

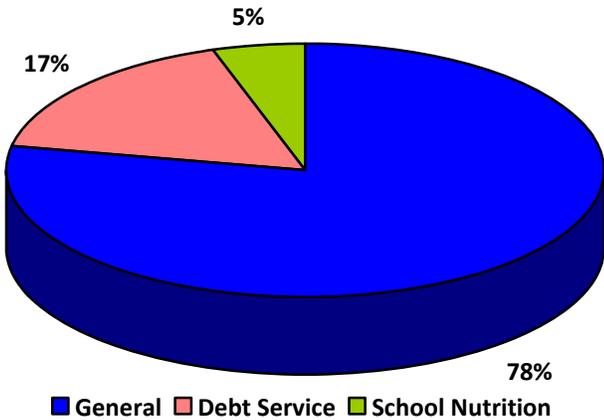


2016-2017 Budget

General Fund

The General Fund is used to account for all transactions that are not required to be included in other funds. It represents the main operating fund of North East Independent School District (NEISD). The General Fund represents 78% of the expenditure budget of the three fund budgets required to be adopted by the Board of Trustees.

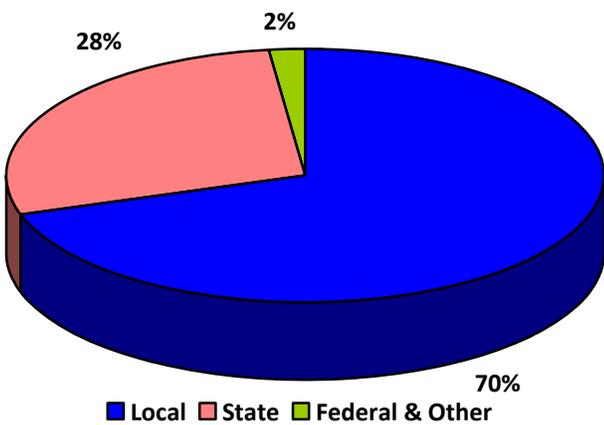
2015-2016 Adopted Budget



Revenue

The two largest revenue sources in the General Fund are property taxes and State aid through the Foundation School Program. These two items are 92% of General Fund Revenue. All local revenue sources make up 70% of total General Fund revenue. All State sources, including payments the State makes on-behalf of school districts to the Teachers Retirement System of Texas, comprise 28%.

2016-17 General Fund Revenue Distribution



2016-17 General Fund Revenue Budget

(In Thousands)	Amount	
Local		
Property Taxes	\$370,610	
Other	5,588	
Total Local		\$376,198
State		
Foundation Program	123,127	
TRS On-Behalf	24,131	
Total State		147,258
Federal & Other		11,315
Total General Fund Revenue		\$534,771

Local Revenue

Nearly 99% of the local revenue budget is maintenance and operations property tax collections. The District levies a property tax of \$1.04 per \$100 of assessed taxable property value. This rate is the maximum allowed by law without voter approval.

Single-family residences are 58% of the District's property value. There are more than 116,000 residences with an average market value of nearly \$227,000. The standard homestead exemptions is \$25,000. With all exemptions included, the average taxable value of an NEISD homestead is approximately \$197,000. Commercial real and personal property is the next largest share, at 26%. Multi-family residences are 9% of the total, with the remainder comprised primarily of tax-exempt property and undeveloped tracts of land.

The net assessed property value for 2016-17 is expected to be near \$37.0 billion, after all exemptions. This is a value increase of approximately 7.5%.

State Revenue

Eighty-four percent of the state revenue budget is funding from the Texas Education Agency through the Foundation School Program. The remaining 16 percent represents the value of payments the State makes to the Teachers Retirement System of Texas on behalf of North East ISD. The on-behalf payments are both revenue and expenditures to the District, although no funds actually flow into or out of the District's accounts.

The State formula system is made up of different "tiers". NEISD's State formula funds are split approximately 88% / 12% between Tier 1 and Tier 2.

Tier 1 formulas are intended to distribute funds to all districts equitably, based on student programs and demographics that receive additional "weighted" funds. The formula computes total program costs, then deducts from State funds a "local share" equal to 1% of the District's prior year's taxable property value. The difference is paid by the state. Since 2015-16 property value increased by nearly \$3.1 billion, the "local share" of Tier I increased \$30.5 million, decreasing State aid by \$30.5 million.

Tier 2, known as the "enrichment tier" provides matching funds for every penny (up to 6 cents) that districts choose to raise their local maintenance and operations (M&O) tax rate above the state floor of \$1.00 per \$100 of property value.

In total, NEISD's state revenue decreased approximately \$28.5 million.

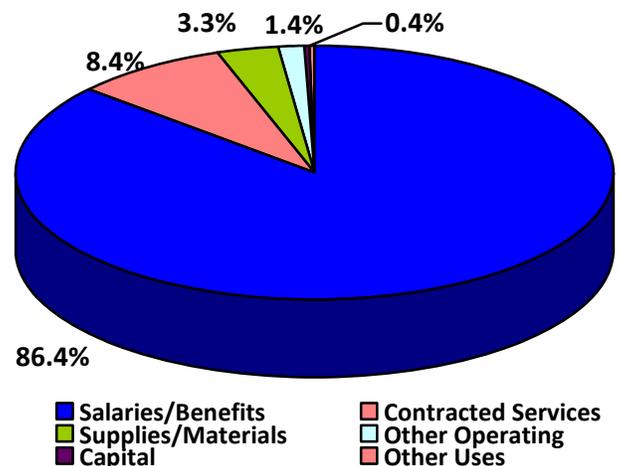
Expenditures

The total 2016-17 General Fund expenditure budget reflects an increase of \$8.1 million compared to the final budget for 2015-16. The most significant change to the budget is a compensation increase of 2% for all salaried employees and 3% for all classified employees.

2016-2017 Expenditures by Object

(In Thousands)	Amount
Payroll	\$464,954
Professional & Contracted Services	46,400
Supplies & Materials	17,939
Other Operating Costs	7,251
Capital Outlay	103
Other Uses	2,997
Total General Fund Expenditures	\$539,644

2016-2017 Expenditure Distribution



Payroll

As the above graphic demonstrates, North East ISD is a "people-business." The District's investment in human capital represents nearly 86% of the operating budget. For 2016-17, an \$8.4 million compensation increase was distributed as follows:

Employee Category	Amount	% Increase
Teachers/Librarians	\$4.9M	2%
Campus Administration	0.9M	2%
Instructional Aides & Campus Paraprofessionals	0.8M	3%
Campus Custodians	0.4M	3%
Central Office Admin	0.4M	2%
Central Office Paras	0.2M	3%
Auxiliary & Other	0.8M	3%
Total	\$8.4M	

Professional & Contract Services

The single largest component of this expenditure category is utilities, with a budget of \$16.5 million. At approximately \$13.3 million, the next largest set of expenditures in this category is internal service fund charges. The District operates several internal service funds. The benefit operating internal service funds is in the ability to manage costs. For instance, the Computer Service Center is managed centrally, and all costs are tracked in the internal service fund in total; but the Center “bills” its services to every campus and department in the General Fund, which allows for cost analysis by campus.

Also included in professional and contract services are the fees paid to the Bexar County Appraisal District and the Bexar County Tax Assessor-Collector for property appraisal and tax collection services. These fees are approximately \$2.8M.

Professional & Contracted Services

	Budget 2016-17
Utilities	\$16.5M
ISF Charges	13.3M
Professional Services	8.2M
Contract Maintenance	3.9M
Tax Appraisal/Collection	2.8M
Other	1.9M
Total	\$46.6M

Supplies and Materials

Supplies and materials costs represent just over 3% of the District’s operating budget. The two largest components are fuel for the District’s buses at \$2.3 million, and maintenance/custodial parts at \$4.6 million. Of the remaining \$11.5 million in this category, \$6.8 million is budgeted at the campus level for direct instructional or campus support use.

Supplies & Materials

	Budget 2016-17
Fuel	\$2.3M
Custodial/Maintenance Parts & Supplies	4.6M
Other	11.5M
Total	\$18.4M

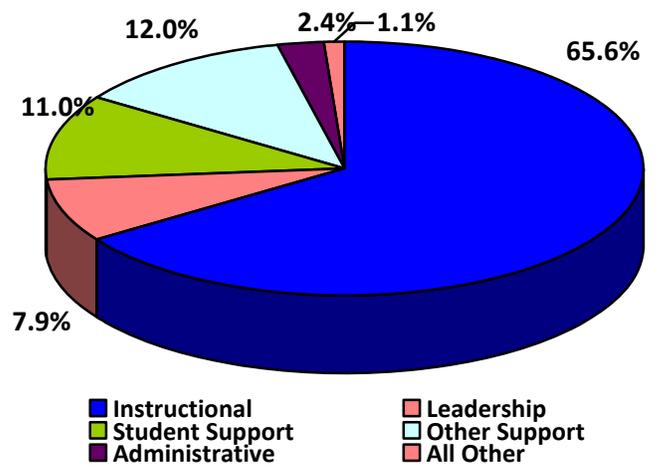
Distribution by Function

School districts not only account for expenditures by the type of cost (the “object”), but also the purpose of the cost, or “function”. These functional categories are defined by the State. It is important for the District to maintain a high level of financial support directly to instruction and student-support functions.

2016-17 Expenditure Distribution by Function

(In Thousands)	Amount
Instruction & Instruction-Related	\$361,836
Instructional & School Leadership	43,674
Student Support Services	60,540
Administrative Support	13,349
Non-Student Support	65,864
Intergovernmental Charges & Other	5,914
Total General Fund Expenditures	\$551,177

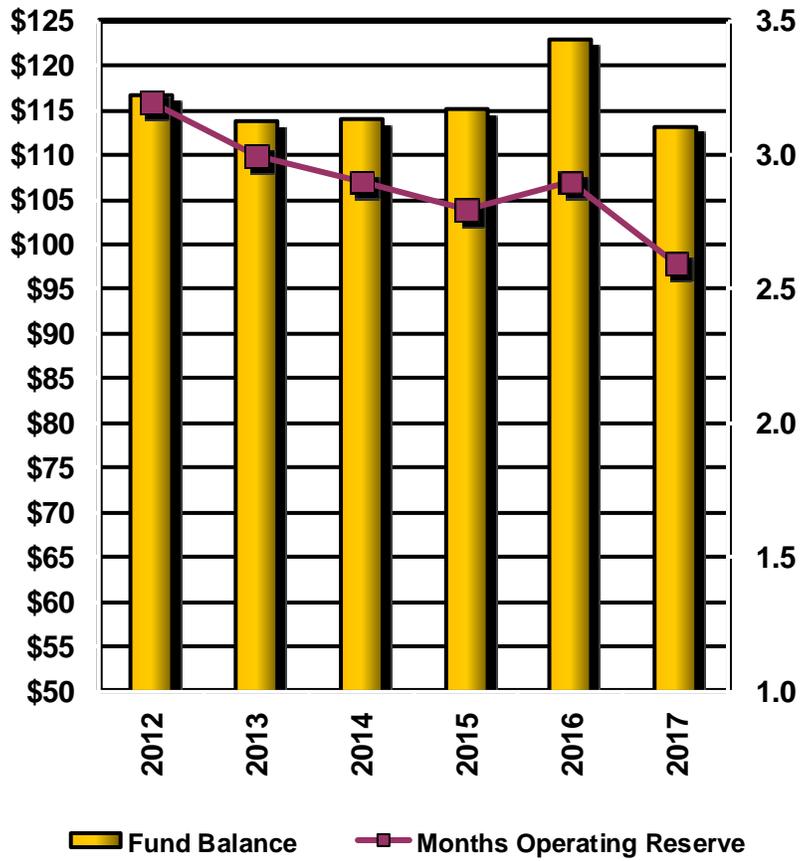
2016-17 Expenditure Distribution by Function



Fund Balance

One measure of a district’s financial well-being is the amount of operating reserve, or fund balance it has on hand at the end of the year, relative to the size of the district. A standard benchmark is a fund balance that is, at a minimum, equivalent to two months’ operating expenditures.

Fund Balance Trend (in millions)

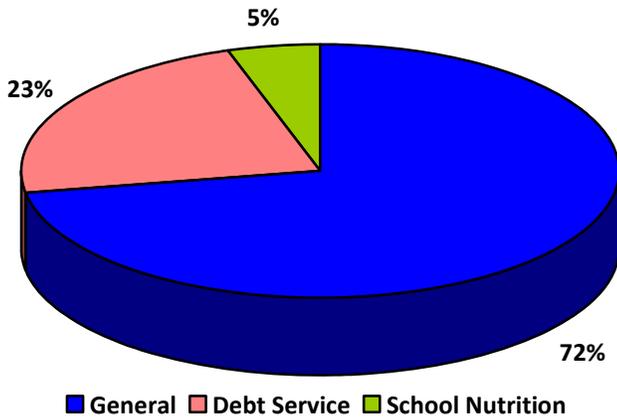


School Nutrition Services Fund

The District's school nutrition service operations are accounted for in the School Nutrition Services Special Revenue Fund. Although special revenue funds are generally not included in the annual budget adopted by the Board of Trustees, Texas Education Agency regulations require inclusion of the School Nutrition Services Fund. Below is a chart representing the School Nutrition Services Fund's portion of the adopted budget.

Revenue

2016-2017 Adopted Budget

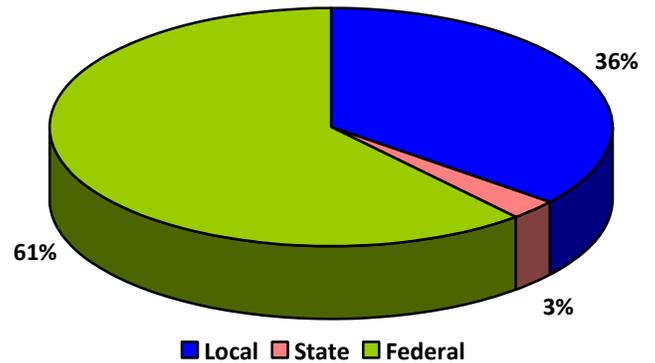


NEISD's School Nutrition Services Department serves over 7.6 million lunches and 2 million breakfasts each year. School Nutrition Services contributes to the learning experience of students by providing a variety of nutritious meals. Studies have proven that students learn and perform better if they are not hungry. Therefore, this service is an important contributing factor in student performance.

Revenue sources come from local, state, and federal sources. The 2016-17 budget includes 36% of total revenues coming from local sources and 61% from federal. The following table details the types of revenues received by the School Nutrition Services fund:

(In Thousands)	Budget 2016-17
Meal Payments from Students & Adults	\$13,131
Total Local	\$13,131
State Match	\$191
TRS On-behalf	776
Total State	\$967
Federal Reimbursements	\$19,927
USDA Commodities	2,519
Total Federal	\$22,446
Total Revenues	\$36,544

Revenue Budget Distribution



Local revenues are budgeted to increase nearly \$373,000 primarily due to an increase in pricing. The price increase is due to the Healthy, Hunger-Free Kids Act of 2010, which requires an average price for a paid lunch that is greater than the difference between the total Federal reimbursement for a free lunch and the total Federal reimbursement for a paid lunch. The District raised paid lunch prices at the by \$.10 and paid breakfast prices at the elementary level by \$.05.

Increases in projected federal revenues are due to projected increases the reimbursement rate provided by the federal government and increased participation in the extended snack program.

Expenditures

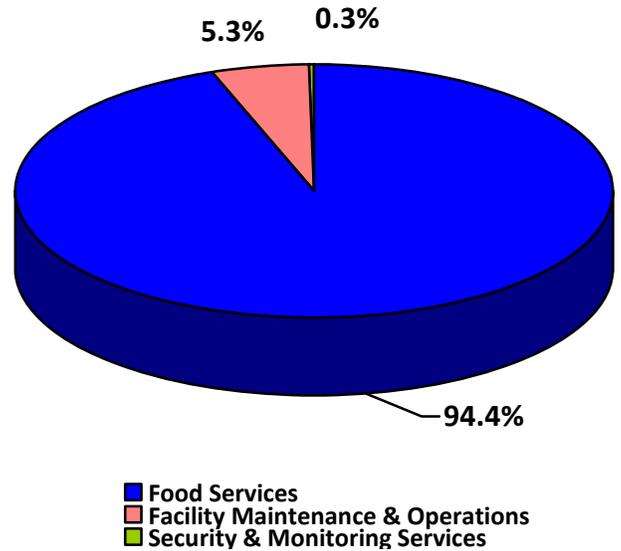
The total 2016-17 General Fund expenditure budget reflects an increase of \$1.8 million compared to the final budget for 2015-16. The increase includes a compensation increase of 3% for all classified employees and a 2% increase for all certified employees. Additionally, a new leave incentive will be available for employees to use leave during non-work days. The expenditure increase is also due to rising food prices and additional food purchases for the extended snack program.

Unlike the General Fund which has expenditures spread among eighteen of the State’s functional categories, more than 94% of the budget for School Nutrition Services is in the Food Services Function.

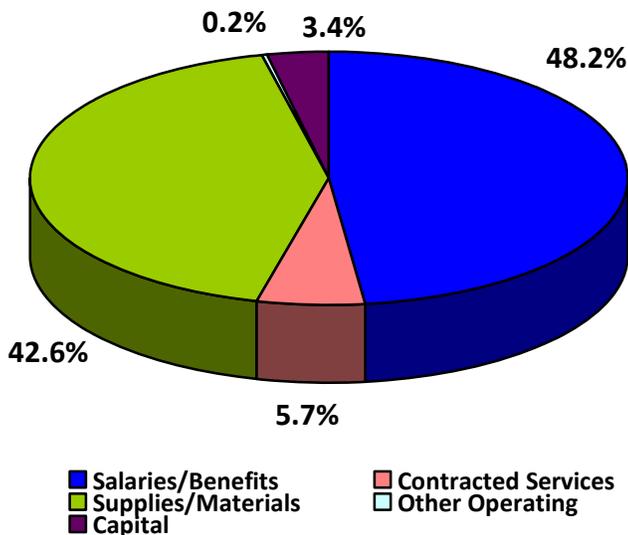
2016-17 Expenditures by Object

(In Thousands)	Amount
Payroll	\$17,941
Professional & Contracted Services	2,123
Supplies & Materials	15,861
Other Operating Costs	75
Capital Outlay	1,251
Total School Nutrition Expenditures	\$37,251

2016-17 Expenditures by Function



2016-17 Expenditure Distribution

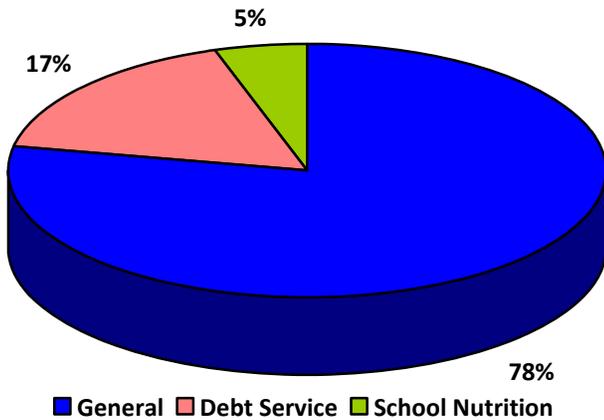


Debt Service Fund

The Debt Service Fund accounts for payments of principal, interest, and related fees on the District's long-term debt obligations. The fund is also used to account for the accumulation of resources for the payment of principal and interest in future years.

All debt currently outstanding is in the form of general obligation bonds and tax-exempt commercial paper. With the exception of the 2010 Qualified School Construction Bonds (QSCBs), the only resource for payment of the debt is Interest & Sinking (I&S) property taxes. For 2016-17, the Debt Service Fund budget was created using an I&S tax rate of \$0.345 per \$100 of taxable property value, a decline of \$0.03. Although the District's fiscal year is from July 1 to June 30, the tax rate must be set to ensure adequate funds are available through October of the subsequent fiscal year, as taxes are not assessed in Bexar County until September, and significant tax receipts do not begin until November. The interest on the QSCBs is subsidized by the federal government under the American Recovery and Reinvestment Act, shown in the 2016-17 budget as Federal Revenue. The principal will be paid in Fiscal 2028 using Maintenance and Operations funds.

2016-2017 Adopted Budget



Below is a summary of all outstanding debt as of June 30, 2016.

Summary of Outstanding Debt

Description	Original Amount	Outstanding June 30, 2016	Principal Due 2016-17	Interest Due 2016-17
Tax Supported Bonds				
Series 2007 Refunding	\$ 246,795,000	\$ 241,940,000	\$ 5,120,000	\$ 12,663,450
Series 2007A	488,590,965	22,200,000	10,830,000	839,250
Series 2012 (New & Refunding)	180,610,000	158,330,000	17,985,000	6,512,625
Series 2013	58,905,000	56,915,000	1,030,000	2,766,200
Series 2013A VRDO	67,325,000	66,140,000	1,245,000	1,310,350
Series 2013B VRDO	73,795,000	65,560,000	1,245,000	2,906,625
Series 2014 Refunding	33,215,000	33,215,000	2,125,000	1,359,200
Series 2014A Refunding	121,735,000	110,320,000	10,360,000	4,990,650
Series 2014B Refunding	69,925,000	66,760,000	-	2,934,600
Series 2014 VRDO	70,825,000	70,275,000	1,130,000	1,394,200
Series 2015 Refunding	345,185,000	345,185,000	2,930,000	14,650,730
Series 2015A Refunding	51,495,000	51,495,000	-	2,381,800
Series 2016 Refunding	36,485,000	36,485,000	-	1,296,744
Tax-Exempt Commercial Paper				
Series 2016 A & B	See Note	6,000,000	6,000,000	6,860
Limited Maintenance Tax Qualified School Construction Notes				
Series 2010	37,545,000	37,545,000	-	1,967,358
Total	\$1,882,430,965	\$1,368,366,000	\$60,000,000	\$57,980,642

Note: The District has access to issue up to \$100 million of tax-exempt commercial paper as part of the 2015 Bond program

More details of NEISD's future debt payments can be found here:
http://www.neisd.net/fina/NEISD_Budget_Info.html#Debt

Just as many homeowners refinanced their mortgages over the past few years, NEISD has refinanced more than \$785 million of its debt over the past four years. For bonds, these transactions are known as “Refundings.” Unlike home mortgages, the District’s bonds have “call features” that

dictate when a series of bonds can be refunded; usually, only debt 10 years old or greater can be refunded. Seven refunding transactions between July 2012 and March 2016. The results of those refunding transactions are summarized below:

Summary of NEISD Refunding Transactions

Issue	Refunded Principal	Principal & Interest Remaining Prior to Refunding	Principal & Interest Remaining After Refunding	Gross Savings to Taxpayers	% Reduction in Debt Service Payments	Present Value of Savings at Transaction Date	Present Value Savings as a % of Refunded Bonds
2012	\$ 83,920,000	\$ 109,353,887	\$ 99,556,979	\$ 9,796,908	9.0%	\$ 8,871,755	11.2%
2014	35,695,000	45,634,127	41,929,239	3,704,888	8.1%	3,462,499	9.7%
2014A	136,640,000	202,740,872	173,171,739	29,569,133	14.6%	20,980,708	15.4%
2014B	76,035,000	121,361,901	108,869,481	12,492,421	10.3%	10,060,009	12.2%
2015	357,160,000	627,845,250	558,255,798	69,589,452	10.9%	49,850,319	14.0%
2015A	57,905,000	85,259,500	73,153,411	12,106,089	14.2%	9,682,879	16.7%
2016	37,640,000	44,288,250	41,063,509	2,786,560	6.3%	2,438,032	6.5%
Grand Total	\$784,995,000	\$1,236,483,787	\$1,096,000,156	\$ 140,045,451	11.3%	\$105,346,201	13.4%