TEXAS EDUCATION AGENCY
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Robert Scott
Commissioner

February 3, 2012

Mr. Douglas L. Peterson, President
Standard & Poor's Ratings Services
55 Water Street
New York, NY 10041

Dear Mr. Peterson:

I am writing to express my concern upon reading your firm's January 9, 2012, Global Credit Portal report, *Texas School Districts' Potential State Funding Paybacks Could Hurt Credit Ratings*. This publication misrepresents a routine accounting practice that has been in place for decades by portraying the process of year-end reconciliation, commonly referred to as "settle-up," as a new policy that threatens the financial integrity of school district operations. That portrayal is both inaccurate and misleading.

During the budget process, the legislature adopts estimates of student attendance, property values, and property tax collections that are used to calculate allocations for the Foundation School Program (FSP) that will be paid during each fiscal year of the biennium. Each year, school districts receive payments based on those estimates. At the close of the state's fiscal year, which ends on August 31, the state gathers information about the actual student attendance, property values, and tax collections. The FSP allocations are recalculated, and the state reconciles the difference between the payments that were made based on the estimates and the entitlement that is based on the actual data. Every year there are districts that were overpaid, and districts that were underpaid, because the original payments were based on estimates. *This reconciliation process is not new or recent; it has taken place every year for decades.*

Districts that have been underpaid during a school year receive a lump-sum payment for the funds that are owed to the district, typically in September following the close of the fiscal year. Districts that have been overpaid have their allocation for the subsequent fiscal year reduced. This effectively spreads the repayment of the funds across the fiscal year. A recent statutory change now gives the commissioner authority to allow districts up to five years to repay funds.

Most school districts manage this process very well, by closely monitoring the difference between their payments and their actual earnings. School districts have multiple opportunities to compare the estimates on which their payments are based with actual attendance and tax collections and notify the agency to avoid significant overpayment. The Texas Education Agency produces *Summary of Finances* reports to assist school districts in monitoring these differences. These reports provide information about the estimates used to calculate districts' payments during the school year as well as information about their earnings, based on actual data as they become available. School districts also have access to templates that they can use

to estimate their actual earnings; most school administrators routinely use these tools to monitor their actual earnings and to manage their cash accordingly. While a small number of districts have not appropriately monitored the difference between payments and actual earnings, those instances are highly unusual and represent a very small fraction of all Texas public schools.

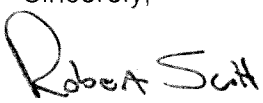
Your report's inaccurate and misleading portrayal of a routine budgetary process has needlessly and recklessly cast all Texas school districts in a negative light. I am disappointed that your analytical team failed to conduct the research on this topic that would be necessary and appropriate to render an accurate description of the process. Instead, it appears that the analysts focused on a single district that failed to manage its finances appropriately, painting all school districts across the state with the same brush.

Finally, the report makes no distinction between school district maintenance and operations expenditures and those related to debt service for bonds. As you are aware, school district bonds are eligible for guarantee by the Texas Permanent School Fund and have a dedicated property tax to support payments. The implication of financial distress in school districts—even in those very rare instances where it occurs—should not create the implication that there is any danger to bondholders.

In closing, this report was inflammatory and inaccurate. I am deeply disappointed that Standard & Poor's would issue a publication that clearly lacks the professionalism and objectivity that would be expected of a major ratings firm.

Should your staff wish to clarify their understanding of the school finance reconciliation process, they may contact the agency's chief school finance officer, Lisa Dawn-Fisher, by phone at (512) 463-9179 or by email at lisa.dawn-fisher@tea.state.tx.us.

Sincerely,



Robert Scott
Commissioner of Education

RS/ldf
cc: Alex Fraser, Managing Director, Dallas Office, Standard & Poor's Ratings Services
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