Importance of Maintaining an Adequate General Fund Balance by Texas School Districts

What is General Fund Balance and why is it important?

- The General Fund Balance is essentially the difference between assets and liabilities within the General Fund.
- The General Fund Balance is NOT a savings account, a rainy-day fund nor solely available, spendable “cash”– Fund balance amounts include anticipated, but not yet realized, revenues and expenditures.
  - For school year 2018/19, Texas public school districts maintained a General Fund Balance of $14,731,450,952; however, $3,935,294,801 or 26.7% represents receivables (i.e. “IOUs”) from the State or another entity.
- Simply put, a school district’s General Fund Balance is designed to provide ongoing fiscal independence to meet its annual expenditures during both normal times and times of crisis.

What represents an adequate General Fund Balance?

- Truly depends on who is answering the question. It is important to remember, no two school districts are exactly alike and what may be an adequate fund balance for one district may not be for another.
  - GFOA: Minimum of at least two months of revenues or expenditures, while recognizing that “a government's particular situation often may require a level of fund balance in the General Fund significantly in excess of this recommended minimum level.”
  - TEA: Under FIRST, Assigned and Unassigned fund balance should be greater than 75 days of operational expenditures in order to receive “Superior Achievement.”
  - Fitch and Moody's: Median data for highly rated Texas public school districts demonstrate General Fund Balance as a percentage of revenues or expenditures in excess of 30%, which equates to more than 3 ½ months of General Fund Balance.

What are the potential pitfalls of not maintaining an adequate General Fund Balance?

- Lower bond ratings, increasing a school district's long-term borrowing costs;
  - A 0.05% interest rate difference on a $50.0 million bond sale changes a school district's interest cost by approximately $259,000 over the life of the bonds.
  - On average, Texas public school districts have annually issued approximately $12.1 billion of bonds over the past decade – Translates into a potential $60 million annual problem.
- Need to borrow funds to meet operating cash flow, increasing a school district's operating costs; and
- Diminished operating flexibility to fund necessary capital expenditures (e.g. purchase of laptops for students to learn remotely during a pandemic, cover short-term costs related to a natural disaster while awaiting insurance/FEMA funds, etc.).

*Information provided by BOK Financial Securities, Inc.

The mission of Eagle Mountain-Saginaw Independent School District is to foster a culture of excellence that instills a passion for a lifetime of continuous achievement in every student.