

Bond Case Briefs

Municipal Finance Law Since 1971

Fitch: Texas School Districts Should Weather Tax Revenue Drop.

Fitch Ratings-New York-10 November 2015: A decline in Texas school district revenue streams of approximately \$1.2 billion per biennium should not affect their bond ratings, Fitch Ratings says.

Texas voters last week approved an increase in the residential homestead exemption from \$15,000 to \$25,000 for public school purposes. The impact will likely be largest for suburban school districts that are primarily residential. The legislation includes a requirement that the state make whole any revenue shortfall and the fiscal 2016-2017 state budget includes this additional funding amount.

Most Texas school districts levy taxes at the maximum statutory amount for operations of either \$1.04 or \$1.17 per \$100 of taxable assessed value (TAV), depending on prior voter approval of an additional \$0.13. Districts typically have more flexibility on debt service, although a number of districts levy debt service tax rates at or near the statutory cap of \$0.50 for new issuance approval. Nine districts rated by Fitch currently levy at the \$0.50 cap. The debt service make whole provision applies only to debt issued (and first payment made) prior to Sept. 1, 2015, so any declines in taxable value from the increased exemption may affect the timing and size of new borrowings for those districts with tax rates at or near the statutory cap.

Generally strong economic conditions in Texas over the past several years have contributed to solid gains in TAV for local governments (the exceptions being those areas with large mineral value concentrations). These TAV gains, along with funds made available through the make whole provision, will cushion the blow from the homestead exemption increase. For the many districts with limited debt service tax rate flexibility, TAV gains will shorten or eliminate delays in borrowings that might have otherwise occurred.

Contact:

Steve Murray
Senior Director
U.S. Public Finance
+1 512 215-3729
111 Congress Ave
Austin, TC

Rob Rowan
Senior Director
Fitch Wire
+1 212 908-9159
33 Whitehall Street
New York, NY

