



ALEDO ISD BOARD MEETING TEMPLATE

MEETING DATE: July 22, 2013

AGENDA ITEM: Budget Workshop

PRESENTER: Dr. Derek Citty and Earl Husfeld

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

BACKGROUND INFORMATION:

- Per Section 44.002 of the Texas Education Code, “the Superintendent shall prepare, or cause to be prepared, a proposed budget covering all estimated revenue and proposed expenditures of the District for the following fiscal year.
- The budget must be prepared according to generally accepted accounting principles, rules adopted by the State Board of Education, and adopted policies of the Board of Trustees.
- Budgets for the General Fund, the Child Nutrition Fund, and the Debt Service Fund must be included in the official district budget and must be adopted by August 31st.

ADMINISTRATIVE CONSIDERATIONS:

- The District’s 2013-2014 budget development process is progressing on schedule. I have updated the following 2013-2014 Budget Development Calendar to reflect the budget workshop tonight.
- The following pages contain information concerning our continuing discussion of the District’s Debt Service Fund and the I&S tax rate.
- Additional budget information related to the General Fund will be distributed to you this evening.

FISCAL NOTE:

None

ADMINISTRATIVE RECOMMENDATION:

None – Informational Report



ALEDO INDEPENDENT SCHOOL DISTRICT 2013-2014 BUDGET DEVELOPMENT CALENDAR



Date	Action	Performed By
Phase 1 - District Planning and Needs Assessment		
September 2012 - May 2013	Monitor Student Average Daily Attendance (ADA) at the End of Each Six Week Period. Monitor Ad Valorem Tax Collection Percentage at Each Month End.	Chief Financial Officer (CFO)
January 2013	Present 2013-2014 Budget Development Calendar to Superintendent for Comments and/or Changes	Superintendent and CFO
January 2013	Discuss with Principals Student Enrollment and Campus Staffing Projections	Deputy Superintendent
January 14, 2013	Present Budget Development Calendar/Process to School Board	Superintendent and CFO
January 16, 2013	Present Budget Development Calendar/Process to Administrative Staff	Superintendent and CFO
February 2013	Refine/Finalize Student Enrollment and Campus Staffing Projections	Deputy Superintendent
February 2013	Departments Submit Additional Staffing Requests, if any	Directors and Executive Directors
February 2013	Meetings with Principals, Directors, Executive Directors, and Others to Distribute Budget Instructions/Budget Worksheets	CFO
February 2013	Draft Report on Pay Systems Review Received	TASB HR Services Division
March 2013	Final Report on Pay Systems Review Received	TASB HR Services Division
March 1, 2013	Finalized Staffing Projections/Requests Due to Business Office	Deputy Superintendent and CFO
Phase 2 - Campus/Department Planning and Needs Assessments		
March 18, 2013	Regular Board Meeting - Budget Update - Present Additional Staffing Requests, if any, to Board of Trustees	Board of Trustees, Superintendent, Deputy Superintendent, and CFO
April 15-25, 2013	Receive Chapter 41 Preliminary Notification Announcement	Texas Education Agency
May 1-15, 2013	Preliminary Property Tax Roll Valuations Received	Parker County Appraisal District and Tarrant Appraisal District
May 17, 2013	Due Date for Requested Budgets to be Entered into TxEIS	Principals, Directors, Executive Directors, and Others
Phase 3 - Near Final District Planning		
May 15-20, 2013	Update Revenue Projections Based on Preliminary Property Tax Roll Valuations Received	CFO
May 15-31, 2013	Administrative Review of Campus/Department Requested Budgets	Superintendent and CFO
May 20, 2013	Regular Board Meeting - Budget Update	Board of Trustees, Superintendent, and CFO



**ALEDO INDEPENDENT SCHOOL DISTRICT
2013-2014 BUDGET DEVELOPMENT CALENDAR**



Date	Action	Performed By
June 7-19, 2013	Receive Student Average Daily Attendance (ADA) numbers for 2012-2013 school year	PEIMS Office
June 17, 2013	Regular Board Meeting - Budget Update	Board of Trustees, Superintendent, and CFO
June 19-30, 2013	Update Revenue Projections and Their Effect on Budget and Any Other Budget Changes	CFO
Phase 4 - Finalized District Planning and Decisions		
July 15-22, 2013	Receive Chapter 41 Official Notification Announcement	Texas Education Agency
July 22, 2013	Budget Workshop	Board of Trustees, Superintendent, and CFO
July 22, 2013	Regular Board Meeting - Budget Update	Board of Trustees, Superintendent, and CFO
July 25, 2013	Certified Property Tax Roll Valuations Received	Parker County Appraisal District and Tarrant Appraisal District
July 26-31, 2013	Calculate Effective Tax Rate, Finalize Revenue Projections, and Their Effect on Budget and Any Other Budget Changes	Parker County Appraisal District, Tarrant Appraisal District, CFO, and Superintendent's Cabinet
August 16, 2013	Publish in Newspaper Notice of Public Meeting to Discuss 2013-2014 District Budget and Proposed Tax Rate (Published 10 to 30 days before public meeting.)	CFO
August 19, 2013	Regular Board Meeting - Budget Update	Board of Trustees, Superintendent, and CFO
August 26, 2013	Called Board Meeting; Official Public Meeting on Budget and Proposed Tax Rate; Board Meeting to Adopt the Budget	Board of Trustees, Superintendent, and CFO
August 26, 2013	Called Board Meeting; Official Public Meeting of School Board to Set Tax Rate; Board Meeting to Adopt Tax Rate	Board of Trustees, Superintendent, and CFO

**Aledo ISD
Debt Service Fund
Budget History/Projections
July 22, 2013**

<u>Description</u>	<u>2009-2010 Actual</u>	<u>2010-2011 Actual</u>	<u>2011-2012 Actual</u>	<u>2012-2013 Projected</u>	<u>2013-2014 Projected</u>
Property Tax Revenues/Collections	\$ 9,763,057	\$ 6,722,323	\$ 6,270,542	\$ 6,377,307	\$ 6,324,752
Transfer In from General Fund	-	-	-	-	-
Principal/Interest Payments & Fees	<u>(9,753,434)</u>	<u>(9,018,474)</u>	<u>(9,302,247)</u>	<u>(8,388,832)</u>	<u>(9,596,613)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	9,623	(2,296,151)	(3,031,705)	(2,011,525)	(3,271,861)
Refunding Bonds Issued	-	-	9,965,764	28,468,818	-
Payment to Bond Refunding Escrow Agent	<u>-</u>	<u>-</u>	<u>(9,820,480)</u>	<u>(28,105,165)</u>	<u>-</u>
Net Change in Fund Balance	9,623	(2,296,151)	(2,886,421)	(1,647,872)	(3,271,861)
Debt Service Fund Balance, Sept 1	<u>7,456,028</u>	<u>7,465,651</u>	<u>5,169,500</u>	<u>2,283,079</u>	<u>635,207</u>
Debt Service Fund Balance, Aug 31	<u>\$ 7,465,651</u>	<u>\$ 5,169,500</u>	<u>\$ 2,283,079</u>	<u>\$ 635,207</u>	<u>\$ (2,636,654)</u>
Assessed Property Tax Valuation	<u>\$ 2,527,725,812</u>	<u>\$ 2,573,318,370</u>	<u>\$ 2,434,577,463</u>	<u>\$ 2,429,090,245</u>	<u>\$ 2,526,253,855</u>
Actual/Projected Debt Service Tax Rate	<u>\$ 0.3852</u>	<u>\$ 0.2552</u>	<u>\$ 0.2552</u>	<u>\$ 0.2552</u>	<u>\$ 0.3830</u>
Debt Service Fund Tax on \$250,000 Home	<u>\$ 963.00</u>	<u>\$ 638.00</u>	<u>\$ 638.00</u>	<u>\$ 638.00</u>	<u>\$ 957.46</u>

Notes:

1. Tax Ratification Election (TRE) was passed on August 28, 2010, resulting in the decrease to the debt service tax rate in 2010-2011.
2. 2013-2014 property tax collections amount is based on no change to the I&S tax rate of \$0.2552 with a 98% collection rate.
3. 2013-2014 assessed property tax valuation is a 4% increase over the 2012-2013 value.
4. A 1.0% interest rate has been assumed on the District's variable rate bonds.



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July 16, 2013

Dr. Derek Citty
Superintendent of Schools
Aledo Independent School District
1008 Bailey Ranch Road
Aledo, Texas 76008

Mr. Earl Husfeld
Chief Financial Officer
Aledo Independent School District
1008 Bailey Ranch Road
Aledo, Texas 76008

Re: Aledo Independent School District – General Operating Fund Balance and Financial/Operating Considerations

Dear Dr. Citty and Mr. Husfeld:

Introduction

This letter is to review certain financial and operating considerations that we thought may be helpful as Aledo Independent School District (the “District”) reviews its budget and tax rate alternatives for fiscal year 2013/14, including the potential use of General Operating Fund Balance. Please note this material is based upon the premise that all existing and future District funds are “taxpayer dollars”, regardless if such funds are used for teacher salaries, maintained in fund balance or used for bond payments and as members of the community, we believe the District is the most qualified to determine how “taxpayer dollars” shall be deployed. It is also important to emphasize this material only portrays certain financial and operating considerations and it does not address the intangible “taxpayer needs/expectations” that must also be considered in the District’s decisions.

Tax Ratification Election

Due to the limited revenues provided for “instructional purposes” by the existing State funding system and like many other Texas school districts, the District held a Tax Ratification Election (“TRE”) on August 28, 2010 to increase its Maintenance & Operations (“M&O”) tax rate from \$1.04 to \$1.17. At the time of the TRE, the District stated it would reduce its Interest & Sinking Fund (“I&S”) tax rate by 13-cents, from 38.52-cents to 25.52-cents, to provide taxpayers with no initial tax increase – The increase of the M&O tax rate would initially be offset by a corresponding reduction of the I&S tax rate. The voters of the District approved the Tax Ratification Election by a vote of 1,834 “For” and 241 “Against”, representing an approval rate of 88.4%. During the 3 fiscal years since the TRE, the District has maintained a \$1.17 M&O tax rate and the reduced 25.52-cent I&S tax rate.

Financial Considerations

As the District determines the most appropriate tax rate for fiscal year 2013/14 and reviews the potential use of existing General Operating Fund Balance, we have listed below a few financial considerations for your review.

General Operating Fund Balance May be Needed for Operating Expenses in Future Years: Based upon the current State funding system and the District’s successful TRE, the District is currently generating the maximum revenues available for operating expenses (instructional programs, salaries, utilities, etc.). In other words, given the current State funding system and the District’s current student enrollment, the District’s Maintenance & Operation revenue will remain the same in future years. As such, the District’s General Operating Fund Balance and its current annual M&O revenues is all that will be available to fund the District’s operating expenses in future years. This means any future salary increases, instructional program enhancements; utility cost increases, technology replacement/upgrades, maintenance and repair needs, etc. will need to be funded from a combination of the same M&O revenue currently generated, General Operating Fund Balance and/or a reduction of operating expenses.

General Operating Fund Balance is a Key Bond Rating Factor: During the bond rating process for the District's bond refunding program completed in April 2013, Standard & Poor's Rating Services "UPGRADED" the District's bond rating from "A+" to "AA-" – Quite an accomplishment given prevailing economic conditions, slowdown of the District's taxable valuation growth and unprecedented State funding cuts. As stated in the rating report, Standard & Poor's cited the District's "very strong" General Operating Fund Balance that provides ongoing operating flexibility as a significant factor in the decision to increase the District's bond rating. While we cannot state with certainty, but based upon our experience the District's bond rating (which is reviewed annually) is likely to be reduced in the future should the District continue to use General Operating funds for bond payments. Like a bank loan or mortgage application, the rating agencies prefer sufficient annual revenues be generated to cover actual annual expenses, as they realize surplus revenues may not always be available. A reduction of the District's bond rating would conservatively increase the District's interest rate on future bond sales by 0.10% – Which equates to approximately \$500,000 on a \$25 million bond sale.

General Operating Fund Balance for Bond Payments: The District has very prudently managed its financial position and has been able to successfully use surplus funds for annual bond payments. To date, such funds have been used to artificially lower the District's I&S tax rate to reduce the current year taxpayer burden – An action that is commendable and demonstrates the District's strong fiscal responsibility to its taxpayers. However, should the District determine it best to use General Operating Fund Balance for bond payments in the future, consider using such funds to "prepay" the District's existing long-term bonds prior to their scheduled maturity in lieu of reducing the current year tax rate. For instance, if the District decided \$3 million of General Operating Fund Balance may prudently be used for bond payments, the District may dedicate such funds to the "prepayment" of existing long-term bonds and the "tax burden" of taxpayers would be reduced by \$6 million (\$3 million in principal and \$3 million in interest) as the District's future interest payments on these bonds is eliminated for the next 20-plus years. In comparison, using the same \$3 million to reduce the "tax rate" provides a one-time \$3 million tax reduction.

Operating Considerations

Given the District's M&O revenues are "capped" pursuant to current State funding rules, the District will likely need to eventually raise the I&S tax rate by approximately 13-cents. As such, the following are a few operating considerations for your review.

- The longer the time period between the TRE and the increase of the District's I&S tax rate, the increased probability that taxpayers will not remember the District's tax rate commitment at the time of the successful TRE.
- Should the District need to hold another bond election, the longer the time period between the increase of the I&S tax rate and the bond election, the higher probability the bond election will be successful.
- If the I&S tax rate is not increased prior to holding a new bond election, the associated tax increase of the bond election will be 13-cents higher – Making it potentially more difficult to garner support (base tax rate for increase is 25.52-cents versus 38.52-cents).

Closing

Unfortunately, as the District determines the most appropriate tax rate and use of General Operating Fund Balance for fiscal year 2013/14 there is not a "Right" or a "Wrong" answer. However, we hope the financial and operating considerations herein are helpful to the District's decision making process. Most importantly and as you know, an action is only valued or appreciated if it is understood. As such, whether the District maintains an I&S tax rate of 25.52-cents, prepays outstanding long-term bonds or increases its I&S tax rate to the level experienced prior to the TRE, communicating the District's decision to taxpayers will be the key to their acceptance and appreciation. Should any questions arise, additional information is preferred or we may be of any assistance to the District, please do not hesitate to let us know. Hope all is well and hang in there!

Sincerely,



William J. Gumbert
Managing Director



Joshua M. McLaughlin
Investment Banker

**Aledo ISD
Debt Service Fund
July, 2013**

**Possible Debt Service Tax Rate Increase
(by up to 13 cents)**

Pros

1. Taxpayers approved this action when they originally approved the bond issues.
2. Taxpayers approved this action when the TRE was passed in August 2010.
3. At the time of the TRE, taxpayers were told the District would use debt service fund balance for two (2) years - it has now been three (3) years.
4. Continued use of fund balance from the General Fund will impact the District's credit rating.
5. Continued use of fund balance from the General Fund is not prudent due to on-going school finance litigation and legislative "philosophy" against higher wealth school districts.
6. The M&O tax rate is the maximum allowed by law and may not be raised beyond the current \$1.17. Therefore, the only way for the District to generate more revenue is via student enrollment growth.
7. More time or distance between a tax rate increase and a bond election is preferable. For instance, it would not be prudent to have a tax rate increase in 2014 and a bond election in 2015.
8. It is easy to spend fund balance and very difficult to replace fund balance.

Cons

1. Taxpayers' property tax payment to Aledo ISD will increase.
2. "Anti-tax" sentiment very prevalent at this time.

In summary, if the District wants to spend \$3,250,000 of fund balance in the General Fund and wants to truly benefit our taxpayers, the Debt Service Fund tax rate should be raised 13 cents and use the \$3,250,000 to pre-pay outstanding bonds. This action would result in approximately \$6,500,000 in savings to the District's taxpayers over the life of the pre-paid bonds.