

Bonds 101

Questions & Answers

What are bonds? How long does it take to pay them off?

Bonds for school projects are very similar to a mortgage on a home. To finance construction projects, the district sells bonds to investors who will be paid principal and interest. Payout is limited by law to 40 years.

How do bonds work?

The sale of bonds begins with an election to authorize a specific amount – the maximum the district is allowed to sell without another election. The school district sells them as municipal bonds when funds are needed for capital projects – usually once or twice a year. Bids are taken from interested buyers, usually large institutional investors – and are sold at the lowest interest rate offered. The rate is based on the district's bond rating – the higher the bond rating, the lower the interest rate to sell the bonds. Principal and interest on the bonds are repaid over an extended period of time with funds from the Debt Service tax rate.

How can bond money be used?

Proceeds from a bond issue can be used for the construction and renovation of facilities, the acquisition of land and the purchase of capital items such as equipment.

What, other than bricks-and-mortar, is typically included in a facility referendum?

A referendum may include money for technology, buses, land for future schools, portable buildings and the cost of selling bonds.

Why are bonds used to finance non-facility items?

It is a financial advantage to the district to pay for some capital expenditures such as technology, buses, land and portable buildings with bond money rather than from the General Fund. First, the cost of the purchases can be spread over the life of the asset rather than coming from a single year's General Fund. In addition, taxes that are levied for bonded debt are not subject to the same recapture formulas that reduce state funding based on General Fund tax revenues.

The district sells bonds that mature at different times, so bond expenditures for items with a shorter lifespan – such as computers – are paid off before the purchase becomes obsolete.

What is a bond election?

A school bond election gives individuals an opportunity to vote on paying for the construction and renovation of school facilities. It is a request to give the elected Board of Trustees the authority to sell bonds when facilities are needed.

What is the difference between a bond authorization and bond sales?

A bond authorization specifies the amount of bonds the District is authorized by the voters to sell. Bond sales may occur over a period of time with the date and amount of each sale determined by the Board on an as needed basis.

If the bond election is passed, does the school district immediately incur the debt?

The bonds do not cost the district anything until they are sold. Even though the voters approve the bond issue, there are not costs incurred until the bonds are sold.

If the bonds are approved, is the district obligated to spend the money?

No. Voter approval is an authorization for the district to issue bonds. They will be sold in the future only when funds are needed.

Will Katy ISD be able to sell its bonds at a favorable rate?

Katy ISD's bonds should receive the highest possible rating due primarily to the guarantee by the Texas Permanent School fund. Because of the high rating and the current low interest rates, the District expects a favorable market for its bonds.

Katy ISD's bond ratings put Katy in the top tier of Texas' most credit-worthy school districts.

Paying for Schools

A school district's tax rate consists of two parts: 1) Maintenance and Operations (M&O) and 2) Debt Service (I&S). Maintenance and operations taxes fund the General Operating Fund: salaries, supplies, utilities, insurance, equipment and the other costs of day-to-day operations.

The Debt Service tax pays off school bonds, again somewhat like paying off the mortgage on a house.

What is the difference between the M&O and the Debt Service tax rates?

M&O taxes are used for day-to-day operations – salaries, supplies, utilities, insurance, fuel, etc. Revenue from the Debt Service tax rate can only be used to retire bonds sold for specific purposes: construction, renovations, buses, portable buildings, land, technology and the cost of issuing bonds.

How will this facility referendum affect homeowners who are over 65?

School district taxes on resident homesteads are frozen in the year the taxpayer turns 65 year of age and will not increase as a result of a school bond election.