

OFFICIAL STATEMENT

Dated October 21, 2020

Rating:  
S&P: “AAA”/“AA-”  
PSF Guaranteed  
See “OTHER INFORMATION -  
Rating” and “THE PERMANENT  
SCHOOL FUND GUARANTEE  
PROGRAM”

NEW ISSUE – Book-Entry-Only

In the opinion of Bond Counsel, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended, and is not a specific preference item for purposes of the alternative minimum tax. See “TAX MATTERS – Tax Exemption” herein for a discussion of the opinion of Bond Counsel.



**\$13,610,000**  
**BELTON INDEPENDENT SCHOOL DISTRICT**  
*(Bell County, Texas)*  
**UNLIMITED TAX REFUNDING BONDS, SERIES 2020**

Dated: November 19, 2020

Due: February 15, as shown on page 2 hereof

Interest accrues from the Date of Initial Delivery (as defined below)

**PAYMENT TERMS . . .** Interest on the \$13,610,000 Belton Independent School District Unlimited Tax Refunding Bonds, Series 2020 (the “Bonds”) will accrue from the Date of Initial Delivery (as defined below), will be payable on February 15, 2021, and each August 15 and February 15 thereafter until maturity and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The 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 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 distributions of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see “THE BONDS – Paying Agent/Registrar”).

**AUTHORITY FOR ISSUANCE . . .** The Bonds are being issued pursuant to the Constitution and general laws of the State, including particularly Chapter 1207, Texas Government Code, as amended, an order (the “Bond Order”) adopted by the Board of Trustees of Belton Independent School District (the “District”), and a pricing certificate executed pursuant to the Bond Order by an authorized officer of the District (the “Pricing Certificate” and, together with the Bond Order, the “Order”). The Bonds are payable from a continuing direct ad valorem tax levied, without legal limit as to rate or amount, on all taxable property located within the District sufficient to pay debt service on the Bonds, as provided in the Bond Order (see “THE BONDS – Authority for Issuance”). **An application has been filed and the District has received conditional approval from the Texas Education Agency for the Bonds to be guaranteed by the Texas Permanent School Fund (see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).**

**PURPOSE . . .** Proceeds from the sale of the Bonds will be used to refund a portion of the District’s outstanding obligations (the “Refunded Bonds”) for debt service savings and to pay the costs associated with the issuance of the Bonds. See “PLAN OF FINANCING – Purpose” and “– Refunded Bonds,” and “SCHEDULE I – Schedule of Refunded Bonds.”

---

**CUSIP PREFIX: 081077**  
**MATURITY SCHEDULE & 9-DIGIT CUSIP**  
See Page 2 Hereof

---

**NO REDEMPTION . . .** The Bonds are not subject to redemption prior to their stated maturities (see “THE BONDS – No Redemption”).

**LEGALITY . . .** The Bonds are offered for delivery when, as and if issued and received by the Underwriters named below and subject to the approving opinion of the Attorney General of Texas and the opinion of Bracewell LLP, Bond Counsel, Austin, Texas (see “APPENDIX C – Form of Bond Counsel’s Opinion”). Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas.

**DELIVERY . . .** It is expected that the Bonds will be available for delivery through DTC on November 19, 2020 (the “Date of Initial Delivery”).

**SAMCO CAPITAL**

**BOK FINANCIAL SECURITIES, INC.**

**MATURITY SCHEDULE**

<u>Maturity (February 15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Numbers<sup>(1)</sup></u>
2021	\$ 70,000	5.000%	0.270%	081077M63
2022	1,335,000	5.000%	0.280%	081077M71
2023	1,410,000	5.000%	0.330%	081077M89
2024	1,595,000	5.000%	0.410%	081077M97
2025	1,665,000	4.000%	0.480%	081077N21
2026	1,745,000	5.000%	0.610%	081077N39
2027	1,835,000	5.000%	0.750%	081077N47
2028	1,925,000	5.000%	0.910%	081077N54
2029	2,030,000	5.000%	1.070%	081077N62

**(Interest accrues from the Date of Initial Delivery)**

- (1) CUSIP numbers are included solely for convenience of owners of the Bonds. 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 Underwriters take any responsibility for the selection or accuracy of CUSIP numbers.

*(THE REMAINDER OF THIS PAGE LEFT INTENTIONALLY BLANK)*

*This Official Statement, which includes the cover page, the Schedule, and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale. No dealer, broker, salesman or other person has been authorized by the District 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.*

*The information set forth herein has been obtained from the District and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor or the Underwriters. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized. 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 information and expressions of opinion contained herein 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.*

*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 JURISDICTION IN WHICH THE BONDS HAVE BEEN REGISTERED, OR EXEMPTED, SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.*

*THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM THE FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS.*

*NONE OF THE DISTRICT, THE FINANCIAL ADVISOR, OR THE UNDERWRITERS MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY ("DTC") 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 DTC AND TEA, RESPECTIVELY.*

*IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS 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.*

*The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement pursuant to their respective responsibilities to investors under the federal securities laws, but the Underwriters do 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 schedules and appendices attached hereto, to obtain information essential to making an informed investment decision.*

**TABLE OF CONTENTS**

<b>OFFICIAL STATEMENT SUMMARY .....</b>	<b>5</b>
<b>DISTRICT OFFICIALS, STAFF AND CONSULTANTS.....</b>	<b>7</b>
ELECTED OFFICIALS .....	7
SELECTED ADMINISTRATIVE STAFF .....	7
CONSULTANTS AND ADVISORS .....	7
<b>INTRODUCTION .....</b>	<b>9</b>
<b>PLAN OF FINANCING.....</b>	<b>9</b>
<b>THE BONDS .....</b>	<b>10</b>
<b>INFECTIOUS DISEASE OUTBREAK-COVID-19 .....</b>	<b>14</b>
<b>THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM .....</b>	<b>15</b>
<b>STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS.....</b>	<b>31</b>
<b>CURRENT PUBLIC SCHOOL FINANCE SYSTEM .....</b>	<b>31</b>
<b>THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE BELTON INDEPENDENT SCHOOL DISTRICT .....</b>	<b>35</b>
<b>TAX RATE LIMITATIONS .....</b>	<b>36</b>
<b>TAX INFORMATION .....</b>	<b>38</b>
TABLE 1 – VALUATION, EXEMPTIONS AND TAX SUPPORTED DEBT.....	41
TABLE 2 – VALUATION AND TAX SUPPORTED DEBT HISTORY .....	41
TABLE 3 – TAX RATE, LEVY AND COLLECTION HISTORY .....	42
TABLE 4 – TEN LARGEST TAXPAYERS .....	42
TABLE 5 – ESTIMATED OVERLAPPING DEBT .....	43
<b>DEBT INFORMATION.....</b>	<b>44</b>
TABLE 6 – TAX SUPPORTED DEBT SERVICE REQUIREMENTS .....	44
TABLE 7 – INTEREST AND SINKING FUND BUDGET PROJECTION .....	44
TABLE 8 – AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS.....	45
<b>FINANCIAL INFORMATION .....</b>	<b>45</b>
TABLE 9 – CHANGES IN NET POSITION.....	45
TABLE 9A – GENERAL FUND REVENUES AND EXPENDITURE HISTORY .....	46
<b>FINANCIAL POLICIES.....</b>	<b>47</b>
<b>INVESTMENTS .....</b>	<b>48</b>
TABLE 10 – CURRENT INVESTMENTS .....	50
<b>TAX MATTERS .....</b>	<b>50</b>
<b>CONTINUING DISCLOSURE INFORMATION.....</b>	<b>51</b>
<b>OTHER INFORMATION .....</b>	<b>53</b>
<b>SCHEDULE I – SCHEDULE OF REFUNDED BONDS .....</b>	<b>55</b>
 <b>APPENDICES</b>	
GENERAL INFORMATION REGARDING THE DISTRICT .....	A
EXCERPTS FROM THE ANNUAL FINANCIAL REPORT .....	B
FORM OF BOND COUNSEL’S OPINION.....	C

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

## 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.

<b>THE DISTRICT</b> .....	The Belton Independent School District (the “District”) is a political subdivision of the State of Texas (the “State”) located in Bell County, Texas. 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. Support services are supplied by consultants and advisors. The District covers approximately 197 square miles. See “APPENDIX A – General Information Regarding the District.”
<b>THE BONDS</b> .....	The Bonds are being issued as \$13,610,000 Unlimited Tax Refunding Bonds, Series 2020 (the “Bonds”). The Bonds will be issued as serial Bonds maturing on February 15 in each of the years 2021 through and including 2029. See “THE BONDS – Description of the Bonds.”
<b>PAYMENT OF INTEREST</b> .....	Interest on the Bonds will accrue from the Date of Initial Delivery to the Underwriters, and will be payable on February 15, 2021, and each August 15 and February 15 thereafter until maturity. The Bonds will be issued only in fully registered form in any integral multiple of \$5,000 in principal amount for any one maturity. See “THE BONDS – Description of the Bonds.”
<b>AUTHORITY FOR ISSUANCE</b> .....	The Bonds are being issued pursuant to the Constitution and general laws of the State, including Chapter 1207, Texas Government Code, as amended, an order (the “Bond Order”) adopted by the Board, and a pricing certificate executed pursuant to the Bond Order by an authorized officer of the District (the “Pricing Certificate,” and, together with the Bond Order, the “Order”). See “THE BONDS – Authority for Issuance.”
<b>SECURITY FOR THE BONDS</b> .....	The Bonds constitute direct 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 located within the District. Additionally, the District has received conditional approval for the Bonds to be guaranteed by the Texas Permanent School Fund (the “Permanent School Fund”). See “THE BONDS – Security and Source of Payment” and “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.”
<b>PERMANENT SCHOOL FUND GUARANTEE</b>	The District has made application to and has received conditional approval from the Texas Education Agency for the Bonds to be guaranteed by the Texas Permanent School Fund. See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.”
<b>NO REDEMPTION</b> .....	The Bonds are not subject to redemption prior to their stated maturities (see “THE BONDS – No Redemption”).
<b>TAX EXEMPTION</b> .....	In the opinion of Bond Counsel, under existing law, interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law and the Bonds are not a specific preference item for purposes of the alternative minimum tax. See “TAX MATTERS – Tax Exemption” for a discussion of the opinion of Bond Counsel.
<b>USE OF PROCEEDS</b> .....	Proceeds from the sale of the Bonds will be used to refund a portion of the District’s outstanding obligations (the “Refunded Bonds”) for debt service savings and to pay the costs associated with the issuance of the Bonds. See “PLAN OF FINANCING – Purpose” and “SCHEDULE I – Schedule of Refunded Bonds.”
<b>RATING</b> .....	The Bonds have been rated “AAA” by S&P Global Ratings (“S&P”) by virtue of the guarantee of the Permanent School Fund of the State of Texas (the “PSF”). The Bonds and the outstanding debt of the District have also been rated “AA-” by S&P without regard to credit enhancement. The outstanding debt of the District is rated “AA” by Fitch Ratings, Inc. (“Fitch”) without regard to credit enhancement. The District also

has various issues outstanding which are rated “AAA” by S&P and “AAA” by Fitch by virtue of the guarantee of the PSF. See “OTHER INFORMATION – Rating.”

**BOOK-ENTRY-ONLY SYSTEM**..... The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York (“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 in principal amount. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Debt service 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 Population <sup>(1)</sup>	Taxable Assessed Valuation <sup>(2)</sup>	Taxable Assessed Valuation Per Capita	Tax Debt Outstanding at End Of Year	Ratio of Tax Debt to Taxable Assessed Valuation	Tax Debt Per Capita	% of Total Tax Collections
2017	59,482	\$ 2,673,408,819	\$ 44,945	\$ 235,174,996	8.80%	\$ 3,954	98.73%
2018	61,782	2,867,825,827	46,418	229,159,996	7.99%	3,709	98.73%
2019	63,508	3,090,789,145	48,668	241,814,996	7.82%	3,808	99.00%
2020	63,508	3,727,406,305	58,692	236,535,000	6.35%	3,724	98.42% <sup>(4)</sup>
2021	63,508	4,280,790,996	67,406	228,020,000 <sup>(3)</sup>	5.33% <sup>(3)</sup>	3,590 <sup>(3)</sup>	N/A

(1) Source: The Municipal Advisory Council of Texas.  
 (2) Taxable Assessed Values, with the exception of Fiscal Year 2020 and 2021 values, are reported in the District’s audited financial statements. 2020 and 2021 values are reported by the Bell County Appraisal District.  
 (3) Projected; includes the Bonds and excludes the Refunded Bonds.  
 (4) Partial collections as of August 31, 2020.

(THE REMAINDER OF THIS PAGE LEFT INTENTIONALLY BLANK)

**DISTRICT OFFICIALS, STAFF AND CONSULTANTS**

**ELECTED OFFICIALS**

<u>Board of Trustees</u>	<u>Term Expires</u>
Suzanne M. McDonald President	May 2022
Jeff Norwood Vice President	May 2022
Janet Leigh Secretary	May 2023
Ty Taggart Boardmember	May 2023
Chris Flor Boardmember	May 2021
Dr. Rosie Montgomery Boardmember	May 2022
Manuel Alcozer Boardmember	May 2022

**SELECTED ADMINISTRATIVE STAFF**

<u>Name</u>	<u>Position</u>	<u>Length of Service</u>
Dr. Matthew L. Smith	Superintendent	6 Months
Dr. Malina Golden	Deputy Superintendent	4 Months
Jennifer Land	Chief Financial Officer	3 Years

**CONSULTANTS AND ADVISORS**

Auditor..... Patillo, Brown & Hill, L.L.P.  
Waco, Texas

Bond Counsel ..... Bracewell LLP  
Austin, Texas

Financial Advisor..... Specialized Public Finance Inc.  
Austin, Texas

For additional information regarding the District, please contact:

Jennifer Land Chief Financial Officer Belton Independent School District 400 North Wall Street Belton, Texas 76513 (254) 215-2000 (254) 215-2001 Fax	or	Jennifer Ritter Managing Director Specialized Public Finance Inc. 248 Addie Roy Road, Suite B-103 Austin, Texas 78746 (512) 275-7300 (512) 275-7305 Fax
--	----	---

*THIS PAGE LEFT INTENTIONALLY BLANK*



**OFFICIAL STATEMENT  
RELATING TO  
  
\$13,610,000  
BELTON INDEPENDENT SCHOOL DISTRICT  
UNLIMITED TAX REFUNDING BONDS, SERIES 2020**

**INTRODUCTION**

This Official Statement, which includes the Appendices attached hereto, provides certain information regarding the issuance of \$13,610,000 Belton Independent School District Unlimited Tax Refunding Bonds, Series 2020 (the “Bonds”). Unless otherwise provided herein, capitalized terms used in this Official Statement have the same meanings assigned to such terms in the order (the “Bond Order”) authorizing the issuance of the Bonds and a pricing certificate executed by the authorized officer of the District (the “Authorized Officer”), pursuant to the authority delegated to such officer in the Bond Order (the “Pricing Certificate,” and, together with the Bond Order, the “Order”).

There follows in this Official Statement descriptions of the Bonds and certain information regarding 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, Specialized Public Finance Inc., Austin, Texas.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. Copies of the Official Statement will be deposited with the Municipal Securities Rulemaking Board, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314. 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 Belton Independent School District (the “District”) is a political subdivision of the State of Texas (the “State”) located in Bell County, Texas. 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. Support services are supplied by consultants and advisors. The District covers approximately 197 square miles in Bell County and fully encompasses the City of Belton, the City of Morgan’s Point Resort and a portion of the City of Temple. See “APPENDIX A – General Information Regarding the District.”

**PLAN OF FINANCING**

**PURPOSE . . .** The Bonds are being issued for the purpose of refunding certain of the District’s outstanding unlimited tax bonds, as more particularly described on SCHEDULE I – Schedule of Refunded Bonds hereto (the “Refunded Bonds”), for debt service savings, and to pay the costs of issuing the Bonds.

**REFUNDED BONDS . . .** The principal of and interest due on the Refunded Bonds are to be paid on the scheduled interest payment dates, maturity dates and the respective redemption dates of such Refunded Bonds, as applicable, from funds and the proceeds of direct obligations of the United States of America to be deposited pursuant to an Escrow Agreement (the “Escrow Agreement”) between the District and The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the “Escrow Agent”). The Order provides that from the proceeds of the sale of the Bonds received from the Underwriters the District will deposit with the Escrow Agent cash in an amount sufficient to accomplish the discharge and final payment of the Refunded Bonds on their respective maturity dates and redemption dates, as applicable.

Specialized Public Finance Inc., in its capacity as Financial Advisor to the District, will certify as to the sufficiency (such certification, the “Sufficiency Certificate”) of the amount initially deposited to the Escrow Fund (as defined herein), without regard to investment (if any), to pay the principal and interest on the Refunded Bonds, when due, at their date of redemption. Such funds will be held by the Escrow Agent in a special escrow account (the “Escrow Fund”). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds.

Money on deposit in the Escrow Fund and held by the Escrow Agent will not be available to pay debt service on the Bonds.

Simultaneously with the issuance of the Bonds, the District will give irrevocable instructions to provide notice to the owners of the Refunded Bonds that the Refunded Bonds will be redeemed prior to their stated maturity on the first optional redemption date, on which date money will be made available to redeem the Refunded Bonds from money held under the Escrow Agreement and the District will have no further responsibility with respect to amounts available in the Escrow Fund for the payment of the Refunded Bonds from time to time, including any subsequent insufficiency therein.

By the deposit of cash with the Escrow Agent pursuant to the Escrow Agreement, the District will have entered into firm banking and financial arrangements for the discharge, defeasance, and final payment of the Refunded Bonds in accordance with applicable law and the terms of the bond order authorizing the issuance of the Refunded Bonds. Bond Counsel will render an opinion on the date of issuance of the Bonds to the effect that, in reliance upon the Sufficiency Certificate, and as a result of such firm banking and financial arrangements, the Refunded Bonds will be deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds provided therefor in the Escrow Agreement.

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

Sources:	
Par Amount of Bonds	\$ 13,610,000.00
Reoffering Premium	<u>2,752,936.35</u>
Total Sources	\$ 16,362,936.35
Uses:	
Deposit to Escrow Fund	\$ 16,164,846.88
Underwriters' Discount	82,163.30
Deposit to Interest and Sinking Fund	4,666.79
Costs of Issuance	<u>111,259.38</u>
Total Uses	\$ 16,362,936.35

### THE BONDS

**DESCRIPTION OF THE BONDS . . .** The Bonds are dated November 19, 2020, and mature on February 15 in each of the years and in the amounts shown on page 2 hereof. Interest on the Bonds will accrue from the Date of Initial Delivery, will be calculated on the basis of a 360-day year consisting of twelve 30-day months and will be payable commencing February 15, 2021 and each August 15 and February 15 thereafter until maturity. 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 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" herein

**AUTHORITY FOR ISSUANCE . . .** The Bonds are being issued pursuant to the Constitution and the laws of the State, including Chapter 1207, Texas Government Code, as amended, and the Order.

**SECURITY AND SOURCE OF PAYMENT . . .** The Bonds are secured by and 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 in an amount sufficient to provide for the payment of debt service on the Bonds.

**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 the 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 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, registered owners will receive all payments due on the Bonds from the corpus of the Permanent School Fund.

**NO REDEMPTION . . .** The Bonds are not subject to redemption prior to their stated maturities.

**DEFEASANCE . . .** The Bond Order provides that the Bonds may be defeased, discharged or refunded in any manner permitted by applicable law. Under current State law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State a sum of money equal to the principal of and all interest to accrue on the Bonds to maturity or prior redemption or (ii) by depositing with a paying agent, or other authorized escrow agent, amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (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 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. District officials including the Authorized Officer are authorized to limit these eligible securities, as deemed necessary, in connection with the sale of the Bonds.

Under current State law, upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. 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 call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished.

Defeasance will cancel the Permanent School Fund Guarantee with respect to the defeased Bonds.

**BOOK-ENTRY-ONLY SYSTEM.** . . . *This section describes how ownership of the Bonds is to be transferred and how the debt service on the Bonds are to be paid to and credited by the Depository Trust Company (“DTC”), New York, NY, while the Bonds are registered in its nominee’s 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 believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

*The District cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participant, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other 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 initially 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 stated 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 rating of “AA+” from S&P Global Ratings. 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 Paying Agent/Registrar and request that copies of notices be provided directly to them.

Redemption notices will 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 the 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 securities 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. Payment of principal, premium, if any, and interest on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is 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 the owners thereof.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

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 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.

**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 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.

**EFFECT OF TERMINATION OF BOOK-ENTRY-ONLY SYSTEM . . .** In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the District, printed bond 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.

**PAYING AGENT/REGISTRAR . . .** The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, 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 commercial bank or trust company organized under the laws of the State 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.

**TRANSFER, EXCHANGE AND REGISTRATION . . .** In the event the Book-Entry-Only System is discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender 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 its designee. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 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” above for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

**RECORD DATE FOR INTEREST PAYMENT . . .** The record date (“Record Date”) for determining the party entitled to receipt of the interest payable on 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 Holder 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. If the District defaults in the payment of debt service on the Bonds, when due, or defaults in the performance or observance of any other covenant, agreement or obligation of the District, which default materially and adversely affects the rights of the registered owners, including, but not limited to, their prospect or ability to be repaid in accordance with the Order, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the District, any owner may proceed against the District for the purpose of protecting and enforcing the rights of the owners under the Order, by mandamus or other suit, action or special proceeding in equity or at law, in any court of competent jurisdiction. Such right is in addition to any other rights the registered owners of the Bonds may be provided by the laws of the State. The issuance of a writ of mandamus is controlled by equitable principles, so 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. On June 30, 2006, the Texas Supreme Court 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. Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. 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. The opinions of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

*(THE REMAINDER OF THIS PAGE LEFT INTENTIONALLY BLANK)*

## INFECTIOUS DISEASE OUTBREAK – COVID-19

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been characterized as a pandemic (the “Pandemic”) by the World Health Organization and is currently affecting many parts of the world, including the United States and Texas. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States and on March 13, 2020, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency. Subsequently, the President’s Coronavirus Guidelines for America and the United States Centers for Disease Control and Prevention called upon Americans to take actions to slow the spread of COVID-19 in the United States.

On March 13, 2020, the Governor of Texas (the “Governor”) declared a state of disaster for all counties in Texas in response to the Pandemic, which disaster declaration he has subsequently extended. In addition, certain local officials have also declared a local state of disaster. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. These include, for example, the issuance on June 26, 2020 of Executive Order GA-28, as amended on July 2, 2020 which, among other things, provided further guidelines for the reopening of businesses and the maximum threshold level of occupancy related to such establishments. Certain businesses, such as cybersecurity services, child care services, youth camps, recreational programs, and religious services, do not have the foregoing limitations. The Governor’s order also states, in providing or obtaining services, every person (including individuals, businesses, and other legal entities) should use good-faith efforts and available resources to follow the minimum standard health protocols. Executive Order GA-28 continued restrictions on nursing homes, state supported living centers, assisted living facilities, or long-term care facilities unless to provide critical assistance. A subsequent Executive Order, GA-29, listed the requirements and exceptions for face coverings. Executive Orders GA-28 (as amended) and GA-29 remain in place until amended, rescinded, or superseded by the Governor.

For the 2019-2020 school year, TEA has informed Texas school districts that COVID-19 related school closings and/or absenteeism will not impact ADA calculations and school funding so long as a school district commits to support students instructionally while they are at home. In addition to providing educational resources online when classes were suspended, the District delivered online instruction through the end of the school year. As such, the District does not anticipate a reduction in state funding for the 2019-2020 school year as a result of the school closures at this time. See “CURRENT PUBLIC SCHOOL FINANCE SYSTEM.”

The TEA recently advised districts that for the 2020-2021 school year district funding will return to being based on ADA (“Average Daily Attendance”) calculations requiring attendance to be taken. See “CURRENT PUBLIC SCHOOL FINANCE SYSTEM.” However, the TEA is crafting an approach for determining ADA that provides districts with several options for determining daily attendance. These include, remote synchronous instruction, remote asynchronous instruction, on campus instruction, and the Texas Virtual Schools Network. To stabilize funding expectations, districts will be provided an ADA grace period for the first two six weeks of Foundation School Program reporting. Specifically, if ADA counts during those two six weeks are more than 1% less than the first two six weeks of the 2019-2020 school year, the first two six weeks will be excluded from 2020-2021 ADA calculations, subject to some restrictions. In addition to this grace period, districts will also have an attendance grace period for remote asynchronous instruction plan approval, which continues through the end of the third six weeks. Additional information regarding the plans for the 2020-2021 school year may be obtained from the TEA. Following the initial grace period, the return to funding based on ADA calculations requiring attendance to be taken during the Pandemic may have a negative impact on revenues available to the District for operations and maintenance if students do not take part in the instruction options made available by the District.

The full extent of the ongoing impact of COVID-19 on the District’s longer-term operational and financial performance will depend on future developments, many of which are outside of its control, including the effectiveness of the mitigation strategies discussed above, the duration and spread of COVID-19, and future governmental actions, all of which are highly uncertain and cannot be predicted. The District continues to monitor the spread of COVID-19 and is working with local, state, and national agencies to address the potential impact of the Pandemic upon the District. While the potential impact of the Pandemic on District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District’s operations and financial condition.

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide. These negative impacts may reduce or negatively affect property values within the District. The financial and operating data contained herein are the latest available, but are for the dates and the periods stated herein, which are for periods prior to the economic impact of the Pandemic and efforts to slow it. It is unclear at this time what effect, if any, COVID-19 and resulting economic disruption may have on future assessed values or the collection of taxes, either because of delinquencies or collection and valuation relief resulting from the declared emergency. See “TABLE 3 – Tax Rate, Levy and Collection History.” The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District’s share of operations and maintenance expenses payable from ad valorem taxes.

The financial and operating data contained herein are the latest available but are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the economic impact of the

Pandemic on the District's financial condition.

Additionally, state funding of District operations and maintenance in future fiscal years could be adversely impacted by the negative effects on economic growth and financial markets resulting from the Pandemic as well as ongoing disruptions in the global oil markets. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM."

The value of the PSF guarantee could also be adversely impacted by ongoing disruptions related to the Pandemic and in the global oil markets. For a discussion of the impact of the Pandemic on the PSF, see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – Infectious Disease Outbreak."

## THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

*The information below concerning the 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 of, the District, the Financial Advisor or the Underwriters.*

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 five member board, the membership of which consists of the Commissioner of the Texas General Land Office (the "Land Commissioner") and four citizen members appointed by the Governor. (See "2019 Texas Legislative Session" for a description of legislation that changed the composition of the SLB). As of August 31, 2019, the General Land Office (the "GLO") managed approximately 26% 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 Texas voters of the 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 2019, distributions to the ASF amounted to an estimated \$306 per student and the total amount distributed to the ASF was \$1,535.8 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, 2019, 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, 2019 is derived from the audited financial statements of the PSF, which are included in the Annual Report as 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, 2019 and for a description of the financial results of the PSF for the year ended August 31, 2019, the most recent year for which audited financial information regarding the Fund is available. The 2019 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2019 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 changed 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 are 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 proposed 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 by one or more entities. That constitutional change was approved by State voters at a referendum on November 5, 2019. See “2011 and 2019 Constitutional Amendments.”



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, as approved by State voters at the November 5, 2019 referendum.

**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 and 2019 Constitutional Amendments” 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 and November 5, 2019 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 July 2020. 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. Periodic changes in the asset allocation policies have been made with the objective of providing diversity to Fund assets, and have included an alternative asset allocation in addition 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, approved in July 2020, is as follows: (i) an equity allocation of 37% (consisting of U.S. large cap equities targeted at 14%, international large cap equities at 14%, emerging market equities at 3%, and U.S. small/mid cap equities at 6%), (ii) a fixed income allocation of 25% (consisting of a 12% allocation for core bonds, a 7% allocation for emerging market debt in local currency, a 3% allocation for high yield bonds, and a 3% allocation for U.S. Treasury bonds), and (iii) an alternative asset allocation of 38% (consisting of a private equity allocation of 15%, a real estate allocation of 11%, an absolute return allocation of 7%, a 1% allocation for private equity and real estate for emerging managers, and a real return allocation of 4%). As compared to the 2016 asset allocation, the 2020 asset allocation increased U.S. large cap equities and small/mid-cap U.S. equities by a combined 2%, added high yield bonds and U.S Treasury bonds to the fixed income allocation in the amounts noted above, increased combined private equity and real estate from 23% to 27%, eliminated the risk parity allocation, which was previously a 7% allocation within the global risk control strategy category of alternative assets, and reduced the absolute return allocation within the global risk control strategy category of alternative assets to 7% from 10%.

In accordance with legislation enacted during the 86th Session and effective September 1, 2019, the PSF has established an investment account for purposes of investing cash received from the GLO to be invested in liquid assets and managed by the SBOE in the same manner it manages the PSF. That cash has previously been included in the PSF valuation, but was held and invested by the State Comptroller. In July 2020, the SBOE adopted an asset allocation policy for the liquidity account consisting of 20% cash, 40% equities and 40% fixed income. The liquidity account equity allocation consists of U.S. large cap, U.S. small/mid cap and international large cap equities of 20%, 5% and 15%, respectively. The liquidity account fixed income allocation consists of core bonds, Treasury Inflation Protection Securities and short duration fixed income categories of 5%, 10% and 25%, respectively. For a variety of reasons, each change in asset allocation for the Fund, including the 2020 modifications, have been or will be 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, 2019, the Fund's financial assets portfolio was invested as follows: 34.91% in public market equity investments; 13.35% in fixed income investments; 10.58% in absolute return assets; 11.31% in private equity assets; 8.71% in real estate assets; 7.46% in risk parity assets; 6.16% in real return assets; 7.03% in emerging market debt; and 0.49% 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 within 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 pay-out 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 and 2019 Constitutional Amendments” 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. The State Law Capacity increased from \$118,511,255,268 on August 31, 2018 to \$123,509,204,770 on August 31, 2019 (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 Final IRS Regulations will result in a substantial increase in the amount of bonds guaranteed under the Guarantee Program, and as the amount of guaranteed bonds approaches the IRS Limit, it is expected that the SBOE will seek changes to the existing IRS guidance regarding the Guarantee Program with the objective of obtaining an increase in the IRS Limit. 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 March 20, 2020 (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 6.15%. At September 10, 2020, there were 182 active open-enrollment charter schools in the State and there were 840 charter school campuses active under such charters (though as of such date, 19 of such campuses are not currently 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 purpose 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 August 31, 2019, the amount of outstanding bond guarantees represented 71.94% 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 6.15% in March 2020. 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. As a result of SB 1480, the amount of charter district bonds eligible for guarantee in fiscal years 2018, 2019 and 2020 increased by the full 20% increase permitted by SB 1480, which increased 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 the Winter 2018 meeting the SBOE determined not to implement a previously approved 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 July 31, 2020, the Charter District Reserve Fund contained \$39,357,006, which represented approximately 1.56% 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, State funding for charter district facilities construction is limited to a program established by the Legislature in 2017, which provides \$60 million per year for eligible charter districts with an acceptable performance rating for a variety of funding purposes, including for lease or purchase payments for instructional facilities. Since State funding for charter facilities is so limited, 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.

**INFECTIOUS DISEASE OUTBREAK . . .** A respiratory disease named "2019 novel coronavirus" ("COVID-19") has recently spread to many parts of the world, including Texas and elsewhere in the U.S. On March 13, 2020, the U.S. president declared a national emergency and the Governor of Texas (the "Governor") declared COVID-19 as a statewide public health disaster (the "COVID-19 Declarations"). Subsequent actions by the Governor imposed temporary restrictions on certain businesses and ordered all schools in the State to temporarily close. This situation is rapidly developing; for additional information on these events in the State, reference is made to the website of the Governor, <https://gov.texas.gov/>, and, with respect to public school events, the website of TEA, <https://tea.texas.gov/texas-schools/safe-and-healthy-schools/coronavirus-covid-19-support-and-guidance>.

#### *Potential Impact of COVID-19 in the State and Investment Markets*

The anticipated continued spread of COVID-19, and measures taken to prevent or reduce its spread, have adversely impacted State, national and global economic activities and, accordingly, materially adversely impacted the financial condition and performance of the State. The continued spread of COVID-19, and measures taken to prevent or reduce its spread, may also adversely affect the tax bases of school districts in the State, including districts that have bonds that are guaranteed under the Guarantee Program.

As noted herein, the PSF investments are in diversified investment portfolios and it is expected that the Fund will reflect the general performance returns of the markets in which it is invested. Stock values, crude oil prices and other investment categories in the



U.S. and globally in which the Fund is invested or which provide income to the Fund, have seen significant volatility attributed to COVID-19 concerns, which could adversely affect the Fund's values.

#### *TEA Continuity of Operations*

Since 2007, Texas Labor Code Section 412.054 has required each State agency to develop and submit to the State Office of Risk Management an agency-level continuity of operations plan to keep the agency operational in case of disruptions to production, finance, administration or other essential operations. Such plans may be implemented during the occurrence or imminent threat of events such as extreme weather, natural disasters and infectious disease outbreaks. TEA has adopted a continuity of operations plan, which provides for, among other measures and conditions, steps to be taken to ensure performance of its essential missions and functions under such threats and conditions in the event of a pandemic event. TEA annually conducts risk assessments and risk impact analysis that include stress testing and availability analysis of system resources, including systems that enable TEA employees to work remotely, as is occurring as a result of the COVID-19 declarations. As noted above, under “The School District Bond Guarantee Program,” the Guarantee Program is in significant part an intercept program whereby State funding for school districts and charter districts reimburse the Fund for any guarantee payment from the Fund for a non-performing district. In addition to the continuity of operations plan provisions noted above, the Fund maintains cash positions in its portfolios that are intended to provide liquidity to the Fund for payments under the Guarantee Program pending reimbursement of the Fund by the Comptroller. Fund management is of the view that its liquidity position, which changes from time to time in light of then current circumstances, is sufficient for payment of claims made on the Guarantee Program.

#### *Impact of COVID-19 on School Districts and Charter Districts*

TEA cannot predict whether any school or charter district may experience short- or longer-term cash flow emergencies as a direct or indirect effect of COVID-19 that would require a payment from the PSF to be made to a paying agent for a guaranteed bond. Most school district bonds in the State are issued as fixed rate debt, with semiannual payments in February and August. Taxes levied by school districts for payment of bonds are generally collected by the end of January in each year. Consequently, scheduled bond payments for school districts for the 2020 calendar year have generally not been affected by COVID-19. TEA has issued guidance to school districts and charter districts regarding a variety of matters pertaining to school operations in light of the ongoing COVID-19 pandemic. Certain aspects of TEA’s guidance include waivers pertaining to State funding provisions, local financial matters and general operations. TEA has implemented “hold harmless” funding for school districts and charter districts for the last 12 weeks of school year 2019–2020 and during the first 12 weeks of the 2020–21 school year. Additional information in this regard is available at the TEA website at <https://tea.texas.gov/texas-schools/health-safety-discipline/covid/coronavirus-covid-19-support-and-guidance>.

**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 “OTHER INFORMATION – Rating” herein.

#### **VALUATION OF THE PSF AND GUARANTEED BONDS**

<b>Permanent School Fund Valuations</b>		
<u>Fiscal Year Ending 8/31</u>	<u>Book Value<sup>(1)</sup></u>	<u>Market Value<sup>(1)</sup></u>
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	33,860,358,647	44,074,197,940
2019 <sup>(2)</sup>	35,288,344,219	46,464,447,981

- (1) 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.
- (2) At August 31, 2019, 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, \$216.7 million, \$3,640.2 million, \$7.5 million, and \$4,457.3 million, respectively, and market values of approximately \$3,198.2 million, \$619.7 million, \$3,927.6 million, \$1.3 million, and \$4,457.3 million, respectively. At July 31, 2020, the PSF had a book value of \$36,431,148,233 and a market value of \$47,621,722,583. July 31, 2020 values are based on unaudited data, which is subject to adjustment.

<b>Permanent School Fund Guaranteed Bonds</b>	
<u>At 8/31</u>	<u>Principal Amount<sup>(1)</sup></u>
2015	\$ 63,955,449,047
2016	68,303,328,445
2017	74,266,090,023
2018	79,080,901,069
2019	84,397,900,203 <sup>(2)</sup>

- (1) 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.
- (2) As of August 31, 2019 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts and charter districts over the remaining life of the bonds guaranteed by the Guarantee Program was \$133,188,149,265, of which \$48,790,249,062 represents interest to be paid. As shown in the table above, at August 31, 2019, there were \$84,397,900,203 in principal amount of bonds guaranteed under the Guarantee Program. Using the IRS Limit of \$117,318,653,038 (the IRS Limit is currently the lower of the two federal and State capacity limits of Program capacity), net of the Program's 5% reserve, as of July 31, 2020, 95.92% of Program capacity was available to the School District Bond Guarantee Program and 4.08% was available to the Charter District Bond Guarantee Program.

<b>Permanent School Fund Guaranteed Bonds by Category<sup>(1)</sup></b>						
<u>School District Bonds</u>			<u>Charter District Bonds</u>			<u>Totals</u>
<u>FYE</u> <u>8/31</u>	<u>No. of</u> <u>Issues</u>	<u>Principal</u> <u>Amount</u>	<u>No. of</u> <u>Issues</u>	<u>Principal</u> <u>Amount</u>	<u>No. of</u> <u>Issues</u>	<u>Principal</u> <u>Amount</u>
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	3,249	77,647,966,069	44	1,432,935,000	3,293	79,080,901,069
2019 <sup>(2)</sup>	3,297	82,537,755,203	49	1,860,145,000	3,346	84,397,900,203

- (1) 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.
- (2) At July 31, 2020 (based on unaudited data, which is subject to adjustment), there were \$90,353,133,727 of bonds guaranteed under the Guarantee Program, representing 3,388 school district issues, aggregating \$87,833,583,727 in principal amount and 61 charter district issues, aggregating \$2,519,550,000 in principal amount. At July 31, 2020, the capacity allocation of the Charter District Bond Guarantee Program was \$4,551,091,422 (based on unaudited data, which is subject to adjustment).

**DISCUSSION AND ANALYSIS PERTAINING TO FISCAL YEAR ENDED AUGUST 31, 2019 . . .** The following discussion is derived from the Annual Report for the year ended August 31, 2019, 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, as filed with the MSRB, 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, 2019, 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 2019, the Fund balance was \$46.5 billion, an increase of \$2.4 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 and restatements of fund balance. 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, 2019, net of fees, were 4.17%, 5.25% and 8.18%, 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) externally managed real assets, net of fees and including cash, were 5.84%, 6.13%, and 6.41%, 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, 2019, 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, 2019, the SBOE has approved and the Fund made capital commitments to externally managed real estate investment funds in a total amount of \$5.1 billion and capital commitments to private equity limited partnerships for a total of \$6.3 billion. Unfunded commitments at August 31, 2019, totaled \$1.9 billion in real estate investments and \$2.3 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, 2019, the remaining commitments totaled approximately \$2.5 billion.

The PSF(SBOE)'s investment in domestic large cap, domestic small/mid cap, international large cap, and emerging market equity securities experienced returns, net of fees, of 3.14%, 8.99%, 2.93%, and -4.15%, respectively, during the fiscal year ended August 31, 2019. The PSF(SBOE)'s investment in domestic fixed income securities produced a return of 10.54% during the fiscal year and absolute return investments yielded a return of 2.28%. The PSF(SBOE) real estate and private equity investments returned 7.22% and 11.93%, respectively. Risk parity assets produced a return of 10.89%, while real return assets yielded 0.71%. Emerging market debt produced a return of 10.40%. Combined, all PSF(SBOE) asset classes produced an investment return, net of fees, of 4.17% for the fiscal year ended August 31, 2019, out-performing the benchmark index of 3.76% by approximately 41 basis points. All PSF(SLB) externally managed investments (including cash) returned 6.41% net of fees for the fiscal year ending August 31, 2019.

For fiscal year 2019, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled \$3.7 billion, a decrease of \$0.3 billion from fiscal year 2018 earnings of \$4.0 billion. This decrease reflects the performance of the securities markets in which the Fund was invested in fiscal year 2019. In fiscal year 2019, 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 10.0% for the fiscal year ending August 31, 2019. 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 2018 and 2019, the distribution from the SBOE to the ASF totaled \$1.2 billion and \$1.2 billion, respectively. Distributions from the SLB to the ASF for fiscal years 2018 and 2019 totaled \$0 and \$300 million, respectively.

At the end of the 2019 fiscal year, PSF assets guaranteed \$84.4 billion in bonds issued by 863 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 7,443 school district and charter district bond issues totaling \$186.2 billion in principal amount. During the 2019 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program totaled 3,346. The dollar amount of guaranteed school and charter bond issues outstanding increased by \$5.3 billion or 6.7%. The State Capacity Limit increased by \$5.0 billion, or 4.2%, during fiscal year 2019 due to continued growth in the cost basis of the Fund used to calculate that Program capacity limit. The effective capacity of the Program did not increase during fiscal year 2019 as the IRS Limit was reached during the prior fiscal year, and it is the lower of the two State and federal capacity limits for the Program.

**2011 AND 2019 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 to 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 have 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 provided 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 PSF to determine whether to transfer an amount each year to the ASF from the revenue derived during the current year from such land or properties. Prior to November 2019, the amount authorized to be transferred to the ASF from the GLO was limited to \$300 million per year. On November 5, 2019, a constitutional amendment was approved by State voters that increased the maximum transfer to the ASF to \$600 million each year from the revenue derived during that year from the PSF from each of the GLO, the SBOE or any other entity that may have the responsibility to manage such properties (at present there are no such other entities). Any amount transferred to the ASF pursuant to this constitutional provision is excluded from the 6% Distribution Rate limitation applicable to SBOE transfers. The exercise of the increased authorization for such transfers is subject to the discretion of the GLO and the SBOE, and such transfers could be taken into account by the SBOE for purposes of its distributions to the ASF that are made pursuant to the Total Return Constitutional Amendment. However, future legal and/or financial analysis may be needed before the impact on the Fund of the constitutional change effected in November 2019 can be determined.

**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, 2019, 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 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.

*(THE REMAINDER OF THIS PAGE LEFT INTENTIONALLY BLANK)*

## 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, et.al v. The Texas Taxpayer and Student Fairness Coalition, et al.*, No. 14-0776 (Tex. May 13, 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 “[d]espite 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 Finance 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. 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 (though certain school districts located in Harris County had special M&O tax rate authorizations allowing a higher M&O tax rate). 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 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 receive 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,” which is any local M&O tax effort 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) has 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 for each cent of tax effort) 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 two-tiered 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 Tier One Tax Rate and Enrichment Tax Rate 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 calculated M&O revenues generated by the school district's respective M&O tax rates.

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 Tier Two funding. 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. The 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 (96<sup>th</sup>) 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. In the 2019 Legislative Session, the 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.

## **THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE BELTON INDEPENDENT SCHOOL DISTRICT**

For the 2020-2021 fiscal year, the District was not designated as an “excess local revenue” district by the TEA. Accordingly the District has not been required to exercise one of the wealth equalization options permitted under applicable State law. As a district with local revenue less than the maximum permitted level, the District may benefit in the future by agreeing to accept taxable property or funding assistance from, or agreeing to consolidate with, a property-rich district to enable such district to reduce its wealth per student to the permitted level.

A district’s “excess local revenue” must be tested for each future school year and, if it exceeds the maximum permitted level, the District must reduce its wealth per student by the exercise of one of the permitted wealth equalization options. Accordingly, if the District’s wealth per student should exceed the maximum permitted value in future school years, it may 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. For a detailed discussion of State funding for school districts, see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts” herein.

## **TAX RATE LIMITATIONS**

A school district is authorized to levy maintenance and operation (“M&O”) taxes subject to approval of a proposition submitted to district voters. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the next succeeding paragraph. The maximum voted M&O tax rate for the District is \$1.50 per \$100 of assessed valuation as approved by the voters at an election held on April 6, 1963 pursuant to Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended (“Article 2784e-1”).

**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 April 6, 1963 in accordance with the provisions of Article 2784e-1, Texas Revised Civil Statutes Annotated, 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).

**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 – Security and Source of 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 as refunding bonds under Chapter 1207 and are therefore not subject to the 50-cent Test. The District has not used projected property values 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," as described below.

For the 2019 tax year, a school district was required to adopt its annual tax rate before the later of September 30 or the sixtieth (60<sup>th</sup>) day after the date the certified appraisal roll was received by the taxing unit, and a failure to adopt a tax rate by such required date resulted 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 was 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.

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 (60<sup>th</sup>) 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 (71<sup>st</sup>) 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 (60<sup>th</sup>) 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 (71<sup>st</sup>) 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 (60<sup>th</sup>) 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.

## **TAX INFORMATION**

*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 Tax Appraisal District of Bell County (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 appraised 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 appraised 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.

**FREPORT 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.

**DISTRICT APPLICATION OF TAX CODE . . .** The District does not grant an exemption to the market value of the residence homestead of persons who are 65 years of age or older or persons who are disabled.

The District has not granted an additional exemption of 20% of the market value of residence homesteads; minimum exemption of \$5,000.

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 nonbusiness personal property; and the Appraisal District collects taxes for the District.

The District does not permit split payments, and discounts are not allowed.

The District does tax freeport property and goods-in-transit.

The District has not adopted a tax abatement policy.

Pursuant to an election in 2008, voters in the District authorized an increase in the District’s M&O tax rate above the rollback rate. As a result of such approval, the District was authorized to levy an M&O tax at a rate of \$1.17 per \$100 of taxable assessed valuation. See “TAX RATE LIMITATIONS – M&O Tax Rate Limitations” regarding maximum M&O tax rates established by the 2019 legislation.



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

2020/21 Market Valuation Established by Bell County Appraisal District (excluding totally exempt property)		\$ 5,675,763,036
Less Exemptions/Reductions at 100% Market Value:		<u>1,394,972,040</u>
2020/21 Taxable Assessed Valuation		\$ 4,280,790,996 <sup>(1)</sup>
Funded Debt Payable from Ad Valorem Taxes (as of 8/1/20) The Bonds		\$ 220,650,000 <sup>(2)</sup> <u>13,610,000</u>
Total Debt Payable from Ad Valorem Taxes		\$ 234,260,000
Interest and Sinking Fund (as of 8/1/20)		\$ 12,880,585
Ratio Tax Supported Debt to Taxable Assessed Valuation		5.47%

2020 Estimated Population - 63,508  
Per Capita Taxable Assessed Valuation - \$67,406  
Per Capita Net General Obligation Debt Payable from Ad Valorem Taxes - \$3,689

- (1) Includes Frozen Values.  
(2) Excludes the Refunded Bonds.

**TABLE 2 – 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	Funded Debt Outstanding at End Of Year	Ratio of Funded Debt to Taxable Assessed Valuation	Funded Debt Per Capita
2017	59,482	\$ 2,673,408,819	\$ 44,945	\$235,174,996	8.80%	\$ 3,954
2018	61,782	2,867,825,827	46,418	229,159,996	7.99%	3,709
2019	63,508	3,090,789,145	48,668	241,814,996	7.82%	3,808
2020	63,508	3,727,406,305	58,692	236,535,000	6.35%	3,724
2021	63,508	4,280,790,996	67,406	228,020,000 <sup>(3)</sup>	5.33% <sup>(3)</sup>	3,590 <sup>(3)</sup>

- (1) Source: The Municipal Advisory Council of Texas.  
(2) Taxable Assessed Values, with the exception of Fiscal Year 2020 and 2021 values, are reported in the District’s audited financial statements. 2020 and 2021 values are reported by the Bell County Appraisal District.  
(3) Projected; includes the Bonds and excludes the Refunded Bonds.

*(THE REMAINDER OF THIS PAGE LEFT INTENTIONALLY BLANK)*

**TABLE 3 – TAX RATE, LEVY AND COLLECTION HISTORY**

Fiscal Year Ended 8/31	Tax Rate	General Fund	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2016	\$ 1.4400	\$ 1.1700 <sup>(1)</sup>	\$ 0.2700	\$ 35,451,869	98.85%	100.90%
2017	1.4400	1.1700 <sup>(1)</sup>	0.2700	38,497,087	97.96%	98.73%
2018	1.6030	1.1700 <sup>(1)</sup>	0.4330	45,971,248	98.11%	98.37%
2019	1.6030	1.1700 <sup>(1)</sup>	0.4330	49,545,350	98.36%	99.00%
2020	1.4651	1.0683 <sup>(2)</sup>	0.3968	56,684,027	98.42% <sup>(3)</sup>	98.42% <sup>(3)</sup>

- (1) Pursuant to an election in 2008, voters in the District authorized an increase in the District’s M&O tax rate above the rollback rate. As a result of such approval, the District was authorized to levy an M&O tax at a rate of \$1.17 per \$100 of taxable assessed valuation.
- (2) See “TAX RATE LIMITATIONS – M&O Tax Rate Limitations” regarding maximum M&O tax rates established by the 2019 legislation.
- (3) Partial collections as of August 31, 2020.

**TABLE 4 – TEN LARGEST TAXPAYERS**

Name of Taxpayer	2020/21 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Oncor Electric Delivery Co. LLC	\$ 57,368,651	1.34%
Turtle Creek Investments LTD	30,886,222	0.72%
River Springs at Barge Ranch LP	24,615,125	0.58%
Legacy Landing Group LTD	20,883,833	0.49%
MFT-Pecan LLC	20,849,683	0.49%
Colonial Crossing Company Ltd.	19,132,400	0.45%
Wal-Mart Stores Texas LLC	14,134,287	0.33%
Chappell Hill Equity III Ltd.	12,493,000	0.29%
H-E-B LP	12,432,574	0.29%
Wal-Mart Real Estate Business Trust	11,079,005	0.26%
	<u>\$ 223,874,780</u>	<u>5.23%</u>

*(THE REMAINDER OF THIS PAGE LEFT INTENTIONALLY BLANK)*

**TABLE 5 – 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 bonds (“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 bonds since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the District.

Taxing Jurisdiction	Total Tax Supported Debt	Estimated % Applicable	District's Overlapping Tax Supported Debt as of 9/30/20
Bell County	\$ 104,405,000	20.25%	\$ 21,142,013
Bell County MUD #1	8,800,000	100.00%	8,800,000
City of Belton	29,750,000	97.52%	29,012,200
City of Morgan's Point Resort	1,470,000	100.00%	1,470,000
Temple JCD	13,315,000	21.74%	2,894,681
City of Temple	249,375,000	21.88%	54,563,250
Belton ISD	234,260,000 <sup>(1)</sup>	100.00%	234,260,000 <sup>(1)</sup>
Total Direct and Overlapping Tax Supported Debt			\$ 352,142,144
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation			8.23%
Per Capita Overlapping Tax Supported Debt			\$ 5,545

(1) Includes the Bonds and excludes the Refunded Bonds.

*(THE REMAINDER OF THIS PAGE LEFT INTENTIONALLY BLANK)*

## DEBT INFORMATION

**TABLE 6 – TAX SUPPORTED DEBT SERVICE REQUIREMENTS**

Fiscal Year Ending 8/31	Outstanding Debt <sup>(1)</sup>			The Bonds <sup>(2)</sup>			Total Debt Service Requirements
	Principal	Interest	Total	Principal	Interest	Total	
2021	\$ 6,170,000	\$ 9,202,675	\$ 15,372,675	\$ 70,000	\$ 488,761	\$ 558,761	\$ 15,931,436
2022	4,760,000	8,977,025	13,737,025	1,335,000	626,975	1,961,975	15,699,000
2023	4,965,000	8,769,025	13,734,025	1,410,000	558,350	1,968,350	15,702,375
2024	5,070,000	8,552,750	13,622,750	1,595,000	483,225	2,078,225	15,700,975
2025	5,305,000	8,318,175	13,623,175	1,665,000	410,050	2,075,050	15,698,225
2026	5,400,000	8,219,475	13,619,475	1,745,000	333,125	2,078,125	15,697,600
2027	5,770,000	7,849,019	13,619,019	1,835,000	243,625	2,078,625	15,697,644
2028	6,005,000	7,617,469	13,622,469	1,925,000	149,625	2,074,625	15,697,094
2029	6,220,000	7,398,187	13,618,187	2,030,000	50,750	2,080,750	15,698,937
2030	8,835,000	7,093,388	15,928,388	-	-	-	15,928,388
2031	9,225,000	6,705,413	15,930,413	-	-	-	15,930,413
2032	9,630,000	6,301,225	15,931,225	-	-	-	15,931,225
2033	10,035,000	5,895,300	15,930,300	-	-	-	15,930,300
2034	10,430,000	5,498,609	15,928,609	-	-	-	15,928,609
2035	10,860,000	5,071,522	15,931,522	-	-	-	15,931,522
2036	11,330,000	4,600,822	15,930,822	-	-	-	15,930,822
2037	11,835,000	4,097,959	15,932,959	-	-	-	15,932,959
2038	12,355,000	3,572,294	15,927,294	-	-	-	15,927,294
2039	12,900,000	3,022,944	15,922,944	-	-	-	15,922,944
2040	7,580,000	2,562,100	10,142,100	-	-	-	10,142,100
2041	6,980,000	2,207,500	9,187,500	-	-	-	9,187,500
2042	7,340,000	1,849,500	9,189,500	-	-	-	9,189,500
2043	7,675,000	1,512,500	9,187,500	-	-	-	9,187,500
2044	7,990,000	1,199,200	9,189,200	-	-	-	9,189,200
2045	8,315,000	873,100	9,188,100	-	-	-	9,188,100
2046	8,655,000	533,700	9,188,700	-	-	-	9,188,700
2047	9,015,000	180,300	9,195,300	-	-	-	9,195,300
	<u>\$ 220,650,000</u>	<u>\$ 137,681,175</u>	<u>\$ 358,331,175</u>	<u>\$ 13,610,000</u>	<u>\$ 3,344,486</u>	<u>\$ 16,954,486</u>	<u>\$ 375,285,661</u>

(1) Excludes the Refunded Bonds.

(2) Interest calculated at the rates shown on the inside cover page.

**TABLE 7 – INTEREST AND SINKING FUND BUDGET PROJECTION**

Tax Supported Debt Service Requirements, Fiscal Year Ending August, 2021 <sup>(1)</sup>	\$	15,931,436
Interest and Sinking Fund, August 31, 2020	\$	7,817,791 <sup>(2)</sup>
EDA <sup>(3)</sup>		2,555,252
IFA <sup>(3)</sup>		-
Budgeted Interest and Sinking Fund Tax Collections		<u>14,346,638 <sup>(4)</sup></u>
Estimated Balance, 8/31/2021	\$	<u>8,788,245</u>

(1) Includes the Bonds and excludes the Refunded Bonds.

(2) Unaudited.

(3) The current Texas public school finance system provides for an allotment to subsidize existing debt service up to a limit (known as Tier III or Existing Debt Allotment) and the Instructional Facilities Allotment to pay operational expenses associated with the opening of a new instructional facility. The amount of State funding aid for debt service may differ substantially from year to year, depending upon a number of factors, including amounts, if any, appropriated for that purpose by the Texas Legislature from time to time. These numbers are preliminary and subject to change.

(4) Based on the projected I&S tax rate of \$0.3968.

**TABLE 8 – AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS**

Purpose	Date Authorized	Amount Authorized	Amount Heretofore Issued	Amount Being Issued	Unissued Balance
School Building	11/3/2009	\$ 29,000,000	\$ 28,870,000	\$ -	\$ 130,000
		\$ 29,000,000	\$ 28,870,000	\$ -	\$ 130,000

**ANTICIPATED ISSUANCE OF UNLIMITED TAX DEBT . . .** The District does not expect to issue bonds within the next six months. See “Table 8 – Authorized but Unissued Unlimited Tax Bonds.” The District may incur debt and other financial obligations payable from and secured by a pledge of its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, payable from delinquent taxes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

**OTHER OBLIGATIONS . . .** See Note H in the Financial Statement which describes current leases of the District. See “APPENDIX B – Excerpts from the District’s Annual Financial Report.” In addition, in the current fiscal year the District has entered into three capital leases totaling approximately \$1,118,636, with terms expiring in 2020 and 2021, and combined annual payment due of approximately \$605,000. The District has also entered into a technology lease in September 2020 totaling \$2,069,015.

**PENSION FUND AND OTHER POST-EMPLOYMENT BENEFITS . . .** 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.”

As a result of its participation in the System and having no other post-retirement benefit plan, the District generally does not offer any post-employment retirement benefits and has no liabilities for “Other Post Employment Retirement Benefits” as defined in GASB Statement No. 45.

## FINANCIAL INFORMATION

**TABLE 9 – CHANGES IN NET POSITION**

	Fiscal Years Ended August 31,				
	2019	2018	2017	2016	2015
Current and other assets	\$ 123,015,615	\$ 165,171,482	\$ 173,160,634	\$ 39,813,909	\$ 33,845,326
Capital assets	266,375,340	202,797,292	181,742,921	179,383,639	180,983,461
Total Assets	<u>\$ 389,390,955</u>	<u>\$ 367,968,774</u>	<u>\$ 354,903,555</u>	<u>\$ 219,197,548</u>	<u>\$ 214,828,787</u>
Deferred outflows of resources	23,390,955	11,815,820	10,436,546	10,644,266	4,798,765
Other Liabilities	\$ 17,089,193	\$ 15,821,263	\$ 6,344,547	\$ 4,172,568	\$ 4,390,928
Long-term Liabilities	336,708,066	308,185,104	263,112,031	153,955,710	148,415,258
Total Liabilities	<u>\$ 353,797,259</u>	<u>\$ 324,006,367</u>	<u>\$ 269,456,578</u>	<u>\$ 158,128,278</u>	<u>\$ 152,806,186</u>
Deferred inflows of resources:	14,044,662	16,740,740	1,029,291	1,642,067	2,694,809
Net Position:					
Invested in capital assets net of related debt	\$ 57,163,338	\$ 55,952,818	\$ 52,701,794	\$ 48,771,113	\$ 47,609,216
Restricted	7,372,936	7,128,296	5,628,129	4,111,421	2,900,540
Unrestricted	(19,744,493)	(24,043,627)	18,674,471	17,188,935	13,616,801
Total Net position	<u>\$ 44,791,781</u>	<u>\$ 39,037,487</u>	<u>\$ 77,004,394</u>	<u>\$ 70,071,469</u>	<u>\$ 64,126,557</u>

Source: District’s Annual Financial Reports.

**TABLE 9A – GENERAL FUND REVENUES AND EXPENDITURE HISTORY**

	Fiscal Year Ending August 31,				
	2019	2018	2017	2016	2015
Beginning Balance	\$ 32,397,564	\$ 26,483,562	\$ 25,126,861	\$ 21,500,819	\$ 19,969,937
<u>Revenues:</u>					
Local and Intermediate Sources	\$ 37,729,694	\$ 34,754,702	\$ 32,167,050	\$ 30,066,810	\$ 29,651,172
State Sources	65,225,349	61,882,913	59,224,355	59,048,721	54,927,525
Federal Sources	3,630,872	2,769,813	3,113,739	859,142	1,415,544
Total Revenues	\$ 106,585,915	\$ 99,407,428	\$ 94,505,144	\$ 89,974,673	\$ 85,994,241
<u>Expenditures:</u>					
Instruction	\$ 54,595,680	\$ 51,021,819	\$ 49,302,890	\$ 47,386,850	\$ 45,063,239
Instructional Resources & Media	1,435,202	1,293,449	1,139,776	1,010,054	964,866
Curriculum & Staff Development	2,411,158	2,240,635	1,910,985	1,648,665	1,233,669
Instructional Leadership	1,216,965	1,362,489	1,733,571	1,509,653	1,760,338
School Leadership	6,102,915	5,844,346	5,892,007	5,604,714	5,007,925
Guidance, Counseling & Evaluation	3,872,883	3,392,523	3,204,961	2,762,648	2,555,106
Social Work Services	316,854	310,867	308,680	301,219	287,321
Health Services	1,553,803	1,252,333	1,175,264	1,108,870	1,002,196
Student Transportation	4,017,261	4,177,110	3,470,705	4,696,422	4,593,322
Food Service	59,606	67,571	62,748	53,682	-
Cocurricular/extracurricular activities	3,949,736	3,823,450	3,364,441	3,009,301	2,818,527
General Administration	3,262,436	3,184,039	2,738,635	2,629,073	3,033,616
Plant Maintenance & Opearations	10,870,691	9,528,714	9,433,408	9,151,060	9,228,088
Security & Monitoring Services	969,383	838,802	761,263	711,737	605,282
Data Processing	2,329,508	2,506,557	2,751,975	3,185,372	1,795,659
Community Services	2,359	5,482	636	1,046	122,494
Facilities acquisition & construction	-	-	-	-	-
Capital Outlay	560,789	1,642,776	2,349,463	2,329,309	5,081,523
Payments to Fiscal Agent	-	-	-	-	-
Debt Service	1,000,030	1,189,539	1,235,408	638,803	574,305
Other intergovernmental charges	-	494,150	427,990	393,112	276,250
Payments to JJAEP	-	-	-	-	-
Total Expenses	\$ 98,527,259	\$ 94,176,651	\$ 91,264,806	\$ 88,131,590	\$ 86,003,726
Net Revenues	\$ 8,058,656	\$ 5,230,777	\$ 3,240,338	\$ 1,843,083	\$ (9,485)
Other Changes to Fund Balance	\$ (702,460)	\$ 683,225	\$ (1,883,637)	\$ 1,782,959	\$ 1,540,367
Prior Period Adjustments	\$ -	\$ -	\$ -	\$ -	\$ -
Ending Fund Balance on August 31 <sup>(1)</sup>	\$ 39,753,760	\$ 32,397,564	\$ 26,483,562	\$ 25,126,861	\$ 21,500,819

Source: District's Annual Financial Reports.

(1) The unaudited General Fund Balance as of August 31, 2020 is approximately \$39,440,328.

(THE REMAINDER OF THIS PAGE LEFT INTENTIONALLY BLANK)

## FINANCIAL POLICIES

*Basis of Accounting* . . . The modified accrual basis of accounting is used for the Governmental Fund Types, the Expendable Trust Funds, and Agency Funds. This basis of accounting recognizes revenues in the accounting period in which they become available and measurable, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which is recognized when due. All primary revenue sources are considered susceptible to accrual.

*General Fund Balance* . . . The Board has set as one of its goals, to maintain an operating fund balance equal to 2½ months of the operating expenditures. This balance will enable the district to: (1) avoid borrowing large sums of money, especially at the beginning of the school year; (2) have ample capital to meet unforeseen circumstances; (3) take advantage of discounts that vendors offer through prompt payments; (4) capitalize upon investment opportunities; and (5) secure and maintain good bond ratings.

*Budgetary Procedures* . . . The school district budget is developed using a combination of techniques such as per pupil allocations, zero based budgeting (ZBB) and program budgeting. Per pupil allocations are determined each year by the superintendent. The amount allocated is a function of per pupil cost and student membership. Zero based planning and budgeting involves decision making from the lowest levels of management to the top. For example, departmental grade level chairpersons are required to analyze each capital outlay item - whether already existing or newly proposed - so that the starting point for the development of the budget is zero. On the other hand, program budgeting is a “top down” process designed by the board and management. Goals and objectives are developed:

- Before designing programs;
- In a hierarchical manner; and
- Not necessarily in clear or singular relation to the existing organizational structure.

In using the various budgeting techniques, certain basic principles concerning preparation and administration of the budget are followed. These include, as a minimum, the following:

1. The Superintendent of Schools should administer the school budget. In this, she is responsible for preparing or causing for the preparation of the budget document; she involves administrative and other school staff members, and also citizens and groups in the community in its preparation; and she is responsible to present and defend the proposed budget to the school board and the public.

2. The Board has legal responsibility for the formal adoption of the budget; and holds the Superintendent responsible for its administration.

3. Preparation of the budget is a continuous process which proceeds in three phases:

- Determination of the educational plan/program;
- Calculation of the cost of the proposed program; and
- Determination of the plan for obtaining the necessary revenue.

4. The proposed budget is reviewed in open hearings where all citizens have an opportunity to study it and make recommendations and comments concerning it. The hearings are held soon enough for adjustments to be made by the board should they choose to do so as a result of public reaction. The first budget is operable on the first day of the fiscal year to which it applies.

5. The approved budget is included with the minutes of the board meeting as official verification of its acceptance.

6. Continuous appraisal by all parties concerned is necessary in order to assure yearly budgetary improvements.

*(THE REMAINDER OF THIS PAGE LEFT INTENTIONALLY BLANK)*

## INVESTMENTS

The District may invest its investable funds (including bond proceeds and money pledged to the payment of or as security for bonds or other indebtedness issued by the District or obligations under a lease, installment sale, or other agreement of the District) in investments authorized by State law in accordance with investment policies approved by the governing body of the District. Both State law and the District's investment policies are subject to change.

**AUTHORIZED INVESTMENTS** . . . Under State law, the District is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State 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 unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State 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) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the District selects from a list the governing body of the District or designated investment committee of the District adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the District selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the District's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the District appoints as the District's custodian of the banking deposits issued for the District's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the SEC and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of Chapter 2256, Texas Government Code (the "Public Funds Investment Act"), that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, and are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for District deposits, or (ii) certificates of deposits where (a) the funds are invested by the District through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the District as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the District, (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d), Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements as defined in the Public Funds Investment Act, that have a defined termination date, are secured by a combination of cash and obligations described in clauses (1) or (13) in this paragraph, require the securities being purchased by the District or cash held by the District to be 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; (11) 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 (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name 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; and (iv) the agreement to lend securities has a term of one year or less; (12) certain bankers' acceptances with stated maturity of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated not less than "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (13) commercial paper with a stated maturity of 365 days or less that is rated not less than "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 United States or state bank; (14) no-load money market mutual funds registered with and regulated by the SEC that provide the District with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with federal SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and (15) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and have either (a) a duration of one year or more and invest exclusively in obligations described in under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters



of credit, of the United States or its agencies and instrumentalities, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract.

A political subdivision such as the District may enter into 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 (8) above, other than the prohibited obligations described below, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name 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; 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, if the governing body of the District authorizes such investment in the particular pool by order, ordinance, or resolution and the investment pool complies with the requirements of Section 2256.016, Texas Government Code.

The District may also contract with an investment management firm (x) registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or (y) 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 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 State 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 and the maximum average dollar-weighted maturity allowed for pooled fund groups. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's 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 State 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, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and 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 governing body of the District.

**ADDITIONAL PROVISIONS . . .** Under State law the District is additionally required to: (1) annually review its adopted policies and strategies; (2) 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; (3) require the registered principal of firms seeking to sell securities to the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the District's investment policy; (5) provide specific investment training for the treasurer, chief financial officer and investment officers; (6) 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 repurchase agreement; (7) restrict the investment in mutual funds in the aggregate to no more than 80% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in non-money market mutual funds of any portion of bond proceeds, reserves and funds held for debt service and to no more than 15% of the entity's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; and (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

**TABLE 10 – CURRENT INVESTMENTS (AS OF JULY 31, 2020)**

Investments	Market Value	% of Total
TexPool	\$ 58,539,725	93.46%
Lone Star	196,875	0.31%
TexSTAR	3,678,323	5.87%
Texas Class	220,282	0.35%
	\$ 62,635,205	100.00%

### TAX MATTERS

**The following discussion of certain federal income tax considerations is for general information only and is not tax advice. Each prospective purchaser of the Bonds should consult its own tax advisor as to the tax consequences of the acquisition, ownership and disposition of the Bonds.**

**TAX EXEMPTION . . .** In the opinion of Bracewell LLP, Bond Counsel, under existing law interest on the Bonds is excludable from gross income for federal income tax purposes interest on the Bonds is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and is not a specific preference item for purposes of the alternative minimum tax.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of proceeds and the source of repayment, limitations on the investment of proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of proceeds be paid periodically to the United States, and requirement that the issuer file an information report with the Internal Revenue Service (the “Service”). The District has covenanted in the Bond Order that it will comply with these requirements.

Bond Counsel’s opinions will assume continuing compliance with the covenants of the Bond Order pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes and, in addition, will rely on representations by the District, the District’s Financial Advisor and the Underwriter, with respect to matters solely within the knowledge of the District, the District’s Financial Advisor and the Underwriter, respectively, which Bond Counsel has not independently verified. If the District should fail to comply with the covenants in the Bond Order or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Bonds could become includable in gross income from the date of delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, Bond Counsel will express no opinion as to the amount of interest on the Bonds or any federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of, the Bonds.

Bond Counsel’s opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel’s knowledge of facts as of the date hereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel’s attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel’s opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel’s legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems 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 as to 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 District as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds regardless of the ultimate outcome of the audit.

**COLLATERAL TAX CONSEQUENCES . . .** Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit, and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the “branch profits tax” on their effectively connected earnings and profits, including tax exempt interest such as interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Bonds should also be aware that, under the Code,

taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

**TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE PREMIUM . . .** The issue price of all or a portion of the Bonds may exceed the stated redemption price payable at maturity of such Bonds. Such Bonds (the “Premium Bonds”) are considered for federal income tax purposes to have “bond premium” equal to the amount of such excess. The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Premium Bond.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Bond and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Bonds.

**TAX LEGISLATIVE CHANGES . . .** Current law may change so as to directly or indirectly reduce or eliminate the benefit of the excludability of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Bonds. **Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed, pending or future legislation.**

## CONTINUING DISCLOSURE INFORMATION

In the Bond 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 while it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the “MSRB”). This information will be available from the MSRB free of charge at [www.emma.msrb.org](http://www.emma.msrb.org). 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, as the case may be, and to provide timely notice of specified material events related to the guarantee to the MSRB.

As used in this section, the term “Financial Obligation” means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) guarantee of a debt obligation or any such derivative instrument; provided that “financial obligation” shall not include municipal securities as to which a final official statement (as defined in Securities and Exchange Commission Rule 15c2-12 (the “Rule”)) has been provided to the MSRB consistent with the Rule.

**ANNUAL REPORTS . . .** The District will provide certain updated financial information and operating data to the MSRB annually. 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 in Tables numbered 1 through 4 and 6 through 10 and in APPENDIX B. The District will update and provide this information within six months after the end of each fiscal year.

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 updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial statements by the required time, and will provide audited financial statements when and if an audit report becomes available. Any such financial statements will be 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.

The District’s current fiscal year end is August 31. Accordingly, it must provide updated information by the last day of February in 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 shall provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner and not more than 10 business days after the occurrence of the event:

- (i) principal and interest payment delinquencies;
- (ii) nonpayment related defaults, if material;

- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) 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;
- (vii) modifications to rights of Owners, if material;
- (viii) bond calls, if material and tender offers;
- (ix) defeasance;
- (x) release, substitution, or sale of property securing repayment of the Bonds, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below;
- (xiii) 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;
- (xiv) appointment of a successor or additional paying agent/registrars or the change of name of a paying agent/registrars, if material;
- (xv) incurrence of a Financial Obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the District, any of which affect security holders, if material; and
- (xvi) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the District, any of which reflect financial difficulties

For these purposes, (a) any event described in clause (xii) 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, and (b) the District has expressed its intent in the Bond Order that the words used in clauses (xv) and (xvi) in the preceding paragraph and in the definition of Financial Obligation in this section to have the meanings ascribed to them in SEC Release No. 34-83885, dated August 20, 2018.

The District shall notify the MSRB, in a timely manner, of any failure by the District to provide financial information or operating data in accordance with its agreement by the required time.

**AVAILABILITY OF INFORMATION.** . . The SEC implemented amendments to the Rule which approved the establishment by the MSRB of Electronic Municipal Market Access (“EMMA”) which is now the sole national municipal securities information repository. All information and documentation filing required to be made by the District pursuant to the Rule will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB 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 material 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 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 of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

This continuing disclosure agreement may be amended by the District 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 District, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds 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 provision of the Bond Order that authorizes such an 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) determines 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 provision 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 so amends the agreement, it has agreed to 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 the type of information and operating data so provided.

## OTHER INFORMATION

**RATING** . . . The Bonds are expected to be rated “AAA” by S&P Global Ratings (“S&P”) by virtue of the guarantee of the Permanent School Fund of the State of Texas (the “PSF”). The Bonds and the outstanding debt of the District have also been rated “AA-” by S&P without regard to credit enhancement. The outstanding debt of the District is rated “AA” by Fitch Ratings, Inc. (“Fitch”) without regard to credit enhancement. The District also has various issues outstanding which are rated “AAA” by S&P and “AAA” by Fitch by virtue of the guarantee of the PSF. An explanation of the significance of such rating may be obtained from the company furnishing the rating. The rating reflects only the respective view of such organization and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by either of such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of such 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.

**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 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. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of at least “A” or its equivalent as to investment quality by a national rating agency. See “OTHER INFORMATION – Rating” herein. 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 capital of one million dollars or more, and savings and loan associations. 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. No review by the District has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

**LEGAL MATTERS** . . . The delivery of the Bonds is subject to the approval of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limitation as to rate or amount, upon all taxable property in the District and the approving legal opinions of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes. See “TAX MATTERS” herein for a description of the opinions of Bond Counsel. The Form of Bond Counsel’s Opinion is attached hereto as APPENDIX C. 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. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System.

Bond Counsel was engaged by, and only represents, the District. Except as noted below, Bond Counsel 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 herein except that in its capacity as Bond Counsel, such firm has reviewed the information in this Official Statement relating to the Bonds and the Bond Order appearing under the captions and subcaptions “PLAN OF FINANCING” (excluding the information under the subcaption “Sources and Uses of Proceeds”), “THE BONDS” (excluding the information under the subcaptions “Book-Entry-Only-System” and “Bondholders Remedies”), “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS,” “CURRENT PUBLIC SCHOOL FINANCE SYSTEM,” “TAX MATTERS,” “CONTINUING DISCLOSURE INFORMATION” and under the subcaptions “Registration and Qualification of Bonds for Sale,” “Legal Investments and Eligibility to Secure Public Funds in Texas” and “Legal Matters” under the caption “OTHER INFORMATION” to confirm that the information relating to the Bonds and the Order contained under such captions and subcaptions is a fair and accurate summary of the provisions thereof and is correct as to matters of law. Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas, whose fee is also contingent upon the sale and delivery of the Bonds.

**FINANCIAL ADVISOR . . .** Specialized Public Finance 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. Specialized Public Finance Inc., in its capacity as Financial Advisor, has not verified and 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 Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the District at a price equal to the initial yields to the public, as shown on page 2 of this Official Statement, less an underwriting discount of \$111,259.38. The Underwriters 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 Underwriters 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 Underwriters.

One of the Underwriters is BOK Financial Securities, Inc., which is not a bank, and the Bonds are not deposits of any bank and are not insured by the Federal Deposit Insurance Corporation.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement pursuant to their respective responsibilities to investors under federal securities laws, but the Underwriters do 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 financial data and other information contained herein have been obtained from the District's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this official statement for purposes of, and as that term is defined in, the Rule.

The Bond Order authorized the Authorized Officer to approve, and in the Pricing Certificate the Authorized Officer approved, for and on behalf of the District, (i) the form and content of this Official Statement, and any addenda, supplement, or amendment thereto and (ii) the Underwriters' use of this Official Statement in connection with the public offering and sale of the Bonds in accordance with the provisions of the Rule. This Official Statement has been approved by the Board for distribution in accordance with the provisions of the United States Securities and Exchange Commission's rule codified at 17 C.F.R. §240.15c2-12, as amended.

**SCHEDULE I**

**SCHEDULE OF REFUNDED BONDS**

Unlimited Tax Refunding Bonds,  
Series 2011

<u>Amount</u>	<u>Maturity</u>	<u>Rate</u>
\$ 1,660,000	2/15/2022	3.000%
1,715,000	2/15/2023	3.000%
<u>\$ 3,375,000</u>		

Redemption Date: 2/15/2021  
Redemption Price: 100%

Unlimited Tax Refunding Bonds,  
Series 2012

<u>Amount</u>	<u>Maturity</u>	<u>Rate</u>
\$ 1,890,000	2/15/2024	4.000%
1,965,000	2/15/2025	4.000%
2,045,000	2/15/2026	4.000%
2,130,000	2/15/2027	4.000%
2,205,000	2/15/2028	3.000%
<u>2,275,000</u>	2/15/2029	3.125%
<u>\$ 12,510,000</u>		

Redemption Date: 2/15/2021  
Redemption Price: 100%

**THIS PAGE LEFT INTENTIONALLY BLANK**



**APPENDIX A**

GENERAL INFORMATION REGARDING THE DISTRICT

**THIS PAGE LEFT INTENTIONALLY BLANK**

## THE DISTRICT

The Belton Independent School District encompasses an area of 197 square miles in Bell County. The District is located in the central region of the State of Texas. Cities located within the District include the City of Belton (the “City”), the City of Morgan’s Point Resort, and the west side of the City of Temple. Belton, the largest city totally within the District, is located 45 miles south of Waco and 60 miles north of Austin.

The District has fifteen educational campuses, nine are situated within the City, and six within the City limits of Temple. The facilities include an early education center (Pre-K), nine elementary schools (grades K through 5), three middle schools (grades 6, 7, & 8), and two high schools (grades 9 through 12). The District has a separate administration building, support facility, special education office and transportation facility, and various athletic facilities all located in Belton.

## GENERAL ECONOMY

The economy of the area is primarily based on agriculture, manufacturing, the Baylor Scott and White hospital system, Federal military activities (Fort Hood), and the rapidly growing retail square footage in Bell County. Fort Hood is expected to maintain its level of troops and the new joint-use military/civilian airport facility in Killeen is in use. A small percentage of the District’s students are uniformed military dependents and others are dependents of civilian employees of the base or military retirees. The Belton area benefits as a recreational center with Lake Belton and Stillhouse Hollow Lake located in the immediate vicinity. The City of Belton, population 21,214 in 2017, is the county seat of Bell County. The City is also the home the University of Mary Hardin Baylor, a four year college with graduate programs.

The City is the economic and trade center of the District and is extremely aggressive in competing for new business and industry. A new Super WalMart and a Walgreens pharmacy have been completed in the City and there is the possibility for a large format HEB grocery in the District. This illustrates the retail industry’s expectation for the City and the surrounding regions. The District is on the Interstate Highway 35 and Highway 190 corridor (Interstate Highway 14) and has many areas available for and under development. Several road expansions and improvements are underway in the area and region.

Multiple new home developments, including those by KB Homes and DR Horton, are underway in the District, in and around the City of Belton. The City operates the water and wastewater systems in the area, contracting its wastewater treatment to the Brazos River Authority.

There are a number of other medium sized cities located in the immediate area of the District, these being the city of Temple, immediately adjacent to the north east, with a population of over 55,000 and the cities of Killeen and Harker Heights located some 10 miles to the west with a combined population of over 120,000.

The area has five major health facilities within the surrounding cities.

## CIVILIAN LABOR FORCE ESTIMATES

	Bell County	
	August 2020	August 2019
Total Civilian Labor Force	147,019	143,168
Total Employment	137,938	137,486
Total Unemployment	9,081	5,682
Percent Unemployed	6.2%	4.0%

  

	State of Texas	
	August 2020	August 2019
Total Civilian Labor Force	14,378,010	4,090,993
Total Employment	13,403,380	13,598,543
Total Unemployment	974,630	492,450
Percent Unemployed	6.8%	3.5%

**THIS PAGE LEFT INTENTIONALLY BLANK**

**APPENDIX B**

EXCERPTS FROM THE  
BELTON INDEPENDENT SCHOOL DISTRICT  
ANNUAL FINANCIAL REPORT

For the Year Ended August 31, 2019

The information contained in this Appendix consists of excerpts from the Belton Independent School District Annual Financial Report for the Year Ended August 31, 2019, 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.

**THIS PAGE LEFT INTENTIONALLY BLANK**



## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Belton Independent School District  
Belton, Texas

### 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 Belton Independent School District, as of and for the year ended August 31, 2019, and the related notes to the financial statements, which collectively comprise Belton Independent School District's basic financial statements as listed in the table of contents.

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

Belton Independent School District's 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 risks 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 entity'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 entity'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 Belton Independent School District, as of August 31, 2019, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### OFFICE LOCATIONS

TEXAS | Waco | Temple | Hillsboro | Houston  
NEW MEXICO | Albuquerque

## **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 and pension and OPEB information 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 Belton Independent School District's basic financial statements. The combining statements, required TEA schedules and the Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statements, required TEA schedules and the Schedule of Expenditures of Federal Awards are the responsibility of management and were 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 combining statements, required TEA schedules, and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2019 on our consideration of Belton 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 solely 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 Belton 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 Belton Independent School District's internal control over financial reporting and compliance.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas  
December 13, 2019



## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Belton Independent School District's annual financial report presents management's narrative overview and analysis of the District's financial performance during the fiscal year ended August 31, 2019. Please read it in conjunction with the District's financial statements, which begin on page 13.

### FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$44,791,781 (*net position*).
- The District's net position increased by \$5,754,294 as a result of this year's operations which was an increase of approximately 15%.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$104,266,374, a decrease of \$41,590,050 in comparison with the prior year. This decrease is primarily due to expenditures of resources provided by the 2017 bond issuance for a new high school.
- The General Fund ended the year with a fund balance of \$39,753,760.
- The resources available for appropriation were \$1,233,017 more than budgeted for the General Fund.
- The total cost of the District's programs was \$133,696,998 in the 2019 fiscal year, compared to the previous year's cost of \$89,795,057, an increase of \$43,901,941.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The table below summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each statement.

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These provide information about the activities of the District as a whole and present a long-term view of the District's property and obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short-term, as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee.

The notes to the financial statements provide narrative explanations or additional data needed for full disclosure in the government-wide statements of the fund financial statements.

The combining statements for nonmajor funds are presented immediately following the required supplementary information and contain even more information about the District's individual funds. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that provides a budgetary schedule for the General Fund. The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies.

Type of Statements	Government-Wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
<b>Scope</b>	Entire Agency's government (except fiduciary funds) and the Agency's component units	The activities of the district that are not proprietary or fiduciary	Activities the district operates similar to private businesses: self-insurance	Instances in which the district is the trustee or agent for someone else's resources
<b>Required Financial Statements</b>	Statement of net position, Statement of activities	Balance sheet, Statement of revenues, expenditures & changes in fund balance	Statement of net position, Statement of revenues, expenses and changes in fund net position, Statement of cash flows	Statement of changes in fiduciary net position
<b>Accounting basis and measurement focus</b>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<b>Type of asset/liability information</b>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can
<b>Type of deferred outflows/inflows</b>	A consumption or acquisition of net position applicable to a future period.	A consumption or acquisition of fund balance applicable to a future period	A consumption or acquisition of net assets applicable to a future period.	A consumption or acquisition of net assets applicable to a future period.
<b>Type of inflows/outflow information</b>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

## **Reporting the District as a Whole**

### ***The Statement of Net Position and the Statement of Activities***

The analysis of the District's overall financial condition and operations begins with the statement of net position and statement of activities. Their primary objective is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets, deferred outflows (inflows) of resources and liabilities while the Statement of Activities includes all the revenue and expenses generated by the District's operations during the year. These apply the accrual basis of accounting, which is the same method used by most private sector companies.

All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. The District's revenue is divided into those provided by outside parties who share the costs of some programs, such as tuition received from students from outside the District and grants provided by the U. S. Department of Education to assist children with disabilities or from disadvantaged backgrounds (program revenue), and general revenue provided by the taxpayers or by TEA in equalization funding processes (general revenue). All of the District's assets and deferred outflows (inflows) of resources are reported whether they serve the current year or future years. Liabilities and deferred inflows of resources are considered regardless of whether they must be paid in the current or future years.

These two statements report the District's net position and changes in them. The District's net position (the difference between assets, deferred outflows (inflows) of resources and liabilities) provide one measure of the District's financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider nonfinancial factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

In the Statement of Net Position and the Statement of Activities, the District has one kind of activity:

***Governmental Activities*** – All of the District's basic services are reported here, including instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.

## **Reporting the District's Most Significant Funds**

### ***Fund Financial Statements***

The Fund financial statements begin on page 16 and provide detailed information about the most significant funds – not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under ESEA Title I from the U. S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District has two fund types - governmental and fiduciary.

***Governmental Funds*** – The District reports most of its basic services in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and they report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the governmental fund financial statements.

***Fiduciary Funds*** – The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position. We exclude these resources from the District's other financial statements because the District cannot use them to support its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

## **Notes to the Financial Statements**

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

## **Required Supplementary Information**

The required supplementary information includes budgetary comparison information and pension and other postemployment benefits (OPEB) information.

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

The following analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the District’s governmental activities.

Net position of the District’s governmental activities increased from \$39,037,487 to \$44,791,781, indicating an improvement in the District’s financial position. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was (\$19,744,493) at August 31, 2019. This deficit is not an indication that the District has insufficient resources available to meet financial obligations next year, but rather the result of having long-term commitments that are more than currently available resources. This increase in governmental net position was largely attributable to the following:

- Student enrollment and attendance growth for the 2018-2019 school year.
- Naturally occurring salary factor through transition of employees in/out of the District.
- Continued property value growth.
- Additional funding for School Health and Related Services (SHARS)

**TABLE 1  
BELTON INDEPENDENT SCHOOL DISTRICT  
NET POSITION**

	Governmental Activities		% Change
	2019	2018	
Current and other assets	\$ 123,015,615	\$ 165,171,482	(26)%
Capital assets	<u>266,375,340</u>	<u>202,797,292</u>	31 %
Total assets	<u>389,390,955</u>	<u>367,968,774</u>	6 %
Deferred outflows of resources	<u>23,242,747</u>	<u>11,815,820</u>	97 %
Long-term liabilities	336,708,066	308,185,104	9 %
Other liabilities	<u>17,089,193</u>	<u>15,821,263</u>	8 %
Total liabilities	<u>353,797,259</u>	<u>324,006,367</u>	9 %
Deferred inflows of resources	<u>14,044,662</u>	<u>16,740,740</u>	(16)%
Net position:			
Net investment in capital assets	57,163,338	55,952,818	2 %
Restricted	7,372,936	7,128,296	3 %
Unrestricted	<u>( 19,744,493)</u>	<u>( 24,043,627)</u>	18 %
Total net position	<u>\$ 44,791,781</u>	<u>\$ 39,037,487</u>	15 %

**TABLE 2**  
**BELTON INDEPENDENT SCHOOL DISTRICT**  
**CHANGES IN NET POSITION**

	Governmental Activities		%
	2019	2018	
<b>REVENUES</b>			
Program revenues:			
Charges for services	\$ 4,517,961	\$ 4,389,715	3 %
Operating grants and contributions	21,276,341	1,288,814	1551%
General revenues:			
Maintenance and operations taxes	36,091,960	33,450,535	8%
Debt service taxes	13,371,250	12,330,247	8%
Grants and contributions not restricted	60,900,881	57,569,397	6%
Investment earnings	2,962,396	2,376,372	25%
Miscellaneous	330,503	350,399	(6)%
Total revenues	139,451,292	111,755,479	25%
<b>EXPENSES</b>			
Instruction	68,093,880	40,964,054	66%
Instructional resources and media services	1,527,395	952,714	60%
Curriculum and instructional staff development	2,879,738	1,843,122	56%
Instructional leadership	1,406,661	1,043,423	35%
School leadership	6,550,809	3,867,836	69%
Guidance, counseling and evaluation services	4,394,269	2,161,955	103%
Social work services	444,447	361,576	23%
Health services	1,680,688	801,666	110%
Student (pupil) transportation	5,075,058	4,210,589	21%
Food services	6,309,410	5,364,347	18%
Co-curricular/extra curricular activities	6,107,671	5,565,444	10%
General administration	3,502,072	2,332,846	50%
Plant maintenance and operations	11,611,639	8,235,212	41%
Security and monitoring services	1,080,055	731,642	48%
Data processing services	2,765,147	1,858,986	49%
Community services	21,769	23,539	(8)%
Debt service - interest on long-term debt	9,244,447	8,294,721	11%
Debt service - bond issuance costs	299,804	538,235	(44)%
Payments related to shared services arrangements	147,533	149,000	(1)%
Payments to Tax Increment Fund	11,667	1,488	684%
Other intergovernmental changes	542,839	492,662	10%
Total expenses	133,696,998	89,795,057	49%
<b>CHANGE IN NET POSITION</b>	5,754,294	21,960,422	(74)%
<b>NET POSITION, BEGINNING</b>	39,037,487	77,004,394	(49)%
<b>PRIOR PERIOD ADJUSTMENT</b>	-	( 59,927,329)	
<b>NET POSITION, ENDING</b>	\$ 44,791,781	\$ 39,037,487	15%

The District's total revenues increased by approximately \$27.70 million mostly as a result of a negative on-behalf accrual due to changes in benefits in the TRS-care plan in the prior year.

The cost of all governmental activities this year was approximately \$133.70 million compared to \$89.80 million last year. This decrease is a result of the negative on-behalf accrual mentioned previously. However, as shown in the Statement of Activities on page 14, the amount that our taxpayers ultimately financed for these activities was through the M&O tax rate of \$1.17 and the I&S tax rate of \$0.433.

## **FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

General Fund revenue increased \$7,178,487 million from the prior year due to increased student attendance that generated additional state funding and a property tax value increase of 7.82%. General Fund expenditures increased by \$4,350,608 due primarily to a 2% pay increase and the funding of capital projects with maintenance and operations funds. Transfers out of \$1,025,600 to the Capital Projects Fund was the majority of the other financing use, netted with proceeds from sale of capital assets of \$323,140. The net increase to fund balance was \$7,356,196.

The Debt Service Fund had an increase in revenue of \$1,113,133 from the previous year due to a property tax value increase of 7.82%. There was an increase of \$838,550 in expenditures from the previous year due mostly payments on new bonds issued in FY19. The net increase to fund balance was \$724,130.

The Capital Projects Fund had an decrease in revenue of \$25,333. Expenditures in the Capital Projects Fund increased by \$46,428,049, primarily due to the commencement of projects approved by voters in the May 2017 bond referendum. This year, the district completed renovations to the auditorium at Wall Street and opened the renovated gym and music classrooms at Lakewood Elementary. Construction of Charter Oak Elementary and Lake Belton High School continues to progress. The net decrease to fund balance was \$50,430,281.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

Over the course of the past year, the Board of Trustees amended the District's budget and approved several changes in appropriations. Significant budget amendments are described in the notes to the required budgetary schedules.

In the current year, the District adopted a budget deficit of \$572,615. This budget enabled the District to maintain competitive wages, address student enrollment growth and staffing needs, and expand programs. During the course of the year the budget for interest income was increased by \$800,000 to account for an increase in investment rates that brought in higher than anticipated interest income. A \$3,506,759 budget increase was approved for state funding as a result of revised projections for average daily attendance and participation growth in special programs. Due to payment timing changes and more students receiving services under School Health and Related Services (SHARS), the budget for that revenue source was amended by \$1,740,000 to reflect a larger reimbursement. In total the revenue budget increased by \$5.6 million.

The payroll budget which makes up the largest percentage of operating expenditures was increased by \$740,886 over the year primarily to address additional TRS on-behalf costs. Instructional costs, including salaries, were amended by \$1,218,097 for additional resources allocated to the classroom. Budgeted expenditures for District administration was decreased by \$245,483. In total the expenditure budget increased by \$2.1 million. Along with the adopted budget deficit and budget amendments mentioned above the final budget increased to a surplus of \$2,922,735.

Over the course of the year, actual expenditures were less than final budget amounts in the amount of \$3,902,904. In addition, total revenues were \$1,233,017 above the final budgeted amount. Positive variances were widespread, primarily in the instructional, student transportation, and facilities maintenance and operations functions.

## FUND BALANCES

Fund balance is the accumulated excess of revenues over expenditures during the life of a school District. At any given point, the amount in fund balance represents the difference between governmental fund assets and liabilities. Although fund balance may change drastically during the business cycle of a school District, the standard measuring point is at the fiscal year end.

The amount maintained in fund balance is critical. First, such balances indicate financial stability. This is especially important when the District issues bonds. Second, by maintaining this balance at August 31, operations can continue without requiring debt until state funds and taxes are received. State funds are generally received in the first three and last five months of the fiscal year. Local property taxes are received primarily from early October through the end of January. The Appraisal District mails tax statements in early October.

The District records five types of fund balance categories. The nonspendable portion of General Fund balance may be comprised of inventories, prepaid items, and permanent fund principal that cannot be converted to cash and spent. Restricted fund balance is the amount that is restricted to a specific purpose. The constraint on the use of these funds is externally imposed by creditors, grantors, contributors, laws and regulations. Committed fund balance is the amount that can only be used for specific purposes that the Board of Trustees determines through formal action. Assigned fund balance is the amount that the District intends to use on a specific purpose. The Superintendent or designee has the authority to assign fund balance and does not need formal board approval. The remaining fund balance is unassigned and may be used for any purpose without constraints.

The General Fund unassigned fund balance of \$37,608,118 is equivalent to approximately 4.6 months of expenditures. The unassigned fund balance minimizes the likelihood that the District would be required to enter the short-term debt market to pay for current operating expenditures. \$2,041,000 of fund balance is set aside to pay for start-up costs associated with new school construction, phase 3 of the Belton High School furniture replacement project, bus purchases, and other future capital projects.

## CAPITAL ASSETS AND LONG-TERM LIABILITIES

### Capital Assets

At the end of 2019, the District had approximately \$266 million invested in a broad range of capital assets, including instructional facilities and equipment, transportation facilities and equipment, athletic facilities, and administrative and maintenance buildings and equipment.

Accumulated activity for the fiscal year-ended August 31, 2019 is as follows:

Additions to capital assets	\$ 73,050,236
Decreases/reclassifications to capital assets	( 2,162,392)
Depreciation expense	<u>( 7,309,796)</u>
Net increase to capital assets	<u>\$ 63,578,048</u>

This amount represents a net increase of approximately \$63.58 million which is due to the additions to capital assets exceeding depreciation for the year-ended August 31, 2019. The large majority of the additions include construction in process on a new high school and other school facilities.

More detailed information about the District's capital assets is presented in Note E in the notes to the financial statements.

### Long-term Liabilities

At year-end, the District had \$336,708,066 in bonds, retainage payable, capital leases outstanding, net pension liability (NPL) and net OPEB liability versus \$308,185,104 in the prior year, this increase is primarily the result of the issuance of bonds in FY19 and increases in NPL and OPEB liabilities.

More detailed information about the District's long-term liabilities is presented in Note I in the notes to the financial statements.



## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Belton Independent School District is a fast growth school district. The District is located along the I-35 corridor and part of the Killeen-Temple-Fort Hood metropolitan area. Low cost of living, excellent schools, regional medical facilities, regional airport, mild climate, area lakes, and recreational facilities, each have played a positive role in the rapid growth of the Belton area. Belton ISD is seeing significant residential growth in the northwest and southwest sections of the District.

The District expects student enrollment to increase in the 2020 fiscal year and each year thereafter.

While there is uncertainty in the area of school finance at both the local, state and federal levels, the District maintains a fund balance both for operational purposes and for funding future facilities. Additionally, the District's debt service fund is generated through the interest and sinking rate. The District has taken steps to decrease the amount of debt service owed for future years by early retirement of higher interest bonds. This allows the District's interest and sinking rate to remain stable regardless of future changes in assessed values.

The District recently passed a bond referendum in 2017 to fund an additional high school, elementary school, and conversion of the ninth-grade center to a fourth middle school. In addition, the District has identified additional facility needs in the next 10 years that includes an elementary and middle school.

The 86th Texas Legislature passed a sweeping and historic school finance bill, House Bill 3, in 2019 that mandated a decrease in the maintenance and operations portion of the tax rate. The Board approved the maintenance and operations tax rate for the 2019-2020 fiscal year of \$1.0683 and a debt service rate of \$0.3968 for a total of \$1.4651.

The District's adjusted taxable value used for the 2019-2020 school year budget preparation was up approximately 14.68% from the previous year.

House Bill 3 provides more money to support operations in the District. Additional revenue is expected in the 2019-2020 school year. The bill also mandated raises for instructional staff and other employees. Expenses will increase as a result.

With these estimates and considerations, the District's budgetary General Fund balance is expected to increase slightly.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office at Belton Independent School District, P.O. Box 269, Belton, Texas 76513.



## **BASIC FINANCIAL STATEMENTS**

**THIS PAGE LEFT BLANK INTENTIONALLY**

BELTON INDEPENDENT SCHOOL DISTRICT

EXHIBIT A-1

STATEMENT OF NET POSITION

AUGUST 31, 2019

Data Control Codes		Governmental Activities
<b>ASSETS</b>		
1110	Cash and cash equivalents	\$ 96,690,205
1120	Current investments	17,292,809
1220	Delinquent property taxes receivables	1,468,165
1230	Allowance for uncollectible taxes	( 675,355)
1240	Due from other governments	7,074,155
1250	Interest Receivable	236,824
1267	Due from fiduciary funds	3,647
1290	Other receivables (net)	542,964
1300	Inventories	382,201
	Capital assets:	
1510	Land	6,093,002
1520	Buildings and improvements, net	157,350,692
1530	Furniture and equipment, net	8,085,546
1580	Construction in progress	<u>94,846,100</u>
1000	Total assets	<u>389,390,955</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
1701	Deferred loss on bond refunding	4,957,767
1705	Deferred outflow related to NPL	14,498,196
1706	Deferred outflow related to OPEB	<u>3,786,784</u>
1700	Total deferred outflows of resources	<u>23,242,747</u>
<b>LIABILITIES</b>		
2110	Accounts payable	6,562,647
2140	Interest payable	631,464
2150	Payroll deductions and withholdings	954,217
2160	Accrued wages payable	4,723,865
2180	Due to other governments	1,249
2190	Due to student groups	2,300
2200	Accrued expenses	3,533,884
2300	Unearned revenue	679,567
	Noncurrent liabilities:	
2501	Due within one year	6,919,843
2502	Due in more than one year	262,584,827
2540	Net pension liability	27,567,478
2545	Net OPEB liability	<u>39,635,918</u>
2000	Total liabilities	<u>353,797,259</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
2605	Deferred inflow related to NPL	1,510,830
2606	Deferred inflow related to OPEB	<u>12,533,832</u>
2600	Total deferred inflows of resources	<u>14,044,662</u>
<b>NET POSITION</b>		
3200	Net investment in capital assets	57,163,338
	Restricted for:	
3820	Federal and state programs	1,796,136
3850	Debt service	5,576,800
3900	Unrestricted	( 19,744,493)
3000	Total net position	<u>\$ 44,791,781</u>

The accompanying notes are an integral part of this financial statement.

**THIS PAGE LEFT BLANK INTENTIONALLY**

**BELTON INDEPENDENT SCHOOL DISTRICT**

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED

FOR THE YEAR ENDED AUGUST 31, 2019

Data Control Codes	1	Program Revenues <u>3</u>	
Functions/Programs	Expenses	Charges for Services <u>3</u>	
<b>Primary government:</b>			
Governmental activities:			
11	Instruction	\$ 68,093,880	\$ 193,159
12	Instructional resources and media services	1,527,395	2,542
13	Curriculum and staff development	2,879,738	2,542
21	Instructional leadership	1,406,661	-
23	School leadership	6,550,809	-
31	Guidance, counseling, and evaluation services	4,394,269	-
32	Social work services	444,447	-
33	Health services	1,680,688	-
34	Student transportation	5,075,058	50,831
35	Food service	6,309,410	1,902,627
36	Extracurricular activities	6,107,671	2,128,171
41	General administration	3,502,072	-
51	Facilities maintenance and operations	11,611,639	63,258
52	Security and monitoring services	1,080,055	-
53	Data processing services	2,765,147	169,748
61	Community services	21,769	5,083
72	Interest on long-term debt	9,244,447	-
73	Bond issuance costs and fees	299,804	-
93	Payments related to shared services arrangements	147,533	-
97	Payments to Tax Increment Fund	11,667	-
99	Other intergovernmental changes	542,839	-
	[TG] Total governmental activities	<u>\$ 133,696,998</u>	<u>\$ 4,517,961</u>
General revenues:			
Taxes:			
MT	Property taxes, levied for general purposes		
DT	Property taxes, levied for debt service		
GC	Grants and contributions not restricted to specific programs		
IE	Investment earnings		
MI	Miscellaneous		
TR	Total general revenues		
CN	Change in net position		
NB	Net position, beginning		
NE	Net position, ending		

The accompanying notes are an integral part of this financial statement.

Program Revenues	Net (Expenses) Revenue and Changes in in Net Position
4	6
Operating Grants and Contributions	Primary Gov. Governmental Activities
\$ 8,662,775	\$( 59,237,946)
123,365	( 1,401,488)
517,652	( 2,359,544)
280,659	( 1,126,002)
581,152	( 5,969,657)
856,842	( 3,537,427)
124,838	( 319,609)
171,639	( 1,509,049)
959,232	( 4,064,995)
4,474,094	67,311
215,308	( 3,764,192)
213,593	( 3,288,479)
582,450	( 10,965,931)
45,988	( 1,034,067)
153,490	( 2,441,909)
18,644	1,958
3,131,271	( 6,113,176)
-	( 299,804)
163,349	15,816
-	( 11,667)
-	( 542,839)
<u>\$ 21,276,341</u>	<u>\$( 107,902,696)</u>

36,091,960
13,371,250
60,900,881
2,962,396
330,503
<u>113,656,990</u>
<u>5,754,294</u>
<u>39,037,487</u>
<u>\$ 44,791,781</u>

**BELTON INDEPENDENT SCHOOL DISTRICT**

BALANCE SHEET  
GOVERNMENTAL FUNDS

AUGUST 31, 2019

Data Control Codes		10	51
		<u>General</u>	<u>Debt Service</u>
<b>ASSETS</b>			
1110	Cash and cash equivalents	\$ 40,975,102	\$ 6,176,676
1120	Current investments	-	-
1220	Property taxes - delinquent	1,136,890	331,275
1230	Allowance for uncollectible taxes	( 522,969)	( 152,386)
1240	Due from other governments	5,973,889	-
1250	Accrued interest	-	-
1260	Due from other funds	1,049,089	-
1290	Other receivables	440,808	86,973
1300	Inventories	<u>104,642</u>	<u>-</u>
1000	Total assets	<u>49,157,451</u>	<u>6,442,538</u>
<b>LIABILITIES</b>			
2110	Accounts payable	780,569	-
2150	Payroll deductions and withholdings	944,068	-
2160	Accrued wages payable	4,408,005	-
2170	Due to other funds	1,137,825	234,274
2180	Due to other governments	1,249	-
2190	Due to student groups	2,300	-
2200	Accrued expenditures	-	-
2300	Unearned revenue	<u>90,199</u>	<u>-</u>
2000	Total liabilities	<u>7,364,215</u>	<u>234,274</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
	Unavailable revenue	<u>2,039,476</u>	<u>252,036</u>
2600	Total deferred inflows of resources	<u>2,039,476</u>	<u>252,036</u>
<b>FUND BALANCES</b>			
Nonspendable:			
3410	Inventories	104,642	-
Restricted for:			
3450	Federal or state grant restrictions	-	-
3470	Capital acquisitions and contractual obligations	-	-
3480	Retirement of long-term debt	-	5,956,228
Committed for:			
3545	Campus activities	-	-
Assigned for:			
3550	Construction	-	-
3590	Other	2,041,000	-
3600	Unassigned	<u>37,608,118</u>	<u>-</u>
3000	Total fund balances	<u>39,753,760</u>	<u>5,956,228</u>
4000	Total liabilities, deferred inflows of resources and fund balances	<u>\$ 49,157,451</u>	<u>\$ 6,442,538</u>

The accompanying notes are an integral part of this financial statement.

60	98	98
Capital Projects	Other Governmental	Total Governmental Funds
\$ 44,488,674	\$ 5,049,753	\$ 96,690,205
17,292,809	-	17,292,809
-	-	1,468,165
-	-	( 675,355)
-	1,100,266	7,074,155
236,824	-	236,824
-	1,155,740	2,204,829
-	15,183	542,964
-	277,559	382,201
<u>62,018,307</u>	<u>7,598,501</u>	<u>125,216,797</u>
5,025,090	756,988	6,562,647
3	10,146	954,217
39	315,821	4,723,865
6,718	822,365	2,201,182
-	-	1,249
-	-	2,300
3,517,709	16,175	3,533,884
-	589,368	679,567
<u>8,549,559</u>	<u>2,510,863</u>	<u>18,658,911</u>
-	-	2,291,512
-	-	2,291,512
-	-	104,642
-	1,796,136	1,796,136
53,468,748	1,113,961	54,582,709
-	-	5,956,228
-	1,100,088	1,100,088
-	1,077,453	1,077,453
-	-	2,041,000
-	-	37,608,118
<u>53,468,748</u>	<u>5,087,638</u>	<u>104,266,374</u>
<u>\$ 62,018,307</u>	<u>\$ 7,598,501</u>	<u>\$ 125,216,797</u>



RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

AUGUST 31, 2019

<b>Total Fund Balances - Governmental Funds</b>	\$ 104,266,374
<b>1</b> Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	266,375,340
<b>2</b> Uncollected property taxes are reported as deferred inflows of resources in the governmental funds balance sheet, but are recognized as a revenue in the statement of activities.	1,185,739
<b>3</b> Other receivables are reported as deferred inflows of resources in the governmental funds balance sheet, but are recognized as a revenue in the statement of activities.	1,105,773
<b>4</b> Long-term liabilities, including bonds, accreted interest and capital leases, are not due and payable in the current period and therefore are not reported in the funds. Also, the losses on refunding of bonds and the premium on issuance of bonds payable are not reported on the balance sheet in the funds.	( 264,546,903)
<b>5</b> Interest payable is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	( 631,464)
<b>6</b> Included in the items related to debt is the recognition of the District's proportionate share of net pension liability required by GASB 68. The net position related to TRS included a deferred resource outflow in the amount of \$14,498,196, a deferred resource inflow in the amount of \$1,510,830, and a net pension liability in the amount of \$27,567,478. This resulted in a decrease to net position.	( 14,580,112)
<b>7</b> Included in the items related to debt is the recognition of the District's proportionate share of net OPEB liability required by GASB 75. The net position related to TRS included a deferred resource outflow in the amount of \$3,786,784, a deferred resource inflow in the amount of \$12,533,832, and a net OPEB liability in the amount of \$39,635,918. This resulted in a decrease to net position.	( <u>48,382,966</u> )
<b>19 Net position of governmental activities</b>	\$ <u><u>44,791,781</u></u>

**THIS PAGE LEFT BLANK INTENTIONALLY**

**BELTON INDEPENDENT SCHOOL DISTRICT**

STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS

FOR THE YEAR ENDED AUGUST 31, 2019

Data Control Codes		10	51
		<u>General</u>	<u>Debt Service</u>
	<b>REVENUES</b>		
5700	Local and intermediate sources	\$ 37,729,694	\$ 13,491,152
5800	State program	65,225,349	3,131,271
5900	Federal program	<u>3,630,872</u>	<u>-</u>
5020	Total revenues	<u>106,585,915</u>	<u>16,622,423</u>
	<b>EXPENDITURES</b>		
	Current:		
0011	Instruction	54,595,680	-
0012	Instructional resources and media services	1,435,202	-
0013	Curriculum and staff development	2,411,158	-
0021	Instructional leadership	1,216,965	-
0023	School leadership	6,102,915	-
0031	Guidance, counseling, and evaluation services	3,872,883	-
0032	Social work services	316,854	-
0033	Health services	1,553,803	-
0034	Student transportation	4,017,261	-
0035	Food service	59,606	-
0036	Extracurricular activities	3,949,736	-
0041	General administration	3,262,436	-
0051	Facilities maintenance and operations	10,870,691	-
0052	Security and monitoring services	969,383	-
0053	Data processing services	2,329,508	-
0061	Community services	2,359	-
	Debt service:		
0071	Principal on long-term debt	964,312	6,215,000
0072	Interest on long-term debt	35,718	9,659,413
0073	Bond issuance costs and fees	-	23,880
0081	Capital outlay	-	-
	Intergovernmental:		
0093	Payments related to shared service arrangements	6,283	-
0097	Payments to Tax Increment Fund	11,667	-
0099	Other intergovernmental charges	<u>542,839</u>	<u>-</u>
6030	Total expenditures	<u>98,527,259</u>	<u>15,898,293</u>
1100	<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>8,058,656</u>	<u>724,130</u>
	<b>OTHER FINANCING SOURCES (USES)</b>		
7911	Proceeds from capital related debt issued	-	-
7912	Proceeds from sale of property	323,140	-
7915	Transfers in	-	-
7916	Premium on issuance of bonds	-	-
8911	Transfers out	<u>( 1,025,600)</u>	<u>-</u>
7080	Total other financing sources (uses)	<u>( 702,460)</u>	<u>-</u>
1200	<b>NET CHANGE IN FUND BALANCES</b>	7,356,196	724,130
0100	<b>FUND BALANCES, BEGINNING</b>	<u>32,397,564</u>	<u>5,232,098</u>
3000	<b>FUND BALANCES, ENDING</b>	<u>\$ 39,753,760</u>	<u>\$ 5,956,228</u>

The accompanying notes are an integral part of this financial statement.

60	Other Governmental	98 Total Governmental Funds
Capital Projects		
\$ 1,727,661	\$ 4,291,568	\$ 57,240,075
6,006	196,924	68,559,550
-	8,448,523	12,079,395
1,733,667	12,937,015	137,879,020
-	3,142,733	57,738,413
-	19,086	1,454,288
-	312,884	2,724,042
-	114,587	1,331,552
-	57,769	6,160,684
-	232,255	4,105,138
-	115,394	432,248
-	45,056	1,598,859
-	492,118	4,509,379
-	6,483,238	6,542,844
-	1,139,203	5,088,939
65,499	-	3,327,935
-	48,300	10,918,991
-	88,859	1,058,242
-	7,802	2,337,310
-	18,943	21,302
-	145,000	7,324,312
-	41,151	9,736,282
275,924	-	299,804
71,812,105	557,082	72,369,187
-	141,250	147,533
-	-	11,667
-	-	542,839
72,153,528	13,202,710	199,781,790
( 70,419,861)	( 265,695)	( 61,902,770)
18,870,000		18,870,000
-	-	323,140
-	1,025,600	1,025,600
1,119,580	-	1,119,580
-	-	( 1,025,600)
19,989,580	1,025,600	20,312,720
( 50,430,281)	759,905	( 41,590,050)
103,899,029	4,327,733	145,856,424
\$ 53,468,748	\$ 5,087,638	\$ 104,266,374

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, 2019

Net change in fund balances - total governmental funds	\$( 41,590,050)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	65,740,440
In the statement of activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the book value of the capital asset sold.	( 2,162,392)
Some receivables are not considered available revenues and are reported as deferred inflows in the governmental funds.	( 1,573,039)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums and similar items when debt is first issued, whereas these amounts are amortized in the statement of activities.	
Capital related debt issued	( 18,870,000)
Premium bonds	( 1,119,580)
Principal repayments:	
General obligation bonds	6,360,000
Capital leases	964,312
Amortization of:	
Premium on bond issuance	1,202,795
Deferred loss on bond refunding	( 430,389)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Accrued interest payable on long-term debt	( 260,708)
Accreted interest on capital appreciation bonds	( 19,863)
GASB 68 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$1,867,871. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability. This caused a decrease in net position totaling \$1,688,704. Finally, the proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense decreased the change in net position by \$2,198,589. The net result is a decrease in the change in net position.	( 2,019,422)
GASB 75 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$580,418. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net OPEB liability. This caused a decrease in net position totaling \$549,224. Finally, the proportionate share of the TRS OPEB expense in the plan as a whole had to be recorded. The net OPEB expense decreased the change in net position by \$499,004. The net result is an decrease in the change in net position.	( 467,810)
Change in net position of governmental activities	<u>\$ 5,754,294</u>

**THIS PAGE LEFT BLANK INTENTIONALLY**

STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS

AUGUST 31, 2019

	<u>Agency Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ <u>131,138</u>
Total assets	<u>131,138</u>
<b>LIABILITIES</b>	
Due to other funds	3,647
Due to student groups	<u>127,491</u>
Total liabilities	\$ <u>131,138</u>

**THIS PAGE LEFT BLANK INTENTIONALLY**



# BELTON INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2019

### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

Belton Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven-member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and it 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.

The Board of Trustees (the "Board") is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB"). There are no component units included within the reporting entity.

#### B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. All fiduciary activities are reported only in the fund financial statements. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* are supported by taxes, state foundation funds and intergovernmental revenue.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as general revenue.

The fund financial statements provide reports on the financial condition and results of operations for two fund categories – governmental and fiduciary. Since the resources in the fiduciary funds cannot be used for District operations, they are not included in the government-wide statements. The District considers some governmental funds major and reports their financial condition and results of operations in a separate column.

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

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue 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 accrual basis of accounting*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be *available* when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collectible within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt services expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt is reported as other financing sources.

Property taxes, state foundation funds, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Entitlements are recorded as revenue when all eligibility requirements are met, including any time requirements, and the amount received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the District.

The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting assets and liabilities.

#### **D. Fund Accounting**

The District reports the following major governmental funds:

The **General Fund** is District'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** is used to account for resources accumulated and payments made for principal and interest in long-term general obligation debt of governmental funds.

The **Capital Projects Fund** is used to account for the activity related to the use of the bond proceeds which includes the construction of capital facilities and purchase of capital equipment.

Additionally, the District reports the following fund types:

The **Special Revenue Funds** are used to account for the restricted or committed resources and the expenditures of such funds within the given restrictions or commitments.

The **Debt Service Funds** are used to account for resources accumulated and payments made for principal and interest in long-term general obligation debt of governmental funds.

The **Capital Projects Funds** are used to account for the activity related to the use of the bond proceeds which includes the construction of capital facilities and purchase of capital equipment.

The **Agency Fund** accounts for resources held for others in a custodial capacity. The District's Agency Fund is Student Activities.

During the course of operations, the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in the governmental activities are eliminated.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

**E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, Net Position/Fund Balance, Revenues and Expenditure/Expenses**

**1. Cash and Investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**2. Receivables**

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. 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.

**3. Inventories and Prepaids**

Inventories of supplies on the balance sheet are stated at weighted average cost, while inventories of food commodities are recorded at acquisition values supplied by the Texas Department of Human Services. Inventory items are recorded as expenditures when they are consumed. Supplies are used for almost all functions of activity, while food commodities are used only in the food service program. Although commodities are received at no cost, their acquisition value is supplied by the Texas Department of Human Services and recorded as inventory and unearned revenue when received. When requisitioned, inventory and unearned revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount. Inventories also include plant maintenance and operation supplies as well as instructional supplies.

The District uses the purchases method to report prepaid items. The Cost of applicable purchases are recorded when consumed.

**4. Capital Assets**

Capital assets, which include land, buildings, furniture and equipment, are reported in the governmental activity column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. As the District constructs or acquires capital assets each period they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at acquisition value, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date.

Land and construction in progress are not depreciated. Buildings, furniture and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	50
Building improvements	50
Vehicles	10
Office equipment	5
Computer equipment	5

## 5. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities Statement of Net Position. Bond premiums and discounts are 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, governmental fund types recognize bond premiums and discounts during the current period. 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.

The District provides employees with compensation benefits for vacation, sick leave, and personal matters days off. The costs of these benefits are recognized by the District when paid. There are limitations on carryover and accumulation of benefits, and, as a result, the liability for the accrued but unused benefits is not significant.

## 6. Deferred Outflows/Inflows of Resources

Deferred outflows and inflows of resources are reported in the financial statements as described below:

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. The District had the following deferred outflows of resources:

- Deferred outflows of resources for refunding – Reported in the government-wide statement of net position, this deferred charge on refunding results from the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Deferred outflows of resources for pension – Reported in the government-wide financial statement of net position, this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability, the results of differences between expected and actual experience, changes in actuarial assumptions, and the changes in proportion and difference between the employer's contributions and the proportionate share of contributions. The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year.
- Deferred outflows of resources for OPEB – Reported in the government-wide financial statement of net position, this deferred outflow results from OPEB plan contributions made after the measurement date of the net OPEB liability, changes in actuarial assumptions, the differences between projected and actual investment earnings, and changes in proportion and difference between the employer's contributions and the proportionate share of contributions. The deferred outflows related to OPEB resulting to District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the next fiscal year.

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. The District had two items that qualify for reporting in this category:

- Deferred inflow of resources for unavailable revenues – Reported only in the governmental funds balance sheet, for unavailable revenues from property taxes arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of revenues in the period that the amounts become available. During the current year, the District recorded deferred inflow of resources as unavailable revenues – property taxes and unavailable revenues – School Health and Related Services (SHARS).

- Deferred inflow of resources for pensions – Reported in the government-wide financial statement of net position, these deferred inflows result from differences between expected and actual economic experience, changes in actuarial assumptions, differences between projected and actual investment earnings, as well as changes in proportion and difference between the employer’s contributions and the proportionate share of contributions.
- Deferred inflow of resources for OPEB – Reported in the government-wide financial statement of net position, these deferred inflows result from differences between expected and actual economic experience and changes in actuarial assumptions.

## **7. Defined Benefit Pension Plan**

The District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The Teacher Retirement System of Texas (TRS) administers the plan. 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.

## **8. Other Post-Employment Benefit Plans**

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 post-employment 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.

## **9. Net Position**

Net position represents the difference between assets, deferred outflows (inflows) of resources and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

## **10. Net Position Flow Assumption**

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond and grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered applied. It is the District’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

## **11. Fund Balance Flow Assumption**

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

## **12. Fund Balance Policies**

Fund balance of the governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The Board of Trustees is the highest level of decision-making authority for the District that can, be adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation. Committed fund balance also should include contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board of Trustees has by resolution authorized the Superintendent and the Chief Financial Officer to assign fund balance. The Board of Trustees may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

## **13. Program Revenue**

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

## **14. Property Taxes**

Property taxes are levied as of October 1 on property values assessed as of the prior January 1 for all real and business personal 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 following year. On January 31 of each year, a tax lien attaches to property to secure payment of all taxes, penalties, and interest ultimately imposed.

## **15. Data Control Codes**

The Data Control Codes refer to the account code structure prescribed by the Texas Education Agency ("TEA") in the *Financial Accountability System Resource Guide*. TEA requires school districts to display these codes in the financial statements filed with the Agency in order to ensure accuracy in building a statewide data base policy development and funding plans.

## **16. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The amount of state foundation revenue a school district earns for a year can and does vary until the time when final values for each of the factors in the formula become available. Availability can be as late as midway into the next fiscal year. It is at least reasonably possible that the foundation revenue estimates as of August 31, 2019 will change.



## II. DETAILED NOTES ON ACTIVITIES AND FUNDS

### A. Deposits and Investments

The funds of the District must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

*Custodial Credit Risk* - In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of August 31, 2019, the District's deposit balance was collateralized with securities held by the pledging financial institution in the District's name or covered by FDIC insurance.

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) Mutual Funds (8) Investment pools, (9) guaranteed investment contracts (10) and 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.

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code.

*Interest Rate Risk* – The risk that changes in interest rates could adversely affect the value of investments. To reduce this risk, the District utilizes final and weighted-average-maturity limits and diversification.

In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one-half of one percent of the value of its shares. The Act authorizes the District to invest in obligations of the U.S. Treasury, U.S. agencies, fully collateralized repurchase agreements, public fund investment pools, SEC-registered no-load money market mutual funds, municipal securities of any state rated A or better, certificates of deposit (fully collateralized, insured, and standby letters of credit backed), and commercial paper rated not less than A-1 or P-1 with a stated maturity of no more than 270 days. The District's investment policy may further restrict those investment options.

The District utilizes a pooled investment concept for some of its funds to maximize its investment program. Investment income from this internal pooling is allocated to the respective funds based upon the sources of funds invested.

*Credit Risk* - It is the District's policy to limit its investments to investment types with an investment quality rating not less than A or its equivalent by a nationally recognized statistical rating organization. The District's investment pools are rated as follows by Standard and Poor's Investors Service.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72, Fair Value Measurement and Application establishes an authoritative definition of fair value, sets a framework for measuring fair value, and requires additional disclosures about fair value measurements. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels.

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets a government can access at the measurement date.
- Level 2 inputs are inputs, other than quoted prices included within Level 1, observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input significant to the entire measurement.

As of August 31, 2019, the District had the following investments:

<u>Investment</u>	<u>Reported Value</u>	<u>Weighted Average Maturity (Days)</u>	<u>Percent of Total Investments</u>	<u>Rating</u>
TexPool	\$ 2,094,375	38	3.55%	AAAm
TexPool Prime	32,888,580	31	55.81%	AAAm
Tex Star	3,902,186	22	6.62%	AAAm
Texas Class	217,348	50	0.37%	AAAm
LOGIC	2,338,349	48	3.97%	AAAm
Lonestar	194,792	27	0.33%	AAAm
Commercial Paper	<u>17,292,809</u>	34	29.35%	A-1
Total	<u>\$ 58,928,439</u>			
Portfolio weighted average maturity		32		

TexPool, TexStar, Texas Class, LOGIC, and Lone Star each have a redemption notice period of one day and may redeem daily. The investment pools' authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium or national state of emergency that affects the pool's liquidity. Commercial paper of \$17,292,809 held by the District is a level 2 input, measured at fair value, while the remaining \$41,635,630 in investments are held by investment pools and are measured at net asset value per share.

## **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 federal and state governments as of August 31, 2019, are summarized below.

<u>Fund</u>	<u>State Entitlements</u>	<u>Grants</u>	<u>Total</u>
General	\$ 5,973,889	\$ -	\$ 5,973,889
Other nonmajor governmental	<u>-</u>	<u>1,100,266</u>	<u>1,100,266</u>
Total	<u>\$ 5,973,889</u>	<u>\$ 1,100,266</u>	<u>\$ 7,074,155</u>



**C. Interfund Balances and Activity**

The composition of interfund balances as of August 31, 2019, consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Nonmajor governmental	General	\$ 112,225
Nonmajor governmental	Nonmajor governmental	17,915
Nonmajor governmental	General	1,025,600
General	Capital Projects	6,718
General	Debt Service	234,274
General	Nonmajor governmental	804,450
General	Agency funds	<u>3,647</u>
Total		<u>\$ 2,204,829</u>

Balances resulted from the lag between the dates that 1) interfund goods and services are provided on reimbursable expenditures occur, and 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

Interfund transfers for the year ended August 31, 2019 consisted of the following:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Nonmajor capital projects	General	\$ 1,025,600

The transfer between the General Fund and nonmajor Capital Projects funds was to supplement the cost of the orchestra addition.

**D. Other Receivables**

Other receivables consisted of the following balances as of August 31, 2019:

<u>Receivable</u>	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental</u>	<u>Total</u>
Property tax penalties and interest	\$ 709,627	\$ 164,301	\$ -	\$ 873,928
Stipend receivable	-	-	15,183	15,183
Insurance overpayment	37,407	-	-	37,407
Allowance for uncollectibles	<u>( 306,226)</u>	<u>( 77,328)</u>	<u>-</u>	<u>( 383,554)</u>
Total, net	<u>\$ 440,808</u>	<u>\$ 86,973</u>	<u>\$ 15,183</u>	<u>\$ 542,964</u>

**E. Capital Assets**

Capital asset activity for the year ended August 31, 2019, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 6,102,651	\$ -	\$( 9,649)	\$ 6,093,002
Construction in progress	<u>28,464,896</u>	<u>71,425,512</u>	<u>( 5,044,308)</u>	<u>94,846,100</u>
Total capital assets, not being depreciated	<u>34,567,547</u>	<u>71,425,512</u>	<u>( 5,053,957)</u>	<u>100,939,102</u>
Capital assets, being depreciated:				
Building and improvements	239,551,341	5,044,308	( 122,821)	244,472,828
Furniture and equipment	<u>24,314,914</u>	<u>1,624,724</u>	<u>( 5,900)</u>	<u>25,933,738</u>
Total capital assets, being depreciated	<u>263,866,255</u>	<u>6,669,032</u>	<u>( 128,721)</u>	<u>270,406,566</u>
Less accumulated depreciation for:				
Buildings and improvements	( 79,287,058)	( 7,899,620)	64,542	( 87,122,136)
Furniture and equipment	<u>( 16,349,452)</u>	<u>( 1,504,640)</u>	<u>5,900</u>	<u>( 17,848,192)</u>
Total accumulated depreciation	<u>( 95,636,510)</u>	<u>( 9,404,260)</u>	<u>70,442</u>	<u>( 104,970,328)</u>
Total capital assets, being depreciated, net	<u>168,229,745</u>	<u>( 2,735,228)</u>	<u>( 58,279)</u>	<u>165,436,238</u>
Governmental activities capital assets, net	<u>\$ 202,797,292</u>	<u>\$ 68,690,284</u>	<u>\$( 5,112,236)</u>	<u>\$ 266,375,340</u>

Depreciation expense was charged to functions/programs of the District as follows:

<b>Governmental activities:</b>	
Instruction	\$ 6,355,777
School leadership	10,397
Health services	971
Student transportation	806,391
Food service	242,792
Extracurricular activities	828,144
General administration	17,268
Facilities maintenance and operations	496,453
Security and monitoring services	8,323
Data processing services	<u>637,744</u>
Total depreciation expense - governmental activities	<u>\$ 9,404,260</u>

**F. Deferred Inflows of Resources**

At August 31, 2019, the District reported the following deferred inflows of resources in the governmental funds:

Unavailable Revenue	General	Debt Service	Total
Unavailable revenue property taxes	\$ 403,401	\$ 165,063	\$ 568,464
Unavailable revenue property tax penalties and interest	530,302	86,973	617,275
Unavailable revenue SHARS cost settlement	<u>1,105,773</u>	<u>-</u>	<u>1,105,773</u>
Totals	<u>\$ 2,039,476</u>	<u>\$ 252,036</u>	<u>\$ 2,291,512</u>

**G. Unearned Revenue**

Unearned revenue at year-end consisted of the following:

Unearned Revenue	General	Other Governmental	Totals
Funds collected for 19/20 school year	\$ 90,199	\$ -	\$ 90,199
Athletics - advance ticket sales	-	62,787	62,787
Commodities inventory balance	-	277,559	277,559
Grant receipts in excess of expenditures	-	20,429	20,429
Student technology	-	92,474	92,474
Student account balances	-	136,119	136,119
<b>Totals</b>	<b>\$ 90,199</b>	<b>\$ 589,368</b>	<b>\$ 679,567</b>

**H. Lease Obligations**

Certain lease agreements qualify as a capital lease for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the inception date. The District's capital leases are generally paid from the General Fund.

Capital leases consisted of the following at year-end:

Date and Purpose	Interest Rate	Maturity Date	Interest Current Year	Amounts Outstanding 08/31/19
5/1/2014 Buses	1.70%	9/15/2019	2,445	\$ -
4/23/2015 Buses	1.61%	9/15/2020	5,545	173,468
5/11/2016 Buses	1.58%	9/15/2021	6,948	295,454
5/17/2016 Computers	1.51%	9/15/2020	13,413	457,140
4/21/2017 Buses	2.91%	9/15/2021	7,367	192,574
<b>Total</b>				<b>\$ 1,118,636</b>

The future minimum lease obligations and the net present value of these minimum lease payments as of August 31, 2019, are as follows:

Year Ending August 31,	
2020	\$ 849,667
2021	219,200
2022	77,655
Total minimum lease payments	1,146,522
Less: amount representing interest	( 27,886)
Present value of minimum lease payments	<b>\$ 1,118,636</b>

## I. Long-term Debt

The District issues Bonds to provide funds for the acquisition and construction of major capital facilities or to refund prior debt issuances. The Bonds are direct obligations and pledge the full faith and credit of the District. Bonds outstanding as of August 31, 2019 are as follows:

Description	Interest Rate	Amounts Original Issue	Interest Current Year	Amounts Outstanding 08/31/19
Unlimited Tax Refunding Bonds, Series 2010	2.0-5.0%	27,870,000	\$ 25,500	\$ -
Stadium and Recreational System Revenue Bonds, Series 2011	3.8%	2,020,000	44,892	1,015,000
Unlimited Tax Refunding Bonds, Series 2011	2.0-3.0%	7,004,996	180,933	5,909,996
Unlimited Tax Refunding Bonds, Series 2012	2.0-4.0%	18,950,000	480,644	12,510,000
Unlimited Tax School Building Bonds, Series 2012	3.0-5.0%	54,900,000	503,450	13,690,000
Unlimited Tax Refunding Bonds, Series 2013	2.0-3.5%	8,205,000	273,800	8,105,000
Unlimited Tax Refunding Bonds, Series 2014	2.0-3.5%	8,560,000	213,500	5,990,000
Unlimited Tax Refunding Bonds, Series 2015	2.0-3.5%	7,840,000	301,000	7,625,000
Unlimited Tax Refunding Bonds, Series 2016	2.0-3.5%	6,430,000	257,200	6,430,000
Unlimited Tax School Building Bonds, Series 2017	2.0-5.0%	117,400,000	5,152,558	115,740,000
Unlimited Tax Refunding Bonds, Series 2017	2.0-5.0%	49,145,000	2,108,500	48,115,000
Unlimited Tax Refunding Bonds, Series 2019	3.0-5.0%	18,870,000	158,587	17,700,000
Total		\$ 327,194,996	\$ 9,700,564	\$ 242,829,996

The future debt service requirements for the District's bonds are as follows:

Year Ending August 31,	Principal	Interest	Total Requirements
2020	\$ 6,090,000	\$ 10,031,574	\$ 16,121,574
2021	6,330,000	9,795,651	16,125,651
2022	6,585,000	9,538,909	16,123,909
2023	6,850,000	9,273,898	16,123,898
2024	7,140,000	8,987,519	16,127,519
2025-2029	39,640,000	40,200,934	79,840,934
2030-2034	48,155,000	31,493,935	79,648,935
2035-2039	59,280,000	20,365,541	79,645,541
2040-2044	37,565,000	9,330,800	46,895,800
2045-2048	25,985,000	1,587,100	27,572,100
	243,620,000	\$ 150,605,861	\$ 394,225,861
Less: accreted interest	( 790,004)		
Principal outstanding	\$ 242,829,996		

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2019.

The District's outstanding bonds payable contain a provision that in an event of default, outstanding amounts will be paid from the corpus of the Texas Permanent School Fund. In the event of default, the outstanding capital leases payable are secured by the leased assets.

Changes in the District's long-term activities for the year ended August 31, 2019, are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds payable:					
General obligation bonds	\$ 230,319,996	\$ 18,870,000	\$( 6,360,000)	\$ 242,829,996	\$ 6,090,000
Premiums	24,887,061	1,119,580	( 1,202,795)	24,803,846	-
Accreted interest	<u>732,329</u>	<u>19,863</u>	<u>-</u>	<u>752,192</u>	<u>-</u>
Total bonds payable	255,939,386	20,009,443	( 7,562,795)	268,386,034	6,090,000
Capital leases	<u>2,082,948</u>	<u>-</u>	<u>( 964,312)</u>	<u>1,118,636</u>	<u>829,843</u>
Total governmental activities long-term liabilities	<u>\$ 258,022,334</u>	<u>\$ 20,009,443</u>	<u>\$( 8,527,107)</u>	<u>\$ 269,504,670</u>	<u>\$ 6,919,843</u>

### ***General Obligation Bonds – Unlimited Tax School Building Bond***

In fiscal year 2019 the District issued General Obligation Bonds Series 2019 in the amount of \$18,870,000 bearing interest rates between 3% and 5%.

The proceeds will be used for constructing, renovating, acquiring and equipping school buildings of the District.

### ***Future Revenues Pledged for Debt Payment***

The District has pledged certain future non-tax revenues to repay \$2,020,000 in non-tax revenue bonds issued May 12, 2011. Proceeds from the bonds provided financing for improvements to the District's stadium, gymnasias and recreational facilities. The bonds are payable from non-tax revenues, including the gross revenues of the District's stadium, gymnasias and recreational facilities. Annual principal and interest payments on the bonds are expected to require approximately 75% of net revenues. The final maturity date is August 15, 2025. The total principal and interest remaining to be paid on the bonds as of August 31, 2019, is \$1,156,641. Principal and interest paid for the year were \$155,000 and \$39,280, respectively. Total customer net revenues were \$239,548.

### ***Prior Year Defeasance of Debt***

In prior years, the District defeased bonds by placing the proceeds of new bonds in an irrevocable trust to provide all future debt payments on the old bonds. Accordingly, the trust accounts and the defeased bonds are not included in the District's financial statements. As of August 31, 2019, the District does not have any defeased bonds outstanding.

## **J. Defined Benefit Pension Plan**

***Plan Description.*** The Belton Independent School District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS) and is 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 workload 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/>; by writing to TRS at 1000 Red River Street, Austin, TX, 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 percent (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, 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 post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description in (A) 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.

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 thru 2017. The 85<sup>th</sup> Texas Legislature, General Appropriations Act (GAA) affirmed that the employer contribution rates for fiscal years 2018 and 2019 would remain the same.

	Contribution Rates	
	2018	2019
Active Employee	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Current fiscal year employer contributions		\$ 1,867,871
Current fiscal year member contributions		5,293,724
2018 measurement year NECE on-behalf contributions		3,293,934

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, 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 and junior colleges, 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 (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical 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, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

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 or charter school does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they 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.

**Actuarial Assumptions.** The total pension liability in the August 31, 2017 actuarial valuation was rolled forward to August 31, 2018 and was determined using the following actuarial assumptions:

Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	6.907%
Long-term expected Investment Rate of Return	7.25%
Inflation	2.30%
Salary Increases including inflation	3.05% to 9.05%
Payroll Growth Rate	2.50%
Ad hoc post-employment benefit changes	None

The actual methods and assumptions are primarily based on a study of actual experience for the three-year period ending August 31, 2017 and adopted in July 2018.

**Discount Rate.** The single discount rate used to measure the total pension liability was 6.907%. The single discount rate was based on the expected rate of return on pension plan investments of 7.25% and a municipal bond rate of 3.69%. 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 sufficient to finance the benefit payments until the year 2069. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2069, and the municipal bond rate was applied to all benefit payments after that date. 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 the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2018 are summarized below:

Asset Class	Target Allocation <sup>1</sup>	Real Return Geometric Basis <sup>2</sup>	Long-Term Expected Portfolio Real Rate of Return
Global Equity			
U.S.	18.00%	5.70%	1.04%
Non-U.S. Developed	13.00%	6.90%	0.90%
Emerging Markets	9.00%	8.95%	0.80%
Directional Hedge Funds	4.00%	3.53%	0.14%
Private Equity	13.00%	10.18%	1.32%
Stable Value			
U.S. Treasuries	11.00%	1.11%	0.12%
Absolute Return	0.00%	0.00%	0.00%
Stable Value Hedge Funds	4.00%	3.09%	0.12%
Cash	1.00%	(0.30%)	0.00%
Real Return			
Global Inflation Linked Bonds	3.00%	0.70%	0.02%
Real Assets	14.00%	5.21%	0.73%
Energy and Natural Resources	5.00%	7.48%	0.37%
Commodities	0.00%	0.00%	0.00%
Risk Parity			
Risk Parity	5.00%	3.70%	0.18%
Inflation Expectation			2.30%
Volatility Drag <sup>3</sup>			(0.79%)
Total	100.00%		8.04%

<sup>1</sup> Target allocations are based on the FY16 policy model.

<sup>2</sup> Capital market assumptions come from Aon Hewitt (2017 Q4)

<sup>3</sup> The volatility drag results from the conversation 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 (6.907%) in measuring the net pension liability.

	1% Decrease in Discount Rate (5.907%)	Discount Rate (6.907%)	1% Increase in Discount Rate (7.907%)
District's proportionate share of net pension liability	\$ 41,605,934	\$ 27,567,478	\$ 16,202,514



***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.*** At August 31, 2019, the District's liability was \$27,567,478 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	\$ 27,567,478
State's proportionate share that is associated with the District	<u>53,853,569</u>
Total	<u>\$ 81,421,047</u>

The net pension liability was measured as of August 31, 2017 and rolled forward to August 31, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 31, 2017 and rolled forward to August 31, 2018. 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, 2017 thru August 31, 2018.

At August 31, 2018, the employer's proportion of the collective net pension liability was 0.0500840519% which was an increase of 0.0000809767% from its proportion measured as of August 31, 2017.

The District's net pension liability is generally liquidated from the General Fund.

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

- The Total Pension Liability as of August 31, 2018 was developed using a roll-forward method from the August 31, 2017 valuation.
- Demographic assumptions including post-retirement mortality, termination rates, and rates of retirement were updated based on the experience study performed for TRS for the period ending August 31, 2017.
- Economic assumptions including rates of salary increase for individual participants was updated based on the same experience study.
- The discount rate changed from 8.0 percent as of August 31, 2017 to 6.907 percent as of August 31, 2018.
- The long-term assumed rate of return changed from 8.0 percent to 7.25 percent.
- The change in the long-term assumed rate of return combined with the change in the single discount rate was the primary reason for the increase in the Net Pension Liability.

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, 2019, the District recognized pension expense of \$9,217,361 and revenue of \$5,330,068 for support provided by the State.

At August 31, 2019, the 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 171,833	\$ 676,397
Changes in actuarial assumptions	9,939,404	310,607
Difference between projected and actual investment earnings	-	523,073
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	2,519,088	753
Contributions paid to TRS subsequent to the measurement date	<u>1,867,871</u>	<u>-</u>
Total as of year-end	<u>\$ 14,498,196</u>	<u>\$ 1,510,830</u>

The net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended <u>August 31,</u>	Pension <u>Expense</u>
2020	\$ 2,922,955
2021	1,822,188
2022	1,540,354
2023	1,983,510
2024	1,758,285
Thereafter	1,092,203

#### K. **Defined Other Post-Employment Benefit Plans**

**Plan Description.** Belton Independent School District in the Texas Public School Retired Employees Group Insurance Program (TRS-Care). It is a multiple-employer, cost-sharing defined Other Post-Employment 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.** Detail 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/>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

**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 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 post-employment 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 a retiree with and without Medicare coverage.

	TRS-Care Plan Premium Rates			
	Effective January 1, 2018 - December 31, 2018			
	TRS-Care 1		TRS-Care 2	
	Basic Plan		Optional Plan	
Retiree*	\$	135	\$	200
Retiree and Spouse		529		689
Retiree* and Children		468		408
Retiree and Family * or surviving spouse		1,020		999

**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 1.0% of the employee's salary. Section 1575.203 establishes the active employee's rate which is .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.

	Contributions Rates	
	2018	2019
Active employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/Private Funding Remitted by Employers	1.25%	1.25%
Current fiscal year employer contributions	\$	580,418
Current fiscal year member contributions		447,138
2018 measurement year NECE on-behalf contributions		772,993

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 \$182.6 million in fiscal year 2018. The 85th Texas Legislature, House Bill 30 provided an additional \$212 million in one-time, supplemental funding for the FY 2018-2019 biennium to continue to support the program. This was also received in FY 2018 bringing the total appropriations received in fiscal year 2018 \$394.6 million.

**Actuarial Assumptions.** The total OPEB liability in the August 31, 2017 was rolled forward to August 31, 2018. The actuarial valuation was determined using the following actuarial assumptions:

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 that was rolled forward to August 31, 2018:

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

**Additional Actuarial Methods and Assumptions**

Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Discount Rate	3.69%. Sourced from fixed income municipal bonds with 20 years to maturity that include only federal tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of August 31, 2018.
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 claim costs
Payroll Growth Rate	2.50%
Projected Salary Increases	3.05% to 9.05%
Healthcare Trend Rates	4.50 to 12.00%
Election Rates	Normal Retirement: 70% participation after age 65 and 75% participation after age 65
Ad hoc post-employment benefit changes	None

**Other Information.** The total OPEB liability as of August 31, 2018 was developed using the roll forward method of the August 31, 2017 valuation. Adjustments were made for retirees that were known to have discontinued their health care coverage in fiscal year 2018. The health care trend rate assumption was updated to reflect the anticipated return of the Health Insurer Fee (HIF) in 2020. Demographic and economic assumptions were updated based on the experience study performed for TRS for the period ending August 31, 2017. The discount rate changed from 3.42% as of August 31, 2017 to 3.69%, as of August 31, 2018. This change lowered the total OPEB liability \$2.3 billion.

**Discount Rate.** A single discount rate of 3.42% was used to measure the total OPEB liability. There was a change of .27 percent 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.

**Discount Rate Sensitivity Analysis.** The following schedule shows the impact of the Net OPEB Liability if the discount rate used was 1% less than the discount rate that was used (3.69%) in measuring the Net OPEB Liability.

	1% Decrease in Discount Rate (2.69%)	Discount Rate (3.69%)	1% Increase in Discount Rate (4.69%)
Proportionate share of net OPEB liability	\$ 47,180,360	\$ 39,635,918	\$ 33,667,778

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs.** At August 31, 2019, the District reported a liability of \$39,635,918 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	\$ 39,635,918
State's proportionate share that is associated with the District	<u>56,028,057</u>
Total	<u>\$ 95,663,975</u>

The Net OPEB Liability was measured as of August 31, 2018 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, 2017 thru August 31, 2018.

At August 31, 2018 the employer's proportion of the collective Net OPEB Liability was 0.0793815162% which is an increase of 0.0007946491% from its proportion measured as of August 31, 2017.

The District's OPEB liability is generally liquidated from the General Fund.

**Healthcare Cost Trend Sensitivity Analysis.** The following schedule shows the impact of the Net OPEB Liability if a healthcare trend rate that is 1% less than and 1% greater than the assumed 8.5% rate used.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Proportionate share of net OPEB liability	\$ 32,918,275	\$ 39,635,918	\$ 48,483,198

**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:

- Adjustments were made for retirees that were known to have discontinued their health care coverage in fiscal year 2018. This change increased the total OPEB liability.
- The health care trend rate assumption was updated to reflect the anticipated return of the Health Insurer Fee (HIF) in 2020. This change increased the total OPEB liability.
- Demographic and economic assumptions were updated based on the experience study performed for TRS for the period ending August 31, 2017. This change increased the total OPEB liability.
- The discount rate changed from 3.42 percent as of August 31, 2017 to 3.69 percent as of August 31, 2018. This change lowered the total OPEB liability \$2.3 billion.

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 2.50 percent.
- 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.

**Change of Benefit Terms Since the Prior Measurement Date.** The 85th Legislature, Regular Session, passed the following changes in House Bill 3976 which became effective on September 1, 2017:

- Created a high-deductible plan that provides a zero cost for generic prescriptions for certain preventive drugs and provides a zero premium for disability retirees who retired as a disability retiree on or before January 1, 2017 and are not eligible to enroll in Medicare.
- Created a single Medicare Advantage plan and Medicare prescription drug plan and Medicare prescription drug plan for all Medicare-eligible participants.
- Allowed the system to provide other, appropriate health benefits plans to address the needs of enrollees eligible for Medicare.
- Allowed eligible retirees and their eligible dependents to enroll in TRS-Care when the retiree reaches 65 years of age, rather than waiting on the next enrollment period.
- Eliminated free coverage under TRS-Care, except for certain disability retirees enrolled during plan years 2018 through 2021, requiring members to contribute \$200 per month toward their health insurance premiums.

For the year ended August 31, 2019, the District recognized OPEB expense of \$3,086,192 and revenue of \$2,037,964 for support provided by the State.

At August 31, 2019, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experiences	\$ 2,103,331	\$ 625,513
Changes in actuarial assumptions	661,416	11,908,319
Differences between projected and actual investment earnings	6,932	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	434,687	-
Contributions paid to OPEB subsequent to the measurement date	580,418	-
Total as of fiscal year-end	<u>\$ 3,786,784</u>	<u>\$ 12,533,832</u>

The net amounts of the employer's balances of deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>For the Year Ended August 31,</u>	<u>OPEB Expense</u>
2020	\$( 1,505,898)
2021	( 1,505,898)
2022	( 1,505,898)
2023	( 1,507,209)
2024	( 1,507,959)
Thereafter	( 1,794,604)

**L. Deferred Compensation Plan**

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 403(b). The trust agreement establishes that all assets and income of the trust are for the exclusive benefit of eligible employees and their beneficiaries. The District does not have any fiduciary responsibility or administrative duties relating to the deferred compensation plan other than remitting employee's contribution to the trustee. Accordingly, the District has not presented the assets and income from the plan in these financial statements. The deferred compensation investments are held by an outside trustee. Plan investments are chosen by the individual (employee) participant and include mutual funds whose focus is on stocks, bonds, treasury securities, money market-type investments or a combination of these.

The plan, available to all permanent District employees, permits them to defer until future years up to 100% of annual gross earnings not to exceed \$17,500. Employees over age 50 can contribute an additional \$5,500. The District does not allow for any other catch-up provisions. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

**M. Active Employee Health Care Coverage**

During the period ended August 31, 2019, employees of the District were covered by a state-wide health care plan, TRS Active Care with AETNA, Scott & White, and First Care. The District's participation in this plan is renewable annually. The District paid into the Plan \$375 per month per employee. Employees, at their option, pay premiums for any coverage above these amounts as well as for dependent coverage.

The Teachers Retirement System (TRS) manages TRS Active Care. The medical plan is administered by AETNA, FIRSTCARE and Scott and White HMO. Medco Health administers the prescription drug plan. The latest financial information on the state-wide plan may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, [www.trs.state.tx.us](http://www.trs.state.tx.us), under the TRS Publications heading.

**N. Medicare Part D Coverage**

**Medicare Part D – On-behalf Payments.** The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf payments of \$254,181, \$199,390, and \$202,658 were recognized for the years ended August 31, 2019, 2018, and 2017, respectively, as equal revenues and expenditures.

**O. Risk Management**

State law allows school districts to retain risk through its own risk management program (i.e., a “self-insurance” program), insure through a commercial carrier, or insure through a public entity risk pool. The District has insurable risks in various areas, including property, casualty, automobile, comprehensive liability, unemployment, and workmen’s compensation. During the 2018-2019 fiscal year, the District obtained insurance against such risk through a public entity risk pool (TASB). Administration believes the amount and types of coverage are adequate to protect the District from losses which could reasonably be expected to occur.

The District pays annual premiums to the pool for workers’ compensation and property/casualty coverage. The pool handles all claims and provides defense as is necessary. The risk of loss is effectively transferred to the insurer and the District is not responsible for claims in excess of premium paid.

**P. Commitments and Contingencies**

The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the District’s legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the District.

The District participates in 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 collectability 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.

**Q. Fund Balance**

At August 31, 2019, the District reported assigned fund balance in the General Fund of \$2,041,000 for other assignments. These other assigned fund balances consisted of the following:

Belton High School furniture replacement - Phase 3	\$	241,000
Bus purchases		200,000
Special projects		100,000
Start-up costs for new school construction		<u>1,500,000</u>
Total	\$	<u><u>2,041,000</u></u>



**APPENDIX C**

FORM OF BOND COUNSEL'S OPINION

**THIS PAGE LEFT INTENTIONALLY BLANK**

# BRACEWELL

November 19, 2020

\$13,610,000  
BELTON INDEPENDENT SCHOOL DISTRICT  
UNLIMITED TAX REFUNDING BONDS,  
SERIES 2020

We have represented Belton Independent School District (the “District”) as its bond counsel in connection with an issue of bonds (the “Bonds”) described as follows:

BELTON INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX REFUNDING  
BONDS, SERIES 2020, dated as of November 19, 2020.

The Bonds mature, bear interest and may be transferred and exchanged as set out in the Bonds and in the bond order adopted by the Board of Trustees of the District authorizing their issuance (the “Bond Order”) and a pricing certificate executed pursuant to the authority delegated in the Bond Order (the “Pricing Certificate,” and, together with the Bond Order, the “Order”). The Bonds are not subject to redemption prior the stated maturity thereof.

We have represented the District as bond counsel for the sole purpose of rendering an opinion 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 excludability of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the District or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the District’s Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein. Capitalized terms used herein, unless otherwise defined, have the meanings set forth in the Order.

In our capacity as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds, which contains certified copies of certain proceedings of the District; a certain escrow agreement (the “Escrow Agreement”) between the District and The Bank of New York Mellon Trust Company, National Association, Dallas, Texas, as escrow agent (the “Escrow Agent”); a sufficiency certificate (the “Sufficiency Certificate”) from Specialized Public Finance Inc. financial advisor to the District, certifying as to the sufficiency of the deposits made with the Escrow Agent

**Bracewell LLP**

T: +1.512.472.7800 F: +1.800.404.3970  
111 Congress Avenue, Suite 2300, Austin, Texas 78701-4061  
bracewell.com

# BRACEWELL

November 19, 2020

Page 2

for the defeasance of the Refunded Obligations; customary certificates of officers, agents and representatives of the District and other public officials; and other certified showings relating to the authorization and issuance of the Bonds. We also have analyzed such laws, regulations, guidance, documents and other materials as we have deemed necessary to render the opinions herein. Moreover, we have examined executed Bond No. T-1 of this issue.

In providing the opinions set forth herein, we have relied on representations and certifications of the District and other parties involved with the issuance of the Bonds with respect to matters solely within the knowledge of the District and such parties, which we have not independently verified. In addition, we have assumed for purposes of this opinion continuing compliance with the covenants in the Order, including, but not limited to, covenants relating to the tax-exempt status of the Bonds. We have further relied upon the Sufficiency Certificate regarding the mathematical accuracy of certain computations.

Based on such examination, it is our opinion that:

- A. The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective and, therefore, the Bonds constitute valid and legally binding obligations of the District;
- B. A continuing ad valorem tax, without limit as to rate or amount, has been levied on all taxable property in the District and pledged irrevocably to the payment of the principal of and interest on the Bonds; and
- C. Firm banking and financial arrangements have been made for the discharge and final payment of the Refunded Bonds pursuant to the Escrow Agreement and, therefore, the Refunded Bonds are deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds provided therefor in the Escrow Agreement.
- D. Interest on the Bonds is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended. In addition, interest on the Bonds is not a specific preference item for purposes of the alternative minimum tax.

The rights of owners of the Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

Except as stated above, we express no opinion as to the amount of interest on the Bonds or any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or the acquisition, ownership or disposition of, the Bonds. Further, in the event that the representations of the District and other parties are determined to be inaccurate or incomplete or the District fails to comply with the covenants of the Order, interest on the Bonds could become includable in gross income for federal income

# BRACEWELL

November 19, 2020

Page 3

tax purposes from the date of the original delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

Our opinions are based on existing law and our knowledge of facts as of the date hereof and may be affected by certain actions that may be taken or omitted on a later date. We assume no duty to update or supplement our opinions, and this opinion letter may not be relied upon in connection with any changes to the law or facts, or actions taken or omitted, after the date hereof.

#6220774.2

**THIS PAGE LEFT INTENTIONALLY BLANK**





**SPECIALIZED PUBLIC FINANCE INC.**  
FINANCIAL ADVISORY SERVICES