

This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.



(See "Continuing Disclosure Information" herein)

**NEW ISSUE - Book-Entry-Only**

In the opinion of Bond Counsel to the District, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein.

**THE BONDS WILL BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS**

**\$5,770,000\***  
**ROBERT LEE INDEPENDENT SCHOOL DISTRICT**  
**(Coke County, Texas)**  
**UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2019**

**Dated Date: August 15, 2019**

**Due: As shown on Page 2**

**Interest Accrual Date: Delivery Date**

**PAYMENT TERMS** . . . Interest on the \$5,770,000\* Robert Lee Independent School District Unlimited Tax School Building Bonds, Series 2019 (the "Bonds") will accrue from September 24, 2019\* (the "Delivery Date"), will be payable February 15 and August 15 of each year commencing on February 15, 2020, until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued as fully registered obligations in the denominations of \$5,000 of principal amount or any integral multiple thereof for any one stated maturity. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in authorized denominations thereof. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** The principal and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is UMB Bank, N.A., Dallas, Texas (see "THE BONDS - Paying Agent/Registrar").

**AUTHORITY FOR ISSUANCE** . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including Chapter 45 of the Texas Education Code, as amended, an election held in the Robert Lee Independent School District (the "District") on May 4, 2019 (the "Election"), and an order (the "Order") to be adopted by the Board of Trustees (the "Board") of the District. The Bonds are direct and voted obligations of the District, payable from an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District, as provided in the Order (see "THE BONDS - Authority for Issuance"). **An application has been filed and the District has received conditional approval for the payment of the Bonds to be guaranteed by the Permanent School Fund of Texas (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").**

**PURPOSE** . . . Proceeds from the sale of the Bonds will be used (1) in accordance with the Election, for the purpose of acquiring, constructing and equipping of school facilities in the District and the purchase of school buses and (2) to pay the costs associated with the issuance of the Bonds.

**LEGALITY** . . . The Bonds are offered for delivery when, as and if issued and received by the Underwriter and subject to the approving opinion of the Attorney General of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel (see Appendix C, "Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriter by its counsel, Norton Rose Fulbright US LLP, Dallas, Texas.

**DELIVERY** . . . It is expected that the Bonds will be available for delivery through DTC on or about September 24, 2019\*.

**MATURITY SCHEDULE**  
**See Schedule on Page 2**

**RAYMOND JAMES**

\* Preliminary, subject to change.

**PRELIMINARY OFFICIAL STATEMENT**

**Ratings:**  
**S&P: "AAA" / "A"**  
**PSF Guaranteed**  
**(See "OTHER INFORMATION - Ratings"**  
**and "THE PERMANENT SCHOOL FUND**  
**GUARANTEE PROGRAM" herein)**

**MATURITY SCHEDULE\*****CUSIP<sup>(1)</sup> Prefix:** \_\_\_\_\_

<u>Maturity (2/15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP<sup>(1)</sup> Suffix</u>	<u>Maturity (2/15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP<sup>(1)</sup> Suffix</u>
2020	\$ 235,000				2030	\$ 60,000			
2021	50,000				2031	65,000			
2022	45,000				2032	70,000			
2023	50,000				2033	270,000			
2024	55,000				2034	690,000			
2025	50,000				2035	720,000			
2026	55,000				2036	750,000			
2027	55,000				2037	780,000			
2028	60,000				2038	810,000			
2029	55,000				2039	845,000			

**(Interest to accrue from the Delivery Date)**

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. None of the District, the Financial Advisor, or the Underwriter take any responsibility for the accuracy of CUSIP numbers.

\* Preliminary, subject to change.

**OPTIONAL REDEMPTION** . . . The District reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 20\_\_, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 20\_\_, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE BONDS – Optional Redemption”).

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, this document constitutes an Official Statement of the District with respect to the Bonds that has been deemed "final" by the District as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

No dealer, broker, salesman or other person has been authorized by the District or the Underwriter to give any information, or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the District or the Underwriter. This Official Statement does not constitute an offer to sell Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

Certain information set forth herein has been obtained from the District and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Financial Advisor or the Underwriter. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM - PSF Continuing Disclosure Undertaking" and "CONTINUING DISCLOSURE INFORMATION" for a description of the undertakings of the Texas Education Agency (the "TEA") and the District, respectively, to provide certain information on a continuing basis.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

The cover page contains certain information for general reference only and is not intended as a summary of this offering. Investors should read the entire Official Statement, including all appendices attached hereto, to obtain information essential to making an informed investment decision.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

NONE OF THE DISTRICT, ITS FINANCIAL ADVISOR, OR THE UNDERWRITER MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY ONLY SYSTEM OR THE AFFAIRS OF THE TEA DESCRIBED UNDER "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM", AS SUCH INFORMATION HAS BEEN PROVIDED BY THE DEPOSITORY TRUST COMPANY AND THE TEA, RESPECTIVELY.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THE BONDS HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

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The cover page hereof, this page and appendices included herein and any addenda, supplement or amendment hereto, are part of the Official Statement.

**PRELIMINARY OFFICIAL STATEMENT SUMMARY**

This summary is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

- THE DISTRICT**..... The Robert Lee Independent School District (the “District”) is a political subdivision located in Coke County, Texas. The District is approximately 470 square miles in area and is located 255 miles southwest of Dallas and 100 miles east of Midland (see “INTRODUCTION - Description of the District”).
  
- THE BONDS**..... The \$5,770,000\* Unlimited Tax School Building Bonds, Series 2019 (the “Bonds”) are issued as serial bonds maturing on February 15 in the years 2020 through 2039 (see “THE BONDS - Description of the Bonds”).
  
- PAYMENT OF INTEREST** ..... Interest on the Bonds accrues from the date of their delivery to the Underwriter and is due semiannually on February 15 and August 15 of each year commencing on February 15, 2020, until maturity or prior redemption (see “THE BONDS - Description of the Bonds” and “THE BONDS - Optional Redemption”).
  
- AUTHORITY FOR ISSUANCE**..... The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, including Chapter 45 of the Texas Education Code, as amended, an election held in the District on May 4, 2019, and an order (the “Order”) to be adopted by the Board of Trustees (see “THE BONDS - Authority for Issuance”).
  
- SECURITY FOR THE BONDS** ..... The Bonds constitute direct and voted obligations of the District, payable from a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, on all taxable property within the District. Additionally, an application has been filed and the District has received conditional approval for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of Texas (see “THE BONDS - Security and Source of Payment”).
  
- PERMANENT SCHOOL FUND**
  - GUARANTEE** ..... The District has applied for and has received conditional approval from the Texas Education Agency for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas (see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).
  
- OPTIONAL REDEMPTION** ..... The District reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 20\_\_, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 20\_\_, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District may select the maturities of the Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed (see “THE BONDS - Optional Redemption”).
  
- QUALIFIED TAX-EXEMPT OBLIGATIONS**..... The Bonds will be designated as “Qualified Tax-Exempt Obligations” for financial institutions.
  
- TAX EXEMPTION** ..... In the opinion of Bond Counsel to the District, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under “TAX MATTERS” herein.
  
- USE OF PROCEEDS** ..... Proceeds from the sale of the Bonds will be used (1) in accordance with the Election, for the purpose of acquiring, constructing and equipping of school facilities in the District and the purchase of school buses and (2) to pay the costs associated with the issuance of the Bonds.

\* Preliminary, subject to change.

**RATINGS** ..... The Bonds have been rated “AAA” by S&P Global Ratings, a division of S&P Global Inc. (“S&P”) by virtue of the guarantee of the Permanent School Fund of the State of Texas. The Bonds and the presently outstanding tax supported debt of the District are rated “A” by S&P without regard to credit enhancement. The District also has issues outstanding which are rated “AAA” by S&P by virtue of the guarantee of such issues by the Permanent School Fund of the State of Texas (see “OTHER INFORMATION - Ratings” and “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).

**BOOK-ENTRY-ONLY SYSTEM** ..... The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see “THE BONDS - Book-Entry-Only System”).

**PAYMENT RECORD** ..... The District has never defaulted in payment of its tax supported debt.

**SELECTED FINANCIAL INFORMATION**

Fiscal Year Ended 8/31	Estimated District Population <sup>(1)</sup>	Taxable Assessed Valuation <sup>(2)</sup>	Per Capita Taxable Assessed Valuation	Tax Debt Outstanding at Fiscal Year End	Per Capita Tax Supported Debt	Ratio Tax Supported Debt to Taxable Assessed Valuation	% of Total Tax Collections
2016	1,780	\$ 310,450,500	\$ 174,410	\$ 8,810,000	\$ 4,949	2.84%	100.39%
2017	1,806	233,649,090	129,374	7,995,000	4,427	3.42%	99.09%
2018	1,715	207,845,320	121,193	7,515,000	4,382	3.62%	99.05%
2019	1,753	253,753,059	144,754	6,680,000	3,811	2.63%	99.17% <sup>(4)</sup>
2020	1,753	253,420,926	144,564	11,800,000 <sup>(3)</sup>	6,731 <sup>(3)</sup>	4.66% <sup>(3)</sup>	N/A

- (1) Source: Municipal Advisory Council of Texas.
- (2) As reported by the Coke County Appraisal District on the District’s Annual State Property Tax Reports; subject to change during the ensuing year. The ten largest taxpayers in the District for tax year 2018 accounted for approximately 64% of the District’s tax base (see “Table 5 – Ten Largest Taxpayers” herein). The District’s ten largest taxpayers list for 2019/20 is not available at this time.
- (3) Projected, includes the Bonds. Preliminary, subject to change.
- (4) Partial year collections as of June 30, 2019.

For additional information regarding the District, please contact:

<p>Aaron Hood, Superintendent  <b>Robert Lee ISD</b>          1323 Hamilton          Robert Lee, Texas 76945          (325) 453-4555</p>	or	<p>Jeff Robert, Managing Director  <b>Hilltop Securities Inc.</b>          1201 Elm Street, Ste. 3500          Dallas, Texas 75270          (214) 953-8744</p>
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**DISTRICT OFFICIALS, STAFF AND CONSULTANTS**

**ELECTED OFFICIALS**

<u>Board of Trustees</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Wes Washam President	19 Years	May, 2021	Retired
Tom Sawyer Vice President	13 Years	May, 2021	Retired
Jeffie Roberts Secretary	13 Years	May, 2020	Retired
George Grim Boardmember	6 Years	May, 2021	Retired
Erin Oleksiuk Boardmember	4 Years	May, 2022	Homemaker
Beverly Sinclair Boardmember	9 Years	May, 2022	Retired
Irma Torres Boardmember	14 Years	May, 2020	Nurse's Aide

**SELECTED ADMINISTRATIVE STAFF**

<u>Name</u>	<u>Position</u>	<u>Length of Service in Current Position</u>	<u>Total School District Service</u>
Aaron Hood	Superintendent	14 Years	18 Years
Robin Allen	Business Manager	21 Years	21 Years

**CONSULTANTS AND ADVISORS**

Auditors .....Eckert & Company, LLP  
San Angelo, Texas

Bond Counsel ..... McCall, Parkhurst & Horton L.L.P.  
Dallas, Texas

Financial Advisor ..... Hilltop Securities Inc.  
Dallas, Texas

**PRELIMINARY OFFICIAL STATEMENT  
RELATING TO  
\$5,770,000\*  
ROBERT LEE INDEPENDENT SCHOOL DISTRICT  
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2019**

**INTRODUCTION**

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$5,770,000\* Robert Lee Independent School District Unlimited Tax School Building Bonds, Series 2019 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the order (the "Order") authorizing the issuance of the Bonds.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the Robert Lee Independent School District (the "District") and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District's Financial Advisor, Hilltop Securities Inc., Dallas, Texas.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the Official Statement (defined herein) will be deposited with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access ("EMMA") system. See "CONTINUING DISCLOSURE INFORMATION" for a description of the District's undertaking to provide certain information on a continuing basis.

**DESCRIPTION OF THE DISTRICT . . .** The District is a political subdivision located in Coke County, Texas and covers an area of approximately 470 square miles. The District is governed by a seven-member Board of Trustees (the "Board"), the members of which serve staggered three-year terms with elections being held in May of each year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District.

**THE BONDS**

**DESCRIPTION OF THE BONDS . . .** The Bonds will be dated August 15, 2019 and will mature on the dates and in the amounts shown on page 2 of this Official Statement. Interest will accrue from the date of their delivery to the Underwriter and will be computed on the basis of a 360-day year of twelve 30-day months. Such interest will be payable on February 15 and August 15, commencing on February 15, 2020, until maturity or prior redemption. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein.

If the date for any payment on the Bonds shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the designated corporate office of the Paying Agent/Registrar is located is authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

**AUTHORITY FOR ISSUANCE . . .** The Bonds are issued and the tax is levied for their payment pursuant to authority conferred by the Constitution and the laws of the State of Texas, including Chapter 45 of the Texas Education Code, as amended, an election held in the District on May 4, 2019, and the Order.

**SECURITY AND SOURCE OF PAYMENT . . .** All taxable property within the District is subject to a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, sufficient to provide for the payment of principal of and interest on the Bonds. Additionally, the District has applied for and has received conditional approval for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of Texas.

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\* Preliminary, subject to change.

**PERMANENT SCHOOL FUND GUARANTEE . . .** In connection with the sale of the Bonds, the District has submitted an application to the Texas Education Agency and has received conditional approval from the Commissioner of Education for guarantee of the Bonds under the Permanent School Fund Guarantee Program (Chapter 45, Subchapter C of the Texas Education Code). Subject to satisfying certain conditions discussed under the heading “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein, the payment of the Bonds will be absolutely and unconditionally guaranteed by the corpus of the Permanent School Fund of the State of Texas. In the event of default by the District in the scheduled payments of the Bonds, registered owners will receive all payments due from the corpus of the Permanent School Fund.

**PURPOSE . . .** Proceeds from the sale of the Bonds will be used (1) in accordance with the Election, for the purpose of acquiring, constructing and equipping of school facilities in the District and the purchase of school buses and (2) to pay the costs associated with the issuance of the Bonds.

**OPTIONAL REDEMPTION . . .** The District reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 20\_\_, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 20\_\_, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District may select the maturities of the Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed.

**NOTICE OF REDEMPTION . . .** Not less than 30 days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN AND ANY OTHER CONDITION TO REDEMPTION SATISFIED, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

With respect to any optional redemption of the Bonds, unless certain prerequisites to such redemption required by the Order have been met and money sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed will have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may state that said redemption is conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent/Registrar on or prior to the date fixed for such redemption or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the District will not redeem such Bonds, and the Paying Agent/Registrar will give notice in the manner in which the notice of redemption was given, to the effect that such Bonds have not been redeemed.

The Paying Agent/Registrar and the District, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Order or other notices only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Bonds from the beneficial owners. Any such selection of Bonds to be redeemed will not be governed by the Order and will not be conducted by the District or the Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Bonds for redemption (see “THE BONDS - Book-Entry-Only System”).

**DEFEASANCE . . .** The Order provides for the defeasance of the Bonds when payment of the principal amount of the Bonds plus interest accrued on the Bonds to their due date (whether such due date be by reason of stated maturity, redemption or otherwise), is provided by irrevocably depositing with a paying agent, or other authorized escrow agent, in trust (1) money in an amount sufficient to make such payment and/or (2) Defeasance Securities, that will mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, and thereafter the District will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased Bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The District has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance



Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance. The Order provides that “Defeasance Securities” means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Bonds. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Order does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used for defeasance purposes or that for any other Defeasance Security will be maintained at any particular rating category.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. Provided, however, the District has reserved the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption at an earlier date those Bonds which have been defeased to their maturity date, if the District (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption, (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements, and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the District to initiate proceedings to take any other action amending the terms of the Bonds are extinguished.

Upon defeasance, such defeased Bonds shall no longer be regarded to be Outstanding or unpaid and the Bonds will no longer be guaranteed by the Texas Permanent School Fund.

**AMENDMENTS . . .** The Issuer may, without the consent of any Owner, amend or supplement the Order in order to (i) cure any ambiguity, defect or omission in the Order that does not materially adversely affect the interests of the Owners, (ii) grant additional rights or security for the benefit of the Owners, (iii) add events of default as shall not be inconsistent with the provisions of the Order and that shall not materially adversely affect the interests of the Owners, (iv) qualify the Order under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect, or (v) make such other provisions in regard to matters or questions arising under the Order as shall not be inconsistent with the provisions of the Order and that shall not in the opinion of Bond Counsel materially adversely affect the interests of the Registered Owners.

The Owners of Bonds aggregating in a majority of the principal amount of then outstanding Bonds that are the subject of a proposed amendment shall have the right to approve any amendment to the Order that may be deemed necessary or desirable by the Issuer; provided, however, the consent of the Owners of 100% of the aggregate principal amount of then outstanding Bonds shall be required in order to amend the terms and conditions of the Order or the Bonds so as to: (i) make any change in the maturity of any of the outstanding Bonds; (ii) reduce the rate of interest borne by any of the outstanding Bonds; (iii) reduce the amount of the principal of, or redemption premium, if any, payable on any outstanding Bonds; (iv) modify the terms of payment of principal or of interest or redemption premium on outstanding Bonds or any of them or impose any condition with respect to such payment; or (v) change the minimum percentage of the principal amount of the Bonds necessary for consent to such amendment.

If at any time the Issuer shall desire to amend the Order, the Issuer shall send by U.S. mail to each Owner of the affected Bonds a copy of the proposed amendment and state whether consent of the Registered Owners is or is not required for such proposed amendment.

**BOOK-ENTRY-ONLY SYSTEM . . .** *This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by DTC, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District, the Financial Advisor and the Underwriter believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.*

*The District, the Financial Advisor and the Underwriter cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Bonds or any notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds) or any notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.*

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered Bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Bonds held for the accounts of customers in bearer form or registered in "street name,"

and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District and the Underwriter believe to be reliable, but neither the District nor the Underwriter take any responsibility for the accuracy thereof.

*Effect of Termination of Book-Entry-Only System...*In the event that the Book-Entry-Only System is discontinued, printed certificates will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Order and summarized under "THE BONDS - Transfer, Exchange and Registration" below.

*Use of Certain Terms in Other Sections of this Official Statement...*In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Direct or Indirect Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Order will be given only to DTC

**PAYING AGENT/REGISTRAR . . .** The initial Paying Agent/Registrar is UMB Bank, N.A., Dallas, Texas. In the Order, the District retains the right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid, and any successor Paying Agent/Registrar shall be a bank or trust company, financial institution, or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

In the event the Book-Entry-Only System should be discontinued, interest on the Bonds will be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest will be paid (i) by check sent United States mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Bonds will be paid to the registered owner at the stated maturity or, upon prior redemption, upon presentation to the designated payment/transfer office of the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, payments of principal of the Bonds and interest on the Bonds will be made as described in "THE BONDS - Book-Entry-Only System" above.

**TRANSFER, EXCHANGE AND REGISTRATION . . .** In the event the Book-Entry-Only System should be discontinued, printed Bond certificates will be delivered to registered owners and thereafter the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender of such printed certificates to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 of principal amount for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "THE BONDS - Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. The Paying Agent/Registrar shall not be required to make any such transfer or exchange (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or (ii) within 45 days prior to its redemption date.

**RECORD DATE FOR INTEREST PAYMENT . . .** The record date (“Record Date”) for the interest payable on the Bonds on any interest payment date means the close of business on the last business day of the preceding month.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a “Special Record Date”) will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest (“Special Payment Date”, which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each registered owner of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

**BONDHOLDERS’ REMEDIES . . .** The Order establishes specific events of default with respect to the Bonds, and provides that if the District defaults in the payment of principal or interest on the Bonds when due, or if it fails to make payments into any fund or funds created in the Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order and the continuation thereof for a period of 60 days after notice of default is given by the District by any owner, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or the Order covenants and the District’s obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in “clear and unambiguous” language. Because it is unclear whether the Texas legislature has effectively waived the District’s sovereign immunity from a suit for money damages, registered owners may not be able to bring such a suit against the District for breach of the Bonds or Order covenants in the absence of District action. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District’s property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code (“Chapter 9”). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors by general principles of equity which permit the exercise of judicial discretion and by governmental immunity.

**SOURCES AND USES OF PROCEEDS . . .** The proceeds from the sale of the Bonds will be applied approximately as follows:

<u>Sources of Funds</u>	
Par Amount of the Bonds	\$ -
Reoffering Premium	-
Total Sources of Funds	<u>\$ -</u>
<u>Uses of Funds</u>	
Deposit to the Construction Fund	\$ -
Costs of Issuance and Underwriter's Discount	-
Total Uses of Funds	<u>\$ -</u>

## THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

*The information below concerning the Texas Permanent School Fund and the Guarantee Program for School District Bonds has been provided by the Texas Education Agency and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the District, the Financial Advisor or the Underwriter.*

This disclosure statement provides information relating to the program (the “Guarantee Program”) administered by the Texas Education Agency (the “TEA”) with respect to the Texas Permanent School Fund guarantee of tax-supported bonds issued by Texas school districts and the guarantee of revenue bonds issued by or for the benefit of Texas charter districts. The Guarantee Program was authorized by an amendment to the Texas Constitution in 1983 and by Subchapter C of Chapter 45 of the Texas Education Code, as amended (the “Act”). While the Guarantee Program applies to bonds issued by or for both school districts and charter districts, as described below, the Act and the program rules for the two types of districts have some distinctions. For convenience of description and reference, those aspects of the Guarantee Program that are applicable to school district bonds and to charter district bonds are referred to herein as the “School District Bond Guarantee Program” and the “Charter District Bond Guarantee Program,” respectively.

Some of the information contained in this Section may include projections or other forward-looking statements regarding future events or the future financial performance of the Texas Permanent School Fund (the “PSF” or the “Fund”). Actual results may differ materially from those contained in any such projections or forward-looking statements.

### HISTORY AND PURPOSE

The PSF was created with a \$2,000,000 appropriation by the Texas Legislature (the “Legislature”) in 1854 expressly for the benefit of the public schools of Texas. The Constitution of 1876 stipulated that certain lands and all proceeds from the sale of these lands should also constitute the PSF. Additional acts later gave more public domain land and rights to the PSF. In 1953, the U.S. Congress passed the Submerged Lands Act that relinquished to coastal states all rights of the U.S. navigable waters within state boundaries. If the state, by law, had set a larger boundary prior to or at the time of admission to the Union, or if the boundary had been approved by Congress, then the larger boundary applied. After three years of litigation (1957-1960), the U. S. Supreme Court on May 31, 1960, affirmed Texas’ historic three marine leagues (10.35 miles) seaward boundary. Texas proved its submerged lands property rights to three leagues into the Gulf of Mexico by citing historic laws and treaties dating back to 1836. All lands lying within that limit belong to the PSF. The proceeds from the sale and the mineral-related rental of these lands, including bonuses, delay rentals and royalty payments, become the corpus of the Fund. Prior to the approval by the voters of the State of an amendment to the constitutional provision under which the Fund is established and administered, which occurred on September 13, 2003 (the “Total Return Constitutional Amendment”), and which is further described below, the PSF had as its main sources of revenues capital gains from securities transactions and royalties from the sale of oil and natural gas. The Total Return Constitutional Amendment provides that interest and dividends produced by Fund investments will be additional revenue to the PSF. The State School Land Board (“SLB”) maintains the land endowment of the Fund on behalf of the Fund and is generally authorized to manage the investments of the capital gains, royalties and other investment income relating to the land endowment. The SLB is a three member board, the membership of which consists of the Commissioner of the Texas General Land Office (the “Land Commissioner”) and two citizen members, one appointed by the Governor and one by the Texas Attorney General (the “Attorney General”). (But see “2019 Texas Legislative Session” for a description of legislation that is expected to change the composition of the SLB). As of August 31, 2018, the General Land Office (the “GLO”) managed approximately 23% of the PSF, as reflected in the fund balance of the PSF at that date.

The Texas Constitution describes the PSF as “permanent.” Prior to the approval by Total Return Constitutional Amendment, only the income produced by the PSF was to be used to complement taxes in financing public education.

On November 8, 1983, the voters of the State approved a constitutional amendment that provides for the guarantee by the PSF of bonds issued by school districts. On approval by the State Commissioner of Education (the “Commissioner”), bonds properly issued by a school district are fully guaranteed by the corpus of the PSF. See “The School District Bond Guarantee Program.”

In 2011, legislation was enacted that established the Charter District Bond Guarantee Program as a new component of the Guarantee Program. That legislation authorized the use of the PSF to guarantee revenue bonds issued by or for the benefit of certain open-enrollment charter schools that are designated as “charter districts” by the Commissioner. On approval by the Commissioner, bonds properly issued by a charter district participating in the Program are fully guaranteed by the corpus of the PSF. As described below, the implementation of the Charter District Bond Guarantee Program was deferred pending receipt of guidance from the Internal Revenue Service (the “IRS”) which was received in September 2013, and the establishment of regulations to govern the program, which regulations became effective on March 3, 2014. See “The Charter District Bond Guarantee Program.”

State law also permits charter schools to be chartered and operated by school districts and other political subdivisions, but bond financing of facilities for school district-operated charter schools is subject to the School District Bond Guarantee Program, not the Charter District Bond Guarantee Program.

While the School District Bond Guarantee Program and the Charter District Bond Guarantee Program relate to different types of bonds issued for different types of Texas public schools, and have different program regulations and requirements, a bond guaranteed under either part of the Guarantee Program has the same effect with respect to the guarantee obligation of the Fund thereto, and all guaranteed bonds are aggregated for purposes of determining the capacity of the Guarantee Program (see “Capacity Limits for the Guarantee Program”). The Charter District Bond Guarantee Program as enacted by State law has not been reviewed by any court, nor has the Texas Attorney General been requested to issue an opinion, with respect to its constitutional validity.

The sole purpose of the PSF is to assist in the funding of public education for present and future generations. Prior to the adoption of the Total Return Constitutional Amendment, all interest and dividends produced by Fund investments flowed into the Available School Fund (the “ASF”), where they are distributed to local school districts and open-enrollment charter schools based on average daily attendance. Any net gains from investments of the Fund accrue to the corpus of the PSF. Prior to the approval by the voters of the State of the Total Return Constitutional Amendment, costs of administering the PSF were allocated to the ASF. With the approval of the Total Return Constitutional Amendment, the administrative costs of the Fund have shifted from the ASF to the PSF. In fiscal year 2018 distributions to the ASF amounted to an estimated \$247 per student and the total amount distributed to the ASF was \$1,235.8 million.

Audited financial information for the PSF is provided annually through the PSF Comprehensive Annual Financial Report (the “Annual Report”), which is filed with the Municipal Securities Rulemaking Board (“MSRB”). The Annual Report includes the Message of the Executive Administrator of the Fund (the “Message”) and the Management’s Discussion and Analysis (“MD&A”). The Annual Report for the year ended August 31, 2018, as filed with the MSRB in accordance with the PSF undertaking and agreement made in accordance with Rule 15c2-12 (“Rule 15c2-12”) of the federal Securities and Exchange Commission (the “SEC”), as described below, is hereby incorporated by reference into this disclosure. Information included herein for the year ended August 31, 2018 is derived from the audited financial statements of the PSF, which are included in the Annual Report when it is filed and posted. Reference is made to the Annual Report for the complete Message and MD&A for the year ended August 31, 2018 and for a description of the financial results of the PSF for the year ended August 31, 2018, the most recent year for which audited financial information regarding the Fund is available. The 2018 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2018 Annual Report or any other Annual Report. The TEA posts each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, the most recent disclosure for the Guarantee Program, the Statement of Investment Objectives, Policies and Guidelines of the Texas Permanent School Fund, which is codified at 19 Texas Administrative Code, Chapter 33 (the “Investment Policy”), monthly updates with respect to the capacity of the Guarantee Program (collectively, the “Web Site Materials”) on the TEA web site at [http://tea.texas.gov/Finance\\_and\\_Grants/Permanent\\_School\\_Fund/](http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/) and with the MSRB at [www.emma.msrb.org](http://www.emma.msrb.org). Such monthly updates regarding the Guarantee Program are also incorporated herein and made a part hereof for all purposes. In addition to the Web Site Materials, the Fund is required to make quarterly filings with the SEC under Section 13(f) of the Securities Exchange Act of 1934. Such filings, which consist of a list of the Fund’s holdings of securities specified in Section 13(f), including exchange-traded (e.g., NYSE) or NASDAQ-quoted stocks, equity options and warrants, shares of closed-end investment companies and certain convertible debt securities, is available from the SEC at [www.sec.gov/edgar.shtml](http://www.sec.gov/edgar.shtml). A list of the Fund’s equity and fixed income holdings as of August 31 of each year is posted to the TEA web site and filed with the MSRB. Such list excludes holdings in the Fund’s securities lending program. Such list, as filed, is incorporated herein and made a part hereof for all purposes.

## **2019 TEXAS LEGISLATIVE SESSION**

During the 86th Regular Session of the Texas Legislature, which concluded on May 27, 2019 (the “86th Session”), various bills were enacted that relate to the PSF. Among such enacted legislation are bills that relate to the composition of the SLB and its relationship to the SBOE with respect to the management of the PSF. Legislation was approved that will change the composition of the SLB to a five member board from a three member board. Under that bill, the Land Commissioner will continue to head the SLB, but the remaining four members will be appointed by the Governor, and of those four members, two are required to be selected from a list of nominees to be submitted to the Governor by the SBOE. That legislation also requires an annual joint meeting of the SLB and the SBOE for the purpose of discussing the allocation of the assets of the PSF and the investment of money in the PSF. Other enacted legislation requires the SLB and the SBOE to provide quarterly financial reports to each other and creates a “permanent school fund liquid account” in the PSF for the purpose of receiving funds transferred from the SLB on a quarterly basis that are not then invested by the SLB or needed within the forthcoming quarter for investment by the SBOE. Such funds shall be invested in liquid assets in the same manner that the PSF is managed until such time as the funds are required for investment by the SLB. That legislation also requires the Texas Education Agency, in consultation with the GLO, to conduct a study regarding distributions to the ASF from the PSF. In addition, a joint resolution was approved that proposes a constitutional amendment to the Texas Constitution to increase the permissible amount of distributions to the ASF

from revenue derived during a year from PSF land or other properties from \$300 million to \$600 million annually. That constitutional change is subject to approval at a State-wide referendum to be conducted on November 5, 2019.

Other legislation enacted during the 86th Session provides for the winding up of the affairs of an open-enrollment charter school that ceases operations, including as a result of the revocation or other termination of its charter. In particular, among other provisions, the legislation addresses the disposition of real and personal property of a discontinued charter school and provides under certain circumstances for reimbursement to be made to the State, if the disposed property was acquired with State funds; authorizes the Commissioner to adopt a rule to govern related party transactions by charter schools; and creates a “charter school liquidation fund” for the management of any reclaimed State funds, including, in addition to other potential uses, for the use of deposit of such reclaimed funds to the Charter District Reserve Fund.

No assessment has been made by the TEA or PSF staff as to the potential financial impact of any legislation enacted during the 86th Session, including the increase in the permissible amount that may be transferred from the PSF to the ASF, should State voters approve the proposed constitutional amendment described above on November 5, 2019.

#### **THE TOTAL RETURN CONSTITUTIONAL AMENDMENT**

The Total Return Constitutional Amendment approved a fundamental change in the way that distributions are made to the ASF from the PSF. The Total Return Constitutional Amendment requires that PSF distributions to the ASF be determined using a total-return-based formula instead of the current-income-based formula, which was used from 1964 to the end of the 2003 fiscal year. The Total Return Constitutional Amendment provides that the total amount distributed from the Fund to the ASF: (1) in each year of a State fiscal biennium must be an amount that is not more than 6% of the average of the market value of the Fund, excluding real property (the “Distribution Rate”), on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium (the “Distribution Measurement Period”), in accordance with the rate adopted by: (a) a vote of two-thirds of the total membership of the State Board of Education (“SBOE”), taken before the Regular Session of the Legislature convenes or (b) the Legislature by general law or appropriation, if the SBOE does not adopt a rate as provided by clause (a); and (2) over the ten-year period consisting of the current State fiscal year and the nine preceding state fiscal years may not exceed the total return on all investment assets of the Fund over the same ten-year period (the “Ten Year Total Return”). In April 2009, the Attorney General issued a legal opinion, Op. Tex. Att’y Gen. No. GA-0707 (2009) (“GA-0707”), at the request of the Chairman of the SBOE with regard to certain matters pertaining to the Distribution Rate and the determination of the Ten Year Total Return. In GA-0707 the Attorney General opined, among other advice, that (i) the Ten Year Total Return should be calculated on an annual basis, (ii) a contingency plan adopted by the SBOE, to permit monthly transfers equal in aggregate to the annual Distribution Rate to be halted and subsequently made up if such transfers temporarily exceed the Ten Year Total Return, is not prohibited by State law, provided that such contingency plan applies only within a fiscal year time basis, not on a biennium basis, and (iii) that the amount distributed from the Fund in a fiscal year may not exceed 6% of the average of the market value of the Fund or the Ten Year Total Return. In accordance with GA-0707, in the event that the Ten Year Total Return is exceeded during a fiscal year, transfers to the ASF will be halted. However, if the Ten Year Total Return subsequently increases during that biennium, transfers may be resumed, if the SBOE has provided for that contingency, and made in full during the remaining period of the biennium, subject to the limit of 6% in any one fiscal year. Any shortfall in the transfer that results from such events from one biennium may not be paid over to the ASF in a subsequent biennium as the SBOE would make a separate payout determination for that subsequent biennium.

In determining the Distribution Rate, the SBOE has adopted the goal of maximizing the amount distributed from the Fund in a manner designed to preserve “intergenerational equity.” Intergenerational equity is the maintenance of purchasing power to ensure that endowment spending keeps pace with inflation, with the ultimate goal being to ensure that current and future generations are given equal levels of purchasing power in real terms. In making this determination, the SBOE takes into account various considerations, and relies upon its staff and external investment consultant, which undertake analysis for long-term projection periods that includes certain assumptions. Among the assumptions used in the analysis are a projected rate of growth of the average daily scholastic attendance State-wide, the projected contributions and expenses of the Fund, projected returns in the capital markets and a projected inflation rate.

See “2011 Constitutional Amendment” below for a discussion of the historic and current Distribution Rates, and a description of amendments made to the Texas Constitution on November 8, 2011 that may affect Distribution Rate decisions.

Since the enactment of a prior amendment to the Texas Constitution in 1964, the investment of the Fund has been managed with the dual objectives of producing current income for transfer to the ASF and growing the Fund for the benefit of future generations. As a result of this prior constitutional framework, prior to the adoption of the 2004 asset allocation policy the investment of the Fund historically included a significant amount of fixed income investments and dividend-yielding equity investments, to produce income for transfer to the ASF.

With respect to the management of the Fund’s financial assets portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted from time to time by the SBOE. The SBOE generally reviews the asset allocations during its summer meeting in even numbered years. The first asset

allocation policy adopted by the SBOE following the Total Return Constitutional Amendment was in February 2004, and the policy was reviewed and modified or reaffirmed in the summers of each even-numbered year, most recently in 2018. The Fund's investment policy provides for minimum and maximum ranges among the components of each of the asset classifications: equities, fixed income and alternative asset investments. The 2004 asset allocation policy decreased the fixed income target from 45% to 25% of Fund investment assets and increased the allocation for equities from 55% to 75% of investment assets. Subsequent asset allocation policies have continued to diversify Fund assets, and have added an alternative asset allocation to the fixed income and equity allocations. The alternative asset allocation category includes real estate, real return, absolute return and private equity components. Alternative asset classes diversify the SBOE-managed assets and are not as correlated to traditional asset classes, which is intended to increase investment returns over the long run while reducing risk and return volatility of the portfolio. The most recent asset allocation, from 2016, which was reviewed and reaffirmed in June 2018, is as follows: (i) an equity allocation of 35% (consisting of U.S. large cap equities targeted at 13%, international equities at 14% and emerging international equities at 3%) and U.S. small/mid cap equities at 5%), (ii) a fixed income allocation of 19% (consisting of a 12% allocation for core bonds and a 7% allocation for emerging market debt in local currency) and (iii) an alternative asset allocation of 46% (consisting of a private equity allocation of 13%, a real estate allocation of 10%, an absolute return allocation of 10%, a risk parity allocation of 7% and a real return allocation of 6%). The 2016 asset allocation decreased U.S. large cap equities and international equities by 3% and 2%, respectively, and increased the allocations for private equity and real estate by 3% and 2%, respectively.

For a variety of reasons, each change in asset allocation for the Fund, including the 2016 modifications, have been implemented in phases, and that approach is likely to be carried forward when and if the asset allocation policy is again modified. At August 31, 2018, the Fund's financial assets portfolio was invested as follows: 40.52% in public market equity investments; 13.25% in fixed income investments; 10.35% in absolute return assets; 9.16% in private equity assets; 7.47% in real estate assets; 6.78% in risk parity assets; 5.95% in real return assets; 6.21% in emerging market debt; and 0.31% in unallocated cash.

Following on previous decisions to create strategic relationships with investment managers in certain asset classes, in September 2015 and January 2016, the SBOE approved the implementation of direct investment programs in private equity and absolute return assets, respectively, which has continued to reduce administrative costs with respect to those portfolios. The Attorney General has advised the SBOE in Op. Tex. Att'y Gen. No. GA-0998 (2013) ("GA-0998"), that the PSF is not subject to requirements of certain State competitive bidding laws with respect to the selection of investments. In GA-0998, the Attorney General also advised that the SBOE generally must use competitive bidding for the selection of investment managers and other third party providers of investment services, such as record keeping and insurance, but excluding certain professional services, such as accounting services, as State law prohibits the use of competitive bidding for specified professional services. GA-0998 provides guidance to the SBOE in connection with the direct management of alternative investments through investment vehicles to be created by the SBOE, in lieu of contracting with external managers for such services, as has been the recent practice of the PSF. The PSF staff and the Fund's investment advisor are tasked with advising the SBOE with respect to the implementation of the Fund's asset allocation policy, including the timing and manner of the selection of any external managers and other consultants.

In accordance with the Texas Constitution, the SBOE views the PSF as a perpetual institution, and the Fund is managed as an endowment fund with a long-term investment horizon. Under the total-return investment objective, the Investment Policy provides that the PSF shall be managed consistently with respect to the following: generating income for the benefit of the public free schools of Texas, the real growth of the corpus of the PSF, protecting capital, and balancing the needs of present and future generations of Texas school children. As described above, the Total Return Constitutional Amendment restricts the annual payout from the Fund to the total-return on all investment assets of the Fund over a rolling ten-year period. State law provides that each transfer of funds from the PSF to the ASF is made monthly, with each transfer to be in the amount of one-twelfth of the annual distribution. The heavier weighting of equity securities and alternative assets relative to fixed income investments has resulted in greater volatility of the value of the Fund. Given the greater weighting in the overall portfolio of passively managed investments, it is expected that the Fund will reflect the general performance returns of the markets in which the Fund is invested.

The asset allocation of the Fund's financial assets portfolio is subject to change by the SBOE from time to time based upon a number of factors, including recommendations to the SBOE made by internal investment staff and external consultants, changes made by the SBOE without regard to such recommendations and directives of the Legislature. Fund performance may also be affected by factors other than asset allocation, including, without limitation, the general performance of the securities markets in the United States and abroad; political and investment considerations including those relating to socially responsible investing; economic impacts relating to domestic and international climate change; development of hostilities in and among nations; cybersecurity issues that affect the securities markets, changes in international trade policies, economic activity and investments, in general, application of the prudent person investment standard, which may eliminate certain investment opportunities for the Fund; management fees paid to external managers and embedded management fees for some fund investments; and limitations on the number and compensation of internal and external investment staff, which is subject to legislative oversight. The Guarantee Program could also be impacted by changes in State or federal law or the implementation of new accounting standards.



## **MANAGEMENT AND ADMINISTRATION OF THE FUND**

The Texas Constitution and applicable statutes delegate to the SBOE the authority and responsibility for investment of the PSF's financial assets. In investing the Fund, the SBOE is charged with exercising the judgment and care under the circumstances then prevailing which persons of ordinary prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income therefrom as well as the probable safety of their capital. The SBOE has adopted a "Statement of Investment Objectives, Policies, and Guidelines of the Texas Permanent School Fund," which is codified in the Texas Administrative Code beginning at 19 TAC section 33.1.

The Total Return Constitutional Amendment provides that expenses of managing the PSF are to be paid "by appropriation" from the PSF. In January 2005, at the request of the SBOE, the Attorney General issued a legal opinion, Op. Tex. Att'y Gen. No. GA-0293 (2005), that the Total Return Constitutional Amendment requires that SBOE expenditures for managing or administering PSF investments, including payments to external investment managers, be paid from appropriations made by the Legislature, but that the Total Return Constitutional Amendment does not require the SBOE to pay from such appropriated PSF funds the indirect management costs deducted from the assets of a mutual fund or other investment company in which PSF funds have been invested.

Texas law assigns control of the Fund's land and mineral rights to the SLB. Administrative duties related to the land and mineral rights reside with the GLO, which is under the guidance of the Commissioner of the GLO. In 2007, the Legislature established the real estate special fund account of the PSF (the "Real Estate Account") consisting of proceeds and revenue from land, mineral or royalty interest, real estate investment, or other interest, including revenue received from those sources, that is set apart to the PSF under the Texas Constitution and laws, together with the mineral estate in riverbeds, channels, and the tidelands, including islands. The investment of the Real Estate Account is subject to the sole and exclusive management and control of the SLB and the Land Commissioner, who is also the head of the GLO. The 2007 legislation presented constitutional questions regarding the respective roles of the SBOE and the SLB relating to the disposition of proceeds of real estate transactions to the ASF, among other questions. Amounts in the investment portfolio of the PSF are taken into account by the SBOE for purposes of determining the Distribution Rate. An amendment to the Texas Constitution was approved by State voters on November 8, 2011, which permits the SLB to make transfers directly to the ASF, see "2011 Constitutional Amendment" below.

The SBOE contracts with its securities custodial agent to measure the performance of the total return of the Fund's financial assets. A consultant is typically retained for the purpose of providing consultation with respect to strategic asset allocation decisions and to assist the SBOE in selecting external fund management advisors. The SBOE also contracts with financial institutions for custodial and securities lending services. Like other State agencies and instrumentalities that manage large investment portfolios, the PSF has implemented an incentive compensation plan that may provide additional compensation for investment personnel, depending upon the criteria relating to the investment performance of the Fund.

As noted above, the Texas Constitution and applicable statutes make the SBOE responsible for investment of the PSF's financial assets. By law, the Commissioner is appointed by the Governor, with Senate confirmation, and assists the SBOE, but the Commissioner can neither be hired nor dismissed by the SBOE. The Executive Administrator of the Fund is also hired by and reports to the Commissioner. Moreover, although the Fund's Executive Administrator and his staff implement the decisions of and provide information to the School Finance/PSF Committee of the SBOE and the full SBOE, the SBOE can neither select nor dismiss the Executive Administrator. TEA's General Counsel provides legal advice to the Executive Administrator and to the SBOE. The SBOE has also engaged outside counsel to advise it as to its duties over the Fund, including specific actions regarding the investment of the PSF to ensure compliance with fiduciary standards, and to provide transactional advice in connection with the investment of Fund assets in non-traditional investments.

## **CAPACITY LIMITS FOR THE GUARANTEE PROGRAM**

The capacity of the Fund to guarantee bonds under the Guarantee Program is limited in two ways: by State law (the "State Capacity Limit") and by regulations and a notice issued by the IRS (the "IRS Limit"). Prior to May 20, 2003, the State Capacity Limit was equal to two times the lower of cost or fair market value of the Fund's assets, exclusive of real estate. During the 78th Regular Session of the Legislature in 2003, legislation was enacted that increased the State Capacity Limit by 25%, to two and one half times the lower of cost or fair market value of the Fund's assets as estimated by the SBOE and certified by the State Auditor, and eliminated the real estate exclusion from the calculation. Prior to the issuance of the IRS Notice (defined below), the capacity of the program under the IRS Limit was limited to two and one-half times the lower of cost or fair market value of the Fund's assets adjusted by a factor that excluded additions to the Fund made since May 14, 1989. During the 2007 Texas Legislature, Senate Bill 389 ("SB 389") was enacted providing for additional increases in the capacity of the Guarantee Program, and specifically providing that the SBOE may by rule increase the capacity of the Guarantee Program from two and one-half times the cost value of the PSF to an amount not to exceed five times the cost value of the PSF, provided that the increased limit does not violate federal law and regulations and does not prevent bonds guaranteed by the Guarantee Program from receiving the highest available credit rating, as determined by the SBOE. SB 389 further provides that the SBOE shall at least annually consider whether to change the capacity of the Guarantee Program. From 2005 through 2009, the Guarantee Program twice

reached capacity under the IRS Limit, and in each instance the Guarantee Program was closed to new bond guarantee applications until relief was obtained from the IRS. The most recent closure of the Guarantee Program commenced in March 2009 and the Guarantee Program reopened in February 2010 on the basis of receipt of the IRS Notice.

On December 16, 2009, the IRS published Notice 2010-5 (the "IRS Notice") stating that the IRS will issue proposed regulations amending the existing regulations to raise the IRS limit to 500% of the total cost of the assets held by the PSF as of December 16, 2009. In accordance with the IRS Notice, the amount of any new bonds to be guaranteed by the PSF, together with the then outstanding amount of bonds previously guaranteed by the PSF, must not exceed the IRS limit on the sale date of the new bonds to be guaranteed. The IRS Notice further provides that the IRS Notice may be relied upon for bonds sold on or after December 16, 2009, and before the effective date of future regulations or other public administrative guidance affecting funds like the PSF.

On September 16, 2013, the IRS published proposed regulations (the "Proposed IRS Regulations") that, among other things, would enact the IRS Notice. The preamble to the Proposed IRS Regulations provides that issuers may elect to apply the Proposed IRS Regulations, in whole or in part, to bonds sold on or after September 16, 2013, and before the date that final regulations become effective.

On July 18, 2016, the IRS issued final regulations enacting the IRS Notice (the "Final IRS Regulations"). The Final IRS Regulations are effective for bonds sold on or after October 17, 2016. The IRS Notice, the Proposed IRS Regulations and the Final IRS Regulations establish a static capacity for the Guarantee Program based upon the cost value of Fund assets on December 16, 2009 multiplied by five. On December 16, 2009, the cost value of the Guarantee Program was \$23,463,730,608 (estimated and unaudited), thereby producing an IRS Limit of approximately \$117.3 billion. The State Capacity Limit is determined on the basis of the cost value of the Fund from time to time multiplied by the capacity multiplier determined annually by the SBOE, but not to exceed a multiplier of five. The capacity of the Guarantee Program will be limited to the lower of the State Capacity Limit or the IRS Limit. On May 21, 2010, the SBOE modified the regulations that govern the School District Bond Guarantee Program (the "SDBGP Rules"), and increased the State Law Capacity to an amount equal to three times the cost value of the PSF. Such modified regulations, including the revised capacity rule, became effective on July 1, 2010. The SDBGP Rules provide that the Commissioner may reduce the multiplier to maintain the AAA credit rating of the Guarantee Program, but provide that any changes to the multiplier made by the Commissioner are to be ratified or rejected by the SBOE at the next meeting following the change. See "Valuation of the PSF and Guaranteed Bonds," below.

At its September 2015 meeting, the SBOE voted to modify the SDBGP Rules and the CDBGP Rules to increase the State Law Capacity from 3 times the cost value multiplier to 3.25 times. At that meeting, the SBOE also approved a new 5% capacity reserve for the Charter District Bond Guarantee Program. The change to the State Law Capacity became effective on February 1, 2016. At its November 2016 meeting, the SBOE again voted to increase the State Law Capacity and, in accordance with applicable requirements for the modification of SDBGP and CDBGP Rules, a second and final vote to approve the increase in the State Law Capacity occurred on February 3, 2017. As a result, the State Law Capacity increased from 3.25 times the cost value multiplier to 3.50 times effective March 1, 2017. Based upon the cost basis of the Fund at August 31, 2018, the State Law Capacity increased from \$111,568,711,072 on August 31, 2017 to \$118,511,255,268 on August 31, 2018 (but at such date the IRS Limit was lower, \$117,318,653,038, so it is the currently effective capacity limit for the Fund).

Since July 1991, when the SBOE amended the Guarantee Program Rules to broaden the range of bonds that are eligible for guarantee under the Guarantee Program to encompass most Texas school district bonds, the principal amount of bonds guaranteed under the Guarantee Program has increased sharply. In addition, in recent years a number of factors have caused an increase in the amount of bonds issued by school districts in the State. See the table "Permanent School Fund Guaranteed Bonds" below. Effective September 1, 2009, the Act provides that the SBOE may annually establish a percentage of the cost value of the Fund to be reserved from use in guaranteeing bonds. The capacity of the Guarantee Program in excess of any reserved portion is referred to herein as the "Capacity Reserve." The SDBGP Rules provide for a minimum Capacity Reserve for the overall Guarantee Program of no less than 5%, and provide that the amount of the Capacity Reserve may be increased by a majority vote of the SBOE. The CDBGP Rules provide for an additional 5% reserve of CDBGP capacity. The Commissioner is authorized to change the Capacity Reserve, which decision must be ratified or rejected by the SBOE at its next meeting following any change made by the Commissioner. The current Capacity Reserve is noted in the monthly updates with respect to the capacity of the Guarantee Program on the TEA web site at [http://tea.texas.gov/Finance\\_and\\_Grants/Permanent\\_School\\_Fund/](http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/), which are also filed with the MSRB.

Based upon historical performance of the Fund, the legal restrictions relating to the amount of bonds that may be guaranteed has generally resulted in a lower ratio of guaranteed bonds to available assets as compared to many other types of credit enhancements that may be available for Texas school district bonds and charter district bonds. However, the ratio of Fund assets to guaranteed bonds and the growth of the Fund in general could be adversely affected by a number of factors, including changes in the value of the Fund due to changes in securities markets, investment objectives of the Fund, an increase in bond issues by school districts in the State or legal restrictions on the Fund, changes in State laws that implement funding decisions for school districts and charter districts, which could adversely affect the credit quality of those districts, the implementation of the Charter District Bond Guarantee Program, or an increase in the calculation base of the Fund for purposes of making transfers to the ASF. It is anticipated that the issuance of the IRS Notice and the Proposed IRS Regulations will likely result in a substantial increase

in the amount of bonds guaranteed under the Guarantee Program. The implementation of the Charter School Bond Guarantee Program is also expected to increase the amount of guaranteed bonds.

The Act requires that the Commissioner prepare, and the SBOE approve, an annual report on the status of the Guarantee Program (the Annual Report). The State Auditor audits the financial statements of the PSF, which are separate from other State financial statements.

#### **THE SCHOOL DISTRICT BOND GUARANTEE PROGRAM**

The School District Bond Guarantee Program requires an application be made by a school district to the Commissioner for a guarantee of its bonds. If the conditions for the School District Bond Guarantee Program are satisfied, the guarantee becomes effective upon approval of the bonds by the Attorney General and remains in effect until the guaranteed bonds are paid or defeased, by a refunding or otherwise.

In the event of default, holders of guaranteed school district bonds will receive all payments due from the corpus of the PSF. Following a determination that a school district will be or is unable to pay maturing or matured principal or interest on any guaranteed bond, the Act requires the school district to notify the Commissioner not later than the fifth day before the stated maturity date of such bond or interest payment. Immediately following receipt of such notice, the Commissioner must cause to be transferred from the appropriate account in the PSF to the Paying Agent/Registrar an amount necessary to pay the maturing or matured principal and interest. Upon receipt of funds for payment of such principal or interest, the Paying Agent/Registrar must pay the amount due and forward the canceled bond or evidence of payment of the interest to the State Comptroller of Public Accounts (the "Comptroller"). The Commissioner will instruct the Comptroller to withhold the amount paid, plus interest, from the first State money payable to the school district. The amount withheld pursuant to this funding "intercept" feature will be deposited to the credit of the PSF. The Comptroller must hold such canceled bond or evidence of payment of the interest on behalf of the PSF. Following full reimbursement of such payment by the school district to the PSF with interest, the Comptroller will cancel the bond or evidence of payment of the interest and forward it to the school district. The Act permits the Commissioner to order a school district to set a tax rate sufficient to reimburse the PSF for any payments made with respect to guaranteed bonds, and also sufficient to pay future payments on guaranteed bonds, and provides certain enforcement mechanisms to the Commissioner, including the appointment of a board of managers or annexation of a defaulting school district to another school district.

If a school district fails to pay principal or interest on a bond as it is stated to mature, other amounts not due and payable are not accelerated and do not become due and payable by virtue of the district's default. The School District Bond Guarantee Program does not apply to the payment of principal and interest upon redemption of bonds, except upon mandatory sinking fund redemption, and does not apply to the obligation, if any, of a school district to pay a redemption premium on its guaranteed bonds. The guarantee applies to all matured interest on guaranteed school district bonds, whether the bonds were issued with a fixed or variable interest rate and whether the interest rate changes as a result of an interest reset provision or other bond order provision requiring an interest rate change. The guarantee does not extend to any obligation of a school district under any agreement with a third party relating to guaranteed bonds that is defined or described in State law as a "bond enhancement agreement" or a "credit agreement," unless the right to payment of such third party is directly as a result of such third party being a bondholder.

In the event that two or more payments are made from the PSF on behalf of a district, the Commissioner shall request the Attorney General to institute legal action to compel the district and its officers, agents and employees to comply with the duties required of them by law in respect to the payment of guaranteed bonds.

Generally, the SDBGP Rules limit guarantees to certain types of notes and bonds, including, with respect to refunding bonds issued by school districts, a requirement that the bonds produce debt service savings, and that bonds issued for capital facilities of school districts must have been voted as unlimited tax debt of the issuing district. The Guarantee Program Rules include certain accreditation criteria for districts applying for a guarantee of their bonds, and limit guarantees to districts that have less than the amount of annual debt service per average daily attendance that represents the 90th percentile of annual debt service per average daily attendance for all school districts, but such limitation will not apply to school districts that have enrollment growth of at least 25% over the previous five school years. The SDBGP Rules are codified in the Texas Administrative Code at 19 TAC section 33.65, and are available at <http://ritter.tea.state.tx.us/rules/tac/chapter033/ch033a.html#33.65>.

#### **THE CHARTER DISTRICT BOND GUARANTEE PROGRAM**

The Charter District Bond Guarantee Program became effective March 3, 2014. The SBOE published final regulations in the Texas Register that provide for the administration of the Charter District Bond Guarantee Program (the "CDBGP Rules"). The CDBGP Rules are codified at 19 TAC section 33.67, and are available at <http://ritter.tea.state.tx.us/rules/tac/chapter033/ch033a.html#33.67>.

The Charter District Bond Guarantee Program has been authorized through the enactment of amendments to the Act, which provide that a charter holder may make application to the Commissioner for designation as a “charter district” and for a guarantee by the PSF under the Act of bonds issued on behalf of a charter district by a non-profit corporation. If the conditions for the Charter District Bond Guarantee Program are satisfied, the guarantee becomes effective upon approval of the bonds by the Attorney General and remains in effect until the guaranteed bonds are paid or defeased, by a refunding or otherwise.

As of February 27, 2019 (the most recent date for which data is available), the percentage of students enrolled in open-enrollment charter schools (excluding charter schools authorized by school districts) to the total State scholastic census was approximately 5.85%. As of June 10, 2019, there were 181 active open-enrollment charter schools in the State and there were 764 charter school campuses operating under such charters (though as of such date, 15 of such campuses have not begun serving students for various reasons). Section 12.101, Texas Education Code, as amended by the Legislature in 2013, limits the number of charters that the Commissioner may grant to 215 charters as of the end of fiscal year 2014, with the number increasing in each fiscal year thereafter through 2019 to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see “Capacity Limits for the Guarantee Program.” The Act provides that the Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

In accordance with the Act, the Commissioner may not approve charter district bonds for guarantee if such guarantees will result in lower bond ratings for public school district bonds that are guaranteed under the School District Bond Guarantee Program. To be eligible for a guarantee, the Act provides that a charter district's bonds must be approved by the Attorney General, have an unenhanced investment grade rating from a nationally recognized investment rating firm, and satisfy a limited investigation conducted by the TEA.

The Charter District Bond Guarantee Program does not apply to the payment of principal and interest upon redemption of bonds, except upon mandatory sinking fund redemption, and does not apply to the obligation, if any, of a charter district to pay a redemption premium on its guaranteed bonds. The guarantee applies to all matured interest on guaranteed charter district bonds, whether the bonds were issued with a fixed or variable interest rate and whether the interest rate changes as a result of an interest reset provision or other bond resolution provision requiring an interest rate change. The guarantee does not extend to any obligation of a charter district under any agreement with a third party relating to guaranteed bonds that is defined or described in State law as a “bond enhancement agreement” or a “credit agreement,” unless the right to payment of such third party is directly as a result of such third party being a bondholder.

The Act provides that immediately following receipt of notice that a charter district will be or is unable to pay maturing or matured principal or interest on a guaranteed bond, the Commissioner is required to instruct the Comptroller to transfer from the Charter District Reserve Fund to the district's paying agent an amount necessary to pay the maturing or matured principal or interest. If money in the Charter District Reserve Fund is insufficient to pay the amount due on a bond for which a notice of default has been received, the Commissioner is required to instruct the Comptroller to transfer from the PSF to the district's paying agent the amount necessary to pay the balance of the unpaid maturing or matured principal or interest. If a total of two or more payments are made under the Charter District Bond Guarantee Program on charter district bonds and the Commissioner determines that the charter district is acting in bad faith under the program, the Commissioner may request the Attorney General to institute appropriate legal action to compel the charter district and its officers, agents, and employees to comply with the duties required of them by law in regard to the guaranteed bonds. As is the case with the School District Bond Guarantee Program, the Act provides a funding “intercept” feature that obligates the Commissioner to instruct the Comptroller to withhold the amount paid with respect to the Charter District Bond Guarantee Program, plus interest, from the first State money payable to a charter district that fails to make a guaranteed payment on its bonds. The amount withheld will be deposited, first, to the credit of the PSF, and then to restore any amount drawn from the Charter District Reserve Fund as a result of the non-payment.

The CDBGP Rules provide that the PSF may be used to guarantee bonds issued for the acquisition, construction, repair, or renovation of an educational facility for an open-enrollment charter holder and equipping real property of an open-enrollment charter school and/or to refinance promissory notes executed by an open-enrollment charter school, each in an amount in excess of \$500,000 the proceeds of which loans were used for a purposes described above (so-called new money bonds) or for refinancing bonds previously issued for the charter school that were approved by the attorney general (so-called refunding bonds). Refunding bonds may not be guaranteed under the Charter District Bond Guarantee Program if they do not result in a present value savings to the charter holder.

The CDBGP Rules provide that an open-enrollment charter holder applying for charter district designation and a guarantee of its bonds under the Charter District Bond Guarantee Program satisfy various provisions of the regulations, including the following: It must (i) have operated at least one open-enrollment charter school with enrolled students in the State for at least three years; (ii) agree that the bonded indebtedness for which the guarantee is sought will be undertaken as an obligation of all entities under common control of the open-enrollment charter holder, and that all such entities will be liable for the obligation if the open-enrollment charter holder defaults on the bonded indebtedness, provided, however, that an entity that does not operate a charter

school in Texas is subject to this provision only to the extent it has received state funds from the open-enrollment charter holder; (iii) have had completed for the past three years an audit for each such year that included unqualified or unmodified audit opinions; and (iv) have received an investment grade credit rating within the last year. Upon receipt of an application for guarantee under the Charter District Bond Guarantee Program, the Commissioner is required to conduct an investigation into the financial status of the applicant charter district and of the accreditation status of all open-enrollment charter schools operated under the charter, within the scope set forth in the CDBGP Rules. Such financial investigation must establish that an applying charter district has a historical debt service coverage ratio, based on annual debt service, of at least 1.1 for the most recently completed fiscal year, and a projected debt service coverage ratio, based on projected revenues and expenses and maximum annual debt service, of at least 1.2. The failure of an open-enrollment charter holder to comply with the Act or the applicable regulations, including by making any material misrepresentations in the charter holder's application for charter district designation or guarantee under the Charter District Bond Guarantee Program, constitutes a material violation of the open-enrollment charter holder's charter.

From time to time, TEA has limited new guarantees under the Charter District Bond Guarantee Program to conform to capacity limits specified by the Act. Legislation enacted during the Legislature's 2017 regular session modified the manner of calculating the capacity of the Charter District Bond Guarantee Program (the "CDBGP Capacity"), which further increased the amount of the CDBGP Capacity, beginning with State fiscal year 2018, but that provision of the law does not increase overall Program capacity, it merely allocates capacity between the School District Bond Guarantee Program and the Charter District Bond Guarantee Program. See "Capacity Limits for the Guarantee Program" and "2017 Legislative Changes to the Charter District Bond Guarantee Program." Other factors that could increase the CDBGP Capacity include Fund investment performance, future increases in the Guarantee Program multiplier, changes in State law that govern the calculation of the CDBGP Capacity, as described below, growth in the relative percentage of students enrolled in open-enrollment charter schools to the total State scholastic census, legislative and administrative changes in funding for charter districts, changes in level of school district or charter district participation in the Program, or a combination of such circumstances.

#### **2017 LEGISLATIVE CHANGES TO THE CHARTER DISTRICT BOND GUARANTEE PROGRAM**

The CDBGP Capacity is established by the Act. During the 85th Texas Legislature, which concluded on May 29, 2017, Senate Bill 1480 ("SB 1480") was enacted. The complete text of SB 1480 can be found at <http://www.capitol.state.tx.us/tlodocs/85R/billtext/pdf/SB01480F.pdf#navpanes=0>. SB 1480 modified how the CDBGP Capacity will be established under the Act effective as of September 1, 2017, and made other substantive changes to the Act that affects the Charter District Bond Guarantee Program. Prior to the enactment of SB 1480, the CDBGP Capacity was calculated as the State Capacity Limit less the amount of outstanding bond guarantees under the Guarantee Program multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population. As of April 30, 2019, the amount of outstanding bond guarantees represented 69.90% of the IRS Limit (which is currently the applicable capacity limit) for the Guarantee Program (based on unaudited data). SB 1480 amended the CDBGP Capacity calculation so that the State Capacity Limit is multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population prior to the subtraction of the outstanding bond guarantees, thereby potentially substantially increasing the CDBGP Capacity. However, certain provisions of SB 1480, described below, and other additional factors described herein, could result in less than the maximum amount of the potential increase provided by SB 1480 being implemented by the SBOE or otherwise used by charter districts. Still other factors used in determining the CDBGP Capacity, such as the percentage of the charter district scholastic population to the overall public school scholastic population, could, in and of itself, increase the CDBGP Capacity, as that percentage has grown from 3.53% in September, 2012 to 5.85% in February 2019. TEA is unable to predict how the ratio of charter district students to the total State scholastic population will change over time.

SB 1480 provides that the implementation of the new method of calculating the CDBGP Capacity will begin with the State fiscal year that commences September 1, 2021 (the State's fiscal year 2022). However, for the intervening four fiscal years, beginning with fiscal year 2018, SB 1480 provides that the SBOE may establish a CDBGP Capacity that increases the amount of charter district bonds that may be guaranteed by up to a cumulative 20% in each fiscal year (for a total maximum increase of 80% in fiscal year 2021) as compared to the capacity figure calculated under the Act as of January 1, 2017. However, SB 1480 provides that in making its annual determination of the magnitude of an increase for any year, the SBOE may establish a lower (or no) increase if the SBOE determines that an increase in the CDBGP Capacity would likely result in a negative impact on the bond ratings for the Bond Guarantee Program (see "Ratings of Bonds Guaranteed Under the Guarantee Program") or if one or more charter districts default on payment of principal or interest on a guaranteed bond, resulting in a negative impact on the bond ratings of the Bond Guarantee Program. The provisions of SB 1480 that provide for discretionary, incremental increases in the CDBGP expire September 1, 2022. If the SBOE makes a determination for any year based upon the potential ratings impact on the Bond Guarantee Program and modifies the increase that would otherwise be implemented under SB 1480 for that year, the SBOE may also make appropriate adjustments to the schedule for subsequent years to reflect the modification, provided that the CDBGP Capacity for any year may not exceed the limit provided in the schedule set forth in SB 1480. In September 2017 and June 2018, the SBOE authorized the full 20% increase in the amount of charter district bonds that may be guaranteed for fiscal years 2018 and 2019, respectively, which increases the relative capacity of the Charter District Bond Guarantee Program to the School District Bond Guarantee Program for those fiscal years.

Taking into account the enactment of SB 1480 and the increase in the CDBGP Capacity effected thereby, at Winter 2018 meeting the SBOE determined not to implement a previously approved the multiplier increase to 3.75 times market value, opting to increase the multiplier to 3.50 times effective in late March 2018.

In addition to modifying the manner of determining the CDBGP Capacity, SB 1480 provides that the Commissioner, in making a determination as to whether to approve a guarantee for a charter district, may consider any additional reasonable factor that the Commissioner determines to be necessary to protect the Bond Guarantee Program or minimize risk to the PSF, including: (1) whether the charter district had an average daily attendance of more than 75 percent of its student capacity for each of the preceding three school years, or for each school year of operation if the charter district has not been in operation for the preceding three school years; (2) the performance of the charter district under certain performance criteria set forth in Education Code Sections 39.053 and 39.054; and (3) any other indicator of performance that could affect the charter district's financial performance. Also, SB 1480 provides that the Commissioner's investigation of a charter district application for guarantee may include an evaluation of whether the charter district bond security documents provide a security interest in real property pledged as collateral for the bond and the repayment obligation under the proposed guarantee. The Commissioner may decline to approve the application if the Commissioner determines that sufficient security is not provided. The Act and the CDBGP Rules previously required the Commissioner to make an investigation of the accreditation status and certain financial criteria for a charter district applying for a bond guarantee, which remain in place.

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the "Charter District Reserve Fund"). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10 percent of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20 percent of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However, the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to three percent (3.00%) of the total amount of outstanding guaranteed bonds issued by charter districts. As of April 30, 2019, the Charter District Reserve Fund represented approximately 0.87% of the guaranteed charter district bonds. SB 1480 also authorized the SBOE to manage the Charter District Reserve Fund in the same manner as it manages the PSF. Previously, the Charter District Reserve Fund was held by the Comptroller, but effective April 1 2018, the management of the Reserve Fund was transferred to the PSF division of TEA, where it will be held and invested as a non-commingled fund under the administration of the PSF staff.

#### **CHARTER DISTRICT RISK FACTORS**

Open-enrollment charter schools in the State may not charge tuition and, unlike school districts, charter districts have no taxing power. Funding for charter district operations is largely from amounts appropriated by the Legislature. The amount of such State payments a charter district receives is based on a variety of factors, including the enrollment at the schools operated by a charter district. The overall amount of education aid provided by the State for charter schools in any year is also subject to appropriation by the Legislature. The Legislature may base its decisions about appropriations for charter schools on many factors, including the State's economic performance. Further, because some public officials, their constituents, commentators and others have viewed charter schools as controversial, political factors may also come to bear on charter school funding, and such factors are subject to change.

Other than credit support for charter district bonds that is provided to qualifying charter districts by the Charter District Bond Guarantee Program, under current law, open-enrollment charter schools generally do not receive a dedicated funding allocation from the State to assist with the construction and acquisition of new facilities. However, during the 85th Regular Session of the Legislature in 2017, legislation was enacted that, for the first time, provided a limited appropriation in the amount of \$60 million for the 2018-2019 biennium for charter districts having an acceptable performance rating. A charter district that receives funding under this program may use the funds to lease or pay property taxes imposed on an instructional facility; to pay debt service on bonds that financed an instructional facility; or for any other purpose related to the purchase, lease, sale, acquisition, or maintenance of an instructional facility. Charter schools generally issue revenue bonds to fund facility construction and acquisition, or fund facilities from cash flows of the school. Some charter districts have issued non-guaranteed debt in addition to debt guaranteed under the Charter District Bond Guarantee Program, and such non-guaranteed debt is likely to be secured by a deed of trust covering all or part of the charter district's facilities. In March 2017, the TEA began requiring charter districts to provide the TEA with a lien against charter district property as a condition to receiving a guarantee under the Charter District Bond Guarantee Program. However, charter district bonds issued and guaranteed under the Charter District Bond Guarantee Program prior to the implementation of the new requirement did not have the benefit of a security interest in real property, although other existing debts of such charter districts that are not guaranteed under the Charter District Bond Guarantee Program may be secured by real property that could be foreclosed on in the event of a bond default.

The maintenance of a State-granted charter is dependent upon on-going compliance with State law and TEA regulations, and TEA monitors compliance with applicable standards. TEA has a broad range of enforcement and remedial actions that it can take as corrective measures, and such actions may include the loss of the State charter, the appointment of a new board of directors to govern a charter district, the assignment of operations to another charter operator, or, as a last resort, the dissolution of an open-enrollment charter school.

As described above, the Act includes a funding “intercept” function that applies to both the School District Bond Guarantee Program and the Charter District Bond Guarantee Program. However, school districts are viewed as the “educator of last resort” for students residing in the geographical territory of the district, which makes it unlikely that State funding for those school districts would be discontinued, although the TEA can require the dissolution and merger into another school district if necessary to ensure sound education and financial management of a school district. That is not the case with a charter district, however, and open-enrollment charter schools in the State have been dissolved by TEA from time to time. If a charter district that has bonds outstanding that are guaranteed by the Charter District Bond Guarantee Program should be dissolved, debt service on guaranteed bonds of the district would continue to be paid to bondholders in accordance with the Charter District Bond Guarantee Program, but there would be no funding available for reimbursement of the PSF by the Comptroller for such payments. As described under “The Charter District Bond Guarantee Program,” the Act establishes a Charter District Reserve Fund, which could in the future be a significant reimbursement resource for the PSF. At April 30, 2019, the Charter District Reserve Fund contained \$14,743,830.

#### **POTENTIAL IMPACT OF HURRICANE HARVEY ON THE PSF**

Hurricane Harvey struck coastal Texas on August 26, 2017, resulting in historic levels of rainfall. The Governor designated the impacted area for disaster relief, and TEA believes that the storm impacted more than 1.3 million students enrolled in some 157 school districts, and approximately 58,000 students in 27 charter schools in the designated area. Many of the impacted school districts and two charter districts have bonds guaranteed by the PSF. It is possible that the affected districts will need to borrow to repair or replace damaged facilities, which could require increased bond issuance and applications to the TEA for PSF bond guarantees. In addition, the storm damage and any lingering economic damage in the area could adversely affect the tax base (for school districts) and credit quality of school districts and charter districts with bonds that are or will be guaranteed by the PSF.

Legislation was approved during the 86th Session that provides supplemental appropriations to the TEA in amounts of \$535,200,000 and \$635,770,000 for the fiscal biennia ending August 31, 2019 and August 31, 2021, respectively. Those appropriations are designated for use as an adjustment to school district property values and reimbursement for disaster remediation costs as a result of Hurricane Harvey. That legislation also included a reimbursement to the TEA in the amount of \$271,300,000 for costs previously incurred by the TEA for increased student costs, the reduction in school district property values and other disaster remediation costs stemming from Hurricane Harvey. For fiscal year 2018, TEA initiated programs designed to hold school districts and charter districts harmless for the loss of State funding associated with declines in average daily attendance. In the past, storm damage has caused multiple year impacts to affected schools with respect to both attendance figures and tax base (for school districts). In June 2018 TEA received results of a survey of tax appraisal districts in the area affected by the hurricane with respect to the impact of the hurricane on the tax rolls of affected school districts. In aggregate, the tax rolls of affected districts appear to have increased slightly for fiscal 2018 over 2017, but the increases were at a lower rate than had been anticipated in the State’s general appropriation act for the biennium. TEA notes that as of June 2018 the negative effect of the hurricane on the average daily attendance of districts in the affected area appears to have been less than TEA had initially anticipated.

Many of the school districts and two charter districts in the designated disaster area have bonds guaranteed by the PSF. TEA notes that no district has applied for financial exigency or failed to timely pay bond payments as a result of the hurricane or otherwise. The PSF is managed to maintain liquidity for any draws on the program. Moreover, as described under “The School District Bond Guarantee Program” and “The Charter District Bond Guarantee Program,” both parts of the Bond Guarantee Program operate in accordance with the Act as “intercept” programs, providing liquidity for guaranteed bonds, and draws on the PSF are required to be restored from the first State money payable to a school district or a charter district that fails to make a guaranteed payment on its bonds.

#### **RATINGS OF BONDS GUARANTEED UNDER THE GUARANTEE PROGRAM**

Moody’s Investors Service, S&P Global Ratings and Fitch Ratings rate bonds guaranteed by the PSF “Aaa,” “AAA” and “AAA,” respectively. Not all districts apply for multiple ratings on their bonds, however. See “Ratings” herein.

VALUATION OF THE PSF AND GUARANTEED BONDS

Permanent School Fund Valuations

Fiscal Year Ended 8/31	Book Value <sup>(1)</sup>	Market Value <sup>(1)</sup>
2014	\$ 27,596,692,541	\$ 38,445,519,225
2015	29,081,052,900	36,196,265,273
2016	30,128,037,903	37,279,799,335
2017	31,870,581,428	41,438,672,573
2018 <sup>(2)</sup>	33,860,358,647	44,074,197,940

<sup>(1)</sup> SLB managed assets are included in the market value and book value of the Fund. In determining the market value of the PSF from time to time during a fiscal year, the TEA uses current, unaudited values for TEA managed investment portfolios and cash held by the SLB. With respect to SLB managed assets shown in the table above, market values of land and mineral interests, internally managed real estate, investments in externally managed real estate funds and cash are based upon information reported to the PSF by the SLB. The SLB reports that information to the PSF on a quarterly basis. The valuation of such assets at any point in time is dependent upon a variety of factors, including economic conditions in the State and nation in general, and the values of these assets, and, in particular, the valuation of mineral holdings administered by the SLB, can be volatile and subject to material changes from period to period.

<sup>(2)</sup> At August 31, 2018, mineral assets, sovereign and other lands and internally managed discretionary real estate, external discretionary real estate investments, domestic equities, and cash managed by the SLB had book values of approximately \$13.4 million, \$238.8 million, \$2,983.3 million, \$7.5 million, and \$4,247.3 million, respectively, and market values of approximately \$2,022.8 million, \$661.1 million, \$3,126.7 million, \$4.2 million, and \$4,247.3 million, respectively. At April 30, 2019, the PSF had a book value of \$34,917,398,274 and a market value of \$44,978,512,134. April 30, 2019 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds

At 8/31	Principal Amount <sup>(1)</sup>
2014	\$ 58,364,350,783
2015	63,955,449,047
2016	68,303,328,445
2017	74,266,090,023
2018	79,080,901,069 <sup>(2)</sup>

<sup>(1)</sup> Represents original principal amount; does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount shown excludes bonds that have been refunded and released from the Guarantee Program. The TEA does not maintain records of the accreted value of capital appreciation bonds that are guaranteed under the Guarantee Program.

<sup>(2)</sup> As of August 31, 2018 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts over the remaining life of the bonds guaranteed by the Guarantee Program was \$126,346,333,815, of which \$47,265,432,746 represents interest to be paid. As shown in the table above, at August 31, 2018, there were \$79,080,901,069 in principal amount of bonds guaranteed under the Guarantee Program, and using the IRS Limit at that date of \$117,318,653,038 (the IRS Limit is currently the lower of the two federal and State capacity limits of Program capacity), 97.35% of Program capacity was available to the School District Bond Guarantee Program and 2.65% was available to the Charter District Bond Guarantee Program.

Permanent School Fund Guaranteed Bonds by Category<sup>(1)</sup>

School District Bonds		Charter District Bonds		Totals		
Fiscal Year Ended 8/31	No. of Issues	Principal Amount	No. of Issues	Principal Amount	No. of Issues	Principal Amount
2014 <sup>(2)</sup>	2,869	\$ 58,061,805,783	10	\$ 302,545,000	2,879	\$ 58,364,350,783
2015	3,089	63,197,514,047	28	757,935,000	3,117	63,955,449,047
2016	3,244	67,342,303,445	35	961,025,000	3,279	68,303,328,445
2017	3,253	72,884,480,023	40	1,381,610,000	3,293	74,266,090,023
2018 <sup>(3)</sup>	3,249	77,647,966,069	44	1,432,935,000	3,293	79,080,901,069

<sup>(1)</sup> Represents original principal amount; does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount shown excludes bonds that have been refunded and released from the Guarantee Program.

<sup>(2)</sup> Fiscal 2014 was the first year of operation of the Charter District Bond Guarantee Program.



<sup>(3)</sup> At April 30, 2019 (based on unaudited data, which is subject to adjustment), there were \$82,005,532,177 of bonds guaranteed under the Guarantee Program, representing 3,269 school district issues, aggregating \$80,311,477,177 in principal amount and 46 charter district issues, aggregating \$1,694,055,000 in principal amount. At April 30, 2019, the capacity allocation of the Charter District Bond Guarantee Program was \$3,265,722,717 (based on unaudited data, which is subject to adjustment).

## **DISCUSSION AND ANALYSIS PERTAINING TO FISCAL YEAR ENDED AUGUST 31, 2018**

The following discussion is derived from the Annual Report for the year ended August 31, 2018, including the Message of the Executive Administrator of the Fund and the Management's Discussion and Analysis contained therein. Reference is made to the Annual Report, when filed, for the complete Message and MD&A. Investment assets managed by the fifteen member SBOE are referred to throughout this MD&A as the PSF(SBOE) assets. As of August 31, 2018, the Fund's land, mineral rights and certain real assets are managed by the three-member SLB and these assets are referred to throughout as the PSF(SLB) assets. The current PSF asset allocation policy includes an allocation for real estate investments, and as such investments are made, and become a part of the PSF investment portfolio, those investments will be managed by the SBOE and not the SLB.

At the end of fiscal 2018, the Fund balance was \$44.0 billion, an increase of \$2.6 billion from the prior year. This increase is primarily due to overall increases in value of all asset classes in which the Fund has invested. During the year, the SBOE continued implementing the long-term strategic asset allocation, diversifying the PSF(SBOE) to strengthen the Fund. The asset allocation is projected to increase returns over the long run while reducing risk and portfolio return volatility. The PSF(SBOE) annual rates of return for the one-year, five-year, and ten-year periods ending August 31, 2018, were 7.23%, 7.68% and 6.92%, respectively (total return takes into consideration the change in the market value of the Fund during the year as well as the interest and dividend income generated by the Fund's investments). In addition, the SLB continued its shift into externally managed real asset investment funds, and the one-year, five-year, and ten-year annualized total returns for the PSF(SLB) real assets, including cash, were 8.69%, 7.78%, and 4.23%, respectively.

The market value of the Fund's assets is directly impacted by the performance of the various financial markets in which the assets are invested. The most important factors affecting investment performance are the asset allocation decisions made by the SBOE and SLB. The current SBOE long term asset allocation policy allows for diversification of the PSF(SBOE) portfolio into alternative asset classes whose returns are not as positively correlated as traditional asset classes. The implementation of the long term asset allocation will occur over several fiscal years and is expected to provide incremental total return at reduced risk. As of August 31, 2018, the PSF(SBOE) portion of the Fund had diversified into emerging market and large cap international equities, absolute return funds, real estate, private equity, risk parity, real return Treasury Inflation-Protected Securities, real return commodities, and emerging market debt.

As of August 31, 2018, the SBOE has approved and the Fund made capital commitments to externally managed real estate investment funds in a total amount of \$4.2 billion and capital commitments to private equity limited partnerships for a total of \$5.2 billion. Unfunded commitments at August 31, 2018, totaled \$1.5 billion in real estate investments and \$2.1 billion in private equity investments.

The PSF(SLB) portfolio is generally characterized by three broad categories: (1) discretionary real assets investments, (2) sovereign and other lands, and (3) mineral interests. Discretionary real assets investments consist of externally managed real estate, infrastructure, and energy/minerals investment funds; internally managed direct real estate investments, and cash. Sovereign and other lands consist primarily of the lands set aside to the PSF when it was created. Mineral interests consist of all of the minerals that are associated with PSF lands. The investment focus of PSF(SLB) discretionary real assets investments has shifted from internally managed direct real estate investments to externally managed real assets investment funds. The PSF(SLB) makes investments in certain limited partnerships that legally commit it to possible future capital contributions. At August 31, 2018, the remaining commitments totaled approximately \$2.6 billion.

The PSF(SBOE)'s investment in domestic large cap, domestic small/mid cap, international large cap, and emerging market equity securities experienced returns of 19.83%, 23.95%, 3.51%, and -1.07%, respectively, during the fiscal year ended August 31, 2018. The PSF(SBOE)'s investment in domestic fixed income securities produced a return of -0.78% during the fiscal year and absolute return investments yielded a return of 6.66%. The PSF(SBOE) real estate and private equity investments returned 12.01% and 15.94%, respectively. Risk parity assets produced a return of 3.43%, while real return assets yielded 0.70%. Emerging market debt produced a return of -11.40%. Combined, all PSF(SBOE) asset classes produced an investment return of 7.23% for the fiscal year ended August 31, 2018, out-performing the benchmark index of 6.89% by approximately 34 basis points. All PSF(SLB) real assets (including cash) returned 8.69% for the fiscal year ending August 31, 2018.

For fiscal year 2018, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled \$4.0 billion, a decrease of \$1.4 billion from fiscal year 2017 earnings of \$5.4 billion. This decrease reflects the performance of the securities markets in which the Fund was invested in fiscal year 2018. In fiscal year 2018, revenues earned by the Fund included lease payments, bonuses and royalty income received from oil, gas and mineral leases; lease payments from commercial real estate; surface lease and easement revenues; revenues from the resale of natural and liquid gas supplies;

dividends, interest, and securities lending revenues; the net change in the fair value of the investment portfolio; and, other miscellaneous fees and income.

Expenditures are paid from the Fund before distributions are made under the total return formula. Such expenditures include the costs incurred by the SLB to manage the land endowment, as well as operational costs of the Fund, including external management fees paid from appropriated funds. Total operating expenditures, net of security lending rebates and fees, decreased 17.1% for the fiscal year ending August 31, 2018. This decrease is primarily attributable to a decrease in PSF(SLB) quantities of purchased gas for resale in the State Energy Management Program, which is administered by the SLB as part of the Fund.

The Fund supports the public school system in the State by distributing a predetermined percentage of its asset value to the ASF. For fiscal years 2017 and 2018, the distribution from the SBOE to the ASF totaled \$1.1 billion and \$1.2 billion, respectively. There were no contributions to the ASF by the SLB in fiscal years 2017 and 2018.

At the end of the 2018 fiscal year, PSF assets guaranteed \$79.1 billion in bonds issued by 858 local school districts and charter districts, the latter of which entered into the Program during the 2014 fiscal year. Since its inception in 1983, the Fund has guaranteed 7,242 school district and charter district bond issues totaling \$176.4 billion in principal amount. During the 2018 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program remained flat at 3,293. The dollar amount of guaranteed school and charter bond issues outstanding increased by \$4.8 billion or 6.5%. The State Capacity Limit increased by \$6.9 billion, or 6.2%, during fiscal year 2018 due to continued growth in the cost basis of the Fund used to calculate that Program capacity limit. The effective capacity of the Program increased by only \$5.7 billion, or 5.2%, during fiscal year 2018 as the IRS Limit was reached during the fiscal year, and it is the lower of the two State and federal capacity limits for the Program.

#### **2011 CONSTITUTIONAL AMENDMENT**

On November 8, 2011, a referendum was held in the State as a result of legislation enacted that year that proposed amendments to various sections of the Texas Constitution pertaining to the PSF. At that referendum, voters of State approved non-substantive changes to the Texas Constitution to clarify references to the Fund, and, in addition, approved amendments that effected an increase to the base amount used in calculating the Distribution Rate from the Fund to the ASF, and authorized the SLB to make direct transfers to the ASF, as described below.

The amendments approved at the referendum included an increase to the base used to calculate the Distribution Rate by adding to the calculation base certain discretionary real assets and cash in the Fund that is managed by entities other than the SBOE (at present, by the SLB). The value of those assets were already included in the value of the Fund for purposes of the Guarantee Program, but prior to the amendment had not been included in the calculation base for purposes of making transfers from the Fund to the ASF. While the amendment provided for an increase in the base for the calculation of approximately \$2 billion, no new resources were provided for deposit to the Fund. As described under “The Total Return Constitutional Amendment” the SBOE is prevented from approving a Distribution Rate or making a pay out from the Fund if the amount distributed would exceed 6% of the average of the market value of the Fund, excluding real property in the Fund, but including discretionary real asset investments on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium or if such pay out would exceed the Ten Year Total Return.

If there are no reductions in the percentage established biennially by the SBOE to be the Distribution Rate, the impact of the increase in the base against which the Distribution Rate is applied will be an increase in the distributions from the PSF to the ASF. As a result, going forward, it may be necessary for the SBOE to reduce the Distribution Rate in order to preserve the corpus of the Fund in accordance with its management objective of preserving intergenerational equity.

The Distribution Rates for the Fund were set at 3.5%, 2.5%, 4.2%, 3.3%, 3.5% and 3.7% for each of two year periods 2008-2009, 2010-2011, 2012-2013, 2014-2015, 2016-2017 and 2018-2019, respectively. In November 2018, the SBOE approved a \$2.2 billion distribution to the ASF for State fiscal biennium 2020-2021, to be made in equal monthly increments of \$92.2 million, which represents a 2.981% Distribution Rate for the biennium and a per student distribution of \$220.97, based on 2018 preliminary student average daily attendance of 5,004,998. In making the 2020-2021 biennium distribution decision, the SBOE took into account a commitment of the SLB transfer \$10 million to the PSF in fiscal year 2020 and \$45 million in fiscal year 2021.

Changes in the Distribution Rate for each biennial period has been based on a number of financial and political reasons, as well as commitments made by the SLB in some years to transfer certain sums to the ASF. The new calculation base described above has been used to determine all payments to the ASF from the Fund beginning with the 2012-13 biennium. The broader base for the Distribution Rate calculation could increase transfers from the PSF to the ASF, although the effect of the broader calculation base has been somewhat offset since the 2014-2015 biennium by the establishment by the SBOE of somewhat lower Distribution Rates than for the 2012-2013 biennium. In addition, the changes made by the amendment that increased the calculation base that could affect the corpus of the Fund include the decisions that are made by the SLB or others that are, or may in the future be, authorized to make transfers of funds from the PSF to the ASF.

The constitutional amendments approved on November 8, 2011 also provide authority to the GLO or any other entity other than the SBOE that has responsibility for the management of land or other properties of the Fund to determine whether to transfer an amount each year from Fund assets to the ASF revenue derived from such land or properties, with the amount transferred limited to \$300 million. Any amount transferred to the ASF by an entity other than the SBOE is excluded from the 6% Distribution Rate limitation applicable to SBOE transfers.

#### **OTHER EVENTS AND DISCLOSURES**

The State Investment Ethics Code governs the ethics and disclosure requirements for financial advisors and other service providers who advise certain State governmental entities, including the PSF. In accordance with the provisions of the State Investment Ethics Code, the SBOE periodically modifies its code of ethics, which occurred most recently in April 2018. The SBOE code of ethics includes prohibitions on sharing confidential information, avoiding conflict of interests and requiring disclosure filings with respect to contributions made or received in connection with the operation or management of the Fund. The code of ethics applies to members of the SBOE as well as to persons who are responsible by contract or by virtue of being a TEA PSF staff member for managing, investing, executing brokerage transactions, providing consultant services, or acting as a custodian of the PSF, and persons who provide investment and management advice to a member of the SBOE, with or without compensation under certain circumstances. The code of ethics is codified in the Texas Administrative Code at 19 TAC sections 33.5 et seq., and is available on the TEA web site at <http://ritter.tea.state.tx.us/rules/tac/chapter033/ch033a.html#33.5>.

In addition, the GLO has established processes and controls over its administration of real estate transactions and is subject to provisions of the Texas Natural Resources Code and its own internal procedures in administering real estate transactions for assets it manages for the Fund.

In the 2011 legislative session, the Legislature approved an increase of 31 positions in the full-time equivalent employees for the administration of the Fund, which was funded as part of an \$18 million appropriation for each year of the 2012-13 biennium, in addition to the operational appropriation of \$11 million for each year of the biennium. The TEA has begun increasing the PSF administrative staff in accordance with the 2011 legislative appropriation, and the TEA received an appropriation of \$30.2 million for the administration of the PSF for fiscal years 2016 and 2017, respectively, and \$30.4 million for each of the fiscal years 2018 and 2019.

As of August 31, 2018, certain lawsuits were pending against the State and/or the GLO, which challenge the Fund's title to certain real property and/or past or future mineral income from that property, and other litigation arising in the normal course of the investment activities of the PSF. Reference is made to the Annual Report, when filed, for a description of such lawsuits that are pending, which may represent contingent liabilities of the Fund.

#### **PSF CONTINUING DISCLOSURE UNDERTAKING**

The SBOE has adopted an investment policy rule (the "TEA Rule") pertaining to the PSF and the Guarantee Program. The TEA Rule is codified in Section I of the TEA Investment Procedure Manual, which relates to the Guarantee Program and is posted to the TEA web site at [http://tea.texas.gov/Finance\\_and\\_Grants/Texas\\_Permanent\\_School\\_Fund/Texas\\_Permanent\\_School\\_Fund\\_Disclosure\\_Statement\\_-\\_Bond\\_Guarantee\\_Program/](http://tea.texas.gov/Finance_and_Grants/Texas_Permanent_School_Fund/Texas_Permanent_School_Fund_Disclosure_Statement_-_Bond_Guarantee_Program/). The most recent amendment to the TEA Rule was adopted by the SBOE on February 1, 2019, and is summarized below. Through the adoption of the TEA Rule and its commitment to guarantee bonds, the SBOE has made the following agreement for the benefit of the issuers, holders and beneficial owners of guaranteed bonds. The TEA (or its successor with respect to the management of the Guarantee Program) is required to observe the agreement for so long as it remains an "obligated person," within the meaning of Rule 15c2-12, with respect to guaranteed bonds. Nothing in the TEA Rule obligates the TEA to make any filings or disclosures with respect to guaranteed bonds, as the obligations of the TEA under the TEA Rule pertain solely to the Guarantee Program. The issuer or an "obligated person" of the guaranteed bonds has assumed the applicable obligation under Rule 15c2-12 to make all disclosures and filings relating directly to guaranteed bonds, and the TEA takes no responsibility with respect to such undertakings. Under the TEA agreement, the TEA will be obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to the MSRB.

The MSRB has established the Electronic Municipal Market Access ("EMMA") system, and the TEA is required to file its continuing disclosure information using the EMMA system. Investors may access continuing disclosure information filed with the MSRB at [www.emma.msrb.org](http://www.emma.msrb.org), and the continuing disclosure filings of the TEA with respect to the PSF can be found at <https://emma.msrb.org/IssueView/Details/ER355077> or by searching for "Texas Permanent School Fund Bond Guarantee Program" on EMMA.

#### **ANNUAL REPORTS**

The TEA will annually provide certain updated financial information and operating data to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the Guarantee Program and the PSF of the general type included in this Official Statement under the heading "THE PERMANENT SCHOOL FUND GUARANTEE

PROGRAM.” The information also includes the Annual Report. The TEA will update and provide this information within six months after the end of each fiscal year.

The TEA may provide updated information in full text or may incorporate by reference certain other publicly-available documents, as permitted by Rule 15c2-12. The updated information includes audited financial statements of, or relating to, the State or the PSF, when and if such audits are commissioned and available. Financial statements of the State will be prepared in accordance with generally accepted accounting principles as applied to state governments, as such principles may be changed from time to time, or such other accounting principles as the State Auditor is required to employ from time to time pursuant to State law or regulation. The financial statements of the Fund were prepared to conform to U.S. Generally Accepted Accounting Principles as established by the Governmental Accounting Standards Board.

The Fund is reported by the State of Texas as a permanent fund and accounted for on a current financial resources measurement focus and the modified accrual basis of accounting. Measurement focus refers to the definition of the resource flows measured. Under the modified accrual basis of accounting, all revenues reported are recognized based on the criteria of availability and measurability. Assets are defined as available if they are in the form of cash or can be converted into cash within 60 days to be usable for payment of current liabilities. Amounts are defined as measurable if they can be estimated or otherwise determined. Expenditures are recognized when the related fund liability is incurred.

The State’s current fiscal year end is August 31. Accordingly, the TEA must provide updated information by the last day of February in each year, unless the State changes its fiscal year. If the State changes its fiscal year, the TEA will notify the MSRB of the change.

#### **EVENT NOTICES**

The TEA will also provide timely notices of certain events to the MSRB. Such notices will be provided not more than ten business days after the occurrence of the event. The TEA will provide notice of any of the following events with respect to the Guarantee Program: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if such event is material within the meaning of the federal securities laws; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt status of the Guarantee Program, or other material events affecting the tax status of the Guarantee Program; (7) modifications to rights of holders of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (8) bond calls, if such event is material within the meaning of the federal securities laws, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the Guarantee Program (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Guarantee Program in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Guarantee Program, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Guarantee Program); (13) the consummation of a merger, consolidation, or acquisition involving the Guarantee Program or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) the appointment of a successor or additional trustee with respect to the Guarantee Program or the change of name of a trustee, if such event is material within the meaning of the federal securities laws; (15) the incurrence of a financial obligation of the Guarantee Program, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Program, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Guarantee Program, any of which reflect financial difficulties. (Neither the Act nor any other law, regulation or instrument pertaining to the Guarantee Program make any provision with respect to the Guarantee Program for bond calls, debt service reserves, credit enhancement, liquidity enhancement, early redemption or the appointment of a trustee with respect to the Guarantee Program.) In addition, the TEA will provide timely notice of any failure by the TEA to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.”

#### **AVAILABILITY OF INFORMATION**

The TEA has agreed to provide the foregoing information only to the MSRB and to transmit such information electronically to the MSRB in such format and accompanied by such identifying information as prescribed by the MSRB. The information is available from the MSRB to the public without charge at [www.emma.msrb.org](http://www.emma.msrb.org).

## LIMITATIONS AND AMENDMENTS

The TEA has agreed to update information and to provide notices of material events only as described above. The TEA has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The TEA makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The TEA disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the TEA to comply with its agreement.

The continuing disclosure agreement of the TEA is made only with respect to the PSF and the Guarantee Program. The issuer of guaranteed bonds or an obligated person with respect to guaranteed bonds may make a continuing disclosure undertaking in accordance with Rule 15c2-12 with respect to its obligations arising under Rule 15c2-12 pertaining to financial and operating data concerning such entity and notices of material events relating to such guaranteed bonds. A description of such undertaking, if any, is included elsewhere in the Official Statement.

This continuing disclosure agreement may be amended by the TEA from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the TEA, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell guaranteed bonds in the primary offering of such bonds in compliance with Rule 15c2-12, taking into account any amendments or interpretations of Rule 15c2-12 since such offering as well as such changed circumstances and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding bonds guaranteed by the Guarantee Program consent to such amendment or (b) a person that is unaffiliated with the TEA (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interest of the holders and beneficial owners of the bonds guaranteed by the Guarantee Program. The TEA may also amend or repeal the provisions of its continuing disclosure agreement if the SEC amends or repeals the applicable provision of Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling bonds guaranteed by the Guarantee Program in the primary offering of such bonds.

## COMPLIANCE WITH PRIOR UNDERTAKINGS

During the last five years, the TEA has not failed to substantially comply with its previous continuing disclosure agreements in accordance with Rule 15c2-12.

## SEC EXEMPTIVE RELIEF

On February 9, 1996, the TEA received a letter from the Chief Counsel of the SEC that pertains to the availability of the “small issuer exemption” set forth in paragraph (d)(2) of Rule 15c2-12. The letter provides that Texas school districts which offer municipal securities that are guaranteed under the Guarantee Program may undertake to comply with the provisions of paragraph (d)(2) of Rule 15c2-12 if their offerings otherwise qualify for such exemption, notwithstanding the guarantee of the school district securities under the Guarantee Program. Among other requirements established by Rule 15c2-12, a school district offering may qualify for the small issuer exemption if, upon issuance of the proposed series of securities, the school district will have no more than \$10 million of outstanding municipal securities.

## STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

### LITIGATION RELATING TO THE TEXAS PUBLIC SCHOOL FINANCE SYSTEM

On seven occasions in the last thirty years, the Texas Supreme Court (the “Court”) has issued decisions assessing the constitutionality of the Texas public school finance system (the “Finance System”). The litigation has primarily focused on whether the Finance System, as amended by the Texas Legislature (the “Legislature”) from time to time (i) met the requirements of article VII, section 1 of the Texas Constitution, which requires the Legislature to “establish and make suitable provision for the support and maintenance of an efficient system of public free schools,” or (ii) imposed a statewide ad valorem tax in violation of article VIII, section 1-e of the Texas Constitution because the statutory limit on property taxes levied by school districts for maintenance and operation purposes had allegedly denied school districts meaningful discretion in setting their tax rates. In response to the Court’s previous decisions, the Legislature enacted multiple laws that made substantive changes in the way the Finance System is funded in efforts to address the prior decisions declaring the Finance System unconstitutional.

On May 13, 2016, the Court issued its opinion in the most recent school finance litigation, *Morath v. The Texas Taxpayer & Student Fairness Coal.*, 490 S.W.3d 826 (Tex. 2016) (“Morath”). The plaintiffs and intervenors in the case had alleged that the Finance System, as modified by the Legislature in part in response to prior decisions of the Court, violated article VII, section 1 and article VIII, section 1-e of the Texas Constitution. In its opinion, the Court held that “despite the imperfections of the current school funding regime, it meets minimum constitutional requirements.” The Court also noted that:

Lawmakers decide if laws pass, and judges decide if those laws pass muster. But our lenient standard of review in this policy-laden area counsels modesty. The judicial role is not to second-guess whether our system is optimal, but whether it is constitutional. Our Byzantine school funding "system" is undeniably imperfect, with immense room for improvement. But it satisfies minimum constitutional requirements.

#### **POSSIBLE EFFECTS OF CHANGES IN LAW ON DISTRICT BONDS**

The Court's decision in *Morath* upheld the constitutionality of the Finance System but noted that the Financing System was "undeniably imperfect". While not compelled by the *Morath* decision to reform the Finance System, the Legislature could enact future changes to the Finance System. Any such changes could benefit or be a detriment to the District. If the Legislature enacts future changes to, or fails adequately to fund the Finance System, or if changes in circumstances otherwise provide grounds for a challenge, the Finance System could be challenged again in the future. In its 1995 opinion in *Edgewood Independent School District v. Meno*, 917 S.W.2d 717 (Tex. 1995), the Court stated that any future determination of unconstitutionality "would not, however, affect the district's authority to levy the taxes necessary to retire previously issued bonds, but would instead require the Legislature to cure the system's unconstitutionality in a way that is consistent with the Contract Clauses of the U.S. and Texas Constitutions" (collectively, the "Contract Clauses"), which prohibit the enactment of laws that impair prior obligations of contracts.

Although, as a matter of law, the Bonds, upon issuance and delivery, will be entitled to the protections afforded previously existing contractual obligations under the Contract Clauses, the District can make no representations or predictions concerning the effect of future legislation, or any litigation that may be associated with such legislation, on the District's financial condition, revenues or operations. While the enactment of future legislation to address school funding in Texas could adversely affect the financial condition, revenues or operations of the District, the District does not anticipate that the security for payment of the Bonds, specifically, the District's obligation to levy an unlimited debt service tax and any Permanent School Fund guarantee of the Bonds would be adversely affected by any such legislation. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM".

#### **CURRENT PUBLIC SCHOOL FINANCE SYSTEM**

*During the 2019 Legislative Session, the State Legislature made numerous changes to the current public school finance system, the levy and collection of ad valorem taxes, and the calculation of defined tax rates, including particularly those contained in House Bill 3 ("HB 3") and Senate Bill 2 ("SB 2"). In some instances, the provisions of HB 3 and SB 2 will require further interpretation in connection with their implementation in order to resolve ambiguities contained in the bills. The District is still in the process of (a) analyzing the provisions of HB 3 and SB 2, and (b) monitoring the on-going guidance provided by TEA. The information contained herein under the captions "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" and "TAX RATE LIMITATIONS" is subject to change, and only reflects the District's understanding of HB 3 and SB 2 based on information available to the District as of the date of this Official Statement. Prospective investors are encouraged to review HB 3, SB 2, and the Property Tax Code (as defined herein) for definitive requirements for the levy and collection of ad valorem taxes, the calculation of the defined tax rates, and the administration of the current public school finance system.*

**OVERVIEW** . . . The following language constitutes only a summary of the public school finance system as it is currently structured. For a more complete description of school finance and fiscal management in the State, reference is made to Chapters 43 through 49 of the Texas Education Code, as amended.

Local funding is derived from collections of ad valorem taxes levied on property located within each school district's boundaries. School districts are authorized to levy two types of property taxes: a maintenance and operations ("M&O") tax to pay current expenses and an interest and sinking fund ("I&S") tax to pay debt service on bonds. School districts may not increase their M&O tax rate for the purpose of creating a surplus to pay debt service on bonds. Prior to 2006, school districts were authorized to levy their M&O tax at a voter-approved rate, generally up to \$1.50 per \$100 of taxable value in the school district. Since 2006, the State Legislature has enacted various legislation that has compressed the voter-approved M&O tax rate, as described below. Current law also requires school districts to demonstrate their ability to pay debt service on outstanding bonded indebtedness through the levy of an I&S tax at a rate not to exceed \$0.50 per \$100 of taxable value at the time bonds are issued. Once bonds are issued, however, school districts generally may levy an I&S tax sufficient to pay debt service on such bonds unlimited as to rate or amount (see "TAX RATE LIMITATIONS – I&S Tax Rate Limitations" herein). Because property values vary widely among school districts, the amount of local funding generated by school districts with the same I&S tax rate and M&O tax rate is also subject to wide variation; however, the public school finance funding formulas are designed to generally equalize local funding generated by a school district's M&O tax rate.

Prior to the 2019 Legislative Session, a school district's maximum M&O tax rate for a given tax year was determined by multiplying that school district's 2005 M&O tax rate levy by an amount equal a compression percentage set by legislative appropriation or, in the absence of legislative appropriation, by the Commissioner of Education (the "Commissioner"). This compression percentage was historically set at 66.67%, effectively setting the maximum compressed M&O tax rate for most school districts at \$1.00 per \$100 of taxable value, since most school districts in the State had a voted maximum M&O tax rate of \$1.50 per \$100 of taxable value. School

districts were permitted, however, to generate additional local funds by raising their M&O tax rate up to \$0.04 above the compressed tax rate or, with voter-approval at a valid election in the school district, up to \$0.17 above the compressed tax rate (for most school districts, this equated to an M&O tax rate between \$1.04 and \$1.17 per \$100 of taxable value). School districts received additional State funds in proportion to such taxing effort.

**LOCAL FUNDING FOR SCHOOL DISTRICTS** . . . During the 2019 Legislative Session, the 86<sup>th</sup> State Legislature made several significant changes to the funding methodology for school districts (the “2019 Legislation”). The 2019 Legislation orders a school district’s M&O tax rate into two distinct parts: the “Tier One Tax Rate”, which is the local M&O tax rate required for a school district to any part of the basic level of State funding (referred to herein as “Tier One”) under the Foundation School Program, as further described below, and the Enrichment Tax Rate, being an additional amount of local M&O funding in excess of its Tier One Tax Rate. The 2019 Legislation amended formulas for the State Compression Percentage and Maximum Compressed Tax Rate (each as described below) to compress M&O tax rates in response to year-over-year increases in property values across the State and within a school district, respectively. The discussion in this subcaption “Local Funding For School Districts” is generally intended to describe funding provisions applicable to all school districts; however, there are distinctions in the funding formulas for school districts that generate local M&O tax revenues in excess of the school districts’ funding entitlements, as further discussed under the subcaption “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Revenue Level In Excess of Entitlement” herein.

**State Compression Percentage.** The “State Compression Percentage” for the State fiscal year ending in 2020 (the 2019-2020 school year) is a statutorily-defined percentage of the rate of \$1.00 per \$100 at which a school district must levy its Tier One Tax Rate to receive the full amount of the Tier One funding to which a school district is entitled. For the State fiscal year ending in 2020, the State Compression Percentage is set at 93% per \$100 of taxable value. Beginning in the State fiscal year ending in 2021, the State Compression Percentage is the lesser of three alternative calculations: (1) 93% or a lower percentage set by appropriation for a school year; (2) a percentage determined by formula if the estimated total taxable property value of the State (as submitted annually to the State Legislature by the State Comptroller) have increased by at least 2.5% over the prior year; and (3) the prior year State Compression Percentage. For any year, the maximum State Compression Percentage is 93%.

**Maximum Compressed Tax Rate.** Pursuant to the 2019 Legislation, beginning with the State fiscal year ending in 2021 (the 2020-2021 school year) the Maximum Compressed Tax Rate (the “MCR”) is the tax rate per \$100 of valuation of taxable property at which a school district must levy its Tier One Tax Rate to receive the full amount of the Tier One funding to which the school district is entitled. The MCR is equal to the lesser of three alternative calculations: (1) the school district’s prior year MCR; (2) a percentage determined by formula if the school district experienced a year-over-year increase in property value of at least 2.5%; or (3) the product of the State Compression Percentage for the current year multiplied by \$1.00. However, each year the TEA shall evaluate the MCR for each school district in the State, and for any given year, if a school district’s MCR is calculated to be less than 90% of any other school district’s MCR for the current year, then the school district’s MCR is instead equal to the school district’s prior year MCR, until TEA determines that the difference between the school district’s MCR and any other school district’s MCR is not more than 10%. These compression formulas are intended to more closely equalize local generation of Tier One funding among districts with disparate tax bases and generally reduce the Tier One Tax Rates of school districts as property values increase.

**Tier One Tax Rate.** For the 2019-2020 school year, the Tier One Tax Rate is the State Compression Percentage multiplied by (i) \$1.00, or (ii) for a school district that levied an M&O tax rate for the 2018-2019 school year that was less than \$1.00 per \$100 of taxable value, the total number of cents levied by the school district for the 2018-2019 school year for M&O purposes; effectively setting the Tier One Tax Rate for the State fiscal year ending in 2020 for most school districts at \$0.93. Beginning in the 2020-2021 school year, a school district’s Tier One Tax Rate is defined as a school district’s M&O tax rate levied that does not exceed the school district’s MCR.

**Enrichment Tax Rate.** The Enrichment Tax Rate is the number of cents a school district levies for M&O in excess of the Tier One Tax Rate, up to an additional \$0.17. The Enrichment Tax Rate is divided into two components: (i) “Golden Pennies” which are the first \$0.08 of tax effort in excess of a school district’s Tier One Tax Rate; and (ii) “Copper Pennies” which are the next \$0.09 in excess of a school district’s Tier One Tax Rate plus Golden Pennies.

School districts may levy an Enrichment Tax Rate at a level of their choice, subject to the limitations described under “TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate”; however to levy any of the Enrichment Tax Rate in a given year, a school district must levy a Tier One Tax Rate equal to \$0.93 for the 2019-2020 school year, or equal to the school district’s MCR for the 2020-2021 and subsequent years. Additionally, a school district’s levy of Copper Pennies is subject to compression if the guaranteed yield (i.e., the guaranteed level of local tax revenue and State aid generated) of Copper Pennies is increased from one year to the next (see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts – Tier Two”).

**STATE FUNDING FOR SCHOOL DISTRICTS** . . . State funding for school districts is provided through the Foundation School Program, which guarantees certain levels of funding for school districts in the State. School districts are entitled to a legislatively appropriated guaranteed yield on their Tier One Tax Rate and Enrichment Tax Rate. When a school district’s respective M&O tax rates generate

tax revenues at a level below the respective entitlement, the State will provide Tier One funding or Tier Two funding, respectively, to fund the difference between the school district's entitlements and the actual M&O revenues generated by the school district's Tier One Tax Rate and Enrichment Tax Rate, respectively.

The first level of funding, Tier One, is the basic level of funding guaranteed to all school districts based on a school district's Tier One Tax Rate. Tier One funding may then be "enriched" with additional funds known as "Tier Two" of the Foundation School Program. Tier Two provides a guaranteed entitlement for each cent of a school district's Enrichment Tax Rate, allowing a school district increase or decrease its Enrichment Tax Rate to supplement Tier One funding at a level of the school district's own choice. While Tier One funding may be used for the payment of debt service (except for school districts subject to the recapture provisions of Chapter 49 of the Texas Education Code, as discussed herein), and in some instances is required to be used for that purpose (see "TAX RATE LIMITATIONS – I&S Tax Rate Limitations"), Tier Two funding may not be used for the payment of debt service or capital outlay.

The current public school finance system also provides an Existing Debt Allotment ("EDA") to subsidize debt service on eligible outstanding school district bonds, an Instructional Facilities Allotment ("IFA") to subsidize debt service on newly issued bonds, and a New Instructional Facilities Allotment ("NIFA") to subsidize operational expenses associated with the opening of a new instructional facility. IFA primarily addresses the debt service needs of property-poor school districts. For the 2020-2021 State fiscal biennium, the State Legislature appropriated funds in the amount of \$1,323,444,300 for the EDA, IFA, and NIFA.

Tier One and Tier Two allotments represent the State's share of the cost of M&O expenses of school districts, with local M&O taxes representing the school district's local share. EDA and IFA allotments supplement a school district's local I&S taxes levied for debt service on eligible bonds issued to construct, acquire and improve facilities, provided that a school district qualifies for such funding and that the State Legislature makes sufficient appropriations to fund the allotments for a State fiscal biennium. Tier One and Tier Two allotments and existing EDA and IFA allotments are generally required to be funded each year by the State Legislature..

**Tier One.** Tier One funding is the basic level of funding guaranteed to a school district, consisting of a State-appropriated baseline level of funding (the "Basic Allotment") for each student in "Average Daily Attendance" (being generally calculated as the sum of student attendance for each State-mandated day of instruction divided by the number of State-mandated days of instruction, defined herein as "ADA"). The Basic Allotment is revised downward if a school district's Tier One Tax Rate is less than the State-determined threshold. This Basic Allotment is supplemented by additional State funds, allotted based upon the unique school district characteristics and demographics of students in ADA, to make up most of a school district's Tier One entitlement under the Foundation School Program.

For the 2019-2020 State fiscal year, the Basic Allotment for school districts with a Tier One Tax Rate equal to \$0.93, is \$6,160 for each student in ADA and is revised downward for school districts with a Tier One Tax Rate lower than \$0.93. For the State fiscal year ending in 2021 and subsequent State fiscal years, the Basic Allotment for a school district with a Tier One Tax Rate equal to the school district's MCR, is \$6,160 (or a greater amount as may be provided by appropriation) for each student in ADA and is revised downward for a school district with a Tier One Tax Rate lower than the school district's MCR. The Basic Allotment is then supplemented for all school districts by various weights to account for differences among school districts and their student populations. Such additional allotments include, but are not limited to, increased funds for students in ADA who: (i) attend a qualified special education program, (ii) are diagnosed with dyslexia or a related disorder, (iii) are economically disadvantaged, or (iv) have limited English language proficiency. Additional allotments to mitigate differences among school districts include, but are not limited to: (i) a transportation allotment for mileage associated with transporting students who reside two miles or more from their home campus, (ii) a fast growth allotment (for school districts in the top 25% of enrollment growth relative to other school districts), and (iii) a college, career and military readiness allotment to further Texas' goal of increasing the number of students who attain a post-secondary education or workforce credential, and (iv) a teacher incentive allotment to increase teacher compensation retention in disadvantaged or rural school districts. A school district's total Tier One funding, divided by \$6,160, is a school district's measure of students in "Weighted Average Daily Attendance" ("WADA"), which serves to calculate Tier Two funding.

**Tier Two.** Tier Two supplements Tier One funding and provides two levels of enrichment with different guaranteed yields (i.e., Golden Pennies and Copper Pennies) depending on the school district's Enrichment Tax Rate. Golden Pennies generate a guaranteed yield equal to the greater of (i) the local revenue per student in WADA per cent of tax effort available to a school district at the ninety-sixth (96th) percentile of wealth per student in WADA, or (ii) the Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.016. For the 2020-2021 State fiscal biennium, school districts are guaranteed a yield of \$98.56 per student in WADA for each Golden Penny levied. Copper Pennies generate a guaranteed yield per student in WADA equal to the school district's Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.008. For the 2020-2021 State fiscal biennium, school districts are guaranteed a yield of \$49.28 per student in WADA for each Copper Penny levied. For any school year in which the guaranteed yield of Copper Pennies per student in WADA exceeds the guaranteed yield of Copper Pennies per student in WADA for the preceding school year, a school district is required to reduce its Copper Pennies levied so as to generate no more revenue per student in WADA than was available to the school district for the preceding year. Accordingly, the increase in the guaranteed yield from \$31.95 per Copper Penny per student in WADA for the 2018-2019 school year to \$49.28 per Copper Penny per student in WADA for the 2019-2020 school year requires school districts



to compress their levy of Copper Pennies by a factor of 0.64834. As such, school districts that levied an Enrichment Tax Rate of \$0.17 in school year 2018-2019 must reduce their Enrichment Tax Rate to approximately \$0.138 per \$100 taxable value for the 2019-2020 school year.

**Existing Debt Allotment, Instruction Facilities Allotment, and New Instructional Facilities Allotment.** The Foundation School Program also includes facilities funding components consisting of the IFA and the EDA, subject to legislative appropriation each State fiscal biennium. To the extent funded for a biennium, these programs assist school districts in funding facilities by, generally, equalizing a school district's I&S tax effort. The IFA guarantees each awarded school district a specified amount per student (the "IFA Yield") in State and local funds for each cent of I&S tax levied to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The IFA Yield has been \$35 since this program first began in 1997. New awards of IFA are only available if appropriated funds are allocated for such purpose by the State Legislature. To receive an IFA award, in years where new IFA awards are available, a school district must apply to the Commissioner in accordance with rules adopted by the TEA before issuing the bonds to be paid with IFA State assistance. The total amount of debt service assistance over a biennium for which a school district may be awarded is limited to the lesser of (1) the actual debt service payments made by the school district in the biennium in which the bonds are issued; or (2) the greater of (a) \$100,000 or (b) \$250 multiplied by the number of students in ADA. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain prescribed conditions. Once a school district receives an IFA award for bonds, it is entitled to continue receiving State assistance for such bonds without reapplying to the Commissioner. The guaranteed level of State and local funds per student per cent of local tax effort applicable to the bonds may not be reduced below the level provided for the year in which the bonds were issued. For the 2020-2021 State fiscal biennium, the State Legislature did not appropriate any funds for new IFA awards; however, awards previously granted in years the State Legislature did appropriate funds for new IFA awards will continue to be funded.

State financial assistance is provided for certain existing eligible debt issued by school districts through the EDA program. The EDA guaranteed yield (the "EDA Yield") is the lesser of (i) \$40 per student in ADA or a greater amount for any year provided by appropriation; or (ii) the amount that would result in a total additional EDA of \$60 million more than the EDA to which school districts would have been entitled to if the EDA Yield were \$35. The portion of a school district's local debt service rate that qualifies for EDA assistance is limited to the first \$0.29 of its I&S tax rate (or a greater amount for any year provided by appropriation by the State Legislature). In general, a school district's bonds are eligible for EDA assistance if (i) the school district made payments on the bonds during the final fiscal year of the preceding State fiscal biennium, or (ii) the school district levied taxes to pay the principal of and interest on the bonds for that fiscal year. Each biennium, access to EDA funding is determined by the debt service taxes collected in the final year of the preceding biennium. A school district may not receive EDA funding for the principal and interest on a series of otherwise eligible bonds for which the school district receives IFA funding.

Since future-year IFA awards were not funded by the State Legislature for the 2020-2021 State fiscal biennium and debt service assistance on school district bonds that are not yet eligible for EDA is not available, debt service payments during the 2020-2021 State fiscal biennium on new bonds issued by school districts in the 2020-2021 State fiscal biennium to construct, acquire and improve facilities must be funded solely from local I&S taxes.

A school district may also qualify for a NIFA allotment, which provides assistance to school districts for operational expenses associated with opening new instructional facilities. The 86th State Legislature appropriated funds in the amount of \$100,000,000 for each fiscal year of the 2020-2021 State fiscal biennium for NIFA allotments.

**Tax Rate and Funding Equity.** The Commissioner may adjust a school district's funding entitlement if the funding formulas used to determine the school district's entitlement result in an unanticipated loss or gain for a school district. Any such adjustment requires preliminary approval from the Legislative Budget Board and the office of the Governor, and such adjustments may only be made through the 2020-2021 school year.

Additionally, the Commissioner may proportionally reduce the amount of funding a school district receives under the Foundation School Program and the ADA calculation if the school district operates on a calendar that provides less than the State-mandated minimum instruction time in a school year. The Commissioner may also adjust a school district's ADA as it relates to State funding where disaster, flood, extreme weather or other calamity has a significant effect on a school district's attendance. Furthermore, "property-wealthy" school districts that received additional State funds under the public school finance system prior to the enactment of the 2019 Legislation are entitled to an equalized wealth transition grant on an annual basis through the 2023-2024 school year in an amount equal to the amount of additional revenue such school district would have received under former Texas Education Code Sections 41.002(e) through (g), as those sections existed on January 1, 2019. This grant is phased out through the 2023-2024 school year as follows: (1) 20% reduction for the 2020-2021 school year, (2) 40% reduction for the 2021-2022 school year, (3) 60% reduction for the 2022-2023 school year, and (4) 80% reduction for the 2023-2024 school year.

**LOCAL REVENUE LEVEL IN EXCESS OF ENTITLEMENT . . .** A school district that has sufficient property wealth per student in ADA to generate local revenues on the school district’s Tier One Tax Rate and Copper Pennies in excess of the school district’s respective funding entitlements (a “Chapter 49 school district”), is subject to the local revenue reduction provisions contained in Chapter 49 of Texas Education Code, as amended (“Chapter 49”). Additionally, in years in which the amount of State funds appropriated specifically excludes the amount necessary to provide the guaranteed yield for Golden Pennies, local revenues generated on a school district’s Golden Pennies in excess of the school district’s respective funding entitlement are subject to the local revenue reduction provisions of Chapter 49. To reduce local revenue, Chapter 49 school districts are generally subject to a process known as “recapture”, which requires a Chapter 49 school district to exercise certain options to remit local M&O tax revenues collected in excess of the Chapter 49 school district’s funding entitlements to the State (for redistribution to other school districts) or otherwise expending the respective M&O tax revenues for the benefit of students in school districts that are not Chapter 49 school districts, as described in the subcaption “Options for Local Revenue Levels in Excess of Entitlement”. Chapter 49 school districts receive their allocable share of funds distributed from the constitutionally-prescribed Available School Fund, but are generally not eligible to receive State aid under the Foundation School Program, although they may continue to receive State funds for certain competitive grants and certain programs that remain outside the Foundation School Program.

Whereas prior to the 2019 Legislation, the recapture process had been based on the proportion of a school district’s assessed property value per student in ADA, recapture is now measured by the “local revenue level” (being the M&O tax revenues generated in a school district) in excess of the entitlements appropriated by the State Legislature each fiscal biennium. Therefore, school districts are now guaranteed that recapture will not reduce revenue below their statutory entitlement. The changes to the wealth transfer provisions are expected to reduce the cumulative amount of recapture payments paid by school districts by approximately \$3.6 billion during the 2020-2021 State fiscal biennium.

***Options for Local Revenue Levels in Excess of Entitlement.*** Under Chapter 49, a school district has six options to reduce local revenues to a level that does not exceed the school district’s respective entitlements: (1) a school district may consolidate by agreement with one or more school districts to form a consolidated school district; all property and debt of the consolidating school districts vest in the consolidated school district; (2) a school district may detach property from its territory for annexation by a property-poor school district; (3) a school district may purchase attendance credits from the State; (4) a school district may contract to educate nonresident students from a property-poor school district by sending money directly to one or more property-poor school districts; (5) a school district may execute an agreement to provide students of one or more other school districts with career and technology education through a program designated as an area program for career and technology education; or (6) a school district may consolidate by agreement with one or more school districts to form a consolidated taxing school district solely to levy and distribute either M&O taxes or both M&O taxes and I&S taxes. A Chapter 49 school district may also exercise any combination of these remedies. Options (3), (4) and (6) require prior approval by the Chapter 49 school district’s voters.

Furthermore, a school district may not adopt a tax rate until its effective local revenue level is at or below the level that would produce its guaranteed entitlement under the Foundation School Program. If a school district fails to exercise a permitted option, the Commissioner must reduce the school district’s local revenue level to the level that would produce the school district’s guaranteed entitlement, by detaching certain types of property from the school district and annexing the property to a property-poor school district or, if necessary, consolidate the school district with a property-poor school district. Provisions governing detachment and annexation of taxable property by the Commissioner do not provide for assumption of any of the transferring school district’s existing debt.

#### **WEALTH TRANSFER PROVISIONS AS APPLIED TO THE DISTRICT**

The District’s wealth per student for the current school year is above the lower equalized wealth level but below the higher equalized wealth level. Accordingly, the District is not subject to recapture for the current fiscal year. For a detailed discussion of State funding for school districts, see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts.”

A district’s wealth per student must be tested for each future school year and, if it exceeds the maximum permitted level, must be reduced by exercise of one of the permitted wealth equalization options. Accordingly, if the District’s wealth per student should exceed the maximum permitted level in future school years, it will be required each year to exercise one or more of the wealth reduction options. If the District were to consolidate (or consolidate its tax base for all purposes) with a property-poor district, the outstanding debt of each district could become payable from the consolidated district’s combined property tax base, and the District’s ratio of taxable property to debt could become diluted. If the District were to detach property voluntarily, a portion of its outstanding debt (including the Bonds) could be assumed by the district to which the property is annexed, in which case timely payment of the Bonds could become dependent in part on the financial performance of the annexing district.

## AD VALOREM PROPERTY TAXATION

*The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. Prospective investors are encouraged to review Title I of the Texas Tax Code, as amended (the "Property Tax Code"), for identification of property subject to ad valorem taxation, property exempt or which may be exempted from ad valorem taxation if claimed, the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.*

**VALUATION OF TAXABLE PROPERTY . . .** The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the "Appraisal Review Board") responsible for appraising property for all taxing units within the county. The appraisal of property within the District is the responsibility of the Coke County Appraisal District (the "Appraisal District"). Except as generally described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three (3) years. A taxing unit may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

State law requires the appraised value of an owner's principal residence ("homestead" or "homesteads") to be based solely on the property's value as a homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property.

State law provides that eligible owners of both agricultural land and open-space land, including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified as both agricultural and open-space land.

The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board. The appraisal rolls, as approved by the Appraisal Review Board, are used by taxing units, such as the District, in establishing their tax rolls and tax rates (see "TAX INFORMATION – District and Taxpayer Remedies").

**STATE MANDATED HOMESTEAD EXEMPTIONS . . .** State law grants, with respect to each school district in the State, (1) a \$25,000 exemption of the market value of all homesteads, (2) a \$10,000 exemption of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled, and (3) various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty.

**LOCAL OPTION HOMESTEAD EXEMPTIONS . . .** The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the market value of all homesteads (but not less than \$5,000) and (2) an additional exemption of at least \$3,000 of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. The governing body of a school district may not repeal or reduce the amount of the local option homestead exemption described in (1), above, that was in place for the 2014 tax year (fiscal year 2015) for a period ending December 31, 2019. The exemption described in (2), above, may also be created, increased, decreased or repealed at an election called by the governing body of a taxing unit upon presentment of a petition for such creation, increase, decrease, or repeal of at least 20% of the number of qualified voters who voted in the preceding election of the taxing unit.

**STATE MANDATED FREEZE ON SCHOOL DISTRICT TAXES . . .** Except for increases attributable to certain improvements, a school district is prohibited from increasing the total ad valorem tax on the homestead of persons sixty-five (65) years of age or older or of disabled persons above the amount of tax imposed in the year such homestead qualified for such exemption. This freeze is transferable to a different homestead if a qualifying taxpayer moves and, under certain circumstances, is also transferable to the surviving spouse of persons sixty-five (65) years of age or older, but not the disabled.

**PERSONAL PROPERTY . . .** Tangible personal property (furniture, machinery, supplies, inventories, etc.) used in the "production of income" is taxed based on the property's market value. Taxable personal property includes income-producing equipment and inventory. Intangibles such as goodwill, accounts receivable, and proprietary processes are not taxable. Tangible personal property not held or used for production of income, such as household goods, automobiles or light trucks, and boats, is exempt from ad valorem taxation unless the governing body of a taxing unit elects to tax such property.

**FREEPORT AND GOODS-IN-TRANSIT EXEMPTIONS . . .** Certain goods that are acquired in or imported into the State to be forwarded outside the State, and are detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication (“Freeport Property”) are exempt from ad valorem taxation unless a taxing unit took official action to tax Freeport Property before April 1, 1990 and has not subsequently taken official action to exempt Freeport Property. Decisions to continue taxing Freeport Property may be reversed in the future; decisions to exempt Freeport Property are not subject to reversal.

Certain goods, that are acquired in or imported into the State to be forwarded to another location within or without the State, stored in a location that is not owned by the owner of the goods and are transported to another location within or without the State within 175 days (“Goods-in-Transit”), are generally exempt from ad valorem taxation; however, the Property Tax Code permits a taxing unit, on a local option basis, to tax Goods-in-Transit if the taxing unit takes official action, after conducting a public hearing, before January 1 of the first tax year in which the taxing unit proposes to tax Goods-in-Transit. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include aircraft or special inventories such as manufactured housing inventory, or a dealer’s motor vehicle, boat, or heavy equipment inventory.

A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property.

**OTHER EXEMPT PROPERTY . . .** Other major categories of exempt property include property owned by the State or its political subdivisions if used for public purposes, property exempt by federal law, property used for pollution control, farm products owned by producers, property of nonprofit corporations used for scientific research or educational activities benefitting a college or university, designated historic sites, solar and wind-powered energy devices, and certain classes of intangible personal property.

**TAX INCREMENT REINVESTMENT ZONES . . .** A city or county, by petition of the landowners or by action of its governing body, may create one or more tax increment reinvestment zones (“TIRZ”) within its boundaries. At the time of the creation of the TIRZ, a “base value” for the real property in the TIRZ is established and the difference between any increase in the assessed valuation of taxable real property in the TIRZ in excess of the base value is known as the “tax increment”. During the existence of the TIRZ, all or a portion of the taxes levied against the tax increment by a city or county, and all other overlapping taxing units that elected to participate, are restricted to paying only planned project and financing costs within the TIRZ and are not available for the payment of other obligations of such taxing units.

Until September 1, 1999, school districts were able to reduce the value of taxable property reported to the State to reflect any taxable value lost due to TIRZ participation by the school district. The ability of the school district to deduct the taxable value of the tax increment that it contributed prevented the school district from being negatively affected in terms of state school funding. However, due to a change in law, local M&O tax rate revenue contributed to a TIRZ created on or after May 31, 1999 will count toward a school district’s Tier One entitlement (reducing Tier One State funds for eligible school districts) and will not be considered in calculating any school district’s Tier Two entitlement (see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts”).

**TAX LIMITATION AGREEMENTS . . .** The Texas Economic Development Act (Chapter 313, Texas Tax Code, as amended), allows school districts to grant limitations on appraised property values to certain corporations and limited liability companies to encourage economic development within the school district. Generally, during the last eight (8) years of the ten-year term of a tax limitation agreement, a school district may only levy and collect M&O taxes on the agreed-to limited appraised property value. For the purposes of calculating its Tier One and Tier Two entitlements, the portion of a school district’s property that is not fully taxable is excluded from the school district’s taxable property values. Therefore, a school district will not be subject to a reduction in Tier One or Tier Two State funds as a result of lost M&O tax revenues due to entering into a tax limitation agreement (see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts”).

For a discussion of how the various exemptions described above are applied by the District, see “TAX INFORMATION – District Application of Tax Code” herein.

**DISTRICT AND TAXPAYER REMEDIES . . .** Under certain circumstances, taxpayers and taxing units, including the District, may appeal the determinations of the Appraisal District by timely initiating a protest with the Appraisal Review Board. Additionally, taxing units such as the District may bring suit against the Appraisal District to compel compliance with the Property Tax Code.

Beginning in the 2020 tax year, owners of certain property with a taxable value in excess of the current year “minimum eligibility amount”, as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at \$50 million for the 2020 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the District and provides for taxpayer referenda that could result in the repeal of certain tax increases (see “TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate”). The Property Tax Code also establishes a procedure for providing notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

**LEVY AND COLLECTION OF TAXES . . .** The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the District. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers. Furthermore, the District may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances.

**DISTRICT’S RIGHTS IN THE EVENT OF TAX DELINQUENCIES. . .** Taxes levied by the District are a personal obligation of the owner of the property. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the District, having power to tax the property. The District’s tax lien is on a parity with tax liens of such other taxing units. A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property.

Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, adverse market conditions, taxpayer redemption rights, or bankruptcy proceedings which restrain the collection of a taxpayer’s debt.

Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases, post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

## **TAX RATE LIMITATIONS**

**M&O TAX RATE LIMITATIONS. . .** The District is authorized to levy an M&O tax rate pursuant to the approval of the voters of the District at an election held on May 10, 2008 in accordance with the provisions of Section 45.003, Texas Education Code, as amended.

The 2019 Legislation established the following maximum M&O tax rate per \$100 of taxable value that may be adopted by school districts, such as the District, for the 2019 and subsequent tax years:

For the 2019 tax year, the maximum M&O tax rate per \$100 of taxable value that may be adopted by a school district is the sum of \$0.17 and the product of the State Compression Percentage multiplied by \$1.00. For the 2019 tax year, the state compression percentage has been set at 93%.

For the 2020 and subsequent tax years, the maximum M&O tax rate per \$100 of taxable value that may be adopted by a school district is the sum of \$0.17 and the school district’s MCR. A school district’s MCR is, generally, inversely proportional to the change in taxable property values both within the school district and the State, and is subject to recalculation annually. For any year, the highest possible MCR for a school district is \$0.93 (see “TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate” and “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Funding for School Districts” herein).

Furthermore, a school district cannot annually increase its tax rate in excess of the school district’s Voter-Approval Tax Rate without submitting such tax rate to an election and a majority of the voters voting at such election approving the adopted rate (see “TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate” herein). within the District is generally

assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. The valuation of assessment of oil and gas.

**I&S TAX RATE LIMITATIONS . . .** A school district is also authorized to issue bonds and levy taxes for payment of bonds subject to voter approval of one or more propositions submitted to the voters under Section 45.003(b)(1), Texas Education Code, as amended, which provides a tax unlimited as to rate or amount for the support of school district bonded indebtedness (see “THE BONDS – Source and Security for Payment”).

Section 45.0031 of the Texas Education Code, as amended, requires a school district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by voters of a school district at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds, collectively, “exempt bonds”), from a tax levied at a rate of \$0.50 per \$100 of assessed valuation before bonds may be issued (the “50-cent Test”). In demonstrating the ability to pay debt service at a rate of \$0.50, a school district may take into account EDA and IFA allotments to the school district, which effectively reduces the school district’s local share of debt service, and may also take into account Tier One funds allotted to the school district. If a school district exercises this option, it may not adopt an I&S tax until it has credited to the school district’s I&S fund an amount equal to all State allotments provided solely for payment of debt service and any Tier One funds needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Additionally, a school district may demonstrate its ability to comply with the 50-cent Test by applying the \$0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the school district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five (5) years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a school district uses projected future taxable values to meet the 50-cent Test and subsequently imposes a tax at a rate greater than \$0.50 per \$100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Texas Attorney General must find that the school district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the 50-cent Test from a tax rate of \$0.45 per \$100 of valuation. Once the prospective ability to pay such tax has been shown and the bonds are issued, a school district may levy an unlimited tax to pay debt service. Refunding bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the 50-cent Test; however, taxes levied to pay debt service on such bonds (other than bonds issued to refund exempt bonds) are included in maximum annual debt service for calculation of the 50-cent Test when applied to subsequent bond issues that are subject to the 50-cent Test. The Bonds are issued for school building purposes pursuant to Chapter 45, Texas Education Code as new debt and are subject to the 50-cent Test. The District has not used projected property values or State assistance (other than EDA or IFA allotment funding) to satisfy this threshold test.

**PUBLIC HEARING AND VOTER APPROVAL TAX RATE . . .** A school district’s total tax rate is the combination of the M&O tax rate and the I&S tax rate. Generally, the highest rate at which a school district may levy taxes for any given year without holding an election to approve the tax rate is the “Voter-Approval Tax Rate.”

For the 2019 tax year, a school district is required to adopt its annual tax rate before the later of September 30 or the sixtieth (60th) day after the date the certified appraisal roll is received by the taxing unit, and a failure to adopt a tax rate by such required date will result in the tax rate for the taxing unit being the lower of the “effective tax rate” calculated for that tax year or the tax rate adopted by the taxing unit for the preceding tax year. “Effective tax rate” means the rate that will produce the prior year’s total tax levy from the current year’s total taxable values, adjusted such that lost values are not included in the calculation of the prior year’s taxable values and new values are not included in the current year’s taxable values.

For the 2019 tax year, the Voter-Approval Tax Rate for a school district is the sum of (i) the State Compression Percentage, multiplied by \$1.00; (ii) the greater of (a) the school district’s M&O tax rate for the 2018 tax year, less the sum of (1) \$1.00, and (2) any amount by which the school district is required to reduce its Enrichment Tax Rate for the 2019 tax year, or (b) \$0.04; and (iii) the school district’s I&S tax rate. For the 2019 tax year, a school district’s M&O tax rate may not exceed the rate equal to the sum of (i) \$0.17 and (ii) the product of the State Compression Percentage multiplied by \$1.00.

For the 2019 tax year, a school district with a Voter-Approval Tax Rate equal to or greater than \$0.97 (excluding the school district’s current I&S tax rate) may not adopt tax rate for the 2019 tax year that exceeds the school district’s Voter-Approval Tax Rate. For the 2019 tax year, the District is not eligible to adopt a tax rate that exceeds its Voter-Approval Tax Rate.

Beginning with the 2020 tax year, a school district is required to adopt its annual tax rate before the later of September 30 or the sixtieth (60th) day after the date the certified appraisal roll is received by the taxing unit, except that a tax rate that exceeds the Voter-Approval Tax Rate must be adopted not later than the seventy-first (71st) day before the next occurring November uniform election date. A school district’s failure to adopt a tax rate equal to or less than the Voter-Approval Tax Rate by September 30 or the sixtieth (60th) day after receipt of the certified appraisal roll, will result in the tax rate for such school district for the tax year to be the lower of the “no-new-revenue tax rate” calculated for that tax year or the tax rate adopted by the school district for the preceding tax year. A school district’s failure to adopt a tax rate in excess of the Voter-Approval Tax Rate on or prior to the seventy-first (71st) day before the next occurring November uniform election date, will result in the school district adopting a tax rate equal to or less than its Voter-Approval Tax Rate by the later of September 30 or the sixtieth (60th)

day after receipt of the certified appraisal roll. “No-new-revenue tax rate” means the rate that will produce the prior year’s total tax levy from the current year’s total taxable values, adjusted such that lost values are not included in the calculation of the prior year’s taxable values and new values are not included in the current year’s taxable values.

For the 2020 and subsequent tax years, the Voter-Approval Tax Rate for a school district is the sum of (i) the school district’s MCR; (ii) the greater of (a) the school district’s Enrichment Tax Rate for the preceding year, less any amount by which the school district is required to reduce its current year Enrichment Tax Rate pursuant to Section 48.202(f), Education Code, as amended, or (b) the rate of \$0.05 per \$100 of taxable value; and (iii) the school district’s current I&S tax rate. However, for only the 2020 tax year, if the governing body of the school district does not adopt by unanimous vote an M&O tax rate at least equal to the sum of the school district’s MCR plus \$0.05, then \$0.04 is substituted for \$0.05 in the calculation for such school district’s Voter-Approval Tax Rate for the 2020 tax year. For the 2020 tax year, and subsequent years, a school district’s M&O tax rate may not exceed the rate equal to the sum of (i) \$0.17 and (ii) the school district’s MCR (see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” herein, for more information regarding the State Compression Percentage, MCR, and the Enrichment Tax Rate).

Beginning with the 2020 tax year, the governing body of a school district generally cannot adopt a tax rate exceeding the school district’s Voter-Approval Tax Rate without approval by a majority of the voters approving the higher rate at an election to be held on the next uniform election date. Further, subject to certain exceptions for areas declared disaster areas, State law requires the board of trustees of a school district to conduct an efficiency audit before seeking voter approval to adopt a tax rate exceeding the Voter-Approval Tax Rate and sets certain parameters for conducting and disclosing the results of such efficiency audit. An election is not required for a tax increase to address increased expenditures resulting from certain natural disasters in the year following the year in which such disaster occurs; however, the amount by which the increased tax rate exceeds the school district’s Voter-Approval Tax Rate for such year may not be considered by the school district in the calculation of its subsequent Voter-Approval Tax Rate.

**The calculation of the Voter-Approval Tax Rate does not limit or impact the District’s ability to set an I&S tax rate in each year sufficient to pay debt service on all of the District’s tax-supported debt obligations, including the Bonds.**

Before adopting its annual tax rate, a public meeting must be held for the purpose of adopting a budget for the succeeding year. A notice of public meeting to discuss the school district’s budget and proposed tax rate must be published in the time, format and manner prescribed in Section 44.004 of the Texas Education Code. Section 44.004(e) of the Texas Education Code provides that a person who owns taxable property in a school district is entitled to an injunction restraining the collection of taxes by the school district if the school district has not complied with such notice requirements or the language and format requirements of such notice as set forth in Section 44.004(b), (c), (c-1), (c-2), and (d), and, if applicable, subsection (i), and if such failure to comply was not in good faith. Section 44.004(e) further provides the action to enjoin the collection of taxes must be filed before the date the school district delivers substantially all of its tax bills. A school district that elects to adopt a tax rate before the adoption of a budget for the fiscal year that begins in the current tax year may adopt a tax rate for the current tax year before receipt of the certified appraisal roll, so long as the chief appraiser of the appraisal district in which the school district participates has certified to the assessor for the school district an estimate of the taxable value of property in the school district. If a school district adopts its tax rate prior to the adoption of its budget, both the no-new-revenue tax rate and the Voter-Approval Tax Rate of the school district shall be calculated based on the school district’s certified estimate of taxable value. A school district that adopts a tax rate before adopting its budget must hold a public hearing on the proposed tax rate followed by another public hearing on the proposed budget rather than holding a single hearing on the two items.

Beginning with the 2020 tax year, a school district must annually calculate and prominently post on its internet website, and submit to the county tax assessor-collector for each county in which all or part of the school district is located its Voter-Approval Tax Rate in accordance with forms prescribed by the State Comptroller.

**PROPERTY ASSESSMENT AND TAX PAYMENT . . .** Property within the District is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. The valuation of assessment of oil and gas reserves depends upon pricing information in either the standard edition of the Annual Energy Outlook or, if the most recently published edition of the Annual Energy Outlook was published before December 1 of the preceding calendar year, the Short-Term Energy Outlook report published in January of the current calendar year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first installment due on February 1 of each year and the final installment due on August 1.

**PENALTIES AND INTEREST . . .** Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

Month	Cumulative Penalty <sup>(a)</sup>	Cumulative Interest <sup>(a)</sup>	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	12 <sup>(a)</sup>	6	18

(a) After July, penalty remains at 12%, and interest accrues at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid. A delinquent tax continues to accrue interest as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. The purpose of imposing such interest penalty is to compensate the taxing unit for revenue lost because of the delinquency. In addition, if an account is delinquent in July, an attorney's collection fee of up to 20% may be added to the total tax penalty and interest charge.

Taxes levied by the District are a personal obligation of the owner of the property. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each taxing unit, including the District, having the power to tax the property. The District's tax lien is on a parity with tax liens of all other such taxing units. A tax lien on real property has priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty and interest. Except with respect to taxpayers who are 65 years of age or older or disabled. At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. The ability of the District to collect delinquent taxes by foreclosure may be adversely affected by the amount of taxes owed to other taxing units, adverse market conditions, taxpayer redemption rights, or bankruptcy proceedings which restrain the collection of a taxpayer's debt.

**Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.**

**DISTRICT APPLICATION OF TAX CODE . . .** The District grants the State-mandated exemptions of \$25,000 for general homestead and an additional \$10,000 for persons 65 years of age and older and the disabled. The District has granted an additional exemption of 20% of the market value of residence homesteads; the minimum exemption that could be received being \$5,000.

See Table 1 for a listing of the amounts of the exemptions described above.

Ad valorem taxes are not levied by the District against the exempt value of residence homesteads for the payment of debt.

The District does not tax non-business personal property; and the Coke County Tax Assessor-Collector collects taxes for the District.

The District does not permit split payments of taxes, and discounts for early payment of taxes are not allowed for taxpayers over age 65 or disabled.

The District does not tax freeport property.

The District does tax goods-in-transit.

The District has not adopted a tax abatement policy.

The District does not participate in a TIF.

In 2019, the District entered into an appraised value limitation agreement (the "Agreement") pursuant to the Texas Economic Development Act, Chapter 313, Texas Tax Code with Grape Creek Wind, LLC. Pursuant to the Agreement, the District agrees to levy and collect ad valorem taxes for maintenance and operation purposes on the agreed-to limited appraised property value, \$25,000,000, beginning in the 2021-2022 school year. The limitation on appraised value only applies to maintenance and operation taxes and the company must pay taxes on the full taxable assessed value for interest and sinking fund purposes for the full term of the Agreement. The Agreement expires on December 31, 2030.



**TABLE 1 - VALUATION, EXEMPTIONS AND TAX SUPPORTED DEBT**

2019/20 Market Valuation Established by the Coke County Appraisal District (excluding totally exempt property)		\$ 570,053,421
State Mandated General Homestead Exemptions	\$ 12,226,725	
State Mandated Over 65 Exemptions or Disabled Exemptions	2,030,400	
Local Option Percentage Exemptions	6,362,530	
Veterans Exemptions Loss	514,160	
Pollution Control Loss	743,490	
Productivity Loss	293,545,860	
Homestead Cap Loss	780,770	
Miscellaneous	428,560	<u>(316,632,495) <sup>(1)</sup></u>
2019/20 Certified Taxable Assessed Valuation		\$ 253,420,926
Debt Payable from Ad Valorem Taxes (as of 9/24/19)		
Outstanding Debt	\$ 6,680,000	
The Bonds <sup>(3)</sup>	<u>5,770,000</u>	
Total Debt Payable from Ad Valorem Taxes (as of 9/24/19)		\$ 12,450,000
Ratio Tax Supported Debt to 2019/20 Certified Taxable Assessed Valuation		4.91%
Current Estimated Population - 1,753		
Per Capita Taxable Assessed Valuation - \$144,564		
Per Capita Debt Payable from Ad Valorem Taxes - \$7,102		

(1) Exemptions do not include the values on which property taxes are frozen for persons age 65 and older or disabled.

(2) Preliminary, subject to change.

**TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY**

Category	Taxable Appraised Value for Fiscal Year Ended August 31,					
	2020		2019		2018	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 37,864,940	6.64%	\$ 37,542,650	6.62%	\$ 37,076,190	7.14%
Real, Residential, Multi-Family	57,550	0.01%	58,210	0.01%	49,590	0.01%
Real, Vacant Lots/Tracts	1,688,840	0.30%	1,803,930	0.32%	1,807,650	0.35%
Real, Acreage (Land Only)	310,900,090	54.54%	307,892,610	54.29%	305,816,460	58.85%
Real, Farm and Ranch Improvements	21,467,200	3.77%	20,318,920	3.58%	19,596,610	3.77%
Real, Commercial	3,627,610	0.64%	3,703,080	0.65%	3,583,630	0.69%
Real, Industrial	84,050,360	14.74%	101,930,070	17.97%	97,637,360	18.79%
Real, Oil, Gas & Minerals	21,853,100	3.83%	21,111,810	3.72%	20,204,830	3.89%
Real & Tangible Personal, Utilities	75,469,870	13.24%	59,418,180	10.48%	25,332,370	4.88%
Tangible Personal, Commercial	1,294,800	0.23%	1,594,290	0.28%	1,856,780	0.36%
Tangible Personal, Industrial	9,553,840	1.68%	9,845,970	1.74%	4,735,250	0.91%
Tangible Personal, Mobile Homes	1,425,050	0.25%	1,317,970	0.23%	1,356,610	0.26%
Special Inventory	800,171	0.14%	579,270	0.10%	579,270	0.11%
Total Appraised Value Before Exemptions	\$ 570,053,421	100.00%	\$ 567,116,960	100.00%	\$ 519,632,600	100.00%
Less: Total Exemptions/Reductions	(316,632,495)		(313,363,901)		(311,787,280)	
Taxable Assessed Value	<u>\$ 253,420,926</u>		<u>\$ 253,753,059</u>		<u>\$ 207,845,320</u>	

  

Category	Taxable Appraised Value for Fiscal Year Ended August 31,			
	2017		2016	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 34,323,580	6.40%	\$ 33,889,750	5.94%
Real, Residential, Multi-Family	53,060	0.01%	53,830	0.01%
Real, Vacant Lots/Tracts	1,784,290	0.33%	1,630,460	0.29%
Real, Acreage (Land Only)	296,957,670	55.34%	256,403,300	44.95%
Real, Farm and Ranch Improvements	18,591,230	3.46%	17,778,020	3.12%
Real, Commercial	3,576,800	0.67%	3,534,200	0.62%
Real, Industrial	112,312,050	20.93%	132,854,050	23.29%
Real, Oil, Gas & Minerals	36,811,050	6.86%	92,618,770	16.24%
Real & Tangible Personal, Utilities	22,610,330	4.21%	22,098,460	3.87%
Tangible Personal, Commercial	1,821,050	0.34%	1,727,750	0.30%
Tangible Personal, Industrial	6,065,050	1.13%	6,259,230	1.10%
Tangible Personal, Mobile Homes	1,028,580	0.19%	863,630	0.15%
Special Inventory	629,940	0.12%	763,800	0.13%
Total Appraised Value Before Exemptions	\$ 536,564,680	100.00%	\$ 570,475,250	100.00%
Less: Total Exemptions/Reductions	(302,915,590)		(260,024,750)	
Taxable Assessed Value	<u>\$ 233,649,090</u>		<u>\$ 310,450,500</u>	

The ten largest taxpayers in the District for tax year 2018 accounted for approximately 64% of the District’s tax base (see “Table 5 – Ten Largest Taxpayers” herein). The District’s ten largest taxpayers list for 2019/20 is not available at this time.

Valuations shown are certified assessed values reported by the Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

**TABLE 3 - VALUATION AND TAX SUPPORTED DEBT HISTORY**

Fiscal Year Ended 8/31	Estimated Population <sup>(1)</sup>	Taxable Assessed Valuation <sup>(2)</sup>	Taxable Assessed Valuation Per Capita	Tax Debt Outstanding at Fiscal Year End	Ratio of Tax Debt to Taxable Assessed Valuation	Tax Debt Per Capita
2016	1,780	\$ 310,450,500	\$ 174,410	\$ 8,810,000	2.84%	\$ 4,949
2017	1,806	233,649,090	129,374	7,995,000	3.42%	4,427
2018	1,715	207,845,320	121,193	7,515,000	3.62%	4,382
2019	1,753	253,753,059	144,754	6,680,000	2.63%	3,811
2020	1,753	253,420,926	144,564	11,800,000 <sup>(3)</sup>	4.66% <sup>(3)</sup>	6,731 <sup>(3)</sup>

(1) Source: Municipal Advisory Council of Texas.

(2) As reported by the Coke County Appraisal District on the District’s annual State Property Tax Reports. Such values are subject to change during the ensuing year.

(3) Projected, includes the Bonds. Preliminary, subject to change.

**TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY**

Fiscal Year Ended 8/31	Tax Rate Breakdown			Tax Levy	% Current Collections	% Total Collections
	Total	Local Maintenance	Interest & Sinking			
2015	\$ 1.46000	\$ 1.04000	\$ 0.42000	\$ 4,055,693	98.55%	100.35%
2016	1.46000	1.04000	0.42000	3,408,901	98.37%	100.39%
2017	1.46000	1.04000	0.42000	2,260,493	97.33%	99.09%
2018	1.46000	1.04000	0.42000	2,044,055	97.03%	99.05%
2019	1.46000	1.04000	0.42000	3,681,103	97.45% <sup>(1)</sup>	99.17% <sup>(1)</sup>

(1) Partial year collections as of June 30, 2019.

**TABLE 5 - TEN LARGEST TAXPAYERS**

Name of Taxpayer	Nature of Property	2018/19 <sup>(1)</sup> Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Cap Ridge Wind IV LLC	Wind Farm/Turbines	\$ 39,593,490	15.60%
Enterprise Crude Pipeline	Oil & Gas Pipeline	30,519,320	12.03%
Goat Mountain Wind Phase 2	Wind Farm/Turbines	28,364,000	11.18%
Goat Mountain Wind Phase 1	Wind Farm/Turbines	24,288,080	9.57%
Sheridan Production Company	Oil & Gas	9,888,450	3.90%
AEP Texas North Company	Electric Utility/Power Plant	9,223,290	3.63%
WTG James LP	Oil & Gas	7,580,360	2.99%
Seminole Pipeline Co. LLC	Oil & Gas Pipeline	6,783,120	2.67%
Dawes Rigging and Crane Rental	Manufacturing	4,749,010	1.87%
LCRA Transmission Services Corp.	Electric Utility/Power Plant	1,886,490	0.74%
		<u>\$ 162,875,610</u>	<u>64.19%</u>

(1) As shown in the table above, the ten largest taxpayers in the District for tax year 2018 accounted for in excess of 64% of the District’s tax base. Adverse developments in economic conditions, particularly in the oil and gas industry and the electric industry, or changes in the regulatory environment, could adversely impact the businesses of these taxpayers and the tax values in the District. The District’s 2019/20 Ten Largest Taxpayers list is not available at this time.

**TABLE 6 - ESTIMATED OVERLAPPING DEBT**

Expenditures of the various taxing entities within the territory of the District are paid out of ad valorem taxes levied by such entities on properties within the District. Such entities are independent of the District and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax debt ("Tax Debt") was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional Tax Debt since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional Tax Debt, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the District.

<u>Taxing Jurisdiction</u>	<u>2018/19 Taxable Assessed Value</u>	<u>2018/19 Tax Rate</u>	<u>Total Tax Supported Debt as of 9/24/2019</u>	<u>Estimated % Applicable</u>	<u>District's Overlapping Tax Supported Debt as of 9/24/2019</u>
Robert Lee ISD	\$ 253,420,926 <sup>(1)</sup>	\$ 1.46000	\$ 12,450,000 <sup>(2)</sup>	100.00%	\$ 12,450,000 <sup>(2)</sup>
City of Robert Lee	31,074,390	0.46000	683,000	100.00%	683,000
Coke County	369,226,786	0.50800	0	67.41%	0
Total Direct and Overlapping Tax Supported Debt					\$ 13,133,000
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation					5.18%
Per Capita Direct and Overlapping Tax Supported Debt					\$ 7,492

- (1) Represents the District's 2019/20 Certified Taxable Value.  
(2) Projected, includes the Bonds. Preliminary, subject to change.

**DEBT INFORMATION**

**TABLE 7 - PRO-FORMA TAX SUPPORTED DEBT SERVICE REQUIREMENTS**

Fiscal Year Ending 8/31	Outstanding Debt			The Bonds <sup>(1)</sup>			Total Debt Service Requirements	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total		
	2019	\$ 835,000	\$ 196,766	1,031,766	\$ -	\$ -		
2020	415,000	184,066	599,066	235,000	198,393	433,393	1,032,459	11.18%
2021	420,000	175,734	595,734	50,000	218,650	268,650	864,384	14.72%
2022	435,000	167,250	602,250	45,000	217,225	262,225	864,475	18.33%
2023	440,000	156,541	596,541	50,000	215,800	265,800	862,341	22.02%
2024	450,000	145,634	595,634	55,000	214,225	269,225	864,859	25.82%
2025	465,000	133,363	598,363	50,000	212,400	262,400	860,763	29.70%
2026	475,000	120,763	595,763	55,000	210,300	265,300	861,063	33.68%
2027	495,000	106,722	601,722	55,000	208,100	263,100	864,822	37.82%
2028	505,000	92,100	597,100	60,000	205,800	265,800	862,900	42.08%
2029	525,000	76,875	601,875	55,000	203,500	258,500	860,375	46.44%
2030	540,000	61,125	601,125	60,000	201,200	261,200	862,325	50.96%
2031	555,000	44,925	599,925	65,000	198,700	263,700	863,625	55.63%
2032	570,000	28,275	598,275	70,000	196,000	266,000	864,275	60.44%
2033	390,000	11,100	401,100	270,000	189,200	459,200	860,300	65.41%
2034	-	-	-	690,000	170,000	860,000	860,000	70.61%
2035	-	-	-	720,000	141,800	861,800	861,800	76.03%
2036	-	-	-	750,000	112,400	862,400	862,400	81.67%
2037	-	-	-	780,000	81,800	861,800	861,800	87.54%
2038	-	-	-	810,000	50,000	860,000	860,000	93.64%
2039	-	-	-	845,000	16,900	861,900	861,900	100.00%
	<u>\$ 7,515,000</u>	<u>\$ 1,701,238</u>	<u>\$ 9,216,238</u>	<u>\$ 5,770,000</u>	<u>\$ 3,462,393</u>	<u>\$ 9,232,393</u>	<u>\$ 18,448,630</u>	

(1) Interest calculated at an average rate of 3.50% for purposes of illustration only. Preliminary, subject to change.

**TABLE 8 - INTEREST AND SINKING FUND BUDGET PROJECTION <sup>(1)</sup>**

Tax Supported Debt Service Requirements, Fiscal Year Ending 8/31/19		\$ 1,031,766
Interest and Sinking Fund Balance, 8/31/18	\$ 380,698	
Budgeted Interest and Sinking Fund Tax Levy Collections	<u>883,991</u>	<u>\$ 1,264,689</u>
Estimated Fund Balance, Fiscal Year Ending 8/31/19		<u>\$ 232,923</u>

(1) Preliminary, subject to change.

**TABLE 9 - AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS**

After the issuance of the Bonds, the District will not have any authorized but unissued unlimited tax bonds.

**ANTICIPATED ISSUANCE OF ADDITIONAL UNLIMITED TAX DEBT . . .** The District does not have any plans to issue additional unlimited tax debt within the next 12 months.

**TABLE 10 - OTHER OBLIGATIONS**

As of the date of this Official Statement, the District does not have any other obligations.

**PENSION FUND** . . . Pension funds for employees of Texas school districts, and any employee in public education in Texas, are administered by the Teacher Retirement System of Texas (the “System”). The individual employees contribute a fixed amount of their salary to the System, currently 7.7%, and the State of Texas contributes funds to the System based on statutory required minimum salary for certified personnel, except any District personnel paid by Federally funded programs. For more detailed information concerning the retirement plan, see Appendix B, “Excerpts from the District’s Annual Financial Report” - Note IV, A.

**RETIREE HEALTH CARE** . . . In addition to its participation in the System, the District contributes to the Texas Public School Retired Employees Group Insurance Program (the “TRS-Care Retired Plan”), a cost-sharing multiple-employer defined benefit post-employment health care plan. The TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. For more detailed information concerning the District’s funding policy and contributions in connection with the TRS-Care Retired Plan, see Appendix B, “Excerpts from the District’s Annual Financial Report”, Note IV, B.

**OTHER POST EMPLOYMENT BENEFITS** . . . As a result of its participation in the System and the TRS-Care Retired Plan and having no other post-employment benefit plans, the District has no obligations for other post-employment benefits within the meaning of Governmental Accounting Standards Board Statement 45.

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## FINANCIAL INFORMATION

**TABLE 11 – SCHEDULE OF CHANGES IN NET ASSETS**

	Fiscal Year Ended August 31				
	2018	2017	2016	2015	2014
<u>Program Revenues:</u>					
Charges for Services	\$ 77,094	\$ 84,738	\$ 66,351	\$ 71,480	\$ 45,431
Operating Grants & Contributions	(209,413)	344,996	358,565	327,111	321,534
<u>General Revenues:</u>					
Property Taxes	2,027,019	2,250,385	3,402,250	4,048,688	4,383,214
State Aid - Formula Grants	1,665,389	1,939,460	1,068,080	488,969	361,177
Grants and Contributions (Not Restricted)	-	-	-	371	-
Investment Earnings	1,967	1,141	1,410	1,880	2,382
Miscellaneous	478,044	527,195	605,433	750,435	691,202
Total Revenues	<u>\$ 4,040,100</u>	<u>\$ 5,147,915</u>	<u>\$ 5,502,089</u>	<u>\$ 5,688,934</u>	<u>\$ 5,804,940</u>
<u>Expenses:</u>					
Instruction	\$ 1,465,473	\$ 2,162,602	\$ 2,094,692	\$ 1,953,276	\$ 1,850,288
Instructional Resource and Media Services	8,349	8,780	12,633	7,504	8,781
Curriculum & Staff Development	4,211	950	1,912	1,236	7,166
Instructional Leadership	11,076	11,584	7,880	3,027	3,534
School Leadership	195,717	247,694	249,508	230,826	270,426
Guidance, Counseling & Evaluation Services	58,975	29,162	40,293	804	865
Health Services	2,141	2,279	3,526	289	438
Student (Pupil) Transportation	114,093	126,807	129,547	160,961	146,403
Food Services	158,290	182,986	185,628	185,671	174,541
Co-curricular/Extracurricular Activities	169,858	191,250	176,051	183,816	174,466
General Administration	259,298	290,706	302,504	281,626	254,543
Facilities Maintenance and Operations	590,515	579,122	603,458	387,876	418,697
Data Processing Services	166,360	184,026	159,048	165,076	150,442
Debt Service - Interest on Long-Term Debt	189,663	229,516	319,064	318,946	355,801
Debt Service - Bond Issuance Costs and Fees	4,916	4,876	145,999	8,465	4,358
Contracted Instructional Services Between Schools	-	-	-	-	423,950
Payments Related to Shared Services Arrangements	206,160	210,952	198,644	289,163	246,979
Payments to Tax Increment Fund	-	-	252,605	252,605	252,605
Other Intergovernmental Charges	76,660	81,789	79,846	103,490	84,994
Total Expenses	<u>\$ 3,681,755</u>	<u>\$ 4,545,081</u>	<u>\$ 4,962,838</u>	<u>\$ 4,534,657</u>	<u>\$ 4,829,277</u>
Increase (decrease) in Net Assets	\$ 358,345	\$ 602,834	\$ 539,251	\$ 1,154,277	\$ 975,663
Beginning Net Assets	10,917,759	10,316,081	9,770,386	8,799,008	7,873,034
Prior Period Adjustment	(2,315,191)	(1,156)	6,444	(182,899)	(49,689)
Ending Net Assets	<u>\$ 8,960,913</u>	<u>\$10,917,759</u>	<u>\$10,316,081</u>	<u>\$ 9,770,386</u>	<u>\$ 8,799,008</u>

- (1) During fiscal year 2018, the District adopted GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefit Other Than Pensions." With GASB 75, the District must assume its proportionate share of the net OPEB liability of the Teacher Retirement System of Texas. Adoption of GASB 75 required a prior period adjustment to report the effect of GASB 75 retroactively.

**TABLE 11-A – SCHEDULE OF GENERAL FUND REVENUES AND EXPENDITURE HISTORY**

	Fiscal Years Ended August 31,				
	2018	2017	2016	2015	2014
<u>Revenues:</u>					
Local and Intermediate Sources	\$ 1,719,873	\$ 1,877,067	\$ 2,746,203	\$ 3,339,630	\$ 3,434,602
State Sources	1,796,173	2,052,689	1,175,220	605,874	476,352
Federal Sources	4,658	7,018	8,629	8,581	8,356
Total Revenues	<u>\$ 3,520,704</u>	<u>\$ 3,936,774</u>	<u>\$ 3,930,052</u>	<u>\$ 3,954,085</u>	<u>\$ 3,919,310</u>
<u>Expenditures:</u>					
Instruction	\$ 1,628,719	\$ 1,616,653	\$ 1,545,123	\$ 1,503,030	\$ 1,364,154
Instructional Resources and Media Services	8,349	8,780	12,633	7,504	8,781
Curriculum and Instructional Staff Development	4,211	950	1,912	1,236	7,166
Instructional Leadership	11,076	11,584	7,880	3,027	3,534
School Leadership	220,443	193,366	191,421	186,052	214,242
Guidance, Counseling and Evaluation Services	66,367	22,886	31,396	804	865
Health Services	2,141	2,279	3,526	289	438
Student (Pupil) Transportation	181,317	238,372	210,765	241,741	128,817
Food Services	2,959	563	455	-	-
Cocurricular/Extracurricular Activities	181,688	172,662	175,331	168,380	198,190
General Administration	283,080	240,590	241,012	232,948	205,719
Facilities Maintenance and Operations	606,028	625,129	598,898	437,653	430,717
Data Processing Services	175,533	161,415	134,963	145,860	130,413
Debt Service	4,458	-	127,630	132,425	256,822
Capital Outlay	-	-	-	-	59,766
Intergovernmental Charges	282,820	292,741	531,095	645,258	1,008,528
Total Expenditures	<u>\$ 3,659,189</u>	<u>\$ 3,587,970</u>	<u>\$ 3,814,040</u>	<u>\$ 3,706,207</u>	<u>\$ 4,018,152</u>
Other Resources and (Uses) & Special Items	<u>\$ (34,530)</u>	<u>\$ (19,722)</u>	<u>\$ (29,935)</u>	<u>\$ (25,453)</u>	<u>\$ (43,365)</u>
Excess (Deficiency) of					
Revenues Over Expenditures	\$ (173,015)	\$ 329,082	\$ 86,077	\$ 222,425	\$ (142,207)
Beginning Fund Balance on					
September 1	\$ 1,057,769	\$ 729,843	\$ 637,322	\$ 410,522	\$ 602,418
Increase (Decrease) in Fund Balance	<u>(6,432)</u>	<u>(1,156)</u>	<u>6,444</u>	<u>4,375</u>	<u>(49,689)</u>
Ending Fund Balance on					
August 31	<u>\$ 878,322</u>	<u>\$ 1,057,769</u>	<u>\$ 729,843</u>	<u>\$ 637,322</u>	<u>\$ 410,522</u>

**FINANCIAL POLICIES**

**Summary of Significant Accounting Policies** . . . The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units in conjunction with the Texas Education Agency’s Financial Accountability System Resource Guide (FAR). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**Basis of Presentation** . . . *Government-wide financial statements* - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal Service fund activity is eliminated to avoid overstatement of revenues and expenses. The statements distinguish between governmental and business-type activities of the District.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with



a service, program or department and therefore are clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. All taxes and revenues not classified as program revenues are presented as general revenues of the District.

*Fund Financial Statements* - Fund financial statements report detailed information about the District. Their focus is on major funds rather than reporting funds by type. Each major governmental aid fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

**Basis of Accounting** . . . Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing related to cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting.

Revenues from state and federal grants are recognized as earned when the related program expenditures are incurred. Revenues from local sources consist primarily of property taxes. Property tax revenues are recognized under the susceptible to accrual concept. Funds received but unearned are reflected as deferred revenues, and funds expended but not yet received are shown as receivables. For state entitlements, the District has adopted a budgetary basis of accounting for Foundation School Program revenues. Such entitlements are recorded as received.

Interest revenue and building rentals are recorded when earned since they are measurable and available. Other revenues such as fees, tuition, local food service revenue, and miscellaneous revenues are accounted for on the cash basis.

Expenditures are recognized in the accounting period in which the fund liability is incurred when measurable, except expenditures for debt service including unmatured interest on long-term debt. Expenditures for principal and interest on long-term debt are recognized when due.

**Budgetary Data** . . . Budgets are presented on the modified accrual basis of accounting for the General and Debt Service funds. The budget is prepared and controlled at the function level.

The official school budget is prepared for adoption for required governmental funds prior to August 20 of the preceding fiscal year for the subsequent fiscal year beginning September 1. The Board formally adopts the budget at a public meeting held at least ten days after public notice has been given. Once adopted, the budget can be amended by subsequent Board action. The Board properly amended the budget throughout the year.

Such amendments are before the fact and are reflected in the official minutes of the Board.

## **INVESTMENTS**

The District invests its funds in investments authorized by Texas law in accordance with investment policies approved by the Board of Trustees of the District. Both State law and the District's investment policies are subject to change.

**LEGAL INVESTMENTS** . . . Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities including letters of credit, (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are guaranteed or insured by or backed by the full faith and credit of, the State of

Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) (i) that are issued by or through an institution that has its main office or a branch office in Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for District deposits; or (ii) that are invested by the District through a depository institution that has its main office or a branch office in the State of Texas and otherwise meet the requirements of the Public Funds Investment Act; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State primary government securities dealer or a financial institution doing business in the State; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; and (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. If specifically authorized in the authorizing document, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

Governmental bodies in the State are authorized to implement securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) of the first paragraph under this subcaption, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm not less than "A" or its equivalent, or (c) cash invested in obligations that are described in clauses (1) through (6) and (10) through (12) of the first paragraph under this subcaption, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the governmental body, held in the name of the governmental body and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution. The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

**INVESTMENT POLICIES . . .** Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for District funds, maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, District investments must be made “with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person’s own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.” At least quarterly the investment officers of the District shall submit an investment report detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, ending market value and fully accrued interest for the reporting period for each pooled fund group, (4) the book value and market value of each separately listed asset at the end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest District funds without express written authority from the Board of Trustees.

**ADDITIONAL PROVISIONS** . . . Under Texas law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution, (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the Board of Trustees; (4) require the qualified representative of firms offering to engage in an investment transaction with the District to: (a) receive and review the District’s investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the District and the business organization that are not authorized by the District’s investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the District’s entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the District and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the District’s investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the District’s monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

#### **TABLE 12 - CURRENT INVESTMENTS**

As of the date of this Official Statement, the District does not have any investable funds.

#### **TAX MATTERS**

**OPINION** . . . On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel to the District, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See “Appendix C - Form of Bond Counsel’s Opinion.”

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the District, including information and representations contained in the District’s federal tax certificate, (b) covenants of the District contained in the Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed therewith and (c) the certificate with respect to arbitrage by the Commissioner of Education regarding the allocation and investment of certain investments in the Permanent School Fund. Failure by the District to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel is conditioned on compliance by the District with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Bond Counsel’s opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel’s opinion is not a guarantee of a result. Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the Issuer with respect to the Bonds or the facilities financed or refinanced with the proceeds of the Bonds. Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the representations of the Issuer that it deems relevant to render such opinion and is not a guarantee of a result. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the Issuer as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

**FEDERAL INCOME TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT...**The initial public offering price to be paid for one or more maturities of the Bonds may be less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Bonds"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see the discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

**COLLATERAL FEDERAL INCOME TAX CONSEQUENCES...**The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with Subchapter C earnings and profits, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM RECENTLY ENACTED LEGISLATION OR THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

**INFORMATION REPORTING AND BACKUP WITHHOLDING...**Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the Internal Revenue Service. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

**FUTURE AND PROPOSED LEGISLATION...**Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law and could affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

**STATE, LOCAL AND FOREIGN TAXES...**Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

**QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS...**Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on behalf of" and "subordinate" issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a "bank," as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

The District expects to designate the Bonds as "qualified tax-exempt obligations" within the meaning of section 265(b) of the Code. In furtherance of that designation, the District will covenant to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Bonds as "qualified tax-exempt obligations." **Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the aforementioned dollar limitation and the Bonds would not be "qualified tax-exempt obligations."**

## CONTINUING DISCLOSURE INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds pursuant to the United States Securities and Exchange Commission's (the "SEC") Rule 15c2-12 (the "Rule"). Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB"). See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" for a description of the TEA's continuing disclosure undertaking to provide certain updated financial information and operating data annually with respect to the Permanent School Fund and the State of Texas, as the case may be, and to provide timely notice of certain specified events related to the guarantee to the MSRB.

**ANNUAL REPORTS . . .** The District will provide certain updated financial information and operating data annually to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under Tables numbered 1 through 5 and 7 through 12 (such information being the "Annual Operating Report"). The District will additionally provide financial statements of the District (the "Financial Statements"), that will be (i) prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation and shall be in substantially the form included in Appendix B and (ii) audited, if the District commissions an audit of such Financial Statements and the audit is completed within the period during which they must be provided. The District will update and provide the Annual Operating Report within six months after the end of each fiscal year and the Financial Statements within 12 months of the end of each fiscal year, in each case beginning with the fiscal year ending in and after 2019. The District may provide the Financial Statements earlier, including at the time it provides its Annual Operating Report, but if the audit of such Financial Statements is not complete within 12 months after any such fiscal year end, then the District shall file unaudited Financial Statements within such 12-month period and audited Financial Statements for the applicable fiscal year, when and if the audit report on such Financial Statements becomes available.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the Rule.

The District's current fiscal year end is August 31. Accordingly, the Annual Operating Report must be provided by the last day of February in each year, and the Financial Statements must be provided by August 31 of each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

**NOTICE OF CERTAIN EVENTS . . .** The District will also provide timely notices of certain events to the MSRB. The District will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a debt obligation of the District or a derivative instrument entered into by the District in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or a guarantee by the District of any such debt obligation or derivative instrument, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such debt obligation, derivative instrument, or guarantee of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such debt obligation, derivative instrument, or guarantee of the District, any of which reflect financial difficulties. In addition, the District will provide timely notice of any failure by the District to provide annual financial information in accordance with their agreement described above under "Annual Reports". (Neither the Bonds nor the Order make any provision for a trustee, debt service reserves, liquidity enhancement or credit enhancement other than the Permanent School Fund Guarantee).

For these purposes, any event described in (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District. For the events listed in clause (15) and (16) above, the term “financial obligation” means a: (A) debt obligation; (B) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) a guarantee of either (A) or (B). The term “financial obligation” shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

**AVAILABILITY OF INFORMATION FROM MSRB . . .** The District has agreed to provide the foregoing information only as described above. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at [www.emma.msrb.org](http://www.emma.msrb.org).

**LIMITATIONS AND AMENDMENTS . . .** The District has agreed to update information and to provide notices of certain specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell the Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders and beneficial owners of the Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if (1) the agreement, as amended would have permitted an underwriter to purchase or sell the Bonds in the offering made hereby in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances, and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provisions of the Order that authorizes such amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the registered owners and beneficial owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in type of information and data provided.

**FORMAT, IDENTIFYING INFORMATION, AND INCORPORATION BY REFERENCE...**All financial information, operating data, financial statements, and notices required to be provided to the MSRB shall be provided in an electronic format and be accompanied by identifying information prescribed by the MSRB.

Financial information and operating data to be provided as set forth above under the subcaption “Annual Reports” may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document) available to the public on the MSRB’s Internet Web site or filed with the SEC.

**COMPLIANCE WITH PRIOR UNDERTAKINGS...**During the last five years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

## **OTHER INFORMATION**

### **RATINGS**

The Bonds have been rated “AAA” by S&P Global Ratings, a division of S&P Global Inc. (“S&P”) by virtue of the guarantee of the Permanent School Fund of the State of Texas. The Bonds and the presently outstanding tax supported debt of the District are rated “A” by S&P without regard to credit enhancement. The District also has issues outstanding which are rated “AAA” by S&P by virtue of the guarantee of such issues by the Permanent School Fund of the State of Texas. An explanation of the significance of any rating may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the District makes no representation as to the appropriateness of the ratings. There is no assurance that any rating will continue for any given period of time or that a rating will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both of such companies, circumstances so warrant. Any such downward revision or withdrawal of any rating may have an adverse effect on the market price of the Bonds.

### **LITIGATION**

The District is not a party to any litigation or other proceeding pending or, to its knowledge, threatened, in any court, agency or other administrative body (either state or federal) which, if decided adversely to the District, would have a material adverse effect on the financial condition of the District. At the time of the initial delivery of the Bonds, the District will provide the Underwriter with a certificate to the effect that no litigation of any nature has been filed or is then pending challenging the issuance of the Bonds or that affects the payment and security of the Bonds or in any other manner questioning the issuance, sale or delivery of the Bonds.

### **REGISTRATION AND QUALIFICATION OF BONDS FOR SALE**

The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction. The District assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

### **LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS**

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. In accordance with the Public Funds Investment Act, Chapter 2256, Texas Government Code, the Bonds must be rated not less than “A” or its equivalent as to investment quality by a national rating agency in order for most municipalities or other political subdivisions or public agencies of the State of Texas to be authorized to invest in the Bonds, except for purchases for interest and sinking funds of such entities. See “OTHER INFORMATION -- Ratings” herein. Moreover, municipalities or other political subdivisions or public agencies of the State of Texas that have adopted investment policies and guidelines in accordance with the Public Funds Investment Act may have other, more stringent requirements for purchasing securities, including the Bonds. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

The District has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The District has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

### **LEGAL MATTERS**

The District will furnish the Underwriter a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas as to the Bonds to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel to the District to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "Tax Matters" herein, a form of which opinion is attached to this Official Statement as Appendix C. Though it represents the Financial Advisor and the Underwriter from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has



been engaged by and only represents the District in connection with the issuance of the Bonds. Bond Counsel also advises the TEA in connection with its disclosure obligations under the Federal securities laws, but Bond Counsel has not passed upon any TEA disclosures contained in this Official Statement. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds which would affect the provision made for their payment or security, or in any manner questioning the validity of said Bonds will also be furnished. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions and subcaptions "THE BONDS" (excluding the information under the subcaptions "Permanent School Fund Guarantee", "Book-Entry-Only System", "Bondholders' Remedies" and "Sources and Uses of Proceeds"), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM", "TAX RATE LIMITATIONS - M&O Tax Rate Limitations", "TAX RATE LIMITATIONS - I&S Tax Rate Limitations", "TAX MATTERS", "CONTINUING DISCLOSURE INFORMATION" (excluding the information under the subcaption "Compliance with Prior Undertakings"), "OTHER INFORMATION - Registration and Qualification of Bonds for Sale", "OTHER INFORMATION - Legal Investments and Eligibility to Secure Public Funds in Texas", and "OTHER INFORMATION - Legal Matters" (excluding the last sentence of the first paragraph thereof) in the Official Statement and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the provisions of the Order. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriter by its counsel, Norton Rose Fulbright US LLP, Dallas, Texas, whose legal fees are contingent upon the sale and delivery of the Bonds.

The legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

#### **FINANCIAL ADVISOR**

Hilltop Securities Inc., is employed as Financial Advisor to the District in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. Hilltop Securities Inc., in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor to the District has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

#### **UNDERWRITING**

The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the District at a price equal to the initial offering price to the public, as shown on page 2 hereof, less an underwriting discount of \$ \_\_\_\_\_. The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriter.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

#### **FORWARD-LOOKING STATEMENTS DISCLAIMER**

The statements contained in this Official Statement, and in any other information provided by the District, that are not purely historical, are forward-looking statements, including statements regarding the District's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the District on the date hereof, and the District assumes no obligation to update any such forward-looking statements. The District's actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the District. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

**MISCELLANEOUS**

The Order will approve the form and content of this Official Statement, and any addenda supplement or amendment hereto, and authorize its use in the reoffering of the Bonds by the Underwriter.

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President, Board of Trustees  
Robert Lee Independent School District

**APPENDIX A**

GENERAL INFORMATION REGARDING THE DISTRICT

## THE DISTRICT

Robert Lee Independent School District (the “District”) is a political subdivision of the State of Texas, located in an agricultural area that covers approximately 470 square miles. The District is located in the west Texas county of Coke which is 255 miles southwest of Dallas. The County’s economy is based on mineral production and agriculture. The Texas Almanac designates cattle, sheep, goats, cotton and small grains as principal sources of agricultural income.

## HISTORICAL DISTRICT ENROLLMENT

<u>FYE</u> <u>8/31</u>	<u>Total</u> <u>Enrollment</u>	<u>Average Daily</u> <u>Attendance</u>
2015	264	247.7
2016	284	262.4
2017	280	266.3
2018	271	252.9
2019	269	254.2

Source: The District.

## CAMPUS INFORMATION

<u>Campus</u>	<u>Number</u> <u>of Schools</u>	<u>Capacity</u>	<u>Number of</u> <u>Portables</u>
Elementary School	1	240	0
Jr. High/High School	1	200	0
Totals	<u>2</u>	<u>440</u>	<u>0</u>

Source: The District.

## SCHOOL AND EMPLOYEE INFORMATION

<u>Robert Lee ISD</u>	
Number of teachers holding masters degrees	9
Number of teachers holding bachelors degrees	18
Employee Information	
Number of Employees	50
Number of Teachers	27
Pupil/Teacher Ratio (District Wide):	10:1

Source: The District.

**LABOR FORCE ESTIMATES**

	Annual Averages				
	2019 <sup>(1)</sup>	2018	2017	2016	2015
<b>Coke County</b>					
Civilian Labor Force	1,479	1,454	1,402	1,422	1,400
Total Employment	1,430	1,405	1,350	1,363	1,343
Unemployment	49	49	52	59	57
Percent Unemployment	3.3%	3.4%	3.7%	4.1%	4.1%
<b>State of Texas</b>					
Civilian Labor Force	14,029,636	13,848,080	13,589,208	13,347,311	13,095,837
Total Employment	13,532,148	13,314,203	13,002,828	12,731,137	12,513,692
Unemployment	497,488	533,877	586,380	616,174	582,145
Percent Unemployment	3.5%	3.9%	4.3%	4.6%	4.4%

(1) Averages shown through July 2019.

Source: Texas Workforce Commission.

**APPENDIX B**

EXCERPTS FROM THE  
ROBERT LEE INDEPENDENT SCHOOL DISTRICT  
ANNUAL FINANCIAL REPORT  
For the Year Ended August 31, 2018

The information contained in this Appendix consists of excerpts from the Robert Lee Independent School District Annual Financial Report for the Year Ended August 31, 2018, and is not intended to be a complete statement of the District's financial condition. Reference is made to the complete Report for further information.



A Limited Liability Partnership

Michael E. Oliphant, CPA  
Wayne Barr, CPA  
Cathryn A. Pitcock, CPA

(325) 944-3571  
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Members of  
American Institute of CPAs  
Texas Society of CPAs

## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Robert Lee Independent School District  
1323 Hamilton  
Robert Lee, TX 76945

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Robert Lee Independent School District as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Robert Lee Independent School District as of August 31, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note I, I. to the financial statements, in 2018 the District adopted new accounting guidance prescribed by GASB Statement No. 75 for its other postemployment benefit (OPEB) plan - a multiple-employer, cost-sharing defined other postemployment benefit (OPEB) plan that has a special funding situation. Because GASB Statement No. 75 implements new measurement criteria and reporting provisions, significant information has been added to the government-wide statements. Exhibit A-1 discloses the District's net OPEB liability and deferred resource outflows and deferred resource inflows related to the District's OPEB plan. Exhibit B-1 discloses the adjustment to the District's beginning net position. Our opinion is not modified with respect to the matter.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and net pension liability and contributions information and net OPEB liability and contributions information for the Teacher Retirement System of Texas on pages 4 through 8, 43, and 44 through 47, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Robert Lee Independent School District's basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2018, on our consideration of the Robert Lee Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Robert Lee Independent School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Robert Lee Independent School District's internal control over financial reporting and compliance.

***Eckert & Company, LLP***

December 5, 2018



# Robert Lee Independent School District

“Students Today – Leaders Tomorrow”

Aaron Hood, Superintendent

David O’Dell, Secondary Principal

Lee McCown, Elementary Principal

1323 HAMILTON  
ROBERT LEE, TEXAS 76945  
(325) 453-4555 Fax (325) 453-2326

## MANAGEMENT’S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Robert Lee Independent School District's financial performance provides an overview of the District's financial activities for the year ended August 31, 2018. It should be read in conjunction with the District's basic financial statements and independent auditor’s report.

### Financial Highlights

The District's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the end of the current year by \$8,960,913 (net position). This amount includes a deficit balance of unrestricted net position of \$1,129,196.

The District's total net position decreased by \$1,956,846 or 18%. This amount consists of a \$358,345 increase attributable to current year operations and a \$2,315,191 decrease attributable to prior period adjustments described in Note IV., K. to the financial statements. The District's statement of activities shows total revenues of \$4,040,100 and total expenses of \$3,681,755.

The total fund balance of the General Fund is \$878,322 which is a decrease of \$179,447 or 17% compared to the prior year.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

**Government-Wide Financial Statements** - The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets/deferred outflows of resources and liabilities/deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

## MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

### Overview of the Financial Statements - Continued

The statement of activities presents information showing how the District's net position changed during the current year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future years.

The governmental activities of the District include all activities related to public elementary and secondary education within the jurisdiction of the District.

The District has no component units.

**Fund Financial Statements** - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

**Governmental Funds** - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the current year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Debt Service Fund, both of which are considered to be major funds. Data from other governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its General Fund, Food Service Special Revenue Fund, and Debt Service Fund. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with the budget for each fund.

**Fiduciary Funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

**Notes to the Financial Statements** - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**MANAGEMENT’S DISCUSSION AND ANALYSIS - Continued**

**Government-Wide Financial Analysis**

**Net Position** - A summary of the District’s net position is presented below:

NET POSITION

	Governmental Activities	
	August 31,	
	2018	2017
Current and Other Assets	\$ 1,864,790	\$ 1,975,528
Capital Assets	17,162,795	17,729,735
Total Assets	\$ 19,027,585	\$ 19,705,263
Deferred Outflows of Resources	\$ 483,737	\$ 520,426
Long-Term Liabilities Outstanding	\$ 9,486,146	\$ 8,734,901
Other Liabilities	443,107	542,245
Total Liabilities	\$ 9,929,253	\$ 9,277,146
Deferred Inflows of Resources	\$ 621,156	\$ 30,784
Net Position		
Net Investment in Capital Assets	\$ 9,668,324	\$ 9,738,007
Restricted	421,785	255,478
Unrestricted (Deficit)	(1,129,196)	924,274
Total Net Position	\$ 8,960,913	\$ 10,917,759

A large portion of the District's net position (\$9,668,324) reflects the District's investment in capital assets, less any related liabilities, used to acquire those assets that are still outstanding. These capital assets are used to provide public elementary and secondary education within the jurisdiction of the District; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related liabilities, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the District’s net position (\$421,785) represents resources that are subject to external restrictions on how they may be used. The remaining deficit balance of unrestricted net position is \$1,129,196.

**MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued**

**Government-Wide Financial Analysis - Continued**

**Governmental Activities** - Governmental activities increased the District's net position by \$358,345 and \$602,834 for the fiscal years ended August 31, 2018 and 2017, respectively. Key elements of these increases are as follows:

CHANGES IN NET POSITION

	Governmental Activities	
	Year Ended August 31,	
	2018	2017
Revenues		
Program Revenues		
Charges for Services	\$ 77,094	\$ 84,738
Operating Grants and Contributions*	(209,413)	344,996
General Revenues		
Maintenance and Operations Taxes	1,149,157	1,325,732
Debt Service Taxes	877,862	924,653
State Aid - Formula Grants	1,665,389	1,939,460
Investment Earnings	1,967	1,141
Chapter 313 Agreements	392,219	456,730
Other	85,825	70,465
	<u>\$ 4,040,100</u>	<u>\$ 5,147,915</u>
Expenses		
Instruction and Instructional-Related Services	\$ 1,478,033	\$ 2,172,332
Instructional and School Leadership	206,793	259,278
Support Services - Student (Pupil)	503,357	532,484
Administrative Support Services	259,298	290,706
Support Services - Nonstudent Based	756,875	763,148
Debt Service	194,579	234,392
Intergovernmental Charges	282,820	292,741
	<u>\$ 3,681,755</u>	<u>\$ 4,545,081</u>
Change in Net Position	\$ 358,345	\$ 602,834
Net Position - Beginning	10,917,759	10,316,081
Prior Period Adjustments	<u>(2,315,191)</u>	<u>(1,156)</u>
Net Position - Ending	<u>\$ 8,960,913</u>	<u>\$ 10,917,759</u>

\*See Note IV., J.

## MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

### Financial Analysis of the District's Funds

The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds** - The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. The unassigned fund balance may serve as a useful measure of the District's net resources available for spending at the end of the current year.

The District's governmental funds reported combined ending fund balances of \$1,259,020, a decrease of \$40,245 or 3% in comparison with the prior year. These fund balances are reported in various governmental funds as follows:

General Fund \$878,322. Of this balance \$400,000 is committed for claims and judgments, equipment purchases, land purchases, and technology purchases.

Debt Service Fund \$380,698. This balance is restricted for payment of long-term debt principal and interest.

### General Fund Budget

The original and the final amended budgets for the General Fund were \$4,024,322. Variances between the original budget and the final amended budget are reflected in Exhibit E-1 in the required supplementary information section of the audit report.

The District has adopted a budget for the General Fund in the amount of \$4,454,484 for the fiscal year 2019, which is an increase of \$430,162 from the fiscal year 2018.

### Capital Assets and Debt

**Capital Assets** - Financial statement footnote III., E. discloses the District's capital asset activity for the year ended August 31, 2018.

**Long-Term Debt** - Financial statement footnote III., H. discloses the District's debt activity for the year ended August 31, 2018.

### Requests for Information

The financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Dr. Aaron Hood, Superintendent, Robert Lee Independent School District, 1323 Hamilton, Robert Lee, TX 76945.

Basic Financial Statements

ROBERT LEE INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
AUGUST 31, 2018

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
<b>ASSETS</b>	
1110 Cash and Cash Equivalents	\$ 1,563,092
1220 Property Taxes - Delinquent	286,465
1230 Allowance for Uncollectible Taxes	(116,644)
1240 Due from Other Governments	131,526
1290 Other Receivables, Net	351
Capital Assets:	
1510 Land	429,418
1520 Buildings, Net	16,341,592
1530 Furniture and Equipment, Net	391,785
1000 Total Assets	19,027,585
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
1701 Deferred Loss on Refunding	213,363
1705 Deferred Outflow Related to TRS Pension	239,424
1706 Deferred Outflow Related to TRS OPEB	30,950
1700 Total Deferred Outflows of Resources	483,737
<b>LIABILITIES</b>	
2110 Accounts Payable	53,412
2140 Interest Payable	7,158
2150 Payroll Deductions and Withholdings	3,449
2160 Accrued Wages Payable	91,029
2180 Due to Other Governments	286,011
2200 Accrued Expenses	2,048
Noncurrent Liabilities:	
2501 Due Within One Year	835,000
2502 Due in More Than One Year	6,872,834
2540 Net Pension Liability (District's Share)	462,436
2545 Net OPEB Liability (District's Share)	1,315,876
2000 Total Liabilities	9,929,253
<b>DEFERRED INFLOWS OF RESOURCES</b>	
2605 Deferred Resource Inflow Related to TRS Pension	70,722
2606 Deferred Resource Inflow Related to TRS OPEB	550,434
2600 Total Deferred Inflows of Resources	621,156
<b>NET POSITION</b>	
3200 Net Investment in Capital Assets	9,668,324
3850 Restricted for Debt Service	421,785
3900 Unrestricted	(1,129,196)
3000 Total Net Position	\$ 8,960,913

The notes to the financial statements are an integral part of this statement.

ROBERT LEE INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2018

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
Codes	Expenses	3 Charges for Services	4 Operating Grants and Contributions	6 Primary Gov. Governmental Activities

**Primary Government:**

GOVERNMENTAL ACTIVITIES:

11 Instruction	\$ 1,465,473	\$ 16,083	\$ (140,062)	\$ (1,589,452)
12 Instructional Resources and Media Services	8,349	-	-	(8,349)
13 Curriculum and Instructional Staff Development	4,211	-	-	(4,211)
21 Instructional Leadership	11,076	-	-	(11,076)
23 School Leadership	195,717	-	(36,465)	(232,182)
31 Guidance, Counseling, and Evaluation Services	58,975	-	(12,388)	(71,363)
33 Health Services	2,141	-	-	(2,141)
34 Student (Pupil) Transportation	114,093	-	(12,944)	(127,037)
35 Food Services	158,290	37,544	71,910	(48,836)
36 Extracurricular Activities	169,858	10,987	(11,440)	(170,311)
41 General Administration	259,298	-	(25,774)	(285,072)
51 Facilities Maintenance and Operations	590,515	12,480	(26,394)	(604,429)
53 Data Processing Services	166,360	-	(15,856)	(182,216)
72 Debt Service - Interest on Long-Term Debt	189,663	-	-	(189,663)
73 Debt Service - Bond Issuance Cost and Fees	4,916	-	-	(4,916)
93 Payments Related to Shared Services Arrangements	206,160	-	-	(206,160)
99 Other Intergovernmental Charges	76,660	-	-	(76,660)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 3,681,755	\$ 77,094	\$ (209,413)	(3,814,074)

Data  
Control  
Codes

General Revenues:

Taxes:

MT	Property Taxes, Levied for General Purposes	1,149,157
DT	Property Taxes, Levied for Debt Service	877,862
SF	State Aid - Formula Grants	1,665,389
IE	Investment Earnings	1,967
MI	Miscellaneous Local and Intermediate Revenue	478,044
TR	Total General Revenues	4,172,419
CN	Change in Net Position	358,345
NB	Net Position - Beginning	10,917,759
PA	Prior Period Adjustment	(2,315,191)
NE	Net Position--Ending	\$ 8,960,913

The notes to the financial statements are an integral part of this statement.



ROBERT LEE INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AUGUST 31, 2018

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
<b>ASSETS</b>				
1110 Cash and Cash Equivalents	\$ 1,199,847	\$ 359,407	\$ 3,838	\$ 1,563,092
1220 Property Taxes - Delinquent	218,212	68,253	-	286,465
1230 Allowance for Uncollectible Taxes	(96,637)	(20,007)	-	(116,644)
1240 Due from Other Governments	103,025	3,843	24,658	131,526
1260 Due from Other Funds	-	17,448	-	17,448
1290 Other Receivables	351	-	-	351
1000 Total Assets	<u>\$ 1,424,798</u>	<u>\$ 428,944</u>	<u>\$ 28,496</u>	<u>\$ 1,882,238</u>
<b>LIABILITIES</b>				
2110 Accounts Payable	\$ 31,681	\$ -	\$ 21,731	\$ 53,412
2150 Payroll Deductions and Withholdings Payable	3,449	-	-	3,449
2160 Accrued Wages Payable	84,649	-	6,380	91,029
2170 Due to Other Funds	17,448	-	-	17,448
2180 Due to Other Governments	286,011	-	-	286,011
2200 Accrued Expenditures	1,663	-	385	2,048
2000 Total Liabilities	<u>424,901</u>	<u>-</u>	<u>28,496</u>	<u>453,397</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
2601 Unavailable Revenue - Property Taxes	121,575	48,246	-	169,821
2600 Total Deferred Inflows of Resources	<u>121,575</u>	<u>48,246</u>	<u>-</u>	<u>169,821</u>
<b>FUND BALANCES</b>				
Restricted Fund Balance:				
3480 Retirement of Long-Term Debt	-	380,698	-	380,698
Committed Fund Balance:				
3520 Claims and Judgments	50,000	-	-	50,000
3530 Capital Expenditures for Equipment	200,000	-	-	200,000
3545 Other Committed Fund Balance	150,000	-	-	150,000
3600 Unassigned Fund Balance	478,322	-	-	478,322
3000 Total Fund Balances	<u>878,322</u>	<u>380,698</u>	<u>-</u>	<u>1,259,020</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 1,424,798</u>	<u>\$ 428,944</u>	<u>\$ 28,496</u>	<u>\$ 1,882,238</u>

The notes to the financial statements are an integral part of this statement.

ROBERT LEE INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
AUGUST 31, 2018

EXHIBIT C-2

<b>Total Fund Balances - Governmental Funds</b>	\$	1,259,020
<b>1</b> Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds. In addition, long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. The net effect of these adjustments is to increase (decrease) net position.		9,723,161
<b>2</b> Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of these adjustments is to increase (decrease) net position.		541,715
<b>3</b> Depreciation expense increases accumulated depreciation. The net effect of this adjustment is to decrease net position.		(628,655)
<b>4</b> Included in the items related to debt are the recognition of the District's proportionate share of the net pension liability required by GASB 68, net other postemployment benefits liability required by GASB 75, and related deferred resources inflows and deferred resources outflows. The net effect of these adjustments is to increase (decrease) net position.		(2,129,094)
<b>5</b> Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. The net effect of these adjustments is to increase (decrease) net position.		194,766
<b>19 Net Position of Governmental Activities</b>	\$	8,960,913

The notes to the financial statements are an integral part of this statement.

ROBERT LEE INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds	
<b>REVENUES:</b>					
5700	Total Local and Intermediate Sources	\$ 1,719,873	\$ 824,311	\$ 37,544	\$ 2,581,728
5800	State Program Revenues	1,796,173	11,335	12,042	1,819,550
5900	Federal Program Revenues	4,658	-	176,603	181,261
5020	Total Revenues	<u>3,520,704</u>	<u>835,646</u>	<u>226,189</u>	<u>4,582,539</u>
<b>EXPENDITURES:</b>					
<b>Current:</b>					
0011	Instruction	1,628,719	-	97,145	1,725,864
0012	Instructional Resources and Media Services	8,349	-	-	8,349
0013	Curriculum and Instructional Staff Development	4,211	-	-	4,211
0021	Instructional Leadership	11,076	-	-	11,076
0023	School Leadership	220,443	-	-	220,443
0031	Guidance, Counseling, and Evaluation Services	66,367	-	-	66,367
0033	Health Services	2,141	-	-	2,141
0034	Student (Pupil) Transportation	181,317	-	-	181,317
0035	Food Services	2,959	-	163,574	166,533
0036	Extracurricular Activities	181,688	-	-	181,688
0041	General Administration	283,080	-	-	283,080
0051	Facilities Maintenance and Operations	606,028	-	-	606,028
0053	Data Processing Services	175,533	-	-	175,533
<b>Debt Service:</b>					
0071	Principal on Long-Term Debt	-	480,000	-	480,000
0072	Interest on Long-Term Debt	4,458	210,150	-	214,608
0073	Bond Issuance Cost and Fees	-	4,916	-	4,916
<b>Intergovernmental:</b>					
0093	Payments to Fiscal Agent/Member Districts of SSA	206,160	-	-	206,160
0099	Other Intergovernmental Charges	76,660	-	-	76,660
6030	Total Expenditures	<u>3,659,189</u>	<u>695,066</u>	<u>260,719</u>	<u>4,614,974</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(138,485)</u>	<u>140,580</u>	<u>(34,530)</u>	<u>(32,435)</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
7915	Transfers In	-	-	34,530	34,530
8911	Transfers Out (Use)	(34,530)	-	-	(34,530)
7080	Total Other Financing Sources (Uses)	<u>(34,530)</u>	<u>-</u>	<u>34,530</u>	<u>-</u>
1200	Net Change in Fund Balances	(173,015)	140,580	-	(32,435)
0100	Fund Balance - September 1 (Beginning)	1,057,769	241,496	-	1,299,265
1300	Increase (Decrease) in Fund Balance	(6,432)	(1,378)	-	(7,810)
3000	Fund Balance - August 31 (Ending)	<u>\$ 878,322</u>	<u>\$ 380,698</u>	<u>\$ -</u>	<u>\$ 1,259,020</u>

The notes to the financial statements are an integral part of this statement.

ROBERT LEE INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2018

EXHIBIT C-4

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	(32,435)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of these adjustments is to increase (decrease) net position.		541,715
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of this adjustment is to decrease net position.		(628,655)
Current year changes due to GASB 68 include adjustments to the net pension liability, deferred resource inflows, deferred resource outflows, and the corresponding effect on pension expense. The net effect of these adjustments is to increase (decrease) net position.		(21,642)
Current year changes due to GASB 75 include adjustments to the net other postemployment benefits liability, deferred resource inflows, deferred resource outflows, and the corresponding effect on other postemployment benefits expense. The net effect of these adjustments is to increase (decrease) net position.		472,021
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. The net effect of these adjustments is to increase (decrease) net position.		27,341
<b>Change in Net Position of Governmental Activities</b>	<u>\$</u>	<u>358,345</u>

The notes to the financial statements are an integral part of this statement.

ROBERT LEE INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
AUGUST 31, 2018

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	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 28,646
Total Assets	<u>\$ 28,646</u>
LIABILITIES	
Due to Student Groups	\$ 28,646
Total Liabilities	<u>\$ 28,646</u>

The notes to the financial statements are an integral part of this statement.

ROBERT LEE INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements  
August 31, 2018

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Robert Lee Independent School District is a public educational agency operating under the applicable laws and regulations of the State of Texas. The District prepares its basic financial statements in conformity with accounting principles generally accepted in the United States of America applicable to state and local governments. Additionally, the District complies with the requirements of the Texas Education Agency's *Financial Accountability System Resource Guide* (the *Resource Guide*) and the requirements of contracts and grants of agencies from which it receives funds.

**A. Reporting Entity**

The District is governed by the Board of Trustees, a seven-member group, which is elected by the public and has governance responsibilities, including fiscal accountability, over all activities related to public elementary and secondary education within the jurisdiction of the Robert Lee Independent School District (the primary government). There are no component units included within the reporting entity.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities include programs supported primarily by taxes, State foundation funds, grants, and other intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges for services – payments from parties that purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment of the District and (2) grants and contributions – payments from organizations outside the District that are restricted to meeting the operational or capital requirements of a particular function or segment of the District. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

All interfund transactions between governmental funds are eliminated in the government-wide financial statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide statement of net position.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other funds.

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recognized when they are earned and become measurable, and expenses are recognized when they become measurable and a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities, and fund balances are included in the balance sheet. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days

ROBERT LEE INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2018

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Continued**

of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, revenues received from the state, and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received they are recorded as unearned revenue until related and authorized expenditures have been made.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Additionally, the government reports the following fund type:

Agency Funds account for the activities of funds which are the property of student groups.

**D. Interfund Receivables and Payables**

Activity between individual funds may result in amounts owed between funds which are classified as Due To and From Other Funds. Other than amounts due to or from fiduciary funds these balances are eliminated in the statement of net position.

**E. Receivables and Payables**

Receivables are stated at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year.

**F. Capital Assets**

Capital assets are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

ROBERT LEE INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2018

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**F. Capital Assets - Continued**

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	10-40
Vehicles	5-10
Furniture and Equipment	6-10

**G. Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, the face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**H. Pensions**

In accordance with accounting guidance prescribed by GASB Statement No. 68, the fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities, and additions to/deductions from TRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**I. Other Postemployment Benefits (OPEB)**

In accordance with new accounting guidance prescribed by GASB Statement No. 75, the fiduciary net position of the Teacher Retirement System of Texas (TRS) TRS-Care Plan has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to other postemployment benefits, OPEB expense, and information about assets, liabilities, and additions to/deductions from TRS-Care's fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as you-go plan, and all cash is held in a cash account.

**J. Compensated Absences**

The District's policy does not permit employees to accumulate unused vacation and sick leave to be paid to the employees upon separation from service.



ROBERT LEE INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2018

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**K. Net Position on the Statement of Net Position**

Net position on the statement of net position includes the following:

Net Investment in Capital Assets - This component of net position represents the difference between capital assets net of accumulated depreciation and the outstanding balance of debt, excluding any unspent debt proceeds, which is directly attributable to the acquisition, construction, or improvement of those assets.

Restricted for Debt Service - This component of net position represents the difference between assets and liabilities of the Debt Service Fund that consists of assets with constraints placed on their use by creditors.

Unrestricted - This is the difference between assets/deferred outflows of resources and liabilities/deferred inflows of resources that is not reported as Net Investment in Capital Assets or Restricted for Debt Service.

**L. Fund Balances**

In the fund financial statements, governmental funds report the following classifications of fund balance:

Restricted - Amounts that can be spent only for specific purposes because usage restraints have been imposed by external sources such as creditors (through a debt covenant), grantors, contributors, or laws or regulations of other governments.

Committed - Amounts that can be used only for specific purposes determined by a formal action of the Board of Trustees, the District's highest level of decision-making authority. Commitments may be modified or rescinded only through formal action by the Board of Trustees.

Unassigned - Amounts that have not been assigned to other funds or restricted, committed, or assigned to a specific purpose within the General Fund.

The details of the fund balances are included in the governmental funds balance sheet.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Trustees has provided otherwise in its commitment or assignment actions.

In the General Fund, the District strives to maintain a yearly fund balance in the general operating fund in which the total fund balance is two months of operating expenditures which includes unassigned fund balance of one month of operating expenditures.

**M. Property Tax Revenues**

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

ROBERT LEE INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2018

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**M. Property Tax Revenues - Continued**

The District recognizes as tax revenues those taxes that are measurable and available. Measurable means the amount can be determined, and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The District considers property taxes as available if they are collected within the current period.

Taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectibles are based upon historical experience. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

**N. Interfund Transfers**

Permanent relocations of resources between funds of the reporting entity are classified as interfund transfers. For purposes of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

**II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. Budget**

Formal budgetary accounting is employed for all required governmental fund types and is presented on the modified accrual basis of accounting consistent with generally accepted accounting principles.

The official school budget is prepared for adoption for required governmental fund types prior to August 20 of the preceding fiscal year for the subsequent fiscal year beginning September 1. The budget is formally adopted by the Board of Trustees at a public meeting held at least ten days after public notice has been given.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, the Debt Service Fund, and the Food Service Special Revenue Fund. The remaining Special Revenue Funds adopt project-length budgets which do not correspond to the District's fiscal year. Each annual budget is presented on the modified accrual basis of accounting which is consistent with generally accepted accounting principles. The budget was amended throughout the year by the Board of Trustees. Such amendments are before the fact and are reflected in the official minutes of the Board.

**B. Excess Expenditures Over Appropriations**

Expenditures exceeded appropriations in one function and Other Uses - Transfers Out as shown on Exhibit E-1.

**III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS**

**A. Deposits and Investments**

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed

ROBERT LEE INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2018

**III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued**

**A. Deposits and Investments - Continued**

based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers' acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy.

**Custodial Credit Risk - Deposits:** In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits and investments in certificates of deposit may not be returned to it. The District's policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits and investments, other than the following: The State of Texas requires that a financial institution secure deposits and investments made by state and local governments by pledging securities in excess of the highest cash balance of the government. The District is not exposed to custodial credit risk for its deposits since they are covered by depository insurance and pledged securities held by a third party in the District's name.

**Concentration of Credit Risk:** The investment policy of the District contains no limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent five percent or more of the total entity investments represent a concentration risk. The District is not exposed to this risk as described in the preceding paragraph.

**Credit Risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At August 31, 2018, the District was not significantly exposed to credit risk.

**Interest Rate Risk:** Not applicable

**Foreign Currency Risk:** Not applicable

**B. Due from Other Governments**

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from other governments are summarized as follows:

	<u>State Entitlements</u>	<u>Federal Grants</u>	<u>Other</u>	<u>Total</u>
General Fund	\$ 93,499	\$ 0	\$ 9,526	\$ 103,025
Special Revenue Funds	0	24,658	0	24,658
Debt Service Fund	<u>0</u>	<u>0</u>	<u>3,843</u>	<u>3,843</u>
Totals	<u>\$ 93,499</u>	<u>\$ 24,658</u>	<u>\$ 13,369</u>	<u>\$ 131,526</u>

ROBERT LEE INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2018

**III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued**

**C. Due to Other Governments**

Amounts due to other governments are summarized as follows:

	General Fund
Due to State - Foundation	\$ 286,011

**D. Interfund Balances and Transfers**

1. The following is a summary of amounts due from and due to other funds:

	Due From	Due To	Purpose
General Fund			
Debt Service Fund	\$ 0	\$ 17,448	Tax Collections
Debt Service Fund			
General Fund	17,448	0	Tax Collections
Totals	\$ 17,448	\$ 17,448	

All amounts due are expected to be repaid within one year.

2. Interfund transfers consist of the following:

Transfers From	Transfers To	Amount	Purpose
General Fund	Nonmajor Governmental Funds	\$ 34,530	Operations

ROBERT LEE INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2018

**III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued**

**E. Capital Assets**

Capital asset activity for the year ended August 31, 2018, was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets				
Land	\$ 429,418	\$ 0	\$ 0	\$ 429,418
Buildings and Improvements	20,922,573	0	0	20,922,573
Furniture and Equipment	<u>1,294,125</u>	<u>61,715</u>	<u>0</u>	<u>1,355,840</u>
Total Capital Assets	<u>\$ 22,646,116</u>	<u>\$ 61,715</u>	<u>\$ 0</u>	<u>\$ 22,707,831</u>
Less Accumulated Depreciation				
Buildings and Improvements	\$ (4,040,034)	\$ (540,947)	\$ 0	\$ (4,580,981)
Furniture and Equipment	<u>(876,347)</u>	<u>(87,708)</u>	<u>0</u>	<u>(964,055)</u>
Total Accumulated Depreciation	<u>\$ (4,916,381)</u>	<u>\$ (628,655)</u>	<u>\$ 0</u>	<u>\$ (5,545,036)</u>
Governmental Activities Capital Assets, Net	<u><u>\$ 17,729,735</u></u>	<u><u>\$ (566,940)</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 17,162,795</u></u>

Depreciation expense was charged to governmental activities functions as follows:

Instruction	\$ 392,031
School Leadership	52,765
Guidance, Counseling, and Evaluation Services	16,175
Student (Pupil) Transportation	17,582
Food Services	18,974
Extracurricular Activities	20,884
General Administration	48,212
Facilities Maintenance and Operations	41,856
Data Processing Services	<u>20,176</u>
Total	<u><u>\$ 628,655</u></u>

**F. Deferred Outflows and Inflows of Resources**

A deferred outflow of resources is a consumption of a government's net position (a decrease in assets in excess of any related decrease in liabilities or an increase in liabilities in excess of any related increase in assets) by the government that is applicable to a future reporting period.

A deferred inflow of resources is an acquisition of a government's net position (an increase in assets in excess of any related increase in liabilities or a decrease in liabilities in excess of any related decrease in assets) by the government that is applicable to a future reporting period.

ROBERT LEE INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2018

**III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued**

**F. Deferred Outflows and Inflows of Resources - Continued**

Deferred outflows and inflows of resources are reported as described below:

Deferred Outflows (Statement of Net Position)

Deferred loss on bond refunding, which is amortized over the life of the refunding bonds.

District's proportionate share of Teacher Retirement System of Texas (TRS) pension plan deferred outflows as detailed in financial statement footnote IV., A.

District's proportionate share of Teacher Retirement System of Texas (TRS) OPEB plan deferred outflows as detailed in financial statement footnote IV., B.

Deferred Inflows (Statement of Net Position)

District's proportionate share of Teacher Retirement System of Texas (TRS) pension plan deferred inflows as detailed in financial statement footnote IV., A.

District's proportionate share of Teacher Retirement System of Texas (TRS) OPEB plan deferred inflows as detailed in financial statement footnote IV., B.

Deferred Inflows (Balance Sheet - Governmental Funds)

Unavailable revenue - property taxes.

**G. Short-Term Debt**

On June 21, 2017, the District secured a short-term line-of-credit in the amount of \$650,000. This debt was issued for interim financing of General Fund operations. The note was paid in full during the current year.

Short-term activity for the year ended August 31, 2018, was as follows:

Beginning Balance	\$ 370,099
Additions	0
Reductions	<u>(370,099)</u>
Ending Balance	<u><u>\$ 0</u></u>

ROBERT LEE INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2018

**III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued**

**H. Long-Term Debt**

The following is a summary of changes in long-term debt for the year ended August 31, 2018:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds - Series 2012	\$ 995,000	\$ 0	\$ 105,000	\$ 890,000	\$ 455,000
Unlimited Tax Refunding Bonds - Series 2016	7,000,000	0	375,000	6,625,000	380,000
Subtotal - Principal	\$ 7,995,000	\$ 0	\$ 480,000	\$ 7,515,000	\$ 835,000
Bond Premium - Series 2012	30,250	0	1,951	28,299	0
Bond Premium - Series 2016	175,504	0	10,969	164,535	0
Totals	<u>\$ 8,200,754</u>	<u>\$ 0</u>	<u>\$ 492,920</u>	<u>\$ 7,707,834</u>	<u>\$ 835,000</u>

The District's outstanding bond issues are as follows:

Robert Lee Independent School District Unlimited Tax School Building Bonds, Series 2012. Issued to construct, equip, acquire, and renovate school buildings and purchase necessary sites for school buildings and school buses and to pay the costs associated with the issuance and sale of the bonds in the original amount of \$1,500,000. Due in variable installments through February 15, 2033, with interest rates of 1% to 3%. \$ 890,000

Robert Lee Independent School District Unlimited Tax Refunding Bonds, Series 2016. Issued to partially refund \$7,395,000 of Unlimited Tax School Building Bonds, Series 2012, and to pay the costs associated with the issuance of the Bonds. Issued in the original amount of \$7,355,000. Due in variable installments through August 15, 2033, with interest rates of 2.00% to 3.00%. 6,625,000

Total Bonds Payable \$ 7,515,000

ROBERT LEE INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2018

**III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued**

**H. Long-Term Debt - Continued**

The combined annual debt service requirements are as follows:

Year Ending August 31,	General Obligation Bonds		Unlimited Tax Refunding Bonds		Total
	Principal	Interest	Principal	Interest	
2019	\$ 455,000	\$ 15,916	\$ 380,000	\$ 180,850	\$ 1,031,766
2020	25,000	10,816	390,000	173,250	599,066
2021	25,000	10,284	395,000	165,450	595,734
2022	30,000	9,700	405,000	157,550	602,250
2023	25,000	9,116	415,000	147,425	596,541
2024-2028	150,000	36,469	2,240,000	562,113	2,988,582
2029-2033	180,000	13,800	2,400,000	208,500	2,802,300
Totals	<u>\$ 890,000</u>	<u>\$ 106,101</u>	<u>\$ 6,625,000</u>	<u>\$ 1,595,138</u>	<u>\$ 9,216,239</u>

**I. Outstanding Encumbrances**

There were no outstanding encumbrances that were provided for in the subsequent year's budget.

**J. Revenues from Local and Intermediate Sources**

Local and intermediate source revenues consists of the following:

	General Fund	Special Revenue Funds	Debt Service Fund	Total
Property Taxes	\$ 1,233,099	\$ 0	\$ 823,749	\$ 2,056,848
Chapter 313 Agreements	392,219	0	0	392,219
Other Local Sources	71,585	0	562	72,147
Cocurricular, Enterprising Services, or Activities	22,970	37,544	0	60,514
Totals	<u>\$ 1,719,873</u>	<u>\$ 37,544</u>	<u>\$ 824,311</u>	<u>\$ 2,581,728</u>

**K. General Fund Federal Source Revenues**

Program or Source	CFDA Number	Amount
E-Rate School and Library Program	--	<u>\$ 4,658</u>



ROBERT LEE INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2018

**IV. OTHER INFORMATION**

**A. Defined Benefit Pension Plan**

**Plan Description** - The Robert Lee Independent School District participates in a cost-sharing multiple-employer defined benefit pension plan that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). It is a defined benefit pension plan established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

**Pension Plan Fiduciary Net Position** - Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, Texas 78701-2698; or by calling (512)542-6592.

**Benefits Provided** - TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3% (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered; for those the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic postemployment benefit changes, including automatic COLAs. Ad hoc postemployment benefit changes, including ad hoc COLAs, can be granted by the Texas Legislature as noted in the plan description above.

**Contributions** - Contribution requirements are established or amended pursuant to Article 16, Section 67 of the Texas Constitution which requires the Texas Legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code Section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

ROBERT LEE INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2018

**IV. OTHER INFORMATION - Continued**

**A. Defined Benefit Pension Plan - Continued**

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83<sup>rd</sup> Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 through 2017. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017:

Contribution Rates		
	<u>2017</u>	<u>2018</u>
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
District's 2018 Employer Contributions	\$	61,976
District's 2018 Member Contributions		145,448
District's 2017 NECE On-Behalf Contributions		77,341

Contributors to the plan include members, employers, and the State of Texas as the only non-employer contributing entity. The State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

As the non-employer contributing entity for public education, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers including public schools are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources or a privately sponsored source.

In addition to the employer contributions listed above, there are two additional surcharges an employer is subject to:

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district does not contribute to the Federal Old-Age, Survivors, and Disability Insurance (OASDI) program for certain employees, it must contribute 1.5% of the state contribution rate for certain instructional or administrative employees and 100% of the state contribution rate for all other employees.

ROBERT LEE INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2018

**IV. OTHER INFORMATION** - Continued

**A. Defined Benefit Pension Plan** - Continued

**Actuarial Assumptions** - The total pension liability in the August 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.0%
Long-Term Expected Investment Rate of Return	8.0%
Inflation	2.5%
Salary Increases Including Inflation	3.5% to 9.5%
Payroll Growth Rate	2.5%
Benefit Changes During the Year	None
Ad hoc Postemployment Benefit Changes	None

The actuarial methods and assumptions are based primarily on a study of actual experience for the four-year period ended August 31, 2014, and adopted on September 24, 2015.

**Discount Rate** - The discount rate used to measure the total pension liability was 8%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by

ROBERT LEE INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2018

**IV. OTHER INFORMATION - Continued**

**A. Defined Benefit Pension Plan - Continued**

the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the System's target asset allocation as of August 31, 2017, are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Real Return Geometric Basis</u>	<u>Long-Term Expected Portfolio Real Rate of Return*</u>
Global Equity			
U.S.	18.0%	4.6%	1.0%
Non-U.S. Developed	13.0%	5.1%	0.8%
Emerging Markets	9.0%	5.9%	0.7%
Directional Hedge Funds	4.0%	3.2%	0.1%
Private Equity	13.0%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11.0%	0.7%	0.1%
Absolute Return	0.0%	1.8%	0.0%
Hedge Funds (Stable Value)	4.0%	3.0%	0.1%
Cash	1.0%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3.0%	0.9%	0.0%
Real Assets	16.0%	5.1%	1.1%
Energy and Natural Resources	3.0%	6.6%	0.2%
Commodities	0.0%	1.2%	0.0%
Risk Parity			
Risk Parity	5.0%	6.7%	0.3%
Inflation Expectations			2.2%
Alpha			<u>1.0%</u>
Totals	<u>100.0%</u>		<u>8.7%</u>

\* The Expected Contribution to Returns incorporates the volatility drag resulting from the conversion between Arithmetic and Geometric mean returns.

**Discount Rate Sensitivity Analysis** - The following schedule shows the impact of the net pension liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2017 net pension liability:

	<u>1% Decrease in Discount Rate (7%)</u>	<u>Discount Rate (8%)</u>	<u>1% Increase in Discount Rate (9%)</u>
District's Proportionate Share of the Net Pension Liability	<u>\$ 779,576</u>	<u>\$ 462,436</u>	<u>\$ 198,366</u>

ROBERT LEE INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2018

**IV. OTHER INFORMATION - Continued**

**A. Defined Benefit Pension Plan - Continued**

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** - At August 31, 2018, the Robert Lee Independent School District reported a net pension liability of \$462,436 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's Proportionate Share of the Collective Net Pension Liability	\$	462,436
State's Proportionate Share that is Associated with the District		<u>1,013,962</u>
Total		<u>\$ 1,476,398</u>

The net pension liability was measured as of August 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2016 through August 31, 2017.

At August 31, 2017, the employer's proportion of the collective net pension liability was 0.0014462611% which was an increase of 0.0000327445% from its proportion measured as of August 31, 2016.

**Changes Since the Prior Actuarial Valuation** - There were no changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

For the year ended August 31, 2018 the Robert Lee Independent School District recognized pension expense of \$77,341 and revenue of \$77,341 for support provided by the State in the government-wide statement of activities.

At August 31, 2018, the Robert Lee Independent School District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Actuarial Experience	\$ 6,766	\$ 24,939
Changes in Actuarial Assumptions	21,065	12,059
Net Difference Between Projected and Actual Investment Earnings	-	33,702
Changes in Proportion and Difference Between the Employer's Contributions and the Proportionate Share of Contributions	149,617	22
Contributions Paid to TRS Subsequent to the Measurement Date	<u>61,976</u>	<u>-</u>
Totals	<u>\$ 239,424</u>	<u>\$ 70,722</u>

ROBERT LEE INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2018

**IV. OTHER INFORMATION - Continued**

**A. Defined Benefit Pension Plan - Continued**

The net amounts of the employer's balances of deferred outflows and inflows (not including the deferred contribution paid subsequent to the measurement date) of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending August 31,</u>	<u>Pension Expense Amount</u>
2019	\$ 22,069
2020	51,587
2021	19,800
2022	9,496
2023	2,960
Thereafter	814

**B. Defined Other Postemployment Benefit Plans**

**Plan Description** - The Robert Lee Independent School District participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care). It is a multiple-employer, cost-sharing defined other postemployment benefit (OPEB) plan that has a special funding situation. The plan is administered through a trust by the Teacher Retirement System of Texas (TRS) Board of Trustees. It is established and administered in accordance with the Texas Insurance Code, Chapter 1575.

**OPEB Plan Fiduciary Net Position** - Detailed information about the TRS-Care's fiduciary net position is available in the separately-issued TRS Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

Components of the net OPEB liability of the TRS-Care plan as of August 31, 2017, are as follows:

<u>Net OPEB Liability</u>	<u>Total</u>
Total OPEB Liability	\$ 43,885,784,621
Less: Plan Fiduciary Net Position	<u>(399,535,986)</u>
Net OPEB Liability	<u>\$ 43,486,248,635</u>
Net Position as a Percentage of Total OPEB Liability	0.91%

**Benefits Provided** - TRS-Care provides a basic health insurance coverage (TRS-Care 1), at no cost to all retirees from public schools, charter schools, regional education service centers, and other educational districts who are members of the TRS pension plan. Optional dependent coverage is available for an additional fee.

Eligible retirees and their dependents not enrolled in Medicare may pay premiums to participate in one of two optional insurance plans with more comprehensive benefits (TRS-Care 2 and TRS-Care 3). Eligible retirees and dependents enrolled

ROBERT LEE INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2018

**IV. OTHER INFORMATION - Continued**

**B. Defined Other Postemployment Benefit Plans - Continued**

in Medicare may elect to participate in one of the two Medicare health plans for an additional fee. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. The Board of Trustees is granted the authority to establish basic and optional group insurance coverage for participants as well as to amend benefit terms as needed under Chapter 1575.052. There are no automatic postemployment benefit changes, including automatic COLAs.

The premium rates for the optional health insurance are based on years of service of the member. The schedule below shows the monthly rates for the average retiree with Medicare Parts A and B coverage, with 20 to 29 years of service for the basic plan and the two optional plans:

TRS-Care Plan Premium Rates  
Effective September 1, 2016 - December 31, 2017

	TRS-Care 1 <u>Basic Plan</u>	TRS-Care 2 <u>Optional Plan</u>	TRS-Care 3 <u>Optional Plan</u>
Retiree or Surviving Spouse	\$ 0	\$ 70	\$ 100
Retiree and Spouse	20	175	255
Retiree or Surviving Spouse and Children	41	132	182
Retiree and Family	61	237	337
Surviving Children Only	28	62	82

**Contributions** - Contribution rates for the TRS-Care plan are established in state statute by the Texas Legislature, and there is no continuing obligation to provide benefits beyond each fiscal year. The TRS-Care plan is currently funded on a pay-as-you-go basis and is subject to change based on available funding. Funding for TRS-Care is provided by retiree premium contributions and contributions from the state, active employees, and school districts based upon public school district payroll. The TRS Board of Trustees does not have the authority to set or amend contribution rates.

Texas Insurance Code, Section 1575.202 establishes the state’s contribution rate which is 1% of the employee’s salary. Section 1575.203 establishes the active employee’s rate which is 0.65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor:

	<u>2017</u>	<u>2018</u>
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.00%	1.25%
Employers	0.55%	0.75%
Federal/Private Funding Remitted by Employers	1.00%	1.25%
District’s 2018 Employer Contributions	\$	30,744
District’s 2018 Member Contributions		12,278
District’s 2017 NECE On-Behalf Contributions		(483,335)

ROBERT LEE INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2018

**IV. OTHER INFORMATION - Continued**

**B. Defined Other Postemployment Benefit Plans - Continued**

In addition to the employer contributions listed above, there is an additional surcharge all TRS employers are subject to (regardless of whether or not they participate in the TRS-Care OPEB program). When employers hire a TRS retiree, they are required to pay to TRS-Care a monthly surcharge of \$535 per retiree.

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$15.6 million in fiscal year 2017. House Bill 21 was passed in special session and provided a supplemental appropriation in the amount of \$212 million in fiscal year 2018. The District's proportionate share of the \$212 million received during the District's 2018 fiscal year is reported in the fund level financial statements as an on-behalf contribution as required by GASB 85 and GASB 24.

**Actuarial Assumptions** - The total OPEB liability in the August 31, 2017 actuarial valuation was determined using the following actuarial assumptions.

The actuarial valuation of TRS-Care is similar to the actuarial valuations performed for the pension plan, except that the OPEB valuation is more complex. All of the demographic assumptions, including mortality, and most of the economic assumptions are identical to those which were adopted by the Board in 2015 and are based on the 2014 actuarial experience study of TRS.

The active mortality rates were based on 90% of the RP-2014 Employee Mortality Tables for males and females. The post-retirement mortality rates were based on the 2015 TRS of Texas Healthy Pensioner Mortality Tables.

The following assumptions and other inputs used for members of TRS-Care are identical to the assumptions used in the August 31, 2017 TRS pension actuarial valuation:

Rates of Mortality	General Inflation
Rates of Retirement	Wage Inflation
Rates of Termination	Expected Payroll Growth
Rates of Disability Incidence	



ROBERT LEE INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2018

**IV. OTHER INFORMATION - Continued**

**B. Defined Other Postemployment Benefit Plans - Continued**

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.50%
Discount Rate	3.42%
Aging Factors	Based on Plan Specific Experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Payroll Growth Rate	2.50%
Projected Salary Increases	3.50% to 9.50%
Healthcare Trend Rates	4.50% to 12.00%
Election Rates	Normal Retirement: 70% Participation Prior to Age 65 and 75% Participation After Age 65
Ad hoc Postemployment Benefit Changes	None

**Discount Rate** - A single discount rate of 3.42% was used to measure the total OPEB liability. There was a change of 0.44% in the discount rate since the previous year. Because the plan is essentially a “pay-as-you-go” plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability. The source of the municipal bond rate was fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index’s “20-Year Municipal GO AA Index” as of August 31, 2017.

**Sensitivity of the Net OPEB Liability**

**Discount Rate Sensitivity Analysis** - The following schedule shows the impact of the net OPEB liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.42%) in measuring the net OPEB liability:

	1% Decrease in Discount Rate (2.42%)	Discount Rate (3.42%)	1% Increase in Discount Rate (4.42%)
District's Proportionate Share of the Net OPEB Liability	<u>\$ 1,553,061</u>	<u>\$ 1,315,876</u>	<u>\$ 1,125,234</u>

ROBERT LEE INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2018

**IV. OTHER INFORMATION - Continued**

**B. Defined Other Postemployment Benefit Plans - Continued**

**Healthcare Cost Trend Rates Sensitivity Analysis** - The following presents the net OPEB liability of the plan using the assumed healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is 1% lower or 1% higher than the assumed healthcare cost trend rate:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District's Proportionate Share of the Net OPEB Liability	\$ 1,095,599	\$ 1,315,876	\$ 1,604,909

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs** - At August 31, 2018, the Robert Lee Independent School District reported a liability of \$1,315,876 for its proportionate share of the TRS's net OPEB liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's Proportionate Share of the Collective Net OPEB Liability	\$ 1,315,876
State's Proportionate Share that is Associated with the District	1,444,401
Total	\$ 2,760,277

The net OPEB liability was measured as of August 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The employer's proportion of the net OPEB liability was based on the employer's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2016 through August 31, 2017.

At August 31, 2017, the employer's proportion of the collective net OPEB liability was 0.0030259600% which was the same proportion measured as of August 31, 2016.

**Changes Since the Prior Actuarial Valuation** - The following were changes to the actuarial assumptions or other inputs that affected measurement of the total OPEB liability since the prior measurement period:

1. Significant plan changes were adopted during fiscal year ending August 31, 2018. Effective January 1, 2018, only one health plan option will exist (instead of three), and all retirees will be required to contribute monthly premiums for coverage. The health plan changes triggered changes to several of the assumptions, including participation rates, retirement rates, and spousal participation rates.
2. The August 31, 2016 valuation had assumed that the savings related to the Medicare Part D reimbursements would phase out by 2022. This assumption was removed for the August 31, 2017 valuation. Although there is uncertainty regarding these federal subsidies, the new assumption better reflects the current substantive plan. This change was unrelated to the plan amendment, and its impact was included as an assumption change in the reconciliation of the total OPEB liability. This change significantly lowered the OPEB liability.
3. The discount rate changed from 2.98% as of August 31, 2016 to 3.42% as of August 31, 2017. This change lowered the total OPEB liability.

ROBERT LEE INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2018

**IV. OTHER INFORMATION - Continued**

**B. Defined Other Postemployment Benefit Plans - Continued**

In this valuation the impact of the Cadillac Tax has been calculated as a portion of the trend assumption. Assumptions and methods used to determine the impact of the Cadillac Tax include:

- 2018 thresholds of \$850/\$2,292 were indexed annually by 2.5%.
- Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
- There were no special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55.

Results indicate that the value of the excise tax would be reasonably represented by a 25-basis point addition to the long-term trend rate assumption.

Future actuarial measurements may differ significantly from the current measurements due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions, changes in economic or demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions or applicable law.

There were no changes of benefit terms that affected measurement of the total OPEB liability during the measurement period.

For the year ended August 31, 2018, the Robert Lee Independent School District recognized OPEB expense of \$(483,335) and revenue of \$(483,335) for support provided by the State.

At August 31, 2018, the Robert Lee Independent School District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other postemployment benefits from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Actuarial Experience	\$ -	\$ 27,470
Changes in Actuarial Assumptions	-	522,964
Net Difference Between Projected and Actual Investment Earnings	200	-
Changes in Proportion and Difference Between the Employer's Contributions and the Proportionate Share of Contributions	6	-
Contributions Paid to TRS Subsequent to the Measurement Date	<u>30,744</u>	<u>-</u>
Totals	<u>\$ 30,950</u>	<u>\$ 550,434</u>

ROBERT LEE INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2018

**IV. OTHER INFORMATION - Continued**

**B. Defined Other Postemployment Benefit Plans - Continued**

The net amounts of the employer’s balances of deferred outflows and inflows (not including the deferred contribution paid subsequent to the measurement date) of resources related to OPEBs will be recognized in OPEB expense as follows:

Year Ending <u>August 31,</u>	<u>OPEB Expense Amount</u>
2019	\$ (72,603)
2020	(72,603)
2021	(72,603)
2022	(72,603)
2023	(72,653)
Thereafter	(187,163)

**C. Health Care Coverage**

The District participates in TRS-Active Care sponsored by the Teacher Retirement System of Texas. TRS-Active Care (the Plan) provides health care coverage to employees (and their dependents) of participating public education entities. Optional life and long-term care insurance are also provided to active members and retirees. Authority for the Plan can be found in the Texas Insurance Code, Title 8, Subtitle H, Chapter 1579 and in the Texas Administrative Code, Title 34, Part 3, Chapter 41. The Plan began operations on September 1, 2002. This is a premium-based plan. Payments are made on a monthly basis for all covered employees.

**D. Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters, for which the District participated in a public entity risk pool. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding coverage for each of the past three fiscal years.

**E. Unemployment Compensation Coverage**

During the year ended August 31, 2018, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund’s Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop-loss coverage for the Unemployment Compensation pool. For the year ended August 31, 2018, the Fund anticipates that the District has no additional liability beyond the contractual obligations for payment of contributions.

ROBERT LEE INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2018

**IV. OTHER INFORMATION - Continued**

**E. Unemployment Compensation Coverage - Continued**

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund’s Board of Trustees in February of the following year. The Fund’s audited financial statements as of August 31, 2017, are available on the TASB Risk Management Fund website.

**F. Workers' Compensation Insurance**

The District is partially uninsured with respect to workers' compensation insurance. The District participates in a shared risk pool, the “West Texas Educational Insurance Association,” administered by Claims Administrative Services, Inc. Individual claims that exceed the loss fund maximum, stated at \$7,186 at August 31, 2018, are paid by the Association through a reinsurance program. The District is responsible for all claims up to the loss fund maximum. Cumulative unpaid claims (including “incurred but not reported” claims) the District is responsible for paying totaled \$5,877 at August 31, 2018. Contributions to this pool for the current year were \$3,727.

Changes in the balances of claims liabilities are as follows:

	Year Ended August 31,	
	2018	2017
Unpaid Claims - Beginning	\$ 5,048	\$ 3,705
Incurred Claims	1,689	1,471
Claim Payments	(620)	(694)
Adjustments	(240)	566
Unpaid Claims - Ending	\$ 5,877	\$ 5,048

**G. Contingencies**

The District participates in numerous state and federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required, and the collectibility of any related receivable may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

**H. Shared Services Arrangements**

The District participates in a shared services arrangement for special education with nine other school districts. The District also participates in a shared services arrangement for accelerated programs for at risk students with ten other school districts. The District does not account for revenues or expenditures in these programs and does not disclose them in these financial statements. The Wall Independent School District is the fiscal agent manager and is responsible for all financial activities of both shared services arrangements.

The District participates in a several shared services arrangements for various federal programs with the Education Service Center Region XV. The District does not account for revenues or expenditures in these programs and does not disclose them in these financial statements. The Education Service Center Region XV is the fiscal agent manager and is responsible for all financial activities of these shared services arrangements.

ROBERT LEE INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2018

**IV. OTHER INFORMATION - Continued**

**I. Tax Abatements**

The Robert Lee Independent School District’s Board of Trustees approved Agreements with Capricorn Ridge Wind II and Goat Wind for a Limitation on Appraised Value of Property for School District Maintenance and Operations Taxes pursuant to the Chapter 313 of the Texas Tax Code, i.e., the Texas Economic Development Act, as set forth in Chapter 313 of the Texas Tax Code, as amended. Capricorn Ridge Wind II and Goat Wind qualified for tax limitation agreements under the Texas Tax Code §313.024(b)(5), as renewable energy electric generation projects.

Value limitation agreements are a part of a state program originally created in 2001 which allows school districts to limit the taxable value of an approved project for Maintenance and Operations (M&O) for a period of years specified in statute. The project(s) under the Chapter 313 agreement must be consistent with the state’s goal to “encourage large scale capital investments in this state.” Chapter 313 of the Texas Tax Code grants eligibility to companies engaged in manufacturing, research and development, renewable electric energy production, clean coal projects, nuclear power generation, and data centers.

In order to qualify for a value limitation agreement, each applicant has been required to meet a series of capital investment, job creation, and wage requirements specified by state law. At the time of the applications’ approvals, the Agreements were found to have done so by both the District’s Board of Trustees and the Texas Comptroller’s Office, which recommended approval of the projects. The applications, the Agreements, and state reporting requirement documentation can be viewed at the Texas Comptroller’s website: <https://www.comptroller.texas.gov/economy/local/ch313/agreement-docs.php>. The Agreements and all supporting documentation were assigned Texas Comptroller Application No. 101 and No. 87, respectively.

After approval, the applicant company must maintain a viable presence in the District for the entire period of the value limitation plus a period of years thereafter. In addition, there are specific reporting requirements, which are monitored on an annual and biennial basis in order to ensure relevant job, wage, and operational requirements are being met.

In the event that either company terminates its Agreement without the consent of the District, or in the event that either company or its successor-in-interest fails to comply in any material respect with the terms of the Agreement or to meet any material obligations under the Agreement, then the District shall be entitled to the recapture of all ad valorem tax revenue lost as a result of the Agreement, together with the payment of penalty and interest, on that recaptured ad valorem tax revenue. Penalties on said amounts shall be calculated in accordance with the methodology set forth in Texas Tax Code §33.01(a), or its successor statute. Interest on said amounts shall be calculated in accordance with the methodology set forth in Texas Tax Code §33.01(c), or its successor statute. Each Agreement provides an administrative procedure to determine any company liability. Ultimately, enforcement of any payment obligation is through the local state district court.

Project Name	A Project Value 2017	B Project's Value Limitation Amount 2017	C Amount of Applicant's M&O Taxes Paid 2017	D Amount of Applicant's M&O Taxes Reduced 2017	E Company Revenue Loss Payment to School District 2017	F Company Supplemental Payment to School District 2017	G Net Benefit (Loss) to the School District 2017 (C+E+F)
Capricorn Ridge Wind II - Application #101*	\$ 23,994,630	\$ 10,000,000	\$ 52,000	\$ 197,544	\$ 5,015	\$ 97,167	\$ 154,182
Goat Wind - Application #87*	64,804,330	10,000,000	52,000	621,965	5,015	285,002	342,017

\* First Year Value Limitation: 2010

ROBERT LEE INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2018

**IV. OTHER INFORMATION - Continued**

**J. Negative Operating Grants and Contributions - Statement of Activities**

Expense activity is required to be recorded by districts who are participants in cost-sharing pension and OPEB plans with a special funding situation where non-employer contributing entities (NECE) also participate in contributions to the plans. TRS-retirement and TRS-Care benefit plans are both cost-sharing plans with special funding situations. Therefore, on-behalf expense activity of the NECE must be recorded at the government-wide level of reporting on the statement of activities in accordance with GASB 68 and 75.

During the year under audit, the NECE expense related to GASB 75 was negative due to changes in benefits within the TRS-Care plan. The accrual for the proportionate share of that expense was a negative on-behalf revenue and negative on-behalf expense. This resulted in negative revenue for operating grants and contributions on the statement of activities. According to guidance provided directly from GASB, this is the correct reporting.

Following are the effects on the statement of activities related to GASB 75 as a result of the negative on-behalf accruals recorded:

	Operating Grants and Contributions (Excluding On-Behalf Accruals)	Negative On-Behalf Accruals	Operating Grants and Contributions
	<u>                    </u>	<u>                    </u>	<u>                    </u>
11 Instruction	\$ 148,236	\$ (288,298)	\$ (140,062)
23 School Leadership	7,880	(44,345)	(36,465)
31 Guidance, Counseling, and Evaluation Services	2,676	(15,064)	(12,388)
34 Student (Pupil) Transportation	2,797	(15,741)	(12,944)
35 Food Services	89,496	(17,586)	71,910
36 Extracurricular Activities	2,472	(13,912)	(11,440)
41 General Administration	5,571	(31,345)	(25,774)
51 Facilities Maintenance and Operations	11,369	(37,763)	(26,394)
53 Data Processing	3,425	(19,281)	(15,856)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Totals	<u>\$ 273,922</u>	<u>\$ (483,335)</u>	<u>\$ (209,413)</u>

**K. Adjustments to Net Position/Fund Balances**

During fiscal year 2018, the District adopted GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefit Other Than Pensions." With GASB 75, the District must assume its proportionate share of the net OPEB liability of the Teacher Retirement System of Texas. Adoption of GASB 75 required a prior period adjustment to report the effect of GASB 75 retroactively. The amount of the prior period adjustment is a decrease in net position of \$2,307,381.

ROBERT LEE INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2018

**IV. OTHER INFORMATION - Continued**

**K. Adjustments to Net Position/Fund Balances - Continued**

The financial statements reflect the following prior period adjustments:

	<u>Net Position Exhibit B-1</u>	<u>Fund Balances Exhibit C-3</u>
General Fund		
Foundation Adjustment	\$ (4,261)	\$ (4,261)
Workers' Compensation Adjustments	148	148
Adjustment to Prior Years' Expenditures	<u>(2,319)</u>	<u>(2,319)</u>
Total General Fund	\$ (6,432)	\$ (6,432)
Debt Service Fund		
EDA Allotment Adjustment	(1,378)	(1,378)
GASB 75 as Noted Above	<u>(2,307,381)</u>	<u>0</u>
Totals	<u><u>\$ (2,315,191)</u></u>	<u><u>\$ (7,810)</u></u>

**L. Subsequent Events**

The District's management has evaluated subsequent events through December 5, 2018, the date which the financial statements were available for issue.



**APPENDIX C**

FORM OF BOND COUNSEL'S OPINION

**Proposed Form of Opinion of Bond Counsel**

*An opinion in substantially the following form will be delivered by McCall, Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the Bonds, assuming no material changes in facts or law.*

**ROBERT LEE INDEPENDENT SCHOOL DISTRICT  
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2019**

**IN THE AGGREGATE PRINCIPAL AMOUNT OF \$5,770,000**

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**AS BOND COUNSEL** for the Robert Lee Independent School District (the "Issuer"), the issuer of the Bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds, at the rates and payable on the dates as stated in the text of the Bonds, maturing, unless redeemed prior to maturity in accordance with the terms of the Bonds, all in accordance with the terms and conditions stated in the text of the Bonds.

**WE HAVE EXAMINED** the applicable and pertinent provisions of the Constitution and laws of the State of Texas, and a transcript of certified proceedings of the Issuer, and other pertinent instruments authorizing and relating to the issuance of the Bonds, including executed Bond Numbered T-1.

**BASED ON SAID EXAMINATION, IT IS OUR OPINION** that the Bonds have been authorized and issued and the Bonds delivered concurrently with this opinion have been duly delivered and that, assuming due authentication, Bonds issued in exchange therefore will have been duly delivered, in accordance with law, and that the Bonds, except as may be limited by laws applicable to the Issuer relating to bankruptcy, reorganization and other similar matters affecting creditors' rights generally, and by general principles of equity and sovereign immunity of political subdivisions which permit the exercise of judicial discretion, constitute valid and legally binding obligations of the Issuer, and ad valorem taxes sufficient to provide for the payment of the interest on and principal of the Bonds have been levied and pledged for such purpose, without limit as to rate or amount.

**IT IS FURTHER OUR OPINION**, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds.



**IN EXPRESSING THE AFOREMENTIONED OPINIONS**, we have relied on and assume continuing compliance with, certain representations contained in the federal tax certificate of the Issuer and covenants set forth in the order adopted by the Issuer to authorize the issuance of the Bonds, relating to, among other matters, the use of the project being financed and the investment and expenditure of the proceeds and certain other amounts used to pay or to secure the payment of debt service on the Bonds and the certificate with respect to arbitrage by the Commissioner of Education regarding the allocation and investment of certain investments in the Permanent School Fund, the accuracy of which we have not independently verified. We call your attention to the fact that if such representations are determined to be inaccurate or if the Issuer fails to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

**EXCEPT AS STATED ABOVE**, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Bonds. We express no opinion as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.

**OUR OPINIONS ARE BASED ON EXISTING LAW**, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

**OUR SOLE ENGAGEMENT** in connection with the issuance of the Bonds is as Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer for the sole purpose of rendering our opinions with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other



material relating to the financial condition or capabilities of the Issuer, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the Issuer as to the current outstanding indebtedness of, and assessed valuation of taxable property within the Issuer. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

Respectfully,



Financial Advisory Services  
Provided By

