

**Budget Process and Assumptions Guiding  
the Development of the General Fund Budget  
2021-2022 Fiscal Year**

**Fiscal Year**

The fiscal year will run from September 1, 2021 to August 31, 2022.

**Fund Balance**

The general operating Unassigned fund balance is projected to remain relatively unchanged for the current fiscal year. Added expenditures for facilities improvement/remodeling projects and other initiatives (some COVID-19 related) will impact projected fund balance. In addition, State Special Program spending shortages from the 2019-20 school year that must be made up will also impact projected fund balance. That said, these added expenditures will more or less offset a projected spending lapse (savings) in other areas of the budget.

As a side note to the Special Program spending shortage mentioned above; you will recall from the 2019-2020 audit presentation, the District added a little over \$2.4 million to fund balance, which is more than we typically add each year. However, approximately \$1.33 million of this amount was due to the shortages in State Special Program spending for the 2019-20 school year that must be made up. These Special Program spending requirement percentages are calculated by TEA on a three-year rolling average so we must make up the 2019-20 shortages during the current fiscal year and next fiscal year to stay in compliance. That said, funds were set aside in the current fiscal year to allocate additional funds to these programs. And what is not made up in the current year must be made up in the 2021-22 school year. The fund balance after these projects and initiatives are completed will remain within the District's fund balance policy limits.

In addition to the Unassigned fund balance, the District currently has \$6.5 million identified as Committed fund balance.

- Construction and Remodel - \$5,000,000
- Capital Expenditures for Vehicle and Equipment - \$1,200,000
- Other Purposes – Instructional Improvement Fund - \$300,000

Committed funds are constrained to a specific purpose by the Board of Trustees and require Board action to commit and un-commit. Requests and needs that arise for the utilization of fund balance for necessary improvements and purchases are considered each year by administration for possible presentation to the Board for action and implementation. Consideration of these projects and purchases are based on currently available funds and fund balance policy constraints, as well as future fund balance projections and other issues that may impact fund balance and future district operations. Depending on the amount of the anticipated increase or decrease to fund balance as well as the total costs of any approved projects and purchases, committed fund balance can be increased (or decreased) to keep the District at or below the Optimum Fund Balance level, as determined by our auditors at year end.

Administration will make recommendations to manage Unassigned, as well as Committed Fund Balances, for district needs to maintain balance levels dictated by policy and appropriate to maintain an Optimal Fund Balance level for auditing purposes. The 2020 FYE audit indicated an excess in Unassigned General Fund Balance in the amount of \$2,343,040. This excess indicates a need to decrease the Unassigned General Fund Balance level or we will need to increase Committed fund balance level (or a combination of both) to bring this number closer to or slightly below the Optimum Fund Balance level that will be determined in the 2021 FYE audit. Therefore, an adjustment to Committed Fund Balance accounts will most likely be necessary once the year end fund balance is estimated, taking into consideration the estimated spending lapse for the year as well as any planned reductions to current fund balance levels. This will be monitored as

we get closer to the 2021 FYE and an adjustment to Committed fund balance will be made as needed to bring our Unassigned General Fund Balance level in line or slightly below the Optimum Fund Balance Level to be determined by the auditors for this current fiscal year.

## **Revenue**

The **taxable value** of property is projected to increase again for 2021-22. However, keep in mind HB3 substantially changed the way state funding and recapture are calculated. Among other things, current year property values are now used to calculate state funding and recapture as opposed to using prior year values under the old funding system. Also keep in mind HB3 put in place a 2.5% tax cap. This tax cap limits the amount of revenue the District can generate from tax collections by compressing the District's Tier One M&O tax rate, currently \$0.9164 for tax year 2020. The degree to which the District's M&O tax rate will be compressed for tax year 2021 will be determined by using either State or Local tax compression rates. State and local compression work in parallel and the greater amount of compression from the two calculations (lowest tax rate) will apply to the 2021 Tier One maximum compressed rate (MCR).

### **How Does State Compression Work?**

State compression will be based on the comptroller's estimates of statewide property value growth that will be published in the general appropriations act for the current legislative session. Therefore, the MCR for a school district is the prior year MCR (\$0.9164) \* (1.025 / state property value growth percentage). For example, if the comptroller's estimates of statewide property value growth is 5.2% for tax year 2021, the calculation for state compression would be as follows:

$$\text{MCR} = 0.9164 * (1.025 / 1.052) = \$0.8928$$

### **How Does Local Compression Work?**

Districts that grow faster than the statewide average growth rate will have their tax rates compressed further so that the District's local tax collections increase by no more than 2.5% per year. Therefore, the MCR for a school district with a local growth rate higher than the statewide average is the prior year MCR (\$0.9164) \* (1.025 / local property value growth percentage). For example, say GISD's local value growth percentage rate is 7.5% for tax year 2021, the calculation for local compression will be as follows:

$$\text{MCR} = 0.9164 * (1.025 / 1.075) = \$0.8737$$

As previously mentioned, a District's maximum Tier One tax rate (MCR) will be the lesser of the State or Local compression. Therefore, based on the State and Local growth percentage examples used above, the District's tax rate for 2021 would be the lower rate of \$0.8737. And of course the \$0.05 additional Golden Pennies can be added to the MCR to come up with the total M&O tax rate. In the example above, local compression lowers the district's M&O tax rate to keep the overall M&O taxes raised by the district limited to a 2.5% increase per year.

**A Tax collection ratio of 99 percent** will continue to be used, based on past history and current economic conditions.

**Projected student growth of 0%** will be used for state revenue calculations for 2021-22. Student enrollment at the beginning of February 2021 was 7,387 as compared to 7,329 for the same time period last year. This represents an increase in enrollment of 58 students, or 0.79% over the same time period last year. Average Daily Attendance (ADA) at the end of the 1<sup>st</sup> semester this year was 6,786.68 as compared to 6,961.942 at the end of the 1<sup>st</sup> semester in 2019-20. This represents a decrease in ADA of 172.295, or (2.47%), over the same time period last year. However, keep in mind, attendance and therefore ADA has been impacted by COVID-19 and those students participating in virtual instruction. For the 2021-22 school year we

anticipate our attendance percentages to return to more of a normal historical attendance rate. And lastly, information from demographic information will also be used to help project student growth.

### **State Aid and Recapture**

GISD will continue to receive some state funding under HB3. And even though recapture has been significantly reduced under HB3, we will continue to pay recapture. Based on current enrollment data, ADA and projected tax collection data, GISD is anticipating a recapture payment of approximately \$5,198,015 to the State for the current 2020-21 school year. However, keep in mind this recapture amount is based on Hold Harmless enrollment and ADA data as of the end of the 1<sup>st</sup> semester. Depending upon whether the State will continue to hold the District harmless for the remainder of the school year will impact this number.

Based on HB3 and 2020 Preliminary Value Study findings as well as current enrollment projections, recapture is estimated to increase more in 2020-21. However, until we know what our Tier 1 compressed tax rate will be, it is impossible to estimate that number at this time. Of course, if student enrollment and ADA grows higher than anticipated, or value growth and tax collections are not as much in 21-22, then the recapture amount should be less.

**Additional sources** of funding will continue to be pursued.

### **Expenditures**

A **per pupil allocation** will be calculated for each school based on projected enrollment by grade. Funding considerations maintaining a per pupil allocation will be included in the 2021-22 budget.

The same Central Office and Department allocations as last year will be included in the 2021-2022 budget unless State funding allocations in special programs or other changes/needs dictate an increase or a decrease is warranted.

**Needs above allocations** will be presented by Budget Managers for consideration by the Superintendent for inclusion in the budget.

**Long range facility needs** will be reviewed and incorporated into the budget process as appropriate.

Continued emphasis on **function 11 expenditures** will be made in building the budget so that GISD will be in line with the state average for these expenditures.

### **Salaries & Benefits**

**Staffing Formulas previously utilized will be used** as well as consideration given to staffing information received from the TASB Staffing Study recently completed. Each position that is vacated will be reviewed by the Superintendent as to whether or not it will be maintained for future years. New positions will be added to meet the needs of GISD students after extensive research and consideration by the Superintendent. Reallocation of existing staff will be the first line of support if appropriate.

**GISD teacher salary** rankings with area districts will continue to be reviewed as well as information received from the TASB Salary Study recently completed. Dependent upon the total staffing plan and available funds, as well as information received from the TASB Salary Study and other sources, salary increases will be addressed as appropriate.

Continued emphasis on increasing the number of teachers with advanced degrees in subject areas will be made when developing salary schedules and recruiting of new staff.

**Salary schedules for other district employees** will continue to be reviewed to be in line with market rankings for like type jobs and adjusted to reflect related market changes and changes to teacher salary schedules. Emphasis will be on campus level personnel when developing these salary schedules and related mid-point increases. The results of the recent TASB Salary Study will also be a consideration as well as information received from other sources in determining salary schedules for other district employees.

**District Insurance contribution** will be maintained at \$378 per month unless an increase or decrease is approved by the board.

### **Long-Range Planning**

**Three-year projections** will be maintained to analyze the effects of fiscal year 2021-22 revenue and expenditure decisions, with considerations given to implementation of any legislative action that may impact school finance.

### **Ongoing Financial Management**

The budget process will be structured to **identify programs and activities that can be reduced or eliminated** with little or no impact on operations or teaching and learning.