



ALEDO ISD BOARD MEETING TEMPLATE

MEETING DATE: April 20, 2015

AGENDA ITEM: General Operating Fund Balance Report

PRESENTER: Earl Husfeld

ALIGNS TO BOARD GOAL(S): Financial/Facilities – The District shall exhibit excellence in financial and facility planning, management, and stewardship.

BACKGROUND INFORMATION:

- During the board meeting on December 15, 2014, the Board of Trustees approved a revision to Board Policy CE (LOCAL) to include a fund balance section.
- The following pages contain the revised Board Policy CE (LOCAL) with the fund balance section highlighted.

ADMINISTRATIVE CONSIDERATIONS:

- In accordance with the provisions of Board Policy CE (LOCAL), the following report is presented for your information:

<u>General Operating Fund Balance Report</u>		
<u>Description</u>	<u>Actual at August 31, 2014</u>	<u>Projected at August 31, 2015</u>
Fund Balance	\$ 16,850,685	\$ 13,294,627
Annual General Operating Fund Expenditures	\$ 37,456,261	\$ 38,861,654
General Operating Fund Balance Percent	44.99%	34.21%

- Also included for your review is the bond rating report issued by FitchRatings for the District's recent 2015 bond refunding program.

FISCAL NOTE:

None – Informational Report

ADMINISTRATIVE RECOMMENDATION:

None – Informational Report

ANNUAL OPERATING BUDGET

CE
(LOCAL)

FISCAL YEAR	The District shall operate on a fiscal year beginning September 1 and ending August 31.
BUDGET PLANNING	Budget planning shall be an integral part of overall program planning so that the budget effectively reflects the District's programs and activities and provides the resources to implement them. In the budget planning process, general educational goals, specific program goals, and alternatives for achieving program goals shall be considered, as well as input from the District- and campus-level planning and decision-making committees. Budget planning and evaluation are continuous processes and shall be a part of each month's activities.
BUDGET MEETING	<p>The annual public meeting to discuss the proposed budget and tax rate shall be conducted as follows:</p> <ol style="list-style-type: none">1. The Board President shall request at the beginning of the meeting that all persons who desire to speak on the proposed budget and/or tax rate sign up on the sheet provided.2. Prior to the beginning of the meeting, the Board may establish time limits for speakers.3. Speakers shall confine their remarks to the appropriation of funds as contained in the proposed budget and/or the tax rate.4. No officer or employee of the District shall be required to respond to questions from speakers at the meeting.
AUTHORIZED EXPENDITURES	The adopted budget provides authority to expend funds for the purposes indicated and in accordance with state law, Board policy, and the District's approved purchasing procedures. The expenditure of funds shall be under the direction of the Superintendent or designee who shall ensure that funds are expended in accordance with the adopted budget.
BUDGET AMENDMENTS	The Board shall amend the budget when a change is made increasing any one of the functional spending categories or increasing revenue object accounts and other resources.
FUND BALANCE	A financial goal shall be to have sufficient fund balance in the general operating fund to be able to maintain fiscal independence of the District in case of a financial need or crisis. It is essential that the District maintain an adequate level of fund balance to mitigate financial risk that can occur from revenue fluctuations, unforeseen expenditures, and student growth and that provides cash flow liquidity for the District's general operations. The District shall maintain a total general operating fund balance of at least 35 percent of the total annual general operating fund expenditures.

ANNUAL OPERATING BUDGET

CE
(LOCAL)

The total general operating fund balance shall encompass the nonspendable fund balance, the restricted fund balance, the committed fund balance, the assigned fund balance, and the unassigned fund balance. The District shall maintain an unassigned general operating fund balance of at least 20 percent of the total annual general operating fund expenditures.

Projected compliance shall be considered annually during the budget adoption process.

The chief financial officer shall annually prepare a report of the general operating fund balance not later than 90 calendar days following Board acceptance of the annual independent financial audit to address compliance with the minimum requirements of this policy.

ALEDO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2014

EXHIBIT C-3

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 30,323,609	\$ 6,474,190	\$ 2,332,593	\$ 39,130,392
5800 State Program Revenues	6,775,639	-	458,622	7,234,261
5900 Federal Program Revenues	-	-	1,454,633	1,454,633
5020 Total Revenues	37,099,248	6,474,190	4,245,848	47,819,286
EXPENDITURES:				
Current:				
0011 Instruction	20,050,351	-	1,741,861	21,792,212
0012 Instructional Resources and Media Services	477,451	-	54,600	532,051
0013 Curriculum and Instructional Staff Development	239,437	-	82,128	321,565
0021 Instructional Leadership	271,872	-	-	271,872
0023 School Leadership	2,274,076	-	-	2,274,076
0031 Guidance, Counseling and Evaluation Services	1,160,209	-	118,061	1,278,270
0033 Health Services	402,023	-	-	402,023
0035 Food Services	1,289	-	2,027,548	2,028,837
0036 Extracurricular Activities	1,864,365	-	22,284	1,886,649
0041 General Administration	1,469,767	-	27,533	1,497,300
0051 Facilities Maintenance and Operations	4,811,847	-	61	4,811,908
0052 Security and Monitoring Services	498,969	-	257	499,226
0053 Data Processing Services	369,590	-	-	369,590
Debt Service:				
0071 Principal on Long Term Debt	-	4,085,000	-	4,085,000
0072 Interest on Long Term Debt	-	5,219,256	-	5,219,256
0073 Bond Issuance Cost and Fees	-	269,880	-	269,880
Capital Outlay:				
0081 Facilities Acquisition and Construction	-	-	3,018,288	3,018,288
Intergovernmental:				
0091 Contracted Instructional Services Between Schools	740,207	-	-	740,207
0093 Payments to Fiscal Agent/Member Districts of SSA	2,328,270	-	13,050	2,341,320
0099 Other Intergovernmental Charges	496,538	-	-	496,538
6030 Total Expenditures	37,456,261	9,574,136	7,105,671	54,136,068
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(357,013)	(3,099,946)	(2,859,823)	(6,316,782)
OTHER FINANCING SOURCES (USES):				
7911 Capital Related Debt Issued (Regular Bonds)	-	9,330,000	-	9,330,000
7915 Transfers In	-	2,925,000	-	2,925,000
7916 Premium or Discount on Issuance of Bonds	-	617,568	-	617,568
7949 Other Resources - Mineral Interests	43,369	-	-	43,369
8911 Transfers Out (Use)	(2,925,000)	-	-	(2,925,000)
8949 Other (Uses)	-	(9,796,742)	-	(9,796,742)
7080 Total Other Financing Sources (Uses)	(2,881,631)	3,075,826	-	194,195
1200 Net Change in Fund Balances	(3,238,644)	(24,120)	(2,859,823)	(6,122,587)
0100 Fund Balance - September 1 (Beginning)	20,089,329	602,691	4,450,004	25,142,024
3000 Fund Balance - August 31 (Ending)	\$ 16,850,685	\$ 578,571	\$ 1,590,181	\$ 19,019,437

The notes to the financial statements are an integral part of this statement.



Fitch Rates Aledo ISD, TX's ULT Bonds 'AAA' PSF/AA' Underlying; Outlook Stable

Ratings Endorsement Policy
27 Mar 2015 3:31 PM (EDT)

Fitch Ratings-New York-27 March 2015: Fitch Ratings has assigned an 'AAA' rating to the following Aledo Independent School District, Texas' (the district) unlimited tax (ULT) bonds:

--\$13.2 million ULT refunding bonds series 2015.

The 'AAA' long-term rating for the bonds is based on a guaranty provided by the Texas Permanent School Fund (PSF), whose bond guaranty program is rated 'AAA' by Fitch.

The bonds are scheduled for negotiated sale the week of March 30. Proceeds will be used to refund a portion of the district's outstanding ULT debt for interest savings.

Fitch also assigns an 'AA' underlying rating to the bonds and affirms the 'AA' underlying rating on the following outstanding bonds (pre-refunding):

--\$49.8 million ULT refunding bonds, series 2006, 2007, 2012, 2013-A, 2013-B, and 2014;

--\$60.3 million ULT school building bonds series 2008;

--\$14.9 million variable rate ULT school building bonds series 2006-A.

The Rating Outlook is Stable.

SECURITY

The bonds are payable from an unlimited property tax levy and also carry the Texas PSF bond guarantee (for more information on the Texas PSF see 'Fitch Affirms Texas PSF Rating at 'AAA'; Outlook Stable', dated Sept. 4, 2014).

KEY RATING DRIVERS

STRONG FINANCIAL POSITION: The district's general fund balance position remains healthy, aided by recent restoration of state funding cuts and conservative budgeting practices.

TAX BASE IMPROVEMENT: The district's tax base has returned to growth after a period of contraction due to exposure to the Barnett Shale natural gas formation. Oil and gas industry concentration remains with the top 10 largest taxpayers, but mineral values now make up a smaller portion of total taxable assessed valuation (TAV).

WEALTHY SUBURB OF DALLAS-FORT WORTH: The primarily residential district benefits from its proximity to the broad Dallas-Fort Worth employment base and socioeconomic indicators are well in excess of state and national metrics.

WEAK DEBT PROFILE: The already high debt ratios may rise further as enrollment growth spurs near-term plans to seek voter approval for additional debt. Amortization is slow, in part due to the use of capital appreciation bonds (CABs).

RATING SENSITIVITIES

MATERIAL DECLINE IN FISCAL CUSHION: Fitch views the district's strong operating reserves as a key offset to the artificially low debt service tax rate. A decline in reserves below the board policy minimum could lead to negative rating action.

CREDIT PROFILE

Aledo Independent School District is located primarily in Parker County and includes the city of Aledo, a small, historically agricultural center. Aledo is located 19 miles west of Fort Worth (GOs rated 'AA+' by Fitch) near Interstate Highway 20.

AFFLUENT DISTRICT

Aledo continues to transition from having an agriculture-based economy to becoming an upscale suburb of Fort Worth. Numerous high-end residential developments have been completed in recent years. As a result, market value per capita is high at \$160,000 in fiscal 2015. Residents are well-educated and affluent; the median household income in the district is twice that of the state and nation.

The district benefits from its proximity to the broad Dallas-Fort Worth metroplex employment base, and area employment and wealth levels are a credit positive. Employment growth in Parker County continues, expanding 2.5% for the 12-month period ending December 2014 and improving the unemployment rate to a low 3.7% from 5.1% over the same timeframe. The county's unemployment rate is lower than MSA, state, and national averages.

RESIDENTIAL TAX BASE GROWTH

The district's tax base is primarily residential, with moderate oil and gas exposure due to its location over parts of the Barnett Shale natural gas field. Recent declines in TAV were due to weakness in mineral values, which made up 19% of fiscal 2011 TAV but fell to less than 10% of fiscal 2015 certified values due to decreased drilling activity and lower prices. The tax base contraction was limited to fiscal years 2012 and 2013, with a cumulative decline a manageable 6.2%. Reappraisal gains and new construction have more than made up the losses with growth of 3.3% and 3.9% in fiscal years 2014 and 2015, respectively.

Over the near to medium term, TAV growth may accelerate as construction of a very large residential subdivision commences.

Several consecutive years of low gas prices have reduced the top taxpayers' share of the tax base, but industry concentration remains a concern. The top 10 taxpayers comprised 12.3% of fiscal 2015 TAV, and 7 of the top 10 are directly engaged in the oil and gas industry. Offsetting this concern is the large residential component of the tax base, stable home valuations, and prospects for continuing residential development.

Enrollment gains averaged just over 4% annually leading up to the recession and stagnated somewhat in the years after. Growth regained momentum in fiscal years 2014 and 2015, posting increases of 3% and 3.6%, respectively, mirroring tax base growth. Through fiscal 2017, management projects annual enrollment gains of 3% - 5% due to renewed home building activity. The district has ample land for development.

STRONG FISCAL CUSHION DESPITE DRAWDOWNS

Local property taxes account for 80% of general fund revenues reflecting the relatively high property tax wealth per student. Fiscal 2014 audited results were largely on budget, including an almost \$3 million transfer (7% of spending) to the debt service fund; the transfer was necessitated by a tax rate swap approved by district voters in 2011. The unrestricted fund balance at year-end declined by \$3.2 million to approximately \$17 million, equal to a still robust 42% of spending.

The fiscal year 2015 budget keeps the tax rate unchanged and includes a \$3.2 million deficit - equal to the amount of the debt service fund transfer. Management reports enrollment is in line with projections and the district will end the year as budgeted.

The tax rate swap shifted \$0.13 of the total rate from debt service to operations, yielding enhanced state and local revenues for operations but also generating an annual debt service fund shortfall of about \$3 million. The shortfalls were cured by use of debt service fund balance in fiscal years 2011-2013, and in fiscals 2014 and 2015 by a roughly \$3 million transfer from the general fund to the debt service fund.

The tax rate structure is unconventional, but not unique among Texas school districts. Importantly, the rate swap could be reversed or the debt service tax rate could be raised without voter authorization. Going forward, the district plans to increase the debt service tax rate to service its annual payments in order to remain compliant with the newly adopted minimum general fund balance policy of 35% of spending.

ELEVATED DEBT BURDEN TO CLIMB

Overall debt levels are elevated at 5.8% of market value, including accreted interest, and will likely increase pending voter approval of an upcoming bond referendum. Annual debt service is level but the pace of amortization is slow, which also reflects the district's use of CABs. Approximately 10% of the district's debt is variable rate, with no associated swaps. The district will seek approval for a \$53 million two-part bond package this May to address current and expected enrollment growth. The district's \$0.25 per \$100 TAV debt service tax rate is well below the \$0.50 statutory cap for new issuance approval, providing the district ample flexibility to address capital needs. Limiting this flexibility, however, will be the gradual increase in the debt service tax rate necessary to make payments on existing debt.

OTHER LONG-TERM LIABILITIES MANAGEABLE

The district's pension liabilities are limited to its participation in the state pension plan administered by the Teachers Retirement System of Texas (TRS), a cost-sharing multiple employer plan. The TRS funded position is satisfactory at an estimated 73% using Fitch's more conservative 7% rate of return assumption compared with 81% funded as reported by TRS. The district's annual contribution to TRS is determined by state law, as is the contribution for the state-run post-employment benefit healthcare plan. The district's cost for pension and other post-employment benefits (OPEB)

represented 1% of governmental fund expenditures in fiscal 2014, as plan contribution amounts are principally paid by the state and district employees.

The state's payment of district pension costs is an important credit strength, as it keeps overall carrying costs manageable in the face of a growing debt burden. Combined carrying costs for the district (debt service, pension, and OPEB costs net of state support) consumed a moderate 18% of governmental fund spending in fiscal 2014.

Fitch will continue to monitor the level of state support for school district pension payments, noting district pension contributions statewide increased modestly to 1.5% on the statutory minimum portion of payroll from 0% in fiscal 2015.


TEXAS SCHOOL DISTRICT LITIGATION

For the second time in the past two years a Texas district judge ruled in August 2014 that the state's school finance system is unconstitutional. The ruling, which was in response to a consolidation of six lawsuits representing 75% of Texas school children, found the system inefficient, inequitable, and underfunded. The judge also ruled that local school property taxes are effectively a statewide property tax due to lack of local discretion and therefore are unconstitutional.


Following a similar ruling in February 2013, the judge granted a motion to reopen the lawsuit four months later after state legislative action that partially restored state funding levels and made other program changes. The Texas attorney general has appealed the judge's latest ruling to the state supreme court. If the state school finance system is ultimately found unconstitutional, the legislature will be directed to make changes to the system to restore its constitutionality. Fitch would view positively any changes that include additional funding for schools and more local discretion over tax rates.

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In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, National Association of Realtors, and the Municipal Advisory Council of Texas.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria' (Aug. 14, 2012);

Applicable Criteria and Related Research:
Tax-Supported Rating Criteria
U.S. Local Government Tax-Supported Rating Criteria

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