – must have a primary care medical home.

# Health Insurance

## Factors Impacting Plan Costs

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### Increasing Cost Factors

- Inflation - Medical and pharmacy inflation is higher than normal inflation. Also Houston medical inflation is expected to be higher than national inflation based on our consultant's estimates.
- Average age of plan members has increased.
- Utilization - members seeking more care is increasing.
- Technology - new treatments, medication and drugs is increasing.
- New Legislation - New mandated benefits for 2021 have a small increase.

### Decreasing Cost Factors

- Plan changes and new vendor discounts are estimated to reduce plan costs (includes the new ACO plan).
- Membership is projected to decline FY20/21 from our original FY19/20 estimate. This affects both contributions and plan costs.

# Health Reimbursement Accounts

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- Health Reimbursement Accounts (HRAs) are funded by the employer and allow first dollar benefits (which help with higher deductibles and out-of-pocket costs). Unused funds can rollover to future years.
- In 2017 HISD discontinued additional funding into employee HRA accounts, but employees could still use existing balances from prior years.
- If HISD reinstated the HRA funding to \$500 for employee only options, \$750 for employee & spouse and employee & children options, and \$1,000 for employee and family option, it is expected to cost an additional \$4.5 million in paid HRA benefits for the 2020-2021 FY (half a year) and an additional \$4-5 million in 2021-2022 (\$9-10 million full year) depending on plan enrollment.
- This is **NOT** included in the current budget proposal

# Health Insurance Trends-Update

2013-2014: Rates decreased 20%

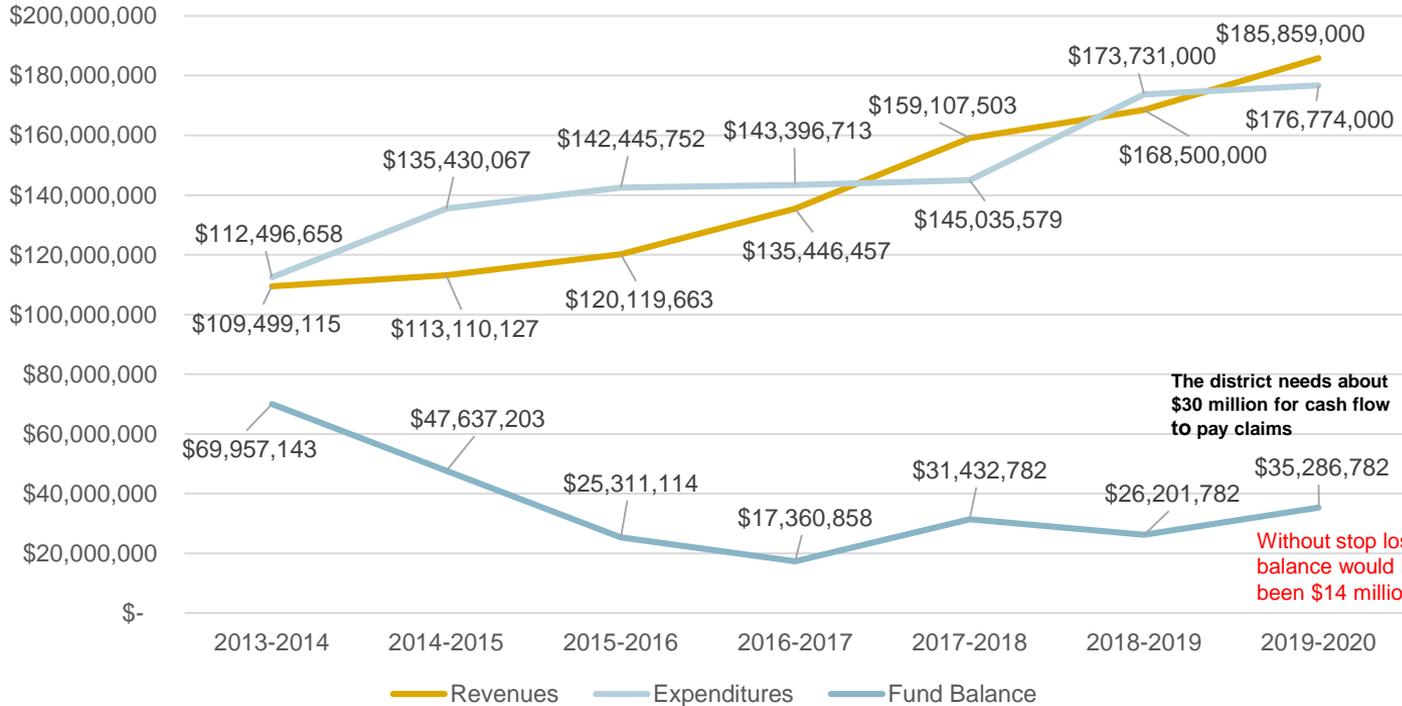
2016-2017: Employee rates increased 7% to 9.8%

2017-2018: District contribution increased \$10m

2018-2019: District contribution increased \$10.7m

2019-2020: District funding increased \$10.8m  
2020 EE Rates decreased 20%  
Cigna 2019 Stop Loss Payment of \$20.9M

## Health Insurance Revenue and Expenditure History



# Health Insurance Employee vs Employer Contributions - Update

	2016-2017		2017-2018		2018-2019		2019-2020		2020-2021	
	Actual	%	Actual	%	Actual	%	Estimated	%	Estimated	%
Employer Contribution	\$90,514,243	70%	\$110,749,402	74%	\$121,459,000	76%	\$122,715,000	79%	\$132,866,000	82%
Employee Contribution	\$38,786,606	30%	\$38,903,904	26%	\$37,481,000	24%	\$33,127,000	21%	\$30,127,000	18%
Total Contribution	\$129,300,849		\$149,653,306		\$158,940,000		\$155,842,000		\$162,993,000	

Note: 2020-2021 includes an \$11m budget increase in employer contribution

# Other Items

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## Continuing Steps

# Future Budget Workshops

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- March 26, 2020
- April 23, 2020
- May 21, 2020
- June 4, 2020

## 2019-2020 Campus Budget Timeline

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- Principals submitted their campus enrollment projections on February 12, 2020.
- Preliminary campus budgets scheduled to be available from March 9, 2020 to April 10, 2020.
- Certified Estimated Values in April, 2020
- Notice of Public Hearing in Newspaper May 29, 2020
- Budget Adoption June 11, 2020

# Summary

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- Presented a balanced budget
- Includes \$24 million for a salary package
  - Assumes unanimous vote of an additional golden penny in September/October 2020
- Increases district health insurance contribution by \$11 million and keeps employee rates the same
  - Health insurance will continue to see cost increases that will put pressure on district resources (all funds)
- First year of excess revenue under HB3
- District revenues net of excess revenue will not increase in the foreseeable future, flat revenues.

***Next budget workshop  
March 26, 2020***

