

**PRELIMINARY OFFICIAL STATEMENT**  
**Dated January 19, 2021**

NEW ISSUE - BOOK-ENTRY-ONLY

ENHANCED/UNENHANCED RATINGS: Fitch - Applied For  
S&P - Applied For  
PSF Guarantee - Applied For  
(See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and  
"OTHER PERTINENT INFORMATION - Municipal Bond Ratings" herein)

*In the opinion of Bond Counsel (defined below), assuming continuing compliance by the District (defined below) after the date of initial delivery of the Bonds (defined below) with certain covenants contained in the Order (defined below) and subject to the matters set forth under "TAX MATTERS" herein, interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income of the owners thereof pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Bonds and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. See "TAX MATTERS" herein.*

**\$40,080,000 \***

**NEW BRAUNFELS INDEPENDENT SCHOOL DISTRICT**  
**(A political subdivision of the State of Texas located in Comal and Guadalupe Counties, Texas)**  
**UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2021**

**Dated Date: January 15, 2021**

**Due: February 1st as shown on page -ii- herein**

The "New Braunfels Independent School District Unlimited Tax School Building Bonds, Series 2021" (the "Bonds"), as shown on page -ii- herein, are direct obligations of the New Braunfels Independent School District (the "District") and are payable from an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District. The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Chapter 1371, as amended, Texas Government Code ("Chapter 1371"), Sections 45.001 and 45.003(b)(1) as amended, Texas Education Code, an election held in the District on November 6, 2018 (the "Election"), and an order authorizing the issuance of the Bonds (the "Order") adopted by the Board of Trustees (the "Board") of the District on December 14, 2020. See "THE BONDS - Authority for Issuance" herein. As permitted by the provisions of Chapter 1371, the Board, in the Order, delegated the authority to certain District officials (each an "Authorized Official") to execute an approval certificate (the "Approval Certificate") establishing the final pricing terms for the Bonds.

The District has applied for and received conditional approval from the Texas Education Agency for the payment of principal of and interest on the Bonds to be guaranteed under the Permanent School Fund Guarantee Program, which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.

Interest on the Bonds will accrue from January 15, 2021 (the "Dated Date"), will be payable until stated maturity or prior redemption on February 1 and August 1 of each year, commencing August 1, 2021, and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will be issued as fully registered obligations in principal denominations of \$5,000, or integral multiples thereof within a stated maturity. The Bonds will be issued in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository (the "Securities Depository"). Book-entry interests in the Bonds will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Bonds ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the Paying Agent/Registrar, initially Zions Bancorporation, National Association, dba Amegy Bank, Houston, Texas, to the Securities Depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Proceeds from the sale of the Bonds will be used (i) for the purposes of designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping school facilities (and any necessary or related removal of existing facilities) and the purchase of the necessary sites for school facilities and (ii) to pay for professional services associated with the costs of issuance of the Bonds. See "SOURCES AND USES OF FUNDS" herein.

---

**For Maturity Schedule, Principal Amounts, Interest Rates, Initial Yields,  
CUSIP Numbers and Redemption Provisions for the Bonds, see page -ii- herein**

---

*The Bonds are offered for delivery when, as and if issued and received by the initial purchasers thereof named below (the "Underwriters") and are subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, Austin, Texas, Bond Counsel. See "LEGAL MATTERS" herein for a discussion of Bond Counsel's opinion. Certain legal matters will be passed upon for the Underwriters by their legal counsel McCall, Parkhurst & Horton, L.L.P., San Antonio, Texas. It is expected that the Bonds will be available for delivery through the services of DTC, New York, New York, on or about February 11, 2021.*

**FHN Financial Capital Markets**

**Frost**

**HilltopSecurities**

---

\* Preliminary, subject to change.

**STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES,  
INITIAL YIELDS, CUSIP NUMBERS, AND REDEMPTION PROVISIONS**

**\$40,080,000\***

**NEW BRAUNFELS INDEPENDENT SCHOOL DISTRICT  
(A political subdivision of the State of Texas located in Comal and Guadalupe Counties, Texas)  
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2021**

**CUSIP No. Prefix 642543<sup>(1)</sup>**

<b>Stated Maturity February 1</b>	<b>Principal Amount (\$)</b>	<b>Interest Rate (%)</b>	<b>Initial Yield (%)</b>	<b>CUSIP No. Suffix<sup>(1)</sup></b>
2022	300,000			
2023	425,000			
2024	550,000			
2025	750,000			
2026	900,000			
2027	650,000			
2028	870,000			
2029	950,000			
2030	1,835,000			
2031	1,825,000			
2032	1,650,000			
2033	1,800,000			
2034	1,800,000			
2035	1,800,000			
2036	2,100,000			
2037	2,250,000			
2038	2,250,000			
2039	2,050,000			
2040	2,050,000			
2041	2,050,000			
2042	2,050,000			
2043	3,465,000			
2044	5,710,000			

(Accrued Interest to be added from the Dated Date)

**Redemption Provisions**

The District reserves the right to redeem the Bonds maturing on and after February 1, 2030 in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on February 1, 2029 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. If two or more bonds of consecutive maturities are combined into one or more "term" Bonds (the "Term Bonds") by the Underwriters, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order. See "THE BONDS - Redemption Provisions of the Bonds" herein.

---

<sup>(1)</sup> CUSIP numbers are included solely for the convenience of the owners of the Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Markets Intelligence on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Underwriters, the District, or the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

**NEW BRAUNFELS INDEPENDENT SCHOOL DISTRICT**  
**1000 N. Walnut Street**  
**New Braunfels, Texas 78130**

**BOARD OF TRUSTEES**

<u>Name</u>	<u>Position</u>	<u>Total Years Served</u>	<u>Term Expires May</u>	<u>Occupation</u>
Sherry Harrison	President	11	2021	Community Volunteer
Wes Clark	Vice President	7	2022	Business Executive
David Heefner	Secretary	4	2022	Retired Educator
Keith Smith	Trustee	10	2022	Contractor
Nancy York	Trustee	1	2023	Retired Educator
Eric Bergquist	Trustee	2	2021	Business Executive
John E. Tucker	Trustee	1	2023	Architect

**ADMINISTRATION - FINANCE CONNECTED**

<u>Name</u>	<u>Title</u>	<u>Total Years Experience</u>	<u>Total Years With District</u>
Randy Moczygemba *	Superintendent of Schools	35	13
Clint McLain	Assistant Superintendent of Finance and Operations	25	1st year

\* *Mr. Moczygemba announced his retirement at the January 11, 2021 meeting of the Board of Trustees, which will take effect on June 30, 2021. The District anticipates commencing a search for Mr. Moczygemba's replacement.*

**CONSULTANTS AND ADVISORS**

Belt Harris Pechacek, LLLP Houston, Texas	Auditors
Norton Rose Fulbright US LLP Austin, Texas	Bond Counsel
SAMCO Capital Markets, Inc. San Antonio, Texas	Financial Advisor

For Additional Information Contact:

Duane L. Westerman, Senior Managing Director  
Allen R. Westerman, Managing Director  
SAMCO Capital Markets, Inc.  
1020 N.E. Loop 410, Suite 640  
San Antonio, Texas 78209  
(210) 832-9760  
Fax (210) 832-9794  
Email: [dwesterman@samcocapital.com](mailto:dwesterman@samcocapital.com)  
Email: [awesterman@samcocapital.com](mailto:awesterman@samcocapital.com)

Randy Moczygemba, Superintendent of Schools  
Clint McLain, Assistant Superintendent  
of Finance and Operations  
New Braunfels Independent School District  
1000 N. Walnut Street  
New Braunfels, Texas 78130  
(830) 643-5735  
Fax (830) 643-5701  
Email: [rmoczygemba@nbsisd.org](mailto:rmoczygemba@nbsisd.org)  
Email: [cmclain@nbsisd.org](mailto:cmclain@nbsisd.org)

## USE OF INFORMATION IN OFFICIAL STATEMENT

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

No dealer, broker, salesman, or other person has been authorized by the District to give any information or to make any representation with respect to the Bonds, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by either of the foregoing.

This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale. The information set forth herein has been obtained from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriters.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Official Statement. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Official Statement.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of its 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.

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 BONDS HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION FOR THE PURCHASE THEREOF.

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

None of the District, the Financial Advisor, or the Underwriters makes any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company ("DTC") or its book-entry-only system described under the caption "BOOK-ENTRY-ONLY SYSTEM" or the affairs of the Texas Education Agency ("TEA") described under "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM," as such information has been provided by DTC and TEA, respectively.

The agreements of the District and others related to the Bonds are contained solely in the contracts described herein. Neither this Official Statement, nor any other statement made in connection with the offer or sale of the Bonds, is to be construed as constituting an agreement with the purchasers of the Bonds. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION WITH RESPECT TO THE BONDS.

(The remainder of this page has been left blank intentionally.)

## TABLE OF CONTENTS

COVER PAGE .....	i	State Mandated Homestead Exemption .....	27
MATURITY SCHEDULE .....	ii	Local Option Homestead Exemption .....	27
BOARD OF TRUSTEES .....	iii	State Mandated Freeze on School District Taxes .....	27
ADMINISTRATION - FINANCE CONNECTED .....	iii	Personal Property .....	28
CONSULTANTS & ADVISORS .....	iii	Freeport and Goods-in-Transit Exemptions .....	28
USE OF INFORMATION IN OFFICIAL STATEMENT .....	iv	Other Exempt Property .....	28
TABLE OF CONTENTS .....	v	Tax Increment Reinvestment Zones .....	28
OFFICIAL STATEMENT SUMMARY INFORMATION .....	vi	Tax Limitation Agreements .....	28
INTRODUCTION .....	1	District and Taxpayer Remedies .....	29
INFECTIOUS DISEASE OUTBREAK - COVID-19 .....	1	Levy and Collection of Taxes .....	29
THE BONDS		District's Rights in the Event of Tax Delinquencies .....	29
General Description .....	2	The Texas Tax Code as Applied to the District .....	29
Authority for Issuance .....	3	STATE AND LOCAL FUNDING OF SCHOOL	
Use of Proceeds .....	3	DISTRICTS IN TEXAS .....	30
Security for Payment .....	3	CURRENT PUBLIC SCHOOL FINANCE SYSTEM .....	31
Permanent School Fund Guarantee .....	3	THE SCHOOL FINANCE SYSTEM	
Payment Record .....	3	AS APPLIED TO THE DISTRICT .....	35
Legality .....	3	TAX RATE LIMITATIONS .....	35
Delivery .....	4	EMPLOYEE RETIREMENT PLAN AND	
Future Issues .....	4	OTHER POST-EMPLOYMENT BENEFITS .....	37
Redemption Provisions of the Bonds .....	4	INVESTMENT POLICIES .....	38
Selection of Bonds for Redemption .....	4	LEGAL MATTERS .....	39
Notice of Redemption .....	4	TAX MATTERS .....	40
Defeasance .....	4	LEGAL INVESTMENTS AND ELIGIBILITY TO	
Amendments .....	5	SECURE PUBLIC FUNDS IN TEXAS .....	41
Default and Remedies .....	5	CONTINUING DISCLOSURE .....	41
SOURCES AND USES OF FUNDS .....	6	OTHER PERTINENT INFORMATION	
REGISTRATION, TRANSFER AND EXCHANGE		Authenticity of Financial Information .....	43
Paying Agent/Registrar .....	6	Registration and Qualification	
Successor Paying Agent/Registrar .....	6	of Bonds for Sale .....	43
Record Date .....	6	Municipal Bond Ratings .....	44
Registration, Transferability and Exchange .....	7	Financial Advisor .....	44
Limitation of Transfer of Bonds .....	7	Underwriting .....	44
Replacement Bonds .....	7	Certification of the Official Statement .....	44
BOOK-ENTRY-ONLY SYSTEM .....	7	Forward Looking Statements .....	45
THE PERMANENT SCHOOL FUND		Information from External Sources .....	45
GUARANTEE PROGRAM .....	9	Authorization of the Official Statement .....	45
AD VALOREM TAX PROCEDURES			
Valuation of Taxable Property .....	27		
SELECTED FINANCIAL INFORMATION OF THE DISTRICT .....		APPENDIX A	
GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY .....		APPENDIX B	
AUDITED FINANCIAL STATEMENTS .....		APPENDIX C	
FORM OF OPINION OF BOND COUNSEL .....		APPENDIX D	

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

## OFFICIAL STATEMENT SUMMARY INFORMATION

The following information is qualified in its entirety by more detailed information and financial statements appearing elsewhere in this Official Statement:

<b>THE DISTRICT</b> .....	The New Braunfels Independent School District (the "District"), a political subdivision of the State of Texas, is located in Comal and Guadalupe Counties, Texas. The District is approximately 75.70 square miles in area and serves a population of approximately 53,825. The District was created under State statute and is governed by a seven-member Board of Trustees (the "Board"). 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.
<b>THE BONDS</b> .....	The Bonds mature on February 1 in each of the years 2022 through 2044.  Interest on the Bonds shall accrue from the Dated Date (identified below) and is payable initially on August 1, 2021 and semiannually on February 1 and August 1 thereafter until stated maturity or prior redemption.
<b>DATED DATE</b> .....	January 15, 2021.
<b>REDEMPTION</b> .....	The District reserves the right to redeem the Bonds maturing on or after February 1, 2030, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on February 1, 2029 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. If two or more serial bonds of consecutive maturity are combined into one or more "term" Bonds (the "Term Bonds") by the Underwriters, such Term Bonds will also be subject to mandatory sinking fund redemption in accordance with the provisions of the Order. See "THE BONDS - Redemption Provisions of the Bonds" herein.
<b>SECURITY FOR THE BONDS</b> .....	The Bonds constitute direct obligations of the District payable from an annual ad valorem tax levied against all taxable property located therein, without legal limitation as to rate or amount. Additionally, the payment of the principal of and interest on the Bonds is expected to be guaranteed by the Permanent School Fund of the State of Texas. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.
<b>PERMANENT SCHOOL FUND GUARANTEE</b> .....	The District has applied for and received conditional approval from the Texas Education Agency for the Bonds to be guaranteed under the Guarantee Program (hereinafter defined), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.
<b>TAX MATTERS</b> .....	In the opinion of Norton Rose Fulbright US LLP, Austin, Texas, Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein. See "TAX MATTERS" and "APPENDIX D - Form of Opinion of Bond Counsel."
<b>PAYING AGENT/REGISTRAR</b> .....	The initial Paying Agent/Registrar is Zions Bancorporation, National Association, dba Amegy Bank, Houston, Texas.
<b>BOOK-ENTRY-ONLY SYSTEM</b> .....	The District intends to use the Book-Entry-Only System of The Depository Trust Company. See "BOOK-ENTRY-ONLY SYSTEM" herein.
<b>MUNICIPAL BOND RATINGS</b> .....	The District has made application to Fitch Ratings, Inc. ("Fitch") and S&P Global Ratings ("S&P") based on the guarantee thereof by the Texas Permanent School Fund. In addition, Fitch and S&P Moody's generally rate all bonds guaranteed by the Texas Permanent School Fund "AAA." See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "OTHER PERTINENT INFORMATION - Municipal Bond Ratings" herein.
<b>FUTURE BOND ISSUES</b> .....	The District does not anticipate the issuance of additional ad valorem tax-supported debt in the next twelve months, except potentially refunding bonds for debt service savings.
<b>PAYMENT RECORD</b> .....	The District has never defaulted on the payment of its bonded indebtedness.
<b>DELIVERY</b> .....	When issued, anticipated on or about February 11, 2021.
<b>LEGALITY</b> .....	The Bonds are subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, Austin, Texas, Bond Counsel. See "APPENDIX D - Form of Opinion of Bond Counsel" herein.

## **PRELIMINARY OFFICIAL STATEMENT**

relating to

**\$40,080,000\***

### **NEW BRAUNFELS INDEPENDENT SCHOOL DISTRICT**

**(A political subdivision of the State of Texas located in Comal and Guadalupe Counties, Texas)  
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2021**

## **INTRODUCTION**

This Official Statement of the New Braunfels Independent School District (the "District") is provided to furnish certain information in connection with the sale of the District's \$40,080,000\* Unlimited Tax School Building Bonds, Series 2021.

All financial and other information presented in this Official Statement has been provided by the District from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historical information, and is not intended to indicate future or continuing trends in the financial position or other affairs of the District. No representation is made that past experience, as is shown by such financial and other information, will necessarily continue or be repeated in the future.

This Official Statement, which includes the cover page, the schedules, and the appendices hereto, provides certain information about 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 from the District and, during the offering period, from the District's Financial Advisor, SAMCO Capital Markets, Inc., 1020 N.E. Loop 410, Suite 640, San Antonio, Texas 78209, by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the Official Statement pertaining to the Bonds will be filed by the Underwriters with the Municipal Securities Rulemaking Board through its Electronic Municipal Markets Access ("EMMA") system. See "CONTINUING DISCLOSURE" herein for a description of the District's undertaking to provide certain information on a continuing basis. Capitalized terms used, but not defined herein, shall have the meanings ascribed thereto in the Order (defined below).

## **INFECTIOUS DISEASE OUTBREAK - COVID-19**

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

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the Pandemic which has been subsequently extended and is still in effect. In addition certain local officials have also declared a local state of disaster. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency (including TEA) 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 has issued a number of executive orders relating to COVID-19 preparedness and mitigation. Due to a previous spike in COVID-19 cases, prior executive orders modified the phased reopening of businesses in Texas, subject to further restrictions in the Governor's discretion. These include, for example, the issuance on October 7, 2020 of Executive Order GA-32, which, among other things, provided further guidelines for the reopening of businesses and the maximum threshold level of occupancy related to such establishments. Certain businesses, such as cybersecurity services, child care services, local government operations, youth camps, recreational programs, schools, and religious services, do not have the foregoing limitations. The Governor's order also states, in providing or obtaining services, every person (including individuals, businesses, and other legal entities) should use good-faith efforts and available resources to follow the minimum standard health protocols. Executive Order GA-32 remains in place until amended, rescinded, or superseded by the Governor. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <https://gov.texas.gov/coronavirus>. 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.

---

\* Preliminary, subject to change.

The TEA issued updated public planning health guidance related to instructional and operational flexibilities in planning for the 2020-2021 school year to address on campus and virtual instruction, non-UIL extracurricular sports and activities, and other activities that cannot be accomplished virtually. Previous guidance addressed administrative and extracurricular activities and school visits. Within the guidance, the TEA instructed schools to provide parental and public notices of the school district's mitigation plan to reduce COVID-19 within their facilities and confirmed the attendance requirements for promotion (which may be completed by virtual education). The guidance further detailed screening mechanisms, identification of symptoms, use of non-classroom spaces, and procedures for confirmed, suspected, and exposed cases. Certain actions, such as notification to health department officials and closure of high traffic areas, will be required in the instance of confirmed cases. Schools are highly encouraged to engage in mitigation practices promoting health and hygiene consistent with CDC guidelines (including social distancing, facial coverings, frequent disinfecting of all areas, limiting visitations, etc.) to avoid unnecessary exposure to others to prevent the spread of COVID-19.

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

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide. These negative impacts may reduce or negatively affect property values within the District. The financial and operating data contained herein are the latest available but are for the dates and the periods stated herein, which are for periods prior to the economic impact of the Pandemic and efforts to slow it. It is unclear at this time what effect, if any, COVID-19 and resulting economic disruption may have on future assessed values or the collection of taxes, either because of delinquencies or collection and valuation relief resulting from the declared emergency. 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 and 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."

The value of the PSF guarantee could also be adversely impacted by ongoing volatility in the diversified global markets in which the PSF is invested. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM - Infectious Disease Outbreak."

## **THE BONDS**

### **General Description**

The Bonds are dated January 15, 2021 (the "Dated Date") and will accrue interest from the Dated Date, and such interest shall be payable on February 1 and August 1 in each year, commencing August 1, 2021, until stated maturity or prior redemption. The Bonds will mature on the dates and in the principal amounts and will bear interest at the rates set forth on page -ii- of this Official Statement.

Interest on the Bonds is payable to the registered owner thereof appearing on the bond registration books kept by the Paying Agent/Registrar relating to the Bonds (the "Bond Register") on the Record Date (identified below) and such interest shall be paid by the Paying Agent/Registrar (i) by check sent by United States mail, first class, postage prepaid, to the address of the registered owner recorded in the Bond Register or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. The principal of the Bonds is payable



at stated maturity or prior redemption upon their presentation and surrender to the Paying Agent/Registrar. The Bonds will be issued only in fully registered form in any integral multiple of \$5,000 principal for any one maturity.

Initially the Bonds will be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Notwithstanding the foregoing, as long as the Bonds are held in the Book-Entry-Only System, principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners (defined herein) of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

#### Authority for Issuance

The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Chapter 1371, as amended, Texas Government Code ("Chapter 1371"), Sections 45.001 and 45.003(b)(1) as amended, Texas Education Code, an election held in the District on November 6, 2018 (the "Election"), and an order authorizing the issuance of the Bonds (the "Order") adopted by the Board of Trustees (the "Board") of the District on December 14, 2020. As permitted by the provisions of Chapter 1371, the Board, in the Order, delegated the authority to certain District officials (each an "Authorized Official") to execute an approval certificate (the "Approval Certificate") establishing the final pricing terms for the Bonds.

#### Use of Proceeds

The Bonds constitute the third and final installment of a total amount of \$118,341,000 authorized at an election held on November 6, 2018. After the issuance of the Bonds, the District will have no remaining voter-authorized but unissued unlimited ad valorem tax-supported bonds. See "VALUATION AND DEBT DATA - Authorized but Unissued General Obligation Bonds" attached hereto as APPENDIX A.

A summary of the bonds authorized at said election is as follows:

Purpose	Amount Authorized	Amount Previously Issued	Amount This Issue	Amount Remaining
Designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping school facilities (and any necessary or related Removal of existing facilities) and the purchase of the necessary sites for school facilities	\$118,341,000	\$78,255,000	\$40,086,000 *	\$ -0-

A portion of the proceeds of the Bonds will also be used to pay the costs of issuance of the Bonds.

*\* Preliminary, subject to change. Includes the Bonds and certain net premium allocations.*

#### Security for Payment

The Bonds constitute direct obligations of the District payable from an annual ad valorem tax levied against all taxable property located therein, without any legal limitation as to rate or amount.

#### Permanent School Fund Guarantee

The District has applied for and received conditional approval from the Texas Education Agency for the payment of principal of and interest on the Bonds to be guaranteed under the Permanent School Fund Guarantee Program which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.

#### Payment Record

The District has never defaulted on the payment of its bonded indebtedness.

#### Legality

The Bonds are subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, Austin, Texas, as Bond Counsel. The legal opinion of Bond Counsel will accompany the certificates deposited with DTC or be printed on the Bonds. The form of the legal opinion of Bond Counsel appears in APPENDIX D attached hereto.

## **Delivery**

When issued; anticipated to occur on or about February 11, 2021.

## **Future Issues**

The District does not anticipate the issuance of additional ad valorem tax-supported debt in the next twelve months, except potentially refunding bonds for debt service savings.

## **Redemption Provisions of the Bonds**

The District reserves the right to redeem the Bonds maturing on February 1, 2030, at the option of the District, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on February 1, 2029 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. Additionally, if two or more serial bonds of consecutive maturity are combined into one or more "term" Bonds (the "Term Bonds") by the Underwriters, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order.

## **Selection of Bonds for Redemption**

If less than all of the Bonds are redeemed within a stated maturity at any time, the Bonds to be redeemed shall be selected by the Paying Agent/Registrar at random and by lot or other customary method in multiples of \$5,000 within any stated maturity.

## **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 each registered owner of a Bond to be redeemed, in whole or in part, at the address of the holder appearing on the Bond Registrar at the close of business on the business day next preceding the date of mailing such notice.

ANY NOTICE OF REDEMPTION SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER ONE OR MORE BONDHOLDERS FAILED TO RECEIVE 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.

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

## **Defeasance**

Any Bond will be deemed paid and shall no longer be considered to be outstanding within the meaning of the Order when payment of the principal of and interest on such Bond to its stated maturity or redemption date will have been made or will have been provided by depositing with the Paying Agent/Registrar, (1) cash in an amount sufficient to make such payment, (2) Government Obligations (defined below) certified, in the case of a net defeasance, by an independent public accounting firm of national reputation, to be of such maturities and interest payment dates and bear such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to make such payment, or (3) a combination of cash and Government Obligations together so certified sufficient to make such payment; provided, however, that no certification by an independent accounting firm of the sufficiency of deposits shall be required in connection with a gross defeasance of Bonds.

The Order provides that "Government Obligations" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA"

or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that on the date the governing body of the District adopts or approves the proceedings authorizing the financial arrangements have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, or (d) any additional securities and obligations hereafter authorized by Texas law as eligible for use to accomplish the discharge of obligations such as the Bonds. Authorized Officials may restrict such eligible securities as deemed necessary in connection with the sale of the Bonds. There is no assurance that the ratings for U.S. Treasury securities acquired to defease any Bonds, or those for any other Government Obligations, will be maintained at any particular rating category. Further, there is no assurance that current Texas law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of those securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Bonds ("Defeasance Proceeds"), though the District has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Order does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the District to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, registered owners of Bonds are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under Texas law as permissible defeasance securities.

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

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

#### **Amendments**

The District may amend the Order without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Order; except that, without the consent of all of the registered owners of the Bonds then outstanding, no such amendment, addition, or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any Bond is due and payable, reduce the principal amount, the redemption price therefor, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the percentage of the aggregate principal amount of Bonds required to be held for consent to any amendment, addition, waiver, or rescission.

#### **Default and Remedies**

If the District defaults in the payment of principal, interest or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, and the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or the Order and the District's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the registered owners upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and, accordingly, all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Chapter 1371, which pertains to the issuance of public securities by issuers such as the District, permits the District to waive sovereign immunity in the proceedings authorizing the issuance of the Bonds. Notwithstanding its reliance upon the provisions of Chapter 1371 in connection with the issuance of the Bonds (as further described under the caption "THE BONDS - Authority for Issuance"), the District has not waived the defense of sovereign immunity with respect thereto. Because it is unclear whether the Texas legislature has effectively

waived the District's sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the United States Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due). The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity which permit the exercise of judicial discretion.

### **SOURCES AND USES OF FUNDS**

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

Sources of Funds:

Par Amount of Bonds	\$ _____
[Net] Reoffering Premium on the Bonds	
Accrued Interest	
Total Sources	\$ _____

Uses of Funds:

Deposit to Construction Fund	\$ _____
Deposit to Bond Fund (including accrued interest and capitalized interest)	
Underwriters' Discount	
Costs of Issuance	
Contingency	
Total Uses	\$ _____

### **REGISTRATION, TRANSFER AND EXCHANGE**

#### **Paying Agent/Registrar**

The initial Paying Agent/Registrar is Zions Bancorporation, National Association, dba Amegy Bank, Houston, Texas. The Bonds will be issued in fully registered form in multiples of \$5,000 or integral multiple thereof for any one stated maturity, and principal and interest will be paid by the Paying Agent/Registrar. If the date for the payment of the principal of or interest on, or redemption price of, the Bonds shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the Paying Agent/ Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

#### **Successor Paying Agent/Registrar**

The District covenants that until the Bonds are paid it will at all times maintain and provide a paying agent/registrar. In the Order, the District retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new Paying Agent/Registrar must accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District must be a bank, trust company, financial institution or other entity duly qualified and legally authorized to serve and perform the duties of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District will promptly cause a notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall give the address of the new Paying Agent/Registrar.

#### **Record Date**

The record date ("Record Date") for determining the registered owner entitled to receive a payment of interest on a Bond is the fifteenth day of the month next preceding each 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. 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 (5) business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each registered owner of a Bond appearing on the Bond Register at the close of business on the last business day next preceding the date of mailing of such notice.

### **Registration, Transferability and Exchange**

In the event the Book-Entry-Only System shall be discontinued, printed certificates will be issued to the registered owners of the Bonds and thereafter the Bonds may be transferred, registered, and assigned on the Bond Register only upon presentation and surrender of such printed certificates to the Paying Agent/Registrar, and such registration and transfer 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 and transfer. A Bond may be assigned by the execution of an assignment form on the Bond or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bonds being transferred or exchanged at the designated office of the Paying Agent/Registrar or sent by United States registered mail to the new registered owner at the registered owner's request, risk and expense. 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 (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in authorized denominations and for a like kind and aggregate principal amount and having the same maturity or maturities as the Bond or Bonds surrendered for exchange or transfer. See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

### **Limitation on Transfer of Bonds**

Neither the District nor the Paying Agent/Registrar are required (1) to make any transfer or exchange during a period beginning at the opening of business 45 days before the day of the first mailing of a notice of redemption of Bonds and ending at the close of business on the day of such mailing, or (2) to transfer or exchange any Bonds so selected for redemption when such redemption is scheduled to occur within 45 calendar days; provided however, that such limitation of transfer is not applicable to an exchange by the registered owner of the uncalled balance of a Bond.

### **Replacement Bonds**

In the event the Book-Entry-Only System has been discontinued, and any Bond is mutilated, destroyed, stolen or lost, a new Bond of like kind and in the same maturity and amount as the Bond so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Bond, such new Bond will be delivered only upon surrender and cancellation of such mutilated Bond. In the case of any Bond issued in lieu of and in substitution for a Bond which has been destroyed, stolen, or lost, such new Bond will be delivered only (a) upon filing with the District and the Paying Agent/Registrar evidence satisfactory to establish to the District and the Paying Agent/Registrar that such Bond has been destroyed, stolen or lost and proof of the ownership thereof, and (b) upon furnishing the District and the Paying Agent/Registrar with bond or indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond must comply with such other reasonable regulations as the Paying Agent/Registrar may prescribe and pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

### **BOOK-ENTRY-ONLY SYSTEM**

The following describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by DTC (defined below) 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 cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption, or other notices, to DTC 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.

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

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

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's 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).

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 payment 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 [nor its nominee], the

Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the District or the Paying Agent/Registrar. Disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but none of the District, the Financial Advisor, or the Underwriters takes any responsibility for the accuracy thereof.

#### **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 physical Bond certificates will be issued to the respective holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Order and summarized under the caption "REGISTRATION, TRANSFER AND EXCHANGE" above.

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

*The information below concerning the Texas Permanent School Fund and the Guarantee Program for school district bonds has been provided by TEA (defined below) and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the District, the Financial Advisor, or the Underwriters.*

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

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

#### **History and Purpose**

The PSF was created with a \$2,000,000 appropriation by the Texas Legislature (the "Legislature") in 1854 expressly for the benefit of the public schools of Texas. The Constitution of 1876 stipulated that certain lands and all proceeds from the sale of these lands should also constitute the PSF. Additional acts later gave more public domain land and rights to the PSF. In 1953, the U.S. Congress passed the Submerged Lands Act that relinquished to coastal states all rights of the U.S. navigable waters within state boundaries. If the state, by law, had set a larger boundary prior to or at the time of admission to the Union, or if the boundary had been approved by Congress, then the larger boundary applied. After three years of litigation (1957-1960), the U. S. Supreme Court on May 31, 1960, affirmed Texas' historic three marine leagues (10.35 miles) seaward boundary. Texas proved its submerged lands property rights to three leagues into the Gulf of Mexico by citing historic laws and treaties dating back to 1836. All lands lying within that limit belong to the PSF. The proceeds from the sale and the mineral-related rental of these lands, including bonuses, delay rentals and royalty payments, become the corpus of the Fund. Prior to the approval by the voters of the State of an amendment to the constitutional provision under which the Fund is established and administered, which occurred on September 13, 2003 (the "Total Return Constitutional Amendment"), and which is further described below, the PSF had as its main sources of

revenues capital gains from securities transactions and royalties from the sale of oil and natural gas. The Total Return Constitutional Amendment provides that interest and dividends produced by Fund investments will be additional revenue to the PSF. The State School Land Board ("SLB") maintains the land endowment of the Fund on behalf of the Fund and is generally authorized to manage the investments of the capital gains, royalties and other investment income relating to the land endowment. The SLB is a five member board, the membership of which consists of the Commissioner of the Texas General Land Office (the "Land Commissioner") and four citizen members appointed by the Governor. (See "2019 Texas Legislative Session" for a description of legislation that changed the composition of the SLB). As of August 31, 2020, the General Land Office (the "GLO") managed approximately 15% 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 2020 SBOE distributions to the ASF amounted to an estimated \$347 per student and the total amount distributed to the ASF by the SBOE and SLB was \$1,701.7 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, 2020, when 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, 2020 is derived from the audited financial statements of the PSF, which are included in the Annual Report when and 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, 2020 and for a description of the financial results of the PSF for the year ended August 31, 2020, the most recent year for which audited financial information regarding the Fund is available. The 2020 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2020 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 86<sup>th</sup> 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, and that asset allocation is expected to be fully implemented in the first calendar quarter of fiscal year 2022. 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 10%, 5% and 25%, respectively. At August 31, 2020, the market value of the liquidity account was \$4,050,631,451, of which 0.00% was equity investments, 39.43% was fixed income investments and 60.57% was cash.

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, 2020, the Fund's financial assets portfolio was invested as follows: 37.67% in public market equity investments; 14.39% in fixed income investments; 9.83% in absolute return assets; 13.31% in private equity assets; 8.66% in real estate assets; 3.24% in risk parity assets; 5.72% in real return assets; 6.83% in emerging market debt; and 0.35% in unallocated cash, exclusive of the liquidity account.

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

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

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

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

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

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

Texas law assigns control of the Fund's land and mineral rights to the SLB. Administrative duties related to the land and mineral rights reside with the GLO, which is under the guidance of the Commissioner of the GLO. In 2007, the Legislature established the real estate special fund account of the PSF (the "Real Estate Account") consisting of proceeds and revenue from land, mineral or royalty interest, real estate investment, or other interest, including revenue received from those sources, that is set apart to the PSF under the Texas Constitution and laws, together with the mineral estate in riverbeds, channels, and the tidelands, including islands. The investment of the Real Estate Account is subject to the sole and exclusive management and control of the SLB and the Land Commissioner, who is also the head of the GLO. The 2007 legislation presented constitutional questions regarding the respective roles of the SBOE and the SLB relating to the disposition of proceeds of real estate transactions to the ASF, among other questions. Amounts in the investment portfolio of the PSF are taken into account by the SBOE for purposes of determining the Distribution Rate. An amendment to the Texas Constitution was approved by State voters on November 8, 2011, which permits the SLB to make transfers directly to the ASF, see "2011 and 2019 Constitutional Amendments" below.

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

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

#### **Capacity Limits for the Guarantee Program**

The capacity of the Fund to guarantee bonds under the Guarantee Program is limited in two ways: by State law (the "State Capacity Limit") and by regulations and a notice issued by the IRS (the "IRS Limit"). Prior to May 20, 2003, the State Capacity Limit was equal to two times the lower of cost or fair market value of the Fund's assets, exclusive of real estate. During the 78th Regular Session of the Legislature in 2003, legislation was enacted that increased the State Capacity Limit by 25%, to two and one half times the lower of cost or fair market value of the Fund's assets as estimated by the SBOE and certified by the State Auditor, and eliminated the real estate exclusion from the calculation. Prior to the issuance of the IRS Notice (defined below), the capacity of the program under the IRS Limit was limited to two and one-half times the lower of cost or fair market value of the Fund's assets adjusted by a factor that excluded additions to the Fund made since May 14, 1989. During the 2007 Texas Legislature, Senate Bill 389 ("SB 389") was enacted providing for additional increases in the capacity of the Guarantee Program, and specifically providing that the SBOE may by rule increase the capacity of the Guarantee Program from two and one-half times the cost value of the PSF to an amount not to exceed five times the cost value of the PSF, provided that the increased limit does not violate federal law and regulations and does not prevent bonds guaranteed by the Guarantee Program from receiving the highest available credit rating, as determined by the SBOE. SB 389 further provides that the SBOE shall at least annually consider whether to change the capacity of the Guarantee Program. From 2005 through 2009, the Guarantee Program twice reached capacity under the IRS Limit, and in each instance the Guarantee Program was closed to new bond guarantee applications until relief was obtained from the IRS. The most recent closure of the Guarantee Program commenced in March 2009 and the Guarantee Program reopened in February 2010 on the basis of receipt of the IRS Notice.

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

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

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

At its September 2015 meeting, the SBOE voted to modify the SDBGP Rules and the CDBGP Rules to increase the State Law Capacity from 3 times the cost value multiplier to 3.25 times. At that meeting, the SBOE also approved a new 5% capacity reserve for the Charter District Bond Guarantee Program. The change to the State Law Capacity became effective on February 1, 2016. At its November 2016 meeting, the SBOE again voted to increase the State Law Capacity and, in accordance with applicable requirements for the modification of SDBGP and CDBGP Rules, a second and final vote to approve the increase in the State Law Capacity occurred on February 3, 2017. As a result, the State Law Capacity increased from 3.25 times the cost value multiplier to 3.50 times effective March 1, 2017. The State Law Capacity increased from \$123,509,204,770 on August 31, 2019 to \$128,247,002,583 on August 31, 2020 (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 January 4, 2021, there were 187 active open-enrollment charter schools in the State and there were 838 charter school campuses active under such charters (though as of such date, three 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 CDBG 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 CDBG Capacity include Fund investment performance, future increases in the Guarantee Program multiplier, changes in State law that govern the calculation of the CDBG 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 CDBG 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 CDBG 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, 2020, the amount of outstanding bond guarantees represented 77.00% of the IRS Limit (which is currently the applicable capacity limit) for the Guarantee Program. 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% 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% 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% 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 3.00% of the total amount of outstanding guaranteed bonds issued by charter districts. As of October 31, 2020, the Charter District Reserve Fund contained \$43,875,326, which represented approximately 1.69% 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 is 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, Inc., S&P Global Ratings and Fitch Ratings, Inc. rate bonds guaranteed by the PSF “Aaa,” “AAA” and “AAA,” respectively. Not all districts apply for multiple ratings on their bonds, however. See “OTHER PERTINENT INFORMATION - Municipal Bond 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>
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	35,288,344,219	46,464,447,981
2020 <sup>(2)</sup>	36,642,000,738	46,764,059,745

<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, 2020, 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, \$200.4 million, \$4,255.4 million, \$7.5 million, and \$333.8 million, respectively, and market values of approximately \$2,115.4 million, \$628.1 million, \$3,824.2 million, \$0.9 million, and \$333.8 million, respectively. At October 31, 2020, the PSF had a book value of \$37,040,181,304 and a market value of \$46,902,584,511. October 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>
2016	\$68,303,328,445
2017	74,266,090,023
2018	79,080,901,069
2019	84,397,900,203
2020	90,336,680,245 <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, 2020 (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 \$139,992,934,246, of which \$49,656,254,001 represents interest to be paid. As shown in the table above, at August 31, 2020, there were \$90,336,680,245 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 October 31, 2020, 94.88% of Program capacity was available to the School District Bond Guarantee Program and 5.12% 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 District Bonds		Totals	
	No. of Issues	Principal Amount	No. of Issues	Principal Amount	No. of Issues	Principal Amount
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	3,297	82,537,755,203	49	1,860,145,000	3,346	84,397,900,203
2020 <sup>(2)</sup>	3,296	87,800,478,245	64	2,536,202,000	3,360	90,336,680,245

<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 October 31, 2020 (based on unaudited data, which is subject to adjustment), there were \$91,697,104,332 of bonds guaranteed under the Guarantee Program, representing 3,340 school district issues, aggregating \$89,106,892,332 in principal amount and 65 charter district issues, aggregating \$2,590,212,000 in principal amount. At October 31, 2020, the capacity allocation of the Charter District Bond Guarantee Program was \$5,702,716,863 (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, 2020, 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) and, with respect to the liquidity account, Liquid(SBOE) assets. As of August 31, 2020, the Fund's land, mineral rights and certain real assets are managed by the five-member SLB and these assets are referred to throughout as the PSF(SLB) assets. The current PSF(SBOE) asset allocation policy includes an allocation for real estate investments, and as such investments are made, and become a part of the PSF(SBOE) investment portfolio, those investments will be managed by the SBOE and not the SLB.

At the end of fiscal 2020, the Fund balance was \$46.7 billion, an increase of \$0.2 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 updated the long-term strategic asset allocation, diversifying the PSF(SBOE) to strengthen the Fund, and initiated the strategic asset allocation for the Liquid(SBOE). 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, 2020, net of fees, were 7.50%, 7.55% and 8.19%, respectively, and the Liquid(SBOE) annual rate of return for the one year period ending August 31, 2020, net of fees, was 2.35% (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 -12.27%, 2.49%, and 5.15%, 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, 2020, 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, U.S. Treasury Securities, real return commodities, and emerging market debt.

As of August 31, 2020, the SBOE has approved and the Fund made capital commitments to externally managed real estate investment funds in a total amount of \$5.7 billion and capital commitments to private equity limited partnerships for a total of \$7.5 billion. Unfunded commitments at August 31, 2020, totaled \$2.0 billion in real estate investments and \$2.4 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, 2020, the remaining commitments totaled approximately \$2.73 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 22.37%, 3.44%, 8.80%, and 15.84%, respectively, during the fiscal year ended August 31, 2020. The PSF(SBOE)'s investment in domestic fixed income securities produced a return of 5.50% during the fiscal year and absolute return investments yielded a return of 4.43%. The PSF(SBOE) real estate and private equity investments returned 2.93% and 4.63%, respectively. Risk parity assets produced a return of 2.41%, while real return assets yielded 3.33%. Emerging market debt produced a return of 1.67%. Combined, all PSF(SBOE) asset classes produced an investment return, net of fees, of 7.50% for the fiscal year ended August 31, 2020, underperforming the benchmark index of 8.54% by approximately 104 basis points. The Liquid(SBOE) investment in Short Term Fixed Income yielded 2.78% and Cash Reserves yielded 1.62%. Combined, Liquid(SBOE) asset classes produced an investment return, net of fees, of 2.35%, outperforming the benchmark index of 2.04% by approximately 31 basis points. All PSF(SLB) externally managed investments (including cash) returned -12.27% net of fees for the fiscal year ending August 31, 2020.

For fiscal year 2020, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled \$2.0 billion, a decrease of \$1.7 billion from fiscal year 2019 earnings of \$3.7 billion. This decrease reflects the performance of the securities markets in which the Fund was invested in fiscal year 2020. In fiscal year 2020,

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 5.6% for the fiscal year ending August 31, 2020. 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 2019 and 2020, the distribution from the SBOE to the ASF totaled \$1.2 billion and \$1.1 billion, respectively. Distributions from the SLB to the ASF for fiscal years 2019 and 2020 totaled \$300 and \$600 million, respectively.

At the end of the 2020 fiscal year, PSF assets guaranteed \$90.3 billion in bonds issued by 872 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 7,789 school district and charter district bond issues totaling \$202.1 billion in principal amount. During the 2020 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program totaled 3,360. The dollar amount of guaranteed school and charter bond issues outstanding increased by \$5.9 billion or 7.0%. The State Capacity Limit increased by \$4.7 billion, or 3.8%, during fiscal year 2020 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 2020 as the IRS Limit was reached in a 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 2.974% Distribution Rate equating to \$2.2 billion for State fiscal biennium 2020-2021, with the transfers to be made in equal monthly increments of \$92.2 million. 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. In September 2020, the SBOE approved a special, one-time transfer of \$300 million from the portion of the PSF managed by the SBOE to the Real Estate Special Fund Account of the PSF managed by the SLB, which amount is to be transferred to the ASF by the SLB in fiscal year 2021. In approving the special transfer, the SBOE determined that the transfer was in the best interest of the PSF due to the historic nature of the public health and economic circumstances resulting from the COVID-19 pandemic and its impact on the school children of Texas. In November 2020, the SBOE approved a projected \$3.4 billion distribution to the ASF for State fiscal biennium 2022-2023. The biennial distribution determined by the SBOE in November 2020 represents a 4.18% Distribution Rate for the 2022-2023 biennium. As in prior biennia, the direct PSF distributions to the ASF will be made in equal monthly increments. In

making its determination of the 2022-2023 Distribution Rate, the SBOE took into account the announced planned distribution to the ASF by the GLO of \$875 million for the biennium.

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 another entity (described in statute as the School Land Board, Chapter 32, Natural Resources Code) that has responsibility for the management of revenues derived from 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 or SLB 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 the GLO or SLB, the SBOE or another entity to the extent such entity has the responsibility for the management of revenues derived from such land or other properties. Any amount transferred to the ASF pursuant to this constitutional provision is excluded from the 6% Distribution Rate limitation applicable to SBOE transfers. Additionally, in making its determination of the amount to distribute to the ASF, the SBOE takes into account information available to it regarding the planned annual distribution to be made to the ASF by the GLO.

### **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, 2020, 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 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 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.



## **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 exempted or which may be exempted from ad valorem taxation if claimed, the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.*

### **Valuation of Taxable Property**

The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the "Appraisal Review Board") responsible for appraising property for all taxing units within the county. The appraisal of property within the District is the responsibility of the appraisal district within each county (each an "Appraisal District"). Except as generally described below, each Appraisal District is required to appraise all property within such 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, each 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 PROPERTY TAXATION - District and Taxpayer Remedies").

### **State Mandated Homestead Exemptions**

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

### **Local Option Homestead Exemptions**

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

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

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

## **Personal Property**

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

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

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

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

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

## **Other Exempt Property**

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

## **Tax Increment Reinvestment Zones**

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

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

## **Tax Limitation Agreements**

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

For a discussion of how the various exemptions described above are applied by the District, see “AD VALOREM PROPERTY TAXATION - District Application of Tax Code” herein.

## **District and Taxpayer Remedies**

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

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 was 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.

## **The Texas Tax Code as Applied to the District**

The District grants an exemption to the market value of residence homesteads of \$25,000; the District has not granted an additional exemption of 20% of the market value of residence homesteads.

The District grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$10,000; the disabled are also granted an exemption of \$10,000, an additional \$3,750 if over 65 or disabled, for a total exemption of \$13,750.

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

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

The District does not permit split payments and discounts. Installments are allowed under provisions of the Texas Property Tax Code.

The District has not granted the freeport property tax-exemption; however, the District adopted a resolution on November 12, 2007 to continue taxation of "goods-in-transit" for the 2008 tax year and beyond. On November 21, 2011, the District took official action to continue the taxation of "goods-in-transit" in tax year 2012 and beyond.

## **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 "State Legislature") from time to time, (i) met the requirements of article VII, section 1 of the Texas Constitution, which requires the State 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 State Legislature enacted multiple laws that made substantive changes in the way the Finance System is funded in efforts to address the prior decisions declaring the Finance System unconstitutional.

On May 13, 2016, the Court issued its opinion in the most recent school finance litigation, *Morath v. The Texas Taxpayer & Student Fairness Coal.*, 490 S.W.3d 826 (Tex. 2016) ("*Morath*"). The plaintiffs and intervenors in the case had alleged that the Finance System, as modified by the State 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 State Legislature could enact future changes to the Finance System. Any such changes could benefit or be a detriment to the District. If the State 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 State Legislature to cure the system's unconstitutionality in a way that is consistent with the Contract Clauses of the U.S. and Texas Constitutions" (collectively, the "Contract Clauses"), which prohibit the enactment of laws that impair prior obligations of contracts.

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

tax and any Permanent School Fund guarantee of the Bonds would be adversely affected by any such legislation (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" herein).

## **2021 Legislation**

On January 12, 2021, the 87th Texas Legislature convened in general session which is scheduled to adjourn on May 31, 2021. Thereafter, the Texas Governor may call one or more additional special sessions. During this time, the Texas Legislature may enact laws that materially change current law as it relates to the District and its finances. The District makes no representation regarding any actions the Texas Legislature may take but intends to monitor proposed legislation for any developments applicable to the District.

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

*Tier Two.* Tier Two supplements Tier One funding and provides two levels of enrichment with different guaranteed yields (i.e., Golden Pennies and Copper Pennies) depending on the school district's Enrichment Tax Rate. Golden Pennies generate a guaranteed yield equal to the greater of (i) the local revenue per student in WADA per cent of tax effort available to a school district at the ninety-sixth (96<sup>th</sup>) percentile of wealth per student in WADA, or (ii) the Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.016. For the 2020-2021 State fiscal biennium, school districts are guaranteed a yield of \$98.56 per student in WADA for each Golden Penny levied. Copper Pennies generate a guaranteed yield per student in WADA equal to the school district's Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.008. For the 2020-2021 State fiscal biennium, school districts are guaranteed a yield of \$49.28 per student in WADA for each Copper Penny levied. For any school year in which the guaranteed yield of Copper Pennies per student in WADA exceeds the guaranteed yield of Copper Pennies per student in WADA for the preceding school year, a school district is required to reduce its Copper Pennies levied so as to generate no more revenue per student in WADA than was available to the school district for the preceding year. Accordingly, the increase in the guaranteed yield from \$31.95 per Copper Penny per student in WADA for the 2018-2019 school year to \$49.28 per Copper Penny per student in WADA for the 2019-2020 school year requires school districts to compress their levy of Copper Pennies by a factor of 0.64834. As such, school districts that levied an Enrichment Tax Rate of \$0.17 in school year 2018-2019 were required to 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**

For the 2020-2021 fiscal year, the District was designated as an "excess local revenue" district by the TEA. According based on currently available information from TEA, the District is subject to recapture and, therefore, the District is required to exercise one of the wealth equalization options permitted under applicable State law. The District has notified the TEA that it intends to reduce its wealth per student pursuant to Option 3, an agreement to purchase attendance credits pursuant to Chapter 49, Texas Education Code, as amended (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Local Revenue in Excess of Entitlement" herein).

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

For a detailed discussion of State funding for school districts, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - State Funding for School Districts" herein.

## **TAX RATE LIMITATIONS**

### **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 June 15, 2002 in accordance with the provisions of Section 45.003, Texas Education Code, as amended.

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

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

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

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

### **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 for Payment").

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

### **Public Hearing and Voter-Approval Tax Rate**

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

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).

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.

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.

#### **EMPLOYEE RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFITS**

The District contributes to the Teacher Retirement System of Texas (the "TRS"), a public employee retirement system. Aside from the District's contribution to the TRS, the District has no pension fund expenditures or liabilities, except for portions of salaries that exceed salary limits of TRS. The District does not offer any post-employment retirement benefits and has no liabilities for "Other Post Employment Retirement Benefits" as defined in GASB Statement No. 45. See "IV. OTHER INFORMATION - C. Defined Benefit Pension Plan," in the audited financial statements of the District for the fiscal year ended June 30, 2020 as set forth in APPENDIX C hereto.

The District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care) administered by the TRS, which provides coverage for certain persons (and their dependents) who retired under the TRS. See Notes to the Financial Statements, "IV. OTHER INFORMATION - D. Defined Other Postemployment Benefit Plans," in the audited financial statements of the District for the fiscal year ended June 30, 2020 as set forth in APPENDIX C hereto.

During the fiscal year ended June 30, 2020, employees of the District were covered by a health insurance plan (the "Plan"). The District paid premiums of \$332 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a third party administrator, acting on behalf of the licensed insurer. The plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement. See Notes to the Financial Statements, "IV. OTHER INFORMATION - E. Employee Health Care Coverage," in the audited financial statements of the District for the fiscal year ended June 30, 2020 as set forth in APPENDIX C hereto.

## INVESTMENT POLICIES

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

### Legal Investments

Under State law and subject to certain limitations, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations issued and secured by a federal agency or instrumentality of the United States; (4) other obligations unconditionally guaranteed or insured by the State of Texas or the United States or their respective agencies and instrumentalities; (5) "A" or better rated obligations of states, agencies, counties, cities, and other political subdivisions of any state; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) federally insured interest-bearing bank deposits, brokered pools of such deposits, and collateralized certificates of deposit and share certificates; (8) fully collateralized United States government securities repurchase agreements; (9) one-year or shorter securities lending agreements secured by obligations described in clauses (1) through (7) above or (11) through (14) below or an irrevocable letter of credit issued by an "A" or better rated state or national bank; (10) 270-day or shorter bankers' acceptances, if the short-term obligations of the accepting bank or its holding company are rated at least "A-1" or "P-1"; (11) commercial paper rated at least "A-1" or "P-1"; (12) SEC-registered no-load money market mutual funds that are subject to SEC Rule 2a-7; (13) SEC-registered no-load mutual funds that have an average weighted maturity of less than two years; (14) "AAA" or "AAAm"-rated investment pools that invest solely in investments described above; and (15) in the case of bond proceeds, guaranteed investment contracts that are secured by obligations described in clauses (1) through (7) above and, except for debt service funds and reserves, have a term of 5 years or less.

The District may not, however, invest in (1) interest only obligations, or non-interest bearing principal obligations, stripped from mortgage-backed securities; (2) collateralized mortgage obligations that have a remaining term that exceeds 10 years; and (3) collateralized mortgage obligations that bear interest at an index rate that adjusts opposite to the changes in a market index. In addition, the District may not invest more than 15% of its monthly average fund balance (excluding bond proceeds and debt service funds and reserves) in mutual funds described in clause (13) above or make an investment in any mutual fund that exceeds 10% of the fund's total assets.

Except as stated above or inconsistent with its investment policy, the District may invest in obligations of any duration without regard to their credit rating, if any. If an obligation ceases to qualify as an eligible investment after it has been purchased, the District is not required to liquidate the investment unless it no longer carries a required rating, in which case the District is required to take prudent measures to liquidate the investment that are consistent with its investment policy.

As a school district that qualifies as an "issuer" under Chapter 1371, the District may also invest up to 15% of its monthly average fund balance (excluding bond proceeds and debt service funds and reserves) in "AA-" or better rated corporate bonds with a remaining term of three years or less. Not more than 25% of its funds invested in corporate bonds may be invested in any single issuer and its affiliates. Corporate bonds must be sold if downgraded below the required rating or placed on negative credit watch.

### Investment Policies

Under State law, the District is required to adopt and annually review written investment policies and must invest its funds in accordance with its policies. The policies must identify eligible investments and address investment diversification, yield, maturity, and the quality and capability of investment management. For investments whose eligibility is rating dependent, the policies must adopt procedures to monitor ratings and liquidate investments if and when required. The policies must require that all investment transactions settle on a delivery versus payment basis. The District is required to adopt a written investment strategy for each fund group to achieve investment objectives in the following order of priority: (1) suitability, (2) preservation and safety of principal, (3) liquidity, (4) marketability, (5) diversification, and (6) yield.

State law requires the District's investments 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." The District is required to perform an annual audit of the management controls on investments and compliance with its investment policies and provide regular training for its investment officers.

## Current Investments\*

As of December 1, 2020, the following percentages of the District's investable funds were invested as indicated below:

<u>Category of Investments</u>	<u>Amount</u>	<u>Percentage</u>	<u>Term of Investments</u>
Investment Pools	\$96,216,499.78	100.00%	Daily liquidity

\* *Unaudited.*

As of such date, the market value of such investments (as determined by the District by reference to published quotations, dealer bids, and comparable information) was approximately 100% of their book value. No funds of the District are invested in derivative securities, *i.e.*, securities whose rate of return is determined by reference to some other instrument, index, or commodity.

## LEGAL MATTERS

The District will furnish the Underwriters a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, to the effect that the Bonds are valid and legally binding obligations of the District and subject to the qualifications set forth herein under "TAX MATTERS," the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions "THE BONDS" (exclusive of the subcaptions "Permanent School Fund Guarantee," "Payment Record," "Future Issues," and "Default and Remedies," as to which no opinion is expressed), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM," "TAX RATE LIMITATIONS" (first paragraph only), "LEGAL MATTERS - Legal Opinions and No-Litigation Certificate" (excluding the last two sentences of this paragraph and the information under the subcaption "Litigation" as to which no opinion is expressed), "TAX MATTERS," "CONTINUING DISCLOSURE" (excluding the information under the subcaption "Compliance with Prior Agreements," as to which no opinion is expressed), "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," and "OTHER PERTINENT INFORMATION - Registration and Qualification of Bonds for Sale" in the Official Statement, and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. Bond Counsel's legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton, L.L.P., San Antonio, Texas, whose compensation is contingent on the sale and delivery of the Bonds. McCall, Parkhurst & Horton, L.L.P. also advises the TEA in connection with its disclosure obligations under federal securities laws, but such firm has not passed upon any TEA disclosures contained in this Official Statement.

Though it represents the Financial Advisor and the Underwriters from time to time in matters unrelated to the Bonds, Bond Counsel has been engaged by and only represents the District with respect to the issuance of the Bonds. The legal opinion to be delivered concurrently with the delivery of the Bonds expresses the professional judgment of the attorneys rendering the opinion as to the legal issues expressly 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 from the transaction.

## Litigation

In the opinion of various officials of the District, except as disclosed in this Official Statement, there is no litigation or other proceeding pending against or, to their knowledge, threatened against the District in any court, agency, or administrative body (either state or federal) wherein an adverse decision would materially adversely affect the financial condition of the District.

At the time of initial delivery of the Bonds, the District will provide the Underwriters with a certificate to the effect that no litigation of any nature has been filed or is then pending challenging the issuance of the Bonds or that affects the payment and security of the Bonds or in any other manner questioning the issuance, sale, or delivery of the Bonds.

## **TAX MATTERS**

### **Opinion**

The delivery of the Bonds is subject to the opinion of Norton Rose Fulbright US LLP, Austin, Texas, Bond Counsel, to the effect that interest on the Bonds for federal income tax purposes (1) is excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), of the owners thereof pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. The statute, regulations, rulings, and court decisions on which such opinion is based are subject to change. The form of Bond Counsel's opinion appears in APPENDIX D hereto.

In rendering the foregoing opinion, Bond Counsel will rely upon the representations and certifications of the District made in a certificate of even date with the initial delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance with the provisions of the Order by the District subsequent to the issuance of the Bonds. The Order contains covenants by the District with respect to, among other matters, the use of the proceeds of the Bonds and the facilities and equipment financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, if required, the calculation and payment to the United States Treasury of any arbitrage "profits" and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Except as described above, Bond Counsel will express no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the District described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the District as the "taxpayer," and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the District may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

### **Tax Changes**

Existing law may change to reduce or eliminate the benefit to bondholders of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

### **Ancillary Tax Consequences**

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust ("FASIT"), individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

### **Tax Accounting Treatment of Discount Bonds**

The initial public offering price to be paid for certain bonds may be less than the amount payable on such bonds at maturity (the "Discount Bonds"). An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bonds. A portion of such original issue discount, allocable to the holding period of a Discount Bond by the initial purchaser, will be treated as interest for federal income tax purposes, excludable from gross income on the same terms and conditions as those for other interest on the Bonds. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during his taxable year.

However, such accrued interest may be taken into account in determining the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax consequences of owning Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

### **Tax Accounting Treatment of Premium Bonds**

The initial public offering price to be paid for certain bonds may be greater than the stated redemption price on such bonds at maturity (the "Premium Bonds"). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and its stated redemption price at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium with respect to the Premium Bonds. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

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

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201, as amended), the Bonds (i) are negotiable instruments, (ii) are investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies, and (iii) are legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256, as amended), the Bonds may have to be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. See "OTHER PERTINENT INFORMATION - Municipal Bond 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 least \$1 million of capital and savings and loan associations.

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.

### **CONTINUING DISCLOSURE**

The District in the Order 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 events, to the Municipal Securities Rulemaking Board ("MSRB"). This information will be available to the public free of charge from the MSRB via the Electronic Municipal Market Access ("EMMA") system at [www.emma.msrb.org](http://www.emma.msrb.org), as further described below under "Availability of Information from MSRB".

## Annual Reports

The District will file certain updated financial information and operating data with the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement in APPENDIX A, attached hereto, exclusive of the tables reflecting "Direct and Estimated Gross Overlapping Funded Debt Payable from Ad Valorem Taxes," "Estimated Interest & Sinking Fund Management Index 2020/21" and "2021/2022 Pro Forma Interest & Sinking Fund Management Index," respectively, and in APPENDIX C attached hereto. Additionally, the tables which provide neither quantitative financial information nor operating data for the District, including, but not limited to "Authorized But Unissued General Obligation Bonds" and "Anticipated Issuance of Additional Bonds," have not been and will not be included in the District's annual filings. The District will update and provide this information to the MSRB within 6 months after the end of each fiscal year ending in or after 2021.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the United States Securities and Exchange Commission (the "SEC") Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial statements by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX C or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

The District's current fiscal year end is June 30. Accordingly, it must provide updated information by the last day of December in each year, unless it changes its fiscal year. If the District changes its fiscal year, it will file notice of such change with the MSRB.

## Notice of Certain Events

The District will file with the MSRB notice of any of the following events with respect to the Bonds in a timely manner (not more than 10 business days after occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into 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 Paying Agent/Registrar or the change of name of a Paying Agent/Registrar, if material; (15) incurrence of a Financial Obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such 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 any such Financial Obligation of the District, any of which reflect financial difficulties. Neither the Bonds nor the Order make any provision for debt service reserves, credit enhancement (with the exception of the Texas Permanent School Fund guarantee), or liquidity enhancement. Additionally, the Bonds are not obligations the interest of which is excludable from gross income for federal income tax purposes. In the Order, the District adopted policies and procedures to ensure timely compliance of its continuing disclosure undertakings. 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." The District will provide each notice described in this paragraph to the MSRB.

For these purposes, (a) 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 orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District, and (b) the District intends the words used in the immediately preceding clauses (15) and (16) and in the definition of Financial Obligation above to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018.



## **Availability of Information from MSRB**

All information and documentation filing required to be made by the District in accordance with its undertaking made for the Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB.

## **Limitations and Amendments**

The District has agreed to update information and to provide notices of specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell 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 or beneficial owners of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if (1) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent or (b) any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The District may also repeal or amend these provisions if the SEC amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but in either case 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 giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. 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 Agreements**

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

## **OTHER PERTINENT INFORMATION**

### **Authenticity of Financial Information**

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. All of the summaries of the statutes, documents and orders contained in this Official Statement are made subject to all of the provisions of such statutes, documents and orders. 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.

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

No registration statement relating to the Bonds has been filed with the SEC under the Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2). The Bonds have not been approved or disapproved by the SEC, nor has the SEC passed upon the accuracy or adequacy of the Official Statement. 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 act of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for registration or 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.

It is the obligation of the Underwriters to register or qualify the sale of the Bonds under the securities laws of any jurisdiction which so requires. The District agrees to cooperate, at the Underwriters' written request and sole expense, in registering or qualifying the Bonds or in obtaining an exemption from registration or qualification in any state where such action is necessary; provided, however, that the District shall not be required to qualify as a foreign corporation or to execute a general or special consent to service of process in any jurisdiction.

## **Municipal Bond Ratings**

The District has made application to Fitch Ratings, Inc. ("Fitch") and Moody's Investors Service, Inc. ("Moody's") for a contract rating on the Bonds. Fitch and Moody's generally rate all bonds guaranteed by the Texas Permanent School Fund "AAA" and "Aaa," respectively. The results will be made available as soon as possible. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein

The ratings reflect only the view of such organizations at the time such ratings were given, 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 the rating company, if, in the judgment of such rating company, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

## **Financial Advisor**

SAMCO Capital Markets, Inc. (the "Financial Advisor") is employed as the Financial Advisor to the District in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. SAMCO Capital Markets, Inc., in its capacity as Financial Advisor, has relied on the opinions of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants, and representations contained in any of the bond documentation with respect to the federal income tax status of the Bonds. In the normal course of business, the Financial Advisor may also from time to time sell investment securities to the District for the investment of bond proceeds or other funds of the District upon the request of the District.

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 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 the price equal to the initial offering prices to the public, as shown on page -ii- herein, less an Underwriters' discount of \$\_\_\_\_\_, plus accrued interest from their Dated Date to their date of initial delivery. The Underwriters' obligation is subject to certain conditions precedent. The Underwriters will be obligated to purchase all of the Bonds, if any of the Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement pursuant to their responsibilities to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.

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.

## **Certification of the Official Statement**

At the time of payment for and delivery of the Initial Bond, the Underwriters will be furnished a certificate, executed by proper officials of the District, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements pertaining to the District contained in its Official Statement, and any addenda, supplement, or amendment thereto, for the Bonds, on the date of such Official Statement, on the date of sale of the Bonds, and on the date of the initial delivery of the Bonds, were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the District, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the District believes to be reliable and the District has no reason to believe that they are untrue in any material respect; and (d) except as set forth in this Official Statement, there has been no material adverse change in the financial condition of the District, since June 30, 2020, the date of the last financial statements of the District appearing in the Official Statement.

## **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. It is important to note that the District's actual results could differ materially from those in such forward-looking statements.

The forward-looking statements 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 would prove to be accurate.

## **Information from External Sources**

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

## **Authorization of the Official Statement**

No person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the District.

This Official Statement has been approved by the Board of the District for distribution in accordance with provisions of the SEC's Rule codified at 17 C.F.R. Section 240.15c2-12, as amended.

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

**NEW BRAUNFELS INDEPENDENT SCHOOL DISTRICT**

/s/

\_\_\_\_\_  
Authorized Official

(this page intentionally left blank)

**APPENDIX A**

**Selected Financial Information  
of the District**

(this page intentionally left blank)

## VALUATION AND DEBT DATA

### Valuation Information

Total 2020 Appraised Valuation of District	\$7,888,724,521
Less: Exemptions/Exclusions <sup>(1)</sup>	<u>1,073,931,848</u>
Total 2020 Taxable Assessed Valuation <sup>(2)</sup>	\$6,814,792,673

Source: Comal Appraisal District and Guadalupe Appraisal District certified values.

<sup>(1)</sup> For a detailed description of the Exemptions/Exclusions see "2020 Tax Exemptions/Exclusions Allowed" herein.

<sup>(2)</sup> Includes valuations against which a freeze of tax levy has been granted for persons 65 years or older in 2020.

### Direct Debt Information

Total Indebtedness Payable from Ad Valorem Taxes: (at 11-1-2020)	
Maintenance and Operations Tax Debt .....	\$ -0-
Unlimited Tax Bond Debt .....	259,782,226 *
Total All Bonded Indebtedness Payable from Taxes .....	259,782,226 *
Less Estimated Interest & Sinking Fund Consolidated Balance (at 11-1-2020) .....	4,283,913
NET BONDED INDEBTEDNESS PAYABLE FROM AD VALOREM TAXES .....	\$255.498,313 *

\* Preliminary, subject to change. Includes the Bonds.

### Direct Debt Ratios

Ratio of Total Bonded Debt (\$259,782,226*) to 2020 Taxable Assessed Valuation (\$6,814,792,673) .....	3.81%
Ratio of Total Bonded Debt (\$259,782,226*) to 2020 Total Appraised Valuation (\$7,888,724,521) .....	3.29%
Ratio of Net Bonded Debt (\$255.498,313*) to 2020 Taxable Assessed Valuation (\$6,814,792,673) .....	3.75%
Ratio of Net Bonded Debt (\$255.498,313*) to 2020 Total Appraised Valuation (\$7,888,724,521) .....	3.24%

\* Preliminary, subject to change. Includes the Bonds.

### Non-Funded Debt

**Commitments Under Noncapitalized Leases.** The District has various operating lease agreements where the future minimum payments are immaterial to the operations of the District and, accordingly, the District has elected not to disclose future payments by fiscal year.

Source: District's 2020 Annual Financial Report.

### Authorized But Unissued General Obligation Bonds

After the issuance of the Bonds, the District will have no unissued unlimited ad valorem tax-supported bonds. The District may incur other financial obligations payable from its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

### Anticipated Issuance of Additional Bonds

The District does not anticipate the issuance of additional ad valorem tax-supported debt in the next twelve months, except potentially refunding bonds for debt service savings.

## Population and Per Capita Indebtedness

2020 District Population Estimate .....	53,825
2020 Per Capita Taxable Assessed Valuation (\$6,814,792,673) .....	\$126,610.18
Per Capita Direct Bonded Debt (\$259,782,226*) .....	\$4,826.42

\* Preliminary, subject to change. Includes the Bonds.

## Enrollment and Average Daily Attendance Data

2020-21 Enrollment (at 10-30-2020) .....	9,253
2020-21 Estimated Average Daily Attendance (at 1-1-2021) .....	8,783.5
2020 Taxable Assessed Valuation (\$6,814,792,673) Per Enrollment .....	\$736,495.48

## Valuation and Bonded Debt Data

Area of District in Square Miles .....	75.70
Area of District in Acres .....	48,448
Total Direct Bonded Debt (\$259,782,226*) Per Acre .....	\$5,362.08
2019 Taxable Assessed Valuation (\$6,814,792,673) Per Acre .....	\$140,662.00
2019 Total Appraised Value (\$7,888,724,521) Per Acre .....	\$162,828.69

\* Preliminary, subject to change. Includes the Bonds.

## Outstanding Debt By Issues

	Original Amount	Amount Outstanding at 12-1-2020 <sup>(1)</sup>
Unlimited Tax Bonds:		
Refunding Bonds, Series 2013	\$ 9,125,000	\$ 8,305,000
Refunding Bonds, Series 2014	9,145,000	8,095,000
Refunding Bonds, Series 2015	5,235,000	5,235,000
Refunding Bonds, Series 2015A	15,769,993	15,149,993 <sup>(2)</sup>
School Building Bonds (Qualified School Construction Bonds), Series 2016	8,728,000	6,400,000
School Building and Refunding Bonds, Series 2016	47,300,000	39,945,000
School Building Bonds, Series 2017	18,400,000	17,750,000
School Building and Refunding Bonds, Series 2019	74,035,000	71,280,000
School Building and Refunding Bonds, Series 2020	47,542,233	47,542,233 <sup>(2)</sup>
School Building Bonds, Series 2021 (the "Bonds")	40,080,000 <sup>(1)</sup>	<u>40,080,000</u> <sup>(1)</sup>
Total Tax Debt .....		\$259,782,226

<sup>(1)</sup> Preliminary, subject to change.

<sup>(2)</sup> Includes the original amount, but not accreted value, of capital appreciation bonds.



**Consolidated Schedule Of Bonded Issue Principal Requirements  
(Year Ending August 31 In Each Of The Years 2021 - 2044 Inclusive)**

2021	\$ 10,892,000	
2022	11,492,000	
2023	9,149,226	
2024	11,607,000	
2025	12,072,000	21.25%
	-	
2026	12,787,000	
2027	11,017,000	
2028	11,817,000	
2029	12,817,000	
2030	11,166,000	44.20%
	-	
2031	11,396,000	
2032	11,170,000	
2033	11,625,000	
2034	11,650,000	
2035	11,700,000	66.35%
	-	
2036	10,620,000	
2037	10,820,000	
2038	10,725,000	
2039	10,450,000	
2040	9,525,000	86.42%
	-	
2041	10,685,000	
2042	10,640,000	
2043	8,250,000	
2044	<u>5,710,000</u>	100.00%
Total	\$259,782,226	

**Direct and Estimated Gross Overlapping Funded Debt Payable from Ad Valorem Taxes**

Expenditures of the various taxing bodies overlapping the territory of the District are paid out of ad valorem taxes levied by these taxing bodies on properties overlapping the District. These political taxing bodies are independent of the District and may incur borrowings to finance their expenditures. The following statements of direct and estimated overlapping ad valorem tax bonds was developed from information contained in the "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 below may have authorized or issued additional bonds since the date stated below, and such entities may have programs requiring the authorization and/or issuance of substantial amounts of additional bonds, the amount of which cannot be determined. The following table reflects the estimated share of direct and overlapping extended debt of these various taxing bodies:

<u>Political Subdivision</u>	<u>Gross Debt</u>		<u>Percent Overlapping</u>	<u>Amount Overlapping</u>
	<u>Amount</u>	<u>As Of</u>		
Comal County	\$139,845,000	1-01-2021	22.79%	\$ 31,868,397
Comal County WID #1A	3,150,000	1-01-2021	100.00%	3,150,000
Guadalupe County	9,405,000	1-01-2021	9.42%	885,951
City of New Braunfels	244,505,000	1-01-2021	57.85%	<u>141,446,143</u>
Estimated Overlapping Funded Debt .....				177,350,491
New Braunfels ISD	259,782,226 *	2-01-2021	100.00%	<u>259,782,226</u> *
Total Direct and Estimated Overlapping Funded Debt .....				\$437,132,717 *
Ratio to 2020 Total Appraised Valuation (\$7,888,724,521) .....				5.54%
Ratio to 2020 Taxable Assessed Valuation (\$6,814,792,673) .....				6.41%
Per Capita (53,825) Direct and Estimated Overlapping Debt .....				\$8,121.37

\* Preliminary, subject to change.

## TAXATION DATA

### Historical Valuations, Tax Rates, and Collection Data

Tax Year <sup>(1)</sup>	Assessed Valuation <sup>(2)</sup>	Tax Rate	% Collections		Fiscal Year Ending
			Current	Total	
2010	\$2,906,839,295	\$1.3391	97.29%	100.00%	6-30-2011
2011	2,973,189,232	1.3391	97.69%	100.62%	6-30-2012
2012	3,076,696,139	1.3391	96.93%	99.10%	6-30-2013
2013	3,259,588,231	1.3391	97.71%	100.54%	6-30-2014
2014	3,564,805,018	1.3391	98.17%	100.47%	6-30-2015
2015	3,849,024,345	1.3391	98.22%	100.09%	6-30-2016
2016	4,659,577,701	1.3391	98.33%	100.03%	6-30-2017
2017	4,957,161,948	1.3391	97.74%	99.16%	6-30-2018
2018	5,389,923,969	1.3658	98.23%	100.45%	6-30-2019
2019	5,698,854,530	1.2958	97.72%	99.22%	6-30-2020
2020	6,814,792,673	1.2233	(In process of collection)		6-30-2021

<sup>(1)</sup> The District's tax collection year previously began April 1 each year with taxes becoming due July 1 and becoming delinquent after July 31. Taxable valuations for current year were rendered and determined as of the period beginning January 1 of the previous year.

<sup>(2)</sup> Tax years 2010 through 2019 taken from District's 2020 Annual Financial Report; Tax year 2020 taken from the Comal Appraisal District and Guadalupe Appraisal District.

### Tax Rate Distribution

	<u>2020/21</u>	<u>2019/20</u> <sup>(1)</sup>	<u>2018/19</u>	<u>2017/18</u>	<u>2016/17</u>
Local Maintenance	\$0.8975	\$0.9700	\$1.0400	\$1.0133	\$1.0133
Interest & Sinking Fund	<u>.3258</u>	<u>.3258</u>	<u>.3258</u>	<u>.3258</u>	<u>.3258</u>
Totals	\$1.2233	\$1.2958	\$1.3658	\$1.3391	\$1.3391

Source: The District.

<sup>(1)</sup> The decline in the District's Maintenance and Operations Tax is a function of House Bill 3 adopted by the Texas Legislature in June 2019.

### 2020 Tax Exemptions/Exclusions Allowed

The District has granted exemptions to property owners and for persons over 65 years of age and has granted those exemptions under the law for disabled property owners and veterans, and agricultural exclusions as provided. The exemptions in each of the categories listed are shown below:

Homestead - State-mandated \$25,000 General .....	\$ 344,345,241
State-mandated \$10,000 Over-65 .....	72,333,277
Homestead -100% Disabled/Veterans.....	174,120,477
Disabled/Deceased Veterans .....	11,387,061
Disabled Persons .....	4,072,373
Homestead - 10% Appraisal Cap Loss .....	81,624,128
Productivity Loss .....	385,320,882
Solar .....	303,249
Other .....	<u>425,160</u>
Total Exemptions and Exclusions .....	\$1,073,931,848

Source: Comal Appraisal District and Guadalupe Appraisal District.

**Schedule of Delinquent Taxes Receivable Fiscal Year Ended June 30, 2020**

<u>Last Ten Years</u>	<u>Ending Balance</u>
2011 and prior years	\$ 123,118
2012	42,004
2013	49,329
2014	65,001
2015	89,505
2016	99,524
2017	123,408
2018	172,060
2019	300,989
2020	<u>1,680,082</u>
Total	\$2,745,020

*Source: District's 2020 Annual Report*

**Ten Largest Taxpayers**

<u>Name</u>	<u>Type of Property</u>	<u>2020 Net Taxable Assessed Valuation</u>	<u>% of Total 2020 Taxable Assessed Valuation</u>
Rush Truck Leasing	Trucking	\$ 70,945,500	1.04%
KAHLIG Enterprises	Real Estate	60,305,070	0.88%
Grey Forest Development LLC	Real Estate	55,821,980	0.82%
Cedar Fair Entertainment	Real Estate	43,258,270	0.63%
New Braunfels Water Park LLC	Real Estate	40,529,230	0.59%
T4V3 LLC	Real Estate	40,216,960	0.59%
LPF Westpointe LLC	Real Estate	24,714,760	0.36%
SABRA Texas Holdings LC	Real Estate	23,042,450	0.34%
New Braunfels Office LP	Real Estate	21,300,380	0.31%
WALMART Real Estate Business Trust	Retail	<u>18,469,410</u>	<u>0.27%</u>
Total		\$398,604,010	5.85%

*Source: Comal Appraisal District and Guadalupe Appraisal District.*

## Taxpayers by Classification

Category	Assessed Valuation 2020	Percent Of Total	Assessed Valuation 2019	Percent Of Total	Assessed Valuation 2018	Percent Of Total
Single-Family Residences	\$5,493,480,593	69.64%	\$4,981,969,916	73.08%	\$4,430,535,201	71.65%
Multifamily Residences	352,610,229	4.47%	266,704,392	3.91%	232,419,277	3.76%
Vacant-Platted Lots	151,706,501	1.92%	131,790,178	2.24%	118,677,595	1.92%
Qualified Open Space/Improvements	506,253,853	6.42%	401,756,916	5.89%	287,584,068	4.65%
Rural land - non-qualified	21,707,480	0.28%	21,732,842	0.32%	117,486,034	1.90%
Commercial Real	950,340,313	12.05%	653,650,194	11.09%	644,400,150	10.42%
Industrial Real	56,992,700	0.72%	17,297,040	0.25%	17,658,410	0.29%
Oil, Gas and Minerals	-0-	0.00%	-0-	0.00%	-0-	0.00%
Utilities	24,850,019	0.32%	29,808,767	0.51%	29,340,450	0.48%
Commercial Personal	191,005,039	2.42%	183,752,114	2.70%	208,043,199	3.36%
Industrial Personal	26,791,591	0.34%	16,853,052	0.25%	12,585,237	0.20%
Mobile Homes	10,855,336	0.14%	10,989,651	0.19%	10,345,778	0.17%
Residential Inventory	68,145,067	0.86%	67,041,853	0.98%	53,803,161	0.87%
Special Inventory	<u>33,985,800</u>	<u>0.43%</u>	<u>33,362,870</u>	<u>0.49%</u>	<u>20,668,925</u>	<u>0.33%</u>
<b>Total Appraised Value</b>	\$7,888,724,521	100.00%	\$6,816,709,785	100.00%	\$6,183,547,485	100.00%
Less Exemptions and Exclusions	<u>1,073,931,848</u>		<u>923,113,693</u>		<u>816,928,133</u>	
<b>Net Taxable Assessed Valuation*</b>	<u>\$6,814,792,673</u>		<u>\$5,893,596,092</u>		<u>\$5,366,619,352</u>	

Source: Information is compiled from data from the Comal Appraisal District and the Guadalupe Appraisal District.

\* Total includes valuations against which a freeze of tax levy has been granted for persons 65 years or older.

(The remainder of this page has been left blank intentionally.)

### ESTIMATED INTEREST & SINKING FUND MANAGEMENT INDEX 2020/21

Interest & Sinking Fund Balance at 6-30-2020.....	\$ 8,563,711.9
Estimated Income from \$0.3258 I&S Tax Rate @ 97% Collected Using 2020 Taxable Assessed Valuation of \$6,814,792,673 .....	21,536,516
Estimated Other Income .....	<u>50,000</u>
Estimated Total Funds Available .....	30,150,235
2020/21 Debt Service Requirement .....	<u>19,364,128</u>
Estimated Interest & Sinking Fund Balance at 6-30-2021 .....	\$10,786,107

### CONSOLIDATED DEBT SERVICE REQUIREMENTS INCLUDING THE BONDS AT ASSUMED RATES\*

YEAR ENDING 30-June	CURRENTLY OUTSTANDING DEBT SERVICE	PLUS: THE BONDS AT ASSUMED RATES*				GRAND TOTAL ALL DEBT SERVICE
		PRINCIPAL DUE 2/1	INTEREST DUE 8/1	INTEREST DUE 2/1	TOTAL	
2021	19,364,128.18					<b>\$ 19,364,128.18</b>
2022	19,068,968.74	\$ 300,000.00	\$ 751,500.00	\$ 751,500.00	\$ 1,803,000.00	<b>20,871,968.74</b>
2023	19,513,106.24	425,000.00	745,875.00	745,875.00	1,916,750.00	<b>21,429,856.24</b>
2024	18,279,206.24	550,000.00	737,906.25	737,906.25	2,025,812.50	<b>20,305,018.74</b>
2025	18,191,481.24	750,000.00	727,593.75	727,593.75	2,205,187.50	<b>20,396,668.74</b>
2026	18,355,056.24	900,000.00	713,531.25	713,531.25	2,327,062.50	<b>20,682,118.74</b>
2027	16,371,756.25	650,000.00	696,656.25	696,656.25	2,043,312.50	<b>18,415,068.75</b>
2028	16,493,906.25	870,000.00	684,468.75	684,468.75	2,238,937.50	<b>18,732,843.75</b>
2029	16,947,656.24	950,000.00	668,156.25	668,156.25	2,286,312.50	<b>19,233,968.74</b>
2030	13,966,056.24	1,835,000.00	650,343.75	650,343.75	3,135,687.50	<b>17,101,743.74</b>
2031	13,857,156.25	1,825,000.00	615,937.50	615,937.50	3,056,875.00	<b>16,914,031.25</b>
2032	13,422,456.24	1,650,000.00	581,718.75	581,718.75	2,813,437.50	<b>16,235,893.74</b>
2033	13,396,299.99	1,800,000.00	550,781.25	550,781.25	2,901,562.50	<b>16,297,862.49</b>
2034	13,091,599.99	1,800,000.00	517,031.25	517,031.25	2,834,062.50	<b>15,925,662.49</b>
2035	12,781,999.99	1,800,000.00	483,281.25	483,281.25	2,766,562.50	<b>15,548,562.49</b>
2036	11,038,699.99	2,100,000.00	449,531.25	449,531.25	2,999,062.50	<b>14,037,762.49</b>
2037	10,780,099.99	2,250,000.00	410,156.25	410,156.25	3,070,312.50	<b>13,850,412.49</b>
2038	10,374,050.00	2,250,000.00	367,968.75	367,968.75	2,985,937.50	<b>13,359,987.50</b>
2039	9,997,550.00	2,050,000.00	325,781.25	325,781.25	2,701,562.50	<b>12,699,112.50</b>
2040	8,771,000.00	2,050,000.00	287,343.75	287,343.75	2,624,687.50	<b>11,395,687.50</b>
2041	9,641,750.00	2,050,000.00	248,906.25	248,906.25	2,547,812.50	<b>12,189,562.50</b>
2042	9,188,000.00	2,050,000.00	210,468.75	210,468.75	2,470,937.50	<b>11,658,937.50</b>
2043	4,976,400.00	3,465,000.00	172,031.25	172,031.25	3,809,062.50	<b>8,785,462.50</b>
2044		5,710,000.00	107,062.50	107,062.50	5,924,125.00	<b>5,924,125.00</b>
<b>\$317,868,384.30</b>		<b>\$40,080,000.00</b>	<b>\$11,704,031.25</b>	<b>\$11,704,031.25</b>	<b>\$63,488,062.50</b>	<b>\$381,356,446.80</b>

\* Preliminary, subject to change.

### 2021/2022 PRO FORMA INTEREST & SINKING FUND MANAGEMENT INDEX

Estimated Interest & Sinking Fund Balance at 6-30-2021.....	\$10,786,107
Estimated Income from \$0.3258 I&S Tax Rate @ 97% Collected Using 2021 Estimated Taxable Assessed Valuation of \$6,814,792,673 .....	21,536,516
Estimated Other Income .....	<u>50,000</u>
Total Estimated Funds Available .....	32,372,623
2021/22 Debt Service Requirement .....	<u>20,872,194</u>
Estimated Interest & Sinking Fund Balance at 6-30-2022.....	\$11,500,429

## FIVE-YEAR RECORD OF FINANCIAL OPERATIONS

The following summary of the District's results of operation reflects the District's historical performance under prior systems of school finance in Texas. For a description of the prior systems, the revised current system, and how the District's future financial performance may be affected by the revised system and ongoing litigation see "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS."

	Year Ended 6/30				
	2020	2019	2018	2017	2016
<b><u>REVENUE</u></b>					
Local Sources	\$ 78,717,601	\$75,257,291	\$ 66,986,309	\$61,666,360	\$55,586,453
State Sources	23,240,108	18,710,974	19,447,005	20,485,129	22,386,418
Federal Sources	<u>6,415,480</u>	<u>7,324,499</u>	<u>6,294,105</u>	<u>6,196,772</u>	<u>6,066,671</u>
Total all Revenue	108,373,189	101,292,764	92,727,419	88,348,261	84,039,542
<b><u>EXPENDITURES</u></b>					
Instruction	47,758,071	45,457,279	43,330,065	41,851,782	40,159,664
Instruction Related	6,479,860	6,209,599	6,030,106	5,342,886	5,121,612
Pupil Services	12,829,330	12,917,256	14,316,599	11,664,767	11,510,529
General Administration	2,491,738	2,337,552	2,181,680	2,052,391	2,101,555
Debt Service	18,353,742	16,579,887	15,764,828	14,609,935	27,045,692
Plant Maintenance & Operation	8,321,624	8,249,460	8,155,534	6,847,468	6,494,823
Construction/Capital Outlay	35,391,482	15,404,598	7,832,480	55,482,850	6,418,033
Data Processing	1,712,029	1,554,956	1,492,702	1,443,640	1,352,416
Community Services	515,705	457,245	439,663	416,372	420,804
Shared Services Arrangements	52,456	202,214	212,300	77,315	134,211
Intergovernmental Charge	<u>763,873</u>	<u>703,741</u>	<u>626,332</u>	<u>546,862</u>	<u>500,011</u>
Total all Expenditures	<u>134,669,910</u>	<u>110,073,787</u>	<u>100,382,289</u>	<u>140,336,268</u>	<u>101,259,350</u>
Total Other Resources and (Uses)	<u>36,648,719</u>	<u>47,564,085</u>	<u>-0-</u>	<u>23,108,349</u>	<u>59,134,697</u>
Excess (Deficiency) of Revenues and Other Resources Over Expenditures and Other Uses	10,652,186	38,783,062	( 7,654,870 )	(28,879,658 )	41,914,889
Fund Balance Beginning of Year	97,666,700	58,883,638	66,538,508	95,418,166	53,503,277
Prior Period Adjustment	-0-	-0-	-0-	-0-	-0-
Fund Balance End of Year	<u>\$108,318,886</u>	<u>\$97,666,700</u>	<u>\$ 58,883,638</u>	<u>\$66,538,508</u>	<u>\$95,418,166</u>
General Fund Balance	\$56,396,092	\$45,202,284	\$46,309,837	\$46,167,493	\$45,505,205

	Year Ended 6/30				
	2020	2019	2018	2017	2016
Assessed Valuation	\$5,893,596,092	\$5,366,619,352	\$4,957,161,948	\$4,212,396,087	\$3,849,024,345
Total Tax Rate	\$1.2958	\$1.3658	\$1.3391	\$1.3391	\$1.3391
Percent of Debt Service to Total Expenditures	13.63%	15.06%	15.70%	10.41%	26.71%

Source: The District's audited financial statements.

## **APPENDIX B**

### **General Information Regarding the District and Its Economy**

(this page intentionally left blank)



## **THE DISTRICT**

This Appendix contains a brief discussion of certain economic and demographic characteristics of the area in which the District is located. Information in this Appendix has been obtained from sources that are believed to be reliable, *although no investigation has been made to verify the accuracy of such information*. The following information is qualified by the impact from the effects of the COVID-19 pandemic. Within the body of the Official Statement, under the caption "Infectious Disease Outbreak - COVID-19," the District described this event, as well as its initial impact and possible effects. The District has not attempted to update the descriptions included in this APPENDIX B to account for the effects of COVID-19, as the specific results of this event are evolving and their extent unknown; rather, the District makes reference to the aforementioned section of the body of the Official Statement and directs the reader thereto for a general discussion of the COVID-19 event as of the date of the Official Statement.

### **General**

New Braunfels Independent School District (the "District") contains 75.7 square miles and is located primarily in Comal County, Texas, with a small portion extending into Guadalupe County, Texas. The District's 2020 population is estimated at 53,825.

### **Administration**

Policy-making and supervisory functions are the responsibility of and are vested in a seven-member Board of Trustees (the "Board"). Members of the Board serve three-year staggered terms with elections up to now being held each year on the second Saturday in May. The Board delegates administrative responsibilities to the Superintendent of Schools.

### **Scholastic Information**

The District is designated with an Accountability Ranking from 2019 with a "B" by the Texas Education Agency. No accountability ranking was issued for the 2019-20 school year. This designation indicates that the district students demonstrate a high level of performance. Texas Education Agency indicators for the Recognized designation are structured to ensure that student performance is at a high level or improving for all students and for students within each subgroup represented within its diverse populations.

District results on statewide assessments have shown increases in all content areas; reading, writing, mathematics, science and social studies. Performance on the State of Texas Assessments of Academic Readiness was consistently above last year's mastery across grade levels and content areas in grades three through eight.

Curricular offerings in the District comply with and extend beyond legal requirements with a comprehensive curriculum for students in grades pre-kindergarten through twelve. There are extensive resources and special offerings for students who are gifted, speakers of other languages, handicapped and/or exhibit special learning problems.

The district is a leader in integrating instruction and technology. Campuses use a variety of technology to facilitate students in critical thinking and deep understanding of content.

### **Budget and Personnel**

The budget for all funds for the 2020-2021 school year is \$107,709,426. Local contribution is 73.69%; State contribution is 22.03%; Federal and other contribution is 4.29%. The District employs 1,127 professional and supportive staff in 2020-21, with an annual payroll budget exceeding \$70.4 million.

### **Employee Retirement, Teacher Retirement System of Texas**

The District has financial responsibility for the Teacher Retirement System of Texas only for the portion of the salaries of professional employees, which earn above the state minimum pay schedule, with employees contributing 7.70% of their annual compensation and the State of Texas contributing 7.50%.

### **Food Service**

The District operates a central kitchen where food is prepared for eight elementary schools and the Learning Center (the District's alternative campus). The high school, both middle school campuses, and the two newest elementary school campuses have their own cooking facilities.

## Present Facilities

<u>School Facility</u>	<u>Year Occupied</u>	<u>Grade Span</u>	<u>Enrollment (At 12-01-2020)</u>
New Braunfels High School	1964	10-12	1,856
New Braunfels High School Ninth Grade Center	1951	9	737
New Braunfels Middle School	2012	6-8	1,237
OakRun Middle School	1991	6-8	945
Lamar Primary School	1924	K-5	356
Carl Schurz Elementary School	1924	K-5	377
Lone Star Elementary School	1954	PreK	202
Klein Road Elementary School	2008	K-5	625
County Line Elementary School	1986	K-5	364
Memorial Elementary School	1998	K-5	343
Seele Elementary School	1954	K-5	264
Walnut Springs Elementary School	1989	K-5	319
Voss Farms Elementary School	2017	K-5	711
Veramendi Elementary School	2017	K-5	834
School of Choice	1997	6-12	71
Total .....			9,241

Source: New Braunfels ISD

## Average Daily Attendance and Percentage Increase

<u>School Year</u>	<u>Enrollment</u>	<u>Refined Average Daily Attendance</u>	<u>% ADA Increase (Decrease)</u>
2009-10	7,809	7,458	5.44%
2010-11	7,918	7,680	2.98%
2011-12	7,965	7,648	(0.41%)
2012-13	8,093	7,769	1.58%
2013-14	8,202	7,873	1.35%
2014-15	8,393	8,057	2.32%
2015-16	8,420	8,083	0.32%
2016-17	8,583	8,068	(0.19%)
2017-18	8,925	8,432	4.51%
2018-19	9,237	8,634	2.40%
2019-20	9,524	8,904	3.13%
2020-21 *	9,253*	8,784*	(1.34%)

Source: New Braunfels ISD

\* As of October 30, 2020

## GENERAL AND STATISTICAL INFORMATION\*

### General Information

The District, located primarily in Comal County, Texas (the "County"), a pioneer German settlement created in 1846 from Bexar, Gonzales and Travis Counties, Texas, is a scenic Southwest county named after the Comal River. The District also extends into part of Guadalupe County.

The City of New Braunfels, Texas (the "City"), the county seat of Comal County, is located in the southeast part of the County approximately twenty-five miles north of San Antonio on Interstate Highway 35 and forty miles south of Austin on Interstate Highway 35.

## Population

Census Report	City of New Braunfels	Comal County
2020 Est.	95,782	163,539
2010	57,740	108,472
2000	36,464	78,021
1990	30,402	58,905

\* See "INTRODUCTION - COVID-19"

## Labor Force Statistics - Comal County

	August 2020	Annual Average			
		2019	2018	2017	2016
Civilian Labor Force	74,413	73,333	70,132	66,826	63,539
Total Employed	<u>70,375</u>	<u>71,149</u>	<u>67,878</u>	<u>64,580</u>	<u>61,229</u>
Total Unemployed	4,038	2,184	2,254	2,246	2,310
% Unemployed	5.4%	3.0%	3.2%	3.4%	3.6%
% Unemployed (Texas)	6.8%	3.5%	3.7%	4.3%	4.6%
% Unemployed (United States)	8.4%	3.7%	3.9%	4.4%	4.9%

Source: Texas Workforce Commission - Economic Research and Analysis Department, and United States Department of Labor.

## Employment and Wages by Industry - Comal County

	Number of Employees			
	Second Quarter 2020	Fourth Quarter 2019	Fourth Quarter 2018	Fourth Quarter 2017
Natural Resources and Mining	772	712	713	609
Construction	6,803	6,095	5,392	5,662
Manufacturing	2,920	3,089	3,125	3,018
Trade, Transportation & Utilities	13,190	13,703	13,291	12,918
Information	559	643	635	593
Financial Activities	2,176	2,204	1,923	1,744
Professional and Business Services	6,593	7,007	7,170	6,518
Education and Health Services	7,282	7,483	7,253	6,880
Leisure and Hospitality	7,100	10,833	8,873	8,328
Other Services	1,503	1,690	2,008	1,717
Unclassified	40	43	41	70
Federal Government	241	224	224	210
State Government	212	200	200	171
Local Government	<u>5,982</u>	<u>5,925</u>	<u>5,853</u>	<u>5,651</u>
Total Employment	55,374	59,853	56,703	54,091
Total Wages	\$661,091,226	\$649,173,566	\$648,719,561	\$602,993,971

Source: Labor Market and Career Information Department, Texas Workforce Commission.

## Major Employers

The County has been economically stable for many years because of the industries located there. A list of the major non-governmental employers, their products and number of employees as reported by the Greater New Braunfels Chamber of Commerce follows:

Schlitterbahn	Waterpark and Resort	2,300*
Wal Mart Distribution Center	Distribution Center	1,215
Sysco	Food Products Supplier	780
Hunter Industries/Colorado Materials	Highway Contractor/Material Supplier	765
HD Supply Facilities Maintenance	Call Center	538
Rush Enterprises, Inc.	Heavy Duty Truck Dealer	521
Resolute Health	Hospital	487
CHRISTUS Santa Rosa Hospital - New Braunfels	Hospital	440
CBE	Call Center	350
IBEX Global	Call Center	328

---

\* The Schlitterbahn Water Park, located on 100 acres in the City, is a large seasonal employer. The operating season is Memorial Day through Labor Day, during which time approximately 1,800 people are employed.

In addition to the foregoing, estimated County, City and School District current employment figures follow:

Comal County .....	792*
City of New Braunfels .....	646*
New Braunfels Utilities .....	243
New Braunfels ISD .....	1,127
Comal ISD .....	3,006

---

\* Includes part-time and seasonal employees.

## Agriculture

Agriculture continues as an important source of income to the area. The Texas Almanac designates beef cattle, sheep, goats, sorghum, wheat and oats as the principal sources of agricultural income.

## Commercial

The County has a wide range of commercial establishments including restaurants, motels, food stores, manufacturing, professional services, retail stores, and service stations. Those in the Canyon Lake area include motels, Cranes Mill Marina and Canyon Lake Marinas, Inc.

## Community Services

The New Braunfels and Canyon Lake area contains approximately 26 motels/hotels, 27 resorts and condominiums, 22 campgrounds and RV parks, and 28 bed and breakfast/vacation home rentals. In addition, there are numerous other facilities available in San Antonio and adjoining towns.

The City has several museums, a library, two radio stations, and a newspaper which is published six days a week. In addition, one weekly newspaper is published in Comal County. Both the San Antonio and Austin daily newspapers are available. There are numerous radio stations, three commercial television stations, cable and satellite television, and one educational television station in San Antonio that serve the New Braunfels area.

Over thirty denominations are represented in more than seventy churches in the City. Those not represented generally are available in nearby San Antonio.

## Educational Facilities

Other local public school facilities are provided through the Comal Independent School District. Enrollment records follow:

School Year	Comal ISD	
	Membership	Avg. Daily Attendance
2009-10	16,485	15,647
2010-11	17,190	16,262
2011-12	17,657	16,849
2012-13	18,643	17,611
2013-14	19,452	18,502
2014-15	20,155	19,225
2015-16	20,922	20,100
2016-17	21,954	21,021
2017-18	22,754	21,734
2018-19	23,641	22,648
2019-20	24,769	24,002
2020-21*	25,295	23,712

Source: Comal ISD

\* As of 9-1-20

The preceding enrollment figures do not include enrollment at the four private and parochial schools.

Higher educational facilities include Texas Lutheran University - Seguin, approximately 13 miles from New Braunfels; Texas State University - San Marcos, approximately 15 miles from New Braunfels; and eight colleges and/or universities located in San Antonio, approximately 35 miles from New Braunfels. Planned higher educational facilities include the future Howard-Payne University campus which will be part of the proposed Veramendi development project. Currently, Howard-Payne University offers courses at New Braunfels High School and online. In addition, Wayland Baptist University has moved into a 10,000 sq. ft. educational space adding more higher education opportunities in the surrounding community.

**The Central Texas Technology Center.** The CTTC is a District Workforce Specialty Campus. It is the area's first higher education facility dedicated to technology and it is a collaborative effort of the governing bodies and business development agencies of New Braunfels, Seguin and the Alamo Colleges. Alamo Colleges runs the programs and classes that provide college level education and training to residents of Comal, Guadalupe, Hays, Bexar and Wilson counties. In 2015, The U.S. Department of Commerce and Economic Development Administration awarded Alamo Colleges at \$1.25 million dollar grant to help double the size of the CTTC. These funds joined \$5 million already committed to the project and paved the way for the expansion project which was completed in 2016.

## Health Care

The City has two hospitals, CHRISTUS Santa Rosa Hospital-New Braunfels (CSRH-NB) and Resolute Health. CSRH-NB is a full-service, 94-private bed facility that continues to expand to meet the needs of New Braunfels' strong population growth. CSRH-NB employs more than 475 full and part time Associates and provides privileges to more than 150 physician staff members and nearly 100 volunteers. Innovative equipment and procedures are utilized, including an Outpatient Imaging Center, orthopedic and surgical services, rehabilitation, a renovated birthing center, including 24/7 neonatal coverage, emergency care, wound care/hyperbaric center, comprehensive heart care, from diagnostics to open-heart surgery, and a freestanding Emergency Center at Creekside Town Center. Resolute Health opened in June 2014 and employs about 600 associates. Resolute Health invested \$250 million into the 365,000 square-foot facility which has 125 beds in all-private rooms and offers a broad range of specialty services, including cardiovascular, orthopedics, oncology, imaging, wound care, rehabilitation and obstetrics. It is the only Level III neonatal intensive care unit in the area. The new hospital serves as the cornerstone of Resolute Health, a network of care in New Braunfels, which is located roughly 30 miles northeast of San Antonio. New Braunfels Regional Rehabilitation Hospital is a 40-bed hospital that specializes in severe head and neck/stroke patients. More than 160 employees work at the \$28 million dollar, 40-bed facility. Bexar County, University of Texas and U. S. Veterans Administration medical facilities are located in nearby northwest San Antonio.

## **Tourism and Recreation**

Located in the heart of the City are Comal Springs and Landa Park, a 300-acre park, which includes an 18-hole golf course, tennis courts, large picnic and playground areas, an Olympic-size swimming pool, and the largest spring-fed swimming pool in Texas. Schlitterbahn Waterpark Resort in New Braunfels is recognized annually as one of the best waterparks in the country. Numerous additional golf courses are available in the region.

Natural Bridge Caverns, the state's largest caverns, and Natural Bridge Wildlife Ranch are major tourist attractions located in the southern part of Comal County. Scenic drives and historic sites also attract many tourists to the area.

Canoeing, tubing, rafting, kayaking and other white water sports on the Guadalupe River are very popular.

Canyon Lake, located twenty miles from the City, is a popular water-resort area for sailing, boating, fishing, water skiing and scuba diving. Several parks have been established around the Lake.

Annual celebrations include the Comal County Fair, one of the oldest and best attended County fairs in the State, and the "Wurstfest." The annual "Wurstfest" is a ten-day event and always starts on the Friday before the first Monday in November. The 58th annual "Wurstfest" was held November 2 through November 11. Average annual attendance exceeds 125,000 with income from admissions and concessions sales well in excess of \$3,000,000.

## **Transportation**

The City is served by Interstate Highway 35 (U.S. 81) and State Highway 46. Loop 337 circles the City and numerous Farm and Ranch Roads traverse the County. Railroads include the Union Pacific and Missouri Kansas and Texas Lines. The City's airport facility encompasses 1,000 acres and has four runways, four taxiways, and a parking ramp. The airport runways are of all asphalt construction with threshold lights and full runway lights. Jet fuel, aviation gas, and car rentals are available at the airport. The airport, located some four miles from the City, is reported to have an average of 75 flights per day. The New Braunfels Airport is also used for corporate flights. Greyhound/Trailways Bus Lines and several motor freight lines also serve the City.

## **Utilities**

The Guadalupe River provides NBU and the City of New Braunfels with a source of good quality and quantity of water. Well water from the Edwards Aquifer and the Trinity Aquifer is also available in most of the unincorporated areas of the County. The Guadalupe River, Comal River and Canyon Lake help to assure future water supply. Sale of water from Canyon Lake is in the control of the Guadalupe-Blanco River Authority. Water districts serve the eastern part of the County.

Electricity is available throughout the City and is provided by NBU which also serves approximately 5,300 customers in the surrounding rural area. GVEC and PEC also provide electric services to some areas of the City.

Natural Gas is available to the residents of the City from Enterprise Texas Pipeline, L.P., and distributed by Centerpoint Energy. In other areas where natural gas is not available, butane and propane gas service is available by truck delivery.

The City's telephone service is provided by AT&T, Inc. and Time Warner Cable, with other County areas being served by the Guadalupe Valley Telephone Cooperative (GVTC).

## **APPENDIX C**

### **Audited Financial Statements**

The information contained in this appendix consists of the New Braunfels Independent School District Audited Financial Statements (the "Report") for the fiscal year ended June 30, 2020.

The information presented represents only a part of the Report and does not purport to be a complete statement of the District's financial condition. Reference is made to the complete Annual Audit Report for additional information.

(this page intentionally left blank)



*ANNUAL FINANCIAL REPORT*

of the

**NEW BRAUNFELS  
INDEPENDENT SCHOOL DISTRICT**

**For the Year Ended  
June 30, 2020**

## ***INTRODUCTORY SECTION***

CERTIFICATE OF BOARD

New Braunfels Independent School District

Name of School District


Comal


County

046-901

Co. Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) ☒ approved ☐ disapproved for the year ended June 30, 2020, at a meeting of the Board of Trustees of such school district on the 11<sup>th</sup> day of January, 2021.

  
\_\_\_\_\_  
Signature of Board Secretary

  
\_\_\_\_\_  
Signature of Board President

If the Board of Trustees disapproved of the auditors' report, the reason(s) for disapproving it is (are):

(attach list as necessary)

## ***FINANCIAL SECTION***



## ***INDEPENDENT AUDITORS' REPORT***

To the Board of Trustees of  
New Braunfels Independent School District:

### **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 New Braunfels Independent School District (the "District"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

### **Auditors' 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 auditors' 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2020, 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.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedules of the District's proportionate share of the net pension and other postemployment benefits liability, and schedules of District contributions, identified as Required Supplementary Information on the table of contents, 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 District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, other supplementary information, and the schedule of required responses to selected school first indicators are presented for purposes of additional analysis and are not required parts 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, other supplementary information, 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, other supplementary information, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section and the schedule of required responses to selected school first indicators have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2021 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 District's internal control over financial reporting and compliance.

*BELT HARRIS PECHACEK, LLLP*

Belt Harris Pechacek, LLLP  
*Certified Public Accountants*  
Houston, Texas  
January 4, 2021

***MANAGEMENT'S DISCUSSION  
AND ANALYSIS***



# **NEW BRAUNFELS INDEPENDENT SCHOOL DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the Year Ended June 30, 2020**

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of New Braunfels Independent School District (the "District") for the year ending June 30, 2020. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the District's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the District's financial statements, which follow this section.

### **FINANCIAL HIGHLIGHTS**

- The District's total combined net position at June 30, 2020 was \$26,346,650.
- For the year, the District's general fund reported a total fund balance of \$55,935,428, of which \$1,457,574 is nonspendable for inventories and prepaid items; \$1,770,466 is committed for land acquisition, construction, and technology and equipment; and \$52,707,388 is unassigned.
- At the end of the year, the District's governmental funds (the general fund plus all state and federal grant funds, the debt service fund, and the capital projects fund) reported a combined ending fund balance of \$108,318,886.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The annual report consists of three parts – *Management's Discussion and Analysis* (this section), the *Basic Financial Statements*, and *Required Supplementary Information*. The basic statements include two kinds of statements that present different views of the District.

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in more detail than the government-wide statements.
- The *governmental funds* statements tell how *general government* services were financed in the *short-term* as well as what remains for future spending.
- The *proprietary fund* statements provide additional detail for the business-type activities information shown in the District's *government-wide financial statements* and information related to the District's internal service funds.
- *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the fiduciary resources belong. This fund includes student activity funds.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The notes to the financial statements are followed by a section entitled *Required Supplementary Information* that further explains and supports the information in the financial statements.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended June 30, 2020**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The government-wide statements report information about the District as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the District as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the District's financial statements, report information on the District's activities that enable the reader to understand the financial condition of the District. These statements are prepared using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Position presents information on all of the District's assets, liabilities, and deferred outflows/inflows of resources, with the difference 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. Other nonfinancial factors, such as changes in the District's tax base, staffing patterns, enrollment, and attendance, need to be considered in order to assess the overall health of the District.

The Statement of Activities presents information showing how the District's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities include the following classes of activities:

*Governmental Activities* – Most of the District's basic services such as instruction, extracurricular activities, curriculum and staff development, health services, general administration, and plant operation and maintenance are included in *governmental activities*. Locally assessed property taxes, together with State foundation program entitlements, which are based upon student enrollment and attendance, finance most of the governmental activities.

*Business-Type Activities* – Services involving a fee for those services are reported here. These services include athletic camps.

The government-wide financial statements can be found after the MD&A.

**FUND FINANCIAL STATEMENTS**

The fund financial statements provide more detail information about the District's most significant funds – not the District as a whole. Funds are simply accounting devices that are used to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and other funds are mandated by bond agreements or bond covenants.
- The Board of Trustees (the "Board") establishes other funds to control and manage money set aside for particular purposes or to show that the District is properly using certain taxes and grants.
- Other funds are used to account for assets held by the District in a custodial capacity – these assets do not belong to the District, but the District is responsible to properly account for them.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended June 30, 2020**

The District has the following kinds of funds:

- *Governmental Funds* – Most of the District's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- *Proprietary Funds* – The District operates various summer athletic camps primarily for students enrolled in the District. These programs are financed through the collection of fees and tuition from participating students. The proprietary funds also show the activity of internal services offered throughout the District including health insurance, workers' compensation insurance, and usage of the District's central office copiers. These funds are shown in a separate statement of proprietary net position and statement of changes in proprietary net position.
- *Fiduciary funds* – The District serves as the trustee, or fiduciary, for certain funds such as student activity funds. 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 a separate statement of fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its governmental operations.

# NEW BRAUNFELS INDEPENDENT SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended June 30, 2020

### FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net position was \$26,346,650 at year end. *Table 1* focuses on net position while *Table 2* shows the revenues and expenses that changed the net position balance during the year. The District reported an increase of \$10,685,419 in net position from the prior year. This increase is primarily related to an increase in grants and contributions related to on-behalf amounts from the State relating to employee benefit plans as well as increases in property taxes received by the District mostly related to increases in valuations during the year.

**Table 1**  
**Net Position**

Description	Governmental Activities		Total Change	Business-Type Activities		Total Change
	2020	2019	2019-2020	2020	2019	2019-2020
Current assets	\$ 127,977,286	\$ 111,753,812	\$ 16,223,474	\$ 48,882	\$ 68,499	\$ (19,617)
Capital assets	215,723,958	187,160,992	28,562,966	-	-	-
<b>Total Assets</b>	<b>343,701,244</b>	<b>298,914,804</b>	<b>44,786,440</b>	<b>48,882</b>	<b>68,499</b>	<b>(19,617)</b>
Deferred charge on refunding	2,233,937	1,579,314	654,623	-	-	-
Deferred outflows - pensions	11,307,714	12,847,016	(1,539,302)	-	-	-
Deferred outflows - OPEB	5,532,036	4,303,832	1,228,204	-	-	-
<b>Total Deferred Outflows of Resources</b>	<b>19,073,687</b>	<b>18,730,162</b>	<b>343,525</b>	<b>-</b>	<b>-</b>	<b>-</b>
Current liabilities	15,752,506	11,314,116	4,438,390	48,882	68,499	(19,617)
Long-term liabilities	301,523,461	276,861,122	24,662,339	-	-	-
<b>Total Liabilities</b>	<b>317,275,967</b>	<b>288,175,238</b>	<b>29,100,729</b>	<b>48,882</b>	<b>68,499</b>	<b>(19,617)</b>
Deferred gain on refunding	2,997,559	3,125,651	(128,092)	-	-	-
Deferred inflows - pensions	3,843,013	1,332,968	2,510,045	-	-	-
Deferred inflows - OPEB	12,311,742	9,349,878	2,961,864	-	-	-
<b>Total Deferred Inflows of Resources</b>	<b>19,152,314</b>	<b>13,808,497</b>	<b>5,343,817</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Position:</b>						
Net investment in capital assets	12,996,684	11,814,685	1,181,999	-	-	-
Restricted	9,310,326	6,870,613	2,439,713	-	-	-
Unrestricted	4,039,640	(3,024,067)	7,063,707	-	-	-
<b>Total Net Position</b>	<b>\$ 26,346,650</b>	<b>\$ 15,661,231</b>	<b>\$ 10,685,419</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended June 30, 2020**

**Table 2**  
**Changes in Net Position**

	<b>Governmental Activities</b>		<b>Total Change</b>	<b>Business-Type Activities</b>		<b>Total Change</b>
	<b>2020</b>	<b>2019</b>	<b>2019-2020</b>	<b>2020</b>	<b>2019</b>	<b>2019-2020</b>
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 1,526,728	\$ 1,765,285	\$ (238,557)	\$ 80,947	\$ 99,760	\$ (18,813)
Operating grants and contributions	9,404,002	8,698,660	705,342	-	-	-
General revenues:						
Property taxes	73,835,578	69,404,236	4,431,342	-	-	-
Grants and contributions not restricted for specific programs	24,682,697	20,048,246	4,634,451	-	-	-
Investment earnings	1,118,667	1,501,918	(383,251)	-	-	-
Other revenue	4,865,312	2,175,637	2,689,675	-	-	-
<b>Total Revenue</b>	<b>115,432,984</b>	<b>103,593,982</b>	<b>11,839,002</b>	<b>80,947</b>	<b>99,760</b>	<b>(18,813)</b>
<b>Expenses</b>						
Instruction	53,345,596	50,376,386	2,969,210	-	-	-
Instructional resources and media services	1,474,041	1,358,688	115,353	-	-	-
Curriculum/instructional staff development	1,670,563	1,412,857	257,706	-	-	-
Instructional leadership	1,282,367	1,115,199	167,168	-	-	-
School leadership	6,023,032	5,677,892	345,140	-	-	-
Guidance, counseling, and evaluation services	3,382,722	3,168,238	214,484	-	-	-
Social work services	415,369	391,234	24,135	-	-	-
Health services	1,088,374	866,428	221,946	-	-	-
Student (pupil) transportation	3,032,225	3,112,563	(80,338)	-	-	-
Food services	3,796,713	4,001,729	(205,016)	-	-	-
Extracurricular activities	3,238,757	3,333,419	(94,662)	80,947	99,760	(18,813)
General administration	2,967,770	2,736,958	230,812	-	-	-
Plant maintenance and operations	8,357,610	7,868,949	488,661	-	-	-
Security and monitoring services	551,310	656,251	(104,941)	-	-	-
Data processing services	1,835,486	1,644,063	191,423	-	-	-
Community services	590,230	506,455	83,775	-	-	-
Debt service - interest on long-term debt	10,879,071	6,595,014	4,284,057	-	-	-
Payments to fiscal agent/member districts of SSA	52,456	202,214	(149,758)	-	-	-
Other intergovernmental charges	763,873	703,741	60,132	-	-	-
<b>Total Expenses</b>	<b>104,747,565</b>	<b>95,728,278</b>	<b>9,019,287</b>	<b>80,947</b>	<b>99,760</b>	<b>(18,813)</b>
<b>Change in Net Position</b>	<b>10,685,419</b>	<b>7,865,704</b>	<b>2,819,715</b>	<b>-</b>	<b>-</b>	<b>-</b>
Beginning net position	15,661,231	7,795,527	7,865,704	-	-	-
<b>Ending Net Position</b>	<b>\$ 26,346,650</b>	<b>\$ 15,661,231</b>	<b>\$ 10,685,419</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended June 30, 2020**

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

At the close of the fiscal year ending June 30, 2020, the District's governmental funds reported a combined fund balance of \$108,318,886. This compares to a combined fund balance of \$97,666,700 at June 30, 2019. The fund balance in the general fund increased by \$10,834,144 primarily due to increases in property tax revenues related to an increase in valuations as well as large decreases in expenses related to capital outlay activities. The debt service fund experienced an increase in the current year primarily due to increases in property tax collections along with the issuance of new debt. The capital projects fund decreased primarily due to current year capital outlay costs of \$32,420,687 slightly exceeding debt proceeds by \$1,422,766.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

In accordance with State law and generally accepted accounting standards, the District prepares an annual budget for the general fund, the food service special revenue fund, and the debt service fund. Special revenue funds have budgets approved by the funding agency and are amended throughout the year as required.

During the period ended June 30, 2020, the District amended its budget as required by State law and to reflect current levels of revenue and anticipated expenses. The general fund's actual revenues exceeded budgeted revenues by \$5,016,428 due to larger property tax collections than anticipated. Budgeted expenditures exceeded actual expenditures by \$5,801,445 primarily due to less instruction and plant maintenance and operations expenditures than appropriated.

**CAPITAL ASSETS**

Capital assets are generally defined as those items that have useful lives of two years or more and have an initial cost or value (if donated) of an amount determined by the Board. During the year, the District used a capitalization threshold of \$5,000, which means that all capital type assets, including library books, with a cost or initial value of less than \$5,000 were not included in the capital assets inventory.

At year end, the District had a total of \$215,723,958 invested in capital assets (net of depreciation) such as land, construction in progress, buildings, and District equipment. This total includes \$34,743,014 invested during the fiscal year ended June 30, 2020.

More detailed information about the District's capital assets can be found in note III.B. to the financial statements.

**LONG-TERM DEBT**

At year end, the District had \$219,722,225 in general obligation bonds outstanding versus \$201,739,238 last year. The District issued new General Obligation Bonds, Series 2020 in the amount of \$47,542,232. The purpose of this debt was related to ongoing school construction and renovation projects, as well as to refund the Series 2012 bonds in full.

More detailed information about the District's long-term liabilities is presented in note III.C. to the financial statements.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
***MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)***  
**For the Year Ended June 30, 2020**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

Local economic growth continues in the area, as the US Census Bureau latest population estimates has listed Comal County as one of the fastest growing counties in the nation. This growth is driving an increase in local property values and student enrollment.

The unemployment rate in the New Braunfels area continues to be lower than the overall state unemployment rate at 12.4% in the New Braunfels area versus 13% statewide as of May 2020.

The 2018 bond issue approved \$118.3 million and is being used primarily to build a new middle school and a new elementary campus. The new middle school is on schedule to open in 2021-2022. Also included in the bond issue are security upgrades for all campuses, expansion of Veramendi Elementary (completed), baseball field upgrades and tennis courts at both middle schools.

The District adopted a general fund budget for 2020-2021 of \$81.6 million. For the 2020-2021 school year, New Braunfels ISD adopted a tax rate for Maintenance & Operations of \$.8975 per hundred-dollar valuation. Continued property growth along with restructuring of bond debt has allowed the Interest & Sinking rate to remain at \$.3258 per hundred-dollar valuation.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office at 1000 N. Walnut, New Braunfels, Texas, 78130 or by calling (830) 643-5700.

## ***BASIC FINANCIAL STATEMENTS***



# NEW BRAUNFELS INDEPENDENT SCHOOL DISTRICT

## STATEMENT OF NET POSITION - EXHIBIT A-1

June 30, 2020

Data Control Codes		1 Governmental Activities	2 Business-Type Activities	3 Total
	<b><u>Assets</u></b>			
1110	Cash and cash equivalents	\$ 2,705,819	\$ -	\$ 2,705,819
1120	Investments	117,800,869	-	117,800,869
1225	Property taxes receivable (net)	2,745,020	-	2,745,020
1230	Allowance for uncollectible taxes	(106,988)	-	(106,988)
1240	Due from other governments	3,333,852	-	3,333,852
1260	Internal balances	(48,882)	48,882	-
1267	Due from fiduciary funds	7,653	-	7,653
1290	Other receivables (net)	44,512	-	44,512
1300	Inventories	75,520	-	75,520
1410	Prepaid items	1,419,911	-	1,419,911
		<u>127,977,286</u>	<u>48,882</u>	<u>128,026,168</u>
	Capital assets:			
1510	Land	16,691,472	-	16,691,472
1520	Buildings and improvements, net	156,374,177	-	156,374,177
1530	Equipment and vehicles, net	2,529,123	-	2,529,123
1580	Construction in progress	40,129,186	-	40,129,186
		<u>215,723,958</u>	<u>-</u>	<u>215,723,958</u>
1000	<b>Total Assets</b>	<u>343,701,244</u>	<u>48,882</u>	<u>343,750,126</u>
	<b><u>Deferred Outflows of Resources</u></b>			
1700	Deferred charge on refunding	2,233,937	-	2,233,937
1705	Deferred outflows - pensions	11,307,714	-	11,307,714
1710	Deferred outflows - OPEB	5,532,036	-	5,532,036
	<b>Total Deferred Outflows of Resources</b>	<u>19,073,687</u>	<u>-</u>	<u>19,073,687</u>
	<b><u>Liabilities</u></b>			
2110	Accounts payable	4,182,542	-	4,182,542
2140	Interest payable	2,644,056	-	2,644,056
2165	Accrued liabilities	8,014,320	-	8,014,320
2180	Due to other governments	125	-	125
2300	Unearned revenue	911,463	48,882	960,345
		<u>15,752,506</u>	<u>48,882</u>	<u>15,801,388</u>
	Noncurrent liabilities:			
2501	Long-term liabilities due within one year	11,375,507	-	11,375,507
2502	Long-term liabilities due in more than one year	238,104,202	-	238,104,202
2540	Net pension liability	23,584,853	-	23,584,853
2550	Net OPEB liability	28,458,899	-	28,458,899
2000	<b>Total Liabilities</b>	<u>317,275,967</u>	<u>48,882</u>	<u>317,324,849</u>
	<b><u>Deferred Inflows of Resources</u></b>			
2600	Deferred gain on refunding	2,997,559	-	2,997,559
2605	Deferred inflows - pensions	3,843,013	-	3,843,013
2610	Deferred inflows - OPEB	12,311,742	-	12,311,742
	<b>Total Deferred Inflows of Resources</b>	<u>19,152,314</u>	<u>-</u>	<u>19,152,314</u>
	<b><u>Net Position</u></b>			
3200	Net investment in capital assets	12,996,684	-	12,996,684
	Restricted for:			
3820	Federal and state programs	4,216	-	4,216
3850	Debt service	8,787,123	-	8,787,123
3870	Campus activities	523,203	-	523,203
3900	Unrestricted	4,035,424	-	4,035,424
3000	<b>Total Net Position</b>	<u>\$ 26,346,650</u>	<u>\$ -</u>	<u>\$ 26,346,650</u>

See Notes to Financial Statements.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*STATEMENT OF ACTIVITIES - EXHIBIT B-1*  
For the Year Ended June 30, 2020

Data Control Codes	Functions/Programs	1 Expenses	Program Revenues	
			3 Charges for Services	4 Operating Grants and Contributions
	<b>Primary Government</b>			
	<b>Governmental Activities</b>			
11	Instruction	\$ 53,345,596	\$ 145,844	\$ 5,046,304
12	Instructional resources			
12	and media services	1,474,041	-	45,278
13	Curriculum/instructional staff development	1,670,563	-	421,880
21	Instructional leadership	1,282,367	-	240,729
23	School leadership	6,023,032	-	249,785
31	Guidance, counseling, and			
31	evaluation services	3,382,722	-	590,956
32	Social work services	415,369	-	76,966
33	Health services	1,088,374	-	37,055
34	Student (pupil) transportation	3,032,225	-	71,622
35	Food services	3,796,713	1,038,102	2,068,228
36	Extracurricular activities	3,238,757	342,782	67,534
41	General administration	2,967,770	-	103,824
51	Plant maintenance and operations	8,357,610	-	119,554
52	Security and monitoring services	551,310	-	4,524
53	Data processing services	1,835,486	-	47,205
61	Community services	590,230	-	212,558
72	Debt service - interest on long-term debt	10,879,071	-	-
93	Payments to fiscal agent/member			
93	districts of SSA	52,456	-	-
99	Other intergovernmental charges	763,873	-	-
TG	<b>Total Governmental Activities</b>	<u>104,747,565</u>	<u>1,526,728</u>	<u>9,404,002</u>
	<b>Business-Type Activities</b>			
01	Athletic camps	80,947	80,947	-
TB	<b>Total Business-Type Activities</b>	<u>80,947</u>	<u>80,947</u>	<u>-</u>
TP	<b>Total Primary Government</b>	<u>\$ 104,828,512</u>	<u>\$ 1,607,675</u>	<u>\$ 9,404,002</u>
	<b>General Revenues</b>			
MT	Property taxes, levied for general purposes			
DT	Property taxes, levied for debt service			
GC	Grants and contributions not restricted			
GC	for specific programs			
IE	Investment earnings			
MI	Miscellaneous local and intermediate revenue			
TR	<b>Total General Revenues</b>			
CN	<b>Change in Net Position</b>			
NB	Beginning net position			
NE	<b>Ending Net Position</b>			

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position		
6	7	8
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (48,153,448)	\$ -	\$ (48,153,448)
(1,428,763)	-	(1,428,763)
(1,248,683)	-	(1,248,683)
(1,041,638)	-	(1,041,638)
(5,773,247)	-	(5,773,247)
(2,791,766)	-	(2,791,766)
(338,403)	-	(338,403)
(1,051,319)	-	(1,051,319)
(2,960,603)	-	(2,960,603)
(690,383)	-	(690,383)
(2,828,441)	-	(2,828,441)
(2,863,946)	-	(2,863,946)
(8,238,056)	-	(8,238,056)
(546,786)	-	(546,786)
(1,788,281)	-	(1,788,281)
(377,672)	-	(377,672)
(10,879,071)	-	(10,879,071)
(52,456)	-	(52,456)
(763,873)	-	(763,873)
(93,816,835)	-	(93,816,835)
-	-	-
-	-	-
(93,816,835)	-	(93,816,835)
55,404,255	-	55,404,255
18,431,323	-	18,431,323
24,682,697	-	24,682,697
1,118,667	-	1,118,667
4,865,312	-	4,865,312
104,502,254	-	104,502,254
10,685,419	-	10,685,419
15,661,231	-	15,661,231
\$ 26,346,650	\$ -	\$ 26,346,650

# NEW BRAUNFELS INDEPENDENT SCHOOL DISTRICT

## BALANCE SHEET GOVERNMENTAL FUNDS - EXHIBIT C-1

June 30, 2020

Data Control Codes		10	50	60	Nonmajor Governmental Funds
		General	Debt Service	Capital Projects	
<b>Assets:</b>					
1110	Cash and cash equivalents	\$ 1,330,907	\$ -	\$ -	\$ 895,580
1120	Investments	57,060,450	8,553,388	48,546,617	-
1220	Taxes receivable	2,066,380	678,640	-	-
1230	Allowance for uncollectible taxes	(81,939)	(25,049)	-	-
1240	Due from other governments	2,888,022	-	-	445,830
1260	Due from other funds	1,580,583	17,155	-	432,856
1267	Due from fiduciary funds	7,653	-	-	-
1290	Other receivables	12,151	-	-	32,361
1300	Inventories	37,663	-	-	37,857
1410	Prepaid items	1,419,911	-	-	-
1000	<b>Total Assets</b>	<u>\$ 66,321,781</u>	<u>\$ 9,224,134</u>	<u>\$ 48,546,617</u>	<u>\$ 1,844,484</u>
<b>Liabilities:</b>					
2110	Accounts payable	\$ 203,181	\$ -	\$ 3,795,913	\$ 120,143
2150	Payroll deductions payable	528,621	-	-	-
2160	Accrued wages payable	6,678,013	-	-	-
2170	Due to other funds	472,029	-	769,436	695,987
2180	Due to other governments	125	-	-	-
2200	Accrued expenditures	425,148	382,538	-	-
2300	Unearned revenue	94,794	-	-	814,169
2000	<b>Total Liabilities</b>	<u>8,401,911</u>	<u>382,538</u>	<u>4,565,349</u>	<u>1,630,299</u>
<b>Deferred Inflows of Resources:</b>					
2600	Unavailable revenue - property taxes	<u>1,984,442</u>	<u>653,591</u>	<u>-</u>	<u>-</u>
<b>Fund Balances:</b>					
Nonspendable:					
3410	Inventories	37,663	-	-	37,857
3430	Prepaid items	1,419,911	-	-	-
Restricted:					
3470	Capital acquisitions and contracts	-	-	43,981,268	-
3480	Debt service	-	8,188,005	-	-
3450	Federal/state funds grant restrictions	-	-	-	4,216
3490	Other restrictions of fund balance	-	-	-	523,203
Committed:					
3510	Construction	1,761,374	-	-	-
3530	Capital expenditures for equipment	9,092	-	-	-
3600	Unassigned	52,707,388	-	-	(351,091)
3000	<b>Total Fund Balances</b>	<u>55,935,428</u>	<u>8,188,005</u>	<u>43,981,268</u>	<u>214,185</u>
4000	<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<u>\$ 66,321,781</u>	<u>\$ 9,224,134</u>	<u>\$ 48,546,617</u>	<u>\$ 1,844,484</u>

See Notes to Financial Statements.

**98**  
**Total**  
**Governmental**  
**Funds**

---

\$	2,226,487
	114,160,455
	2,745,020
	(106,988)
	3,333,852
	2,030,594
	7,653
	44,512
	75,520
	1,419,911
\$	125,937,016

---



---

\$	4,119,237
	528,621
	6,678,013
	1,937,452
	125
	807,686
	908,963

---



---

2,638,033

---

75,520  
1,419,911

43,981,268  
8,188,005  
4,216  
523,203

1,761,374  
9,092

52,356,297  
108,318,886

---



---

\$ 125,937,016

---



---

(this page intentionally left blank)

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION - EXHIBIT C-1R**  
**June 30, 2020**

Total fund balances for governmental funds	\$	108,318,886
--	----	-------------

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.

Capital assets - nondepreciable	56,820,658	
Capital assets - depreciable	158,903,300	
		215,723,958

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		2,638,033
---	--	-----------

The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position.		3,911,917
--	--	-----------

Some liabilities and deferred outflows/inflows, including bonds payable, are not reported as liabilities in the governmental funds.

Accrued interest	(2,644,056)	
Deferred loss on refunding	2,233,937	
Deferred gain on refunding	(2,997,559)	
Deferred outflows - pensions	11,307,714	
Deferred inflows - pensions	(3,843,013)	
Deferred outflows - OPEB	5,532,036	
Deferred inflows - OPEB	(12,311,742)	
Noncurrent liabilities due in one year	(11,375,507)	
Noncurrent liabilities due in more than one year	(238,104,202)	
Net pension liability	(23,584,853)	
Net OPEB liability	(28,458,899)	
		(304,246,144)

<b>Net Position of Governmental Activities</b>	<b>\$</b>	<b>26,346,650</b>
--	-----------	-------------------

See Notes to Financial Statements.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS - EXHIBIT C-2**  
For the Year Ended June 30, 2020

Data Control Codes		10	50	60	Nonmajor
		General	Debt Service	Capital Projects	Governmental Funds
	<b>Revenues</b>				
5700	Local, intermediate, and out-of-state	\$ 57,273,836	\$ 18,599,811	\$ 832,817	\$ 2,072,495
5800	State program revenues	22,427,914	313,560	-	664,184
5900	Federal program revenues	1,107,290	-	-	5,381,470
5020	<b>Total Revenues</b>	<b>80,809,040</b>	<b>18,913,371</b>	<b>832,817</b>	<b>8,118,149</b>
	<b>Expenditures</b>				
0011	Instruction	40,749,965	-	1,181,676	3,076,690
0012	Instructional resources/media services	1,223,373	-	-	81,814
0013	Curriculum and staff development	1,112,201	-	-	332,352
0021	Instructional leadership	873,523	-	-	162,311
0023	School leadership	5,380,935	-	-	63,091
0031	Guidance, counseling, and				
0031	evaluation services	2,561,736	-	-	421,210
0032	Social work services	332,418	-	-	71,862
0033	Health services	1,007,871	-	-	-
0034	Student (pupil) transportation	2,209,280	-	458,220	-
0035	Food service	-	-	-	3,139,941
0036	Extracurricular activities	1,819,208	-	-	807,584
0041	General administration	2,490,101	-	-	1,637
0051	Plant maintenance and operations	7,819,175	-	-	-
0052	Security and monitoring services	502,449	-	-	-
0053	Data processing services	1,711,754	-	-	275
0061	Community services	336,840	-	-	178,865
	<b>Debt service:</b>				
0071	Principal	-	10,092,000	313,048	-
0072	Interest	-	7,736,945	-	-
0073	Bond issuance costs and fees	-	211,749	-	-
	<b>Capital outlay:</b>				
0081	Facilities acquisition and construction	2,970,795	-	32,420,687	-
	<b>Intergovernmental:</b>				
0093	Shared services arrangements	52,456	-	-	-
0099	Other intergovernmental charges	763,873	-	-	-
6030	<b>Total Expenditures</b>	<b>73,917,953</b>	<b>18,040,694</b>	<b>34,373,631</b>	<b>8,337,632</b>
1100	<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>6,891,087</b>	<b>872,677</b>	<b>(33,540,814)</b>	<b>(219,483)</b>
	<b>Other Financing Sources (Uses)</b>				
7911	Issuance of bonds	-	19,467,233	28,075,000	-
7912	Sale of real or personal property	3,415,057	-	-	-
7915	Transfers in	528,000	383,039	-	-
7916	Premium on issuance of bonds	-	4,892,155	4,426,087	-
8911	Transfers (out)	-	-	(383,039)	-
8949	Payment to bond escrow agent	-	(24,154,813)	-	-
7080	<b>Total Other Financing Sources</b>	<b>3,943,057</b>	<b>587,614</b>	<b>32,118,048</b>	<b>-</b>
1200	<b>Net Change in Fund Balances</b>	<b>10,834,144</b>	<b>1,460,291</b>	<b>(1,422,766)</b>	<b>(219,483)</b>
0100	Beginning fund balances	45,101,284	6,727,714	45,404,034	433,668
3000	<b>Ending Fund Balances</b>	<b>\$ 55,935,428</b>	<b>\$ 8,188,005</b>	<b>\$ 43,981,268</b>	<b>\$ 214,185</b>

See Notes to Financial Statements.



98	
Total	
Governmental	
Funds	
<hr/>	
\$	78,778,959
	23,405,658
	6,488,760
	<hr/>
	108,673,377
	<hr/>

45,008,331  
1,305,187  
1,444,553  
1,035,834  
5,444,026

2,982,946  
404,280  
1,007,871  
2,667,500  
3,139,941  
2,626,792  
2,491,738  
7,819,175  
502,449  
1,712,029  
515,705

10,405,048  
7,736,945  
211,749

35,391,482

52,456  
763,873

---

134,669,910

---

(25,996,533)

47,542,233  
3,415,057  
911,039  
9,318,242  
(383,039)

---

(24,154,813)

---

36,648,719

10,652,186  
97,666,700

---

---

\$ 108,318,886

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES - EXHIBIT C-3*  
**For the Year Ended June 30, 2020**

Net changes in fund balances - total governmental funds \$ 10,652,186

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation, net	(5,891,950)
Capital outlay (net of disposed assets)	34,454,916

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	431,878
--	---------

The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when it is first issued; whereas, these amounts are deferred and amortized in the Statement of Activities.

New bond issuance	(47,542,233)
Principal repayments	5,404,433
Accrued interest	599,118
Payment to refunding bond escrow agent	24,154,813
Amortization of loss on bond refunding	654,623
Gain on bond refunding	128,092
Amortization of premiums, net	(8,430,060)
Accreted interest	(199,777)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	104,198
Change in net pension liability	737,933
Deferred inflows - pensions	(2,510,045)
Deferred outflows - pensions	(1,539,302)
Change in net OPEB liability	1,108,354
Deferred inflows - OPEB	(2,961,864)
Deferred outflows - OPEB	1,228,204

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.	101,902
--	---------

<b>Change in Net Position of Governmental Activities</b>	<b>\$ 10,685,419</b>
--	----------------------

See Notes to Financial Statements.

# NEW BRAUNFELS INDEPENDENT SCHOOL DISTRICT

## STATEMENT OF NET POSITION PROPRIETARY FUNDS - EXHIBIT D-1

June 30, 2020

	<b>Business-Type Activities - Enterprise Fund 702 Athletic Camps</b>	<b>Governmental Activities Internal Service Funds</b>
<b><u>Assets</u></b>		
Current assets:		
Cash and cash equivalents	\$ -	\$ 479,332
Investments	-	3,640,414
Due from other funds	48,882	-
<b>Total Assets</b>	<b>48,882</b>	<b>4,119,746</b>
<b><u>Liabilities</u></b>		
Current liabilities:		
Accounts payable	-	63,305
Due to other funds	-	142,024
Unearned revenue	48,882	2,500
<b>Total Liabilities</b>	<b>48,882</b>	<b>207,829</b>
<b><u>Net Position</u></b>		
Unrestricted	-	3,911,917
<b>Total Net Position</b>	<b>\$ -</b>	<b>\$ 3,911,917</b>

See Notes to Financial Statements.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION*  
**PROPRIETARY FUNDS - EXHIBIT D-2**  
For the Year Ended June 30, 2020

	Business-Type Activities Enterprise Fund <u>702</u> Athletic Camps	Governmental Activities <u>Internal</u> Service Funds
<b><u>Operating Revenues</u></b>		
Charges for services	\$ 80,947	\$ 6,695,766
<b>Total Operating Revenues</b>	<u>80,947</u>	<u>6,695,766</u>
<b><u>Operating Expenses</u></b>		
Payroll costs	46,765	-
Contractual services	-	479,604
Insurance and bonding costs	-	5,640,797
Other supplies and expenses	31,728	643
Other operating costs	2,454	-
<b>Total Operating Expenses</b>	<u>80,947</u>	<u>6,121,044</u>
<b>Operating Income</b>	<u>-</u>	<u>574,722</u>
<b><u>Nonoperating Revenues (Expenses)</u></b>		
Interest and investment revenue	-	55,180
Miscellaneous revenue	-	-
Interest expense	-	-
Miscellaneous revenue	-	-
<b>Total Nonoperating Revenues</b>	<u>-</u>	<u>55,180</u>
<b>Income (Loss) Before Contributions and Transfers</b>	<u>-</u>	<u>629,902</u>
Transfers out	<u>-</u>	<u>(528,000)</u>
<b>Change in Net Position</b>	<u>-</u>	<u>101,902</u>
Beginning net position	<u>-</u>	<u>3,810,015</u>
<b>Ending Net Position</b>	<u><u>\$ -</u></u>	<u><u>\$ 3,911,917</u></u>

See Notes to Financial Statements.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*STATEMENT OF CASH FLOWS*  
**PROPRIETARY FUNDS - EXHIBIT D-3**  
For the Year Ended June 30, 2020

	<b>Business-Type Activities Enterprise Funds 702 Athletic Camps</b>	<b>Governmental Activities Internal Service Funds</b>
<b><u>Cash Flows from Operating Activities</u></b>		
Cash received from customers	\$ 80,947	\$ 6,695,766
Cash payments to suppliers	(34,182)	(6,057,096)
Cash payments to employees	(46,765)	-
Other payments	-	90,529
<b>Net Cash Provided by Operating Activities</b>	<b>-</b>	<b>729,199</b>
<b><u>Cash Flows From Noncapital Financing Activities</u></b>		
Purchase of investments	-	(234,629)
Transfers to other funds	-	(528,000)
<b>Net Cash (Used) by Noncapital Financing Activities</b>	<b>-</b>	<b>(762,629)</b>
<b><u>Cash Flows From Investing Activities</u></b>		
Interest and dividends	-	55,180
<b>Net Cash Provided by Investing Activities</b>	<b>-</b>	<b>55,180</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>-</b>	<b>21,750</b>
Beginning cash and cash equivalents	-	457,582
<b>Ending Cash and Cash Equivalents</b>	<b>\$ -</b>	<b>\$ 479,332</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>		
Operating income	\$ -	\$ 574,722
Adjustments to reconcile operating income to net cash provided by operating activities:		
<b>Change in Assets and Liabilities:</b>		
(Increase) decrease in due from other funds	19,616	78,899
Increase (decrease) in due to other funds	-	12,273
Increase (decrease) in accounts payable	-	63,305
Increase (decrease) in unearned revenue	-	-
Increase (decrease) in unearned revenue	(19,616)	-
<b>Net Cash Provided by Operating Activities</b>	<b>\$ -</b>	<b>\$ 729,199</b>

See Notes to Financial Statements.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*STATEMENT OF FIDUCIARY NET POSITION*  
*FIDUCIARY FUNDS - EXHIBIT E-1*  
June 30, 2020

		Agency Fund Student Activity
<b><u>Assets</u></b>		
Cash and cash equivalents		\$ 53,838
	<b>Total Assets</b>	<u>53,838</u>
<b><u>Liabilities</u></b>		
Due to others		7,653
Due to student groups		46,185
	<b>Total Liabilities</b>	<u>53,838</u>
<b><u>Net Position</u></b>		
Held in trust		-
	<b>Total Net Position</b>	<u>\$ -</u>

See Notes to Financial Statements.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS*  
For the Year Ended June 30, 2020

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

New Braunfels Independent School District (the “District”) is a public educational agency operating under the applicable laws and regulations of the State of Texas (the “State”). 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 promulgated by the Governmental Accounting Standards Board (GASB) and it complies with the requirements of the appropriate version of Texas Education Agency’s (TEA) *Financial Accountability System Resource Guide* (the “Resource Guide”) and the requirements of contracts and grants of agencies from which it receives funds.

The District is an independent political subdivision of the State governed by a board elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations, and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the District’s financial reporting entity. No other entities have been included in the District’s reporting entity. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

**B. Government-Wide Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support.

**C. Basis of Presentation – Government-Wide Financial Statements**

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the District’s enterprise fund. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the District’s business-type activities and other functions of the District. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2020

**D. Basis of Presentation – Fund Financial Statements**

The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The District reports the following governmental funds:

**General Fund**

The general fund is the District's primary operating fund. It is used to account for and report all financial resources not accounted for and reported in another fund. The general fund is always considered a major fund for reporting purposes.

**Debt Service Fund**

The debt service fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest on all long-term debt of the District. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

**Capital Projects Fund**

The capital projects fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The capital projects fund is considered a major fund for reporting purposes.

**Special Revenue Funds**

The special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects. The restricted or committed proceeds of specific revenue sources comprise a substantial portion of the inflows of these special revenue funds. Most federal and some state financial assistance is accounted for in a special revenue fund.

**Proprietary Funds**

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the District's business-type activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues include charges for services. Operating expenses includes costs of material, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.



**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2020

The District has the following types of proprietary funds:

**Enterprise Fund**

The enterprise funds are used to account for and report operations that are financed and operated in a manner similar to private business enterprises where the intent of the District is that the costs (expenses including depreciation) of providing goods or services on a continuing basis will be financed or recovered primarily through user charges. This fund is reported as business-type activities in the government-wide financial statements.

**Internal Service Funds**

These funds are used to account for and report revenue and expenses related to services provided to parties inside the District on a cost-reimbursement basis. These funds account for the District's workers' compensation risk management, the District's health insurance, and the central office copiers. Because the principal users of the internal service funds are the District's governmental activities, this fund type is included in the governmental activities column of the governmental-wide financial statements.

**Fiduciary Funds**

The fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. 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 has the following type of fiduciary funds:

**Agency Funds**

The agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for the District's student activity funds.

During the course of operations, the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

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

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2020

eliminated so that only the net amount is included as internal balances in the business-type activities column.

**E. Measurement Focus and Basis of Accounting**

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

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using 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 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.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

**F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance**

**1. Cash and Cash Equivalents**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
***NOTES TO FINANCIAL STATEMENTS (Continued)***  
**For the Year Ended June 30, 2020**

**2. Investments**

Investments, except for certain investment pools, commercial paper, money market funds, and investment contracts, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost. Money market funds, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations and commercial paper that have a remaining maturity of one year or less upon acquisition, are reported at amortized cost. Investments in nonparticipating interest earning contracts, such as certificates of deposit are reported at cost.

The District has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. In summary, the District is authorized to invest in the following:

- Direct obligations of the U.S. Government
- Fully collateralized certificates of deposit and money market accounts
- Fully collateralized repurchase agreements that meet certain criteria
- Statewide investment pools and commercial paper

**3. Inventories and Prepaid Items**

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method). Certain payments to vendors reflect costs applicable to the future accounting period (prepaid expenditures) are recognized as expenditures when utilized.

**4. Restricted Assets**

Certain proceeds of bonds, as well as other resources set aside for specific purposes, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or contractual agreements.

**5. Capital Assets**

Capital assets, which include land, buildings, furniture, and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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.

# NEW BRAUNFELS INDEPENDENT SCHOOL DISTRICT

## *NOTES TO FINANCIAL STATEMENTS (Continued)*

### For the Year Ended June 30, 2020

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years:

Asset Description	Estimated Useful Life
Buildings and improvements	7 to 40 years
Vehicles	5 to 10 years
Equipment	5 to 20 years

#### 6. Deferred Outflows/Inflows of Resources

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. 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.

Deferred outflows/inflows of resources are amortized as follows:

- Deferred outflows/inflows from pension/other postemployment benefits (OPEB) activities are amortized over the average of the expected service lives of pension/OPEB plan members, except for the net differences between the projected and actual investment earnings on the pension/OPEB plan assets, which are amortized over a period of five years.
- For employer pension/OPEB plan contributions that were made subsequent to the measurement date through the end of the District's fiscal year, the amount is deferred and recognized as a reduction to the net pension/OPEB liability during the measurement period in which the contributions were made.
- A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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.

#### 7. Compensated Absences

It is the District's policy to permit certain employees to accumulate earned but unused vacation benefits. Amounts accumulated, up to certain amounts, may be paid to employees upon termination of employment.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2020

**8. Long-Term Obligations**

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 Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payment of principal and interest reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable, available financial resources.

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with the interest earned in the debt service fund.

**9. Net Position Flow Assumption**

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

**10. Fund Balance Flow Assumptions**

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

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2020

**11. Fund Balance Policies**

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

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted fund balance.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The District's Board is the highest level of decision-making authority for the District that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

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

**12. Estimates**

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**13. Data Control Codes**

The data control codes refer to the account code structure prescribed by TEA in the Resource Guide. The TEA requires school districts to display these codes in the financial statements filed with the TEA in order to insure accuracy in building a statewide database for policy development and funding plans.

**14. 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,

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended June 30, 2020**

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.

**15. Other Postemployment Benefits**

The fiduciary net position of the Texas Public School Retired Employees Group Insurance Program (TRS-Care) Plan has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, 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.

**G. Revenues and Expenditures/Expenses**

**1. Program Revenues**

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

**2. Property Taxes**

All taxes due to the District on real or personal property are payable at the Office of the Tax Assessor-Collector and may be paid at any time after the tax rolls for the year have been completed and approved, which is no later than October 1. Taxes are due by January 31, and all taxes not paid prior to this date are deemed delinquent and are subject to such penalty and interest.

Property taxes attach as an enforceable lien on property as of January 1 each year. Taxes are levied on October 1 and are payable prior to the next February 1. District property tax revenues are recognized when collected.

**3. Proprietary Funds Operating and Nonoperating Revenues and Expenses**

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and internal service funds are charges to students and charges to other departments of the District for services provided. Operating expenses for the enterprise funds and internal service funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2020

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

Annual budgets are adopted on a basis consistent with GAAP. The original budget is adopted by the District prior to the beginning of the year. The legal level of control is the function code stated in the approved budget. Appropriations lapse at the end of the year, excluding capital project budgets.

In accordance with State law and generally accepted accounting standards, the District prepares an annual budget for the general fund, the national school lunch and breakfast program special revenue fund, and the debt service fund. The District budgets the capital projects fund for each *project*, which normally covers multiple years. Special revenue funds have budgets approved by the funding agency and are amended throughout the year as required.

During the year, the District amended its budget as required by State law and to reflect current levels of revenue and anticipated expenditures. There were no material changes between the original budget and the final amended budget.

**A. Deficit Fund Balance**

As of year end, the District reported a deficit fund balance in the state textbook fund of \$109,292, as well as a deficit fund balance in the child nutrition fund of \$203,942.

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's investment policy requires funds on deposit at the depository bank to be collateralized. As of year end, checking and time deposits were completely insured or collateralized with securities as provided by State laws and regulations and FDIC insurance.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the District's investments are held in external investment pools which are not subject to custodial credit risk.

As of June 30, 2020, the District's investments, other than those which are obligations of or guaranteed by the U.S. Government, are rated as to credit quality as follows:

<u>Investments</u>	<u>Maturity</u>	<u>Amount</u>	<u>Rating</u>
Texpool	N/A	\$ 5,408,490	AAAm
Lone Star	N/A	112,392,379	AAA
		<u>\$ 117,800,869</u>	



**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2020

**TexPool**

TexPool was established as a trust company with the Treasurer of the State as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rates TexPool 'AAAm'. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review.

TexPool is an external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, TexPool must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity, and diversification requirements within TexPool. TexPool transacts at a net asset value of \$1.00 per share, has weighted average maturities of 60 days or less, and weighted average lives of 120 days or less. Investments held are highly rated by nationally recognized statistical rating organizations, have no more than five percent of portfolio with one issuer (excluding U.S. government securities), and can meet reasonably foreseeable redemptions. TexPool has a redemption notice period of one day and may redeem daily. TexPool's authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium, or national state of emergency that affects TexPool's liquidity.

**Lone Star**

The First Public Lone Star Investment Pool ("Lone Star") is a public funds investment pool operated under Section 2256.016 of the Public Funds Investment Act, Texas Government Code, as amended. Lone Star is governed by trustees comprised of active participants in Lone Star. The Board of Trustees for Lone Star has the responsibility for adopting and monitoring compliance with the investment policy; of appointing investment officers; and of overseeing the selection of an investment advisor, custodian, investment consultant, administrator, and other service providers. Lone Star is rated "AAA" by Standard & Poor's.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2020

**B. Capital Assets**

A summary of changes in capital assets for governmental activities at year end is as follows:

	<b>Beginning Balances</b>	<b>Increases</b>	<b>(Decreases)</b>	<b>Ending Balances</b>
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 15,218,270	\$ 1,973,202	\$ (500,000)	\$ 16,691,472
Construction in progress	7,854,784	32,805,528	(531,126)	40,129,186
<b>Total Capital Assets Not Being Depreciated</b>	<u>23,073,054</u>	<u>34,778,730</u>	<u>(1,031,126)</u>	<u>56,820,658</u>
Other capital assets:				
Buildings and improvements	217,944,057	531,126	-	218,475,183
Equipment and vehicles	11,772,681	464,284	(288,098)	11,948,867
<b>Total Other Capital Assets</b>	<u>229,716,738</u>	<u>995,410</u>	<u>(288,098)</u>	<u>230,424,050</u>
Less accumulated depreciation for:				
Buildings and improvements	(56,488,947)	(5,612,059)	-	(62,101,006)
Equipment and vehicles	(9,139,853)	(567,989)	288,098	(9,419,744)
<b>Total Accumulated Depreciation</b>	<u>(65,628,800)</u>	<u>(6,180,048)</u>	<u>288,098</u>	<u>(71,520,750)</u>
Other capital assets, net	<u>164,087,938</u>	<u>(5,184,638)</u>	<u>-</u>	<u>158,903,300</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 187,160,992</u>	<u>\$ 29,594,092</u>	<u>\$ (1,031,126)</u>	<u>215,723,958</u>
			Less associated debt	(248,942,479)
			Plus unspent bond proceeds	43,981,268
			Plus deferred charge on refunding	<u>2,233,937</u>
			<b>Net Investment in Capital Assets</b>	<u>\$ 12,996,684</u>

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2020

Depreciation was charged to governmental functions as follows:

	<b>Governmental Activities</b>
11 Instruction	\$ 3,932,968
12 Instructional resources/media services	87,637
13 Curriculum and staff development	28,376
23 School leadership	76,168
31 Guidance, counseling, and evaluation services	36,342
33 Health services	30,598
34 Student (pupil) transportation	497,223
35 Food service	422,528
36 Extracurricular activities	479,101
41 General administration	250,473
51 Plant maintenance and operations	278,699
52 Security and monitoring services	39,031
53 Data processing services	20,904
<b>Total Depreciation Expense</b>	<b>\$ 6,180,048</b>

# NEW BRAUNFELS INDEPENDENT SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS (Continued)

### For the Year Ended June 30, 2020

#### C. Long-Term Debt

The following is a summary of changes in the District's total governmental long-term liabilities for the year. In general, the District uses the general and debt service funds to liquidate governmental long-term liabilities.

Governmental Activities:	Beginning Balance	Additions	(Reductions)	Ending Balance	Amounts Due Within One Year	Interest Rates
Bonds payable						
Series 2012	\$ 20,282,245	\$ -	\$ (20,282,245)	\$ -	\$ -	1.625-5.00%
Series 2012A	3,300,000	-	(3,300,000)	-	-	2.00-5.00%
Series 2013	8,720,000	-	(415,000)	8,305,000	275,000	3.00-3.50%
Series 2014	8,125,000	-	(30,000)	8,095,000	30,000	2.00-2.75%
Series 2015	5,235,000	-	-	5,235,000	-	3.50%
Series 2015A	15,249,993	-	(100,000)	15,149,993	140,000	2.00-5.00%
Series 2016	41,890,000	-	(1,945,000)	39,945,000	5,860,000	3.00-5.00%
QSCB Series 2016	6,982,000	-	(582,000)	6,400,000	582,000	0.00%
Series 2017	17,900,000	-	(150,000)	17,750,000	100,000	3.00-5.00%
Series 2019	74,055,000	-	(2,755,000)	71,300,000	2,920,000	3.00-5.00%
Series 2020	-	47,542,232	-	47,542,232	985,000	4.00-5.00%
	<u>201,739,238</u>	<u>47,542,232</u>	<u>(29,559,245)</u>	<u>219,722,225</u>	<u>10,892,000</u>	
Other liabilities:						
Compensated absences	641,428	577,285	(681,483)	537,230	483,507	
Net issuance premiums (discounts)	15,261,992	12,039,646	(3,609,586)	23,692,052	*	-
Accreted interest	5,328,425	199,777	-	5,528,202	*	-
Net pension liability	24,322,786	-	(737,933)	23,584,853	-	-
Net OPEB liability	29,567,253	-	(1,108,354)	28,458,899	-	-
<b>Total Governmental Activities</b>	<u>\$ 276,861,122</u>	<u>\$ 60,358,940</u>	<u>\$ (35,696,601)</u>	<u>\$ 301,523,461</u>	<u>\$ 11,375,507</u>	
<b>Long-term liabilities due in more than one year</b>				<u>\$ 290,147,954</u>		
<b>*Debt associated with capital assets</b>				<u>\$ 248,942,479</u>		

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

#### New Debt

On January 15, 2020, the District issued \$47,542,233 of Unlimited Tax School Building and Refunding Bonds, Series 2020, of which \$19,467,233 were used to refund the outstanding Series 2012 Unlimited Tax School Building and Refunding Bonds. The bonds have interest rates ranging from 4.00% to 5.00% and have a final maturity of February 1, 2037. The net proceeds of \$24,154,813 were deposited in trust with an escrow agent to provide for the redemption of the bonds. This current refunding was undertaken to reduce the total debt service payments over the next 17 years by \$3,143,567 and represented an economic gain of \$2,585,033.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2020

The annual requirements to amortize debt issues outstanding at year end are as follows:

Year Ended June 30	General Obligation Bonds		
	Principal	Interest	Total Requirements
2021	\$ 10,892,000	\$ 8,472,128	\$ 19,364,128
2022	11,192,000	7,876,968	19,068,968
2023	8,724,225	10,788,880	19,513,105
2024	11,057,000	7,222,206	18,279,206
2025	11,322,000	6,869,481	18,191,481
2026-2030	54,399,000	27,735,432	82,134,432
2031-2035	48,666,000	17,883,513	66,549,513
2036-2040	41,440,000	9,521,400	50,961,400
2041-2043	22,030,000	1,796,150	23,826,150
<b>Totals</b>	<b>\$ 219,722,225</b>	<b>\$ 98,166,158</b>	<b>\$ 317,888,383</b>

**D. Commitments Under Noncapitalized Leases**

The District has various operating lease agreements where the future minimum payments are immaterial to the operations of the District and, accordingly, the District has elected not to disclose future payments by fiscal year.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2020

**E. Interfund Transactions**

The interfund balances and transfers were as follows:

	<b>Due From Other Funds</b>
General fund	
Capital projects fund	\$ 769,436
Other governmental funds	669,123
Internal service funds	142,024
<b>Total General Fund</b>	<b>1,580,583</b>
Debt service fund	
General fund	17,155
<b>Total Debt Service Fund</b>	<b>17,155</b>
Other governmental funds	
Other governmental funds	26,864
General fund	405,992
<b>Total Other Governmental Funds</b>	<b>432,856</b>
Enterprise fund	
General fund	48,882
<b>Total Enterprise Fund</b>	<b>48,882</b>
<b>Total</b>	<b>\$ 2,079,476</b>
	<b>Transfers From Other Funds</b>
Debt service fund	
Capital projects fund	\$ 383,039
<b>Total</b>	<b>\$ 383,039</b>
General fund	
Internal service fund	528,000
<b>Total General Fund</b>	<b>528,000</b>
<b>Total</b>	<b>\$ 911,039</b>

Amounts recorded as due to/from are considered to be temporary loans and will be repaid during the following year. Interfund transfers are defined as “flows of assets without equivalent flow of assets in return and without a requirement for repayment”.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2020

**IV. OTHER INFORMATION**

**A. Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the District purchases commercial insurance. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

**B. Contingent Liabilities**

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or not performed correctly, it could result in a substantial liability to the District. The District has engaged an arbitrage consultant to perform the calculations in accordance with IRS rules and regulations. The District does not anticipate an arbitrage rebate liability.

**C. Defined Benefit Pension Plan**

**Teacher Retirement System**

**Plan Description**

The District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by 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. TRS's Board of Trustees does not have the authority to establish or amend benefit terms.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
***NOTES TO FINANCIAL STATEMENTS (Continued)***  
**For the Year Ended June 30, 2020**

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

Pension Plan Fiduciary Net Position

Detailed information about TRS'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 <https://trs.texas.gov/TRS%20Documents/cafr2019.pdf>, selecting About TRS, then Publications, then Financial Reports or by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698.

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 the State. The pension formula is calculated using 2.3% (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic postemployment benefit changes, including automatic cost-of-living adjustments (COLAs). Ad hoc postemployment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan Description above.

Texas Government Code section 821.006 prohibits benefit improvements if, as a result of the particular action, the time required to amortize TRS's 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.

In May 2019, the 86th Texas Legislature approved the TRS Pension Reform Bill (SB12) that provides for gradual contribution increase from the State, participating employers, and active employees to make TRS actuarially sound. This action causing TRS to be actuarially sound allowed the Legislature to approve funding for a thirteenth check in September 2019. All eligible members retired as of December 31, 2018 received an extra annuity check in either the matching amount of their monthly annuity or \$2,000, whichever was less.

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 TRS during the fiscal year.



# NEW BRAUNFELS INDEPENDENT SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS (Continued)

### For the Year Ended June 30, 2020

Employee contribution rates are set in state statute, Texas Government Code 825.402. SB12 of the 86th Texas Legislature amended Texas Government Code 825.402 for member contributions and increased employee and employer contribution rates for fiscal years 2020 through 2025.

Contribution Rates			
Fiscal Year	State	Public Education	Active
		Employer*	Employee
2019	6.80%	1.50%	7.70%
2020	7.50%	1.50%	7.70%
2021	7.50%	1.60%	7.70%
2022	7.75%	1.70%	8.00%
2023	8.00%	1.80%	8.00%
2024	8.25%	1.90%	8.25%
2025	8.25%	2.00%	8.25%

\*SB 12 requires an increase in employer contributions by public school districts, charter schools, and regional education service centers. Prior to SB12, only those employers not participating in Social Security were required to pay a 1.5% contribution. Beginning September 1, 2019, all employers are required to pay the Public Education Employer contribution

<u>Contribution Rates</u>	<u>2019</u>	<u>2020</u>
Member	7.7%	7.7%
NECE (State)	6.8%	6.8%
Employers	6.8%	6.8%

	<u>Measurement Year (2019)</u>	<u>Fiscal Year (2020)</u>
Employer contributions	\$ 1,588,012	\$ 1,705,505
Member contributions	\$ 3,976,194	\$ 3,976,194
NECE on-behalf contributions	\$ 2,510,341	\$ 2,854,761

Contributors to TRS include members, employers, and the State as the only nonemployer contributing entity (NECE). The State is the employer for senior colleges, medical schools, and state agencies, including TRS. In each respective role, the State contributes to TRS in accordance with state statutes and the General Appropriations Act.

As the NECE for public education and junior colleges, the State contributes to TRS an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of TRS during that fiscal year reduced by the amounts described below, which are paid by the employers. Employers (public schools, junior colleges, other entities, or the State as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

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

# NEW BRAUNFELS INDEPENDENT SCHOOL DISTRICT

## *NOTES TO FINANCIAL STATEMENTS (Continued)*

### For the Year Ended June 30, 2020

- When the employing district is a public junior college or junior college district, the employer shall contribute to TRS an amount equal to 50% of the state contribution rate for certain instructional or administrative employees and 100% of the state contribution rate for all other employees.
- When the employing district is a public or charter school, the employer shall contribute 1.5% of covered payroll to TRS beginning in fiscal year 2020. This contribution rate, called the Public Education Employer Contribution (PEEC), will replace the Non-Federal Old-Age, Survivors, and Disability Insurance (OASDI) Program surcharge that was in effect in fiscal year 2019.

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

- When employing a retiree of TRS, the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district or charter school does not contribute to the 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. This surcharge was in effect through fiscal year 2019 and was replaced by the PEEC explained above.

#### Actuarial Assumptions

The total pension liability (TPL) in the August 31, 2018 actuarial valuation rolled forward to August 31, 2019 was determined using the following actuarial assumptions:

Valuation date	August 31, 2018 rolled forward to August 31, 2019
Actuarial cost method	Individual entry age normal
Asset valuation method	Market value
Single discount rate	7.25%
Long-term expected investment rate of return	7.25%
Municipal bond rate	2.63%. 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	2.3%
Salary increases including inflation	3.05% to 9.05%
Payroll growth rate	2.5%
Ad hoc post-employment benefit changes	None

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2020

The actuarial methods and assumptions used in the determination of the TPL are the same assumptions used in the actuarial valuation as of ending August 31, 2018. For a full description of these assumptions, please see the TRS actuarial valuation report dated November 9, 2018.

Discount Rate

A single discount rate of 7.25% was used to measure the TPL. The single discount rate was based on the expected rate of return on plan investments of 7.25%. The projection of cash flows used to determine this single discount rate assumed that contributions from active members, employers, and the NECE will be made at the rates set by the Legislature during the 2019 session. It is assumed that future employer and state contributions will be 8.50% of payroll in fiscal year 2020 gradually increasing to 9.55% of payroll over the next several years. This includes all employer and state contributions for active and rehired retirees.

Based on those assumptions, TRS's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on TRS investments was applied to all periods of projected benefit payments to determine the TPL.

The long-term expected rate of return on TRS investments is 7.25%. The long-term expected rate of return on TRS 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.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2020

Best estimates of geometric real rates of return for each major asset class included in TRS's target asset allocation as of August 31, 2019 are summarized as follows:

**Teacher Retirement System of Texas**  
**Asset Allocation and Long-Term Expected Real Rate of Return**  
As of August 31, 2019

	<b>Fiscal Year 2019 Target Allocation (1)</b>	<b>New Target Allocation (2)</b>	<b>Long-Term Expected Geometric Real Rate of Return (3)</b>
<b>Global Equity</b>			
U.S.	18.0%	18.0%	6.4%
Non-U.S. Developed	13.0%	13.0%	6.3%
Emerging Markets	9.0%	9.0%	7.3%
Directional Hedge Funds	4.0%	0.0%	0.0%
Private Equity	13.0%	14.0%	8.4%
<b>Stable Value</b>			
U.S. Treasuries (4)	11.0%	16.0%	3.1%
Stable Value Hedge Funds	4.0%	5.0%	4.5%
Absolute Returns	0.0%	0.0%	0.0%
<b>Real Return</b>			
Global Inflation-Linked Bonds (4)	3.0%	0.0%	0.0%
Real Estate	14.0%	15.0%	8.5%
Energy & Natural Resources	5.0%	6.0%	7.3%
Commodities	0.0%	0.0%	0.0%
<b>Risk Parity</b>			
Risk Parity	5.0%	8.0%	5.8/6.5% (5)
<b>Total</b>	<u>100.0%</u>	<u>8.0%</u>	<u>7.2%</u>

(1) Target allocations are based on the Strategic Asset Allocation as of fiscal year 2019.

(2) New allocations are based on the Strategic Asset Allocation to be implemented fiscal year 2020.

(3) Ten-year annualized geometric nominal returns include the real rate of return and inflation of 2.1%

(4) New Target Allocation groups Government Bonds within the stable value allocation. This includes global sovereign nominal and inflation-linked bonds.

(5) 5.8% (6.5%) return expectation corresponds to Risk Parity with a 10% (12%) target volatility.

# NEW BRAUNFELS INDEPENDENT SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS (Continued)

### For the Year Ended June 30, 2020

#### Discount Rate Sensitivity Analysis

The following schedule shows the impact of the net pension liability (NPL) if the discount rate used was 1% less than and 1% greater than the discount rate that was used (7.25%) in measuring the NPL:

	1% Decrease in Discount Rate (6.25%)	Discount Rate (7.25%)	1% Increase in Discount Rate (8.25%)
District's proportionate share of the net pension liability	\$ 36,253,345	\$ 23,584,853	\$ 13,320,929

#### Pension Liability, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions

At August 31, 2020, the District reported a liability of \$23,584,853 for its proportionate share of the TRS's NPL. This liability reflects a reduction for state pension support provided to the District. The amounts recognized by the District as its proportionate share of the NPL, the related state support, and the total portion of the NPL that was associated with the District were as follows:

District's proportionate share of the collective net pension lial	\$ 23,584,853
State's proportionate share that is associated with the District	37,284,689
<b>Total</b>	<u><u>\$ 60,869,542</u></u>

The NPL was measured as of August 31, 2018 and rolled forward to August 31, 2019 and the TPL used to calculate the NPL was determined by an actuarial valuation as of that date. The District's proportion of the NPL was based on the District's contributions to TRS relative to the contributions of all employers to TRS for the period September 1, 2018 through August 31, 2019.

At August 31, 2020, the District's proportion of the collective NPL was 0.0453702%, which was an increase of 0.0011810% from its proportion measured as of August 31, 2019.

#### **Changes Since the Prior Actuarial Valuation**

- The single discount rate as of August 31, 2018 was a blended rate of 6.907% and that has changed to the long-term rate of return of 7.25% as of August 31, 2019.
- With the enactment of Senate Bill 3 by the 2019 Texas Legislature, an assumption has been made about how this would impact future salaries. It is assumed that eligible active members will each receive a \$2,700 increase in fiscal year 2020. This is in addition to the salary increase expected based on the actuarial assumptions.
- The Texas Legislature approved funding for a thirteenth check. All eligible members retired as of December 31, 2018 will receive an extra annuity check in September 2019 in either the matching amount of their monthly annuity payment or \$2,000, whichever is less.

For the year ended August 31, 2020, the District recognized pension expense of \$5,856,899 and revenue of \$5,856,899 for support provided by the State.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2020

At August 31, 2020, the District reported its proportionate share of TRS' deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual economic experience	\$ 99,077	\$ (818,904)
Changes in actuarial assumptions	7,317,180	(3,023,805)
Difference between projected and actual investment earnings	236,820	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	2,200,791	(304)
Contributions paid to TRS subsequent to the measurement	1,453,846	-
<b>Total</b>	<b>\$ 11,307,714</b>	<b>\$ (3,843,013)</b>

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual economic experience	\$ 99,077	\$ (818,904)
Changes in actuarial assumptions	7,317,180	(3,023,805)
Difference between projected and actual investment earnings	236,820	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	2,200,791	(304)
Contributions paid to TRS subsequent to the measurement	1,453,846	-
<b>Total</b>	<b>\$ 11,307,714</b>	<b>\$ (3,843,013)</b>

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

<b>Year Ended June 30</b>	<b>Pension Expense</b>
2021	\$ 1,539,874
2022	1,261,572
2023	1,481,244
2024	1,403,171
2025	516,742
Thereafter	(191,748)
<b>Total</b>	<b>\$ 6,010,855</b>

**D. Defined Other Postemployment Benefit Plans**

Plan Description

The District participates in TRS-Care. It is a multiple-employer, cost-sharing defined benefit OPEB plan that has a special funding situation. TRS-Care is administered through a trust by TRS Board of Trustees (the "Board"). It is established and administered in accordance with the Texas Insurance Code, Chapter 1575.

# NEW BRAUNFELS INDEPENDENT SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS (Continued)

### For the Year Ended June 30, 2020

#### OPEB Plan Fiduciary Net Position

Detailed information about TRS-Care's fiduciary net position is available in a separately issued TRS Comprehensive Annual Financial Report that includes financial statements and Required Supplementary Information. That report may be obtained on the Internet at [www.trs.texas.gov/TRS%20Documents/cafr2019.pdf](http://www.trs.texas.gov/TRS%20Documents/cafr2019.pdf); 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 TRS-Care as of August 31, 2019 are as follows:

Total OPEB liability	\$ 48,583,247,239
Less: plan fiduciary net position	<u>1,292,022,349</u>
<b>Net OPEB Liability</b>	<b><u>\$ 47,291,224,890</u></b>
Net position as a percentage of total OPEB liability	2.66%

#### Benefits Provided

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

Eligible retirees and their dependents not enrolled in Medicare may pay premiums to participate in one of two optional insurance plans with more comprehensive benefits, TRS-Care 2 and TRS-Care 3 (the "Optional Health Insurance"). Eligible retirees and dependents enrolled in Medicare may elect to participate in one of the two Medicare health plans for an additional fee. To qualify for TRS-Care coverage, a retiree must have at least ten years of service credit in TRS. The Board is granted the authority to establish basic and optional group insurance coverage for participants, as well as to amend benefit terms as needed under Chapter 1575.052. There are no automatic postemployment benefit changes, including automatic cost-of-living adjustments.

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:

<b>TRS-Care Plan Premium Rates</b>		
	<b>Medicare</b>	<b>Non-Medicare</b>
Retiree*	\$ 135	\$ 200
Retiree and spouse	\$ 529	\$ 689
Retiree and children	\$ 468	\$ 408
Retiree and family	\$ 1,020	\$ 999
<i>*or surviving spouse</i>		

# NEW BRAUNFELS INDEPENDENT SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS (Continued)

### For the Year Ended June 30, 2020

#### Contributions

Contribution rates for TRS-Care are established in state statute by the Texas Legislature and there is no continuing obligation to provide benefits beyond each fiscal year. TRS-Care 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 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 0.75% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to TRS-Care by type of contributor:

	Contribution Rates	
	Fiscal Year	
	2019	2020
Active employee	0.65%	0.65%
NECE (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/private funding remitted by employers	1.25%	1.25%

	Measurement Year (2019)	Fiscal Year (2020)
Employee contributions	\$ 427,097	\$ 444,718
Member contributions	\$ 167,826	\$ 167,826
NECE on-behalf contributions	\$ 567,482	\$ 645,486

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

TRS-Care received supplemental appropriations from the State as the NECE in the amount of \$73.6 million in fiscal year 2019.

#### Actuarial Assumptions

The total OPEB liability in the August 31, 2018 actuarial valuation was rolled forward to August 31, 2019.

The actuarial valuation of the OPEB plan offered through TRS-Care is similar to the actuarial valuation performed for the TRS pension plan, except that the OPEB valuation is more complex. All of the demographic assumptions, including rates of retirement, termination, and disability, and most of the economic assumptions, including general inflation and salary increases, used in the OPEB valuation were identical to those used in the respective TRS pension valuation. The demographic



# NEW BRAUNFELS INDEPENDENT SCHOOL DISTRICT

## *NOTES TO FINANCIAL STATEMENTS (Continued)*

### For the Year Ended June 30, 2020

assumptions were developed in the experience study performed for TRS for the period ending August 31, 2017.

The following assumptions and other inputs used for members of TRS-Care are identical to the assumptions used in the August 31, 2018 TRS pension actuarial valuation that was rolled forward to August 31, 2019:

- |                                  |                            |
|----------------------------------|----------------------------|
| 1. Rates of Mortality            | 5. General Inflation       |
| 2. Rates of Retirement           | 6. Wage Inflation          |
| 3. Rates of Termination          | 7. Expected Payroll Growth |
| 4. Rates of Disability Incidence |                            |

Additional actuarial methods and assumptions are as follows:

Valuation date	8/31/2018 rolled forward to 8/31/19
Actuarial cost method	Individual entry age normal
Inflation	2.30%
Single discount rate	2.63% as of August 31, 2019.
Aging factors	Based on plan specific experience
Election rates	Normal retirement: 65% participation prior to age 65 and 50% participation after age 65. 25% of pre-65 retirees are assumed to discontinue coverage at 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% to 9.05% including inflation
Ad hoc postemployment benefit changes	None

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 2.3%.
- 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 2.63% was used to measure the total OPEB liability. There was a decrease of 1.06% in the discount rate since the previous year. Because TRS-Care 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 NECE are made at the statutorily required rates. Based on those assumptions, TRS-Care’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.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2020

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 in measuring the net OPEB liability:

	<b>1% Decrease in Discount Rate (1.63%)</b>	<b>Current Single Discount Rate (2.63%)</b>	<b>1% Increase in Discount Rate (3.63%)</b>
District's proportionate share of net OPEB liability	\$ 34,359,022	\$ 28,458,899	\$ 23,843,226

Healthcare Cost Trend Rates Sensitivity Analysis – The following presents the net OPEB liability of TRS-Care using the assumed healthcare cost trend rate of 8.5%, as well as what the net OPEB liability would be if it were calculated using a trend rate that is 1% less than or 1% higher than the assumed healthcare cost trend rate:

	<b>1% Decrease in Healthcare Cost Trend Rate</b>	<b>Current Healthcare Cost Trend Rate</b>	<b>1% Increase in Healthcare Cost Trend Rate</b>
District's proportionate share of net OPEB liability	\$ 23,215,771	\$ 28,458,899	\$ 35,482,282

OPEB Liabilities, OPEB Expense, and Deferred Outflows/Inflows of Resources Related to OPEBs

At June 30, 2020, the District reported a liability of \$28,458,899 for its proportionate share of TRS-Care's net OPEB liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective net OPEB liability	\$ 28,458,899
State's proportionate share that is associated with the District	37,815,511
<b>Total</b>	<b>\$ 66,274,410</b>

The net OPEB liability was measured as of August 31, 2018 and rolled forward to August 31, 2019 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on the District's contributions to TRS-Care relative to the contributions of all employers to TRS-Care for the period September 1, 2018 through August 31, 2019.

At June 30, 2020, the employer's proportion of the collective net OPEB liability was 0.0601780%, compared to 0.0592163% as of June 30, 2019.

# NEW BRAUNFELS INDEPENDENT SCHOOL DISTRICT

## *NOTES TO FINANCIAL STATEMENTS (Continued)*

### For the Year Ended June 30, 2020

#### Changes Since the Prior Actuarial Valuation

The following were changes to the actuarial assumptions or other inputs that affected measurement of the total OPEB liability since the prior measurement period:

- The discount rate was changed from 3.69% as of August 31, 2018 to 2.63% as of August 31, 2019. This change increased the total OPEB liability.
- The healthcare trend rates were reset to better reflect TRS-Care's anticipated experience. This change increased the total OPEB liability.
- The participation rate for pre-65 retirees was lowered from 70% to 60%. The participation rate for post-65 retirees was lowered from 75% to 50%. 25% of pre-65 retirees are assumed to discontinue their coverage at age 65. There was no lapse assumption in the prior valuation. These changes decreased the total OPEB liability.
- The percentage of retirees who are assumed to have two-person coverage was lowered from 20% to 15%. In addition, the participation assumption for the surviving spouses of employees that die while actively employed was lowered from 20% to 10%. These changes decreased the total OPEB liability.

There were no changes in benefit terms since the prior measurement date.

For the year ended June 30, 2020, the District recognized OPEB expense of \$998,775 and revenue of \$998,775 for support provided by the State.

At June 30, 2020, the District reported its proportionate share of TRS-Care's deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual economic experience	\$ 1,396,151	\$ (4,656,997)
Changes in actuarial assumptions	1,580,670	(7,654,745)
Differences between projected and actual investment earnings	3,071	-
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	2,176,004	-
Contributions paid to TRS subsequent to the measurement date	376,140	-
<b>Total</b>	<u><u>\$ 5,532,036</u></u>	<u><u>\$ (12,311,742)</u></u>

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended June 30, 2020

The net amounts of the District's balances of deferred outflows and inflows of resources related to OPEB will be recognized in OPEB (revenue) as follows:

<u>Year Ended June 30</u>	<u>Expense Amount</u>
2021	\$ (1,270,456)
2022	(1,270,456)
2023	(1,271,450)
2024	(1,272,018)
2025	(1,271,863)
Thereafter	(799,603)
	<u>\$ (7,155,846)</u>

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for 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 June 30, 2020, 2019, and 2018, the subsidy payments received by TRS-Care on behalf of the District were \$262,146, \$191,431, and \$145,061, respectively.

**E. Employee Health Care Coverage**

During the year, employees of the District were covered by a health insurance plan (the "Plan"). The District paid premiums of \$332 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement. The contract between the District and the insurer is renewable September 1, 2020 and terms of coverage and premiums costs are included in the contractual provisions.

**F. Workers' Compensation Insurance**

During the year ended June 30, 2020, the District met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund (the "Fund"). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Workers' Compensation Program is authorized by Chapter 504, Texas Labor Code. All members participating in the Fund execute interlocal agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members' injured employees.

The Fund and its members are protected against higher than expected claims costs through the purchase of stop-loss coverage for any claim in excess of the Fund's self-insured retention of \$2 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2019, the Fund carries a discounted reserve of \$45,439,534 for future development on reported claims and claims that have been incurred but not

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
***NOTES TO FINANCIAL STATEMENTS (Continued)***  
**For the Year Ended June 30, 2020**

yet reported. For the year ended June 30, 2020, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2019 are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

**G. Unemployment Compensation**

During the year ended June 30, 2020, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the "Fund"). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute interlocal agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop-loss coverage for the unemployment compensation pool. For the year ended June 30, 2020, the Fund anticipates that the District has no additional liability beyond the contractual obligation for payment of contribution.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2019 are available on the TASB Risk Management Fund's website and have been filed with the Texas Department of Insurance in Austin.

**H. Shared Services Arrangements**

The District participates in a shared services arrangement (SSA) for homeless children and youth. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Education Service Center, Region X, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for part of the financial activities of the SSA.

The District participates in an SSA for hearing impaired children. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Education Service Center, Region XIII, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for part of the financial activities of the SSA.

**NEW BRAUNFELS**  
**INDEPENDENT SCHOOL DISTRICT**  
***NOTES TO FINANCIAL STATEMENTS (Continued)***  
**For the Year Ended June 30, 2020**

The District participates in an SSA for visually handicapped children. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Education Service Center, Region XIII, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for part of the financial activities of the SSA.

**I. Subsequent Event**

In March 2020, COVID-19 was recognized as a pandemic worldwide. With local stay-at-home orders in effect, the District suspended in-classroom learning for the remainder of the school year. While the initial event occurred prior to year-end, the District was, subsequent to year-end, continuing to modify operations to prevent the spread to protect students, staff, and the community as a whole, while balancing the educational needs of students. In August 2020, the District resumed the 2020-2021 school year on the regularly scheduled start date by providing parents and guardians the option for remote learning. The District has made changes to operations, including provisions for students and staff to wear masks and more frequent cleanings. While such changes cause a hardship and have increased expenses, such increases are nominal in comparison to the overall budget. The District is continuing to monitor exposure levels with students, staff and the community as a whole, but to date the overall exposure threat level has been sufficiently low to continue with in-class learning. However, the District is ready to modify plans if necessary and will continue to seek out additional funding to cover the increased costs in responding to the pandemic.

## **APPENDIX D**

### **Form of Opinion of Bond Counsel**

(this page intentionally left blank)





Norton Rose Fulbright US LLP  
98 San Jacinto Boulevard, Suite 1100  
Austin, Texas 78701-4255  
United States

Tel +1 512 474 5201  
Fax +1 512 536 4598  
nortonrosefulbright.com

## DRAFT

IN REGARD to the authorization and issuance of the “New Braunfels Independent School District Unlimited Tax School Building Bonds, Series 2021” (the *Bonds*), dated January 15, 2021, in the aggregate original principal amount of \$\_\_\_\_\_ we have reviewed the legality and validity of the issuance thereof by the Board of Trustees of the New Braunfels Independent School District (the *Issuer*). The Bonds are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The Bonds have Stated Maturities of February 1 in each of the years 2022 through 2044, unless redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Bonds. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the order (the *Order*) authorizing the issuance of the Bonds. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Order.

WE HAVE SERVED AS BOND COUNSEL for the Issuer solely to pass upon the legality and validity of the issuance of the Bonds under the laws of the State of Texas and with respect to the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes and for no other purpose. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Bonds. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Bonds. Our role in connection with the Issuer’s Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

WE HAVE EXAMINED the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the Issuer in connection with the issuance of the Bonds, including the Order; (2) customary certifications and opinions of officials of the Issuer; (3) certificates executed by officers of the Issuer relating to the expected use and investment of proceeds of the Bonds and certain other funds of the Issuer, and to certain other facts solely within the knowledge and control of the Issuer; and (4) such other documentation, including an examination of the Bond executed and delivered initially by the Issuer, and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

Norton Rose Fulbright US LLP is a limited liability partnership registered under the laws of Texas.

Norton Rose Fulbright US LLP, Norton Rose Fulbright LLP, Norton Rose Fulbright Australia, Norton Rose Fulbright Canada LLP and Norton Rose Fulbright South Africa Inc are separate legal entities and all of them are members of Norton Rose Fulbright Verein, a Swiss verein. Norton Rose Fulbright Verein helps coordinate the activities of the members but does not itself provide legal services to clients. Details of each entity, with certain regulatory information, are available at [nortonrosefulbright.com](http://nortonrosefulbright.com).

**Legal Opinion of Norton Rose Fulbright US LLP, Austin, Texas, in connection with the authorization and issuance of “NEW BRAUNFELS INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2021”**

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the Bonds are valid and legally binding obligations of the Issuer enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. The Bonds are payable from the proceeds of an ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the Issuer.

BASED ON OUR EXAMINATION, IT IS FURTHER OUR OPINION that, assuming continuing compliance after the date hereof by the Issuer with the provisions of the Order and in reliance upon the representations and certifications of the Issuer made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds, under existing statutes, regulations, published rulings, and court decisions (1) interest on the Bonds will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the *Code*), of the owners thereof for federal income tax purposes, pursuant to section 103 of the Code, and (2) interest on the Bonds will not be included in computing the alternative minimum taxable income of the owners thereof.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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.



Financial Advisory Services  
Provided By:

