

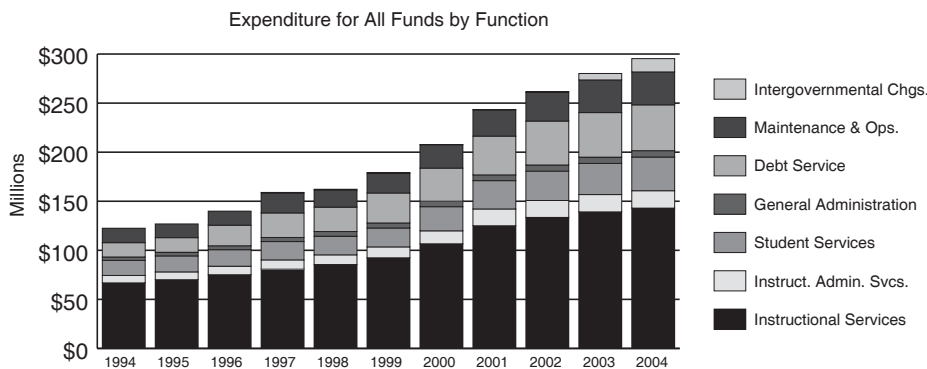


round rock **i s d**

# Guide to School Finance

In recent years, Round Rock ISD has experienced a reduction in state funding and been required to send millions of dollars to share with other districts considered less wealthy. Meanwhile, the district has faced increasing costs to comply with new state and federal mandates and accommodated more than 1,000 new students annually, many of whom require special services and programs. Despite these financial challenges, RRISD continues to focus on its goals by shifting more funds to schools and classrooms, making administrative and non-academic program cuts, exercising fiscal conservatism, and seeking new sources of revenue.

*By law, school districts must report financial information in complex formats that can be difficult and confusing to understand. This guide is intended to explain the budget guidelines, process, and allocations for Round Rock ISD*



## DISTRICT OVERVIEW

Round Rock ISD dedicates resources to support the goals and priorities outlined in the district's strategic plan, *Blueprint for Excellence*, to provide exemplary education, guidance, and encouragement to empower all students to reach their individual potential. The district is especially focused on high student achievement; safe, orderly and nurturing schools; and effective and efficient operations.

## Financial Management

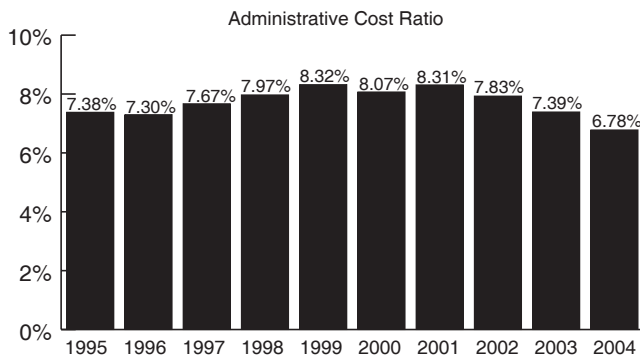
Round Rock ISD is considered one of the best financially managed districts in the state:

- Since the Schools Financial Integrity Rating System of Texas (FIRST) was established in 2001, RRISD has earned perfect scores and the state's highest rating of "Superior Achievement" each year.
- Independent audits have repeatedly certified the district's sound financial systems and processes.
- The district's financial leadership and stability have led both Moody's Investor Services and Standard and Poor's to assign bond ratings that are among the highest in the state, which results in significant interest savings for taxpayers.

## Administrative Cost Ratio

Texas law requires school districts with more than 10,000 students to maintain an administrative cost ratio less than 11 percent. The administrative cost ratio compares the expenditures for administration to the costs for instructional and counseling services. RRISD has consistently maintained administrative ratios below this level. The administrative cost ratio for 2004-05 was 6.78 percent, the lowest in more than 10 years.

*RRISD maintains administrative cost ratios well below the state maximum.*



## Budget Process

Budget amounts and personnel are allocated to schools according to student enrollment and needs. Schools and departments designate how they plan to spend their allocated resources. Campuses are encouraged to involve their Site-Based Advisory Committees, which include parent and teacher representatives, to determine their financial priorities.

Campus and department budget requests are reviewed by the district's financial and budget services staff and the superintendent. The superintendent then presents the district's draft budget to the RRISD Board of Trustees. The board holds a series of workshops, which are open to the public, to review and discuss the budget recommendations. A public hearing is held prior to adoption. State law requires the board to adopt a budget by June 30 each year, the last day of the fiscal year. The tax rate is set in September after the chief appraiser for Williamson County certifies property values.

### Budget and Tax Rate Adoption Calendar

Board Budget Workshops .....	April-June
Public Hearing on Budget and Tax Rate .....	June
Adoption of Budget .....	June
Adoption of Tax Rate .....	September

## SCHOOL FINANCE IN TEXAS

School districts have several sources of funds that are accounted for through the budget process.

### Local Funds

**Maintenance & Operations (M&O) Budget:** All expenses necessary to operate the school district, including salaries and benefits, utilities, equipment and supplies, and other operational costs, are paid from the M&O, or operating, budget. The operating budget is funded through local taxes, state and federal allocations, fees, advertising and other revenue. By statute, the school board cannot set the local M&O tax rate above \$1.50 per \$100 valuation.

**Debt Services:** The debt services budget is developed to fund the repayment of voter-approved general obligation bonds. As bonds are issued, the principal and interest is repaid through the debt services fund, usually over a 20-year period (technology bonds are repaid within five years). The debt service tax rate is set to ensure collection of the district's annual debt obligation, which is approximately \$47 million per year.

**Bonds:** Bond funding is approved by voters and may be used only for capital improvement projects, such as land and buildings, facility renovations and repairs, technology infrastructure and improvements, and school buses. By law, bond funding cannot be used for operating expenses.

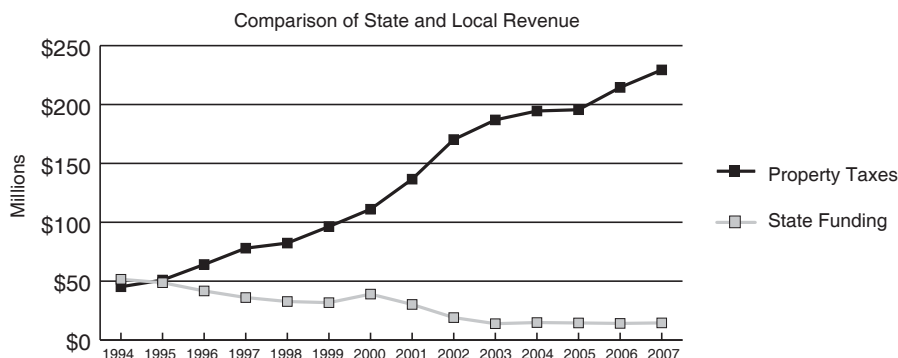
**Special Revenue:** The Board of Trustees also approves the budgets for the food service, technology and student activity programs through the special revenue fund. These are self-sustaining programs that generate revenues and receive state and federal reimbursements.

### State Funding System

Over the years, local taxpayers have increasingly assumed the costs of educating children in Texas. In 2004, a district court ruled that the State of Texas is not fulfilling its constitutional obligation to provide an adequate public school system. The ruling is currently on appeal to the Texas Supreme Court. The Texas Legislature has been charged with developing options to overhaul the school finance system. Until a new funding system is adopted by the legislature, the district must develop a budget based upon current law.

Under the current system, the state allocates funds to districts based on weighted average daily attendance (WADA), which means a designated amount is allocated per student in attendance. The amount is increased slightly for students requiring special services, such as special education or bilingual programs. However, as a district's local property values increase, the state decreases the dollars it provides to the school district.

*By law, bond funding cannot be used for operating expenses such as salaries, benefits, utilities, and equipment and supplies.*



Under Chapter 41, the state is expected to "recapture" more than \$9 million of RRISD local funds.

School taxes do not increase for homeowners 65 years of age or older unless their property ceases to be a homestead.

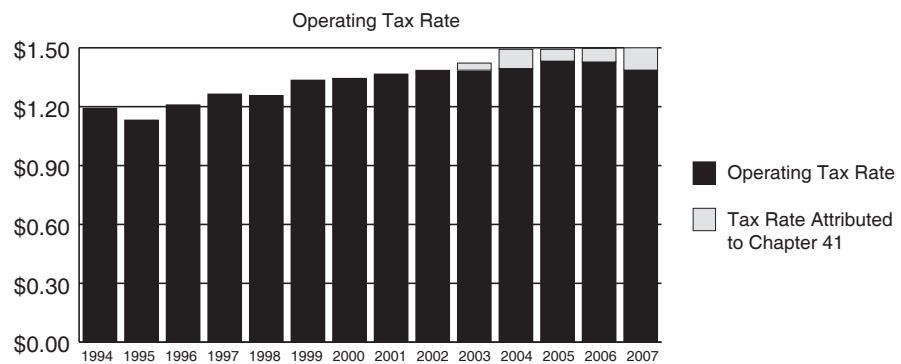
Districts with assessed property values that exceed \$305,000 per student are considered "property wealthy" and subject to Chapter 41 (the state's wealth equalization school finance law). Local funds are "recaptured" to help equalize the funding available to all school districts. In addition to losing local tax revenue, Chapter 41 districts receive less state funding, including RRISD. The district anticipates remitting \$9.9 million in recapture funds in 2005-06.

### Property Values and Tax Rates

Taxes fluctuate due to changes in the tax rate as well as changes in property values, which the district does not control. The Williamson County Appraisal District assesses and certifies the values of all the property within Round Rock ISD, including homes, apartments, land, and businesses. Property owners pay taxes based on the tax rate set annually by the school board. The tax rate is then multiplied by the assessed value of the property. The taxes paid by citizens age 65 or older are frozen and do not change unless property ceases to be a homestead or major improvements are made that significantly affect values.

RRISD is currently at the state maximum operating tax rate of \$1.50 per \$100 valuation. Between four and 11 cents of the operating tax rate each year are attributed directly to the Chapter 41 recapture payment.

Recently, more than 130 school districts, including RRISD, filed a suit against the state charging that the current school finance system has effectively resulted in an unconstitutional state property tax because so many districts are at the maximum operating tax rate of \$1.50 per \$100. The district court agreed, stating school districts no longer have the discretion needed to set their operating tax rates. Without that discretion, districts like RRISD are limited in their ability to respond to increased growth, higher insurance and utility costs, state and federal mandates, and other needs without affecting programs or staffing.



## OPERATING REVENUES AND EXPENSES

### Where Does the Money Come From?

Most of the operating revenue in Round Rock ISD comes from local taxpayers, primarily owners of single-family homes. Single family residences make up 57 percent of the 2004 tax roll and commercial property accounts for 16 percent. The remaining 27 percent is comprised of rural land, multi-family and mobile home residences, and utility easements.

In 2004-05, over 87 percent of the district's total revenues came from local property taxes with another two percent from other local sources such as tuition, rental fees and interest income. State aid accounted for just 10 percent of the revenue. Federal aid, such as Medicaid and ROTC reimbursement, makes up less than one percent of local revenue.

## Where Does the Money Go?

Excluding the Chapter 41 recapture payment, approximately 90 percent of the district's operating budget goes to salaries and benefits. RRISD has more than 4,500 employees, about 2,900 of whom are teachers, aids, librarians, or counselors. Another 34 percent work directly with students or teachers as campus principals, assistant principals, bus drivers, curriculum/technology integration specialists, food service providers, administrative assistants, registrars, and in other school-based positions. Only two percent of the district's employees are assigned to the Central Office as administrators.

The Texas Education Agency and the state Comptroller's Office uses different methods to determine the percentage of expenditures that districts allocate for instruction. The percentage varies depending on whether debt services or facilities costs are considered—typically those costs should not be included because those funds cannot legally be used for operating costs. Instructional and non-instructional costs also are defined differently in various reports.

*Only 2% of district employees are assigned to the Central Office as administrators.*

## General Fund Expenses by Type

Expenditure Category/What is This?	2003-04 Actual Costs	2004-05 Actual Costs (Unaudited)	Percentage of 2004-05 Budget
<b>Instructional</b> Classroom teachers and supplies, library books and materials, and teacher staff development	\$131,330,854	\$138,408,307	60.63%
<b>Instructional and Campus Leadership</b> Principals and central office staff devoted to instructional development, campus registrars and secretaries	\$16,559,365	\$16,654,175	7.30%
<b>Student Support Services</b> Counseling, nursing and social work services, transportation, food service, and extracurricular activities such as field trips	\$21,789,684	\$24,622,836	10.79%
<b>General Administration</b> Administrative functions not directly linked to instruction, such as human resource and financial services, legal, audit, appraisal district and elections	\$6,459,933	\$7,209,236	3.16%
<b>Support Services</b> Custodial, facility maintenance, security, utilities, technology infrastructure and maintenance	\$29,635,316	\$31,136,077	13.64%
<b>Community Services</b> Community schools and services provided to encourage parental involvement	\$1,078,110	\$1,240,614	0.54%
<b>Debt Service</b> Costs associated with the repayment of the Lone Star program	\$0	\$679,125	0.29%
<b>Capital Outlay</b> Equipment and other items expected to be in use for a year or more	\$1,811,638	\$1,434,092	.63%
<b>Intergovernmental Charges</b> Costs associated with Chapter 41 and JJAEP placement	\$12,779,471	\$6,900,011	3.02%
<b>TOTAL</b>	<b>\$221,444,371</b>	<b>\$228,284,473</b>	<b>100%</b>

The state budget category for instruction includes only salaries and benefits for teachers and teacher aides and instructional materials. But curriculum, staff development, and library services also are critical for learning. Other expenditures defined as non-instructional that are integral to a student's education (and may be legally required) include funding for counselors, diagnosticians, nurses, principals and assistant principals, transportation, food services, security, school heating and air conditioning, custodians, and building maintenance.

## DEBT SERVICES REVENUE AND EXPENSES

### Where Does the Money Come From?

As a Chapter 41 district, Round Rock ISD does not receive state funding for debt services or facility funding (the district does receive an additional \$250 per student attending new campuses in the first two years of their operation). To pay for new facilities and other capital improvements, RRISD seeks voter authorization to sell bonds, which are contracts to borrow money that is repaid with interest to investors. Funding to repay the principal and interest on the bonds comes from the debt services tax assessed on local property.

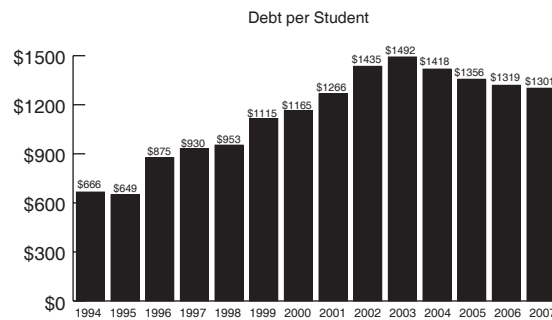
### Where Does the Money Go?

State law allows up to 40 years for repayment of school bonds. RRISD typically issues bonds with final maturity dates of 20 years. Bonds to fund technology projects are usually repaid within five years. Revenue from the debt services tax is used to repay the principal and interest on the bonds. As property values increase, the debt services tax rate can be reduced. If market conditions become more favorable over the life of the bonds, the district can refinance to reduce interest payments.

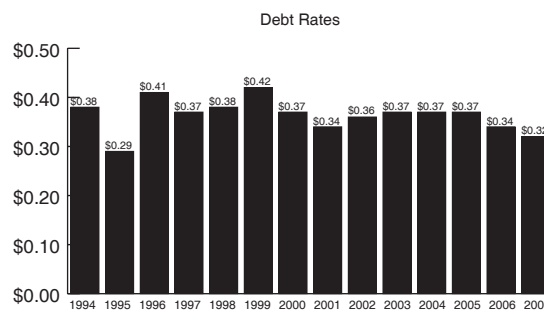
RRISD sold voter approved bonds each year from 1995 through 2002 for the building improvement and construction necessary to address the fast growth in the student population. This has caused the district's debt per student to be higher than that of other similarly sized districts that are not experiencing fast growth.

*To compensate for the lack of available state funds, RRISD seeks voter authorized bonds to pay for new facilities and other capital improvements.*

*In 2005, RRISD refinanced bonds valued at over \$169.8 million at lower rates, resulting in interest savings of more than \$8 million—approximately \$615,000 annually over the next 14 years.*



The district's debt service tax rate is currently \$0.3652 per \$100 of assessed value. This rate is projected to decrease in the coming year due to a recent refinancing of outstanding debt. By refunding the bonds at a lower interest rate, the district has saved taxpayers more than \$615,000 annually in interest expenses over the next 14 years.



## GLOSSARY

### **Academic Replacement Schedule**

Prioritized schedule of academic equipment needs, such as band instruments, science equipment, choral risers, and calculators not otherwise covered by the budget.

### **Benchmarking**

Curriculum based measures designed to provide a sample of student learning at a specific time so that instructional adjustments can be made in the classroom in order to improve the student's learning and mastery of the curriculum.

### **Chapter 41**

The section of the Texas Education Code intended to equalize school funding by recapturing funds from school districts defined as having a higher level of property wealth to help educate students in districts with less property wealth.

### **Debt Services**

Expenditures used for the payment of debt (bond) principal and interest, debt service fees, and the retirement of recurring bonds.

### **Fiscal Year**

The 12-month period selected as a basis for annual financial reporting, planning, and budgeting. In RRISD, the fiscal year begins July 1 and ends June 30.

### **Form A/Above Form A**

Campuses and departments are allocated a budget amount each year on Form A; requests for additional dollars for new purchases or staff are considered Above Form A.

### **Function**

State budget codes used to identify the expenditures of an operating area or a group of related activities.

### **Fund Balance**

Difference between assets (cash, investments, inventory and receivables) and liabilities (accounts, salaries, and notes payable); used to pay salaries and other operating expenses in the months between the end of the fiscal year and the collection of tax payments. TEA recommends districts have enough undesignated funds to cover cash flow deficits which occur in the fall prior to the receipt of tax revenue and state funding.

### **General Fund**

The primary operating budget of the district.

### **Instruction**

The amount spent on classroom instruction as reported under Function 11.

### **Maintenance, Repair, Replacement (MRR) Schedule**

Prioritized schedule of maintenance needs by auxiliary departments, such as replacement of vehicles and delivery trucks.

### **Object**

State accounting classification identifying the transaction posted or the source of the monies related to a transaction.

### **Operating Revenue and Expenses**

The budget fund used for the revenues, expenses, and changes in net assets related to a district's daily operations.

### **Penny Yield**

The tax revenue a penny of the operating tax rate yields. The higher the property values, the higher the penny yield. In 2004-05, the penny yield in RRISD was approximately \$1.3 million.

### **TRS On-Behalf**

School districts are required to pay the retirement contributions of employees to the Teacher Retirement System (TRS), which is then reimbursed by the state.

### **Unique School Allocation**

Funds provided to RRISD schools that have higher percentages of low-income students for increased personnel and support.

### **WADA (Weighted Average Daily Attendance)**

The per pupil funding allocation from the state is "weighted" to recognize that some students, such as those with limited English proficiency, learning difficulties, or deemed gifted, cost more to educate.

*This defines some of the basic terms used in school finance and district budget development.*

*Produced by the Round Rock  
ISD Community Relations and  
Financial Services  
Departments.  
October 2005*

*To learn more, please call the  
RRISD Financial Services  
Department at 512.464.5048  
or the Community Relations  
Office at 512.464.5113.*

© 2005 Round Rock Independent School  
District. All Rights Reserved.

## ADDITIONAL INFORMATION

Additional information on the budget process and financial issues in Round Rock ISD is available from the following resources.

**RRISD Web Site.** Previous, current, and proposed budgets are posted at [www.roundrockisd.org](http://www.roundrockisd.org). The Web site also features summaries of board meetings and budget workshops, detailed accountability information, financial reports, and district achievements and demographics.

**Public Meetings.** All RRISD board meetings and budget workshops are open to the public. The school board typically meets on the third Thursday of every month, beginning at 7:30 p.m. in the Round Rock High School Lecture Hall. Notices of meetings and budget workshops are posted on the Web and in the front office of the RRISD Administration Building.

**Site-Based Advisory Committee and PTA Meetings.** Every school has a committee that includes parents and staff to help determine the direction and needs of the campus. The campus PTA also has meetings and committees that offer opportunities to become informed and involved. Contact your school principal and/or PTA president for more information.

**Texas Education Agency.** The TEA Web site ([www.tea.state.tx.us](http://www.tea.state.tx.us)) provides information about state funding, along with detailed reports from every district in Texas. TEA also offers information about the state's financial and academic accountability requirements.

## 2005-06 OPERATING BUDGET HIGHLIGHTS

### Revenue

Local	\$221,381,700	91.6%
State	\$19,600,000	8.1%
Federal	\$791,000	0.3%

---

<b>Total Revenue</b>	<b>\$244,772,700</b>	<b>100%</b>
----------------------	----------------------	-------------

---

### Expenditures

Salaries & Benefits	\$202,386,927	82.5%
<i>Current Salaries &amp; Benefits</i>	\$193,514,848	
<i>Add'l Staff &amp; Salary/Benefit Increases</i>	\$8,872,079	
Campus and Department Allocations	\$29,297,594	11.9%
Additional Operating Expenditures	\$1,571,000	0.6%
<i>Maintenance, Repair &amp; Replacement</i>	\$800,000	
<i>JJAEP</i>	\$362,000	
<i>Energy Loan Repayment</i>	\$409,000	
Increase in Fuel and Utility Costs	\$2,117,000	0.9%
Chapter 41	\$9,900,000	4%

---

<b>Total Expenditures</b>	<b>\$245,272,521</b>	<b>100%</b>
---------------------------	----------------------	-------------

---

<b>RRISD Fund Balance</b>	<b>\$89,228,888</b>
---------------------------	---------------------

*As of June 30, 2005*