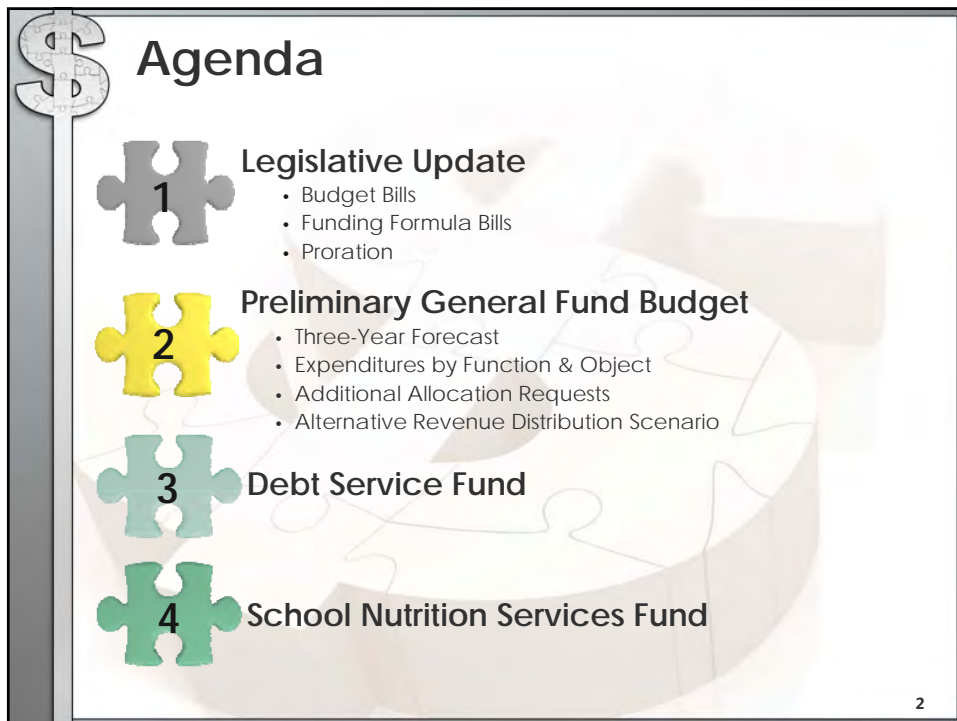




Piecing Together a New Plan
2011-2012 Board Budget Study Session #2
May 23, 2011



Agenda

- 1 Legislative Update**
 - Budget Bills
 - Funding Formula Bills
 - Proration
- 2 Preliminary General Fund Budget**
 - Three-Year Forecast
 - Expenditures by Function & Object
 - Additional Allocation Requests
 - Alternative Revenue Distribution Scenario
- 3 Debt Service Fund**
- 4 School Nutrition Services Fund**

2



\$

Impact to NEISD

How big is the pie and how big is our slice?

Budget Bills

- Legislature announces conference committee agreement to cut the Foundation School Program by \$4 Billion

How Much is NEISD's Share?

- There are still several possibilities:
 1. Funding formula changes proposed by Representative Hochberg (variation of HB 2485 modeled in previous presentations)
 2. Funding formula changes proposed by Senator Shapiro
 3. No new funding formula adopted – proration enacted under changes proposed by Representative Eissler
 4. No new funding formula adopted – current proration law enacted

The major difference between Hochberg's formula and Shapiro's formula is the distribution to high property wealth districts. Hochberg's formula distributes significantly more of the \$4 Billion of cuts to districts with high property wealth.

4

\$ Legislative Update

Funding Formula Bills – Change to NEISD vs. Current Law

| | 2011-2012 | 2012-2013 | 2013-2014 |
|---------------------------|-----------|-----------|------------------------------|
| Hochberg Option #1 | (\$47.7M) | (\$64.4M) | (\$77.8M) |
| Hochberg Option #2 | (38.1M) | (43.6M) | (\$57.9M) |
| Shapiro Formula | (36.7M) | (42.4M) | Unknown – at least (\$42.4M) |
| Change Proration Law Only | (27.8M) | (27.9M) | n/a |

Proration

- Representative Eissler proposes changing proration law
 - Authorizes proration in each year of biennium
 - Would eliminate the problem of the Commissioner stopping all payments in May 2013
 - Calculates proration on total revenue per WADA instead of property value
 - Makes proration a cut, not a delay until the next biennium


Sources: Moak, Casey & Associates 5

\$ 2010-2011 Revenue vs. 2011-2012

Based on Hochberg Option #1

| NEISD General Fund | 2010-2011 | 2011-2012 House | Difference |
|-------------------------|-----------------|-----------------|------------------|
| Property Tax Revenue | \$282.5M | \$277.6M | (\$4.9M) |
| Other Local Revenue | 4.4M | 3.9M | (0.5M) |
| State Revenue | 187.9M | 155.1M | (32.8M) |
| TRS Revenue | 23.5M | 23.5M | 0.0M |
| Federal Revenue & Other | 6.2M | 16.2M | 10.0M |
| Total Revenue | \$504.5M | \$476.3M | (\$28.2M) |

Under the House's funding formula, NEISD will see a decline in revenue of \$28.2M in 2012 compared to 2011. Revenue would drop another \$20.8M in 2013 and \$3.3M in 2014. 6



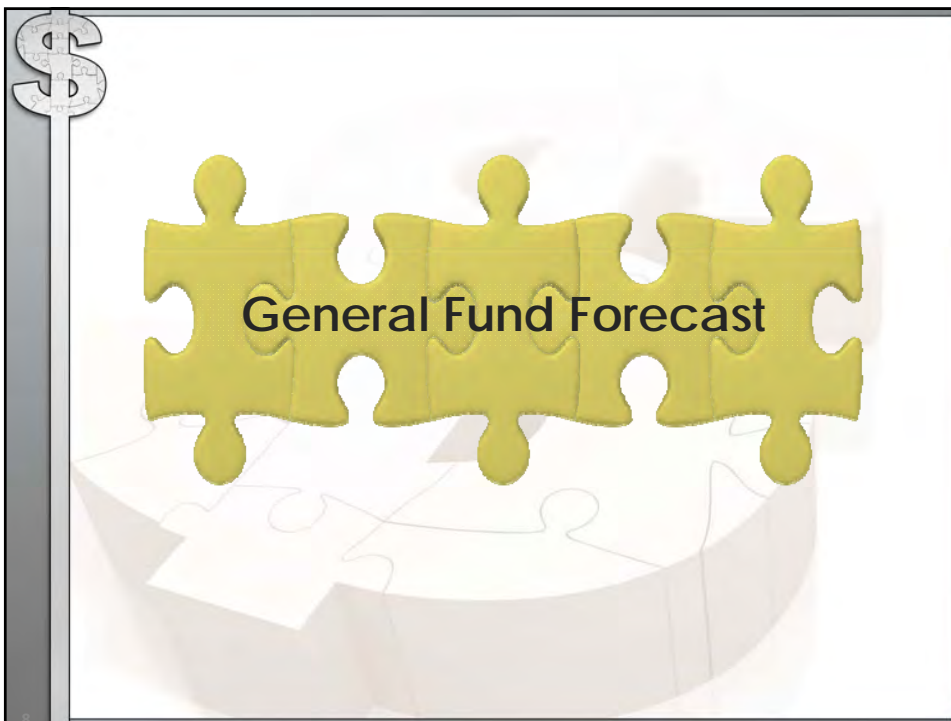
2011-2012 Effective Revenue Loss


House Formula -- Difference from Current Law

| NEISD General Fund | 2011-2012 Current Law | 2011-2012 House | Difference |
|-------------------------|--------------------------|--------------------|------------------|
| Property Tax Revenue | \$277.6M | \$277.6M | \$0.0M |
| Other Local Revenue | 3.9M | 3.9M | 0.0M |
| State Revenue | 202.8M | 155.1M | (47.7M) |
| TRS Revenue | 23.5M | 23.5M | 0.0M |
| Federal Revenue & Other | 16.2M | 16.2M | 0.0M |
| Total Revenue | \$524.0M | \$476.3M | (\$47.7M) |

Compared to the current funding formula law, NEISD will lose nearly \$48M in 2012, all in State revenue. The State's share of total General Fund revenue would fall from 39% to 33%.

7






General Fund Forecast

- **Reflects House version of formula funding**
 - This is the most conservative estimate for NEISD
- **Education Jobs Fund Included**
 - Offset by expenditure changes to staffing ratios and contract
- **Significant Assumptions**
 - Approximately 1,050 new students
 - Start-up costs for two new schools opening in August 2012
 - General Fund absorbs significant costs from State-killed programs, such as Technology Allotment, Student Success Initiative, Adult Ed and shared service arrangement for Regional Day School for the Deaf

9




General Fund Forecast

Based on Hochberg Funding Formula Option #1

| (in millions) | 2010-2011 Forecast | 1 st Year Change | 2011-2012 Forecast | 2 nd Year Change | 2012-2013 Forecast | 3 rd Year Change | 2013-2014 Forecast |
|-------------------------------------|--------------------|-----------------------------|--------------------|-----------------------------|--------------------|-----------------------------|--------------------|
| Revenue | \$504.5 | (\$28.2) | \$476.3 | (\$20.8) | \$455.5 | (\$3.3) | \$452.2 |
| Expenditures | 484.5 | (13.3) | 471.3 | 8.8 | 480.1 | 1.0 | 481.1 |
| Increase (Decrease) to Fund Balance | \$20.0 | | \$5.0 | | (\$24.6) | | (\$28.9) |
| Beginning Fund Balance | 71.9 | | 91.9 | | 96.9 | | 72.3 |
| Ending Fund Balance | \$91.9 | | \$96.1 | | \$72.3 | | \$43.4 |
| Months of Operating Fund Balance | 2.4 | | 2.6 | | 1.9 | | 1.1 |
| Revenue/Student | \$7,586 | (\$535) | \$7,051 | (\$417) | \$6,634 | (\$152) | \$6,482 |
| Expenditures/Student | \$7,285 | (\$308) | \$6,975 | \$17 | \$6,994 | (\$97) | \$6,897 |


The revenue reductions continue past the next biennium (into at least 2014-2015). Almost \$20M in fund balance will be eroded over 2 years, and dramatically more in 2014 if the 2013 Legislature does not increase funding.

10

 **Expenditure Increases for 2011-2012**
Based on Hochberg Funding Formula Option #1


| | |
|---|---------------------|
| Costs to Absorb Educational Programs Losing Grant Funding | \$3,440,000 |
| Set-aside for Repayment of QSCBs | 1,700,000 |
| Increased District Share of Health Insurance | 1,792,000 |
| Other Increases for New School Start-Up, Inflation, AARs | 2,479,000 |
| Contingency Allowance | 2,500,000 |
| Total Expenditure Increases | \$11,911,000 |

11

 **Expenditure Reductions for 2011-2012**
Based on Hochberg Funding Formula Option #1

| | |
|---|-----------------------|
| Central Office Positions Frozen/Eliminated (-52 FTEs, 6.2%) | (\$2,550,000) |
| Eliminate Retention Supplement | (6,156,000) |
| Utility Savings | (450,000) |
| Central Office Department Budget Reductions | (580,000) |
| Total Before Campus Staffing Reductions | (\$9,736,000) |
| Campus Reduction Goals | |
| Elementary School Teachers(86 FTEs, 4.3%) | (\$5,213,000) |
| Middle School Teachers(38 FTEs,3.8%) | (2,304,000) |
| High School Teachers(58 FTEs, 4.5%) | (3,516,000) |
| General Assistants & Clerical Admin - All levels(79 FTEs, 4.7%) | (2,385,000) |
| Campus Admin & Other Professionals - All Levels (25 FTEs, 3.7%) | (1,917,000) |
| Total Potential Campus Staffing Reductions | (\$15,335,000) |
| Grand Total Reductions | (\$25,071,000) |

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Reductions to Teacher Staffing Levels


Based on Hochberg Funding Formula Option #1

| | Current Allocation | Reduction Goal | Resignees/Retirees To-Date | Difference |
|--------------------------------|--------------------|----------------|----------------------------|------------|
| Elementary School Teachers | 2,030.7 | 86 | 100 | 14 |
| Middle School Teachers | 953.6 | 38 | 38 | 0 |
| High School Teachers | 1,284.5 | 58 | 63 | 5 |
| Total | 4,268.8 | 182 | 201 | 19 |
| % of Current Allocation | | 4.3% | 4.7% | |

| Teacher Turnover Rate: | | |
|------------------------|--|-------|
| 2005-2006 | | 10.1% |
| 2006-2007 | | 11.7% |
| 2007-2008 | | 11.2% |
| 2008-2009 | | 10.4% |
| 2009-2010 | | 8.2% |

If 2010-2011's turnover rate is 8%, total teacher turnover would be 341.
 If 2010-2011's turnover rate is 6%, total teacher turnover would be 256.

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Cost Avoidances for 2011-2012

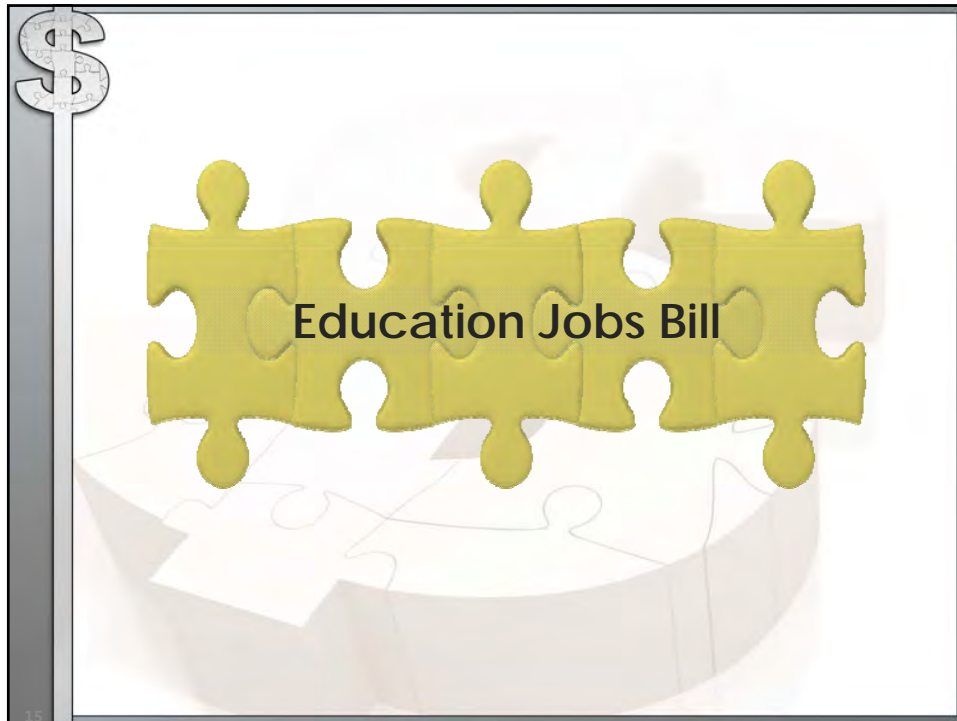
Based on Hochberg Funding Formula Option #1

| | |
|--|---------------------|
| Eliminate Pay Raise | \$9,281,000 |
| Not Adding Teaching Staff to Accommodate Enrollment Growth | 4,062,000 |
| Reduce Contingency Allowance & AARs | 3,158,000 |
| Total Cost Avoidance | \$16,501,000 |

| | |
|--|---------------------|
| Total Reductions from 2010-2011 Actual | \$25,071,000 |
| Total Cost Avoidances for 2011-2012 | 16,501,000 |
| Net Change Compared to Planned 2011-2012 Cost Structure | \$41,572,000 |

In addition to expenditure reductions of \$25.1 million, NEISD is planning \$16.5M in cost avoidances. This represents planned expenditure growth that will no longer occur. The total change to NEISD's anticipated cost structure due to the under-funding of education is \$41.6M.

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Education Jobs Bill

- North East ISD was allocated \$10,594,000
- Funds must be used for compensation and benefits of school-level employees for the following allowable purposes:
 - To retain, recall, or rehire employees
 - To restore reductions in salaries, including furlough days
- Due to Education Jobs Bill funding, NEISD could:
 - Maintain student/teacher ratio @ 22:1 for grades PK, K, & 1 for 2011-2012 (previous presentations showed 24:1)
 - Delay salary reductions for campus staff in terms of lost contract days 2011-2012


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Additional Allocation Requests

- Increases to budgets are applied for via Additional Allocation Requests (AARs)
 - District/Campus/Department improvement efforts may require additional resources
 - Any request for increases to operating budget or staffing must be processed through an AAR
 - Prior year AARs that are not ongoing are subtracted from the budget
 - Data Processing created a web-based system to ensure requests are methodically processed and are consistent in support


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Additional Allocation Requests

- **Increases to budgets are applied for via Additional Allocation Requests (AARs)**
 - Requestor must supply various information, including:
 - Detail of the request
 - How the AAR supports a campus/department/district goal
 - How success of the allocation will be measured
 - What alternatives are there if the AAR is denied
 - The length of the request (e.g., 1 year/ 5 year/ permanent)
 - Executive Staff works with the Budget Office to review and prioritize each AAR

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Additional Allocation Requests

| (In Thousands) | Staffing/ Ongoing | Staffing/ One Year | Non- Staffing/ Ongoing | Non- Staffing/ One Year | Total |
|-----------------------------------|----------------------|-----------------------|------------------------------|-------------------------------|--------------|
| Business Services & Operations | \$98 | \$ - | \$77 | \$60 | \$ 235 |
| Campus Support & Human Resources | 19 | - | 53 | 78 | 150 |
| Instruction & Technology Services | - | - | 165 | 300 | 465 |
| Total AARs | \$117 | \$ - | \$295 | \$438 | \$850 |

Not included above are \$400,000 of "on-hold" AARs which are pending further review.

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\$ Approved AARs

Business Services & Operations

| (In Thousands) | Estimate |
|--|----------|
| Custodial supply increases for sqft growth and price increases | \$ 77 |
| Custodians for Las Lomas & Vineyard Ranch (Spring start) | 69 |
| Top rail devices & ADA requirements for elevators | 60 |
| Custodian for Transportation North | 29 |
| Total Approved AARs | \$ 235 |

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\$ Approved AARs

Campus Support & Human Resources

| (In Thousands) | Estimate |
|--|----------|
| Organizational Health Enhancing Leadership Effectiveness | \$ 78 |
| Leader in Me – elementary schools | 38 |
| Video board operation personnel | 19 |
| Background checks for volunteer program | 15 |
| Total Approved AARs | \$ 150 |

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\$ Approved AARs

Instruction & Technology Services

| (In Thousands) | Estimate |
|--|----------|
| COMPASS programmers for maintenance & enhancements | \$450 |
| Payroll clocks | 15 |
| Total Approved AARs | \$ 465 |

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\$ Expenditures

By Object Category

| (In Millions) | FY2011 Budget | FY2011 Forecast | FY2012 Budget | FY2012 Forecast |
|--|------------------------|--------------------|----------------------|--------------------|
| Salaries & Benefits | \$ 426.9 | \$421.5 | \$412.3 | \$405.0 |
| Contracted Services | 42.6 | 39.2 | 41.1 | 39.9 |
| Supplies & Materials | 18.6 | 17.9 | 17.5 | 18.3 |
| Other Operating | 5.8 | 5.0 | 5.8 | 5.0 |
| Capital & Other Uses | 0.9 | 0.9 | 2.8 | 3.1 |
| Total Expenditures | \$ 494.8 | \$ 484.5 | \$479.5 | \$471.3 |
| <i>Difference - Budget to Forecast</i> | <i>\$10.3M -- 2.1%</i> | | <i>\$8.2M - 1.7%</i> | |

There will always be a minor difference between the budget and the forecast, mainly due to position vacancy rates and projected unused budgets.


24

 **Expenditures**
By Functional Category

| (In Millions) | FY2011 Budget | FY2011 Forecast | FY2012 Budget | FY2012 Forecast |
|--|------------------------|-----------------|----------------------|-----------------|
| Instruction & Instructional Related Svcs | \$ 326.0 | \$ 320.4 | \$321.2 | \$309.2 |
| Instructional & School Leadership | 36.7 | 36.6 | 33.2 | 34.2 |
| Student Support Services | 54.3 | 53.3 | 51.0 | 52.5 |
| Non-Student Support Services | 73.7 | 70.4 | 68.0 | 69.5 |
| Other | 4.1 | 3.8 | 6.1 | 6.0 |
| Total Expenditures | \$ 494.8 | \$ 484.5 | \$479.5 | \$471.3 |
| <i>Difference – Budget to Forecast</i> | <i>\$10.3M -- 2.1%</i> | | <i>\$8.2M – 1.7%</i> | |

There will always be a minor difference between the budget and the forecast, mainly due to position vacancy rates and projected unused budgets.

25

 **2011-2012 Budget & Forecast Summary**

| | FY2012 Preliminary Budget | FY2012 Forecast |
|--|---------------------------|---------------------|
| Revenue | \$478,710,965 | \$476,327,828 |
| Expenditures | 479,468,654 | \$471,308,029 |
| Increase (Decrease) to Fund Balance | (757,689) | 5,019,799 |
| Beginning Fund Balance | 91,913,105 | 91,913,105 |
| Ending Fund Balance | \$91,155,416 | \$96,932,904 |
| Months of Operating Fund Balance | 2.4 | 2.6 |

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\$ Fund Balance

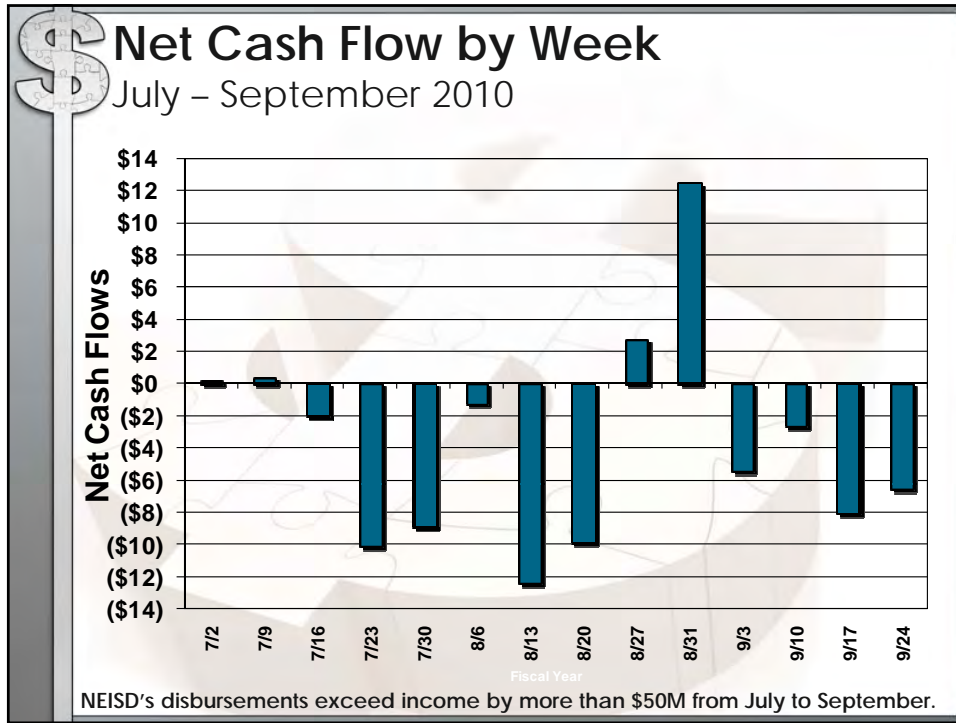
- Allows the district to operate during the first three months of the fiscal year when revenue streams are low
- Emergency spending
- Unexpected decrease in revenue due to lower ADA; e.g. H1N1 (2009-2010)
- Improves district's bond ratings which keeps Debt Service tax rate low
- Uncertainty of future state funding

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\$ Fund Balance

- Fund Balance = ~~Cash~~
- Fund Balance = ~~Savings~~
- Fund Balance = ~~Rainy-Day Fund~~
- Fund Balance = Net difference between total assets and total liabilities at a given point in time, or put another way...
 "What you own minus what you owe."

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\$ 2010-2011 Revenue vs. 2011-2012 Based on Hochberg Option #2

| NEISD General Fund | 2010-2011 | 2011-2012 House Opt #2 | Difference |
|-------------------------|-----------------|------------------------|------------------|
| Property Tax Revenue | \$282.5M | \$277.6M | (\$4.9M) |
| Other Local Revenue | 4.4M | 3.9M | (0.5M) |
| State Revenue | 187.9M | 164.7M | (23.2M) |
| TRS Revenue | 23.5M | 23.5M | 0.0M |
| Federal Revenue & Other | 6.2M | 16.2M | 10.0M |
| Total Revenue | \$504.5M | \$485.9M | (\$18.6M) |

Under proposed Option #2, NEISD will see a decline in revenue of \$18.6M in 2012 compared to 2011. Revenue would drop another \$9.5M in 2013 and \$5.8M in 2014.


30

 **2011-2012 Effective Revenue Loss**
Hochberg Option #2 Formula -- Difference from Current Law

| NEISD General Fund | 2011-2012 Current Law | 2011-2012 House Opt #2 | Difference |
|-------------------------|-----------------------|------------------------|------------------|
| Property Tax Revenue | \$277.6M | \$277.6M | \$0.0M |
| Other Local Revenue | 3.9M | 3.9M | 0.0M |
| State Revenue | 202.8M | 164.7M | (38.1M) |
| TRS Revenue | 23.5M | 23.5M | 0.0M |
| Federal Revenue & Other | 16.2M | 16.2M | 0.0M |
| Total Revenue | \$524.0M | \$485.9M | (\$38.1M) |

Compared to the current funding formula law, NEISD will lose nearly \$38M in 2012, all in State revenue. The State's share of total General Fund revenue would fall from 39% to 34%.

31

 **General Fund Forecast**
Based on Hochberg Funding Formula Option #2

| (in millions) | 2010-2011 Forecast | 1 st Year Change | 2011-2012 Forecast | 2 nd Year Change | 2012-2013 Forecast | 3 rd Year Change | 2013-2014 Forecast |
|-------------------------------------|--------------------|-----------------------------|--------------------|-----------------------------|--------------------|-----------------------------|--------------------|
| Revenue | \$504.5 | (\$18.6) | \$485.9 | (\$9.6) | \$476.3 | (\$5.8) | \$470.5 |
| Expenditures | 484.5 | (13.2) | 471.3 | 8.8 | 480.1 | 1.0 | 481.1 |
| Increase (Decrease) to Fund Balance | \$20.0 | | \$14.6 | | (\$3.8) | | (\$10.6) |
| Beginning Fund Balance | 71.9 | | 91.9 | | 106.5 | | 102.7 |
| Ending Fund Balance | \$91.9 | | \$106.5 | | \$102.7 | | \$92.1 |
| Months of Operating Fund Balance | 2.4 | | 2.9 | | 2.7 | | 2.4 |
| Revenue/Student | \$7,586 | (\$393) | \$7,193 | (\$255) | \$6,938 | (\$193) | \$6,745 |
| Expenditures/Student | \$7,285 | (\$308) | \$6,977 | \$17 | \$6,994 | (\$97) | \$6,897 |

Under the second optional version of Hochberg's funding bill, NEISD would be able to reduce the expenditure cuts planned for the 2011-2012 year.

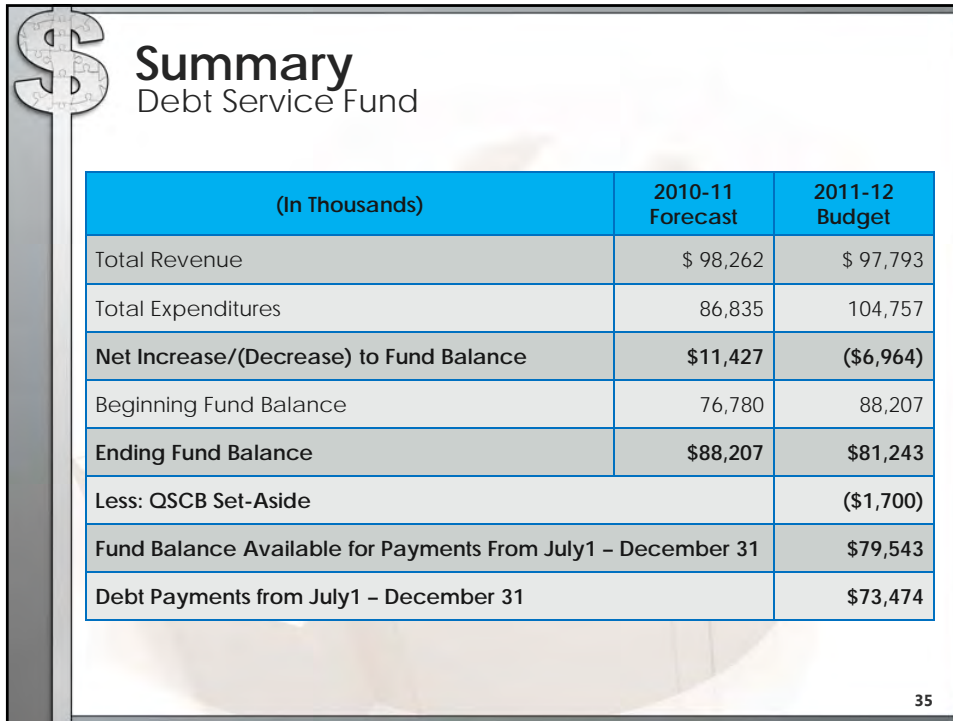
32



Changes from 2011

- Property Values down by 1.8%
 - Collections less by \$1.7M
- No change in tax rate proposed (\$0.3629)
- Fund will begin receiving sinking fund payments from General Fund in 2011-2012 (\$1.7M) for future retirement of QSCBs
- Increase in expenditures of \$17.9M
 - Expenditures of \$86.8M in 2011 to \$104.8M in 2012
 - FY 2011-2012 and 2012-2013 have larger payments on 2 bond issues
 - Payments drop below \$100M again in 2014

34



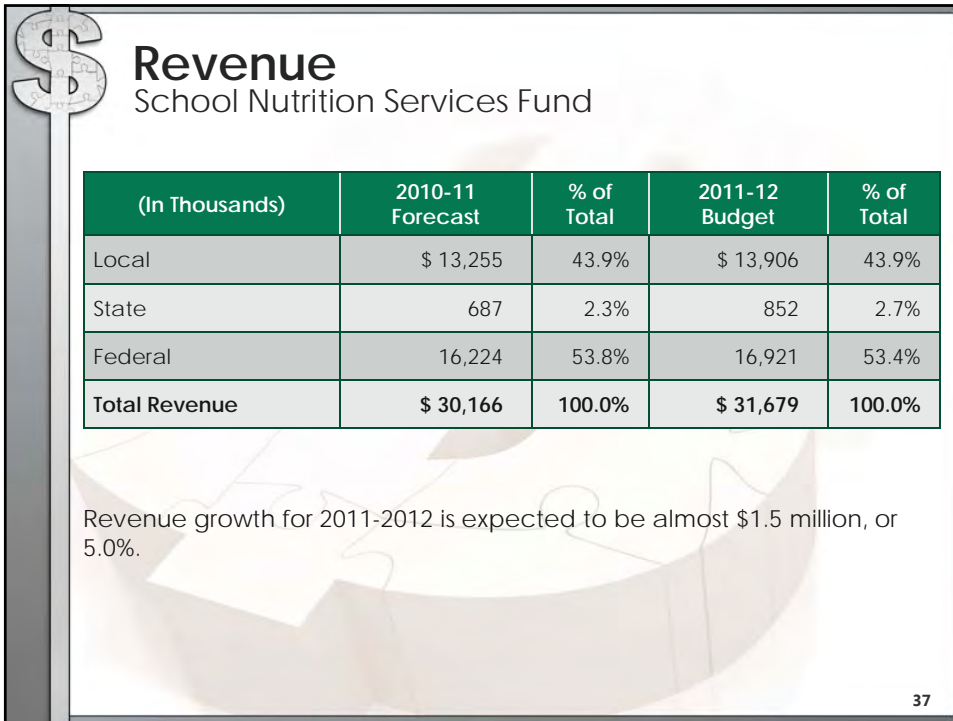
Summary


Debt Service Fund

| (In Thousands) | 2010-11 Forecast | 2011-12 Budget |
|---|---------------------|-------------------|
| Total Revenue | \$ 98,262 | \$ 97,793 |
| Total Expenditures | 86,835 | 104,757 |
| Net Increase/(Decrease) to Fund Balance | \$11,427 | (\$6,964) |
| Beginning Fund Balance | 76,780 | 88,207 |
| Ending Fund Balance | \$88,207 | \$81,243 |
| Less: QSCB Set-Aside | | (\$1,700) |
| Fund Balance Available for Payments From July1 – December 31 | | \$79,543 |
| Debt Payments from July1 – December 31 | | \$73,474 |

35








Meal Prices

School Nutrition Services Fund

| Lunch | 2010-11 | 2011-12 |
|---------------------|---------|---------|
| Elementary Students | \$1.75 | \$1.80 |
| Secondary Students | \$2.00 | \$2.05 |
| Reduced Price Meals | \$0.40 | \$0.40 |
| All Adults | \$3.00 | \$3.10 |

| Breakfast | 2010-11 | 2011-12 |
|---------------------|---------|---------|
| Elementary Students | \$0.90 | \$0.90 |
| Secondary Students | \$0.95 | \$0.95 |
| Reduced Price Meals | \$0.30 | \$0.30 |
| All Adults | \$1.50 | \$1.60 |

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Expenditures

School Nutrition Services Fund

| (In Thousands) | 2010-11 Forecast | % of Total | 2011-12 Budget | % of Total |
|---------------------------|---------------------|---------------|-------------------|---------------|
| Salaries & Benefits | \$ 14,189 | 46.8% | \$ 14,340 | 45.4% |
| Contracted Services | 2,221 | 7.3% | 2,176 | 6.9% |
| Food & Supplies | 13,581 | 44.8% | 14,672 | 46.5% |
| Other Operating | 75 | 0.3% | 83 | 0.3% |
| Capital | 238 | 0.8% | 295 | 0.9% |
| Total Expenditures | \$ 30,304 | 100.0% | \$ 31,566 | 100.0% |

Expenditure growth for 2011-2012 is expected to be almost \$1.3 million, or 4.2%.

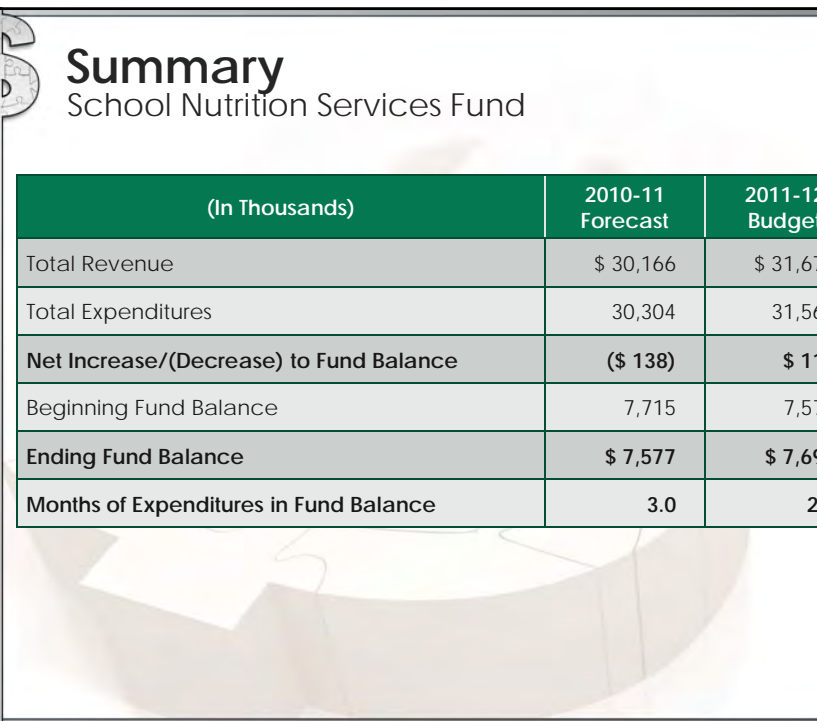
40



\$ Major Changes in Expenditures

- 2010-2011 Compared to 2011-2012
 - \$30.3M to \$31.6M
- Growth of \$1.3M or 4.2%
 - \$0.2M – Staffing at Secondary Schools for Salad Bars
 - \$1.1M – Increases in Food Costs

41



\$ Summary

School Nutrition Services Fund

| (In Thousands) | 2010-11 Forecast | 2011-12 Budget |
|--|---------------------|-------------------|
| Total Revenue | \$ 30,166 | \$ 31,679 |
| Total Expenditures | 30,304 | 31,566 |
| Net Increase/(Decrease) to Fund Balance | (\$ 138) | \$ 113 |
| Beginning Fund Balance | 7,715 | 7,577 |
| Ending Fund Balance | \$ 7,577 | \$ 7,690 |
| Months of Expenditures in Fund Balance | 3.0 | 2.9 |

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\$ Upcoming Meetings


1 June 13 – Call for Public Hearing

2 June 27 – Public Hearing

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The slide features a background of a large puzzle piece forming a dollar sign. A vertical bar on the left contains a large dollar sign icon. Two puzzle pieces, one yellow and one brown, are placed to the left of the meeting dates.

Questions?



A large question mark is formed by several light blue puzzle pieces. The pieces are arranged to create the shape of a question mark, with a small circular piece at the bottom right.