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## FINANCIAL OVERVIEW AND BUDGET SUMMARY

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### *Executive Summary*

#### **Budget Introduction**

The following document represents the proposed budget for the Spring Branch Independent School District (SBISD) for the 2021 fiscal year. The budget provides a look at the financial and program priorities based on the Spring Branch T-2-4 Plan for the 2020-2021 school year.

The Texas Legislature concluded the 86th Legislative Session in 2019 by providing relief to ‘property wealthy’ districts making recapture payments to the state. SBISD recapture payments decreased from \$84 million in fiscal year 2019 to \$39 million in fiscal year 2020. HB3 also increased the basic allotment and many programmatic funding weights. The state also required 30 percent of the basic allotment increase to be allocated to salary increases for full time non-administrative employees.

The Board of Trustees prioritized salaries in their budget parameters. SBISD strives to provide salaries and benefits to maintain a competitive position for recruiting and retaining quality staff, and to ensure the students of SBISD are well-equipped to continue their education and attain a technical certificate, entrance into the military or a two- or four-year degree. This year the district initiated a follow-up to the compensation study performed by Texas Association of School Boards (TASB) during the 2016-17 school year. The purpose of the TASB pay system review was to ensure that salaries align with industry standards. As a result, the district is recommending a two percent increase of the midpoint inclusive of a step for employees on step schedules. Employees not on a step schedule are paid on pay bands and will receive an increase based on 2% of midpoint for full-time employees whose salary falls within the pay range for their job type. Full-time employees whose salary falls above the pay range for their pay band will receive a 1% of midpoint increase.

The proposed budget for FY 2021 for the General Fund totals \$351,118,029 which represents an increase of approximately \$6.4 million from the final amended budget for FY 2020. The chart below represents a five-year analysis of the General Fund budget. This analysis excludes recapture payments to the State so that expenditures for the benefit of SBISD students is not distorted.

Fiscal Year	General Fund Expenditures*	\$ Increase/ Decrease	% Increase/ Decrease	Enrollment	Increase/ Decrease	Cost per Student	\$ Increase/ Decrease	% Increase/ Decrease
2017	296,596,515 (A)	6,776,559	2.34%	35,104	(222)	8,449	245	2.99%
2018	294,752,996 (A)	(1,843,519)	-0.62%	35,032	(72)	8,414	-35	-0.42%
2019	305,683,399 (A)	10,930,403	3.71%	34,730	(302)	8,802	388	4.61%
2020	344,702,241 (B)	39,018,842	12.76%	35,199	469	9,793	991	11.26%
2021	351,118,029	6,415,788	1.86%	35,311	112	9,944	151	1.54%

\* Excludes Recapture payments

(A) Audited Actual

(B) Final Amended Budget

## **Budget Overview and Planning**

State funding formulas have been revamped by the Legislature for the 2020-2021 biennium. The formulas and student enrollment are used to calculate revenue for the District. The basic allotment for the second year of the biennium continues at \$6,160 per student for FY 2021.

Beyond student enrollment, much of the budget planning and development is focused on the general fund expenditure budget. Early in the budget cycle, senior management and the Board of Trustees discuss the priorities for the upcoming school year. With the Spring Branch T-2-4 Plan as the overarching guide, it is the document by which all decisions (especially funding decisions) are measured. Multiple paths for our students' long-term success is the primary goal and the budget priority. In planning for student success, both the Board of Trustees and the Superintendent's first priority is Literacy. Additional priorities include Counseling and Social Emotional needs of students, English Learners, Dyslexia, Career and Technical Education, and salaries for Teachers and Staff.

The Board has fund balance policies which establish the appropriate level of fund balance for the general and debt service funds. If expenditures will exceed anticipated revenues, a key question is how much fund balance should be utilized. In governmental budgeting, the expenditure budget is the cap. Based on historical budgeting and spending patterns, the general fund is typically under spent by one to two percent which would result in actual expenditures being \$3 to \$6 million less than budgeted expenditures.

Paramount to building an annual budget is the identification of realistic assumptions agreed upon by the District and its governing body.

## **Revenue**

General Fund revenue, net of local revenue in excess of entitlement (the new name for Recapture), is expected to be relatively constant on a per student basis. Per HB3 formulas, the revenue will only change if the basic allotment is adjusted. Revenue assumptions include a slight increase of less than one-half percent in student enrollment and a 4.35% increase in property values. State funding and local taxable values are aggregated to determine the revenue for each school district. For the past several years Local Taxes have increased as a result of increases in Taxable Assessed Values, and State Funding has decreased accordingly. HB3 and SB2 provided for tax rate compression which slows the increase in local property taxes. A tax rate reduction of just under two cents is projected for the 2020-2021 school year.

The following table provides a comparison of revenues by source for fiscal years 2020 and 2021:

**General Fund Revenue Sources**

	Final Amended Budget FY 2020	Proposed Budget FY 2021	Percentage Change
Local Taxes	\$319,305,800	\$321,709,493	0.75%
Less Recapture	(39,442,568)	(37,166,241)	-5.77%
Penalty / Interest & Misc. Tax	2,306,148	1,820,000	-21.08%
State Funding	12,310,165	18,792,478	52.66%
Prior Year Funding Adjustment	556,133	7,400,000	1230.62%
State TRS Contributions	16,932,533	16,900,000	-0.19%
Federal & Other Sources	14,335,881	11,856,917	-17.29%
	<u>\$326,304,092</u>	<u>\$341,312,647</u>	4.60%

While the actual state funding formula for the revenue entitlement is rather complicated, the basic calculations are as follows:

- Tier I allots an amount per student to each school district based on average daily attendance (ADA) with additional weight given for special programs. From the total Tier I allotment, a deduction is made for the local district’s share based on the individual district’s property tax base. (This is the formula by which an increase in property values offsets state funding.) The remainder represents the State’s share of Tier I funding. Under this methodology, a district’s wealth factors significantly into its share of state funding. The higher the local property wealth per student, the higher the proportional deduction from the Tier I total. The basic concept that as wealth per student increases, State funding decreases continues to be a factor of the funding formula.
- Tier II of the formula rewards the tax effort of a district by guaranteeing that tax effort in the current year, beyond the required local share of Tier I, will yield a minimum amount of money per weighted ADA. The guaranteed yield amount is \$98.56 for the biennium for the first 8 cents of tax rate above the compressed rate. Then the guaranteed yield drops to \$49.28 for additional pennies on the tax rate. Property values have a dramatic impact on both state and local revenue estimates. Student enrollment projections influence state revenue estimates, staffing decisions, per-pupil allocations, facility needs, debt issuance requirements, and many other budgetary decisions. The property values determine whether the source of funds is from a local property tax or state funding; and, in future years, value growth will also impact the tax rate that a district will set. This will control the rampant increases in recapture.

The primary factors influencing these estimates are as follows:

- Student Enrollment – For the first time in four years, district enrollment increased in the current year (2020) and is projected to increase approximately 100 students in 2021. A year by year look at student enrollments is located on the first page of this summary.
- Property Value – The Harris County Appraisal District has projected a 4.35% increase in property values for SBISD. A recent history of taxable values is shown below. This estimate is also very important in developing revenue forecasts for the State and Local components of the General Fund as well as the Debt Service Fund.

## Taxable Values - SBISD

<u>Fiscal Year</u>	<u>Property Value</u>	<u>% Increase</u>
2016	27,699,746,472	14.44%
2017	30,621,867,256	10.55%
2018	31,881,522,142	4.11%
2019	32,660,731,512	2.44%
2020	34,449,987,364	5.48%
2021*	35,949,915,227	4.35%

\*Estimate

### Tax Rate and General Fund Balance Impact

The District maintains a local Board Policy that sets a target for fund balance at 19% of annual budgeted expenditures. The proposed budget does not project a balanced budget, with expenditures exceeding revenues by \$9.7 million leaving a projected fund balance at the end of FY 2021 of \$102.5 million or 29.2%. The ending fund balance for FY 2021 is based upon final estimates for FY 2020.

The proposed budget is based on a tax rate of \$1.00298 for the General Fund, which is more than one penny down from the current year based on tax rate compression. The actual compressed rate will be determined and provided by the state late summer. The actual tax rate will not be adopted before September.

The following table shows SBISD’s tax rate for the General Fund and Debt Service Fund which had been constant at a total of \$1.3945 for the 8 years, preceding FY2020 compression of the tax rate.

### District Tax Rate - 8 Year History

<u>Fiscal Year</u>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
2014	1.09000	0.30450	1.39450
2015	1.09000	0.30450	1.39450
2016	1.09000	0.30450	1.39450
2017	1.09000	0.30450	1.39450
2018	1.09000	0.30450	1.39450
2019	1.11000	0.28450	1.39450
2020	1.01650	0.30450	1.32100
2021*	1.00298	0.30450	1.30748

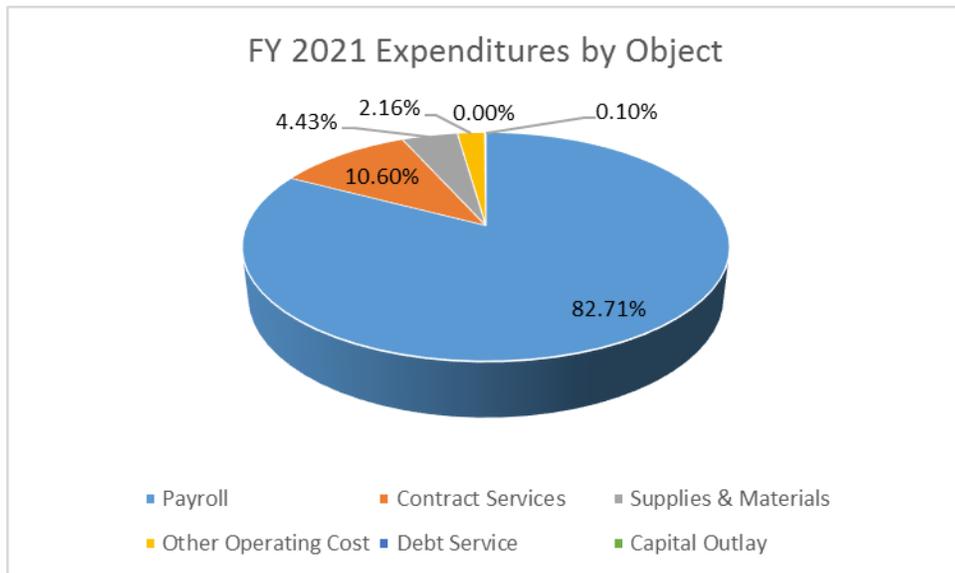
\*Projected

## Expenditures

General Fund expenditures, excluding recapture, are budgeted to increase by \$6.4 million from the FY 2020 final amended budget. The following table provides a comparison of budgeted expenditures by major objects for fiscal years 2020 and 2021:

### General Fund Expenditures by Object

	<b>Amended Budget FY 2020</b>	<b>Proposed Budget FY 2021</b>	<b>Percentage Change</b>
Payroll Costs	\$280,807,618	\$290,402,107	3.42%
Contracted Services	35,738,120	37,207,958	4.11%
Supplies and Materials	16,534,314	15,541,311	-6.01%
Other Operating Cost	6,170,679	7,626,204	23.59%
Debt Service	216,526	0	-100.00%
Capital Outlay	5,234,984	340,450	-93.50%
District Expenditures	344,702,241	351,118,029	1.86%
Recapture	39,442,568	37,166,241	-5.77%
Total Expenditures	<u>\$384,144,809</u>	<u>\$388,284,270</u>	1.08%



The education of students is a labor-intensive process with payroll expenditures comprising approximately 83% of the General Fund Budget. This year the district initiated a follow-up to the compensation study

performed by TASB during the 2016-17 school year. The compensation package in this budget represents an increase of 2% of midpoint inclusive of the step for employees on step schedules. Employees not on a step schedule are paid on pay bands and will receive an increase based on 2% of midpoint for full-time employees whose salary falls within the pay range for their job type. Full-time employees whose salary falls above the pay range for their pay band will receive a 1% of midpoint increase.

Spring Branch ISD will increase the District's current contribution level for health insurance. TRS has a new health insurance carrier. The district is adjusting contributions for the continuing health plans and many, but not all, employee contributions will be reduced or remain the same. One of the most important expenditure assumptions necessary to develop the budget and future year projections is the compensation package, as it is a recurring expense that can add significantly to the budget total for the upcoming and subsequent budget years.

The following chart shows the history of salary increases for full-time employees for the past several years.

<u>Fiscal Year</u>	<u>Teachers, Nurses, Librarians, Counselors &amp; Diagnosticians</u>	<u>Administrative, Professional Support, Secretarial/Technical &amp; Auxiliary Staff</u>
2012	<b>No Increase</b>	<b>No Increase</b>
2013	2.00%	2.00%
2014	3.00%	3.00%
2015	3.0% Average	2.0% Average
2016	3.0% Average	3.0% Average
2017	2% Supplemental Pay	2% Supplemental Pay
2018	3% of Midpoint within range or 1% of Midpoint if above range	3% of Midpoint within range or 1% of Midpoint if above range
2019	3% of Midpoint within range or 1% of Midpoint if above range	3% of Midpoint within range or 1% of Midpoint if above range
2020	Teacher's Step Schedule increase 6% - 9%, Counselor's Step Schedule increase 4% - 7%	4% of Midpoint within range or 1% of Midpoint if above range
2021	2% of Midpoint for those on a step schedule	2% of Midpoint within range or 1% of Midpoint if above range

The following two charts indicate the allocations for the campus operating budgets, excluding payroll cost. Allocations increased in FY 2020 and remain at that level for FY 2021:

	<b>Pre - K</b>		<b>Elementary</b>	
	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>
<b>Allocations</b>				
Basic	\$69	\$75	\$51	\$65
Comp. Ed.			\$13	\$20
Bi/ESL			\$5	\$20
Special Education			\$5	\$10
Small School Adjustment			\$2	\$5

	<b>Middle</b>		<b>High</b>	
	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>
<b>Allocations</b>				
Basic	\$53	\$70	\$74	\$85
Comp. Ed.	\$10	\$25	\$10	\$25
Bi/ESL	\$5	\$25	\$5	\$25
Special Education	\$5	\$10	\$5	\$10
Title Eligible			Flat Rate	\$125

An increase of \$1.17 million was added to campus budgets via the per pupil allotments listed above for FY 2020 and remains for FY 2021.