

School Finance 101: What is Chapter 41 and “Robin Hood”?

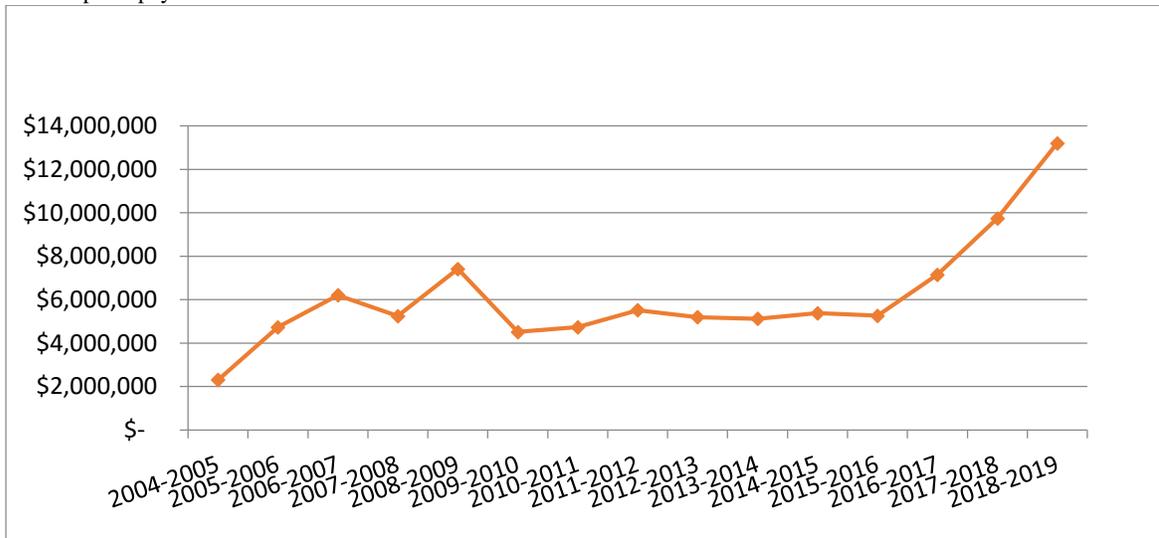
Why does Fredericksburg I.S.D. propose bonds?



Fredericksburg Independent School District (FISD) is considered property wealthy as our local taxable property value divided by the number of weighted students is approximately \$822,528 per student. At this time, the threshold to become a Chapter 41 school (property wealthy) is \$514,000 per student for level 1 and \$319,500 for level 2. Almost 1/3 of the 1,028 school districts in Texas are now considered property wealthy, which accounts for about 50% of the 5.47 million students in Texas public schools.

In Fredericksburg ISD we have increasing property value due to both new construction and increasing real estate values. As a result, our Chapter 41 payment also increases as FISD is allowed to retain an allotment of approximately \$5,586 per weighted average daily attendance of the funds collected on our General Fund (Fund 199). This is funded with a tax rate of \$1.04 per \$100 of property value (1.04%). The balance through various formulas and minor adjustments is paid to the State of Texas in the form of recapture payment to the Texas Education Agency. Fredericksburg ISD recapture payments have steadily increased from \$2.3 million in year

2004 to \$9.7 million in 2017/2018. As our property values have increased, our recapture payment for 2018/2019 is estimated to be \$13.2 million. After 2017/2018, FISD will have sent approximately \$79 million of locally collected revenue in recapture payments to the State of Texas.



The following are some of the commonly asked questions about Public Education Finance:

What is the state's role in providing for the public schools?

The Texas Constitution requires the state to provide public education. Article VII, Section I of the document reads, "It shall be the duty of the Legislature of the State to establish and make suitable provision for the support and maintenance of an efficient system of public free schools."

Where does the money to fund public education come from?

Public school funding comes from three main sources: local funds, state funds and federal funds.

Local funds, primarily local property tax revenues, now make up the largest portion of the public school funding in Texas. Local funds pay for approximately 62% statewide in school funding and the state contributes 38% for 2018/19. In the FISD General Fund, local revenues, mostly property tax collections, provide approximately 92% of revenue and state funding is 7% of revenue. The remaining 1% is made up of local fees, interest, and a small amount of federal funding. Employees and their benefits utilize approximately 80% of the general fund after recapture payments. Other costs such as transportation, utilities, maintenance, or services take the balance of the General Fund.

State funds come from a variety of sources, but over the last several decades, the percentage of school funding coming from the state has steadily declined. The state derives its funds from sales tax, school district property tax, motor vehicle tax, franchise tax, gasoline, cigarette and alcohol tax plus some federal funding.

Federal funds, which generally are outside of the General Fund, represent the smallest portion of the three major revenue sources for the state's public schools. Most federal funds are earmarked for specific programs or to provide services to a specific group of students (e.g., low income, special education, food commodities). Federal funds to Fredericksburg ISD are approximately \$3 million with approximately 31% going to food and nutrition, 35% to special education, and 34% to educationally disadvantaged students. Federal funds are not used for education of the entire student body.

Why can't the local property values be lowered to adjust the amount of money we send to the state in the form of recapture payments?

The local appraisal district is required by the state to appraise properties based on market value. The Texas State Comptroller's Office audits the values annually. If the local appraisal district does not value within a certain range of the state's calculations, the state will presume the state's values are accurate and will use their values instead of the local appraisal values. The recapture payments will be based upon the state's calculations rather than actual local appraised calculations. This would mean taxes would be collected on a lower value, but FISD would make recapture payments at a higher calculated rate. During the previous tax year, the locally appraised values were barely high enough to meet the State's estimated values.

Why can't the General Fund tax rate be decreased to avoid recapture payments?

The General Fund Maintenance & Operations tax rate has remained constant at \$1.04 since the year 2007/08 and has been capped by the State at this maximum rate without an additional roll back election. The Chapter 41 payments are based upon value and not the tax rate. In 2018, Fredericksburg ISD would be subject to the same \$13.2 million payment for 2018/19, which is about 1/3 of our General Fund local revenues, regardless of the amount of tax collected.

What is the purpose of a bond and how can it be best used to keep local tax dollars to work in FISD?

Bonds, which are approved in local elections, may be used to service debt that is used to pay for new facilities. In addition to the typical construction project, bonds may be used to purchase durable goods, such as buses, computers, rehabilitation of older facilities, and equipment that has a useful life greater than 1 year.

ALL FUNDS GENERATED BY A LOCAL ELECTION BOND ARE NOT SUBJECT TO RECAPTURE.

Fredericksburg ISD has utilized bonds with this strategy since becoming a Chapter 41 recapture district in 2004 to support not only new facilities, but also buy durable goods and make repairs.

What is in the 2018 Bond?

In 2018, the Fredericksburg ISD Trustees proposed a bond that will be used to provide necessary funds over the next 3-4 years in maintenance, transportation, security, fine arts, technology, and miscellaneous projects. These purchases and projects would otherwise be funded through the General Fund over the next 4 years. The goal of this bond is to make room in the General Fund for salaries since FISD did not provide a raise in the 2017/18 school year. This bond will have a term of only 5 years.

What is the Debt Service Tax Rate?

The rate is at 10.62 cents and has been since 2007/08.

How much does the district owe in Debt?

Description	Interest Rate Payable	Amounts Original Issue	Interest Current Year	Amounts Outstanding 7/1/2017	Issued	Retired	Amounts Outstanding 6/30/2018
Refunding Bonds - 2008	2.3-7.0%	\$ 9,464,877	\$ 29,200	\$ 1,460,000	\$ -	\$ 1,460,000	\$ -
School Tax Bonds - 2011	.8-3.75%	\$ 9,975,000	\$ 256,832	\$ 8,345,000		\$ 660,000	\$ 7,685,000
School Tax Bonds - 2015	1.05-6.8%	\$ 7,500,000	\$ 117,164	\$ 5,030,000		\$ 200,000	\$ 4,830,000
School Tax Bonds - 2016	1.81%	\$ 9,000,000	\$ 142,990	\$ 7,900,000		\$ 1,110,000	\$ 6,790,000
			\$ 546,186	\$ 22,735,000	\$ -	\$ 3,430,000	\$ 19,305,000

Debt service requirements are as follows:

Year Ended June 30	Principal	Interest	Total Requirements
2019	\$ 1,225,000	\$ 479,745	\$ 1,704,745
2020	1,280,000	452,974	1,732,974
2021	1,555,000	423,314	1,978,314
2022	1,590,000	386,734	1,976,734
2023	1,635,000	346,675	1,981,675
2024-2028	8,045,000	1,038,433	9,083,433
2029-2033	3,975,000	157,462	4,132,462
	\$ 19,305,000	\$ 3,285,337	\$ 22,590,337