2015-2016 Budget Questions and Answers

On June 15, the Fort Bend ISD Board of Trustees approved a $729.7 million budget for 2015-16 that included funding $580.4 million of funding for maintenance and operations (M&O), $102.6 million for debt service and $46.7 million for child nutrition.

What comprises the M&O budget?

Answer: The M&O budget includes funding for salaries, utilities, fuel and day-to-day operations. Funding comes from the State of Texas and local tax collections based on student enrollment, the local tax base and the tax rate.

Why did the M&O budget increase 3.75 percent from the 2014-15 budget?

Answer: Eighty-seven percent of the 2015-16 M&O budget is for compensation and staff and the bulk of the increase is devoted to compensation and staffing. The highlights include:

- Staffing necessary for anticipated student growth, class sizes of 22:1 for grades K-4 and additional staffing to implement new Career and Technology programs for our students,
  - A total of 84 new positions with 74 being campus-based, including 50.5 teachers, 12.5 campus professional positions, and 11 paraprofessional positions.
  - Ten of the new positions are for non-campus professional staff, and compensation adjustments for staff.
- An increase to account for 73,377 students based on a moderate growth projection by Population and Survey Analysts, a leading demographic firm, with budgeted cost per student of $7,909 that does not include any federal funding,
- An additional increase for the starting teacher pay scale from $50,000 to $50,500, with uniform $500 steps through year 21,
- Approximately $17.4 million in salary increases, new positions, stipend adjustments, and reclassifications previously approved by the Board of Trustees, and
- An average salary increase of 2.1% for teachers, while other employees received 2% of midpoint.

What comprises the Debt Service budget?

Answer: The funds in the Debt Service budget are dedicated to pay off voter approved principal and interest for prior bond debt and used to pay off debt created when the District sells bonds to fund new schools, campus additions and other capital projects.

Why did the Debt Service Budget increase from $76.6 million in 2014-15 to $102.6 million in 2015-16?

Answer: The $102.6 million budget for the Debt Service Fund takes into account the issuance of $100 million in new debt while keeping the tax rate at its current level. The increase in debt services, from $76.6 million in 2014-15 to $102.6 million in 2015-16, reflects the issuance of $100 million in new debt, the first from the $484 million bond referendum approved by voters in November 2014 for new schools, new classroom additions, technology improvements, safety and security improvements, land purchases, etc.

What is the Child Nutrition Budget?

Answer: In addition to the M&O and debt service budgets, the Board of Trustees also approved the child nutrition budget of $46.7 million to fund the District's meal program, without increasing meal prices. Child Nutrition is funded by meal collections from families, as well as federal reimbursement.

How was the tax rate determined?

Answer: While the 2015-16 M&O fund and debt service fund reflect an <u>11.5 % increase in property values</u> of the District, the increased property taxes solely benefit the debt service funds, and not the M&O fund. <u>Revenue per student is only increasing by 1.75% in the General Fund.</u> To that end:

- The District plans to keep the District's overall tax rate at the same level of $1.34 per $100 valuation. This includes a debt service tax rate of 30 cents and the District's $1.04 maintenance and operations (M&O) tax rate.

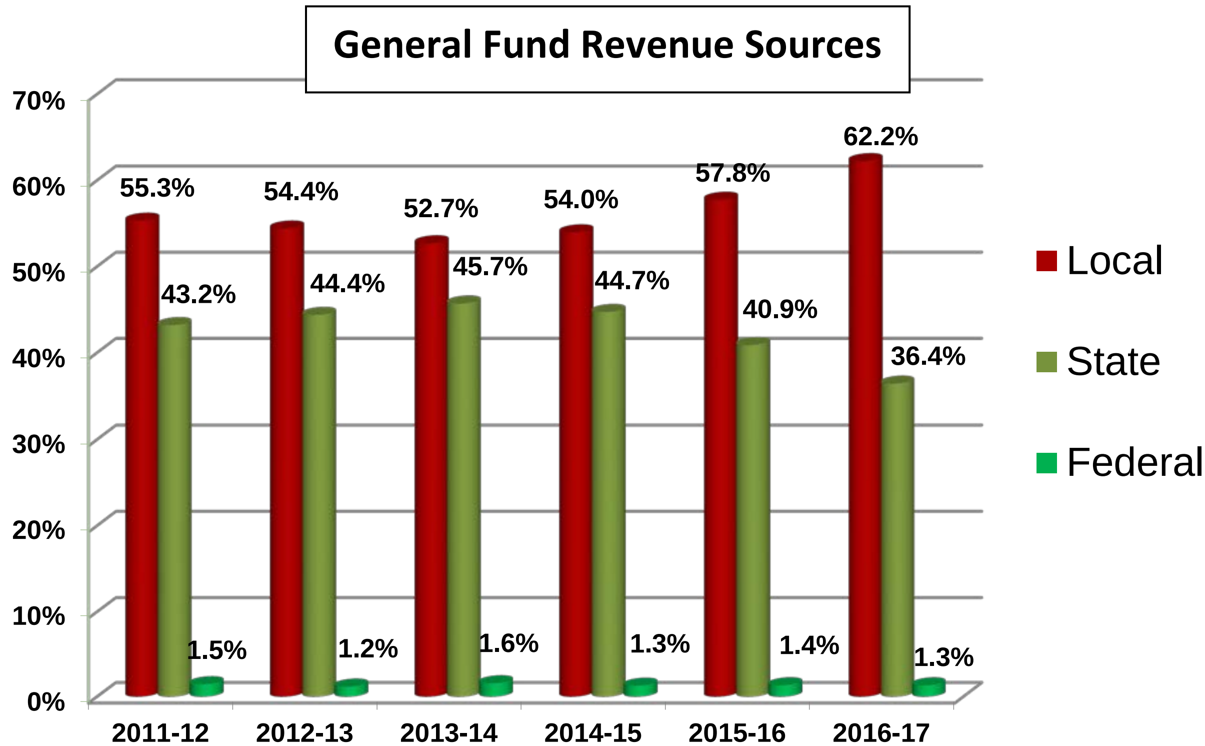
- The District anticipates the proposed increase in the homeowner exemption to be approved by voters in November 2015. The $0.30 tax rate for Debt Service takes into account the reduction in local taxes. The State has promised the school districts to make up this gap in funding, but FBISD is approaching this upcoming year as if we will continue to not receive State aid for our debt service fund.

- The goal is to keep the debt service tax rate the same while it absorbs the costs associated with issuing bonds that were authorized by the voters in November 2011. Fort Bend ISD's 2015-16 budget is indicative of sound financial management and prudent stewardship of taxpayer dollars.

- The District's overall tax rate is much lower than most of our peer districts, while not extending new debt issuances beyond 25 years. Some districts amortize their debt for 30 years and beyond. By effectively managing our debt and being fiscally conservative, FBISD has put itself in a position to balance student needs, employee needs and taxpayer concerns while preparing for the future.

How can Fort Bend ISD's budget per student only go up 1.25% when the property taxes are going up by more than 10%?

Answer: The District's total revenue per student is determined by the state funding formula. As property value increases, the State's share of revenue per student decreases. This is one of the drivers behind the school finance lawsuit that Fort Bend ISD is part of. Please see the graph below. As property values increase, we expect the state's share of our general fund budget to drop to 40.9% for 2015-16 and down to 36.4% by the 2016-17 school year.



Why has Fort Bend ISD continued to collect more taxes by raising property values?

Answer: We have not. It is rising property values, not a rising property tax rate. Fort Bend ISD has kept its tax rate the same for six years. The Fort Bend County Appraisal District independently determines property values based on market conditions and in compliance with state regulations. Fort Bend ISD's state revenue per student goes down when property values go up. Because the State benefits from the higher property values, the State has the authority to review property values if they believe the values are understated. They perform audits regularly and can penalize the appraisal district. This has happened before.

The District has an indirect impact on the assessed values by having quality schools throughout the District.

Still, it is important to note that while appraised property values have increased in recent years, Fort Bend ISD's overall tax rate of $1.34 per $100 valuation ($1.04 Maintenance & Operations tax rate and 30 cent debt service rate) has remained at its current level for the past six years even though more debt has been issued to support bond projects. Our tax rate is low compared to our peer districts. Please see the table at the end of this document.

Our District's mission is to inspire and equip each student to pursue futures beyond their imagination. Everything we do as a District is done to fulfill this mission. Prudent fiscal management allows us to accomplish this task.

The November 2014 Bond program approved by voters will add elementary school seats by building schools and classroom additions and improve our technology infrastructure while making our schools safer. By being good stewards of taxpayer money, the District believes it can deliver on these projects without raising tax rates.

Enclosed are some additional Questions and Answers that we've heard about how the District spends taxpayer dollars.

Question: What does the District spend our money on?

Answer: We created a document called "Tracking the Education Dollar." This is an example of how a dollar is spent at Fort Bend ISD. It can be found at the following link: http://www.fortbendisd.com/cms/lib09/TX01917858/Centricity/Domain/96/12-13-actual---tracking-the-education-dollar-fbisd-expenditures.pdf

Question: Why does Fort Bend ISD's 2015-2016 approved budget include $97 million that is unassigned? If this is 'extra' money, why can't the District use this to give taxpayers a tax break?

Answer: The $97 million is referred to as the District's fund balance. The fund balance is basically the District's own "rainy day fund." It is the difference between revenue and expenditures over time. It goes up when not all available funds are spent, and it goes down when the District spends more than it has in revenue for that year.

Fund balance is important for:

- Cash management, and working capital since collections do not come until the fall,
- Establish bond ratings which helps with lower interest rates on district bonds,
- Unforeseen expenditures and/or disasters, unforeseen revenue shortfalls,
- Ongoing support for educational programs (one-time), and
- Best Practices - The Government Finance Officers Association (GFOA) recommends ... "no less than two months of ... regular general revenue operating expenditures."

Current FBISD Policy: The DIstrict will strive to maintain an unassigned general fund balance equal to the greater of sixty (60) days or seventeen percent (17%) of net budgeted operating expenditures.

Our District administration and the Board of Trustees have a fiduciary duty to the District, and take this responsibility seriously. Having a healthy unassigned fund balance allows the District to pay for unforeseen expenditures, disasters, or revenue shortfalls. In accordance with Board policy, the District maintains no less than two months of regular general revenue operating expenses.

Maintaining the fund balances at the current levels is a key metric utilized by rating agencies to determine the FBISD bond rating. The AA+ rating reduces borrowing costs, saving taxpayer dollars. Lowering the tax rate can only be done by reducing our fund balances.

*** In June 2015, Fitch Ratings and Standard & Poors assigned a AA+ rating to FBISD bonds and cited the District's strong financial profile as a key ratings driver, stating "The District's financial profile is a positive credit factor, characterized by large reserve levels and a consistent record of conservative budgeting practices."*

Question: If $97 million covers two months of operating expenses for emergency purposes, why does the District set aside an additional month to make up for a possible loss of state revenue? Couldn't this money be transferred to the debt service fund, allowing the District to set the debt service rate below $0.30?

Answer: The additional month in the General (or M&O) Fund ensures that the District will not have to resort to declaring "financial exigency" and by laying off 470 teachers and staff again like it did in the 2011-12 budget year. Today the economy is stronger, and while the last Legislative session did not cut funds, the economy runs in cycles and can turn quickly. The price of oil is critical to state revenues and where the price will be in the future is only an economist's guess. The City of Houston has realized a percentage reduction in sales taxes for the first time in April 2015. Sales taxes are the largest component of State revenue. Recently, Shell announced additional layoffs of 6,500 jobs.

Additionally, transferring this balance to the debt service fund cannot be reversed. Debt service funds can only be used to pay debt service and the costs directly associated with debt service. If this additional balance was transferred, and a recession occurred, the M&O tax rate could only be raised if a tax ratification vote was held. School districts are prohibited from increasing the rate above $1.04 without voter approval.

There is also uncertainty regarding the amount of local revenue for debt service. The increase in the homestead exemption for all homeowners will reduce collections for the District. The extent that the state will make up for this reduction and for how long is yet to be determined.

Question: Why are you issuing $100 million in bonds this month, if the District is planning to repay so much principal ($16.8 million) within the first year?

Answer: The 2014 bond includes many assets that do not have the same useful life as our buildings. IT infrastructure, cameras, buses, GPS, security assets, etc. have much lower useful lives. The Board of Trustees, after consultation with the Bond Oversight Committee, adopted a resolution that states: "the weighted average maturity of the bonds issued to finance the projects will not exceed the weighted average useful life of the bond financed assets by more than 120%." This is to ensure that we are not amortizing short term assets over an unrealistic term. Additionally, adding to the length of maturity on our future bond issues could have an adverse impact to our bond rating.

The $16.8 million (as part of the $100 million) is needed to complete the bond projects. If the money was not borrowed, even for a short time, the debt service fund could not be used to fund the projects. There is no capacity in the General Fund (or M&O) to fund bond related projects.

Question: How does our spending compare to other districts?

Answer: Please see the table below. This table shows spending per student for Fort Bend ISD, other local districts, and other districts in the state similar to Fort Bend. "All Funds" include General (or M&O) Fund, Child Nutrition Fund, Debt Service, Federal funds (Title, Special Education, etc.) and any grants. Fort Bend ISD compares favorably for total spending per student.

Fort Bend ISD
Funding Spending Per Student (sorted by spending for All Funds)
School Year 2013-14

Rankings: Lowest # = Lowest Spending

Local Peer Group

District	Year 2013-14	Avg. District Enrollment	General Fund Actual $ per Student	Peer Group Ranking for GF Spending Per Student	$ Difference in General Fund $ per Student	% Difference in General Fund $ per Student	All Other Funds Actual $ per Student	All Funds Actual $ per Student	Peer Group Ranking for AF Spending Per Student	$ Difference in All Funds $ per Student	% Difference in All Funds $ per Student
LAMAR CISD	2014	27,024	$7,222	2	$383	5.0%	$6,552	$13,774	14	($3,037)	-28.3%
PASADENA ISD	2014	54,382	$8,249	13	($643)	-8.5%	$4,667	$12,915	13	($2,178)	-20.3%
SPRING ISD	2014	36,358	$7,297	5	$308	4.1%	$4,856	$12,153	12	($1,416)	-13.2%
HOUSTON ISD	2014	210,716	$7,934	12	($329)	-4.3%	$4,007	$11,941	11	($1,204)	-11.2%
CONROE ISD	2014	54,808	$7,464	6	$141	1.9%	$4,209	$11,673	10	($936)	-8.7%
CLEAR CREEK ISD	2014	39,808	$7,239	3	$366	4.8%	$4,379	$11,618	9	($881)	-8.2%
SPRING BRANCH ISD	2014	35,218	$7,483	7	$122	1.6%	$3,814	$11,297	8	($560)	-5.2%
KATY ISD	2014	67,015	$7,759	11	($154)	-2.0%	$3,262	$11,020	7	($283)	-2.6%
ALIEF ISD	2014	46,207	$8,261	14	($656)	-8.6%	$2,647	$10,909	6	($172)	-1.6%
KLEIN ISD	2014	48,003	$7,276	4	$329	4.3%	$3,495	$10,771	5	($34)	-0.3%
FORT BEND ISD	**2014**	**70,512**	**$7,605**	**10**			**$3,132**	**$10,737**	**4**		
ALDINE ISD	2014	67,204	$7,599	9	$6	0.1%	$2,842	$10,442	3	$295	2.8%
HUMBLE ISD	2014	38,056	$7,550	8	$55	0.7%	$2,419	$9,969	2	$768	7.2%
CYPRESS-FAIRBANKS ISD	2014	111,173	$6,626	1	$979	12.9%	$2,947	$9,574	1	$1,163	10.8%

State Peer Group - Districts with similar size and demographics

District	Year 2013-14	Avg. District Enrollment	General Fund Actual $ per Student	Peer Group Ranking for GF Spending Per Student	$ Difference in General Fund $ per Student	% Difference in General Fund $ per Student	All Other Funds Actual $ per Student	All Funds Actual $ per Student	Peer Group Ranking for AF Spending Per Student	$ Difference in All Funds $ per Student	% Difference in All Funds $ per Student
NORTHSIDE ISD	2014	101,549	$7,275	3	$331	4.3%	$6,709	$13,984	11	($3,247)	-30.2%
NORTH EAST ISD	2014	67,986	$7,259	2	$346	4.5%	$6,629	$13,889	10	($3,151)	-29.4%
PLANO ISD	2014	54,551	$8,309	10	($704)	-9.3%	$5,528	$13,837	9	($3,100)	-28.9%
LEWISVILLE ISD	2014	52,698	$7,515	5	$90	1.2%	$5,319	$12,834	8	($2,097)	-19.5%
ROUND ROCK ISD	2014	46,535	$8,164	9	($559)	-7.3%	$3,341	$11,505	7	($768)	-7.2%
KATY ISD	2014	67,015	$7,759	8	($154)	-2.0%	$3,262	$11,020	6	($283)	-2.6%
KLEIN ISD	2014	48,003	$7,276	4	$329	4.3%	$3,495	$10,771	5	($34)	-0.3%
FORT BEND ISD	**2014**	**70,512**	**$7,605**	**7**			**$3,132**	**$10,737**	**4**		
KILLEEN ISD	2014	41,336	$8,338	11	($733)	-9.6%	$1,988	$10,326	3	$411	3.8%
HUMBLE ISD	2014	38,056	$7,550	6	$55	0.7%	$2,419	$9,969	2	$768	7.2%
CYPRESS-FAIRBANKS ISD	2014	111,173	$6,626	1	$979	12.9%	$2,947	$9,574	1	$1,163	10.8%

Note: Source Forecast 5 Analytics

All funds include General Fund, Food Service, Debt Service, All Federal Funds and Other Grants

FORT BEND ISD AREA TAX RATE COMPARISON TAX RATES							
	2014-15						
District	M&O Tax Rate	Ranking M&O Rate	I&S Tax Rate	Ranking I&S Rate	Total Tax Rate	Ranking Total Tax Rate	Difference in Total Tax Rate
Houston	$ 1.03	2	$ 0.17	3	$ 1.20	1	0.14
Stafford	1.04	3	0.20	4	1.24	2	0.10
Alief	1.13	18	0.16	2	1.28	3	0.06
Conroe	1.04	3	0.24	5	1.28	3	0.06
Aldine	1.13	18	0.15	1	1.29	5	0.05
Fort Bend	***1.04***	3	***0.30***	***9***	***1.34***	***6***	-
Pasadena	1.07	16	0.28	8	1.35	7	(0.01)
Tomball	1.02	1	0.34	12	1.36	8	(0.02)
Klein	1.04	3	0.35	13	1.39	9	(0.05)
Lamar	1.04	3	0.35	13	1.39	9	(0.05)
Spring Branch	1.09	17	0.30	9	1.39	9	(0.05)
Clear Creek	1.04	3	0.36	16	1.40	12	(0.06)
Huffman	1.04	3	0.36	16	1.40	12	(0.06)
Sheldon	1.17	21	0.26	6	1.43	14	(0.09)
Goose Creek	1.04	3	0.39	18	1.43	14	(0.09)
Cypress-Fairbanks	1.04	3	0.40	19	1.44	16	(0.10)
Channelview	1.04	3	0.41	21	1.45	17	(0.11)
LaPorte	1.04	3	0.41	21	1.45	17	(0.11)
Spring	1.04	3	0.47	23	1.51	19	(0.17)
Galena Park	1.24	24	0.27	7	1.51	19	(0.17)
Humble	1.17	21	0.35	13	1.52	21	(0.18)
Katy	1.13	18	0.40	19	1.53	22	(0.19)
Deer Park	1.24	24	0.32	11	1.56	23	(0.22)
Needville	1.04	3	0.56	25	1.60	24	(0.26)
Crosby	1.17	21	0.50	24	1.67	25	(0.33)

Note 1 - M&O stands for Maintenance & Operating fund – this funds the General fund budget which is used for salaries, utilities, fuel, etc.

Note 2 - I&S stands for Interest & Sinking fund – this funds the Debt Service budget which is used to pay off debt created when we sell bonds to fund new schools, campus additions and other capital projects.

What would happen if we lowered the M&O tax rate by one penny, or more pennies?

Answer: Each penny of tax rate equates to $3.1 million of collections. A reduction of three pennies would reduce revenue to the extent that we would not have been able to give teachers and employees a 2% raise.

What about reducing other staff and expenses so that a raise could be afforded?

Answer: This could be done by increases to the student teacher ratio, so that fewer teachers would be hired, reducing campus support staff or department staff. All positions either support the students directly (i.e. teachers, bus drivers), provide support to teachers (i.e. other campus staff), or provide support to the campuses (i.e. department staff). Our overall expenses per student are low compared to peer districts. We believe our staffing levels are appropriate.

What would happen if we lowered the debt service tax rate by one penny, or more pennies?

Answer: Each penny of tax rate equates to $3.1 million of collections. Why not lower the rate now?

- The District has committed to being able to absorb the entire issuance of $484 million within the current tax rate.
- The current rate is needed to absorb the reduction of collections that is expected to come from the approval of the increase in the homestead exemption. While the State has committed to make up that difference, how and when is yet to be determined.
- The economy can turn south quickly as it did in 2008 and 2009. The District’s goal is to be able to absorb any potential decrease in property values with its fund balance until the economy recovered.
- Lowering the tax rate would not be viewed favorably by the rating agencies. This could result in a rating down grade before our next debt issuance. This will cost the costs of future debt to increase.