

# FORT BEND ISD

## *FISCAL AND BUDGETARY STRATEGY*

### **I. PURPOSE**

The Fort Bend Independent School District (the “District”) is committed to sound financial management through integrity, prudent stewardship, planning, accountability, full disclosure and open communication. The purpose of the Fiscal and Budgetary Strategy is to enable the District to achieve and maintain a stable long-term financial condition, provide guidelines for the day-to-day planning and operations of the District’s financial affairs, and communicate the District’s financial practices to stakeholders.

Fort Bend ISD’s general obligation bonds are currently rated at AA by both Fitch and Standard & Poor’s Investor Services. A high credit rating typically reduces the interest costs the District pays on the amounts borrowed. This in turn directly correlates to a lower tax rate on the outstanding debt of the District.

To help maintain the District’s creditworthiness, an established strategy of managing the District’s financial resources is essential and in the District’s best economic interest. The District shall take all practical precautions and proactive measures to avoid any financial decision that will negatively impact the credit ratings on existing or future debt issues.

The scope of the fiscal strategy encompasses accounting and financial reporting, internal controls, operating and capital budgeting, revenue management, investment and asset management, debt management, maintenance of fund balance, and forecasting. This is done in order to:

1. Demonstrate to Fort Bend ISD taxpayers, citizens, investment community, and bond rating agencies that the District is committed to a system of strong fiscal operations;
2. Provide precedents for future policy-makers and financial managers on common financial goals and strategies;
3. Fairly present and fully disclose the financial position of the District in conformity with generally accepted accounting principles (GAAP); and
4. Demonstrate compliance with finance-related legal and contractual issues in accordance with the Texas Education Code and other legal mandates.

This Fiscal and Budgetary Strategy shall be reviewed and updated as necessary but not less than annually.

The Fort Bend Independent School District financial statements include the following fund types:

Governmental Funds: **General Fund** accounts for the financial resources of the District and includes transactions as a result of revenues received from local maintenance taxes, foundation entitlements, and other Foundation School Program resources.

**Special Revenue Funds** account for specific revenues that are legally restricted for specific purposes through federal, state, and local grant programs.

**Debt Service Fund** accounts for the payment of general long-term debt principal and interest for which a tax has been dedicated.

**Capital Project Funds** account for the acquisition or construction of major capital facilities that are financed through voter approved debt.

Proprietary Funds:        **Internal Service Fund** accounts for the activities of the District's self funded health, unemployment, worker's compensation, and print service accounts.

**Enterprise Fund** accounts for the business activities of the district's extended day care program whereby customers pay a fee for the services the District provides.

Fiduciary Funds:        **Trust and Agency Fund** accounts for assets held by a school district in a trustee capacity or as an agent for student organizations and scholarship funds. Funds maintained by the District in a trustee capacity for the non-Teacher Retirement System (TRS) pension plan and employee incentive plan trust fund are also accounted for in the fiduciary funds.

**Basis of Accounting and Basis of Budgeting** - The District accounts and budgets for all **Governmental Funds** using the modified accrual basis of accounting. This basis means that revenue is recognized in the accounting period in which it becomes available and measurable, while expenditures are recognized in the accounting period in which they are incurred. Because the appropriated budget is used as the basis for control and comparison of budgeted and actual amounts, the basis for preparing the budget is the same as the basis of accounting. Governmental funds would include the District's general, special revenue, debt service, and capital projects funds.

The District's self-insured worker's compensation and health funds and print services operations which function as **Proprietary Funds** are accounted and budgeted for using the full-accrual basis of accounting. Under this method, revenues are recognized when they are earned and measurable, while expenses are recognized when they are incurred.

## **II. OPERATING BUDGET**

The budgeting process is an essential element of the financial planning, control and evaluation process of the District. The legal basis for the budget process is established in the Texas Education Code sections 44.002 through 44.006 and local policy.

The operating budget is Fort Bend Independent School District's annual financial operating plan. The adopted annual budget shall include allocations for campuses, departments and approved positions of the district.

**Strategic Plan** – The District Strategic Plan provides a strategic focus for student achievement while encouraging partnerships with the community, high quality staff, personal and organizational development, fiscal responsibility, technology support, efficient facilities and transportation services, character development, and safe and healthy educational environments. Strategic objectives further identify key initiatives and programs to support and meet the accomplishment of each goal. Performance indicators and targets measure the intended outcomes for the objectives.

Funding for District programs shall be based upon the objectives contained in the District Strategic Plan and further outlined by the identified targets for success.

The 2009-10 objectives require that the District accelerate the Texas Assessment of Knowledge and Skills (TAKS) gains for economically disadvantaged, African American, and Hispanic students to reduce the achievement gap; increase the percentage of underrepresented minority students enrolled in advanced academics; increase the high school completion rate for economically disadvantaged, African American, and Hispanic students; continue the implementation of the K-6 and 7-8 initiative; and, create an academy system for all high schools and middle schools.

Additionally, the objectives state that the district shall develop and implement a strategic communication plan; a teacher recruitment and retention plan; a comprehensive leadership development and succession plan; and, an incentive and support program to promote National Board Certification. The District shall further develop and maintain a seamless technology infrastructure and replacement cycle for technology; a strategy and implementation plan for online assessments; and, enhanced and expanded distance learning programs at the middle and high schools. The plan requires that the District conduct a facilities assessment while maintaining facilities to the district standard and developing a facility component replacement cycle; maintaining and operating effective and efficient transportation services; developing and implementing consistent district-wide safety standards and a systematic

process to monitor safety and security while reducing truancy; and, completing the requirements for National School/District of Character recognition. Finally, the District shall develop an employee ethics program; document core district processes; and, identify areas of efficiency that result in significant financial gains for the district.

**Preparation** – The Texas Education Code requires that the District budget be prepared by a date set by the State Board of Education, currently June 19<sup>th</sup> for districts that have a June 30<sup>th</sup> fiscal year end. The code further requires that the president of the Board of Trustees call a public meeting, giving ten days public notice in a locally published newspaper and on the District’s website for the adoption of the District budget.

The Board of Trustees must adopt the prepared budget, inclusive of any amendments, no later than June 30<sup>th</sup>. The officially adopted District budget must be filed with the Texas Education Agency (TEA) through the Public Education Information Management System by the date prescribed annually by TEA.

1. **Proposed Budget** – A proposed budget shall be prepared by the Superintendent and Chief Financial Officer (CFO) with participation of campus and department stakeholders within the provisions outlined in the District’s strategic plan and state mandated guidelines for programs.
  - a. The budget shall include four basic segments for review and evaluation:
    - i. Revenues
    - ii. Personnel Costs
    - iii. Operational Costs
    - iv. Capital and other non project costs
  - b. The budget review process will include Board of Trustee participation in the development of each segment and will allow for sufficient time for the Board to address the strategic plan and fiscal issues.
  - c. The proposed budget and all preliminary budgetary information will be available on the District’s website for public view.
2. **Adoption** – Upon finalization of the proposed budget, the Board of Trustees will hold a public hearing, and subsequently adopt the final budget as amended. The budget will be effective for the fiscal year beginning July 1<sup>st</sup>.
3. **Tax Rate Adoption** – Not later than April 30<sup>th</sup>, the chief appraiser shall prepare and certify to the school district an estimate of the taxable value of property in that taxing unit. The District may adopt a tax rate, prior to the adoption of the budget, based upon this certified property estimate. The certified estimate shall be used in the calculation of the effective tax rate and the rollback tax rate of the District.

If the district elects to establish the tax rate after receiving the certified appraisal roll as defined by Section 26.01 of the Property Tax Code, typically July 25<sup>th</sup>, and the tax rate exceeds the rate proposed in the District’s notice prepared for the budget hearing or the District’s rollback rate as determined under Section 26.08 of the Property Tax Code, the District must publish a revised notice and hold another public meeting before adopting the tax rate.

**Balanced Budget** – The goal of the District is to balance the operating budget with current revenues, whereby current revenues would match and fund on-going expenditures. Excess fund balance in the general operating fund may be used for onetime non-recurring expenditures or capital needs.

Excess fund balance is defined as the balance in excess of the optimum fund balance as defined by the Texas Education Agency and calculated annually in conjunction with the District’s annual audit or the cash requirements for three months operating expenditures. Usage of the fund balance shall be approached with caution after careful review of both the optimum fund balance and the cash flow needs of the District for the upcoming three-year period.

**Planning** – The budget process will be coordinated so that major strategic issues are identified prior to the budget approval date. This will allow the Board of Trustees adequate time for consideration of appropriate decisions and analysis of the associated financial impacts.

**Reporting** – Financial reports will be presented to the Board of Trustees on a quarterly basis. These reports will enable the Board to understand the overall budget and financial status of the District. The report shall include comparative financial statements and the investment report, tax collection report, and statement of cash flow. Information on purchasing expenditures by category and by vendor shall also be presented as a matter of record for informational purposes.

**Control and Accountability** – Each campus and departmental administrator will be responsible for the administration and oversight of their budget, which is controlled on an organizational basis. This includes accomplishing the targets adopted as part of the budget and monitoring each campus and departmental budget for compliance within approved spending limitations.

**Budget Amendments** – The District budget shall be amended no less than quarterly or as required on a monthly basis. Budget amendments between function and program intent codes in excess of \$5,000 require the approval of the Board of Trustees. The Board of Trustees may authorize an amendment to the budget for those items not included in the originally approved budget due to unforeseen circumstances.

### **III. REVENUE MANAGEMENT**

The District will understand its revenue sources and enact consistent policies to provide assurances that the revenue base will materialize according to the budget. Revenues shall be estimated realistically and conservatively taking into account the volatile nature of the various revenue streams.

Revenues shall be monitored as they are received and regularly compared to budgeted revenues and variances will be investigated as they are identified. Any abnormalities shall be included in the quarterly financial report and the budget shall be amended to appropriately reflect the change in anticipated revenue.

**State Funding** – The District shall ensure that the Weighted Average Daily Attendance (WADA) is maximized by accurately reporting student attendance and shall have processes in place to ensure that special program information is appropriately reflected in the information uploaded to the Public Education Information Management System (PEIMS). Information regarding property value, property tax collections, employee counts and other information required by TEA for the purposes of state funding computation shall be reported within the prescribed timelines.

**Property Tax Revenues** – All real and business personal property located within the District shall be valued at 100% of fair market value for any given year based upon the current appraisal supplied by the Fort Bend County Appraisal District. Tax collections estimates utilized in the development of the budget will be based upon a prudent analysis of historical collection percentages and the current economic trends.

Current state funding guidelines penalize districts that adopt tax rates below the compressed tax rate. For budgeting purposes, the District will forecast the proposed property tax rate for maintenance and operations (M&O) the greater of the compressed rate, the compressed rate plus four cents (\$.04) or the voter approved rollback rate, not to exceed the current legal limit.

The District shall also consider the interest and sinking (I&S) tax rate in an amount to fund tax supported debt service in accordance with the District's debt management plan.

**Interest Income** – General, debt service, capital projects, food service, and internal service funds shall be invested individually in accordance with the Investment Strategy approved annually by the Board of Trustees. Interest earned from each investment account shall be credited to the fund from which the monies were provided.

**User-Based Fees and Service Charges** – For services associated with a user fee, such as building usage and instrument rental, the direct or indirect costs of that service will be offset by a fee where possible. The District shall update the usage fee schedule annually to ensure that fees provide adequate coverage for the cost of services.

**Intergovernmental Revenues** – The District shall carefully analyze grant opportunities to ensure that all grants comply with the overall District mission and strategic plan. All potential grants shall be examined for matching requirements prior to application to ensure that adequate funds are available for matching from the general funds of the District.

Efforts should be made to ensure that grants are self sustaining. However, it must be clearly understood that the operational requirements (on-going costs) set up as a result of a grant program could be discontinued once the terms and conditions of the program have been completed.

#### ***IV. EXPENDITURE POLICIES***

**Appropriations** – The budget for all funds shall be controlled at the organizational level. Budget managers are authorized to transfer funds included in their basic budget within fund, function, and program intent code without prior approval. Budget amendments between fund, function, and program intent code require administrative approval and approval of the Board of Trustees for all requests in excess of \$5,000.

**Staffing** – The staffing guidelines of the District shall be administered jointly by Human Resource Services, Department of School Administration (DOSA) and Curriculum and Instruction using established staffing guidelines and a system of position control. Staffing guidelines shall be developed in a manner to ensure that the ratios for teachers and staff per pupil do not exceed the levels outlined in statute.

In addition to teaching units, staffing guidelines shall also provide guidance for appropriate levels of staffing in the administrative, counseling, nursing, art, music, physical education, and educational and clerical support at each campus. Staffing allocations shall be distributed based upon the total student population and with additional consideration for special education, bilingual and at-risk student programming.

Course schedules shall be carefully reviewed at the secondary level to ensure that instructional units are used in the most cost effective manner possible. Based upon sufficient revenues, additional staff members may be allocated to campuses based upon input from the Superintendent, Chief Human Resources Officer, DOSA, and Curriculum and Instruction to balance class loads or to address the unique needs of a particular campus. Adjustments for student enrollment in grades K-4 shall be done only after a careful analysis of historical attendance patterns and available classroom capacity.

**Benefits** – To ensure the long-term health of the District’s self-funded benefit programs, the budget shall be sufficient to provide for a fiscally sound health and worker’s compensation program along with other state and federally mandated benefits including Medicare and Teacher Retirement System above state minimum.

The District’s self-insured employee insurance program shall be funded by both District and employee contributions for employees and their supplemental dependents. The fund shall be evaluated annually by a third-party actuary to ensure that the premium structure is sufficient to meet the long-term needs of the District’s employees.

The District’s self-insured worker’s compensation program shall be funded through the budget process to ensure that the program has sufficient assets to meet both short and long-term worker’s compensation claims. The district shall implement a comprehensive safety program to minimize the District’s claims exposure.

The plans shall be administered by a third-party plan administrator and shall be bid periodically to ensure that the network reimbursement rates and employee co-pays are comparable to those provided within the marketplace. The District shall seek to ensure that insurance services are provided in both a cost efficient and compassionate manner to ensure the success of the program.

**Major Maintenance Repair and Replacement** – Ongoing maintenance and repair costs are included within the departmental operating budgets. These costs are generally considered systematic repairs and are not capitalized for accounting purposes. They include such items such as athletic equipment, routine musical instrument repair and HVAC maintenance and repair.

Annually, the District will form an academic and non-academic major maintenance repair and replacement committee to address the on-going major maintenance and academic capital needs. The committees shall consider those items that are not eligible for capital fund expenditures and prioritize the need for repair or replacement. Funding shall be provided for those items that will provide a long-term benefit to the District and have been determined to have the highest need of replacement or repair within the allocated resources of the general fund. Funds that are designated for major maintenance cannot be directed to other areas of the budget.

**Capital Projects** – The District’s goal is to maintain its facilities and infrastructure in order to provide exemplary educational services for its students, meet the needs of a growing community, and to comply with all local, state, and federal regulations. The District shall regularly review building capacity, enrollment projections, and planned subdivision and other housing information for the purpose of determining the number and timing of future facilities. Capital project budgets shall be developed according to the projects approved by the voters. Excess capital project funds generated as a result of investment income and project savings may not be directed to other needs of the District without the specific approval of the Board of Trustees.

**Technology** – It is the policy of the District to plan and fund the maintenance and replacement of its computer network and other technology systems through capital funding. The District currently uses a five-year replacement cycle for desktop and laptop computers.

## **V. BUDGET CONTINGENCY PLAN**

This strategy is designed to establish general guidelines for managing revenue shortfalls resulting from local and state economic downturns that may adversely affect the District’s revenue stream.

Once a budgetary shortfall is projected, the Superintendent may take the necessary actions to offset any revenue shortfalls with a reduction in current expenses to include but not be limited to the following:

- ❖ Review all staffing levels;
- ❖ Freeze all new hire and vacant positions except those deemed to be a necessity to the instructional process or the safety of students;
- ❖ Review all planned capital expenditures;
- ❖ Forego out-of-state staff development;
- ❖ Review of all planned staff development activities;
- ❖ Curtail after hours facility usage;
- ❖ Forego extracurricular field trips; and,
- ❖ Delay all non-essential spending or equipment replacement purchases.

If the above actions are insufficient to offset the revenue deficit and the shortfall continues to increase, the Superintendent shall develop an expenditure reduction plan for approval by the Board of Trustees which will further reduce operating expenses to balance the variance.

## **VI. ACCOUNTING, AUDITING, AND FINANCIAL REPORTING**

**Accounting** – The District is solely responsible for the recording and reporting of its financial affairs, both internally and externally. The Chief Financial Officer is responsible for establishing the structure for the District’s Chart of Accounts and for ensuring that procedures are in place to properly record financial transactions and report the District’s financial position.

All quarterly and annual financial reports shall be published on the District’s website.

**Audit of Accounts** – In accordance with Texas Education Code 44.008, the Board of Trustees shall cause the District’s accounts to be audited at the close of each fiscal year, currently June 30<sup>th</sup>, by an auditor holding a valid permit from the Texas State Board of Public Accountancy.

The auditor shall perform the audit in accordance with generally accepted governmental auditing standards published by the United States General Accounting Office, commonly referred to as the Yellow Book. The financial statements shall be prepared on a government-wide basis and shall be in conformity with all pronouncements of the Governmental Accounting Standards Board (GASB).

**External Reporting** - The audit shall be accepted and completed within 150 days of year end and filed with the Texas Education Agency (TEA). In addition, certain schedules required by the TEA to be completed electronically shall be submitted no later than this date.

No later than February 28<sup>th</sup> of each year and in accordance with the TEA published guidelines, the audit shall be transmitted electronically into the Public Education Information Management System (PEIMS).

**Internal Auditing and Reporting** – In accordance with Texas Education Code Section 11.170, the internal auditor shall report directly to the Board of Trustees. The Superintendent shall oversee the department administratively. The internal auditor shall conduct internal audits on a rotational basis in accordance with the audit plan adopted annually by the Board of Trustees. The reports shall be of sufficient detail to identify areas of needed improvement and potential lapses of internal control. The internal audit staff, in conjunction with the finance staff and any other appropriate department of the District, shall make recommendations for improvement and develop improved financial processes based upon the prepared reports.

Each departmental director or campus principal is responsible for ensuring that good internal controls are adhered to throughout their organization and that all Financial Services procedures and policies are implemented. The Financial Services Department will periodically review and update written internal control processes and procedures.

**Internal Risk Assessment** – Departmental managers in the business area shall perform on-going risk assessments of their area of supervision to ensure that internal controls and business practices are sufficient to protect the assets of the District and prevent fraudulent activity.

## **VII. ASSET MANAGEMENT**

**Cash Management and Investments** - The Board of Trustees has formally approved a separate Investment Strategy for Fort Bend ISD that meets the requirements of the Public Funds Investment Act (PFIA), Chapter 2256 of the Texas Local Government Code. This strategy is reviewed annually by the Board of Trustees and applies to all financial assets held by the District.

The District shall maintain a comprehensive cash management program to include the effective collection of all accounts receivable, prompt deposit of receipts to the District's depository and payment of obligations, and the prudent investment of idle funds in accordance with the approved investment strategy.

The District's investment program will be conducted in such a manner to accomplish the following listed in the order of priority:

1. Safety of principal
2. Liquidity and availability of cash to pay obligations when due
3. Receive the highest possible rate of return (yield) consistent with the District's investment strategy

**Fixed Assets** – These assets will be reasonably safeguarded, properly accounted for, and prudently insured. For purposes of budgeting and accounting classification, the following criteria must be met in order for an item to be capitalized:

1. The expected useful life of the asset must be longer than one year, or extend the life of an identified existing asset by more than one year
2. The original cost of the asset must be at least \$5,000
3. The asset must be tangible

On-going repairs and general maintenance are not capitalized. In the event that improvements are made to an asset that extends its original life or makes the asset more valuable, the cost will be capitalized. The replacement of asset components will normally be expensed unless they are of a significant nature and meet all of the capitalization criteria.

The Accounting Department will maintain the permanent records of the District's fixed asset inventory including description, cost, department of responsibility, date of acquisition, depreciation, and expected useful life. Periodically random sampling at the department or campus level will be performed to inventory fixed assets assigned to that department or campus. Responsibility for safeguarding the District's fixed assets lies with the department or campus supervisor whose department has been assigned the asset.

## **VIII. DEBT MANAGEMENT**

Fort Bend ISD faces continuing capital infrastructure requirements and recognizes that the primary purpose of capital debt is to provide educational services designed to meet the demands of the 21<sup>st</sup> Century. Debt financing is a tool that shall be judiciously used within the District's legal, financial, and debt market capacities.

The use of debt financing to meet the continued student population growth must be evaluated according to projected student growth by area, long-term facility efficiency, facility equity across the District, and limitations on total debt imposed by Texas Education Code Section 45.0031. The District realizes that failure to meet the demands of student growth may inhibit its continued educational success, but also realizes that failure to manage outstanding debt and repayment schedules may have long-term detrimental effects on the District's financial condition.

The District may issue long-term debt in accordance with Texas Education Code Section 45.001 for the following:

1. The construction, acquisition, and equipment of school buildings in the District.
2. The acquisition of property or refinancing of property financed under a contract entered under Subchapter A, Chapter 271, Local Government Code.
3. The purchase of the necessary sites for school buildings.
4. The purchase of new school buses.

The District will ensure that its long-term debt is soundly financed by conservatively projecting growth in taxable valuations and anticipated interest rates. The District will not finance improvements or purchases over a period greater than its estimated useful life and will determine that the cost benefit of the facilities, renovations, and equipment supported by the debt will have a positive impact on the District's student population and community.

The District shall, when planning for the issuance of new debt, consider the impact of such new debt on overlapping debt and the financing plans of local, state, and other governments that overlap the District. The District shall assess financial alternatives to include new and innovative financing approaches, including whenever feasible categorical grants, or other types of aid to minimize voter approved debt.

**General Obligation Bonds (GO)** – General obligation bonds must be authorized by a majority of the voters in a District election for the issuance of debt. General obligation bonds may be used only to fund capital assets of the District and are not to be used to fund on-going operational needs. The District shall determine the amortization schedule which will best fit with the overall debt structure of the District at the time the new debt is issued.

The District's unlimited debt service ad valorem taxing authority shall back general obligation bonds and the District shall endeavor to maintain the best possible credit rating for each debt issue. Where possible, the District shall also seek the guarantee of the Permanent School Fund for all debt issued.

**Revenue Anticipation Notes** – The District may issue fixed or variable rate tax and revenue anticipation notes that allow the District to meet its cash flow requirements. However, the District shall generally manage its cash position in a manner so that internally generated cash flow is sufficient to meet expenditures.

**Lease-Purchase Agreements** – Lease-purchase obligations are a routine and appropriate means of financing capital equipment. However, lease obligations are repaid from the District's maintenance and operations ad valorem tax

and, therefore, have the greatest impact on budget flexibility. Therefore, efforts will be made to fund capital equipment directly through the budget process or with voter approved debt. Only the highest priority equipment purchases will be funded with lease obligations when it is determined that the cost benefit of such an arrangement is advantageous to the District.

**Maintenance Tax Notes** – The District may authorize the issuance of maintenance tax notes for the acquisition of personal public property, such as equipment. Maintenance tax notes are repaid from the District’s maintenance and operations ad valorem tax. Each issuance will be assessed to ensure the cost effectiveness and the repayment schedule will not exceed the useful life of the asset and that the District has sufficient capacity in future budgets to ensure that the issuance does not place undue burden on the operating budget.

**Use of Reserve Funds** – The District may authorize the use of reserve funds to potentially delay or eliminate a proposed project from a future bond issue. This may occur due to higher than anticipated fund balances in prior years, thus eliminating or reducing the need for debt proceeds or when the timing of the related capital improvement does not correspond with a planned bond issue. Funds used in such manner should be used judiciously and with extreme care after careful analysis of the effect on the future funding needs of the District.

**Method of Sale** – The District will thoroughly analyze the conditions in the bond market prior to determining the method of sale that will be used to market bonds. The District may utilize a competitive bidding process, negotiated bid or private placement. The District will publicly present the reasons for the selected method of sale prior to the sale date.

Competitive sales shall be awarded based upon the lowest offered True Interest Cost (TIC). The District’s Financial Advisor shall ensure that interest costs offered in a negotiated sale are in accordance with comparable market interest rates. In a negotiated sale, the District will rely on the recommendation of the Superintendent, Chief Financial Officer and the contracted Financial Advisor in the selection of the underwriter(s). The contracted financial advisory firm may not serve in an underwriting capacity.

Following the bid award, the financial advisor shall prepare a post-sale summary and analysis that documents the pricing of the bonds relative to other similar transactions priced at or near the time of the District’s bond sale.

Private placement sales shall only be utilized when the sale must be structured for a single or limited number of purchasers, such as would be present in a Qualified Zone Academy Bond (QZAB) or Qualified School Construction Bond (QSCB) offering.

**Debt Structuring** – The District shall seek to repay its debt in an expeditious manner within the District’s overall financial objectives and will issue bonds with an average life of no more than twenty-five (25) years, not to exceed the useful life of the asset acquired. Pursuant to State law, the District can issue fixed rate, variable rate, or capital appreciation bonds. Market factors, such as the effects of legislative statutes, level of debt service fund balance, and the cost of early debt redemption will be given consideration during the structuring of long term debt instruments.

The District shall keep its variable rate exposure, to the extent not hedged or swapped to a fixed rate, at or below ten percent (10%) of the total principal outstanding. If variable rate debt is used, the Chief Financial Officer will periodically, and no later than annually, determine whether it is appropriate to convert the debt to fixed interest rates.

**Refunding and Restructuring Strategy** – The District shall consider accelerated retirement and restructuring of its outstanding debt when financially advantageous or beneficial.

The Superintendent and Chief Financial Officer shall review a net present value analysis of any proposed refunding in order to make a determination regarding the cost-effectiveness of the proposal. The target net present value savings as a percentage of the refunded aggregate principal amount shall be no less than three percent (3%) when a refunding is offered in conjunction with new debt. In the case of a standalone refunding, savings should be evaluated in conjunction with the call dates of the outstanding bonds and a higher net present value savings should generally be achieved.

**Financing Team Members** – Not less than every five years, the District shall conduct a Request for Proposal (RFP) to determine the District’s financial advisor, bond counsel and pool of available underwriters. Generally, the District’s contracts with financial advisors and bond counsel shall be for a term of three years with the option to renew for two additional one year periods and the pool of approved underwriters will be created for a three year period. In all cases, the District will attempt to ensure that the contractual terms align with voter approved debt.

All financing team members will be required to provide full and complete disclosure relative to any and all agreements with other financing team members and outside parties. No agreements will be permitted that will compromise a firm’s ability to provide independent advice that is solely in the best interest of the District or which could reasonably be perceived as a conflict of interest.

**Markets** – The District shall consider products and conditions in the bond market when meeting the District’s financing needs. When practical in its financing program, the District shall consider local and regional markets as well as retail and institutional investors.

**Disclosure** – Full disclosure of operating costs along with capital costs will be made to the bond rating agencies and other users of financial information. The District shall maintain information on its website so that interested persons have a convenient way to locate major financial reports and documents pertaining to the District’s finances and debt. The District will take responsibility for the accuracy of all financial information released.

The District shall prepare or cause to be prepared appropriate disclosures as required by the Securities and Exchange Commission Rule 15c2-12. District staff, with assistance of the financial advisor and bond counsel, will prepare the necessary materials for presentation to rating agencies and will aid in the production of the Preliminary Official Statements as required.

**Federal Requirements** – The District will maintain procedures to comply with arbitrage rebate and other Federal requirements in accordance with the Internal Revenue Code and applicable United States Treasury regulations.

**Bond Reimbursement Resolution** – The District may utilize reimbursements from bond proceeds as a tool to manage debt issues consistent with arbitrage requirements and project timing. In so doing, the District will utilize its general fund reserve cash balances to delay the bond issue until such time when the issuance and timing are favorable and beneficial to the District.

The District shall comply with Internal Revenue Service requirements which stipulate that the reimbursement occur the earlier of (i) eighteen (18) months after the capital item is placed in service or (ii) thirty-six (36) months from the date of the expenditure. The total outstanding bond reimbursements may not exceed the total amount of the District’s operational reserve fund.

**Impact on Operating Budget** – When considering any debt issuance, the potential impact of debt service and additional operating costs induced by new projects on the operating budget of the District, both short and long-term will be evaluated.

## ***IX. FINANCIAL CONDITIONS, RESERVES, AND STABILITY RATIOS***

Fort Bend ISD will maintain sufficient reserves in the ending fund balances to provide for a secure, healthy financial base for the District in the event of a natural disaster or other emergency, allow for stability of District operations should revenues fall short of budgeted projections, and provide available resources to implement budgeted expenditures without regard to actual timing of cash flows into the District.

**Operational Coverage** – The District’s goal is to maintain operating revenues that at least equal or exceed current operating expenditures. Unless advantageous to the District, deferrals, short-term loans, or one-time sources will be avoided as budget balancing techniques.

**Operating Reserves** – Due to the timing of the District’s fiscal year (July 1) and the receipt of maintenance and tax revenues (typically, December 31<sup>st</sup>), the District will maintain general fund reserves the greater of ninety (90) days

or thirty percent (30%) of net budgeted operating expenditures. Reserve requirements will be calculated as part of the annual budget process.

**Liabilities and Receivables** – Procedures will be followed to maximize discounts and reduce penalties offered by creditors. Current liabilities will be paid within thirty (30) days of receiving the invoice. Accounts Receivable procedures will target collection for a maximum of thirty (30) days of service. Non-collectible accounts that are delinquent for more than one year are considered uncollectible and shall be written off.

**Capital Projects Funds** – All reasonable efforts will be made to expend all monies within the Capital Project Funds within thirty-six (36) months of receipt. The fund balance will be invested and the income generated will offset increases in construction costs or other costs associated with the project. Any excess funds remaining after the completion of the project may be reallocated by the Board of Trustees to other capital projects to offset the cost of future bond issues.

**Debt Service Funds** – Revenues within this fund are stable, based on property tax revenues. Balances are maintained to meet contingencies and to make certain that the next year's debt service payments may be met in a timely manner. The fund balance should not fall below one month or 1/12<sup>th</sup> the annual debt service requirements in accordance with Internal Revenue Service guidelines. Fort Bend ISD has established an additional requirement that the current debt service requirement that would be covered by the debt service fund balance, less the August debt payments be no less than twenty percent (20%) of the subsequent year's debt service requirements.

**Investment of Reserve Funds** – The reserve funds will be invested in accordance with the District's approved investment strategy.

**Ratio/Trend Analysis** – Ratios and significant balances will be incorporated into the annual financial report. This information will provide users with meaningful data to identify major trends of the District's financial condition through analytical procedures. The following ratios/balances will be used as key financial indicators:

- |                           |   |
|---------------------------|---|
| 1. Fund Balance / Equity: | Assets less liabilities                                       |
| 2. Working Capital        | Current assets less current liabilities                       |
| 3. Current Ratio          | Current assets divided by current liabilities                 |
| 4. Debt / Assessed Value  | Debt divided by assessed value                                |
| 5. Debt Ratio             | Current liabilities plus long-term liabilities / Total assets |

The District will develop minimum and maximum levels for the above ratios/balances by thoroughly analyzing District historical trends, projected growth and peer districts.

**Special Situations** - Changes in the state funding allocations, economic downturn, District programs or other unforeseen circumstances may from time to time produce situations that are not covered by this strategy. These situations may require modifications or exceptions to achieve strategy goals. Management flexibility is appropriate and necessary in such situations, provided specific authorization is received from the Board of Trustees.