



2019–20

Legislative Update & Budget Development

February 18, 2019
Board Update



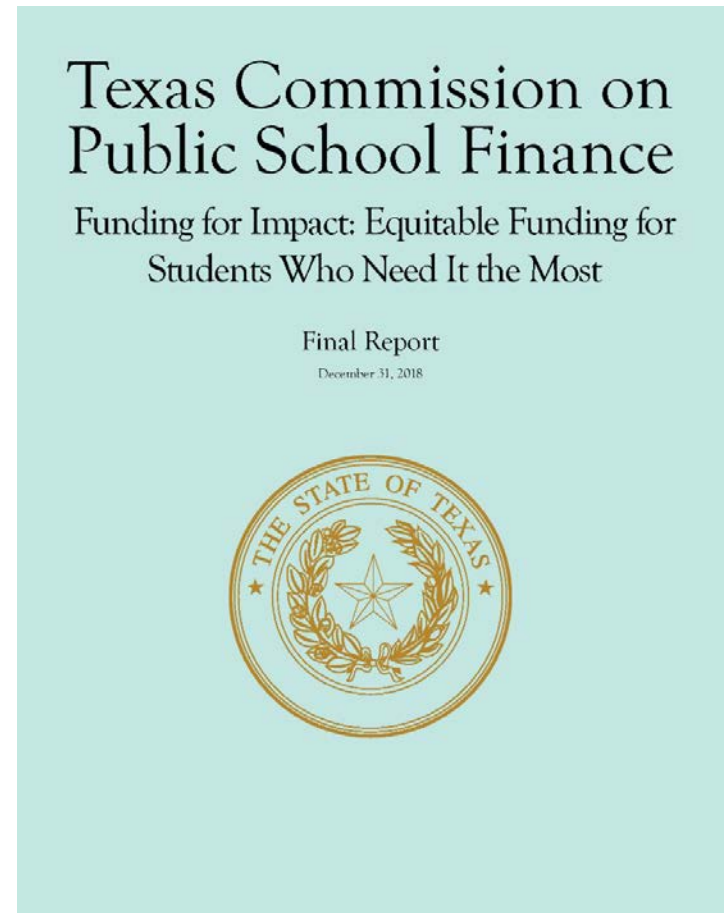
FBISD
INSPIRE • EQUIP • IMAGINE

Overview

- Texas Commission of School Finance Recommendations
- Legislative update
- Current financial outlook
 - » General Fund
 - » Debt Service Fund
- Next steps

Themes from the Public School Finance Commission

- Governor Abbott's goals (outcome-based funding, innovative methods, and property tax reform)
- Focuses on existing practices with demonstrated success, but most carry high price tags that are unaffordable for most districts
 - » Comprehensive teacher quality and placement Initiatives, teacher excellence initiative
 - » Focused instructional leadership initiatives
 - » Quality early learning programs
 - » Two-way dual language programs



Outcomes-Based Funding

3rd Grade Reading Outcomes Funding	\$400 million
College, Career, & Military Readiness Outcomes Funding	\$400 million
Educator Effectiveness Allotment	\$100 million (\$1 billion by FY29)
3rd Grade Reading Outcomes Funding	\$400 million

Proposed New Funding

New 3rd Grade Reading Allotment	\$780 million
New Dual Language Allotment	\$50 million (\$100 million by 2023)
New Dyslexia Allotment	\$100 million
Extended Year Incentive Program	\$50 million
New Fast Growth Allotment	\$280 million
State funding for SAT/ACT tests	\$20 million

Reallocations

Cost of Education Index (CEI)	\$2.9 billion
Chapter 41 Hold Harmless	\$30 million
Chapter 41 Early Agreement Credit	\$50 million
Gifted & Talented Allotment	\$165 million
High School Allotment	\$400 million
Move to Current Year Values from Prior Year	\$1.8 billion (once)
ASF Per-Capita Funding	Unknown state savings

Modifications to Existing System

Increase Comp Ed Funding & Allocate on Spectrum	\$1.1 billion
Fund Transportation Based on Mileage	cost neutral
Transportation Allotment for Ch 41 districts	\$60 million
Stand-Alone Small & Midsize Allotment	cost neutral
Increase New Instructional Facilities Allotment	\$100 million
Expand Career & Technical Allotment to 6-8	\$20 million
Increase Copper Penny Yield & compress tax rates	\$286 million
Link Golden Penny Yield to Percentage of the Basic Allotment (reduce the yield)	Unknown savings for state
Full-day Pre-K Attendance Credit for Tier II	Unknown cost
All Children of Educators to be Eligible for Pre-K	\$50 million

Final Recommendations

Outcomes-based funding	\$1.80 B cost to state
New funding components	\$2.56 B cost to state
Reallocations	\$8.80 B savings to reinvest
Modifications to existing system	\$3.20 B cost (may be savings)
Revenue/property tax relief	? ? ? unknown

Legislative Update

- The 86th Legislative Session started Jan. 8
- “Big Three” (Governor, Lt. Governor, and Speaker) have pledged to avoid drama of last session
- Comptroller provided updated state financial forecast with \$8 billion in new revenues



“Big 3” Legislative Priorities

School finance and property tax reform

- Potential for big wins or big losses for FBISD
- Some scenarios result in tens of millions of dollars in new money
- Some scenarios result in the loss of tens of millions of dollars



Where does it leave us...



Primary Areas of Concern

1

Cost of Education
Index (CEI)

2

Property Value
Caps

3

Mandatory
Teacher Raises

4

TRS Contribution
Increase

5

Equal and
Uniform Statute

Cost of Education Index

- Created in 1984 and last updated in 1991
- Provides a regional adjustment for the cost of educating students
- Historically, urban and suburban districts have had higher costs than rural districts (e.g. teacher starting pay)
- Commission recommends elimination of CEI and increase to Compensatory Education (Comp Ed) funding

Elimination of CEI

\$56 Million Loss

- Included in proposed legislation
- Basic allotment increase of \$584 needed to break-even
- Impact on TRS stat min = \$2.0 M
- Represents a savings to the State of \$2.9 B annually

Property Value Cap

- Filed in both chambers (SB2 and HB2)
- Reduces local control of tax rate by requiring voter approval for any property tax increase over 2.5 percent
- Uncertainty created by moving tax ratification elections to uniform November election date, five months after budget is adopted
- Unknown how it impacts tax rate for debt service
- Unknown if/how the State will make up the difference

Mandatory Teacher Raises

- SB3 provides for a \$5,000 raise for all full-time teachers
- Agree teachers need a raise, but best decided at local level
- Does not include counselors, librarians, nurses, other staff not on teacher scale, or provision to increase in District's TRS expenditures
- Essentially an \$8.7 M unfunded mandate to increase compensation for non-teaching staff and additional TRS costs

Position	FTEs	Salary Increase	Avg Salary Increase %
Teachers	4,750	\$23.7M	8.48%
Total	4,750	\$23.7M	8.48%

Position	FTEs	Salary Increase	Avg Salary Increase %
Counselors, Librarians, Nurses	337	\$1.7M	7.58%
Non-Teachers	4,002	\$7.0M	4.21%
Total	4,339	\$8.7M	4.47%

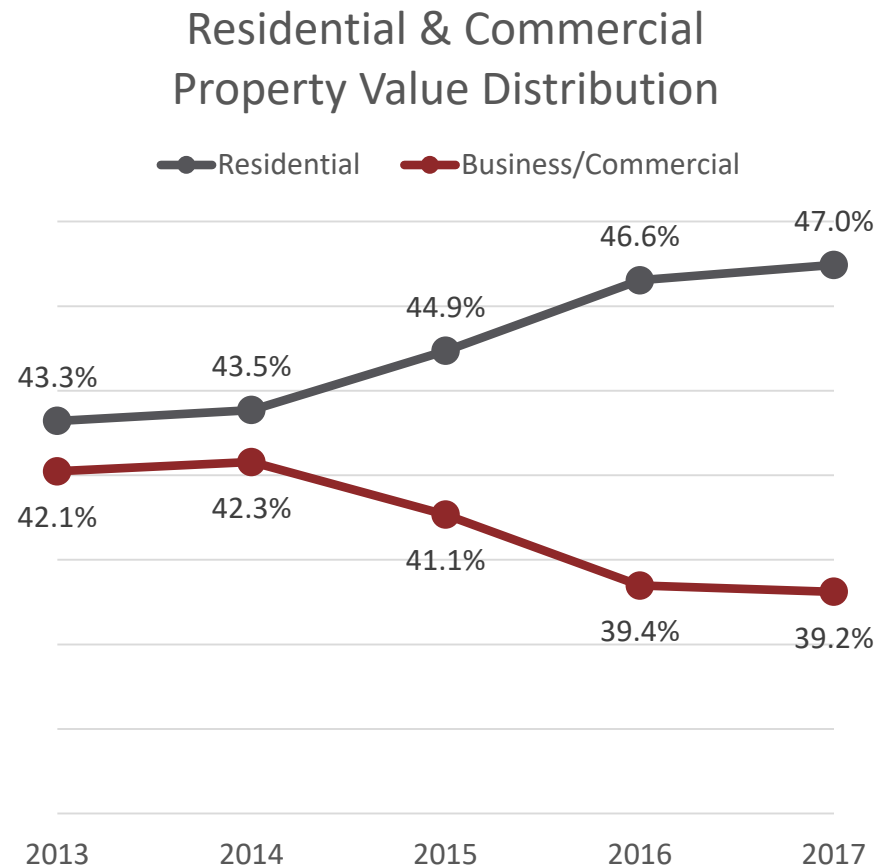
Increase to TRS Contributions

- SB393 increase TRS contribution rates for ISDs from 1.5% to 2.0% over five years
- Unfunded mandate
- Increase contribution by 0.1% from 2020 through 2024
- Estimated cumulative impact of \$6.6M (2020 – 2024) with ongoing costs of \$2.2 M per year thereafter

Description	FY20	FY21	FY22	FY23	FY24	FY25
TRS Contribution	1.5%	1.6%	1.7%	1.8%	1.9%	2.0%
Est. Contribution	\$0K	\$387K	\$853K	\$1.3M	\$1.7M	\$2.2M


Equal and Uniform Statute

- Passed in 1997 to ensure that property tax owners are assessed fairly
- Unintended consequence: Large property owners are primary beneficiaries
- Results in residential property owners funding a disproportionate share of tax burden
- Estimated lost revenues: \$5 billion
- Actively pursuing changes to statute
 - » Mandatory sales disclosure
 - » Place burden of proof on parties filing appeals
 - » Large property owners responsible for legal fees for appeals



Bottom Line on the Legislature

- Governor declared education an emergency item
 - » Legislature can pass bills prior to 60th day of session
- All around *opscurus ambiguus* (murky ambiguity)
 - » Uncertainty around changes to funding formula
 - » Uncertainty around property value caps
 - » Uncertainty on teacher raises
 - » Et cetera, et cetera, et cetera



2019–20

BUDGET DEVELOPMENT

Financial Outlook

2018-19 Year-End Estimates

(\$ Millions)	2018-19 Adopted Budget	Budget Amendments (Approved)	Budget Amendments (Potential)	2018-19 Amended Budget
Operating Revenues	\$ 626.77	\$ 6.41	\$ 13.93	\$ 647.12
Operating Expenditures	634.63	10.79	9.68	655.10
Other Sources/(Uses)	2.00	0.04	-	2.04
Use of Economic Stabilization	5.86	4.34	-	5.94
Surplus/(Deficit)	-	-	4.25	-
Fund Balance - Beginning	201.64	-	-	201.64
Use of Economic Stabilization	(5.86)	(4.34)	-	(5.94)
Fund Balance - Ending	\$ 195.78	\$ (4.34)	\$ 4.25	\$ 195.20
Total Expenditures	634.63			655.10
90 Day Reserve Requirement	156.40			161.40
Days	🟢 100 days			🟢 97 days

2018-19 YE Estimate (Revenue Adjustments)

Approved Adjustments:

• Higher Property Value Growth	\$4.65M
• CPTD Adjustment FY17 (One-time)	\$2.00M
• New Instructional Facility Allotment (NIFA)	(\$0.25M)

Potential Adjustments:

• PV Collections on Frozen Values	\$5.38M
• CPTD Audit/ SOF True up FY18 (One-time)	\$1.38M
• Interest Income	\$1.50M
• SHARS Revenue	\$2.20M
• State Revenue from increased ADA & SPED enrollment	\$3.50M


2018-19 YE Estimate (Expenditure Adjustments)

Approved Adjustments:

• Teaching and Learning Budget Adjustment	\$0.58M
• Annual Encumbrance Roll-over	\$3.71M
• PD Initiative Positions (pro-rated)	\$0.96M
• Retention Supplement	\$5.51M
• Special Education Positions (pro-rated)	\$2.27M
• PBIS and Campus Support Positions (pro-rated)	\$1.23M

Potential Adjustments:

• Teacher Additions (enrollment driven)	\$0.94M
• Revised Electricity Forecast	\$1.50M
• Revised Maintenance Expenses	\$3.80M



2019-20

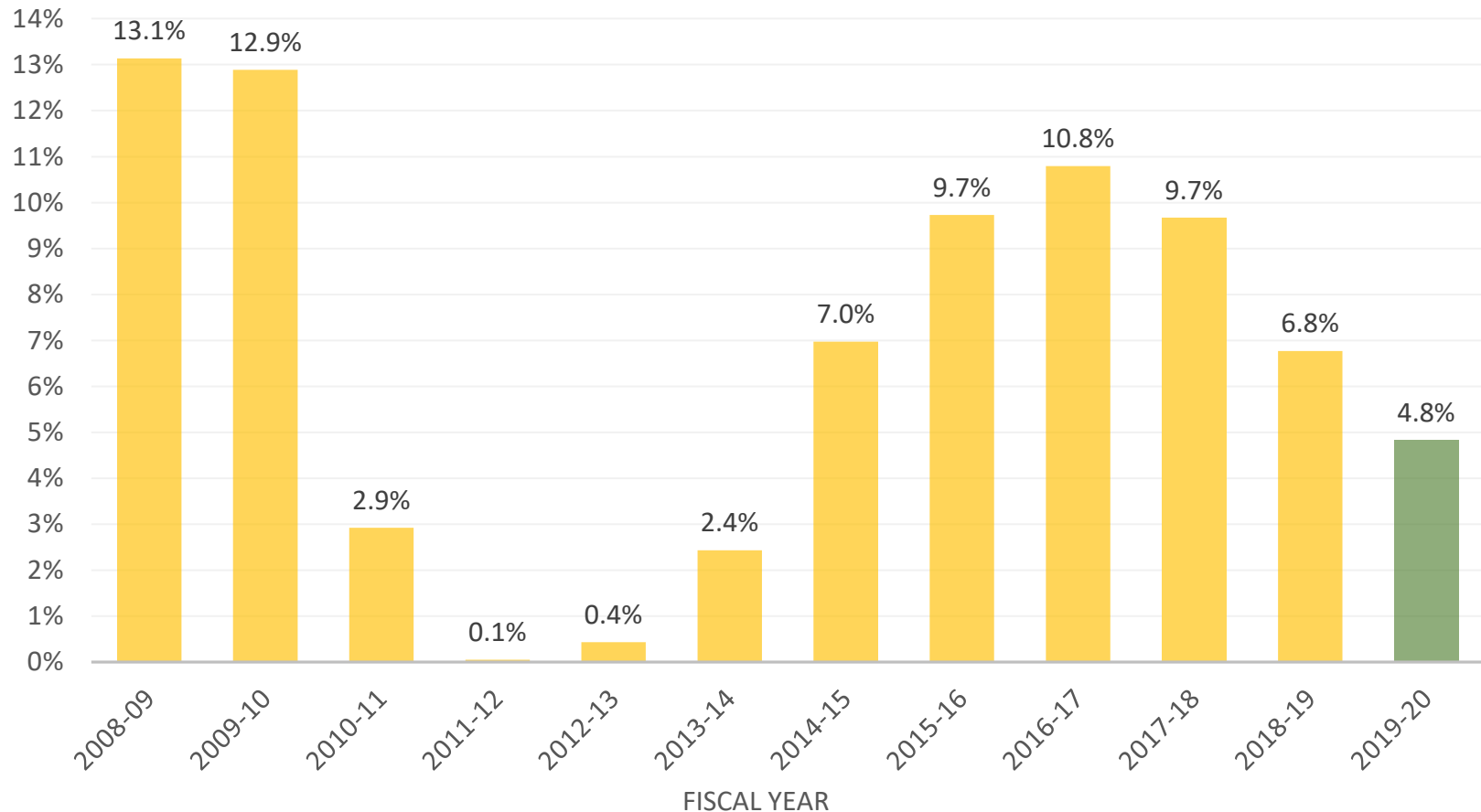
BUDGET DEVELOPMENT

2019-20 Outlook

Local Property Value Update

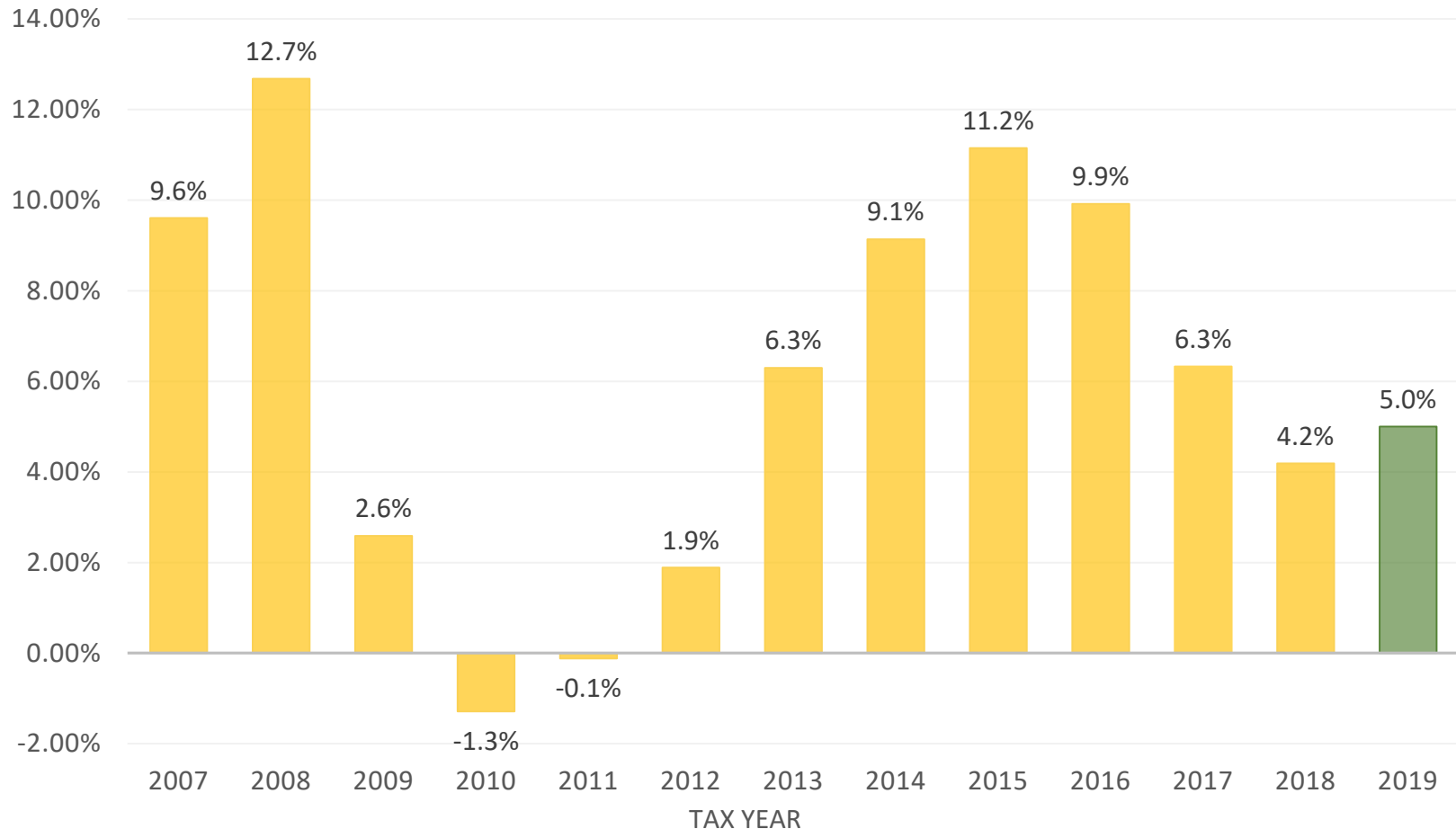
- Met with Chief Appraiser on February 1st
- Received preliminary estimates
 - » Expected increase in Over 65 and Disabled exemptions
 - » Lots of Appraisal Review Board (ARB) requests expected
- Initial estimate of \$37.0B in net taxable property value
- Represents 5% growth over 2018

Change in CPTD Property Values



Source: Texas Comptroller's

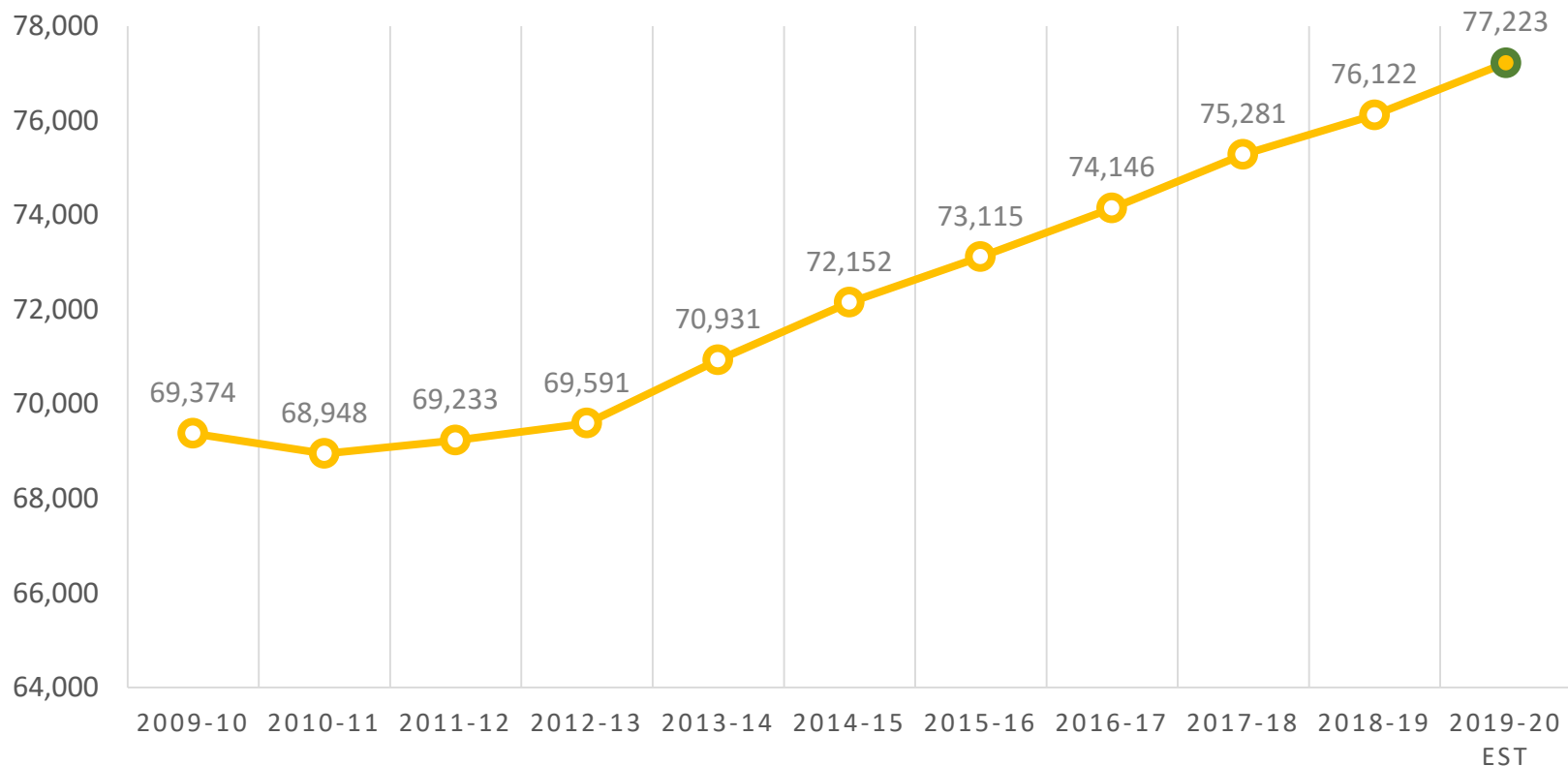
Change in Certified Net Taxable Value



Source: Fort Bend CAD and FBISD Finance

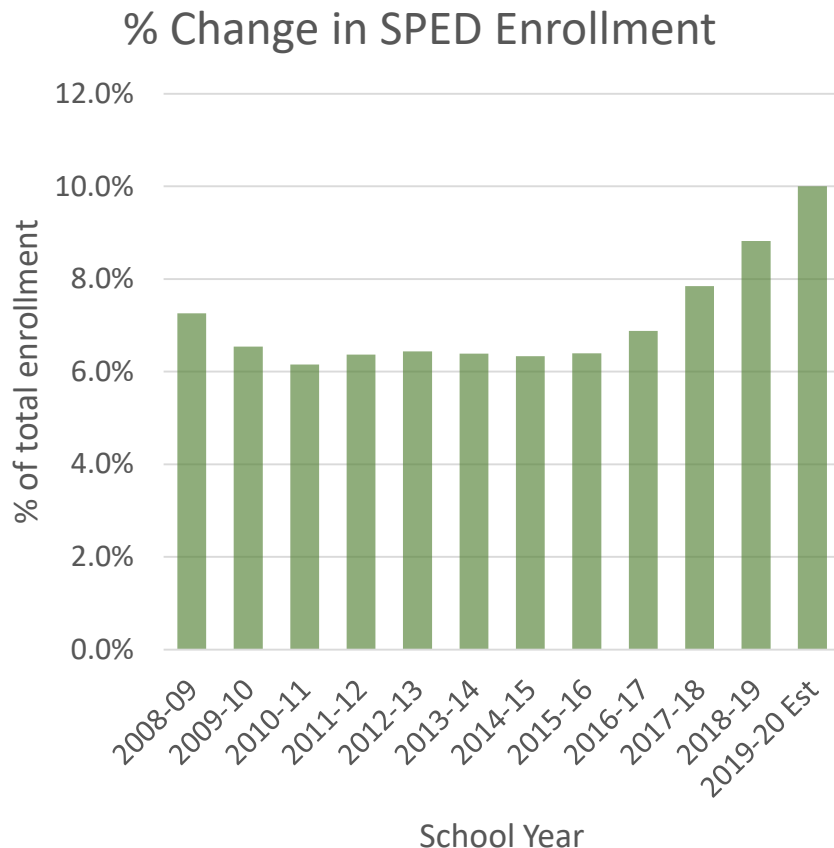
Enrollment Growth

PEIMS SNAPSHOT (OCTOBER)



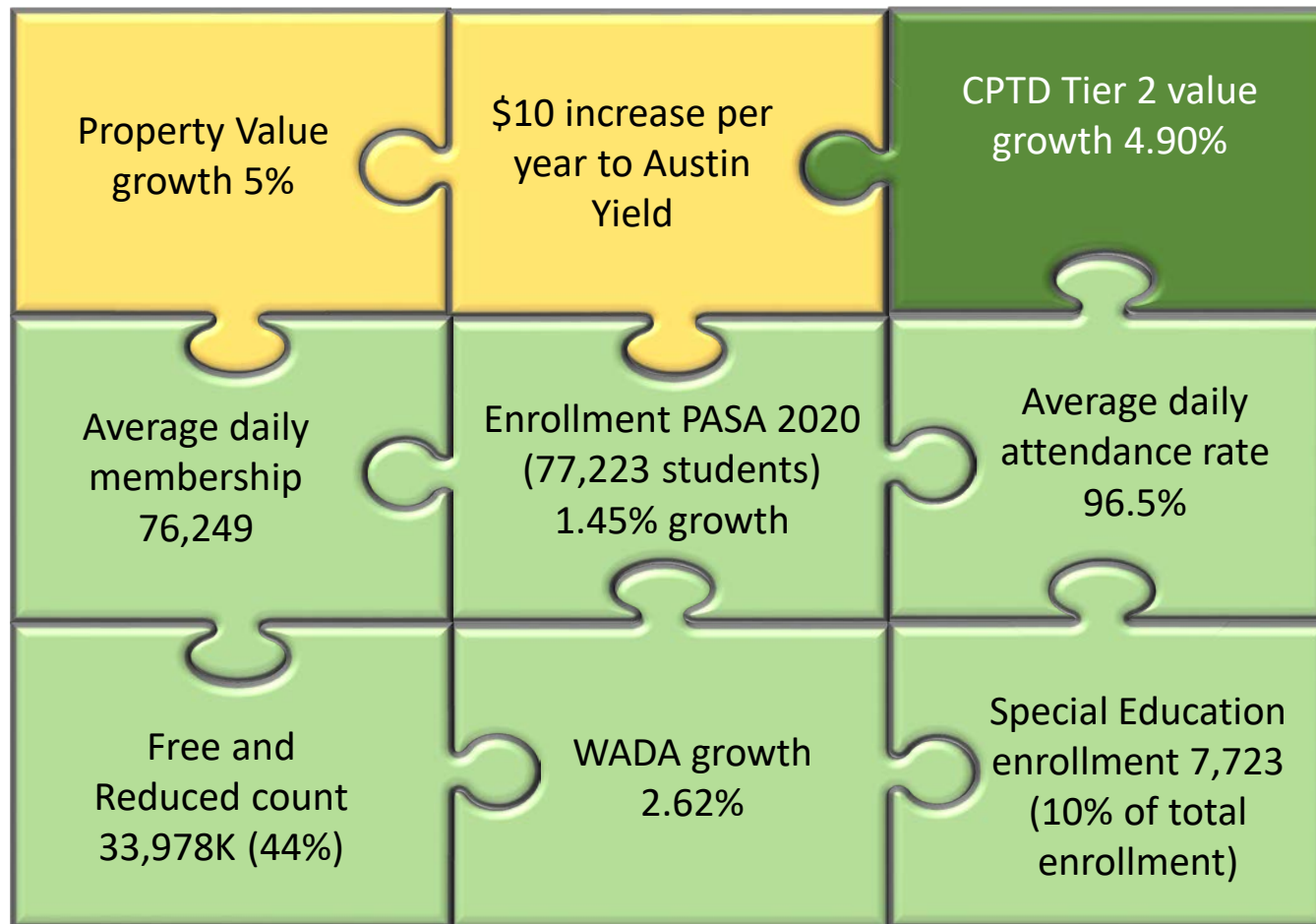
Source: OnSuite and PASA

Special Education Enrollment

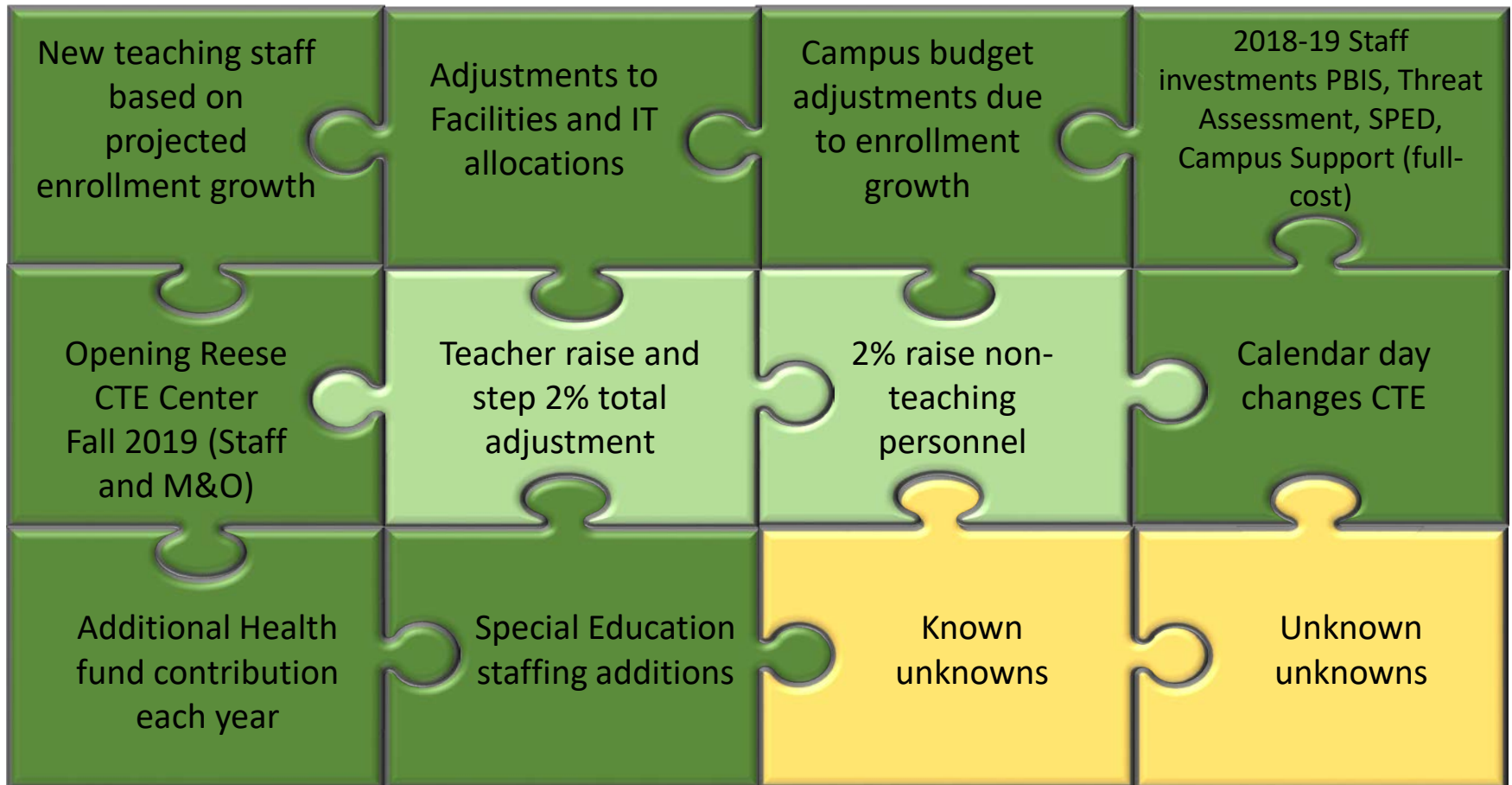


- Accelerated growth starting in 2017 after corrective action plan was developed
- Prior to corrective action plan: On average 86 students identified per year (2011-2016)
- After corrective action plan: On average 680 students identified per year (2017-2019)
- Estimate SPED population to be ~10% of enrollment versus national average 13% in 2019-20
- Anticipated cost over three years: \$29.5M

2019-20 Budget Assumptions (Revenues)





2019-20 Budget Assumptions (Expenses)



Strategic Priorities Requiring Funding


- Ongoing work to finalize budget
 - » Early college high schools (MHS, WHS, HHS)
 - » Early literacy center expansion
 - » Other staffing requests
 - » Stipend and reclassification adjustments

2019-20 Budget Forecast

	2018-19	2019-20
(\$ Millions)	<u>Year-end</u>	<u>Forecast</u>
Operating Revenues	\$ 647.12	\$ 665.53
Operating Expenditures	<u>655.10</u>	<u>680.04</u>
Other Sources/(Uses)	2.04	2.00
Use of Economic Stabilization	<u>5.94</u>	<u>12.51</u>
Surplus/(Deficit)	<u>-</u>	<u>-</u>
Fund Balance - Beginning	<u>201.66</u>	<u>195.72</u>
Use of Economic Stabilization	<u>(5.94)</u>	<u>(12.51)</u>
Fund Balance - Ending	<u>\$ 195.72</u>	<u>\$ 183.21</u>
90 Day Reserve Requirement	161.40	167.60
Days	 97 Days	 87 Days

Upcoming Actions

- March
 - » Consideration of enrollment driven teaching positions
 - Classroom teachers
 - Fine Arts/ESL/SPED
 - » Reese CTE Center staffing
- April or May (depending on Legislature)
 - » Non-teaching positions
 - » Other compensation and stipend adjustments



2019–20

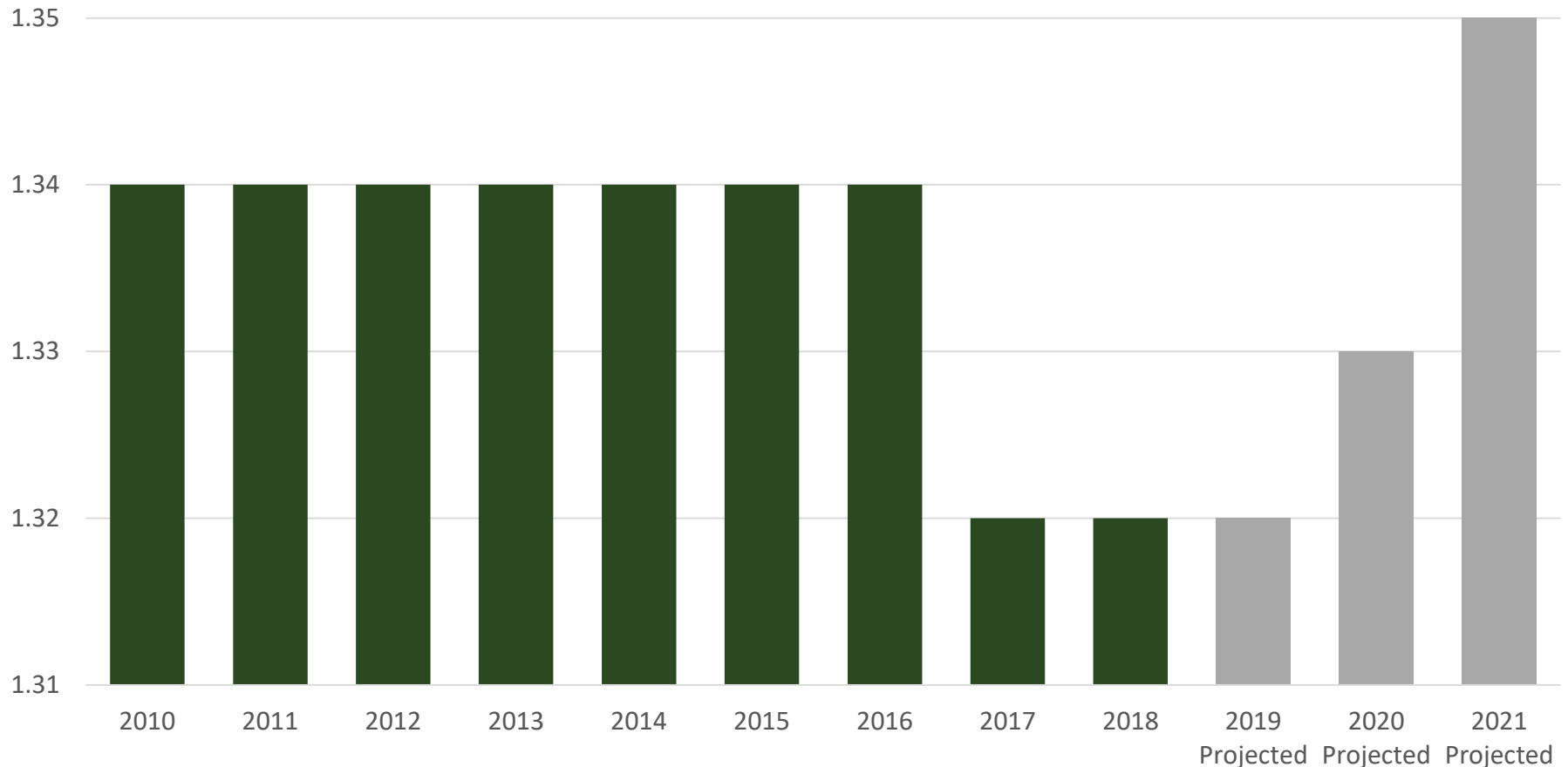
BUDGET DEVELOPMENT

Debt Service Fund



- Successful \$992.6M bond election in November 2018
- Includes tax planned increase of 3¢ over three years
- Includes \$410 M for:
 - » 5 new campuses (1 HS, 1 MS, 3 ES)
 - Rebuild of two elementary schools
 - Classroom additions at two elementary schools

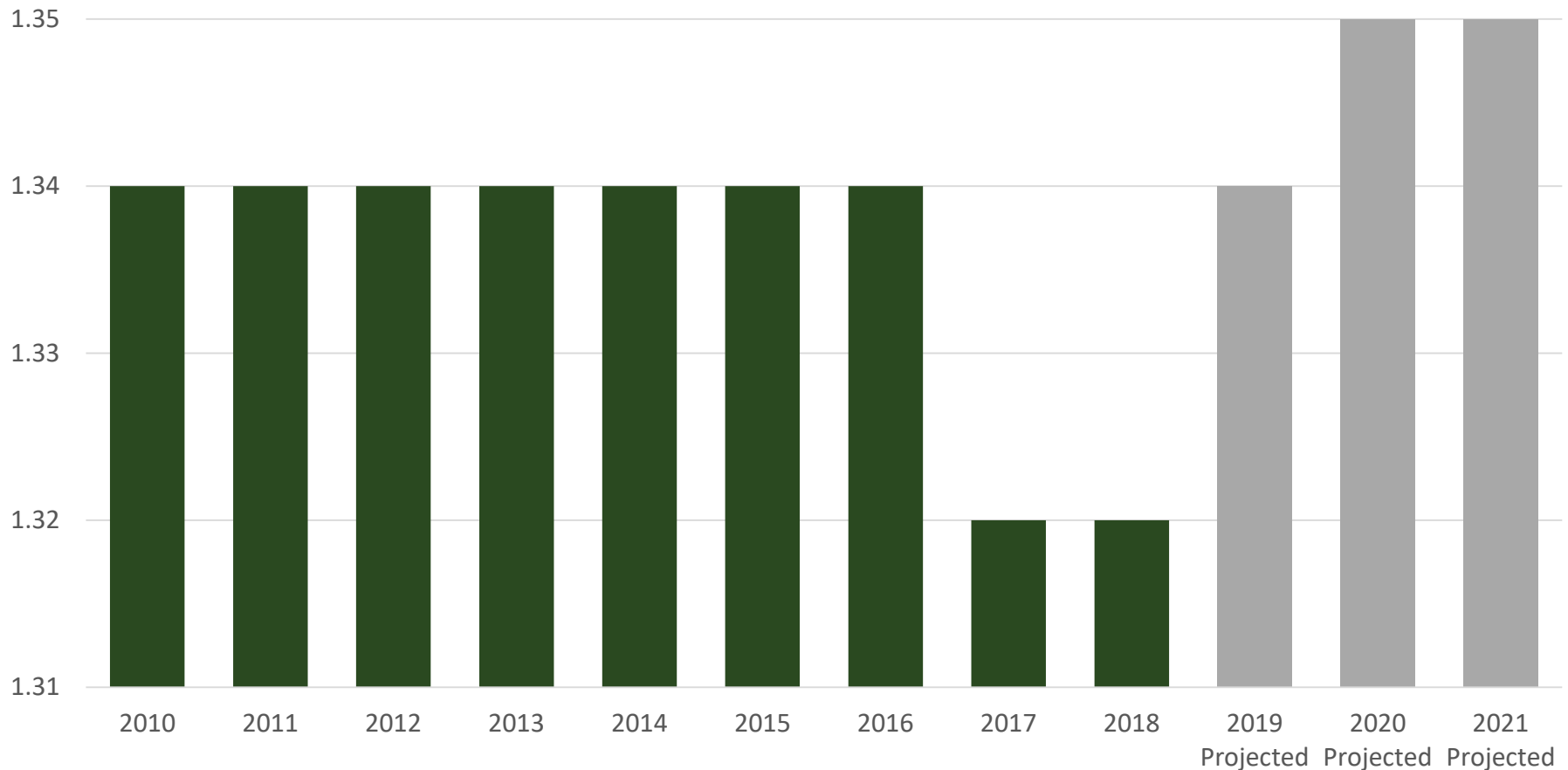
Tax Rate (2010-18, Projected 2019-21)



Schedule Change for HS 12

- HS 12 opening accelerated from 2024 to 2022
- Original plan anticipated \$181M of debt issuance in 2021 and 2022 for HS 12
- HS 12 can be moved up within the planned 3¢ tax increase
- Tax rate will need to be accelerated to ensure adequate cashflow
- Some projects may need to be shifted to manage organizational capacity and cashflow

Tax Rate (2010-18, Projected 2019-21)




Recap

- High level of uncertainty due to the ongoing Legislative session
- The increase in projected revenues is anticipated to offset increased projected expenses in 2018-19
- Positive outlook on property values for 2019-20
- The current forecast was prepared based on a set of assumptions; forecast will be updated continually based on new information
- Final budget for 2019-20 will meet 90-day operating reserve requirement

Upcoming Actions

March	April	May	June
Campus staffing approval (enrollment driven)	Budget Development Update	Budget Development Update	Budget Adoption
Reese CTE Center staffing approval	Non-campus staffing approval	Call date for budget hearing	Final amendment
	Preliminary FBCAD values	Compensation review	Fund balance resolution
	Talent draft		



2019–20

BUDGET DEVELOPMENT

Questions?