

Bonds 101: Questions and 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. GSISD current finance model is less than the legal limit (principal payment in every year, with final payment in year 30, with option to prepay in year 10). The useful life of the facility is much longer than the repayment period.

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, such as new facilities. The interest rate paid is based on the district's bond rating: the higher the bond rating, the lower the interest rate to sell the bonds. GSISD anticipates issue of bonds with the highest "Triple A" rating based on the permanent school fund guarantee. Principal and interest on the bonds are repaid over a 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 equipment, school buses, or vehicles for security purposes.

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 appropriate to do so.

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 when appropriate.

If the bond election is successful, 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.

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 Operation Fund, which pays for salaries, supplies, utilities, equipment, and the other costs of day to day operations.

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

How will this bond election affect homeowners who are over 65?

School district taxes on resident homesteads may be frozen in the year the taxpayer turns 65 years of age and will not increase as a result of a school bond election as long as they make no major improvements to their homestead. (The Tax Code doesn't freeze)