

**OFFICIAL STATEMENT  
DATED NOVEMBER 18, 2020**

**Enhanced Rating: Moody's "Aaa"**  
**Unenhanced Rating: Moody's "A1"**  
**PSF: Conditionally Approved**  
(See "OTHER INFORMATION – Ratings"  
and "THE PERMANENT SCHOOL FUND  
GUARANTEE PROGRAM" herein.

**NEW ISSUE: BOOK-ENTRY-ONLY**

*In the opinion of Bond Counsel (defined below), under current law and subject to conditions described in the Section herein "TAX EXEMPTION," interest on the Bonds (a) is not included in gross income for federal income tax purposes, and (b) is not an item of tax preference for purposes of the federal alternative minimum income tax. A holder may be subject to other federal tax consequences as described in the Section herein "TAX EXEMPTION." See "TAX EXEMPTION" for a discussion of the opinion of Bond Counsel.*

**\$67,810,000  
WALLER INDEPENDENT SCHOOL DISTRICT  
(Waller and Harris Counties, Texas)  
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2020A**

**Dated Date: December 1, 2020**

**Due: February 15, as shown on Page ii**

**Interest Accrual Date: Date of Delivery (defined below)**

**Payment Terms...**The \$67,810,000 Waller Independent School District Unlimited Tax School Building Bonds, Series 2020A (the "Bonds") will be issued in the principal amounts shown on page ii hereof. Interest on the Bonds will accrue from the date of their initial delivery (the "Date of Delivery") to the initial purchasers of the Bonds listed below (the "Underwriters"), at the interest rates shown on page ii hereof and such interest shall be payable to the registered owners thereof on February 15 and August 15, commencing February 15, 2021, until stated maturity or prior redemption. Interest accruing on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 of principal amount for any one maturity and 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. 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 Wells Fargo Bank, N.A., Minneapolis, Minnesota (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" and "THE BONDS – Paying Agent/Registrar."

**Authority for Issuance...**The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, including particularly Chapter 45, Texas Education Code, Chapter 1371, Texas Government Code, and an election held within Waller Independent School District (the "District") on November 5, 2019. The Bonds are direct obligations of the District, payable from an annual ad valorem tax levied, without legal limit as to rate or amount, on all taxable property located within the District, as provided in the order authorizing the sale and the issuance of the Bonds and an officer's pricing certificate authorized pursuant to such order. See "THE BONDS – Authority for Issuance." **An application has been filed and conditional approval has been received by the District for the payment of the principal of and interest on the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM."**

**Purpose...**Proceeds from the sale of the Bonds will be used for (i) the construction, acquisition and equipment of school buildings in the District, including the construction of a new high school with an integrated Career Technical Education facility, (ii) the purchase of the necessary sites for school buildings, (iii) the purchase of security and technology upgrades, (iv) the purchase of new school buses, and (v) the payment of the costs associated with the issuance of the Bonds. See "THE BONDS - Purpose" and "- Sources and Uses of Funds."

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**CUSIP PREFIX: 932493  
MATURITY SCHEDULE & 9 DIGIT CUSIP – See Page ii**

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**Redemption...**The District reserves the right, at its option, to redeem Bonds maturing on or after February 15, 2032, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2031, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption, as further described herein. See "THE BONDS – Optional Redemption." In addition, the Term Bonds (as defined herein) are subject to mandatory sinking fund redemption as described herein. See "THE BONDS – Mandatory Sinking Fund Redemption."

**Legality...**The Bonds are offered when, as and if issued, and accepted by the Underwriters, subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Hunton Andrews Kurth LLP, Houston, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick Herrington & Sutcliffe LLP, Houston, Texas. The Bonds are expected to be available for initial delivery through the services of DTC on or about December 15, 2020.

**SAMCO Capital Markets, Inc.**  
**BOK Financial Securities, Inc.**                      **FHN Financial Capital Markets**  
**Stifel**

## MATURITY SCHEDULE

### WALLER INDEPENDENT SCHOOL DISTRICT (Waller and Harris Counties, Texas) UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2020A

#### **\$51,805,000 Serial Bonds**

Maturity Date (2/15)	Principal Amount*	Interest Rate	Initial Yield <sup>(b)</sup>	CUSIP Number <sup>(c)</sup>
2023	\$1,390,000	5.000%	0.300%	932493 HY8
2024	1,460,000	5.000%	0.330%	932493 HZ5
2025	1,535,000	5.000%	0.380%	932493 JA8
2026	1,615,000	5.000%	0.440%	932493 JB6
2027	1,695,000	5.000%	0.550%	932493 JC4
2028	1,785,000	5.000%	0.670%	932493 JD2
2029	1,875,000	5.000%	0.860%	932493 JE0
2030	1,970,000	5.000%	0.950%	932493 JF7
2031	2,070,000	5.000%	1.000%	932493 JG5
2032 <sup>(a)</sup>	2,155,000	3.000%	1.180%	932493 JH3
2033 <sup>(a)</sup>	2,220,000	3.000%	1.270%	932493 JJ9
2034 <sup>(a)</sup>	2,290,000	3.000%	1.350%	932493 JK6
2035 <sup>(a)</sup>	2,360,000	3.000%	1.400%	932493 JL4
2036 <sup>(a)</sup>	2,430,000	3.000%	1.440%	932493 JM2
2037 <sup>(a)</sup>	2,505,000	3.000%	1.480%	932493 JN0
2038 <sup>(a)</sup>	2,580,000	3.000%	1.520%	932493 JP5
2039 <sup>(a)</sup>	2,660,000	3.000%	1.550%	932493 JQ3
2040 <sup>(a)</sup>	2,725,000	2.000%	2.040%	932493 JR1
2041 <sup>(a)</sup>	2,780,000	2.000%	2.080%	932493 JS9
2042 <sup>(a)</sup>	2,840,000	2.000%	2.100%	932493 JT7
2043 <sup>(a)</sup>	2,895,000	2.000%	2.120%	932493 JU4
2044 <sup>(a)</sup>	2,955,000	2.000%	2.140%	932493 JV2
2045 <sup>(a)</sup>	3,015,000	2.000%	2.160%	932493 JW0

#### **\$16,005,000 Term Bonds**

\$16,005,000 Term Bonds due February 15, 2050<sup>(a)(d)</sup> Interest Rate 2.000% Initial Yield 2.210%<sup>(b)</sup> CUSIP Number 932493 KB4<sup>(c)</sup>

#### (Interest to accrue from the Date of Delivery)

- <sup>(a)</sup> The Bonds maturing on or after February 15, 2032 are subject to optional redemption, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2031 or any date thereafter at par plus accrued interest to the date of redemption. See “THE BONDS – Optional Redemption.”
- <sup>(b)</sup> The initial yields at which the Bonds are priced are established by and are the sole responsibility of the Underwriters and may be changed at any time at the discretion of the Underwriters. The initial yields represent the lesser of yield to maturity or the first optional redemption date.
- <sup>(c)</sup> CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. CUSIP numbers have been assigned to this issue by the CUSIP Global Services and are included solely for the convenience of the owners of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for CUSIP services. None of the District, the Financial Advisor or the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.
- <sup>(d)</sup> The Term Bonds (as defined herein) are subject to mandatory sinking fund redemption as described herein. See “THE BONDS – Mandatory Sinking Fund Redemption.”

## USE OF INFORMATION IN OFFICIAL STATEMENT

*This Official Statement, which includes the cover page and the Schedules and Appendices A and B 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, salesperson or other person has been authorized to give information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon.*

*Certain information set forth herein has been provided by sources other than the District that the District believes are reliable, but the District makes no representation as to the accuracy of such information. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the District's undertaking to provide certain information on a continuing basis.*

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

*NONE OF THE DISTRICT, ITS 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 OR ITS BOOK-ENTRY-ONLY SYSTEM OR THE AFFAIRS OF THE TEXAS EDUCATION AGENCY DESCRIBED UNDER "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM."*

*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.*

*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.*

*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.*

*The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in the Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of the transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.*

*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 offering document.*

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*The cover page hereof, this page, 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 Waller Independent School District (the “District”) is a political subdivision located in Waller and Harris Counties, Texas, approximately 45 miles northwest of the City of Houston’s central business district. The District is approximately 328 square miles in area. See “INTRODUCTION – Description of the District.”
<b>The Bonds</b>	The Bonds are issued as \$67,810,000 Waller Independent School District Unlimited Tax School Building Bonds, Series 2020A (the “Bonds”). The Bonds are issued and mature as shown on page ii hereof. See “THE BONDS – Description of the Bonds.”
<b>Payment of Interest</b>	Interest on the Bonds will accrue from the date of their initial delivery (the “Date of Delivery”) to the initial purchasers of the Bonds listed on the cover page hereof (the “Underwriters”), at the interest rates shown on page ii hereof and such interest shall be payable to the registered owners thereof on February 15 and August 15, commencing February 15, 2021, until stated maturity or prior redemption. See “THE BONDS – Description of the Bonds.”
<b>Authority for Issuance</b>	The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, including, particularly, Chapter 45, Texas Education Code, Chapter 1371, Texas Government Code, as amended, an election held within the District on November 5, 2019, an order approved by the Board of Trustees of the District and an officer’s pricing certificate authorized pursuant to such order (the order and the pricing certificate are collectively referred to herein as the “Order”). See “THE BONDS – Authority for Issuance.”
<b>Security for the Bonds</b>	The Bonds constitute direct obligations of the District, payable from an annual ad valorem tax levied, without legal limit as to rate or amount, on all taxable property within the District. Additionally, the payment of principal of and interest on the Bonds is expected to be guaranteed by the corpus of the Permanent School Fund of the State of Texas. See “THE BONDS – Security and Source of Payment” and “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.”
<b>Permanent School Fund Guarantee</b>	The District has received conditional approval from the Texas Education Agency for the payment of principal of and interest on the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas. See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.”
<b>Redemption</b>	The District reserves the right, at its option, to redeem Bonds maturing on or after February 15, 2032, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2031, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption as described herein. See “THE BONDS – Optional Redemption.” In addition, the Term Bonds (as defined herein) are subject to mandatory sinking fund redemption as described herein. See “THE BONDS – Mandatory Sinking Fund Redemption.”
<b>Tax Exemption</b>	In the opinion of Bond Counsel, under current law and subject to conditions described in the Section herein “TAX EXEMPTION,” interest on the Bonds (a) is not included in gross income for federal income tax purposes, and (b) is not an item of tax preference for purposes of the federal alternative minimum income tax. A holder may be subject to other federal tax consequences as described in the Section herein “TAX EXEMPTION.” See “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 for (i) the construction, acquisition and equipment of school buildings in the District, including the construction of a new high school with an integrated Career Technical Education facility, (ii) the purchase of the necessary sites for school buildings, (iii) the purchase of security and technology upgrades, (iv) the purchase of new school buses, and (v) the payment of the costs associated with the issuance of the Bonds. See “THE BONDS – Purpose.”
<b>Ratings</b>	The Bonds are rated “Aaa” by Moody’s Investors Service, Inc. (“Moody’s”) by virtue of the guarantee of the Permanent School Fund of the State of Texas. The underlying rating of the District is “A1” (negative outlook) by Moody’s. The District also has various bond issues outstanding which are rated “Aaa” by Moody’s by virtue of the guarantee of the Permanent School Fund of the State of Texas. See “OTHER INFORMATION – Ratings.”

**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 of principal 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, initially Wells Fargo Bank, N.A., Minneapolis, Minnesota, 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."

**SELECTED FINANCIAL INFORMATION**

Fiscal Year Ended 8/31	Estimated District Population <sup>(1)</sup>	Taxable Assessed Valuation <sup>(2)</sup>	Taxable Assessed Valuation Per Capita	Tax Supported Debt Outstanding at End of Year	Tax Supported Debt Per Capita	Ratio of Tax Supported Debt To Taxable Assessed Valuation	Total Tax Collections
2017	40,350	\$2,404,047,548	\$59,580	\$127,225,000	\$3,153	5.29%	101.62%
2018	42,063	3,010,074,695	71,561	121,100,000	2,879	4.02%	100.16%
2019	43,684	3,494,856,366	80,003	114,125,000	2,613	3.27%	100.06%
2020	45,298	3,687,456,342	81,404	314,855,000	6,951	8.54%	97.56%
2021	46,280	3,951,098,932	85,374	377,370,000 <sup>(3)</sup>	8,154 <sup>(3)</sup>	9.55% <sup>(3)</sup>	<sup>(4)</sup>

<sup>(1)</sup> Source: Municipal Advisory Council of Texas.

<sup>(2)</sup> Established by Waller County Appraisal District and the Harris County Appraisal District. Net of exemptions. Subject to change during ensuing years.

<sup>(3)</sup> Projected. Includes the Bonds.

<sup>(4)</sup> In process.

**GENERAL FUND CONSOLIDATED STATEMENT SUMMARY**

	Fiscal Year Ended August 31,				
	2019	2018	2017	2016	2015
Beginning Balance	\$ 14,485,213	\$ 17,913,107	\$ 16,992,907	\$ 13,487,573	\$ 11,870,989
Total Revenues	67,983,906	65,358,501	60,811,874	57,126,612	49,935,234
Total Expenditures	72,682,896	68,786,395	59,895,815	53,621,278	48,130,679
Other Financing Sources (Uses)	31,464	-	4,141	-	(89,971)
Ending Balance	<u>\$ 9,817,687<sup>(1)</sup></u>	<u>\$ 14,485,213<sup>(1)</sup></u>	<u>\$ 17,913,107</u>	<u>\$ 16,992,907</u>	<u>\$ 13,585,573</u>

Source: The District's audited financial statements.

<sup>(1)</sup> Fund balances have decreased in the last two years as a result of reductions in federal funding and state funding and because of necessary expenditures related to the COVID-19 Pandemic. See "RESPONSE TO COVID-19." The District has implemented a plan to increase fund balances in the current and subsequent fiscal years.

## DISTRICT OFFICIALS, STAFF AND CONSULTANTS

### Elected Officials

<u>Board of Trustees</u>	<u>Office</u>	<u>Length of Service</u>	<u>Term Expires (May)</u>
David Kaminski	President	23 years	May 2021
Dr. Michael W. Prince	Vice President	11 years	May 2021
Maria Herrera	Secretary	2 years	May 2021
Gary Buchanan	Member	8 years	May 2022
Ronald Campbell	Member	8 years	May 2022
Bryan Lowe	Member	32 years	May 2022
William Warren	Member	<1 year	May 2022

### Selected Administrative Staff

<u>Name</u>	<u>Position</u>	<u>Length of Service with the District</u>
Kevin Moran	Superintendent	7 years
Audrey Ambridge	Chief Financial Officer	< 1 year

### Consultants and Advisors

Auditors ..... Mitchell T. Fontenote CPA, Inc.  
Port Neches, Texas

Bond Counsel..... Hunton Andrews Kurth LLP  
Houston, Texas

Financial Advisor..... Post Oak Municipal Advisors LLC  
Houston, Texas

For additional information regarding the District, please contact:

Ms. Audrey Ambridge  
Chief Financial Officer  
Waller Independent School District  
1918 Key Street  
Waller, Texas 77484  
(936) 931-3685 Phone

or

Ms. Francine Stefan  
Executive Vice President  
Post Oak Municipal Advisors LLC  
820 Gessner Road, Suite 1350  
Houston, Texas 77024  
(713) 328-0992 Phone

## **OFFICIAL STATEMENT**

**\$67,810,000**

### **WALLER INDEPENDENT SCHOOL DISTRICT**

**(Waller and Harris Counties, Texas)**

### **UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2020A**

## **INTRODUCTION**

This Official Statement, which includes the cover page, inside cover page, and Appendices A and B hereto, provides certain information regarding the issuance by Waller Independent School District (the “District”) of its Unlimited Tax School Building Bonds, Series 2020A (the “Bonds”). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the order adopted on July 13, 2020, which authorized the issuance of the Bonds, except as otherwise indicated herein. In the order adopted on July 13, 2020, pricing of the Bonds and certain other matters were delegated to a pricing officer who approved a pricing certificate which contains final pricing information for the Bonds. The order and the pricing certificate are collectively referred to herein as 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 upon request by electronic mail or upon payment of reasonable copying, mailing, and handling charges by writing the District’s Financial Advisor, Post Oak Municipal Advisors LLC, 820 Gessner Road, Suite 1350, Houston, Texas 77024.

### **Description of the District**

The Waller Independent School District is a political subdivision located in Waller and Harris Counties, Texas. The District is governed by a seven-member Board of Trustees (the “Board”) who 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 consists of approximately 328 square miles in Waller and Harris Counties, encompassing the Cities of Waller and Prairie View.

## **THE BONDS**

### **Description of the Bonds**

The Bonds are dated December 1, 2020 and mature on February 15 in each of the years and in the amounts shown on page ii hereof. Interest on the Bonds will accrue from the date of their initial delivery (the “Date of Delivery”) to the initial purchasers of the Bonds listed on the cover page hereof (the “Underwriters”), at the interest rates shown on page ii hereof and such interest shall be payable to the registered owners thereof on February 15 and August 15, commencing February 15, 2021, until stated maturity or prior redemption. Interest accruing on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 of principal amount for any one maturity and 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. 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 Wells Fargo Bank, N.A., Minneapolis, Minnesota (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 issued pursuant to the Constitution and general laws of the State of Texas (the “State”), including particularly Chapter 45, Texas Education Code, Chapter 1371, Texas Government Code, as amended, an election held within the District on November 5, 2019 and the Order.



## Purpose

Proceeds from the sale of the Bonds will be used for (i) the construction, acquisition and equipment of school buildings in the District, including the construction of a new high school with an integrated Career Technical Education facility, (ii) the purchase of the necessary sites for school buildings, (iii) the purchase of security and technology upgrades, (iv) the purchase of new school buses, and (v) the payment of the costs associated with the issuance of the Bonds.

## Sources and Uses of Funds

The proceeds from the sale of the Bonds will be applied approximately as follows:

<u>Sources of Funds</u>	
Principal Amount of Bonds	\$67,810,000.00
Net Original Issue Premium	<u>5,969,253.55</u>
Total	<u>\$73,779,253.55</u>
 <u>Uses of Funds</u>	
Deposit to Construction Fund	\$70,225,000.00
Deposit to Capitalized Interest Account	3,000,000.00
Underwriters' Discount	341,057.35
Costs of Issuance <sup>(1)</sup>	<u>213,196.20</u>
Total	<u>\$73,779,253.55</u>

<sup>(1)</sup> Includes fees of Bond Counsel, the Financial Advisor, the Paying Agent/Registrar, the rating agency and other costs related to the issuance of the Bonds.

## Security and Source of Payment

The Bonds are direct obligations of the District, payable from an annual ad valorem tax levied, without legal limit as to rate or amount, on all taxable property within the District. Additionally, the payment of principal of and interest on the Bonds is expected to be guaranteed by the corpus of the Permanent School Fund of the State of Texas. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.

## Permanent School Fund Guarantee

In connection with the sale of the Bonds, the District has submitted an application to the Texas Education Agency and has received conditional approval from the Commissioner of Education for guarantee of the Bonds under the Permanent School Fund Guarantee Program of the State of Texas (Chapter 45, Subchapter C of the Texas Education Code). Subject to satisfying certain conditions discussed under the heading "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein, the payment of the principal of and interest on 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. In the event the District defeases any of the Bonds, the payment of such defeased Bonds will cease to be guaranteed by the Permanent School Fund of the State of Texas. See "THE BONDS – Defeasance."

## Optional Redemption

The District reserves the right, at its option, to redeem Bonds maturing on or after February 15, 2032, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2031, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District may select the maturities of Bonds to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

## Mandatory Sinking Fund Redemption

The Bonds maturing on February 15, 2050 (the “Term Bonds”) are subject to mandatory redemption prior to maturity on February 15 in each of the years and respective principal amounts set forth below at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the date of redemption:

<b>Term Bonds due February 15, 2050</b>	
<b>Redemption Date (February 15)</b>	<b>Principal Amount</b>
2046	\$3,075,000
2047	3,135,000
2048	3,200,000
2049	3,265,000
2050*	3,330,000

\* Stated maturity

The Paying Agent/Registrar will select by lot or by any other customary method that results in a random selection the specific Term Bonds (or with respect to Term Bonds having a denomination in excess of \$5,000, each \$5,000 portion thereof) to be redeemed by mandatory redemption. The principal amount of Term Bonds required to be redeemed on any redemption date pursuant to the foregoing mandatory sinking fund redemption provisions hereof shall be reduced, at the option of the District, by the principal amount of any Term Bonds which, at least forty-five (45) days prior to the mandatory sinking fund redemption date (i) shall have been acquired by the District and delivered to the Paying Agent/Registrar for cancellation or (ii) shall have been redeemed pursuant to the optional redemption provisions of the Order and not previously credited to a mandatory sinking fund redemption.

## Notice of Redemption

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

## Book-Entry-Only System

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

*The District and the Underwriters cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or 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 United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.*

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered Bonds 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, 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"). 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.

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

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

Principal, interest, and redemption 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 the 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, interest, and redemption payments 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, Bonds are required to be printed and delivered.

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

*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 Bonds 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.”

### **Paying Agent/Registrar**

The initial Paying Agent/Registrar is Wells Fargo Bank, N.A., Minneapolis, Minnesota. 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 United States or any state 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.

Principal of the Bonds will be payable to the registered owner at maturity or prior redemption, as applicable, upon presentation at the principal office of the Paying Agent/Registrar. Interest on the Bonds will be payable by check, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to registered owners as shown on the records of the Paying Agent/Registrar on the Record Date (see “THE BONDS – Record Date for Interest Payment” herein), or by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close, and payment on such date shall have the same force and effect as if made on the original date payment was due.

### **Transfer, Exchange and Registration**

In the event the Book-Entry-Only System should be 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 principal office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or its designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or its duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See “THE BONDS – Book-Entry-Only System” herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

## **Record Date for Interest Payment**

The record date ("Record Date") for the interest payable on the Bonds on any interest payment date means the close of business on the last business day of the preceding month of such interest payment date. 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 (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 does not provide for the appointment of a trustee to represent the interests of the Bond holders upon any failure of the District to perform in accordance with the terms of the Order or upon any other condition and, in the event of any such failure to perform, the Bond holders would be responsible for the initiation and cost of any legal action to enforce performance of the Order. Furthermore, the Order does not establish specific events of default with respect to the Bonds and, under State law, there is no right to the acceleration of maturity of the Bonds upon the failure of the District to observe any covenant under the Order. A Bond holder could seek a judgment against the District if a default occurred in the payment of principal or interest on any such Bonds; however, such judgment could not be satisfied by execution against any property of the District and a suit for monetary damages could be vulnerable to the defense of sovereign immunity. A Bond holder's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the District to levy, assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as it becomes due or perform other material terms and covenants contained in the Order. In general, Texas courts have held that a writ of mandamus may be issued to require a public official to perform legally imposed ministerial duties necessary for the performance of a valid contract, and Texas law provides that, following their approval by the Attorney General and issuance, the Bonds are valid and binding obligations for all purposes according to their terms. However, the enforcement of any such remedy may be difficult and time consuming and a Bond holder could be required to enforce such remedy on a periodic basis.

The District is also 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 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 Bond holders 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 opinion of Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, including rights afforded to creditors under the Bankruptcy Code.

## **Defeasance**

To redeem or defease the Bonds, the District may deposit with the Registrar or with the Comptroller of the State of Texas either: (a) cash in an amount equal to the principal amount of and interest thereon to the date of maturity; or (b) pursuant to an escrow or trust agreement, cash and/or (i) direct noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America; or (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Board approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; and the principal of and interest on which will, when due or redeemable at the option of the holder, without further investment or reinvestment of either the principal amount thereof or the interest earnings thereon, provide money in an amount which, together with other moneys, if any, held in such escrow at the same time and available for such purpose, shall be sufficient to provide for the timely payment of the principal of and interest thereon to the date of maturity or earlier redemption; provided, however, that if any of the Bonds are to be redeemed prior to their respective dates of maturity, provision shall be made for the giving of notice of redemption as provided in the Order. Any surplus amount not required to accomplish such defeasance shall be returned to the District.

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 or redemption 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; provided, however, that the right to call the Bonds for redemption is not extinguished if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorize.

The Permanent School Fund guarantee of the Bonds will be released upon the defeasance of the Bonds.

## **RESPONSE TO COVID-19**

The outbreak of COVID-19, a respiratory disease caused by a novel strain of coronavirus, has been declared 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 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, including the County Judge of Harris County, 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. The Governor issued a series of executive orders relating to COVID-19 preparedness and mitigation and phased reopening of businesses in Texas. These include, executive orders which, among other things, impose operations and limitations on business occupancy and social gatherings and require people to wear face masks (with some exceptions). The Governor retains the authority to impose additional restrictions on activities. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <https://gov.texas.gov/>. Neither the information on (nor accessed through) such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement.

For the 2019-2020 school year, TEA has informed Texas school districts that COVID-19 related school closings and/or absenteeism would 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, after taking into account the allocation by the state of certain CARES Act funding, 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 calculations requiring attendance to be taken. 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 three six weeks of Foundation School Program reporting. Specifically, if ADA counts during those three six weeks are more than 1% less than the first three six weeks of the 2019-2020 school year, the first three 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 District has commenced classroom instruction for the 2020-2021 school year. As of the date of this Official Statement, approximately 67% of students will be attending classes through on campus instruction and approximately 33% will be attending classes through the remote learning options for the second grading period. As of the date of this Official Statement, the District is not experiencing a decline in enrollment over last school year. TEA recognizes that districts throughout the state are experiencing enrollment declines and implemented the ADA grace period for the first three six weeks of Foundation School Program reporting.

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. While the potential impact of the Pandemic on the 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. 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 "APPENDIX A – FINANCIAL INFORMATION REGARDING THE DISTRICT." 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.

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."

For a discussion of the impact of the Pandemic on the PSF, see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – Infectious Disease Outbreak."

## **EXPOSURE TO OIL AND GAS INDUSTRY**

Recent declines in oil prices in the United States and globally may lead to adverse conditions in the oil and gas industry. Such adverse conditions may result in reduced revenues, declines in capital and operating expenditures, business failures, and the layoff of workers within the oil and gas industry. In the past, the greater Houston area has been particularly affected by adverse conditions in the oil and gas industry, and adverse conditions in the oil and gas industry and spillover effects into other industries could adversely impact the businesses of ad valorem property taxpayers and the property values in the District, resulting in a reduction in property tax revenue. The Bonds are secured by an ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds. Reductions in oil and gas revenues may also have an adverse effect on State revenues available during the next biennium, which may impact how the State funds education.

## **WEATHER EVENTS**

The District is located near the Texas Gulf Coast. Land located in this area is susceptible to high winds, heavy rain and flooding caused by hurricanes, tropical storms, and other tropical disturbances. The greater Houston area, including the District, has experienced multiple storms exceeding a 0.2% probability (i.e. "500-year flood" event) since 2015. Several of these storms, including Hurricane Harvey in 2017, resulted in damages to District facilities or damages to residential and commercial properties in the District that comprise the District's ad valorem tax base. If a future weather event significantly damaged all or part of the properties comprising the tax base within the District, the assessed value of property within the District could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase the District's tax rate. Texas law allows school districts to increase property tax rates without voter approval upon the occurrence of certain disasters such as floods and upon a gubernatorial or presidential declaration of disaster. See "TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate." There can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will even carry flood or other casualty insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District or be sufficient for such purposes. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District could be adversely affected

## **THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM**

*The information below concerning the State 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 should not be construed as a representation by the District 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 payout from the Fund to the total-return on all investment assets of the Fund over a rolling ten-year period. State law provides that each transfer of funds from the PSF to the ASF is made monthly, with each transfer to be in the amount of one-twelfth of the annual distribution. The heavier weighting of equity securities and alternative assets relative to fixed income investments has

resulted in greater volatility of the value of the Fund. Given the greater weighting in the overall portfolio of passively managed investments, it is expected that the Fund will reflect the general performance returns of the markets in which the Fund is invested.

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

### **Management and Administration of the Fund**

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

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

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

## Valuation of the PSF and Guaranteed Bonds

### Permanent School Fund Valuations

Fiscal Year Ended 8/31	Book Value <sup>(1)</sup>	Market Value <sup>(1)</sup>
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

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

<sup>(2)</sup> At August 31, 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.

### Permanent School Fund Guaranteed Bonds

At 8/31	Principal Amount <sup>(1)</sup>
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>

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

<sup>(2)</sup> As of August 31, 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.

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

Fiscal Year Ended 8/31	School District Bonds		Charter School Bonds		Totals	
	No. of Issues	Principal Amount	No. of Issues	Principal Amount	No. of Issues	Principal Amount
2015	3,089	\$ 63,197,514,047	28	\$ 757,935,000	3,117	\$ 63,197,514,047
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	82,534,755,203	49	1,860,145,000	3,346	84,397,900,203

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

<sup>(2)</sup> 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 Amendments**

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.

## 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*, 490 S.W.3d 826 (Tex. 2016) (“*Morath*”). The plaintiffs and intervenors in the case had alleged that the Finance System, as modified by the Legislature in part in response to prior decisions of the Court, violated article VII, section 1 and article VIII, section 1-e of the Texas Constitution. In its opinion, the Court held that “[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 conversion 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 (96th) percentile of wealth per student in WADA, or (ii) the Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.016. For the 2020-2021 State fiscal biennium, school districts are guaranteed a yield of \$98.56 per student in WADA for each Golden Penny levied. Copper Pennies generate a guaranteed yield per student in WADA equal to the school district’s Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.008. For the 2020-2021 State fiscal biennium, school districts are guaranteed a yield of \$49.28 per student in WADA for each Copper Penny levied. For any school year in which the guaranteed yield of Copper Pennies per student in WADA exceeds the guaranteed yield of Copper Pennies per student in WADA for the preceding school year, a school district is required to reduce its Copper Pennies levied so as to generate no more revenue per student in WADA than was available to the school district for the preceding year. Accordingly, the increase in the guaranteed yield from \$31.95 per Copper Penny per student in WADA for the 2018-2019 school year to \$49.28 per Copper Penny per student in WADA for the 2019-2020 school year requires school districts to compress their levy of Copper Pennies by a factor of 0.64834. As such, school districts that levied an Enrichment Tax Rate of \$0.17 in school year 2018-2019 must reduce their Enrichment Tax Rate to approximately \$0.138 per \$100 taxable value for the 2019-2020 school year.

**Existing Debt Allotment, Instruction Facilities Allotment, and New Instructional Facilities Allotment.** The Foundation School Program also includes facilities funding components consisting of the IFA and the EDA, subject to legislative appropriation each State fiscal biennium. To the extent funded for a biennium, these programs assist school districts in funding facilities by, generally, equalizing a school district’s I&S tax effort. The IFA guarantees each awarded school district a specified amount per student (the “IFA Yield”) in State and local funds for each cent of I&S tax levied to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The IFA Yield has been \$35 since this program first began in 1997. New awards of IFA are only available if appropriated funds are allocated for such purpose by the State Legislature. To receive an IFA award, in years where new IFA awards are available, a school district must apply to the Commissioner in accordance with rules adopted by the TEA before issuing the bonds to be paid with IFA State assistance. The total amount of debt service assistance over a biennium for which a school district may be awarded is limited to the lesser of (1) the actual debt service payments made by the school district in the biennium in which the bonds are issued; or (2) the greater of (a) \$100,000 or (b) \$250 multiplied by the number of students in ADA. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain prescribed conditions. Once a school district receives an IFA award for bonds, it is entitled

to continue receiving State assistance for such bonds without reapplying to the Commissioner. The guaranteed level of State and local funds per student per cent of local tax effort applicable to the bonds may not be reduced below the level provided for the year in which the bonds were issued. For the 2020-2021 State fiscal biennium, the State Legislature did not appropriate any funds for new IFA awards; however, awards previously granted in years the State Legislature did appropriate funds for new IFA awards will continue to be funded.

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

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

A school district may also qualify for a NIFA allotment, which provides assistance to school districts for operational expenses associated with opening new instructional facilities. 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 District**

The District is not a Chapter 49 school district for the 2020-2021 school year. Accordingly, the District is not subject to local revenue reduction as discussed under "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Revenue Level in Excess of Entitlement." A district's local revenue level must be tested for each future school year and, if it exceeds the District's entitlement, must be reduced by exercising one of the permitted options.

### **AD VALOREM TAX PROCEDURES**

*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 collective responsibility of the Waller County Appraisal District and the Harris County Appraisal District (each an "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 “AD VALOREM TAX PROCEDURES – District and Taxpayer Remedies.”

### **State Mandated Homestead Exemptions**

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

### **Local Option Homestead Exemptions**

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

### **State Mandated Freeze on School District Taxes**

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

### **Personal Property**

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

### **Freeport and Goods-In-Transit Exemptions**

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

Certain goods, that are acquired in or imported into the State to be forwarded to another location within or without the State, stored in a location that is not owned by the owner of the goods and are transported to another location within or without the State within 175 days (“Goods-in-Transit”), are generally exempt from ad valorem taxation; however, the Property Tax Code



permits a taxing unit, on a local option basis, to tax Goods-in-Transit if the taxing unit takes official action, after conducting a public hearing, before January 1 of the first tax year in which the taxing unit proposes to tax Goods-in-Transit. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include aircraft or special inventories such as manufactured housing inventory, or a dealer's motor vehicle, boat, or heavy equipment inventory.

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

### **Other Exempt Property**

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

### **Temporary Exemption for Qualified Property Damaged by a Disaster**

The Property Tax Code entitles the owner of certain qualified (i) tangible personal property used for the production of income, (ii) improvements to real property, and (iii) manufactured homes located in an area declared by the governor to be a disaster area following a disaster and is at least 15 percent damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. Except in situations where the territory is declared a disaster on or after the date the taxing unit adopts a tax rate for the year in which the disaster declaration is issued, the governing body of the taxing unit is not required to take any action in order for the taxpayer to be eligible for the exemption. If a taxpayer qualifies for the exemption after the beginning of the tax year, the amount of the exemption is prorated based on the number of days left in the tax year following the day on which the governor declares the area to be a disaster area. For more information on the exemption, reference is made to Section 11.35 of the Tax Code. Section 11.35 of the Tax Code was enacted during the 2019 legislative session, and there is no judicial precedent for how the statute will be applied. Texas Attorney General Opinion KP-0299, issued on April 13, 2020, concluded a court would likely find the Texas Legislature intended to limit the temporary tax exemption to apply to property physically harmed as a result of a declared disaster.

### **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 “AD VALOREM TAX PROCEDURES – District Application of Tax Code.”

### **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 grants the State-mandated general residence homestead exemption of \$25,000, and a \$10,000 exemption to the market value of the residence homestead of persons 65 years of age or older as well as disabled persons. The District has not granted an additional exemption of 20% of the market value of residence homesteads. Ad valorem taxes are not levied by the District against the exempt value of residence homesteads for the payment of debt. The District has adopted the tax freeze for citizens who are disabled or are 65 years of age or older.

The District does not tax nonbusiness personal property or freeport property. The District has not taken action to tax Goods-in-Transit. The District does not participate in any tax increment reinvestment zones and has not adopted a tax abatement policy. The District entered into a valuation limitation agreement with Hewlett-Packard Co. ("HP") which limited the taxable value of certain of HP's property through tax year 2019.

The District collects its own taxes. The District permits partial payments on accounts but does not permit split payments, and discounts are not allowed.

## EMPLOYEES' BENEFIT PLANS

Pension Fund. Pension funds for employees of Texas school districts, and any employee in public education in Texas, are administered by the Teacher Retirement System of Texas (the "System"). The individual employees contribute a fixed amount of their salary to the System, currently 7.7%, and the State of Texas contributes funds to the System based on statutory required minimum salary for certified personnel, except any District personnel paid by Federally funded programs. (For more detailed information concerning the retirement plan, see Appendix B, "EXCERPTS FROM THE DISTRICT'S ANNUAL FINANCIAL REPORT" – Note I). The District does not provide post-employment healthcare benefits except those mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA). The requirements established by COBRA are fully funded by former employees who elect coverage under the Act, and no direct costs are incurred by the District.

Retiree Healthcare. The District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by TRS. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal year 2017 and 0.75% for fiscal year 2018. For detailed information concerning TRS-Care, including contributions made by the State, the District and District employees for fiscal years 2017 and 2018, see Appendix B, "EXCERPTS FROM THE DISTRICT'S ANNUAL FINANCIAL REPORT" – Note K.

The Government Accounting Standards Board (GASB) has issued GASB Statements No. 68, No. 73, and No. 82 regarding pension issues. The implementation of these statements is reflected in the financial statements and the notes to the financial statements. The District implemented the Governmental Accounting Standards Board Statement 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions at the beginning of the 2018 fiscal year. Changes for revenues and expenses prior to the implementation have not been calculated and are not available for comparison.

In June 2015, Government Accounting Standards Board (GASB) Statement No. 75 (Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions – which supersedes GASB Statement No. 45) was issued to improve accounting and financial reporting by state and local governments for OPEB. GASB Statement No. 75 requires reporting entities, such as the District, to recognize their proportionate share of the net OPEB liability in the TRS-Care Plan and a deferred outflow for the contributions made by the District subsequent to the measurement date in the Statement of Net Position, a government-wide financial statement. The changes related to OPEB in the Statement of Net Position to implement GASB 75 are reflected in the Statement of Activities, a government-wide financial statement. The changes related to the OPEB affect only the government-wide financial statements and do not affect the General Fund balance. The calculation of OPEB contributions is unaffected by the change. Such reporting began with the District's fiscal year ended August 31, 2018. To date, the District has met all funding requirements of the TRS-Care Plan.

Formal collective bargaining agreements relating directly to wages and other conditions of employment are prohibited by Texas law, as are strikes by teachers. There are various local, state, and national organized employee groups who engage in efforts to better the terms and conditions of employment of school employees. Some districts have adopted a policy to consult with employer groups with respect to certain terms and conditions of employment. Some examples of these groups are the Texas State Teachers Association, the Texas Classroom Teachers Association, the Association of Texas Professional Educators, and the National Education Association.

## **TAX RATE LIMITATIONS**

### **M&O Tax Rate Limitations**

The District is authorized to levy an M&O tax rate pursuant to the approval of the voters of the District at an election held on September 9, 1963 in accordance with the provisions of Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended (“Article 2784e-1”).

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 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 being issued as “new debt” and are subject to the 50-cent Test. The District has not used projected property values to satisfy this threshold test. The District may use Tier One funds in connection with the application of the 50-cent Test for the Bonds.

### **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.

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

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

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

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

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

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

## FINANCIAL POLICIES

*Basis of Accounting* – The District prepares its basic financial statements in conformity with Generally Accepted Accounting Principles (“GAAP”) promulgated by the Governmental Accounting Standards Board (“GASB”) and other authoritative sources identified in *Statement of Auditing Standards No. 69* of the American Institute of Certified Public Accountants. Additionally, the District complies with the requirements of the appropriate version of Texas Education Agency’s *Financial Accountability System Resource Guide* (“FASRG”) and the requirements of contracts and grants of agencies from which it receives funds.

*General Fund* – The General Fund is used to account for financial resources used for general operations. Any fund balances are considered resources available for current operations. All general tax revenues and other receipts that are not allocated by law or contractual agreement to other fund are accounted for in this fund.

*Debt Service Fund* – The Debt Service Fund is used to account for revenues collected to pay interest and related costs and to retire long-term debt.

*Special Revenue Funds* – Special Revenue Funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund. Generally, unused balances are returned to the grantor at the close of specified project periods.

*Budgetary Procedures* – The Board adopts an “appropriated budget” for the General Fund, Debt Service Fund, and the Special Revenue Funds, which is included in the Special Revenue Funds. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budgeted to actual revenues and expenditures. For each of the funds for which a formal budget is adopted, the same basis of accounting is used to reflect actual revenues and expenditures recognized on the basis of generally accepted accounting principles.

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either canceled or appropriately provided for the subsequent year’s budget.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

1. Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning September 1.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days’ public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approved of a majority of the members of the Board. Amendments are presented to the Board at its regular meeting. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year and are reflected in the official minutes of the Board.

## INVESTMENTS

The District invests its investable funds in investments authorized by Texas law in accordance with investment policies approved by the Board. Both State law and the District’s investment policies are subject to change. See Appendix A, “FINANCIAL INFORMATION REGARDING THE DISTRICT – TABLE 14 – CURRENT INVESTMENTS” for a description of the District’s investments as of September 30, 2020.

### Legal 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 United States Securities and Exchange Commission (“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. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution.

In addition to authorized investments described above, the Texas law provides that the District may invest in corporate bonds that, at the time of purchase, are rated by a nationally recognized investment rating firm "AA-" or the equivalent and have a stated final maturity that is not later than the third anniversary of the date the corporate bonds were purchased. As used herein, corporate bond means a senior secured debt obligation issued by a domestic business entity and rated not lower than "AA-" or the equivalent by a nationally recognized investment rating firm, and does not include unsecured debt obligations or debt obligations that, on conversion, would result in the holder becoming a stockholder or shareholder in the entity that issued the debt obligation. The District may not (1) invest in the aggregate more than 15% of its monthly average fund balance, excluding funds held for the payment of debt service, in corporate bonds or (2) invest more than 25% of the funds invested in corporate bonds in any one domestic business entity, including subsidiaries and affiliates of the entity. The investment officer of the District must sell any corporate bonds not later than seven days after a nationally recognized investment rating firm (1) issues a release that places the corporate bonds or the entity that issued the corporate bonds on negative credit watch or the equivalent, if the corporate bonds are rated "AA-" or the equivalent at the time the release is issued; or (2) changes the rating on the corporate bonds to a rating lower than "AA-" or the equivalent. The District may invest its funds in corporate bonds only if the Board of Trustees of the District (1) amends its investment policy to authorize corporate bonds as an eligible investment; (2) adopts procedures to provide for the monitoring of rating changes in corporate bonds and liquidating the investment in corporate bonds; and (3) identifies the funds eligible to be invested in corporate bonds. The District has taken these steps to authorize the investment of District funds in corporate bonds.

The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

### **Investment Policies**

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for District funds, the maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Texas Public Funds Investment Act. 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 Texas law, the District's 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 District's investment officers must submit an investment report to the Board detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and 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 strategies and (b) Texas law. No person may invest District funds without express written authority from the Board.

### **Additional Provisions**

Under Texas law the District is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt a written instrument by rule, order, ordinance, or resolution stating that it has reviewed the investment policy and investment strategies and that the written instrument so adopted shall record any changes made to either the investment policy or investment strategies; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the Board of Education; (4) 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; (5) perform an annual audit of the management controls on investments and adherence to the District's investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (8) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually, review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

## **TAX EXEMPTION**

### **Opinion of Bond Counsel**

In the opinion of Bond Counsel, under current law, interest on the Bonds (a) is not included in gross income for federal income tax purposes, and (b) is not an item of tax preference for purposes of the federal alternative minimum income tax. No other opinion is expressed by Bond Counsel regarding the tax consequences of the ownership of or the receipt or accrual of interest on the Bonds.

Bond Counsel's opinion is given in reliance upon certifications by representatives of the District as to certain facts relevant to both the opinion and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and is subject to the condition that there is compliance subsequent to the issuance of the Bonds with all requirements of the Code that must be satisfied in order for interest thereon to remain excludable from gross income for federal income tax purposes. The District has covenanted to comply with the current provisions of the Code regarding, among other matters, the use, expenditure and investment of the proceeds of the Bonds and the timely payment to the United States of any arbitrage rebate amounts with respect to the Bonds. Failure by the District to comply with such covenants, among other things, could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to their date of issue.

Customary practice in the giving of legal opinions includes not detailing in the opinion all the assumptions, limitations and exclusions that are a part of the conclusions therein. See "Statement on the Role of Customary Practice in the Preparation and Understanding of Third-Party Legal Opinions", 63 Bus. Law. 1277 (2008) and "Legal Opinion Principles", 53 Bus. Law. 831 (May 1998). Purchasers of the Bonds should seek advice or counsel concerning such matters as they deem prudent in connection with their purchase of Bonds.

Bond Counsel's opinion represents its legal judgment based in part upon the representations and covenants referenced therein and its review of current law, but is not a guarantee of result or binding on the Internal Revenue Service (the "Service") or the courts. Bond Counsel assumes no duty to update or supplement its opinion to reflect any facts or circumstances that may come to Bond Counsel's attention after the date of its opinion or to reflect any changes in law or the interpretation thereof that may occur or become effective after such date.

### **Other Tax Matters**

In addition to the matters addressed above, prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including without limitation financial institutions, property and casualty insurance companies, S corporations, foreign corporations subject to the branch profits tax,

recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Bonds should consult their tax advisors as to the applicability and impact of such consequences.

Prospective purchasers of the Bonds should consult their own tax advisors as to the status of interest on the Bonds under the tax laws of any state, local, or foreign jurisdiction.

The Service has a program to audit state and local government obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the Service does audit the Bonds, under current Service procedures, the Service will treat the District as the taxpayer and the owners of the Bonds will have only limited rights, if any, to participate.

There are many events that could affect the value and liquidity or marketability of the Bonds after their issuance, including but not limited to public knowledge of an audit of the Bonds by the Service, a general change in interest rates for comparable securities, a change in federal or state income tax rates, federal or state legislative or regulatory proposals affecting state and local government securities and changes in judicial interpretation of existing law. In addition, certain tax considerations relevant to owners of Bonds who purchase Bonds after their issuance may be different from those relevant to purchasers upon issuance. Neither the opinion of Bond Counsel nor this Official Statement purports to address the likelihood or effect of any such potential events or such other tax considerations and purchasers of the Bonds should seek advice concerning such matters as they deem prudent in connection with their purchase of Bonds.

### **Original Issue Discount**

Some of the Bonds may be sold at initial sale prices that are less than their respective stated redemption prices payable at maturity (collectively, the “Discount Bonds”). The excess of (i) the stated redemption price at maturity of each maturity of the Discount Bonds, over (ii) the initial offering price to the public (excluding bond houses and brokers) at which a substantial amount of each maturity of the Discount Bonds is sold will constitute original issue discount. Original issue discount will accrue for federal income tax purposes on a constant-yield-to-maturity method based on regular compounding; and a holder’s basis in such a Bond will be increased by the amount of original issue discount treated for federal income tax purposes as having accrued on the Bond while the holder holds the Bond.

Under the Code, for purposes of determining a holder’s adjusted basis in a Discount Bond, original issue discount treated as having accrued while the holder holds the Bond will be added to the holder’s basis. Original issue discount will accrue on a constant-yield-to-maturity method based on semiannual compounding. The adjusted basis will be used to determine taxable gain or loss upon the sale or other disposition (including redemption or payment at maturity) of a Discount Bond.

Prospective purchasers of Discount Bonds should consult their own tax advisors as to the calculation of accrued original issue discount and the state and local tax consequences of owning or disposing of such Bonds.

### **Bond Premium**

Bonds purchased, whether upon issuance or otherwise, for an amount (excluding any amount attributable to accrued interest) in excess of their principal amount will be treated for federal income tax purposes as having amortizable bond premium. A holder’s basis in such a Bond must be reduced by the amount of premium which accrues while such Bond is held by the holder. No deduction for such amount will be allowed, but it generally will offset interest on the Bonds while so held. Purchasers of such Bonds should consult their own tax advisors as to the calculation, accrual and treatment of amortizable bond premium and the state and local tax consequences of holding such Bonds.

## **CONTINUING DISCLOSURE OF INFORMATION**

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. 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 MSRB. This information will be available free of charge from the MSRB via EMMA system at [www.emma.msrb.org](http://www.emma.msrb.org). See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” for a description of the continuing disclosure undertaking to provide certain updated financial information and operating data annually with respect to the Permanent School Fund and the State of Texas, as the case may be, and to provide timely notice of specified material events related to the guarantee to certain information vendors.

## **Annual Reports**

The District will provide annually to the MSRB, within six (6) months after the end of each fiscal year of the District ending in and after 2020, (i) financial information and operating data with respect to the District of the general type included in Appendix A to this Official Statement under Tables numbered 1 through 6 and 8 through 14, and (ii) if not provided as part of such financial information and operating data, audited financial statements of the District, when and if available. Any financial statements so to be provided shall be (i) prepared in accordance with the accounting principles prescribed by the Texas State Board of Education or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation and (ii) audited, if the District commissions an audit of such statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within six (6) months after any such fiscal year end, then the District shall file unaudited financial statements within such 6-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such financial statements becomes available. The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by United States Securities and Exchange Commission Rule 15c2-12 ("Rule 15c2-12").

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 following the end of its fiscal year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

## **Event Notices**

The District will also provide timely notices of certain events to the MSRB (not in excess of ten (10) business days after the occurrence of the event). The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, 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) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a Financial Obligation of the District or obligated person, 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 (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the Financial Obligation of the District, any of which reflect financial difficulties. (Neither the Bonds nor the Order make any provision for debt service reserves, redemption provisions, liquidity enhancement, or credit enhancement, except for the Permanent School Fund Guarantee.) In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

For these purposes, any event described in clause (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and order 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.

The term "Financial Obligation" shall mean, for purposes of the events in clauses (15) and (16), 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 (i) or (ii). The term "Financial Obligation" shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in Rule 15c2-12) has been provided to the MSRB consistent with Rule 15c2-12. The District intends to comply with the events in clauses (15) and (16), and the definition of "Financial Obligation," with reference to Rule 15c2-12, any other applicable federal securities laws, and the guidance provided by the Commission in Release No. 34-83885 dated August 20, 2018 (the "2018 Release"), and any further

amendments or written guidance provided by the Commission or its staff with respect to the amendments to Rule 15c2-12 effected by the 2018 Release.

All documents provided to the MSRB shall be accompanied by identifying information, as prescribed by the MSRB.

### **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 the Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders and beneficial owners of the Bonds may seek a writ of mandamus to compel the District to comply with its agreement. Nothing in this paragraph is intended or shall act to disclaim, waive or limit the District's duties under federal or state securities laws.

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 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 Bondholders of a majority in aggregate principal 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 Bondholders 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 Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

### **Compliance with Prior Undertakings**

During the last five (5) years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with Rule 15c2-12.

## **OTHER INFORMATION**

### **Ratings**

The Bonds are rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") by virtue of the guarantee by the PSF. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM." The presently outstanding unenhanced tax-supported debt of the District is rated "A1" (negative outlook) by Moody's. The District has numerous issues outstanding which are rated "Aaa" by Moody's by virtue of the guarantee of the PSF. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the District makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by any or all of such rating companies, if in the judgment of any or all of such companies, circumstances so warrant.

The above ratings are not recommendations to buy, sell, or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of either or both ratings may have an adverse effect on the market price of the Bonds.

### **No Litigation Certificate**

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 statements or operations of the District.

## **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 “A” or its equivalent as to investment quality by a national rating agency. See “OTHER INFORMATION - Ratings” 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.

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

## **Registration and Qualification of Bonds for Sale**

No registration statement relating to the Bonds has been filed with the SEC 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 registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities acts of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold, or otherwise transferred. This disclaimer of responsibility for registration and 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 or qualification provisions in such other jurisdictions.

## **Legal Matters**

The District will furnish to the Underwriters a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving opinion 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, within the limits prescribed by law, upon all taxable property in the District, and the approving legal opinion of Hunton Andrews Kurth LLP, Houston, Texas, Bond Counsel to the District, in substantially the form attached as Appendix C.

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 statements and information under the captions and subcaptions “THE BONDS” (except for the information under the subcaptions “Permanent School Fund Guarantee,” “Book-Entry-Only System,” and “Bondholders’ Remedies,” as to which no opinion need be expressed), and “CONTINUING DISCLOSURE OF INFORMATION” (except for the information under the subcaption “Compliance with Prior Undertakings,” as to which no opinion need be expressed), and such firm is of the opinion that the statements and information contained therein fairly and accurately reflect the provisions of the Order; further, Bond Counsel has reviewed the statements and information contained in this Official Statement under the captions and subcaptions “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS,” “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” (except for the information under the subcaption “The School Finance System as Applied to the District” as to which no opinion need be expressed), “TAX RATE LIMITATIONS,” “TAX EXEMPTION,” “TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT AND PREMIUM BONDS,” and “OTHER INFORMATION – Registration and Qualification of Bonds for Sale,” “– Legal Investments and Eligibility to Secure Public Funds in Texas” and “– Legal Matters” (except for the last paragraph as to which no opinion need be expressed), and Bond Counsel is of the opinion that the statements and information contained therein are correct as to matters of law.

The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick Herrington & Sutcliffe LLP, Houston, Texas. The legal fee of such firm is contingent upon the sale and delivery of the Bonds. The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys

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

### **Financial Advisor**

In its role as Financial Advisor, Post Oak Municipal Advisors LLC has relied on the District for certain information concerning the District and the Bonds. The fee of the Financial Advisor for services with respect to the Bonds is contingent upon delivery of the Bonds. The Financial Advisor is not obligated to undertake and has not undertaken to make an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

The Financial Advisor 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 of \$73,438,196.20 (representing the principal amount of the Bonds, plus a net premium in the amount of \$5,969,253.55, less an underwriting discount of \$341,057.35). 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.

Additionally, the Underwriters may receive additional compensation from the District for additional services rendered including but not limited to the provision of certain investment services either directly or through a subsidiary.

The Underwriters have reviewed the information in this Official Statement in accordance with and as part of to their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

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.

FHN Financial Capital Markets is a division of First Horizon Bank and First Horizon Advisors, Inc., is a wholly owned subsidiary of First Horizon Bank. FHN Financial Capital Markets has entered into a distribution agreement with First Horizon Advisors, Inc., for the distribution of the offered Bonds at the original issue prices. Such arrangement generally provides that FHN Financial Capital Markets will share a portion of its underwriting compensation or selling concession with First Horizon Advisors, Inc. On November 4, 2019, First Horizon and IberiaBank announced its intention to enter into a merger, creating a leading regional financial services company. This transaction is now complete effective July 1, 2020. The new company retains the name First Horizon and will have its headquarters in Memphis, TN, expanding its presence to eleven states in the combined organization's existing footprint.

### **Forward Looking Statements**

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.

### **Audited Financial Statements**

The report of Mitchell T. Fontenote CPA, Inc. relating to District's financial statements for the fiscal year ended August 31, 2019, is included in this Official Statement in Appendix B; however, Mitchell T. Fontenote CPA, Inc. has not performed any procedures on such financial statements since the date of such report, and has not performed any procedures on any other financial information of the District, including without limitation any of the information contained in this Official Statement.

### **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.

The Order authorizing the issuance of the Bonds approves the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorizes its further use in the reoffering of the Bonds by the Underwriters.

/s/ David Kaminski  
President, Board of Trustees  
Waller Independent School District

ATTEST:

/s/ Maria Herrera  
Secretary, Board of Trustees  
Waller Independent School District

**APPENDIX A**  
**FINANCIAL INFORMATION REGARDING THE DISTRICT**



## FINANCIAL INFORMATION REGARDING THE DISTRICT

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

2020/21 Market Valuation Established by Waller County Appraisal District and Harris County Appraisal District (Excludes Fully Exempt Property)		\$4,863,180,402
Less Exemptions/Reductions at 100% Market Value:		
Homestead - State Mandated General	\$185,585,193	
Homestead - 10% Appraisal Cap Loss	73,834,992	
Homestead - State Mandated Over 65 or Disabled	26,003,017	
Homestead - Disabled Veterans & Surviving Spouse	20,562,940	
Freeport Exemption	175,008,198	
Pollution Control	17,366,580	
Leased Vehicles	2,097,600	
Other	623,539	
Freeze Loss & Transfer Adjustment	<u>410,999,411</u>	<u>(912,081,470)</u>
2020/21 Taxable Assessed Valuation		<u><u>\$3,951,098,932</u></u>
Debt Payable from Ad Valorem Taxes		
Outstanding Unlimited Tax Bonds (as of September 30, 2020)	\$314,855,000	
Plus: The Bonds	<u>67,810,000</u>	\$382,665,000
Interest and Sinking Fund Balance (as of August 31, 2020)		(\$22,030,434) <sup>(1)</sup>
Ratio of Tax Supported Debt to Taxable Assessed Valuation		9.69%
Estimated Population		46,280 <sup>(2)</sup>
Per Capita Taxable Assessed Valuation		\$85,374
Per Capita Debt Payable from Ad Valorem Taxes		\$8,268
Student Enrollment		7,796 <sup>(3)</sup>
Per Student Taxable Assessed Valuation		\$506,811
Per Student Debt Payable from Ad Valorem Taxes		\$49,085

<sup>(1)</sup> Source: The District's unaudited financial records. Subject to change.

<sup>(2)</sup> Source: Municipal Advisory Council of Texas.

<sup>(3)</sup> As of October 21, 2020.

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

Category	Taxable Assessed Value for Fiscal Year Ended August 31,					
	2021		2020		2019	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-family	\$1,979,937,548	40.71%	\$1,782,317,047	42.22%	\$1,476,757,428	34.23%
Real, Residential, Multi-family	119,310,877	2.45%	99,789,030	2.36%	58,449,461	1.35%
Real, Vacant Platted Lots/Tracts	167,736,340	3.45%	148,905,508	3.53%	155,198,430	3.60%
Real, Acreage (Land Only)	75,361,634	1.55%	54,721,005	1.30%	460,769,095	10.68%
Real, Farm and Ranch Improvements	671,278,797	13.80%	559,542,854	13.26%	573,140,093	13.29%
Real, Commercial and Industrial	795,545,128	16.36%	785,516,475	18.61%	736,147,627	17.06%
Real, Oil, Gas and Other Minerals Reserves	1,693,130	0.03%	1,906,590	0.05%	1,867,850	0.04%
Real and Intangible Personal, Utilities	178,943,557	3.68%	175,408,375	4.16%	135,202,061	3.13%
Tangible Personal, Business	812,526,533	16.71%	577,450,455	13.68%	690,171,137	16.00%
Tangible Personal, Other	60,846,858	1.25%	35,692,495	0.85%	26,331,740	0.61%
Total Appraised Value Before Exemptions	\$4,863,180,402	100.00%	\$4,221,249,834	100.00%	\$4,314,034,922	100.00%
Less: Total Exemptions/Reductions	(912,081,470)		(533,793,492)		(819,178,556)	
Taxable Assessed Value	<u>\$3,951,098,932</u>		<u>\$3,687,456,342</u>		<u>\$3,494,856,366</u>	

  

Category	Taxable Assessed Value for Fiscal Year Ended August 31,			
	2018		2017	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-family	\$1,438,723,472	39.52%	\$1,257,521,029	43.34%
Real, Residential, Multi-family	52,385,298	1.44%	32,196,336	1.11%
Real, Vacant Platted Lots/Tracts	187,959,836	5.16%	144,221,899	4.97%
Real, Acreage (Land Only)	58,681,230	1.61%	57,273,227	1.97%
Real, Farm and Ranch Improvements	556,235,198	15.28%	510,085,764	17.58%
Real, Commercial and Industrial	690,158,323	18.96%	486,493,645	16.77%
Real, Oil, Gas and Other Minerals Reserves	1,665,690	0.05%	1,575,940	0.05%
Real and Intangible Personal, Utilities	129,224,849	3.55%	122,585,712	4.22%
Tangible Personal, Business	492,144,373	13.52%	271,333,322	9.35%
Tangible Personal, Other	33,172,544	0.91%	18,290,571	0.63%
Total Appraised Value Before Exemptions	\$3,640,350,813	100.00%	\$2,901,577,445	100.00%
Less: Total Exemptions/Reductions	(630,276,118)		(497,529,897)	
Taxable Assessed Value	<u>\$3,010,074,695</u>		<u>\$2,404,047,548</u>	

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

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

Fiscal Year Ended 8/31	Estimated District Population <sup>(1)</sup>	Taxable Assessed Valuation <sup>(2)</sup>	Taxable Assessed Valuation Per Capita	Tax Supported Debt Outstanding at End of Year	Tax Supported Debt Per Capita	Ratio of Tax Supported Debt To Taxable Assessed Valuation
2017	40,350	\$2,404,047,548	\$59,580	\$127,225,000	\$3,153	5.29%
2018	42,063	3,010,074,695	71,561	121,100,000	2,879	4.02%
2019	43,684	3,494,856,366	80,003	114,125,000	2,613	3.27%
2020	45,298	3,687,456,342	81,404	314,855,000	6,951	8.54%
2021	46,280	3,951,098,932	85,374	377,370,000 <sup>(3)</sup>	8,154 <sup>(3)</sup>	9.55% <sup>(3)</sup>

<sup>(1)</sup> Source: Municipal Advisory Council of Texas.

<sup>(2)</sup> Established by the Waller County Appraisal District and the Harris County Appraisal District. Subject to change during the ensuing year.

<sup>(3)</sup> Projected. Includes the Bonds.

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

Tax Year	Tax Rate	General	Interest &	Tax Levy	Collections <sup>(1)</sup>		Fiscal Year Ending
		Fund	Sinking Fund		% Current	% Total	
2016	\$1.44000	\$1.04000	\$0.40000	\$ 37,449,091	96.90%	101.62%	2017
2017	1.44000	1.04000	0.40000	43,600,616	97.37%	100.16%	2018
2018	1.44000	1.04000	0.40000	50,105,274	97.28%	100.06%	2019
2019	1.37000	0.97000 <sup>(2)</sup>	0.40000	53,350,259	95.56% <sup>(3)</sup>	97.56% <sup>(3)</sup>	2020
2020	1.36640	0.96640 <sup>(2)</sup>	0.40000	57,682,915	----- (In Process) -----		2021

<sup>(1)</sup> Excludes penalties and interest.

<sup>(2)</sup> See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" for a discussion of the compression of maintenance and operations tax rates under HB 3.

<sup>(3)</sup> Unaudited collections as of July 20, 2020.

**TABLE 5 – TEN LARGEST TAXPAYERS <sup>(1)</sup>**

Name of Taxpayer	Nature of Property	2020/21	% of Taxable
		Taxable Assessed Valuation	Assessed Valuation
BNP LLC	Manufacturing	\$ 237,525,048	6.01%
Goodman Manufacturing Co.	Manufacturing	210,490,288	5.33%
DXC Technology Services Inc.	Manufacturing	129,818,857	3.29%
NRG Manufacturing Inc.	Manufacturing	106,741,270	2.70%
Seaway Crude Pipeline LP	Oil & Gas Pipeline	75,467,280	1.91%
Centerpoint Energy	Electric Utility	39,887,592	1.01%
Sealy Kickapoo Road LLC	Industrial	28,314,200	0.72%
Bourne Properties	Residential	27,676,470	0.70%
Oxford Ranch Apartments LLC	Residential	26,470,703	0.67%
Alegacy Development	Residential	23,084,160	0.58%
			<u>22.92%</u>

<sup>(1)</sup> Source: The Waller County Appraisal District and the Harris County Appraisal District.

**TABLE 6 – TAX ADEQUACY**

Principal and Interest Requirements (2021).....	\$ 18,932,008 <sup>(1)</sup>
\$0.484 Tax Rate on 2020/21 Taxable Assessed Valuation at 99% Collection Produces.....	\$ 18,932,086 <sup>(2)</sup>
Maximum Principal and Interest Requirements (2025).....	\$ 21,812,550 <sup>(1)</sup>
\$0.5577 Tax Rate on 2020/21 Taxable Assessed Valuation at 99% Collection Produces.....	\$ 21,814,926 <sup>(2)</sup>
Average Principal and Interest Requirements (2021-2050).....	\$ 20,534,472 <sup>(1)</sup>
\$0.5250 Tax Rate on 2020/21 Taxable Assessed Valuation at 99% Collection Produces.....	\$ 20,535,837 <sup>(2)</sup>

<sup>(1)</sup> Projected. Includes the Bonds.

<sup>(2)</sup> Based on 2020/21 taxable assessed valuation of \$3,951,098,932. The District may be required to use Tier One funds in order to demonstrate compliance with the 50-cent Test. See "TAX RATE LIMITATIONS - I&S Tax Rate Limitations."

**TABLE 7 – 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.

	Gross Tax Supported Debt	As of	Estimated Percent Overlapping	Overlapping Tax Supported Debt
Waller Independent School District	\$382,665,000 <sup>(1)</sup>	9/30/2020	100.00%	\$382,665,000
Bauer Landing WC&ID	9,695,000	9/30/2020	100.00%	9,695,000
Harris County	1,867,957,125	9/30/2020	0.41%	7,658,624
Harris County Department of Education	6,320,000	9/30/2020	0.41%	25,912
Harris County Flood Control District	334,270,000	9/30/2020	0.41%	1,370,507
Harris County Hospital District	86,050,000	9/30/2020	0.41%	352,805
Harris County Municipal Utility District No. 319	13,185,000	9/30/2020	100.00%	13,185,000
Harris County Municipal Utility District No. 405	2,810,000	9/30/2020	100.00%	2,810,000
Harris County Municipal Utility District No. 434	21,375,000	9/30/2020	100.00%	21,375,000
Harris County WC&ID No. 159	13,625,000	9/30/2020	0.50%	68,125
Northwest Freeway Municipal Utility District	9,190,000	9/30/2020	100.00%	9,190,000
Port of Houston Authority	514,174,397	9/30/2020	0.41%	2,108,115
Prairie View, City of	4,110,053	9/30/2020	100.00%	4,110,053
Waller County	43,139,000	9/30/2020	36.22%	15,624,946
Waller, City of	11,970,000	9/30/2020	100.00%	11,970,000
Total Direct and Overlapping Debt .....				\$482,209,087
Ratio of Total Direct and Overlapping Debt to 2020/21 Taxable Assessed Valuation .....				12.20%
Total Direct and Overlapping Debt per Capita .....				\$10,419

Source: Municipal Advisory Council of Texas.

<sup>(1)</sup> Includes the Bonds.

**TABLE 8 – TAX-SUPPORTED DEBT SERVICE REQUIREMENTS**

Fiscal Year	Outstanding	Plus: The Bonds			Total
Ending	Debt				Debt
8/31	Service	Principal	Interest	Total	Service
2021	\$17,591,975		\$1,340,033	\$1,340,033	\$18,932,008
2022	18,447,675		2,010,050	2,010,050	20,457,725
2023	18,445,825	\$1,390,000	1,975,300	3,365,300	21,811,125
2024	18,444,613	1,460,000	1,904,050	3,364,050	21,808,663
2025	18,448,375	1,535,000	1,829,175	3,364,175	21,812,550
2026	18,446,650	1,615,000	1,750,425	3,365,425	21,812,075
2027	18,445,438	1,695,000	1,667,675	3,362,675	21,808,113
2028	18,444,675	1,785,000	1,580,675	3,365,675	21,810,350
2029	18,447,675	1,875,000	1,489,175	3,364,175	21,811,850
2030	18,448,575	1,970,000	1,393,050	3,363,050	21,811,625
2031	18,447,575	2,070,000	1,292,050	3,362,050	21,809,625
2032	18,446,100	2,155,000	1,207,975	3,362,975	21,809,075
2033	18,443,800	2,220,000	1,142,350	3,362,350	21,806,150
2034	18,447,550	2,290,000	1,074,700	3,364,700	21,812,250
2035	18,447,000	2,360,000	1,004,950	3,364,950	21,811,950
2036	18,445,875	2,430,000	933,100	3,363,100	21,808,975
2037	18,444,825	2,505,000	859,075	3,364,075	21,808,900
2038	17,012,075	2,580,000	782,800	3,362,800	20,374,875
2039	17,010,550	2,660,000	704,200	3,364,200	20,374,750
2040	17,011,525	2,725,000	637,050	3,362,050	20,373,575
2041	17,013,350	2,780,000	582,000	3,362,000	20,375,350
2042	17,008,600	2,840,000	525,800	3,365,800	20,374,400
2043	17,008,400	2,895,000	468,450	3,363,450	20,371,850
2044	17,007,000	2,955,000	409,950	3,364,950	20,371,950
2045	17,009,561	3,015,000	350,250	3,365,250	20,374,811
2046	17,006,323	3,075,000	289,350	3,364,350	20,370,673
2047	13,169,761	3,135,000	227,250	3,362,250	16,532,011
2048	13,167,178	3,200,000	163,900	3,363,900	16,531,078
2049	13,167,705	3,265,000	99,250	3,364,250	16,531,955
2050	13,170,578	3,330,000	33,300	3,363,300	16,533,878
	\$518,496,805	\$67,810,000	\$29,727,358	\$97,537,358	\$616,034,163

**TABLE 9 – INTEREST AND SINKING FUND BUDGET PROJECTION**

Interest and Sinking Fund Balance, as of August 31, 2020	\$22,030,434 <sup>(1)</sup>
Plus: 2020/21 Budgeted Interest and Sinking Fund Tax Levy	16,864,509 <sup>(2)</sup>
Plus: 2020/21 Budgeted Penalty and Interest on Delinquent Taxes	175,007 <sup>(2)</sup>
Plus: 2020/21 Budgeted Interest Earnings	223,006 <sup>(2)</sup>
Less: I&S Fund Tax Supported Debt Service Requirements, Fiscal Year Ending August 31, 2021	<u>(18,932,008)</u>
Estimated Interest and Sinking Fund Balance, as of August 31, 2021	<u><u>\$20,360,948</u></u>

<sup>(1)</sup> Source: The District's unaudited financial records. Subject to change.

<sup>(2)</sup> Based on the District's adopted budget for the 2020-21 fiscal year. Subject to change.

**TABLE 10 – AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS**

Purpose	Date Authorized	Amount Authorized	Authorization Used to Date <sup>(1)</sup>	Authorization Used This Issue <sup>(1)</sup>	Unused Authorization
School Buildings	11/5/2019	\$295,225,000	\$225,000,000	\$70,225,000	\$0

<sup>(1)</sup> Includes premium charged against voted authorization.

**TABLE 11 – OTHER OBLIGATIONS**

The District currently has no outstanding obligations other than general obligation bonds.

**TABLE 12 – GENERAL FUND REVENUE AND EXPENDITURE HISTORY**

	Fiscal Year Ended August 31,				
	2019	2018	2017	2016	2015
<b><u>Revenues:</u></b>					
Local, Intermediate and Out-of-State	\$ 37,716,140	\$ 32,972,213	\$ 28,459,627	\$ 24,747,197	\$ 22,342,491
State Program Revenues	29,314,108	31,308,435	31,207,804	31,516,333	26,924,872
Federal Program Revenues	953,658	1,077,853	1,144,443	863,082	667,871
<b>Total Revenues</b>	<b>\$ 67,983,906</b>	<b>\$ 65,358,501</b>	<b>\$ 60,811,874</b>	<b>\$ 57,126,612</b>	<b>\$ 49,935,234</b>
<b><u>Expenditures:</u></b>					
Instruction	\$ 40,840,390	\$ 38,144,048	\$ 32,475,851	\$ 30,170,806	\$ 28,081,234
Instruction Resources and Media Services	686,742	605,435	588,987	598,931	590,918
Curriculum and Instructional Staff Development	861,670	901,352	1,226,682	1,028,326	349,933
Instructional Leadership	2,214,207	2,127,833	1,430,864	1,013,005	809,527
School Leadership	4,172,969	3,761,898	3,442,220	3,104,179	2,768,053
Guidance, Counseling & Evaluation Services	2,783,260	2,191,593	1,656,727	1,835,835	1,396,590
Health Services	455,299	430,019	391,676	421,452	403,232
Student Transportation	4,401,791	4,083,082	3,553,859	3,027,386	3,039,703
Extracurricular Activities	1,994,948	1,655,254	1,742,117	1,999,517	1,547,671
General Administration	2,944,217	2,663,331	2,340,879	2,176,619	2,144,482
Facilities Maintenance and Operations	6,696,688	7,157,093	6,174,369	5,783,866	5,182,119
Security and Monitoring Services	503,367	515,210	435,769	433,062	399,258
Data Processing Services	2,294,370	1,571,682	1,691,677	1,079,690	915,200
Community Services	75,845	68,377	60,695	66,868	62,820
Capital Outlay	1,252,580	2,407,059	2,393,150	424,525	81,440
Other Intergovernmental Charges	504,553	503,129	290,293	457,211	358,499
<b>Total Expenditures</b>	<b>\$ 72,682,896</b>	<b>\$ 68,786,395</b>	<b>\$ 59,895,815</b>	<b>\$ 53,621,278</b>	<b>\$ 48,130,679</b>
Excess (Deficiency) of Revenues Over Expenditures	\$ (4,698,990)	\$ (3,427,894)	\$ 916,059	\$ 3,505,334	\$ 1,706,555
<b><u>Other Financing Sources (Uses):</u></b>					
Other Resources	\$ 31,464	\$ -	\$ 4,141	\$ -	\$ (89,971)
Other Uses	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 31,464</b>	<b>\$ -</b>	<b>\$ 4,141</b>	<b>\$ -</b>	<b>\$ (89,971)</b>
Net Change in Fund Balance	\$ (4,667,526)	\$ (3,427,894)	\$ 920,200	\$ 3,505,334	\$ 1,616,584
Beginning Fund Balance	14,485,213	17,913,107	16,992,907	13,487,573	11,870,989
<b>Ending Fund Balance</b>	<b>\$ 9,817,687 <sup>(1)</sup></b>	<b>\$ 14,485,213 <sup>(1)</sup></b>	<b>\$ 17,913,107</b>	<b>\$ 16,992,907</b>	<b>\$ 13,487,573</b>

Source: The District's audited financial statements.

<sup>(1)</sup> Fund balances have decreased in the last two years as a result of reductions in federal funding and state funding and because of necessary expenditures related to the COVID-19 Pandemic. See "RESPONSE TO COVID-19." The District has implemented a plan to increase fund balances in the current and subsequent fiscal years.

**TABLE 13 – DEBT SERVICE FUND REVENUE AND EXPENDITURE HISTORY**

	Fiscal Year Ended August 31,				
	2019	2018	2017	2016	2015
<b><u>Revenues:</u></b>					
Local, Intermediate and Out-of-State	\$ 14,316,740	\$ 12,444,309	\$ 10,818,633	\$ 9,359,679	\$ 8,369,377
State Program Revenues	145,312	188,811	486,147	641,818	88,156
<b>Total Revenues</b>	<b>\$ 14,462,052</b>	<b>\$ 12,633,120</b>	<b>\$ 11,304,780</b>	<b>\$ 10,001,497</b>	<b>\$ 8,457,533</b>
<b><u>Expenditures:</u></b>					
Principal	\$ 4,105,000	\$ 4,000,000	\$ 4,460,000	\$ 3,165,000	\$ 4,170,000
Interest and Fund Fees	5,337,675	5,143,366	5,341,606	4,626,539	3,156,138
Bond Issuance Costs and Fees	34,351	16,050	47,595	407,290	140,745
<b>Total Expenditures</b>	<b>\$ 9,477,026</b>	<b>\$ 9,159,416</b>	<b>\$ 9,849,201</b>	<b>\$ 8,198,829</b>	<b>\$ 7,466,883</b>
Excess (Deficiency) of Revenues Over Expenditures	\$ 4,985,026	\$ 3,473,704	\$ 1,455,579	\$ 1,802,668	\$ 990,650
<b><u>Other Financing Sources (Uses):</u></b>					
Capital-Related Debt Issued (Regular Bonds)	\$ -	\$ -	\$ -	\$ 36,265,000	\$ 8,500,000
Premium or Discount on Issuance of Bonds	-	-	-	5,719,272	1,420,781
Other Uses	-	-	-	(41,787,086)	-
Prepaid Interest	-	-	-	-	12,571
Payment to Escrow Agent	(2,915,623)	(2,201,653)	-	-	(9,773,188)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (2,915,623)</b>	<b>\$ (2,201,653)</b>	<b>\$ -</b>	<b>\$ 197,186</b>	<b>\$ 160,164</b>
Net Change in Fund Balance	\$ 2,069,403	\$ 1,272,051	\$ 1,455,579	\$ 1,999,854	\$ 1,150,814
Beginning Fund Balance	9,655,398	8,383,347	6,927,768	4,927,914	3,777,101
<b>Ending Fund Balance</b>	<b>\$ 11,724,801</b>	<b>\$ 9,655,398</b>	<b>\$ 8,383,347</b>	<b>\$ 6,927,768</b>	<b>\$ 4,927,914</b>

Source: The District's audited financial statements.

**TABLE 14 – CURRENT INVESTMENTS**

As of September 30, 2020, the District's investable funds were invested in the following categories:

Description	Book Value <sup>(1)</sup>	Market Value <sup>(1)</sup>	Percent of Total Market Value
Money Markets Account	\$ 193,272	\$ 193,272	0.09%
Certificates of Deposit	2,097,078	2,097,078	0.94%
LoneStar Investment Pool	221,434,984	221,434,984	98.98%
	<b>\$ 223,725,335</b>	<b>\$ 223,725,335</b>	<b>100.00%</b>

<sup>(1)</sup> Unaudited.



## **APPENDIX B**

### **EXCERPTS FROM THE DISTRICT'S ANNUAL FINANCIAL REPORT**

# MITCHELL T. FONTENOTE

## CERTIFIED PUBLIC ACCOUNTANT, INC.

December 9, 2019

### Independent Auditor's Report

Waller Independent School District  
Waller, Texas

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Waller Independent School District as of and for the year ended August 31, 2019, and the related notes to the financial statements, which collectively comprise the Waller Independent School District's basic financial statements as listed in the table of contents.

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

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

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the 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, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Waller Independent School District, as of August 31, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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MITCHELL@MTFCPAS.COM

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-9 and 43, 60–61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Waller Independent School District's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 and individual nonmajor fund financial statements 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2019, on our consideration of the Waller 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 the Waller Independent School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Waller Independent School District's internal control over financial reporting and compliance.

*Mitchell T Fontenote CPA, Inc.*

Port Neches, Texas

In this section of the Annual Financial Report, we, the managers of the Waller Independent School District (the District), discuss and analyze the District's financial performance for the fiscal year ended August 31, 2019. We encourage readers to consider the information presented here in conjunction with the independent auditors' report on page 2, and the District's Basic Financial Statements that begin on page 10.

## FINANCIAL HIGHLIGHTS

- The District's total combined net position was \$6,926,360 at August 31, 2019.
- During the year, the District's expenses were \$582,827 more than the \$93,309,798 generated in taxes and other revenues for governmental activities.
- The general fund reported a fund balance this year of \$9,817,687. Of this amount, \$9,110,311 is for unrestricted use by the District.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements include three components: (1) management's discussion and analysis (this section), (2) the basic financial statements, and (3) required supplementary information.

**Government-Wide Financial Statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. They include the Statement of Net Position and the Statement of Activities that provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt 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.

The *Statement of Net Position* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. To assess the overall health of the District, one needs to consider additional nonfinancial factors such as changes in the District's tax base.

The *Statement of Activities* presents information showing how the government's net position changed during the current fiscal year. All changes in net position are reported for all of the current year's revenues and expenses regardless of when cash is received or paid. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the District's government-wide financial statements distinguish the functions of the District as being principally supported by taxes and intergovernmental revenues (governmental activities) as opposed to business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges.

**Fund Financial Statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objects. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related requirements. The fund financial statements provide detailed information about the District's most significant funds, *not* the District as a whole.

- Some funds are required by State law and by bond covenants.
- The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

## OVERVIEW OF THE FINANCIAL STATEMENTS - Continued

The District has the following kinds of funds:

- **Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The District maintains several individual governmental funds organized according to their type. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the District's most significant funds. The District's major governmental fund is the General Fund. Data for the remaining governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. The Texas Education Agency also requires the District to present a budgetary comparison statement for one of its special revenue funds (food service) and the debt service fund.

- **Proprietary funds.** These funds include the enterprise fund. The District's vending machine fund activity is reported in the enterprise fund.
- **Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position on page 20.

**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. The notes to the financial statements can be found on pages 21-42 of this report.

**Required Supplementary Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* that further explains and supports the information in the financial statements. Required supplementary information can be found on page 43-51 of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the Net Position (Table I) and Changes in Net Position (Table II) of the District's governmental activities.

The District's combined net position were \$6,926,360 at August 31, 2019. (See Table I)

**Table I**  
**Waller Independent School District**  
**Net Position**

	Governmental Activities			Business Type		
	2019	2018	Change	2019	2018	Change
Current and Other Assets	\$ 33,014,403	\$ 34,329,936	\$ (1,315,533)	\$ 15,835	\$ 42,707	\$ (26,872)
Capital Assets	142,179,853	146,324,020	(4,144,167)	-	-	-
Total Assets	175,194,256	180,653,956	(5,459,700)	15,835	42,707	(26,872)
Deferred Charges on Refunding	3,550,521	3,892,002	(341,481)	-	-	-
Deferred Outflow - Pension	15,088,621	4,233,090	10,855,531	-	-	-
Deferred Outflow - OPEB	6,095,438	394,634	5,700,804	-	-	-
Total Deferred Outflows of Resources	24,734,580	8,519,726	16,214,854	-	-	-
Long-term Liabilities	178,744,691	166,906,624	11,838,067	-	-	-
Other Liabilities	3,580,590	3,595,358	(14,768)	-	-	-
Total Liabilities	182,325,281	170,501,982	11,823,299	-	-	-
Deferred Inflow - Pension	1,750,556	2,127,999	(377,443)	-	-	-
Deferred Inflow - OPEB	8,942,474	9,077,221	(134,747)	-	-	-
Total Deferred Inflow of Resources	10,693,030	11,205,220	(512,190)	-	-	-
Net Position:						
Net Investment in Capital Assets	149,650,193	18,646,441	131,003,752	-	-	-
Restricted	16,127,149	10,731,313	5,395,836	-	-	-
Unrestricted	(158,866,817)	(21,911,274)	(136,955,543)	15,835	42,707	(26,872)
Total Net Position	\$ 6,910,525	\$ 7,466,480	(555,955)	\$ 15,835	\$ 42,707	(26,872)

Approximately \$131 million of the District's net position represent investments in capital assets net of related debt.

**Changes in net position.** The Districts total revenues were \$93 million. A portion, 55 percent, of the District's revenue comes from local property taxes, 34 percent comes from grants and contributions, while only 9 percent relates to charges for services and operating grants, and the remaining 2 percent relates to investment earnings and other miscellaneous revenue.

Total Cost of all programs and services was \$93,774,113. The net position of the District's governmental activities for the current year decreased by \$555,955 (see Table II on page 7 of this report).

WALLER INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AUGUST 31, 2019

Key elements of the governmental activities of the District are reflected in the following table.

**Table II**  
**Waller Independent School District**  
**Changes in Net Position**

	Governmental Activities			Business-Type Activities		
	2019	2018	Change	2019	2018	Change
Revenues:						
Program Revenues:						
Charges for Services	\$ 1,506,410	\$ 1,050,737	\$ 455,673	\$ 91,640	\$ 113,289	\$ (21,649)
Operating Grants and Contributions	7,083,705	(1,265,127)	8,348,832	-	1,391	(1,391)
General Revenues:						
Property Taxes	50,944,763	44,596,381	6,348,382	-	-	-
State Aid - Formula Grants	32,136,433	28,251,300	3,885,133	-	-	-
Investment Earnings	742,522	425,485	317,037	-	-	-
Miscellaneous	804,325	241,401	562,924	-	-	-
Total Revenue	<u>93,218,158</u>	<u>73,300,177</u>	<u>19,917,981</u>	<u>91,640</u>	<u>114,680</u>	<u>(23,040)</u>
Expenses:						
Instruction	49,330,711	32,595,213	(16,735,498)	-	-	-
Instructional Resources and Media Services	780,252	460,695	(319,557)	-	-	-
Curriculum/Instructional Development	987,109	492,358	(494,751)	-	-	-
Instructional Leadership	3,455,632	1,765,602	(1,690,030)	-	-	-
School Leadership	4,692,588	2,619,101	(2,073,487)	-	-	-
Guidance and Counseling Services	3,734,957	1,716,450	(2,018,507)	-	-	-
Health Services	477,338	329,340	(147,998)	-	-	-
Student (Pupil) Transportation	4,772,924	3,542,548	(1,230,376)	-	-	-
Food Services	4,282,995	2,826,236	(1,456,759)	-	-	-
Cocurricular/Extracurricular Activities	2,184,841	1,341,797	(843,044)	-	-	-
General Administration	3,283,763	2,232,398	(1,051,365)	-	-	-
Plant Maintenance and Operations	7,920,416	7,245,561	(674,855)	-	-	-
Security and Monitoring Services	537,864	553,529	15,665	-	-	-
Data Processing Services	2,216,774	1,483,403	(733,371)	-	-	-
Community Services	94,940	68,954	(25,986)	-	-	-
Debt Services - Interest on Long-Term Debt	4,482,105	4,802,974	320,869	-	-	-
Debt Services - Bond Issuance Cost and Fees	34,351	24,975	(9,376)	-	-	-
Other Intergovernmental Charges	504,553	503,129	(1,424)	118,512	103,042	(15,470)
Total Expenses Governmental Activities	<u>93,774,113</u>	<u>64,604,263</u>	<u>(29,169,850)</u>	<u>118,512</u>	<u>103,042</u>	<u>(15,470)</u>
Increase (Decrease) in Net Position	<u>(555,955)</u>	<u>8,695,914</u>	<u>(9,251,869)</u>	<u>(26,872)</u>	<u>11,638</u>	<u>(38,510)</u>
Net Position - September 1 (Beginning)	<u>7,466,480</u>	<u>(1,229,434)</u>	<u>8,695,914</u>	<u>42,707</u>	<u>31,069</u>	<u>11,638</u>
Net Position - August 31 (Ending)	<u>\$ 6,910,525</u>	<u>\$ 7,466,480</u>	<u>\$ (555,955)</u>	<u>\$ 15,835</u>	<u>\$ 42,707</u>	<u>\$ (26,872)</u>

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

As the District completed the year, its governmental funds (as presented on page 13) reported a combined fund balance of \$26 million, which is an increase from last year.

Over the course of the year, the Board of Trustees revised the District's budget a number of times. These budget items fall into three categories. The first category includes amendments and supplemental appropriations that were provided shortly after the school year began. The second category involved moving funds from program areas that did not need or use all of the resources originally appropriated to them. The third category involved changes in state program revenues.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

There were budget amendments for the 2018-2019 school year required to meet various needs throughout the District approved by the Board of Trustees.

## **CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY**

**Capital Assets.** At August 31, 2019 the District had \$142 million (net of depreciation) invested in a broad range of capital assets, including land, buildings, furniture and equipment used for instruction, transportation, athletics, administration, and maintenance. This amount represents a net decrease of \$4,144,166 (including additions and deductions) over last year. Additional details on capital assets can be found in the notes to the financial statements.

**Long-Term Debt.** At year-end, the District had \$114 million in general obligation debt at a coupon interest rate of 1.5-5.0% outstanding at year-end. The District's general obligation bonds carried the highest possible rating, according to national rating agencies. Additional details on long-term debt can be found in the notes to the financial statements.



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

The District's elected and appointed officials considered many factors when setting the fiscal-year 2019 budget and tax rate. One of those factors continues to be the economy and the unknown election results and the increasing of the local homestead exemption that will decrease the district's property tax. The District's property values have steadily increased and the student population has likewise steadily increased causing need for additional teaching staff, instructional support staff and related instructional resources. These indicators were taken into account when adopting the General Fund budget for 2019. The District's budgetary General Fund balance is expected to stay the same by the close of 2019-2020 school year.

### **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 as well as demonstrate accountability for funds the District receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Mike Marcus, CPA, Assistant Superintendent for Finance at (936) 931-0314.

## BASIC FINANCIAL STATEMENTS

WALLER INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
AUGUST 31, 2019

EXHIBIT A-1

		1	2	3
		Primary Government		
Data			Business	
Control		Governmental	Type	
Codes		Activities	Activities	Total
<b>ASSETS</b>				
1110	Cash and Cash Equivalents	\$ 6,843,145	\$ 15,835	\$ 6,858,980
1120	Current Investments	20,275,643	-	20,275,643
1210	Property Taxes - Current	1,340,295	-	1,340,295
1220	Property Taxes - Delinquent	2,560,965	-	2,560,965
1230	Allowance for Uncollectible Taxes	(120,863)	-	(120,863)
1240	Due from Other Governments	1,453,027	-	1,453,027
1300	Inventories	77,371	-	77,371
1410	Prepayments	584,819	-	584,819
	Capital Assets:			
1510	Land	7,314,104	-	7,314,104
1520	Buildings, Net	129,475,025	-	129,475,025
1530	Furniture and Equipment, Net	5,390,724	-	5,390,724
1000	Total Assets	175,194,256	15,835	175,210,091
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
1701	Deferred Charge for Refunding	3,550,521	-	3,550,521
1705	Deferred Outflow Related to TRS Pension	15,088,621	-	15,088,621
1706	Deferred Outflow Related to TRS OPEB	6,095,438	-	6,095,438
1700	Total Deferred Outflows of Resources	24,734,580	-	24,734,580
<b>LIABILITIES</b>				
2110	Accounts Payable	178,911	-	178,911
2140	Interest Payable	152,700	-	152,700
2160	Accrued Wages Payable	3,184,251	-	3,184,251
2180	Due to Other Governments	15,621	-	15,621
2300	Unearned Revenue	49,107	-	49,107
	Noncurrent Liabilities:			
2501	Due Within One Year	5,075,000	-	5,075,000
2502	Due in More Than One Year	121,606,906	-	121,606,906
2540	Net Pension Liability (District's Share)	23,783,872	-	23,783,872
2545	Net OPEB Liability (District's Share)	28,278,913	-	28,278,913
2000	Total Liabilities	182,325,281	-	182,325,281
<b>DEFERRED INFLOWS OF RESOURCES</b>				
2605	Deferred Inflow Related to TRS Pension	1,750,556	-	1,750,556
2606	Deferred Inflow Related to TRS OPEB	8,942,474	-	8,942,474
2600	Total Deferred Inflows of Resources	10,693,030	-	10,693,030
<b>NET POSITION</b>				
3200	Net Investment in Capital Assets	149,650,193	-	149,650,193
	Restricted:			
3820	Restricted for Federal and State Programs	1,136,418	-	1,136,418
3850	Restricted for Debt Service	11,724,801	-	11,724,801
3860	Restricted for Capital Projects	3,265,930	-	3,265,930
3900	Unrestricted	(158,866,817)	15,835	(158,850,982)
3000	Total Net Position	\$ 6,910,525	\$ 15,835	\$ 6,926,360

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

WALLER INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2019

Data Control Codes	1	Program Revenues	
		3	4
	Expenses	Charges for Services	Operating Grants and Contributions
<b>Primary Government:</b>			
GOVERNMENTAL ACTIVITIES:			
11 Instruction	\$ 49,330,711	\$ 537,749	\$ 2,495,206
12 Instructional Resources and Media Services	780,252	-	-
13 Curriculum and Instructional Staff Development	987,109	-	18,662
21 Instructional Leadership	3,455,632	-	754,596
23 School Leadership	4,692,588	-	4,245
31 Guidance, Counseling and Evaluation Services	3,734,957	-	494,813
33 Health Services	477,338	-	-
34 Student (Pupil) Transportation	4,772,924	821,575	-
35 Food Services	4,282,995	80,424	3,303,177
36 Extracurricular Activities	2,184,841	-	-
41 General Administration	3,283,763	-	-
51 Facilities Maintenance and Operations	7,920,416	66,662	-
52 Security and Monitoring Services	537,864	-	-
53 Data Processing Services	2,216,774	-	-
61 Community Services	94,940	-	13,006
72 Debt Service - Interest on Long-Term Debt	4,482,105	-	-
73 Debt Service - Bond Issuance Cost and Fees	34,351	-	-
99 Other Intergovernmental Charges	504,553	-	-
[TG] Total Governmental Activities:	93,774,113	1,506,410	7,083,705
BUSINESS-TYPE ACTIVITIES:			
01 Enterprise Funds - Locally Defined	118,512	91,640	-
[TB] Total Business-Type Activities:	118,512	91,640	-
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 93,892,625	\$ 1,598,050	\$ 7,083,705
Data Control Codes	General Revenues:		
	Taxes:		
MT	Property Taxes, Levied for General Purposes		
DT	Property Taxes, Levied for Debt Service		
SF	State Aid - Formula Grants		
GC	Grants and Contributions not Restricted		
IE	Investment Earnings		
MI	Miscellaneous Local and Intermediate Revenue		
TR	Total General Revenues		
CN	Change in Net Position		
NB	Net Position - Beginning		
NE	Net Position--Ending		

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

Net (Expense) Revenue and Changes in Net Position		
6	7	8
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (46,297,756)	\$ -	\$ (46,297,756)
(780,252)	-	(780,252)
(968,447)	-	(968,447)
(2,701,036)	-	(2,701,036)
(4,688,343)	-	(4,688,343)
(3,240,144)	-	(3,240,144)
(477,338)	-	(477,338)
(3,951,349)	-	(3,951,349)
(899,394)	-	(899,394)
(2,184,841)	-	(2,184,841)
(3,283,763)	-	(3,283,763)
(7,853,754)	-	(7,853,754)
(537,864)	-	(537,864)
(2,216,774)	-	(2,216,774)
(81,934)	-	(81,934)
(4,482,105)	-	(4,482,105)
(34,351)	-	(34,351)
(504,553)	-	(504,553)
(85,183,998)	-	(85,183,998)
-	(26,872)	(26,872)
-	(26,872)	(26,872)
(85,183,998)	(26,872)	(85,210,870)
36,801,183	-	36,801,183
14,143,580	-	14,143,580
25,919,485	-	25,919,485
6,216,948	-	6,216,948
742,522	-	742,522
804,325	-	804,325
84,628,043	-	84,628,043
(555,955)	(26,872)	(582,827)
7,466,480	42,707	7,509,187
\$ 6,910,525	\$ 15,835	\$ 6,926,360

WALLER INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AUGUST 31, 2019

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
<b>ASSETS</b>				
1110 Cash and Cash Equivalents	\$ (2,001,659)	\$ 4,370,817	\$ 4,473,987	\$ 6,843,145
1120 Investments - Current	12,984,327	7,295,390	(4,074)	20,275,643
1210 Property Taxes - Current	958,273	382,022	-	1,340,295
1220 Property Taxes - Delinquent	1,859,303	701,662	-	2,560,965
1230 Allowance for Uncollectible Taxes	(87,290)	(33,573)	-	(120,863)
1240 Due from Other Governments	1,080,156	-	372,871	1,453,027
1260 Due from Other Funds	430,797	-	-	430,797
1300 Inventories	-	-	77,371	77,371
1410 Prepayments	584,819	-	-	584,819
1000 Total Assets	<u>\$ 15,808,726</u>	<u>\$ 12,716,318</u>	<u>\$ 4,920,155</u>	<u>\$ 33,445,199</u>
<b>LIABILITIES</b>				
2110 Accounts Payable	\$ 83,198	\$ -	\$ 95,713	\$ 178,911
2160 Accrued Wages Payable	3,130,839	-	53,412	3,184,251
2170 Due to Other Funds	139,486	-	291,311	430,797
2180 Due to Other Governments	15,621	-	-	15,621
2300 Unearned Revenue	49,107	-	-	49,107
2000 Total Liabilities	<u>3,418,251</u>	<u>-</u>	<u>440,436</u>	<u>3,858,687</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
2601 Unavailable Revenue - Property Taxes	2,572,788	991,517	-	3,564,305
2600 Total Deferred Inflows of Resources	<u>2,572,788</u>	<u>991,517</u>	<u>-</u>	<u>3,564,305</u>
<b>FUND BALANCES</b>				
Nonspendable Fund Balance:				
3410 Inventories	-	-	77,371	77,371
3430 Prepaid Items	707,376	-	-	707,376
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	1,136,418	1,136,418
3470 Capital Acquisition and Contractual Obligation	-	-	3,265,930	3,265,930
3480 Retirement of Long-Term Debt	-	11,724,801	-	11,724,801
3600 Unassigned Fund Balance	9,110,311	-	-	9,110,311
3000 Total Fund Balances	<u>9,817,687</u>	<u>11,724,801</u>	<u>4,479,719</u>	<u>26,022,207</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 15,808,726</u>	<u>\$ 12,716,318</u>	<u>\$ 4,920,155</u>	<u>\$ 33,445,199</u>

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

WALLER INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
AUGUST 31, 2019

EXHIBIT C-2

<b>Total Fund Balances - Governmental Funds</b>	<b>\$ 26,022,207</b>
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$194,184,700 and the accumulated depreciation was (\$47,860,680). In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.	15,163,742
2 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2019 capital outlays and debt principal payments is to increase net position.	9,125,032
3 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. At the beginning of the year, the net position related to TRS was a Deferred Resource Outflow in the amount of \$4,233,090, a Deferred Resource Inflow in the amount of \$2,127,999 and a net pension liability in the amount of \$10,372,858. The impact of this on Net Position is (8,267,767). Changes from the current year reporting of the TRS plan resulted in a decrease in net position in the amount of (\$2,178,040). The combination of the beginning of the year amounts and the changes during the year resulted in a difference between the ending fund balance and the ending net position in the amount of (\$10,445,807) .	(10,445,807)
4 The District participates in the TRS-Care plan for retirees through TRS. The District's share of the TRS plan resulted in a net OPEB liability of \$28,278,913, a deferred outflow of \$6,095,438 and a deferred inflow of \$8,942,474. This resulted in a difference between the ending fund balance and the ending net position of (31,125,949).	(31,125,949)
5 The 2019 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(5,393,005)
6 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.	3,564,305
<b>19 Net Position of Governmental Activities</b>	<b>\$ 6,910,525</b>

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

WALLER INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2019

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 37,716,140	\$ 14,316,740	\$ 842,089	\$ 52,874,969
5800 State Program Revenues	29,314,108	145,312	838,599	30,298,019
5900 Federal Program Revenues	953,658	-	6,245,106	7,198,764
5020 Total Revenues	67,983,906	14,462,052	7,925,794	90,371,752
EXPENDITURES:				
Current:				
0011 Instruction	40,840,390	-	2,495,205	43,335,595
0012 Instructional Resources and Media Services	686,742	-	-	686,742
0013 Curriculum and Instructional Staff Development	861,670	-	18,662	880,332
0021 Instructional Leadership	2,214,207	-	754,597	2,968,804
0023 School Leadership	4,172,969	-	4,245	4,177,214
0031 Guidance, Counseling and Evaluation Services	2,783,260	-	494,813	3,278,073
0033 Health Services	455,299	-	-	455,299
0034 Student (Pupil) Transportation	4,401,791	-	-	4,401,791
0035 Food Services	-	-	3,831,488	3,831,488
0036 Extracurricular Activities	1,994,948	-	-	1,994,948
0041 General Administration	2,944,217	-	-	2,944,217
0051 Facilities Maintenance and Operations	6,696,688	-	155,390	6,852,078
0052 Security and Monitoring Services	503,367	-	-	503,367
0053 Data Processing Services	2,294,370	-	-	2,294,370
0061 Community Services	75,845	-	13,006	88,851
Debt Service:				
0071 Principal on Long-Term Debt	-	4,105,000	-	4,105,000
0072 Interest on Long-Term Debt	-	5,337,675	-	5,337,675
0073 Bond Issuance Cost and Fees	-	34,351	-	34,351
Capital Outlay:				
0081 Facilities Acquisition and Construction	1,252,580	-	18,601	1,271,181
Intergovernmental:				
0099 Other Intergovernmental Charges	504,553	-	-	504,553
6030 Total Expenditures	72,682,896	9,477,026	7,786,007	89,945,929
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(4,698,990)	4,985,026	139,787	425,823
OTHER FINANCING SOURCES (USES):				
7949 Other Resources	31,464	-	-	31,464
8949 Other (Uses)	-	(2,915,623)	-	(2,915,623)
7080 Total Other Financing Sources (Uses)	31,464	(2,915,623)	-	(2,884,159)
1200 Net Change in Fund Balances	(4,667,526)	2,069,403	139,787	(2,458,336)
0100 Fund Balance - September 1 (Beginning)	14,485,213	9,655,398	4,339,932	28,480,543
3000 Fund Balance - August 31 (Ending)	\$ 9,817,687	\$ 11,724,801	\$ 4,479,719	\$ 26,022,207

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



WALLER INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2019

EXHIBIT C-4

<b>Total Net Change in Fund Balances - Governmental Funds</b>	<b>\$ (2,458,336)</b>
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2019 capital outlays and debt principal payments is to increase net position.	9,125,032
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(5,393,005)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.	1,091,587
Current year changes due to GASB 68 increased revenues in the amount of \$791,594 but also increased expenditures in the amount of \$2,969,634. The net effect on the change in the ending net position was a decrease in the amount of \$2,178,040.	(2,178,040)
Current year changes due to GASB 75 increased revenues in the amount of \$931,761 but also increased expenditures in the amount of \$1,674,954. The net effect on the change in the ending net position was a decrease in the amount of \$743,193.	(743,193)
<b>Change in Net Position of Governmental Activities</b>	<b>\$ (555,955)</b>

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

WALLER INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
AUGUST 31, 2019

	Business-Type Activities
	Total Enterprise Funds
<hr/>	
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 15,835
Total Assets	<u>15,835</u>
NET POSITION	
Unrestricted Net Position	<u>15,835</u>
Total Net Position	<u><u>\$ 15,835</u></u>

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

WALLER INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2019

	Business-Type Activities
	Total Enterprise Funds
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 89,637
State Program Revenues	2,003
Total Operating Revenues	91,640
OPERATING EXPENSES:	
Payroll Costs	31,673
Supplies and Materials	86,839
Total Operating Expenses	118,512
Operating Income (Loss)	(26,872)
Total Net Position - September 1 (Beginning)	42,707
Total Net Position - August 31 (Ending)	\$ 15,835

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

WALLER INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2019

	Business-Type Activities
	Total Enterprise Funds
<hr/>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 91,640
Cash Payments for Suppliers	(118,512)
Net Cash Used for Operating Activities	<u>(26,872)</u>
Net Decrease in Cash and Cash Equivalents	(26,872)
Cash and Cash Equivalents at Beginning of Year	<u>42,707</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 15,835</u></u>
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>	
<u>Provided By (Used For) Operating Activities:</u>	
Operating Income (Loss):	<u><u>\$ (26,872)</u></u>

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

WALLER INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
AUGUST 31, 2019

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	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 344,974
Total Assets	<u>\$ 344,974</u>
LIABILITIES	
Due to Student Groups	\$ 344,974
Total Liabilities	<u>\$ 344,974</u>

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

## **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Waller 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 basic financial statements in conformity with generally accepted accounting principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in **GASB Statement No. 76**, and it complies with the requirements of the appropriate version of 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.

*Pensions.* 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.

As of August 31, 2017, Waller Independent School District retrospectively/prospectively applied Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

### **A. REPORTING ENTITY**

The Board of Trustees (the "Board") is a seven-member group and has responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. All powers and duties not specifically delegated by statute to the Texas Education Agency (TEA) or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgement for the lawful exercise of those powers and duties by the Board. The District receives funding from local, state, and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental reporting entity and there are no component units included within the District's reporting entity.

### **B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the Waller Independent School District nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates how other people or entities that participate in programs the District operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. Examples include tuition paid by students not residing in the district, school lunch charges, etc. The "grants and contributions" column includes amounts paid by organizations outside the District to help meet the operational or capital requirements of a given function. Examples include grants under the Elementary and Secondary Education Act. If a revenue is not a program revenue, it is a general revenue used to support all of the District's functions. Taxes are always general revenues.

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont'd**

Interfund activities between governmental funds appear as due to/due froms on the Governmental Fund Balance Sheet and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide Statement of Activities.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, 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.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION**

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

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The District considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. The District considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as unearned revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors some times require the District to refund all or part of the unused amount.

Agency Funds utilize the accrual basis of accounting but do not have a measurement focus as they report only assets and liabilities.

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont'd**

**D. FUND ACCOUNTING**

The District reports the following major governmental funds:

1. **The General Fund** – The general fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Additionally, the District reports the following fund type:

Governmental Funds:

1. **Special Revenue Funds** – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.
2. **Debt Service Funds** – The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.
3. **Capital Projects Funds** – The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.
4. **Permanent Funds** – The District accounts for donations for which the donor has stipulated that the principal may not be expended and where the income may only be used for purposes that support the District's programs. The District has no Permanent Funds.

Proprietary Funds:

5. **Enterprise Funds** – The District's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in an enterprise fund. The District has no enterprise funds.
6. **Internal Service Funds** – Revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis are accounted for in an internal service fund. The District has no internal service funds.

Fiduciary Funds:

7. **Private Purpose Trust Funds** – The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. The District has no Private Purpose Trust Funds.
8. **Agency Funds** – The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Fund is list.

**Student Activities** - The student activities fund is used to record funds held for student organizations.



**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont'd**

**E. OTHER ACCOUNTING POLICIES**

1. For purposes of the statement of cash flows for proprietary funds, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest 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, as well as bond issuance costs, 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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

3. Capital assets, which include land, buildings, furniture and equipment are reported in the applicable governmental or business-type activities columns 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. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, furniture and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20-40
Building Improvements	20-40
Vehicles	10
Office Equipment	5-25
Computer Equipment	5-25

4. In the fund financial statements, governmental funds report fund balance as nonspendable if the amounts cannot be spent because they are either not in spendable form or are legally or contractually required to remain intact. Restrictions of fund balance are for amounts that are restricted to specific purposes by an external entity (creditors, grantors, governmental regulations) or the restriction is imposed by law through constitutional provision or enabling legislation. Commitments of fund balance represent amounts that can only be used for specific purposes pursuant to constraints imposed by the District's Board. Assignments of fund balance are amounts set aside by the District's Superintendent or his designee with the intent they be used for specific purposes.
5. When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont'd**

6. In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has six items that qualify for reporting in this category on the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its acquisition price. This amount is deferred and amortized over the shorter of the life of the refund or refunding debt. Deferred charges have been recognized as a result of differences between the actuarial expectations and the actual economic experience and for the changes in actuarial assumptions related to the District's defined benefit pension plan. These amounts are deferred and amortized over the average of the expected service lives pension plan members. A deferred charge has been recognized for employer pension and OPEB plan contributions that were made subsequent to the measurement date through the end of the District's fiscal year. This amount is deferred and recognized as a reduction to the net pension and OPEB liabilities during the measurement period in which the contributions were made. Deferred outflows of resources are recognized for the difference between projected and actual investment earnings on the OPEB plan assets. This amount is deferred and amortized over a period of five years. Another deferral is recognized for the changes in proportion and difference between the employer's contributions and the proportionate share of contributions related to the District's defined benefit plans. These amounts are deferred and amortized over the average of the expected service lives of pension and OPEB plan members.
7. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has four items that qualify for reporting in this category in the government-wide statement of net position. Deferred charges have been recognized as a result of differences between the actuarial expectations and the actual economic experience and for the changes in actuarial assumptions related to the District's defined pension and OPEB plans. These amounts are deferred and amortized over the average of the expected service lives of pension and OPEB plan members. Another deferral is recognized for the changes in proportion and difference between the employer's contributions and the proportionate share of contributions related to the District's defined benefit plan. Those amounts are deferred and amortized over the average of the expected service lives of pension plan members. Deferred inflows of resources are recognized for the difference between the projected and actual investment earnings on the pension plan assets. This amount is deferred and amortized over a period of five years. At the fund level, the District has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.
8. The Data Control Codes refer to the account code structure prescribed by TEA in the *Financial Accountability System Resource Guide*. Texas Education Agency 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 for policy development and funding plans.
9. The fiduciary net position of 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' fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

## **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont'd**

10. The fiduciary net position of the Teacher Retirement System of Texas (TRS) TRS-Care Plan has been determined using the flow of economic resource 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.

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

### **A. BUDGETARY DATA**

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Food Service Fund which is included in the Special Revenue Funds. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1 in RSI and the other two reports are in Exhibit J4 and J5.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

1. Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were significant.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

## **III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS**

### **A. CASH, CASH EQUIVALENTS AND INVESTMENTS**

#### **Cash and Cash Equivalents**

##### **District Policies and Legal and Contractual Provisions Governing Deposits**

*Custodial Credit Risk for Deposits* State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the district complies with this law, it has no custodial credit risk for deposits.

*Foreign Currency Risk* The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit by limiting all deposits denominated in a foreign currency to less than 5% of all deposits.

### **III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

As of August 31, 2019, the following are the District's cash and cash equivalents with respective maturities and credit rating:

<u>Name</u>	<u>Maturity</u>	<u>Ratings</u>	<u>Fair Value</u>	<u>Percentage</u>
Cash	N/A	N/A	\$ 10,193,017	49.72%
Lonestar	24 days average	AAA	\$ 10,306,564	50.28%
Total Cash and Cash Equivalents			<u>\$ 20,499,581</u>	<u>100.00%</u>

#### **Investments**

##### **District Policies and Legal and Contractual Provisions Governing Investments**

##### **Compliance with the Public Funds Investment Act**

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 a governmental entity to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

Statutes authorize the entity to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas and its agencies; (2) guaranteed or secured certificates of deposit issued by state and national banks domiciled in Texas; (3) obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality not less than an "A"; (4) No load money market funds with a weighted average maturity of 90 days or less; (5) fully collateralized repurchase agreements; (6) commercial paper having a stated maturity of 270 days or less from the date of issuance and is not rated less than A-1 or P-1 by two nationally recognized credit rating agencies OR one nationally recognized credit agency and is fully secured by an irrevocable letter of credit; (7) secured corporate bonds rated not lower than "AA-" or the equivalent; (8) public funds investment pools; and (9) guaranteed investment contracts for bond proceeds investment only, with a defined termination date and secured by U.S. Government direct or agency obligations approved by the Texas public Funds Investment Act in an amount equal to the bond proceeds. The Act also requires the entity to have independent auditors perform test procedures related to investment practices as provided by the Act. Waller Independent School District is in substantial compliance with the requirements of the Act and with local policies.

Additional policies and contractual provisions governing investments for Waller Independent School District are specified below:

**Credit Risk** To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the District limits investments to the top ratings issued by nationally recognized statistical rating organizations (NRSROs). As of August 31, 2019, the district's investments were rated AAA.

**Custodial Credit Risk for Investments** To limit the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party the District requires counterparties to register the securities in the name of the district and hand them over to the District or its designated agent. This includes securities in securities lending transactions. All of the securities are in the District's name and held by the District or its agent.

## II. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd

Concentration of Credit Risk To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the District limits investments to less than 5% of its total investments. The District further limits investments in a single issuer when they would cause investment risks to be significantly greater in the governmental activities, individual major funds, aggregate non-major funds and fiduciary fund types than they are in the primary government. Usually this limitation is 20%.

Interest Rate Risk This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year-end, the District does not have a formal investment policy that limits investment maturities as means of managing exposure to fair value losses arising from increasing interest rates.

Foreign Currency Risk for Investments The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment by limiting all investments denominated in a foreign currency to less than 5% of all investments.

The District categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. the hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below. In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The District's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

As of August 31, 2019, Waller Independent School District did not have any investments subject to the fair value measurement.

### B. **PROPERTY TAXES**

Property taxes are levied by October 1 on the assessed value listed 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 year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

### C. **DELINQUENT TAXES RECEIVABLE**

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. 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.

### D. **INTERFUND BALANCES AND TRANSFERS**

As of August 31, 2019, the District's interfund balances were as follows:

Receivable Fund	Payable Fund	Amount	Description
General Fund	Special Revenue	291,311	Short-term loan
General Fund	General	139,486	Short-term loan
		<u>\$ 430,797</u>	

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

**E. CAPITAL ASSET ACTIVITY**

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

Governmental Activities	9/1/2018	Additions	Retirements	8/31/2019
Land	\$ 7,314,103	\$ -	\$ -	\$ 7,314,103
Building and Facilities	171,977,265	792,530	-	172,769,795
Furniture and Equipment	14,893,332	456,309	-	15,349,641
Total Historical Cost	<u>\$ 194,184,700</u>	<u>\$ 1,248,839</u>	<u>\$ -</u>	<u>\$ 195,433,539</u>
Less: Accumulated Depreciation				
Buildings and Facilities	\$ (38,910,555)	\$ (4,384,214)	\$ -	\$ (43,294,769)
Furniture and Equipment	(8,950,126)	(1,008,791)	-	(9,958,917)
Total Accumulated Depreciation	<u>(47,860,681)</u>	<u>(5,393,005)</u>	<u>-</u>	<u>(53,253,686)</u>
Governmental Activities Capital Assets, Net	<u>\$ 146,324,019</u>	<u>\$ (4,144,166)</u>	<u>\$ -</u>	<u>\$ 142,179,853</u>

Depreciation was allocated as follows:

Function Description	Amount
Instruction	2,969,878
Curriculum	47,064
Instructional Leadership	60,331
School Leadership	203,458
Guidance	286,273
Health Services	224,653
Transportation	31,203
Administration	301,664
Food Services	262,580
Cocurricular/Extracurricular Activities	136,718
General Admin	201,773
Plant Maintenance	469,587
Security and Monitoring	34,496
Data Processing	157,238
Community Services	6,089
Total Depreciation Expense	<u>\$ 5,393,005</u>

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**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

**F. BONDS AND LONG-TERM NOTES PAYABLE**

Bonded indebtedness of the District is reflected in the General Long-Term Debt Account Group. Current requirements for principal and interest expenditures are accounted for in the Debt Service Fund.

A summary of changes in general long-term debt for the year ended August 31, 2019 is as follows:

Description	Interest Rate	Amounts Original Issue	Balance 9/1/2018	Issued	Retired	Balance 8/31/2019	Due in One Year
Refunding Bonds, Series 2010	2.00-4.00%	\$ 12,255,000	\$ 5,435,000	\$ -	\$ (3,695,000)	\$ 1,740,000	\$ 855,000
Refunding Bonds, Series 2012	1.50-3.00%	9,180,000	6,705,000	-	(665,000)	6,040,000	675,000
Refunding Bonds, Series 2013	2.00-3.50%	5,525,000	2,725,000	-	(265,000)	2,460,000	275,000
Refunding Bonds, Series 2014	2.00-4.00%	8,500,000	8,080,000	-	(785,000)	7,295,000	1,350,000
Refunding Bonds, Series 2015	4.00%	7,180,000	7,180,000	-	-	7,180,000	-
Building Bonds, Series 2016	4.00-5.00%	93,545,000	90,975,000	-	(1,565,000)	89,410,000	1,920,000
Total			121,100,000	-	(6,975,000)	114,125,000	5,075,000
Other District Obligations:							
Premium on Bonds			13,304,241	-	(747,335)	12,556,906	-
Accreted interest on CAB's			429,357	5,643	(435,000)	-	-
Total Other Obligations			13,733,598	5,643	(1,182,335)	12,556,906	-
Total District Obligations			\$ 134,833,598	\$ 5,643	\$ (8,157,335)	\$ 126,681,906	\$ 5,075,000

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.

Debt service requirements for bonds are as follows:

	Principal	Interest	Total
2020	\$ 5,075,000	\$ 4,680,325	\$ 9,755,325
2021	5,295,000	4,478,325	9,773,325
2022	3,995,000	4,289,150	8,284,150
2023	4,170,000	4,120,425	8,290,425
2024	4,345,000	3,943,463	8,288,463
2025-2029	21,220,000	17,034,713	38,254,713
2030-2034	23,865,000	12,519,500	36,384,500
2035-2039	22,700,000	6,816,150	29,516,150
2040-2044	13,110,000	2,256,400	15,366,400
2045-2046	11,150,000	373,600	11,523,600
	\$ 114,925,000	\$ 60,512,051	\$ 175,437,051

### **III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

During the fiscal year ended August 31, 2019, the District executed a partial cash defeasance by depositing funds in the amount of \$2,918,622.62 into an escrow account to defease \$2,870,000 of outstanding Series 2010 Unlimited Tax Refunding Bonds. As a result, this portion of the bonds is considered to be defeased and the pro-rate portion of the liability is not included in the Statement of Net Position.

#### **G. COMMITMENTS UNDER NONCAPITLIZED LEASES**

The District has various operating lease agreements for copiers. Rental expenditures recognized by the District for the fiscal year are \$317,207.

#### **H. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS**

The District does not accrue unpaid sick leave benefits.

#### **I. DEFINED BENEFIT PENSION PLAN**

**Plan Description.** Waller 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). It is a defined benefit pension plan established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

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

**Pension Plan Fiduciary Net Position.** Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.texas.gov>; 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 benefits are based on statutory provisions of the plan effective for fiscal year 2018. The annual standard annuity is based on the average of the five highest annual creditable salaries multiplied by the years of credited service multiplied by 2.3 percent. For members who are grandfathered, the three highest annual salaries are used in the benefit formula. 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 the 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 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.



### **III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 85th Texas Legislature, General Appropriations Act (GAA) affirmed that the employer contribution rates for fiscal years 2018 and 2019 would remain the same. Contribution Rates can be found in the TRS 2018 CAFR, Note 11, on page 76.

<b>Contribution Rates</b>		
	<b>2018</b>	<b>2019</b>
Member	7.70%	7.70%
Non-Employer Contributing Entity (State)	6.80%	6.80%
Employers	6.80%	6.80%
District's 2018 FY Employer Contributions	\$3,511,957	
District's 2018 FY Member Contributions	\$3,976,773	
Measurement Year NECE On-Behalf Contributions	\$2,247,925	

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

As the non-employer contributing entity for public education 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 (including public schools) are required to pay the employer contribution rate in the following instances:

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

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

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, 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.***

**Roll Forward** - A change was made in the measurement date of the total pension liability for the 2018 measurement year. The actuarial valuation was performed as of August 31, 2017. Update procedures were used to roll forward the total pension liability to August 31, 2018. This is the first year using the roll forward procedures.

The total pension liability is determined by an annual actuarial valuation. The actuarial methods and assumptions were selected by the Board of Trustees based upon analysis and recommendations by the System's actuary. The Board of Trustees has sole authority to determine the actuarial assumptions used for the Plan. The active mortality rates were based on 90 percent of the RP 2014 Employee Mortality Tables for males and females. The post-retirement mortality rates were based on the 2018 TRS of Texas Healthy Pensioner Mortality Tables.

### **III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

The following table discloses the assumptions that were applied to this measurement period.

Valuation Date	August 31, 2017 rolled forward to August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	6.907%
Long-term expected Rate	7.25%
Municipal Bond Rate as of August 2018	3.69% - Source for the rate is the Fixed Income Market Data/Yield Curve/Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity index's "20-Year Municipal GO AA Index."
Last year ending August 31 in Projection Period (100 years)	2116
Inflation	2.30%
Salary Increases	3.05% to 9.05% including inflation
Ad hoc Post Employment Benefit Changes	None

The actuarial methods and assumptions were primarily based on a study of actual experience for the three-year period ending August 31, 2017 and were 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 these 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 System's target asset allocation as of August 31, 2018 (see page 52 of the TRS CAFR) are summarized below:

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return*
<b>Global Equity</b>			
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%
<b>Stable Value</b>			
U.S. Treasuries	11.00%	1.11%	0.12%
Absolute Return	0.00%	0.00%	0.00%
Hedge Funds (Stable Value)	4.00%	3.09%	0.12%
Cash	1.00%	-0.30%	0.00%
<b>Real Return</b>			
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%
<b>Risk Parity</b>			
Risk Parity	<u>5.00%</u>	<u>3.70%</u>	<u>0.18%</u>
Inflation Expectations			2.30%
Alpha			0.79
<b>Total</b>	100.00%		7.25%

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

**Discount Rate Sensitivity Analysis.** The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (6.907%) in measuring the Net Pension Liability. The discount rate can be found in the 2018 TRS CAFR, Note 11, page 78.

	1% Decrease in Discount Rate (5.907%)	Current Single Discount Rate (6.907%)	1% Increase in Discount Rate (7.907%)
District's proportionate share of the net pension liability:	\$ 35,895,566	\$ 23,783,872	\$ 13,978,738

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.** At August 31, 2019, Waller Independent School District reported a liability of \$23,783,872 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to Waller Independent School District. The amount recognized by Waller Independent School 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 Waller Independent School District were as follows:

District's Proportionate share of the collective net pension liability	\$ 23,783,872
State's proportionate share that is associated with the District	36,752,043
<b>Total</b>	<u><u>\$ 60,535,915</u></u>

### **III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

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 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 through August 31, 2018.

At August 31, 2018 the employer's proportion of the collective net pension liability was .000432100718% which was an increase of 0.000107691718% from its proportion measured as of August 31, 2017.

**Changes Since the Prior Actuarial Valuation** – Assumptions, methods, and plan changes which are specific to the Pension Trust Fund were updated from the prior year's report. The Net Pension Liability increased significantly since the prior measurement date due to a change in the following actuarial assumptions:

- 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 were 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, Waller Independent School District recognized pension expense of \$3,637,473 and revenue of \$3,637,473 for support provided by the State in the Government Wide Statement of Activities.

At August 31, 2019, Waller Independent School District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources: (The amounts shown below will be the cumulative layers from the current and prior years combined.)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experience	148,249	583,562
Changes in actuarial assumptions	8,575,232	267,976
Net Difference between projected and actual investment earnings	-	451,282
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	4,798,365	447,736
Contributions paid to TRS subsequent to the measurement date	1,566,775	
Total	\$ 15,088,621	\$ 1,750,556

### **III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

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

Year ended August 31:	Pension Expense Amount
2020	2,915,743
2021	1,966,047
2022	1,705,668
2023	1,957,464
2024	1,915,946
Thereafter	\$ 1,310,422

### **J. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS**

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

Components of the net OPEB liability of the TRS-Care plan as of August 31, 2018 are as follows:

Net OPEB Liability	Total
Total OPEB Liability	\$50,729,490,103
Less: plan fiduciary net position	798,574,633
Net OPEB liability	<u>\$49,930,915,470</u>
Net position as a percentage of total OPEB liability	1.57%

**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 system. Optional dependent coverage is available for an additional fee.

Eligible non-Medicare retirees and their dependents may pay premiums to participate in the high-deductible health plans. Eligible Medicare retirees and their dependents may pay premiums to participate in the Medicare Advantage health plans. 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 85th Legislature, Regular Session, passed the following statutory changes in HB 3976 which became effective on September 1, 2017. These are described below under the section "Changes in Benefit Terms".

### **III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

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. These new premium rates for retirees with Medicare Part A and Part B became effective January 1, 2018. (See the TRS CAFR page 70 for plan rates effective from September 1, 2016 - December 31, 2017.)

TRS-Care Monthly Premium rates Effective January 1, 2018 - Dec. 31, 2018			
		<u>Medicare</u>	<u>Non-Medicare</u>
Retiree or Surviving Spouse	\$	135	\$ 200
Retiree and Spouse		529	689
Retiree or Surviving Spouse and Children		468	408
Retiree and Family		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 1.25% 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 percent or not more than 0.75 percent 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 which is 0.75% of each active employee's pay for fiscal year 2018. The following table shows contributions to the TRS-Care plan by type of contributor.

<b>Contribution Rates</b>		
	<b>2018</b>	<b>2019</b>
Member	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%
District's 2018 FY Employer Contributions	\$387,348	
District's 2018 FY Member Contributions	\$335,707	
Measurement Year NECE On-Behalf Contributions	\$551,839	

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.

With Senate Bill 1, 85th Legislature, Regular Session, 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. House Bill 30 of the 85th Legislature provided an additional \$212 million in a one-time supplemental funding for the FY 2018-2019 biennium. One-time supplemental contributions during fiscal 2018 totaled \$394.6 million.

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

### **III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

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:

Valuation Date	August 31, 2017 Rolled forward to August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Single 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
Election Rates	Normal Retirement: 70% participation prior to age 65 and 75% after age 65.
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Projected Salary Increases	3.05% - 9.05%
Ad-hoc Post Employment Benefit Changes	None

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.

**Discount Rate.** A single discount rate of 3.69% was used to measure the total OPEB liability. There was an increase of .27 percent in the discount rate since the previous year. The Discount Rate can be found in the 2018 TRS CAFR on page 71. 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.

### **III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

#### **Sensitivity of the Net OPEB Liability:**

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

	1% Decrease in Discount Rate (2.69%)	Current Single Discount Rate (3.69%)	1% Increase in Discount Rate (4.69%)
District's proportionate share of the Net OPEB Liability:	\$ 33,661,623	\$ 28,278,913	\$ 13,826,349

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

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District's proportionate share of the Net OPEB Liability:	\$ 23,486,098	\$ 28,278,913	\$ 34,591,154

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs.** At August 31, 2019, Waller Independent School District reported a liability of \$28,278,913 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 Waller Independent School District were as follows:

District's Proportionate share of the collective net OPEB liability	\$ 28,278,913
State's proportionate share that is associated with the District	39,998,365
Total	<u>\$ 68,277,278</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 0.0566360799% compared to the 0.049012% as of August 31, 2017. This is an increase (decrease) of .0067348799%.

**Changes in Actuarial Assumptions 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.

**Changes in Benefit Terms:** The 85th Legislature, Regular Session passed the following statutory changes which became effective on September 1, 2017:



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**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

- Created a high-deductible health 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 for all Medicare-eligible participants.
- Allowed the System to provide other, appropriate health benefit 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 for 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, Waller Independent School District recognized OPEB expense of \$1,454,900 and revenue of \$1,454,900 for support provided by the State.

At August 31, 2019, Waller Independent School 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 experience	1,500,657	446,283
Changes in actuarial assumptions	471,898	8,496,191
Net Difference between projected and actual investment earnings	4,946	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	3,693,041	-
Contributions paid to TRS subsequent to the measurement date	424,896	-
Total	\$ 6,095,438	\$ 8,942,474

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

Year ended August 31:	Pension Expense Amount
2020	(653,580)
2021	(653,580)
2022	(653,580)
2023	(654,515)
2024	(655,050)
Thereafter	\$ (1,627)

### **III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

#### **K. HEALTH CARE COVERAGE - RETIREES AND ACTIVE EMPLOYEES**

**Medicare Part D.** The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, 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. For the fiscal year ended August 31, 2019, 2018, and 2017 the subsidy payments received by TRS-Care on-behalf of the District were \$181,247, \$131,224, and \$124,088 respectively. The information for the year ended August 31, 2016 is an estimate provided by the Teacher Retirement System. These payments are recorded as equal revenues and expenditures in the governmental funds financial statements of the District.

#### **L. UNAVAILABLE/UNEARNED REVENUE**

Unavailable revenue at year end consisted of the following:

	General Fund	Debt Service	Total
Property Taxes	2,572,788	991,517	3,564,305
Total Unavailable	<u>\$ 2,572,788</u>	<u>\$ 991,517</u>	<u>\$ 3,564,305</u>

#### **M. DUE FROM STATE AGENCIES**

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, 2017, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from State Agencies.

	State Entitlements	Federal Grants	Total
Fund			
General Fund	1,080,156	-	1,080,156
Special Revenue	-	372,871	372,871
Total	<u>\$ 1,080,156</u>	<u>\$ 372,871</u>	<u>\$ 1,453,027</u>

#### **N. LITIGATION**

None.

#### **O. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through December 9, 2019, the date the financial statements were available to be issued.

### **III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

#### **P. FUND BALANCE**

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the District classifies governmental fund balances as follows:

- Non-Spendable includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints. The District has \$784,747 classified as Non Spendable
- Restricted includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation. The District has \$16,127,149 classified as Restricted.
- Committed includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. The district has \$0 classified as Committed.
- Assigned includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. The District has \$0 classified as Assigned.
- Unassigned includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds. The District has \$9,110,311 classified as Unassigned.

The elected board of trustees, for the entity, has the authority to commit, assign, and restrict fund balances. In some instances a restriction is a result of meeting contractual or otherwise legal requirements, for example debt service requirements contained in the bond covenant.

**APPENDIX C**

**FORM OF BOND COUNSEL'S OPINION**

December 15, 2020

WE HAVE ACTED as Bond Counsel for the Waller Independent School District (the “District”) in connection with an issue of bonds (the “Bonds”) described as follows:

WALLER INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2020A, dated December 1, 2020, in the aggregate principal amount of \$67,810,000.

The Bonds mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds and in the order (the “Order”) adopted by the Board of Trustees of the District authorizing their issuance.

WE HAVE ACTED 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 exclusion of interest on the Bonds from gross income under federal income tax law. In such capacity we have examined the Constitution and laws of the State of Texas; federal income tax law; and a transcript of certain certified proceedings pertaining to the issuance of the Bonds, as described in the Order. The transcript contains certified copies of certain proceedings of the District; certain certifications and representations and other material facts within the knowledge and control of the District, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds. We have also examined executed Bond No. ICI-1 of this issue.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. 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.

BASED ON SUCH EXAMINATION, it is our opinion as follows:

- (1) 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 in effect; the Bonds constitute valid and legally binding obligations of the District enforceable in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws

affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases; and the Bonds have been authorized and delivered in accordance with law; and

- (2) The Bonds are payable, both as to principal and interest, from the receipts of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property located within the District, which taxes have been pledged irrevocably to pay the principal of and interest on the Bonds.

BASED ON OUR EXAMINATION AS DESCRIBED ABOVE, it is further our opinion that, subject to the restrictions hereinafter described, interest on the Bonds (1) is not included in gross income of the owners thereof for federal income tax purposes under existing law and (2) is not an item of tax preference for purposes of the federal alternative minimum income tax. The opinion set forth in the first sentence of this paragraph is subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted in the Order to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. The Code and the existing regulations, rulings and court decisions thereunder, upon which the foregoing opinions of Bond Counsel are based, are subject to change, which could prospectively or retroactively result in the inclusion of the interest on the Bonds in gross income of the owners thereof for federal income tax purposes.

IN PROVIDING THE FOREGOING OPINIONS, we have relied upon representations of the District with respect to matters solely within the knowledge of the District, which we have not independently verified, and have assumed the accuracy and completeness thereof.

IN ADDITION, EXCEPT AS DESCRIBED ABOVE, we express no opinion as to any federal, state or local tax consequences under present law, or future legislation, resulting from the ownership of, receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations, such as the Bonds, may result in collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualifying for the earned income credit. For the foregoing reasons, prospective purchasers should consult their tax advisors as to the consequences of investing in the Bonds.

December 15, 2020

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OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.