ALEDO ISD BOARD MEETING TEMPLATE

MEETING DATE: April 18, 2016

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 December 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:

General Operating Fund Balance Report		
	Actual at	Projected at
Description	August 31, 2015	August 31, 2016
Fund Balance	$ 13,687,465	$ 13,042,879
Annual General Operating Fund Expenditures	$ 39,637,107	$ 41,209,156
General Operating Fund Balance Percent	34.53%	31.65%

- Also included for your review is the bond rating report issued by FitchRatings for the District's recent 2016 bond refunding program.

FISCAL NOTE:
None – Informational Report

ADMINISTRATIVE RECOMMENDATION:
None – Informational Report

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

The annual public meeting to discuss the proposed budget and tax rate shall be conducted as follows:

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.

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, 2015

Data Control Codes		10 General Fund	50 Debt Service Fund	60 Capital Projects
	REVENUES:			
5700	Total Local and Intermediate Sources	$ 31,461,731	$ 6,721,341	$ 2,155
5800	State Program Revenues	7,470,383	-	-
5900	Federal Program Revenues	-	-	-
5020	Total Revenues	38,932,114	6,721,341	2,155
	EXPENDITURES:			
	Current:			
0011	Instruction	21,228,796	-	29,940
0012	Instructional Resources and Media Services	490,282	-	-
0013	Curriculum and Instructional Staff Development	239,775	-	-
0021	Instructional Leadership	424,856	-	-
0023	School Leadership	2,416,153	-	-
0031	Guidance, Counseling and Evaluation Services	1,167,579	-	1,141
0033	Health Services	425,539	-	-
0034	Student (Pupil) Transportation	2,077,452	-	1,125,093
0035	Food Services	683	-	-
0036	Extracurricular Activities	2,064,513	-	-
0041	General Administration	1,662,510	-	-
0051	Facilities Maintenance and Operations	4,705,146	-	-
0052	Security and Monitoring Services	442,760	-	88,420
0053	Data Processing Services	1,016,495	-	130,964
	Debt Service:			
0071	Principal on Long Term Debt	-	5,545,375	-
0072	Interest on Long Term Debt	-	3,717,459	-
0073	Bond Issuance Cost and Fees	-	351,291	473,278
	Capital Outlay:			
0081	Facilities Acquisition and Construction	-	-	283,263
	Intergovernmental:			
0091	Contracted Instructional Services Between Schools	759,607	-	-
0093	Payments to Fiscal Agent/Member Districts of SSA	-	-	-
0099	Other Intergovernmental Charges	514,961	-	-
6030	Total Expenditures	39,637,107	9,614,125	2,132,099
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(704,993)	(2,892,784)	(2,129,944)
	OTHER FINANCING SOURCES (USES):			
7901	Refunding Bonds Issued	-	13,195,000	-
7911	Capital Related Debt Issued (Regular Bonds)	-	-	47,075,000
7915	Transfers In	-	2,565,000	-
7916	Premium or Discount on Issuance of Bonds	-	8,590,408	6,600,636
7949	Other Resources - Various Items (See Notes)	106,773	-	-
8911	Transfers Out (Use)	(2,565,000)	-	-
8940	Payment to Bond Refunding Escrow Agent (Use)	-	(21,477,236)	-
7080	Total Other Financing Sources (Uses)	(2,458,227)	2,873,172	53,675,636
1200	Net Change in Fund Balances	(3,163,220)	(19,612)	51,545,692
0100	Fund Balance - September 1 (Beginning)	16,850,685	578,571	908,212
3000	Fund Balance - August 31 (Ending)	$ 13,687,465	$ 558,959	$ 52,453,904

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

Fitch Ratings

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

Fitch Ratings-Austin-05 April 2016: Fitch Ratings has assigned an 'AAA' rating to the following Aledo Independent School District, Texas unlimited tax (ULT) refunding bonds:

--$53.5 million ULT refunding bonds, series 2016.

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 April 11th. Proceeds will be used to redeem portions of the district's outstanding debt for interest savings.

Fitch has also assigned an 'AA' underlying rating to the bonds.

The Rating Outlook is Stable.

SECURITY

The bonds are payable from an unlimited property tax levy of the district, 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 despite recent transfers to the debt service fund.

TAX BASE IMPROVEMENT: The district's tax base has returned to growth after a period of contraction due to its 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.

ELEVATED DEBT: Debt levels are elevated and amortization is slow, in part due to the use of capital appreciation bonds (CABs). Carrying costs are moderate given state support for the district's pension plan.

RATING SENSITIVITIES
MATERIAL DECLINE IN FISCAL CUSHION: Reserves remain strong but in decline due to management's decision to avoid a higher debt service tax rate. A decline in reserves beyond current plans 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+') near Interstate Highway 20.

AFFLUENT DISTRICT
Aledo has transitioned from an agriculture-based economy to 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 $175,000 in fiscal 2016. 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. County unemployment remains low and stable at 4.1% as of January 2016 despite labor force growth.

RESIDENTIAL TAX BASE GROWTH
Over half of the district's tax base is residential with some 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 9% of fiscal 2016 certified values due to decreased drilling activity and lower natural gas prices. The tax base contraction was limited to fiscal years 2012 and 2013, with the cumulative decline a manageable 6.2%. Reappraisal gains and new construction have more than made up for the losses with TAV growth totaling 18% over the past three years.

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 11.9% of fiscal 2016 TAV, and seven of the top 10 are directly engaged in the oil and gas industry. Offsetting this concern are the prospects for continuing residential development given the district's proximity to Fort Worth.

Enrollment gains averaged just over 4% annually leading up to the recession and stagnated somewhat in the years after. Growth has regained momentum since 2013, mirroring tax base growth. Management projects enrollment growth to speed up in the next five years as a result of renewed homebuilding activity. The district has ample land for development.

TAX RATE INCREASES
In 2011 district voters approved an increase of $0.13 per $100 TAV in the operation and maintenance (O&M) tax rate, resulting in an O&M tax rate equal to the $1.17 state cap. In exchange, the district kept the debt service tax rate synthetically low at $0.255 per $100, using excess reserves in the general and debt service funds to cure shortfalls. In fiscal 2016, management increased the debt service tax rate to $0.4250, the first increase since 2009. The large increase served to preserve fund balances and begin paying debt service on the 2015 bond program.

The higher debt service tax rate reduces the district's ability to address capital needs given the $0.50 statutory cap for new issuance approval. This concern is mitigated by the district's capital needs, which will be contingent upon enrollment growth that is generated by residential tax base expansion.

STRONG FISCAL CUSHION DESPITE DRAWDOWNS
Fiscal 2015 audited results were largely on budget, including the $2.6 million transfer out (6% of spending) to the debt service fund, marking the second and last year of excess reserves supplementing debt service payments. The unrestricted fund balance at year-end declined by $3.2 million to approximately $13.7 million, equal to a still robust 32.4% of spending. Management predicts year-end fiscal 2016 will likely be break-even.

ELEVATED DEBT
Debt levels are elevated at 6.5% of market value after the issuance of the 2015 bond program. The pace of amortization remains slow at 29% retired in 10 years, which reflects the district's use of CABs. Approximately 10% of the district's debt is variable rate, with no associated swaps. Liquidity support is provided by a standby bond purchase agreement with JP Morgan renewed in May 2014 for a five-year period. The district does not have any

immediate plans to seek additional bond authorization, and will monitor the timing and scope of residential developments to assess where capital needs lie.

LIMITED PENSION/OPEB OBLIGATIONS

The district participates in the Texas Teachers Retirement System (TRS), a cost-sharing multiple employer defined benefit plan. The state assumes the vast majority of Texas school districts' net pension liabilities and the corresponding employer contributions. However, like all Texas school districts, the district is vulnerable to future policy changes by the state as evidenced by a relatively modest new 1.5% of salary contribution requirement effective fiscal 2015. Legislative changes in 2013 increased the state's annual contributions, although it remains to be seen whether this improves TRS's ratio of assets to liabilities over time.

Under GASB 68, the district reports its share of the TRS net pension liability (NPL) at $3.6 million, with fiduciary assets covering 83.25% of total pension liabilities at the plan's 8% investment rate assumption (approximately 75% based on a more conservative 7% investment rate assumption). The NPL represents less than 0.1% of the district's fiscal 2015 market value. Carrying costs for debt service, pension and OPEB are moderate at 17.9% of fiscal 2015 governmental spending, composed almost entirely of debt service.

TEXAS SCHOOL FUNDING LITIGATION

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 and was the second such ruling in two years, 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.

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 would likely follow with changes intended to restore its constitutionality. Fitch would consider any changes that include additional funding for schools and more local discretion over tax rates to be a credit positive.

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Date of Relevant Rating Committee: July 27, 2015.

Additional information is available at 'www.fitchratings.com'.

Fitch recently published exposure drafts of state and local government tax-supported criteria (Exposure Draft: U.S. Tax-Supported Rating Criteria, dated Sept. 10, 2015 and Exposure Draft: Incorporating Enhanced Recovery Prospects into U.S. Local Tax-Supported Ratings, dated Feb. 2, 2016). The drafts include a number of proposed revisions to existing criteria. If applied in the proposed form, Fitch estimates the revised criteria would result in changes to less than 10% of existing tax-supported ratings. Fitch expects that final criteria will be approved and published in the beginning of the second quarter of 2016. Once approved, the criteria will be applied immediately to any new issue and surveillance rating review. Fitch anticipates the criteria to be applied to all ratings that fall under the criteria within a 12-month period from the final approval date.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis and the Municipal Advisory Council of Texas.

Applicable Criteria
Exposure Draft: Incorporating Enhanced Recovery Prospects into US Local Tax-Supported Ratings (pub. 02 Feb 2016) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=875108&cft=0)
Exposure Draft: U.S. Tax-Supported Rating Criteria (pub. 10 Sep 2015) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869942&cft=0)
Tax-Supported Rating Criteria (pub. 14 Aug 2012) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015&cft=0)
U.S. Local Government Tax-Supported Rating Criteria (pub. 14 Aug 2012) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314&cft=0)

Additional Disclosures
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