

FORT BEND ISD



Fiscal & Capital Overview

April 2010

The information presented in this document has been compiled by the Finance Department. Any requests for clarifications or additional information should be addressed to Tracy Hoke, Chief Financial Officer, at tracy.hoke@fortbendisd.com.

INTRODUCTION

Fifty years young, the Fort Bend Independent School District was formed by the consolidation of the Missouri City Independent School District and Sugar Land Independent School District in 1959. Spanning 170 square miles, the district is located in the northeast part of Fort Bend County, just southwest of Houston and Harris County. Fort Bend ISD encompasses the incorporated cities of Missouri City, Sugar Land, Arcola, and Meadows Place, a small portion of Houston, and the communities of Clodine, DeWalt, Rosharon, and Fresno. Families from around the world move here daily, drawn by the district's reputation for quality education. Fort Bend ISD has seen its enrollment climb to more than 69,300 students and is currently the seventh largest district in the state.

Individual campus achievements have been recognized by the U.S. Department of Education, the Texas Education Agency (TEA), *Newsweek*, and the National Center for Educational Achievement as a "Just for the Kids" Higher Performing Schools. The district was recently recognized by The Schott Foundation for Public Education as having the highest African American male graduation rate in the country for a large school district. Students are provided with the opportunity to participate in a wide variety of fine arts, athletic, and vocational activities and competitions at the state and national level. For example, George Bush High School recently won the 5A state championship title for boys' basketball, and Clements High School is participating in the German American Partnership Program with the Lessing-Gymnasium in Cologne Germany. Over the year, individual students and programs from across the district have earned prestigious recognitions.

Most recently, Fort Bend ISD was recognized by the Quality Texas Foundation for submitting its first Progress Level Application detailing its work toward incorporating criteria set forth in the Malcolm Baldrige National Quality Award. The award recognizes organizations that demonstrate a sound, balanced approach to organizational management and performance improvement.

The Fort Bend County area is fortunate to have several institutions of higher learning, including the University of Houston, which has opened a joint campus with the Wharton County Junior College in the Sugar Land area; the Houston Community College, located in the Sienna Plantation area of Missouri City; and the Texas State Technical College. These educational institutions recognize their importance in the area and work collaboratively with the district to ensure the success of students and staff.

The District continuously strives to develop business partnerships at all levels of the organization. Local business leaders actively participate in mentor programs, volunteer at the campus level, provide guidance to the district's various academy programs, and serve on District-level committees.

Fort Bend County boasts the highest percentage of individuals holding bachelor's degrees and has been ranked as the 10th strongest county in the nation for economic strength by Woods and Poole Economics. The county continues to be a regional leader in population growth. In February 2010, as the number of jobs and incomes in the county grew more quickly than other counties its size, Forbes recognized Fort Bend County as the number one county in the country for professionals who wanted to get ahead financially. Sugar Land, Texas, which nationally has been recognized for its business climate and quality of life and ranked as the eighth best place to raise a family by the guidebook *Best Places to Raise Your Family – The Top 100 Affordable Communities in the U.S.* is the home of the district's administrative offices.

The Board of Trustees has adopted a fiscal and budgetary strategy to guide its financial decisions and remains committed to sound financial management through integrity, prudent stewardship, planning, accountability, full disclosure, and open communication. The budget of the district is developed annually and supports the District's Strategic Plan.

The District actively benchmarks its fiscal, staffing, and capital needs with its peer districts at the state level – Conroe, Katy, Lewisville, North East, Northside, and Plano ISD – as well as other local districts to ensure that the adopted budget addresses the needs of the district while maintaining a comparable per student level of expenditure. The District's financial operations have received a *Superior* FIRST rating each year from TEA since the financial rating system was developed in 2001-02.

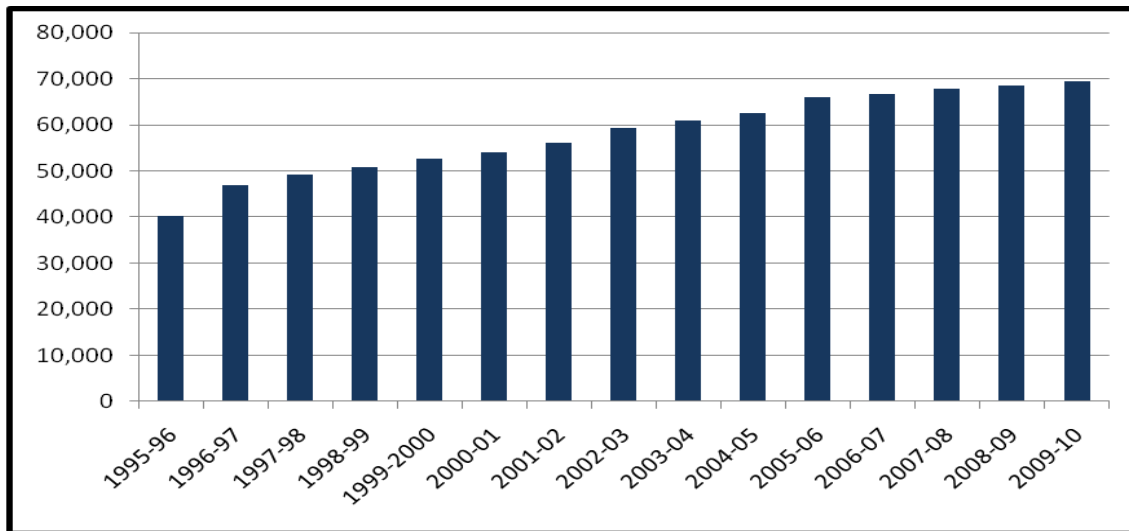
In 2006, the target revenue rate for FBISD was set at a rate lower than that of its peers and the state average. While the district is at a revenue disadvantage and expends less on a per student basis than its peer districts, FBISD has been able to maintain high levels of student success.

ENROLLMENT TRENDS

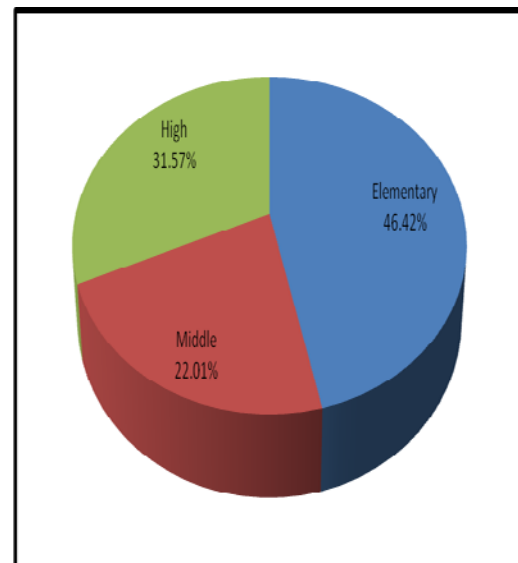
Even though growth has moderated in recent years, FBISD's enrollment has increased more than 29,000 students since 1995, as evidenced in Table 1 below. Long-term predictions of the County and District include a return to the robust levels of growth previously experienced.

Table 1 on the following page shows the district's student growth trends over the past fifteen years

TABLE 1: STUDENT GROWTH TRENDS



In Fort Bend ISD, student population tends to increase at the secondary level at a higher rate than at the elementary level due in part to the many private schools in the area. The figure at the right shows the enrollment distribution in the District as of March 1, 2010. District personnel are actively exploring opportunities to attract a portion of these students where practical in the coming years. The District has also implemented a K-6 and 7-8 instructional model for students living in certain areas to ensure continued academic success and enrollment. Students served under this model have seen large increases in their success on state-mandated testing and promotion to the next grade level.



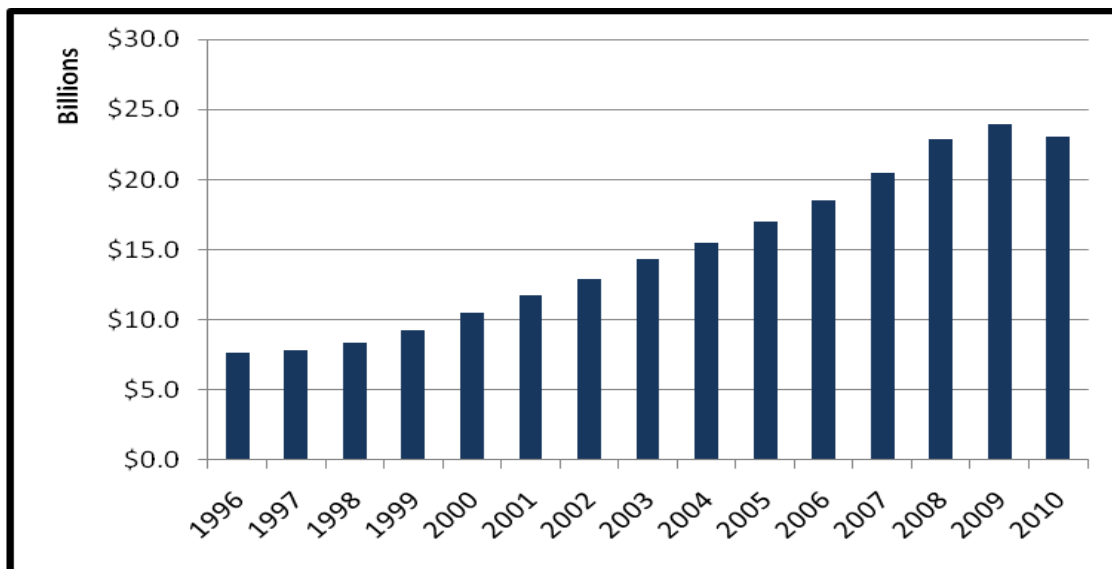
The district community continues to be comprised primarily of middle and high income homes. The District's population of economically disadvantaged students has leveled in recent years to approximately 32.4 percent, which is well below the state average of 56.7 percent.

FBISD remains proud of the diversity of its student and parent population. More than 95 different dialects and languages are spoken by the students and their families, as reflected in a 140.6 percent increase in the number of students receiving bi-lingual or ESL instruction since 1998.

PROPERTY VALUE TRENDS

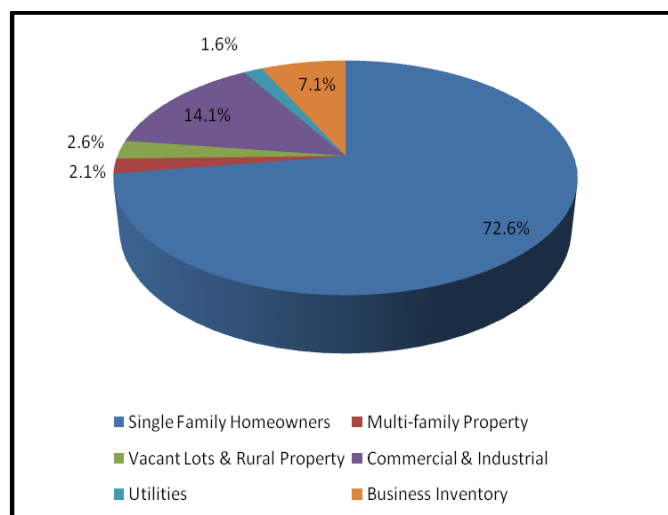
The district has experienced large increases in property values since 1996. Economic conditions have slowed the growth in property values to four percent for the current budget cycle. Initial budgets for the 2010-11 year have been prepared with a decrease of four percent in overall value due to an anticipated decline in retail and commercial values. Residential property values remain strong and are not expected to decrease overall. Historical changes and projected property value increases are illustrated in the table below.

TABLE 2: PROPERTY VALUE TRENDS



Source: Appraisal district records, district projections

FBISD is a bedroom community of the greater Houston area and is primarily residential in nature. Residential property values comprise 75 percent of the overall property value. Since the district is primarily residential, the property value per student of \$280,000 is below the Chapter 41 threshold for both Tier 1 and Tier 3 revenue. The 2009 Property Values by type are illustrated in the figure to the right.



Since the District is primarily residential in nature, the top 10 taxpayers comprise only 1.77 percent of the total assessed valuation and have no significant effect on the overall taxable valuation.

TABLE 3: 2009 TOP TEN TAXPAYERS

Taxpayer	Taxable Assessed Valuation	Percentage of Total Valuation
Centerpoint Energy Electric	\$115,557,610	0.48%
Lakepoint Assets LLC	\$100,719,790	0.42%
Town Center Lakeside LTD	\$78,144,460	0.33%
First Colony Mall LLC	\$77,649,660	0.32%
Sugar Land Telephone Company	\$70,285,230	0.29%
Medistar Sugar Land Medical Center LTD	\$62,178,890	0.26%
Champion Technologies Inc.	\$58,208,470	0.24%
Tramontina USA Inc.	\$55,334,050	0.23%
Covington First Colony Acquisition LLC	\$51,220,000	0.21%
Weingarten Realty Investors & et al	\$49,628,690	0.21%
	<u>\$718,926,850</u>	<u>1.77%</u>

As the nation's economy recovers, the District expects economic growth in the area to rebound. Continued development is anticipated in the Sienna Plantation, Riverstone, and Telfair master planned communities. As part of the master planned development of the Sugar Land area, the city recently approved a Tax Increment Financing Reinvestment Zone for the development of an entertainment district near the University of Houston campus. The district will include a minor league baseball stadium and indoor concert venue, along with various other entertainment, shopping, hotel and convention facilities for patrons in the region.

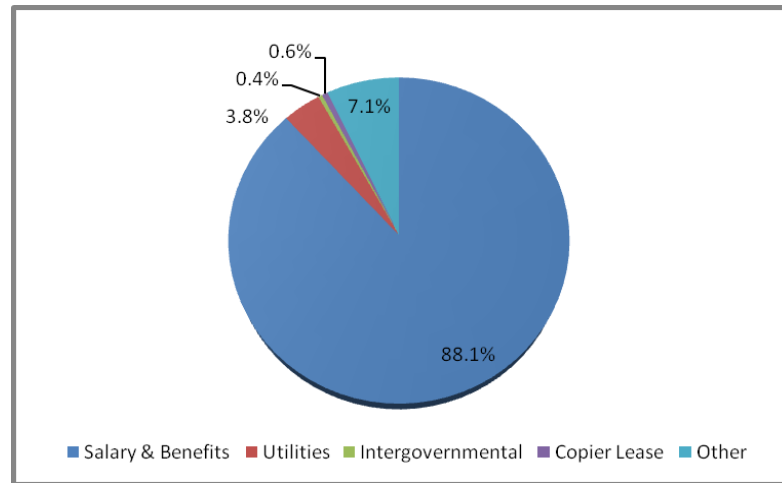
FINANCIAL INFORMATION

House Bill 1 adopted by the Texas Legislature in 2006 established a hold harmless funding system that reduced the maintenance and operations tax revenues by one-third. Districts were held harmless to the higher of the dollar amount per student generated in the 2005-06 or 2006-07 year under the previous law or the amount generated by HB 1 in 2006-07. Fort Bend ISD established its hold harmless funding at the 2006-07 target revenue level of approximately \$4,871 per weighted student, which is one of the lowest targets of the large districts in the state and below the statewide average target.

Districts have access to an additional four pennies above the compressed tax rate of \$1.00 without voter approval. An additional 13 pennies are available with voter approval. FBISD recently declared financial exigency so that it could address an anticipated budget shortfall of \$18.0 million. This declaration will allow FBISD to make needed budgetary changes in the areas of personnel, transportation, and other portions of the budget. The superintendent and Board of Trustees recognize that prior to asking voters for approval of an increased tax rate, the District must first attempt to balance the budget through cost-

saving measures. It is the intention of the district to adopt a balanced budget in 2010-11. However, without additional funding from the Texas legislature in the upcoming legislative session, the District will again face a deficit financial situation.

Currently, salaries and benefits comprise 88.1 percent of the adopted budget while utilities and fuel comprise 3.8 percent. Over seven percent is spent on support for supplies, travel, professional development, technology etc. The other two areas cover governmental expenses, primarily appraisal district fees, and copier leasing agreements. The figure to the right shows the distribution of the 2010 budget.



In comparison to its peer group, Fort Bend ISD expends less operating dollars per student while maintaining a lower operating tax rate as evidenced in Table 4 below.

TABLE 4: OPERATIONAL DOLLARS PER STUDENT

Year	District	Tax Rate	Instruction	Instruction Related	Operations	Leader-ship	Total
2008-09	FBISD	\$1.040	\$4,553	\$1,227	\$904	\$158	\$6,842
	Peer Group Average		\$4,775	\$1,710	\$914	\$151	\$7,550
2007-08	FBISD	\$1.040	\$4,499	\$1,204	\$1,009	\$169	\$6,886
	Peer Group Average		\$4,678	\$1,677	\$912	\$169	\$7,436

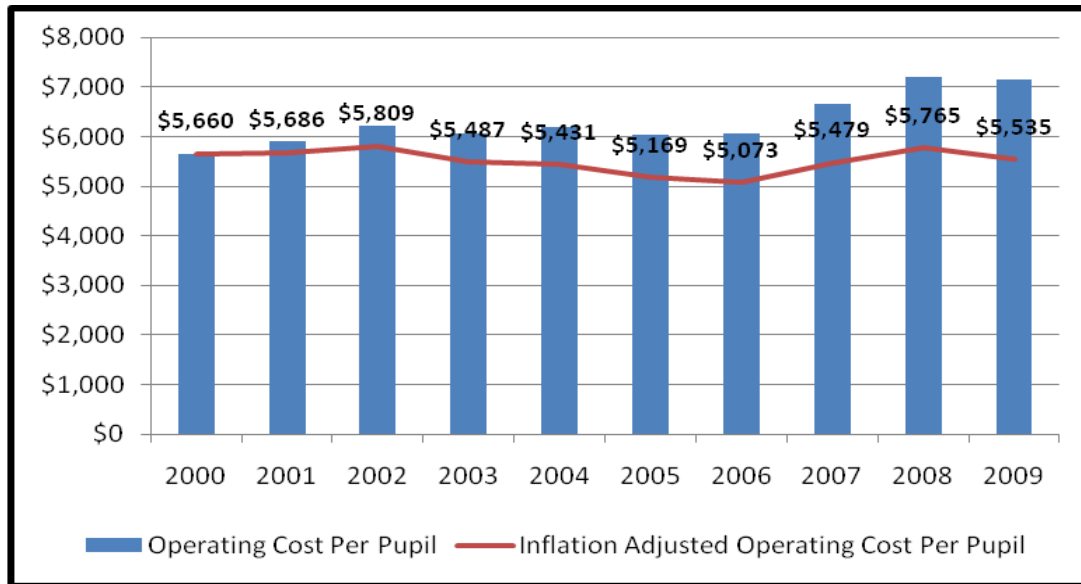
Source: Audited financial statements, TEA PEIMS information, FBISD calculation.

In anticipation of the budgetary challenges facing the district, FBISD contracted with the Texas Association of School Boards (TASB) to study district staffing patterns to find areas of savings. FBISD is implementing many of the personnel savings identified by TASB in conjunction with the 2011 budget. The District also has an ongoing relationship with Moak Casey and Associates to review school finance models and revenue projections. Recently, the district has undertaken a study with the Region IV Education Center to review attendance processes and procedures to ensure the district is receiving the maximum funding per student.

When comparing the operating expenditures to inflation, the operating expenditures per child have decreased \$125 per student since the 1999-2000 year even though the district's

population has changed significantly and additional mandates have been imposed by the Texas Education Agency. Table 5 on the following page gives a comparison of the inflation-adjusted operating costs per student with the actual costs per student since 2000.

**TABLE 5: INFLATION ADJUSTED OPERATING COST PER STUDENT
COMPARED TO ACTUAL COST PER STUDENT**



TAX RATES

The Board of Trustees made a commitment to increase the debt service rates for the debt associated with the 2007 bond issue no more than \$0.11 cents per hundred dollars of assessed valuation. The sale of the 2010 series is expected to increase the tax rate by \$0.035 cents and increase the voters' total tax increase from the 2007 bonds by \$0.09 cents. Tax rates for the period 2001—2010 are outlined in Table 6 below.

TABLE 6: HISTORICAL TAX RATES

Year	Maintenance & Operations	Debt Service	Total	Increase / (Decrease)
2009-10	\$1.040	\$.2650	\$1.3050	\$0.0350
2008-09	\$1.040	\$.2300	\$1.2700	\$0.0200
2007-08	\$1.040	\$.2100	\$1.2500	(\$0.2900)
2006-07	\$1.330	\$.2100	\$1.5400	(\$0.1500)
2005-06	\$1.500	\$.1900	\$1.6900	(\$0.0175)
2004-05	\$1.500	\$.2075	\$1.7075	\$0.03750
2003-04	\$1.500	\$.1700	\$1.6700	(\$0.0125)
2002-03	\$1.500	\$.1825	\$1.6825	-
2001-02	\$1.500	\$.1825	\$1.6825	(\$0.0100)
2000-01	\$1.500	\$.1925	\$1.6925	\$0.0355

Source: District records.

Even though, Fort Bend ISD has a larger residential tax base than its peer districts and has had greater capital needs in relation to overall value growth than the majority of its peers, the district maintains favorable debt ratios as illustrated in Table 7.

**TABLE 7: OUTSTANDING DEBT
PEER AND SELECTED DISTRICTS**

District	Net Debt/Assessed Valuation	Net Debt / Capita	Debt / Student	Net Assessed Valuation Per Capita
Fort Bend ISD	4.62%	\$2,998	\$14,392	\$64,963
Conroe ISD	4.24%	\$3,562	\$17,335	\$84,024
Katy ISD	4.72%	\$3,623	\$16,234	\$76,836
Lewisville ISD	4.53%	\$3,428	\$19,881	\$75,704
North East ISD	4.69%	\$2,944	\$19,261	\$62,775
Northside ISD	4.81%	\$3,049	\$17,396	\$63,426
Plano ISD	3.34%	\$3,222	\$20,081	\$96,397

Source: MAC reports, district calculations.

FBISD's overall debt service tax rate has increased in relation to all but three of its peers as illustrated in Table 8. This is primarily due to the structure of the recent bond referendums and the necessity to construct Ridgpoint High School and relieve other high school campuses in the district. Future debt service tax rate increases, while dependent upon overall property value growth, should be minimal.

TABLE 8: COMPARISON OF DEBT SERVICE TAX RATES

District	2005-06	2006-07	2007-08	2008-09	2009-10	Increase / (Decrease)
Fort Bend	\$.1900	\$.2100	\$.2100	\$.2300	\$.2650	\$.07500
Northside	\$.2750	\$.2625	\$.2625	\$.2625	\$.2975	\$.02250
North East	\$.2940	\$.3090	\$.3629	\$.3629	\$.3629	\$.06890
Conroe	\$.2700	\$.2800	\$.2100	\$.2300	\$.2450	(\$.02500)
Katy	\$.3700	\$.3300	\$.4000	\$.4000	\$.4000	\$.03000
Lewisville	\$.2700	\$.3100	\$.3300	\$.3400	\$.3687	\$.09870
Plano	\$.2334	\$.2484	\$.2484	\$.2634	\$.2884	\$.05500

CAPITAL PROJECTS

The District uses a comprehensive approach to long-range planning, which is driven by state mandates, curriculum needs, legislative or building code changes, and community desires. The capital planning process includes (a) assessing the needs of each facility by district personnel and receiving input from campus site-based committees, (b) researching technological innovation, (c) assessing the instructional needs of the District, and (d) making informed assumptions concerning the District's needs for growth.

A systematic and deliberate process managed by staff, with guidance from the Board of Trustees and input from community members, is used to determine capital improvement projects. A 60-member Bond Steering Committee comprised of community members from across the district, students, and district representatives is convened to review district needs and conduct open meetings prior to making their recommendations for prospective projects to the Board. Under the auspices of its member-approved charter, the committee assesses the district's capital improvement needs over the next two-to-three year period in the areas of district growth, safety and health, curriculum, and technology, and infrastructure.

The District uses extensive in-house expertise to execute approved projects within planned budgets and on schedule. To achieve these objectives, staff uses a comprehensive method for managing projects, which begins during the bond study process and continues through project close out.

The management of each project begins with translating the needs of the district and the desires of the citizenry into the project's technical requirements or scope. With the scope established, the preliminary project cost estimate, a reasonable schedule, and an annual operating cost estimate are developed. Developing annual operating cost estimates for new facilities provides important information, such as personnel requirements, maintenance costs, etc. which are used to plan and develop future operational budgets. As the project transitions from planning into execution after bond passage, staff actively manages the project to keep the scope on track and make adjustments for unforeseen challenges. The cost estimates and schedules developed during the planning process are also refined as the project moves through the design process to ensure accurate cash flows are available for determining the timing and size of expenditure and providing the potential reduction of issuance costs and property tax impact.

In accordance with the desire for open communication with the public, the District has formed a citizen's Bond Review Committee to monitor the progress and financial status of the bond projects. The committee meets bi monthly to hear updates from staff on the progress of bond projects and become informed about the process for identifying projects for future bond elections. The status of all bond projects is provided in the monthly Facility Construction Progress Report and uploaded on the district's website at <http://www.fortbend.k12.tx.us/bondinformation>.

VOTER HISTORY

Voters in the Fort Bend Independent School District have been supportive of capital improvement projects in the district. Propositions typically receive more than 65 percent approval rating. As evidenced in Table 9 on the following page, the district has a high success rate with respect to community support for bond passage.

TABLE 9: BOND ISSUE APPROVAL HISTORY

Year	Amount	Pass/Fail	Number of Campuses	Student Population
1982	\$50,000,000	Pass	22	23,122
1984	\$95,000,000	Pass	25	25,586
1991	\$89,500,000	Pass	38	38,720
1995	\$139,000,750	Pass	46	45,509
1999	\$264,000,313	Pass	53	52,935
2003	\$399,500,000	Fail	59	61,293
	\$299,950,000	Pass		
2007	\$428,000,000	Pass	67	67,083

Source: FBISD records.

CONCLUSION

The District is accountable to the Board of Trustees for its budget development and spending. Goals set by the Board of Trustees address fiscal responsibility, student achievement, quality staff, functional infrastructure, community relations, transportation, technology, and school safety. The administration works within the parameters of the Board's goals to establish the District Strategic Plan which clearly defines the focus of the district's campuses and departments in performance indicators and targets. Regular reporting to the Board and the community of progress toward achieving the identified targets helps the district maximize its human and fiscal resources and keep its focus on preparing students for a success in a global economy.