



# Our Current Situation

- For three of the past four years, the District has utilized its fund balance to balance the budget (i.e., the District deficit spent)
- Neither the 2007 nor 2009 Legislative Sessions provided significant relief
  - ✈ 75% of new funds in 2009 had a mandated use
- No improvement is expected from the Legislature in the 2011 session
- The District implemented several cost saving measures for 2008-2009 & 2009-2010
- More reductions are planned to ensure future financial health

# Austerity Program Update

## Phases 1 & 2

<p><b>Phase 1</b> <b>FY 2008-09</b></p>	<p><b>For the 2008-2009 fiscal year, implement measures to reduce expenditures by at least \$2.0 million.</b></p>	<p><b>Actual Savings:</b> <b>\$2,151,000</b></p>
<p><b>Phase 2</b> <b>FY 2009-10</b></p>	<p><b>For the 2009-2010 budget, continued the 2008-2009 cost reductions and brought to the Board of Trustees a balanced budget.</b></p> <p><b>Adopted Budget included savings from:</b></p> <ul style="list-style-type: none"> <li>• Changes to Staffing Ratios</li> <li>• Suspension of Retirement Match</li> <li>• Reduced Retention Supplement</li> <li>• Reduced Campus/Department Budgets</li> </ul> <p><b>Goal for 2009-2010 for savings from continuing austerity measures: \$6.2M</b></p>	<p><b>Reductions Built in Budget:</b> <b>\$11,470,000</b></p> <p><b>Continued Austerity Program:</b> <b>\$6,200,000</b></p>

# Austerity Program

## Phase 3

<p><b>Phase 3 FY 2010-11 to FY 2012-13</b></p>	<p><b>Implement broad operational changes that improve District efficiency &amp; financial position; determine the need for a property tax rate increase election.</b></p> <p><b>Phase 3 Cost Cutting Goals:</b></p> <p>2010-2011 -- \$12,000,000 2011-2012 -- \$12,000,000 2012-2013 -- \$ 3,000,000</p>	<p><b>Cumulative Reductions Over 3 Years: \$63,000,000</b></p>
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<p><b>Phase 3 FY 2010-11</b></p>	<p><b>For 2010-2011, potential changes include:</b></p> <ul style="list-style-type: none"> <li>-- Replace High School A/B Schedule &amp; Adjust Student/Teacher Ratios - <b>\$8.4M</b></li> <li>-- Adjust Campus Admin &amp; Paraprofessional Ratios – <b>4.0M</b></li> <li>-- Reduce Central Office - <b>\$1.1M</b></li> <li>-- Reduce Retention Supplement Maximum - <b>\$1.8M</b></li> <li>-- Freeze Salaries except required teacher/ librarian step (not a reduction, but a cost avoidance of \$12.2M)</li> </ul>	<p><b>Target Savings for 2010-2011: \$12,000,000</b></p> <p>(List of items shown totals \$15.3M)</p>
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# Financial Projection

## After Austerity Measures

(In Thousands)	Projected 09-10	Projected 10-11	Projected 11-12	Projected 12-13
<b>Total Revenue</b>	\$ 492,363	\$ 501,187	\$ 514,689	\$ 526,994
<b>Expenditures</b>	482,820	484,701	490,543	509,703
<b>Net Incr/(Decr) to Fund Balance</b>	\$ 9,543	\$ 16,486	\$ 24,146	\$ 17,291
<b>Beginning Fund Balance</b>	61,002	70,545	87,031	111,177
<b>Ending Fund Balance</b>	\$ 70,545	\$ 87,031	\$ 111,177	\$ 128,468
<b>Fund Balance as a % of Revenue</b>	14.3%	17.4%	21.6%	24.4%
<b>Fund Balance in Operating Months</b>	1.8	2.2	2.7	3.0
<b>Enrollment</b>	65,505	66,844	68,315	69,817
<b>Per Student Spending</b>	\$7,371	\$7,251	\$7,181	\$7,301
<b>Change in Per Student Spending</b>		(1.6%)	(1.0%)	1.7%

**Assumes State Fiscal Stabilization Funds are somehow replaced.**

# Austerity Program

## Phase 3 Considerations – Fund Balance

- **Improving NEISD's Fund Balance**

- ✍ Goal by June 30, 2013 --- Fund Balance equivalent to 25% of Operating Revenue (approximately 3 month's reserve)

- **Importance of Fund Balance**

- ✍ Allows the district to operate through the first 10 weeks of the fiscal year when revenue streams are low
- ✍ Emergency spending
- ✍ Unexpected decrease in revenue due to lower ADA; e.g. illnesses
- ✍ Improves district's bond ratings which keeps Debt Service tax rate low
- ✍ Uncertainty of future state funding, or "proration"

# Fund Balance

*Definition: -- the excess of assets of a fund over its liabilities.*

One way to look at it is as “net worth.” In your own personal finances, it may look like this:

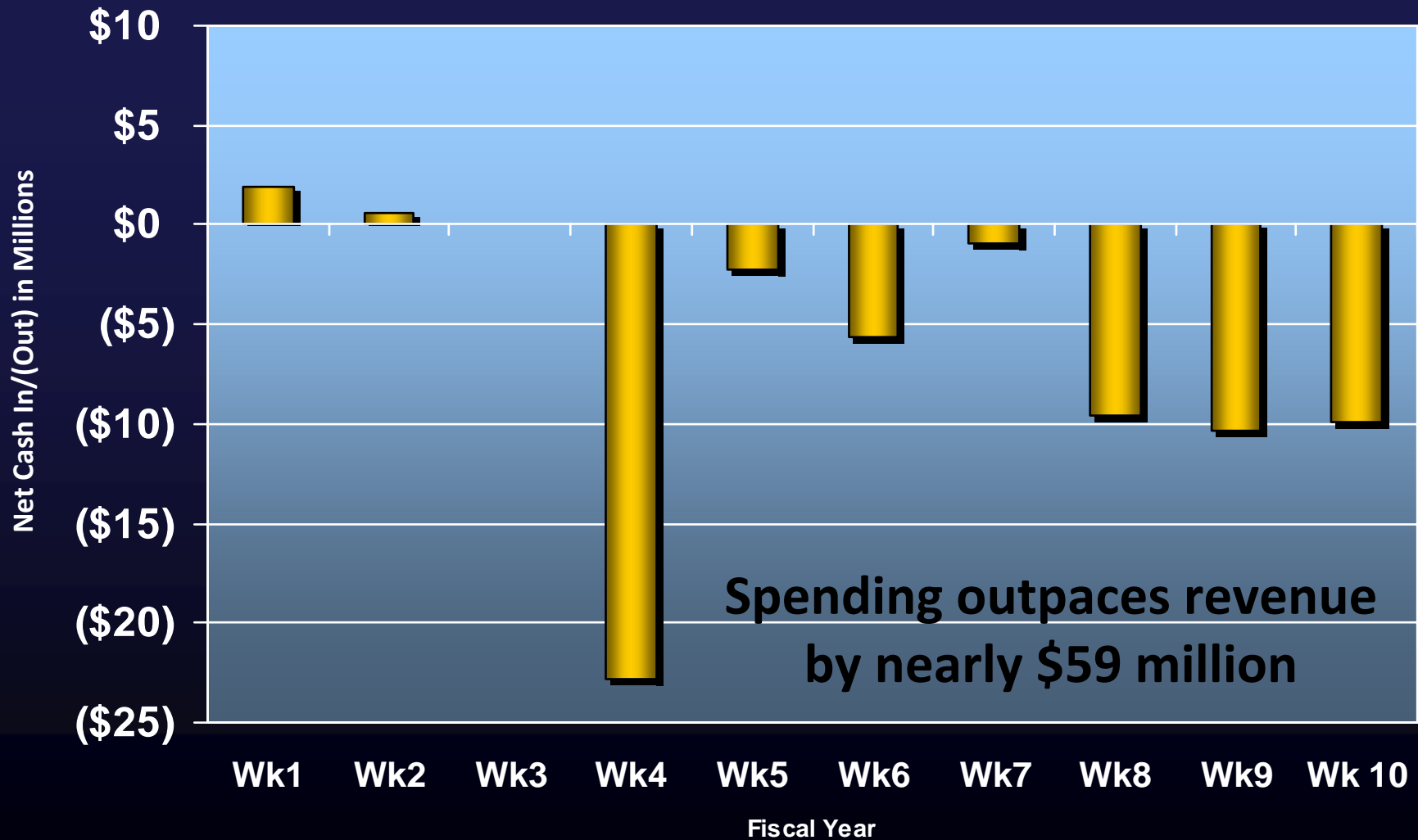
What You Own → Less → What You Owe

- Checking/Savings Accounts
- IRA & other investments
- Vehicle
- Home & furnishings
- Parcel of land in the country

- Mortgage
- Home equity loan
- Vehicle loan
- Credit card balances

# Net Cash Flows

## First 10 Weeks of Fiscal Year



# Austerity Program

## Phase 3 Considerations – Fund Balance

- Recommended Level of Fund Balance**

NEISD ended 2008-2009 with \$61,002,284 of Fund Balance in the General Fund

Source	2008-2009 Recommended Level	Shortage Compared to Recommendation
Government Finance Officers Association – 2 operating months	\$ 79,324,443	\$ (18,322,159)
Texas Education Agency “Optimum” Fund Balance	98,637,727	(37,635,443)
“AAA” bond rating – can change periodically -- currently 30% of revenue	139,720,487	(78,718,203)

# Austerity Program

## Phase 3 Considerations – State's Funding Cliff

- **Despite a troubled economy, the State must find funding to replace the \$3.2 Billion void left by the expiring State Fiscal Stabilization Fund**
  - ✎ NEISD is allocated \$18.4 Million per year for 2009-2010 & 2010-2011
- **The State's Education Budget assumes statewide property value growth of 2.98% for 2009-2010 & 3.34% for 2010-2011**
  - ✎ In Texas, the median price for existing single-family homes decreased by 0.7 percent from August 2008 to August 2009.
- **If property values decrease, it may be related to a weakening economy; that also reduces the State's available funds from sales tax, margins tax, etc.**
  - ✎ 11% of the State's education budget is slated to come from new taxes, \$2.5 Billion annually

# Austerity Program

## Phase 3 Considerations – State's Funding Cliff

- **The State expects to fund some of the property tax relief with additional taxes in the following areas:**
  - Motor Vehicle Sales & Use Tax (overall **decrease of 22.2%** from FY2008 to FY2009)
  - Franchise/Business Margins Tax (overall **decrease of 4.5%** from FY2008 to FY2009)
  - Cigarette & Tobacco Products Taxes (overall increase of 7.6% from FY2008 to FY2009)
- **Total tax collections in FY2009 for the State of Texas were down 8.5% compared to FY2008.**

# Financial Projection

## After Austerity Measures

### But State Fiscal Stabilization Funds Not Replaced

(In Thousands)	Projected 09-10	Projected 10-11	Projected 11-12	Projected 12-13
<b>Total Revenue</b>	\$ 492,363	\$ 501,187	\$ 496,274	\$ 508,579
<b>Expenditures</b>	482,820	484,701	490,543	509,703
<b>Net Incr/(Decr) to Fund Balance</b>	\$ 9,543	\$ 16,486	\$ 5,731	\$ (1,124)
<b>Beginning Fund Balance</b>	61,002	70,545	87,031	92,762
<b>Ending Fund Balance</b>	\$ 70,545	\$ 87,031	\$ 92,762	\$ 91,638
<b>Fund Balance as a % of Revenue</b>	14.3%	17.4%	18.7%	18.0%
<b>Fund Balance in Operating Months</b>	1.8	2.2	2.3	2.2
<b>Enrollment</b>	65,505	66,844	68,315	69,817
<b>Per Student Spending</b>	\$7,371	\$7,251	\$7,181	\$7,301
<b>Change in Per Student Spending</b>		(1.6%)	(1.0%)	1.7%

# Austerity Program

## Phase 3 Considerations

- **Impact to General Fund if there are no future bond issues**
  - ✍ Bus purchases, roofing projects and technology upgrades are discontinued or absorbed by the General Fund
  - ✍ As much as \$12.3 Million annually beginning in 2011-2012

# Financial Projection

## After Austerity Measures

### But No State Fiscal Stabilization Fund And No New Bond

(In Thousands)	Projected 09-10	Projected 10-11	Projected 11-12	Projected 12-13
<b>Total Revenue</b>	\$ 492,363	\$ 501,187	\$ 496,274	\$ 508,579
<b>Expenditures</b>	482,820	484,701	502,843	522,003
<b>Net Incr/(Decr) to Fund Balance</b>	\$ 9,543	\$ 16,486	\$ 6,569	\$ (13,424)
<b>Beginning Fund Balance</b>	61,002	70,545	87,031	80,462
<b>Ending Fund Balance</b>	\$ 70,545	\$ 87,031	\$ 80,462	\$ 67,038
<b>Fund Balance as a % of Revenue</b>	14.3%	17.4%	16.2%	13.2%
<b>Fund Balance in Operating Months</b>	1.8	2.2	1.9	1.5
<b>Enrollment</b>	65,505	66,844	68,315	69,817
<b>Per Student Spending</b>	\$7,371	\$7,251	\$7,361	\$7,477
<b>Change in Per Student Spending</b>		(1.6%)	1.5%	1.6%

# Austerity Program

## Phase 3 Considerations – Other Options

- **Tax rate election option**

- ✍ NEISD's M&O tax rate is at \$1.04, the highest allowed without an election
- ✍ There are two remaining “golden penny” (up to \$1.06) is worth approximately \$4.5M (\$9.0M total)
- ✍ Each penny above a total tax of \$1.06 is worth approximately \$2.4M

To raise tax revenue in an amount equivalent to the proposed reductions\* could require an M&O rate increase of approximately 10¢ to \$1.14. The maximum allowed by law is \$1.17.

This would raise the average homeowner's taxes \$162/year.

