Brackett ISD
Budget Workshop #1

May 2, 2024

In General Terms….

Budgets and Finance for School Districts

SCHOOL FINANCE ACRONYMS/TERMS

- AFR: Annual Financial Audit
- ASF: Available School Funds
- BA: Basic Allotment
- Comptroller: Texas State Comptroller
- FASRG: Financial Accountability System Resource Guide
- FIRST: Financial Integrity Rating System of Texas
- FSP: Foundation School Program
- GAAP: Generally Accepted Accounting Principles
- I & S: Interest and Sinking (Debt Service fund)
- KCAD: Kinney County Appraisal District
- M & O: General Maintenance and Operations Fund
- MCR: Maximum Compressed Rate
- PEIMS: Public Education Information Management System
- PVS: Property Value Study
- SHARS: School Health and Related Services
- TEA: Texas Education Agency
- TEC: Texas Education Code
- VATR: Voter Approval Tax Rate
- VATRE: Voter Approved Tax Rate Election
- WADA: Weighted Average Daily Attendance

Why Have a free Public School System?

- Texas Constitution mandate
- 3 key principles to guide funding
  - ✓ADEQUANCY-

    enough resources for students' educational needs
  - ✓EQUITY-

    similar access to resources for all (STATE students) regardless of wealth per student
  - ✓EFFICIENCY -

    resources are productive, with little waste

Operate by the Principles

- Who are the students at BISD? (grade levels, socio economics, etc.)
- What needs do they have? (special programs, meals, transportation)
- Where do we educate them? (facilities, support services)
- How do we produce an instructional program to meet students needs? (collaboration and budgets)
- How do we measure operate efficiently and effectively? (budget and audit)

THE PLAN
& THE BUDGET

School’s PLAN for financial operations

- Comprehensive Needs assessment for
  - Instructional - District /Campus Improvement Plans
  - Facilities/buildings - Facilities Assessment
  - Support Services -Transportation, Custodial
  - Future Projects - long term planning

- Fund Balance Policy
  - Protection
  - Fund Designations
  - Cash flow - before taxes are collected

General Operating Budget

- Sets forth the school's plan for financial operation for a fiscal year
- Set by tax rates, constitution, state law and local policy
- Estimates of Revenues and Expenditures

TEC Legal Requirements for Budget Development

- Superintendent and Board define related roles and responsibilities (i.e. Budget Calendar)
- Budget be prepared by June 19
- Board President calls public meeting for discussion, public participation and Budget adoption
- No funds may be expended other than those budget adopted (Board may amend)
- Must be prepared according to GAAP, rules adopted by State Board of Education, and local policies
- Must be adopted before the Tax Rate is set

TEA Legal Requirements for Budget Development

- Budget must be adopted before June 30
- Amendments must be recorded in Board meetings
- General Fund, Food Service Fund, and Debt Service Fund Budgets require Board approval at the fund and function level
- Budget is filed with TEA through PEIMS
- Budget Amendments before exceeding a function
- Post copy of adopted budget on school website for 3 years

REVENUES – EXPENSES = FUND BALANCE

PART 1 - REVENUES

Revenues-financial resources

- LOCAL-Property Tax Collections
  Tax Rate adopted by Board applied to Property Values
- STATE –Calculated using formulas
  Related to enrollment, attendance, special programs and populations
- FEDERAL – Designated/Competitive

LOCAL REVENUE

LOCAL REVENUE – Ad valorem Property Taxation

- Ad Valorem - Latin phrase that means "according to value“
- Levy - Board adopted tax rate applied to all local property taxable values per $100
- 86% of total revenues for BISD

LOCAL REVENUE – Tax Rates

- Tax rate compression
  - State has compressed the tax rate for ISDs (set a tax rate ceiling)
  - State attempting to reduce local property tax burden
  - State funds more of the allocation formula
  - TEA “pays” for local effort (BISD may have a VATRE)
- Local Tax Rate
  - Board designates Dir. Of Business and Finance to calculate
  - Truth in Taxation rates – Comptroller has prescribed form (budget appendix)
  - More discussion to follow

LOCAL REVENUE – Property Tax Values

- Taxable Property Values certified by Chief Appraiser to BISD in July:
  - Includes Real (land, lots, homes, industrial, commercial, etc.)
  - Personal Property (i.e. store inventories)

- Certified Values – sent by KCAD to State Comptroller for the PVS

LOCAL REVENUE - Property Value Study

- Ensures equitable distribution of state funding for public education
- Determines the total taxable value of all property in each school districts
- Conducted at least once every two years
- Certifies values to TEA for funding formula
- Measures the performance of appraisal district (how close to market?)
  - appraised values **VALID** when within a statistical margin of error (usually 5%)
  - appraised values **INVALID** when outside this margin of error
  - If invalid, State certifies STATE (usually higher) value to TEA for funding

LOCAL REVENUE – PVS for BISD 2023

- Invalid
- 2023 is 4th year of Invalid values (gap is closing)
- Outside state test values by $1,040,037
- Preliminary Value Certified to TEA = $955,924,165
- Budget and Taxes Roll based on local values = $914,589,691
- States Assigned value increases TEA certified values by $41,334,474
- BISD protested/appealed values
- Unofficial results (last week) – After the appeal – BISD is VALID
- Official Results until August (next year budget)

LOCAL REVENUE - PVS timing impact

- July
  - KCAD certifies tax year values
  - Used for upcoming school year budget
  - Values used to set the MCR – as reported to TEA
- October
  - State Comptroller receives local values from KCAD
  - KCAD sends out Tax Bills and begins collections and disbursements to BISD
- January 31st – last day for taxpayers to pay taxes before delinquency

LOCAL REVENUE - PVS impact Cont'd

- January
  - Comptroller releases PRELIMINARY results of the PVS

IF, study results are **INVALID**:

> TEA reduces STATE funding allocation

> Current Budget must be realigned to STATE values

> Values may be appealed

IF, study results are **VALID**:

> continue to operate with June approved budget

- August
  - Final results from prior year (by now - new budget year)

STATE REVENUES

STATE REVENUES – TWO ALLOTMENT TIERS

- The Foundation School Program is the School Finance System
- Establishes how much state funding school districts are **ENTITLED** to receive.
- Formulas are set in statute which consider student and district characteristics
  - number and type of students enrolled (state comp ed, gifted and talented, Career Tech, bilingual, early Ed, etc.)
  - district size and geographic factors, and
  - local taxable property values and
  - tax rates.
- Once entitlements are established, the formulas are used to determine how much a district can generate locally **(local share)** through property taxes before making up the difference with state funds **(state share).**
- **If a district generates more than the formula entitlement, excess local revenue will be RECAPTURED by the State.**

STATE REVENUES: TIER ONE ALLOTMENT

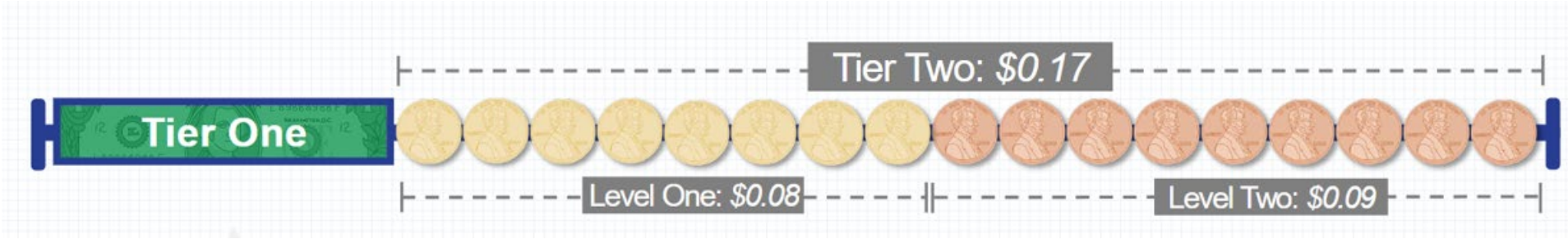
- Basic Allotment = $6,160 (since 2019) per student in average daily attendance
- BA used in a series of formulas that apply specific weights and adjustments based on student and district characteristics
- Must tax maximum compressed tax rate (MCR) set by State
- Local discretion to set a tax rate that is $0.17 above their individual MCR for Tier 2.
- BISD, for 2023 set rate at $0.05 above compressed rate of $.6192

STATE REVENUES - TIER TWO ALLOTMENT

- AKA enrichment funding which is intended to supplement the basic funding (Tier I)
- focuses on taxpayer equity - school districts receive a guaranteed amount of funding for each penny of tax effort up to $0.17 above their MCR for each student in WADA
- This guaranteed amount per WADA is called the **guaranteed yield.**

STATE REVENUES - TIER TWO ALLOTMENT

- Tier 2 tax rate
  - $.08 golden pennies (not subject to recapture)
    - Access $.05 with only Board Approval
  - $.09 copper pennies (subject to recapture-yield less)
  - Additional $.12 pennies require voter approval (VATRE)
  - Each year all rates calculated as part of the Truth In Taxation tax rate process
  - Board may not exceed VATR without an election

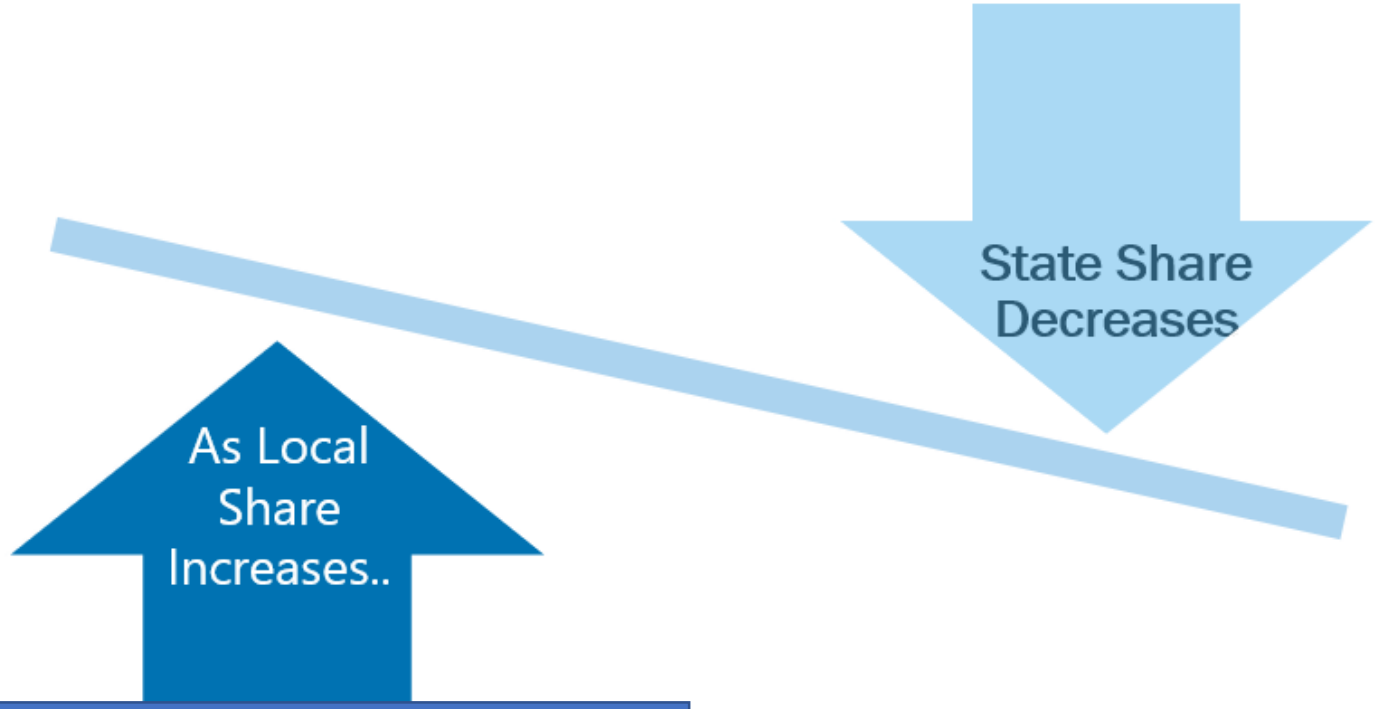


STATE & LOCAL REVENUE: Excess Revenue by Tier

Excess Local Revenue Levels for each Tier

Tier One	Tier Two LEVEL 1	Tier Two LEVEL 2
Basic Allotment of $6,160	**Eight Golden Pennies at 160% of the Basic Allotment**	**Nine Copper Pennies At 80% of the Basic Allotment**
Excess Local Revenue Above Entitlement LEVEL 1	**No Excess Local Revenue**	**Excess Local Revenue Above Entitlement** LEVEL 2

A balancing act:
State Share vs. Local Share



RECAPTURE

STATE & LOCAL REVENUE: State RECAPTURE of Local Funds

What are local revenue levels in excess of entitlement?

Chapter 48 of the Texas Education Code (TEC) 48.257 ensures that no district retains local revenues that exceed their Tier One entitlement.

In addition, TEC 48.257 ensure that no district retains local revenues that exceed their Tier Two copper penny entitlement under TEC 48.202(a-1)(2).

Districts subject to this provision must choose a method to reduce their local revenue level below their entitlement level.

STATE & LOCAL REVENUE: State RECAPTURE of Local Funds

- Excess Revenue
  - Before 2019 school wealth was measured in terms of taxable value divided WADA
  - Staring 2019 excess revenue is local revenue IN EXCESS OF ENTITLEMENT

- Cause(s) of Excess Revenue
  - market values rising or new property added to the tax roll (i.e. commercial, industrial, etc.)
  - Tax Rates (to an extent)

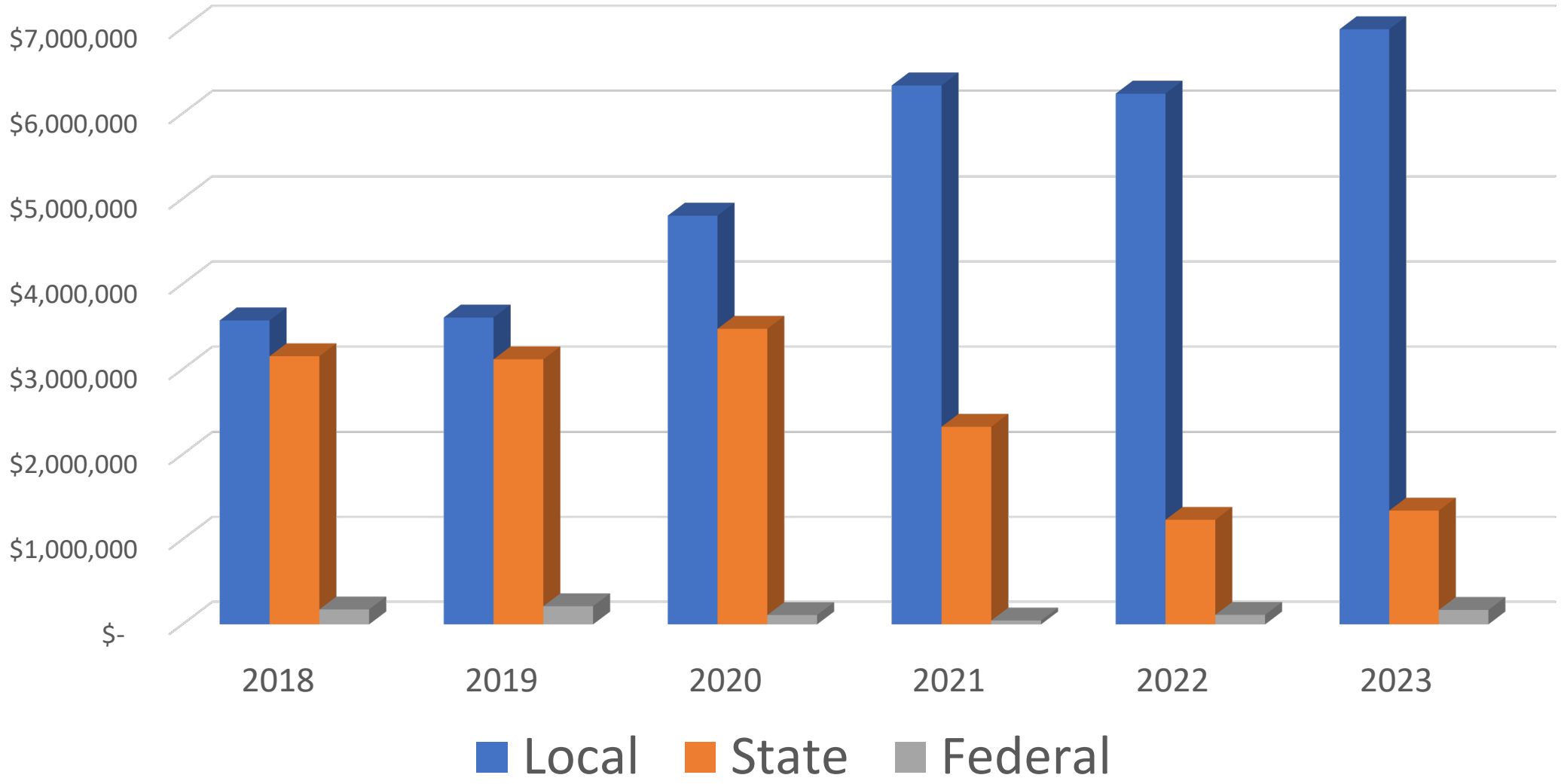
- **EXCESS REVENUE (RECAPTURE) DOES NOT REDUCE THE SCHOOL ENTITLEMENT**
  - **Recapture only applies to General Operating funds**
  - **Debt service (I&S) not affected by excess revenue- all value may be used to reduce debt**

STATE & LOCAL REVENUE: State RECAPTURE of Local Funds

- TEA identifies Recapture Districts by
  - July 15th

  Inform TEA how payment will be made:
  - Netting with State Aid (if available)
  - Payment Schedule with TEA
  - Lump Sum
  - District must respond or Board may not approve a tax rate for next year

BISD History of Audited Revenue



STATE & LOCAL REVENUE: State RECAPTURE of Local Funds

How does a district reduce excess local revenue levels?

A district has five options available to reduce excess revenue levels:

- Consolidation by agreement [with another district] (TEC, §49.051)
- Detachment and annexation by agreement (TEC, §49.101)
- **Purchase of attendance credit (TEC, §49.151) ← This is 100% of current agreements.**
- Education of nonresident students [from a partner district] (TEC, §49.201)
- Tax base consolidation [with another district] (TEC, §49.251)

If a district fails or refuses to exercise Option 1, 3, 4 or 5, the commissioner is required to achieve revenue level reduction through detachment and annexation or consolidation (Option 2).

STATE OF TEXAS SCHOOL FUNDING SYSTEM

"The school funding system in Texas is a complex system of weights, values, and formulas that strives to achieve adequacy, equity, and efficiency in a vast state with an extremely varied student population. As the economy and the composition of the state change, future legislatures will inevitably face the challenge of modifying and adapting the system to keep pace with those changes while adhering to the guiding principles."

Texas Association of School Business Officials
School Finance Basics
March, 2024

FEDERAL REVENUES

FEDERAL REVENUES

- Generally designated for a specific purpose
  - National School Lunch Program
  - SHARS- Medicaid Reimbursements
  - Impact Aid-Feds provide in lieu of taxes not collected for their buildings
- Subject to additional requirements and limitations
- Not much local control, more accountability

PART II – EXPENDITURES & FUND BALANCE

EXPENDITURES

Expenditures – Use of Resources

- Comprehensive Needs assessment for
  - Instructional - District /Campus Improvement Plans
  - Facilities/buildings - Facilities Assessment
  - Support Services -Transportation, Custodial
  - Preparation of Future Projects - long term planning

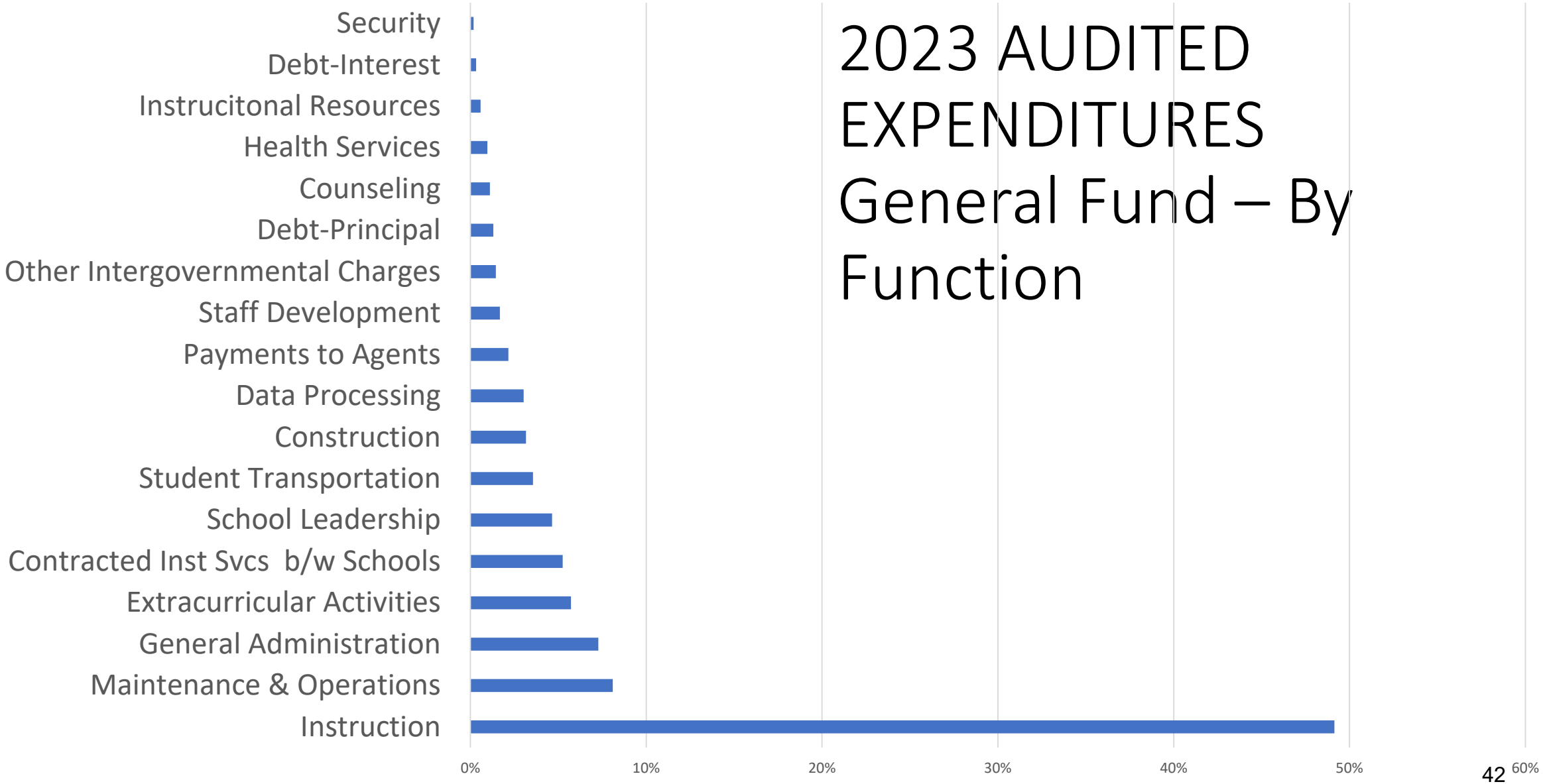
Expenditures – State Restricted and Guided

- Minimum spending requirements required for some special programs
  - CTE, State Compensatory Ed., etc.
- Maintenance of Effort – Requirement to maintain local and state funding at prescribed levels
  - spend at least $1 more next year – Special ed
  - spend at least 90% as last year - ESSA federal grants
- FIRST indicators for compliance
- On going monitoring/adjusting (audit findings)
- Per FASRG must use structured coding

Expenditures-Coding and Classification

- Board Approves budget and amendments at the
  - Fund level
  - Function level
- Fund – 3 digits
  - Self balancing set of accounts designated for a distinct purpose
    - General Fund, Food Service Fund, Debt Service Fund (require approved budgets)
    - Special Revenue (grant guided)
- Function – 2 digits
  - identify the purpose of the transaction cost
    - Instruction, health services, facilities,

2023 AUDITED EXPENDITURES General Fund – By Function

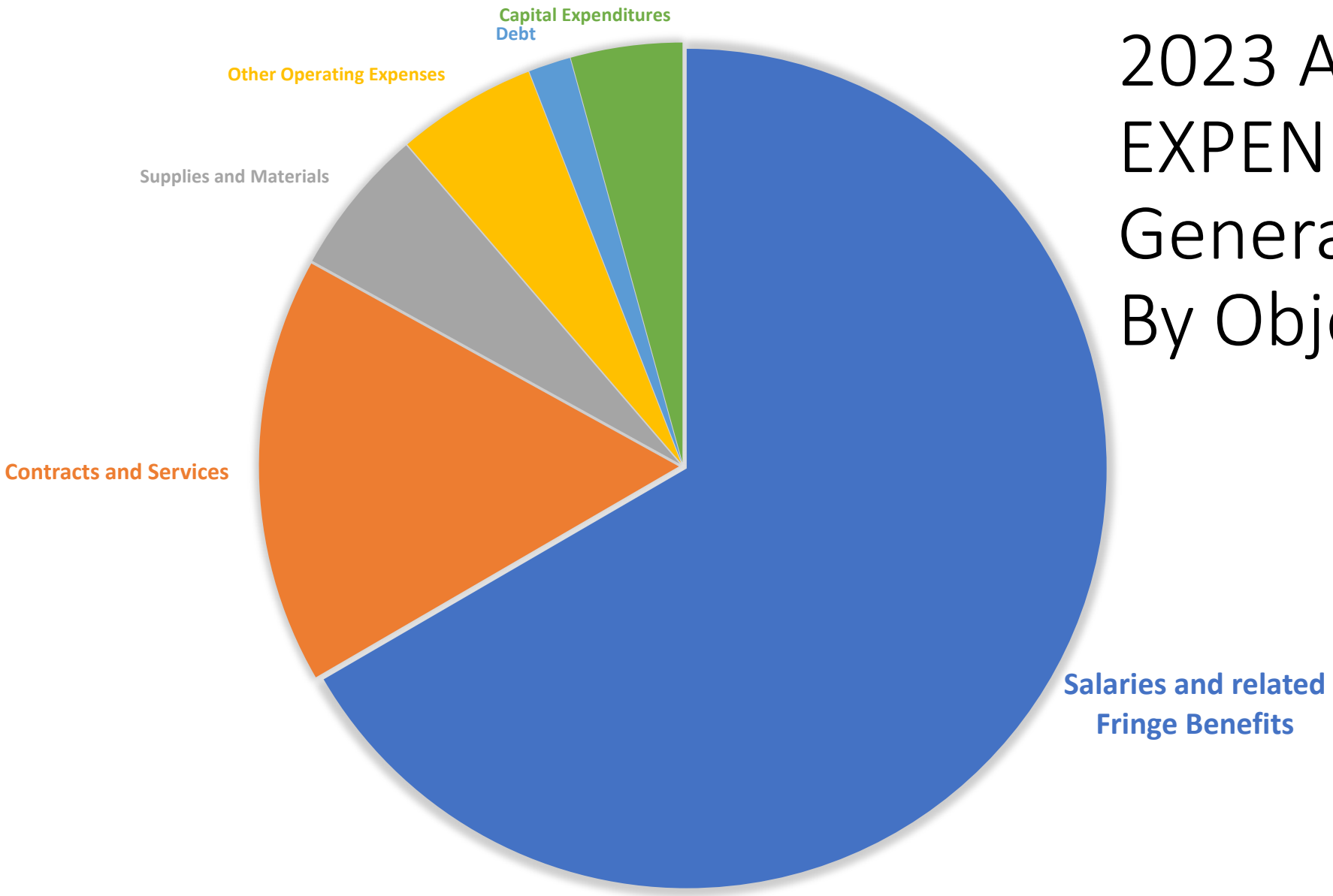


Expenditures-Coding and Classification

- Object – 4 digits
  - identifies the purpose of an account
    - Salaries and related Fringe Benefits
    - Contracts and Services (utilities)
    - Supplies and Materials
    - Other Operating (Elections, Fees, Dues, Publications, etc.)
    - Debt
    - Capital Expenditures

- Sub-object, organization, fiscal year, special program
  - provide further subclassifications
  - More detailed accounting for AFA and TEA accountability

2023 AUDITED EXPENDITURES General Fund – By Object



FUND BALANCE

REVENUES – EXPENSES = FUND BALANCE

Fund Balance

- The total accumulation of operating surpluses and deficits since the beginning of a local government's existence
- The difference between assets and liabilities in a governmental fund as of the close of the fiscal year

Fund Balance - Designations

- Legal/Local
  - Non-spendable – legal or contractual uses
  - Restricted – defined by external factors
  - Committed–board commitment for a specific purpose
  - Assigned – insurance deductibles, future capital improvements
  - Unassigned - spendable

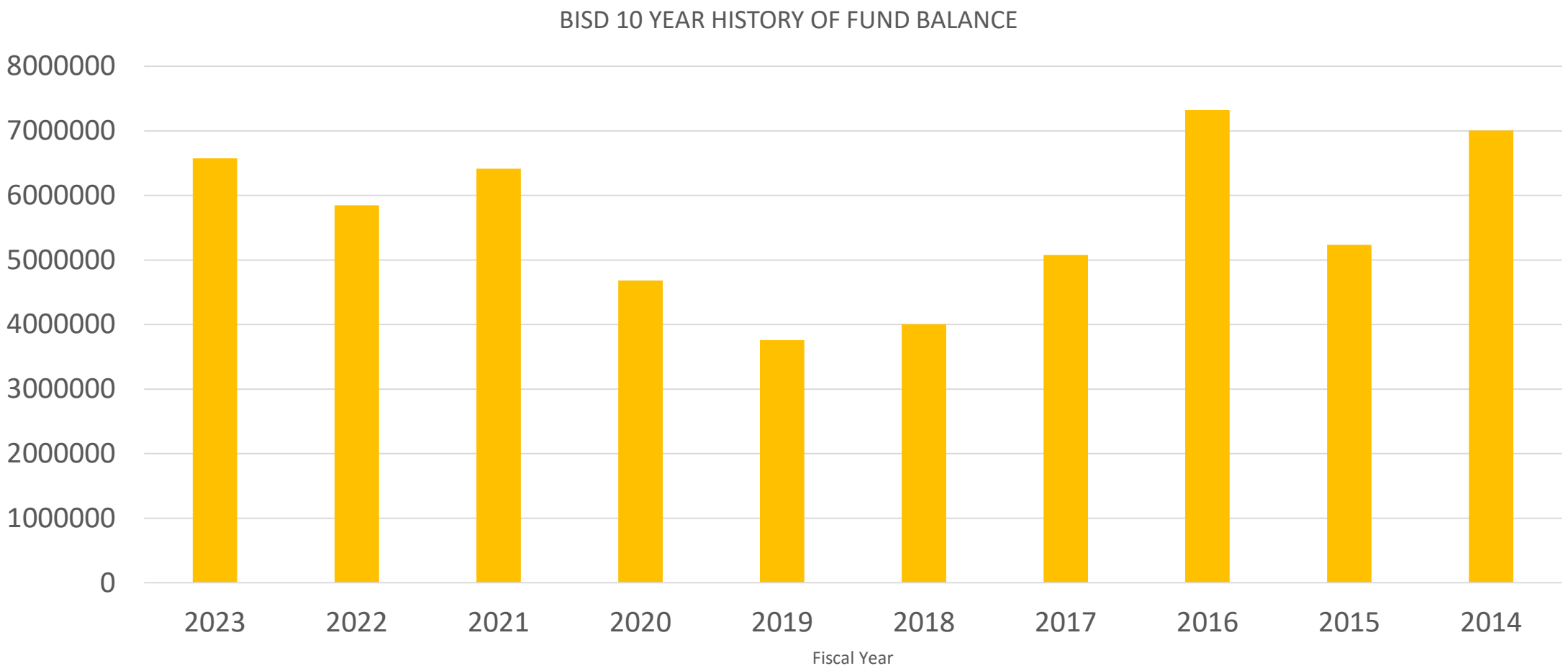
TYPES OF BUDGET

DEFICIT BUDGET	BALANCED BUDGET	SURPLUS BUDGET
EXPENDITURE > REVENUE	EXPENDITURE = REVENUE	EXPENDITURE < REVENUE
Decrease to fund Balance	No Change to fund Balance	Increase to fund Balance

Fund Balance - Policy

- BISD FUND BALANCE
  - 2023 Audited $6,574,786
  - TEA recommended
    - 75 days operating expenditures maintained in fund balance = $2,000,000
    - Or have less than a 25% decline in fund balance over three years
  - Local Recommended (6 months) $4,800,000
    - Includes Cash Reserves for liquidity
    - taxes are collected (mostly December & January)

Fund Balance - Historical



School Budgets in the News

TEXAS SCHOOL COALITION

HOME ABOUT MEMBERSHIP RESOURCES SUPPORT LOGIN

Per-Student Funding & Inflation

January 22, 2023

KEY POINTS TO REMEMBER:

- The highest rate of inflation in decades has left schools paying more than expected for mandatory costs such as fuel, utilities, and insurance.
- Public school employees and their families are facing rising costs at home, making it more difficult to stay in the profession.
- State funding for public education has been stagnant since 2019.
- An overall increase in state funding will help schools meet students' needs and retain teachers while easing pressure on property taxes.

KEY POINTS TO REMEMBER:

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ISSUES IN FOCUS:

Per-student funding

State investments will help enable public schools to meet students' needs

14.5 PERCENT IS THE **RATE OF INFLATION** SINCE SINCE THE ENACTMENT OF HOUSE BILL 3 IN 2019.

HOW DOES INFLATION AFFECT PUBLIC SCHOOLS?
Over the last couple of years, schools have faced rising expenses for costs that are beyond their control, such as the amount of money required to fill a school bus with fuel, or the heating bill for a campus during the winter. At the same time, educators (like all Texans) have been paying more for food, housing and other expenses – making it more difficult for them to stay in a profession with relatively low wages in a tight labor market.

WHAT ABOUT THE FUNDING INCREASE THAT SCHOOLS RECEIVED IN 2019?
Most of the funding in the 2019 school finance reforms went toward reducing property taxes, rather than putting more net dollars into public schools. The House Bill 3 legislation from 2019 guaranteed most districts a 3% increase in funding. (For school districts that received Formula Transition Grants that 3% increase will expire in 2025.) Since then, however, inflation has grown by 14.5%, while education funding has remained flat.

WHY DO SCHOOLS NEED ADDITIONAL FUNDING?
Additional state funding through the Basic Allotment would allow local education leaders to address

School Budgets in the News

spectrumlocalnews.com/tx/south-texas-el-paso/news/2024/04/18/texas-school-districts-warn-of-budget-deficits

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EDUCATION

Texas public school districts warn of budget deficits amid stagnant funding

BY KATHARINE FINNERTY | TEXAS
PUBLISHED 1:39 PM CT APR. 18, 2024

AUSTIN, Texas — Public school districts across Texas are warning of budget deficits as they workshop their 2024-25 budgets.

What You Need To Know

- Bastrop Independent School District Superintendent Barry Edwards sent a letter to families and staff last week warning of a budget shortfall of nearly $8 million for the 2024-25 school year
- Last year, Austin ISD had a budget shortfall of $52 million and said it planned to cut that deficit in half throughout the fiscal year. The district estimated that approximately 86% of its general fund goes toward paying teachers and staff
- Dallas ISD, one of the largest in the state, projected an over $80 million deficit next year in a document presented to the Board of Trustees in January
- The Fort Worth ISD Board of Education voted in February to cut staff to reduce projected budget shortfalls

Bastrop Independent School District Superintendent Barry Edwards sent a letter to families and staff last week warning of a budget shortfall of nearly $8 million for the 2024-25 school year.

School Budgets in the News

keranews.org/education/2024-03-07/north-texas-school-districts-looming-budget-deficits

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KERA Morning Edition — NEXT UP: 9:00 AM BBC Newshour — All Streams

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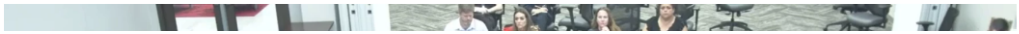
Education

North Texas school districts struggle to shore up looming deficits

KERA | By Bill Zeeble
Published March 7, 2024 at 5:00 AM CST



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School Budgets in the News

SUNDAY, APRIL 21, 2024 CONTRIBUTE SHOP GUN VIOLENCE WATCH WHO IS MY REP? ABOUT

ReformAustin
Drawing attention to what matters

POLITICAL CARTOONS EDUCATION ELECTIONS TEXAS LEGISLATURE NATIONAL CATEGORIES

TOP 5 THIS WEEK

Amtrak States Texas Has The Perfect Conditions For A Bullet Train

| INFRASTRUCTURE | 1

Rural Republicans Strike Back Against Out-Of-State School Voucher PAC

| EDUCATION | 2

Texas Districts Drown In Deficits Despite Historic Budget Surplus

| EDUCATION |

AUTHOR: Jovanka Palacios | February 23, 2024 | 3 min. read

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Sources/References:

- https://comptroller.texas.gov/taxes/property-tax/pvs/
- https://tea.texas.gov/finance-and-grants/state-funding/state-funding-manuals/manuals-and-presentations
- TASBO - School Finance Basics
- Moak Casey Consultants-Presentations
- Region 20 Education Service Center-Business Managers - presentations