

**OFFICIAL STATEMENT**

**January 23, 2019**

*In the opinion of Bond Counsel (identified 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.*

**\$92,705,000**

**LAKE TRAVIS INDEPENDENT SCHOOL DISTRICT**  
**(A political subdivision of the State of Texas located in Travis County, Texas)**  
**UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2019**

**Dated Date: January 15, 2019 (interest will accrue from the Delivery Date)**

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

The Lake Travis Independent School District (the "District") is issuing its \$92,705,000 Unlimited Tax School Building Bonds, Series 2019 (the "Bonds") in accordance with the Constitution and general laws of the State of Texas, including, particularly, Chapter 45, Texas Education Code, as amended, Chapter 1371, Texas Government Code, as amended, an order adopted by the Board of Trustees of the District (the "Order") on December 19, 2018 authorizing the issuance of the Bonds and delegating authority to certain officers of the District to complete the sale of the Bonds through the execution of a pricing certificate (the "Pricing Certificate"), and an election held within the District on November 7, 2017 (the "Election"). The Pricing Certificate establishing the final terms of the Bonds was executed by an authorized District official on January 23, 2019. The Bonds constitute direct obligations of the District and are payable as to principal, and interest from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, against all taxable property located within the District.

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

Interest on the Bonds will accrue from the Delivery Date (defined below), and will be payable on February 15 and August 15 of each year, commencing February 15, 2020 until stated maturity or prior redemption. The Bonds will be issued as fully registered obligations in principal denominations of \$5,000 or any integral multiple thereof within a stated maturity. Interest accruing on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months. (See "THE BONDS – General Description").

The District intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"), but reserves the right on its behalf or on behalf of DTC to discontinue such system. The principal of, and interest on the Bonds will be payable to Cede & Co., as nominee for DTC, by UMB Bank, N.A., Austin, Texas, as the initial Paying Agent/Registrar (the "Paying Agent/Registrar") for the Bonds. No physical delivery of the Bonds will be made to the owners thereof. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer. (See "BOOK-ENTRY-ONLY SYSTEM").

The District reserves the right, at its option, to redeem certain Bonds prior to their respective dates of stated maturity, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, at the par value thereof plus accrued interest to the date of redemption. The Bonds maturing on February 15, 2046 are callable on February 15, 2025 or any date thereafter; the Bonds maturing on February 15 in the years 2029 through and including 2041 and 2044 are callable on February 15, 2028 or any date thereafter. The Term Bonds, hereinafter defined, are also subject to mandatory sinking fund redemption as described herein. (See "THE BONDS – Redemption Provisions").

Proceeds from the sale of the Bonds will be used for (i) the purposes of designing, constructing, renovating, improving, acquiring, and equipping school facilities (and any necessary or related removal of existing facilities), the purchase of the necessary sites for school buildings, and the purchase of new school buses and (ii) paying the costs of issuing the Bonds. (See "THE BONDS – Authorization and Purpose").

**MATURITY SCHEDULE ON INSIDE COVER, PAGE ii**

*The Bonds are offered when, as and if issued, and accepted by the initial purchasers thereof named below (the "Underwriters"), 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, San Antonio, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., Austin, Texas. The Bonds are expected to be available for initial delivery through the services of DTC on or about February 20, 2019 (the "Delivery Date").*

**BOK FINANCIAL SECURITIES, INC.**

**BAIRD  
HILLTOPSECURITIES**

**FROST BANK  
WELLS FARGO SECURITIES**

**MATURITY SCHEDULE**

**\$92,705,000  
UNLIMITED TAX SCHOOL BUILDING BONDS,  
SERIES 2019**

**Base CUSIP No: 511074<sup>(1)</sup>**

**\$67,840,000 Serial Bonds**

<b>Maturity</b>					<b>Maturity</b>				
<b>Date (2/15)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Initial Yield</b>	<b>CUSIP Suffix No. <sup>(1)</sup></b>	<b>Date (2/15)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Initial Yield</b>	<b>CUSIP Suffix No. <sup>(1)</sup></b>
2020	\$ 2,975,000	4.00%	1.72%	TY2	2031	\$ 2,845,000	5.00%	2.63% <sup>(2)</sup>	UK0
2021	5,345,000	5.00	1.76	TZ9	2032	2,995,000	5.00	2.71 <sup>(2)</sup>	UL8
2022	1,815,000	5.00	1.77	UA2	2033	3,145,000	5.00	2.78 <sup>(2)</sup>	UM6
2023	1,910,000	5.00	1.83	UB0	2034	3,290,000	4.00	3.14 <sup>(2)</sup>	UN4
2024	2,005,000	5.00	1.90	UC8	2035	3,425,000	4.00	3.21 <sup>(2)</sup>	UP9
2025	2,110,000	5.00	1.97	UD6	2036	3,565,000	4.00	3.27 <sup>(2)</sup>	UQ7
2026	2,220,000	5.00	2.07	UE4	2037	3,710,000	4.00	3.34 <sup>(2)</sup>	UR5
2027	2,330,000	5.00	2.21	UF1	2038	3,860,000	4.00	3.44 <sup>(2)</sup>	US3
2028	2,450,000	5.00	2.30	UG9	2039	4,020,000	4.00	3.49 <sup>(2)</sup>	UT1
2029	2,575,000	5.00	2.38 <sup>(2)</sup>	UH7	2040	4,185,000	4.00	3.57 <sup>(2)</sup>	UU8
2030	2,710,000	5.00	2.54 <sup>(2)</sup>	UJ3	2041	4,355,000	4.00	3.60 <sup>(2)</sup>	UV6

**\$24,865,000 Term Bonds**

\$8,100,000 5.00% Term Bonds due February 15, 2044; Priced at \$113.542 to Yield 3.25%<sup>(2)</sup>; CUSIP No. Suffix<sup>(1)</sup>: UY0

\$6,185,000 4.00% Term Bonds due February 15, 2044; Priced at \$102.660 to Yield 3.65%<sup>(2)</sup>; CUSIP No. Suffix<sup>(1)</sup>: UZ7

\$10,580,000 3.75% Term Bonds due February 15, 2046; Priced at \$98.165 to Yield 3.86%; CUSIP No. Suffix<sup>(1)</sup>: VA1

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

**REDEMPTION PROVISIONS....** The District reserves the right, at its option, to redeem certain Bonds prior to their respective dates of stated maturity, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, at the par value thereof plus accrued interest to the date of redemption. The Bonds maturing on February 15, 2046 are callable on February 15, 2025 or any date thereafter; the Bonds maturing on February 15 in the years 2029 through and including 2041 and 2044 are callable on February 15, 2028 or any date thereafter. The Term Bonds, hereinafter defined, are also subject to mandatory sinking fund redemption as described herein. (See “THE BONDS – Redemption Provisions”).

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

<sup>(2)</sup> Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on February 15, 2028, the first optional call date for such Bonds, at a redemption price of par plus accrued interest to the date of redemption.

**LAKE TRAVIS INDEPENDENT SCHOOL DISTRICT**

**ELECTED OFFICIALS**

<u>Name</u>	<u>Term Expires</u> <u>(May)</u>	<u>Occupation</u>
Kim Flasch, President	2019	Finance
John Aouelle, Vice President	2019	Insurance and Risk Management
Bob Dorsett, Jr., Secretary	2020	Attorney
Guy Clayton, Trustee	2021	Banking
Lauren White, Trustee	2021	Education
Jessica Putonti, Trustee	2019	Attorney
William Beard, Trustee	2020	Patent Attorney

**CERTAIN DISTRICT OFFICIALS**

<u>Name</u>	<u>Position</u>	<u>Years of Experience</u>	<u>Years in Current Position</u>
Dr. Brad Lancaster	Superintendent of Schools	34	8
Johnny Hill	Assistant Superintendent for Business, Financial and Auxiliary Services/Chief Financial Officer	28	10

**CONSULTANTS AND ADVISORS**

Norton Rose Fulbright US LLP San Antonio, Texas	Bond Counsel
RBC Capital Markets, LLC San Antonio, Texas	Financial Advisor
Maxwell Locke & Ritter LLP Austin, Texas	Independent Auditor

## USE OF INFORMATION IN OFFICIAL STATEMENT

This Official Statement, which includes the cover page and Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.

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

This Official Statement contains, in part, estimates and matters of opinion and certain forward-looking statements which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

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, their 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 of completeness of such information.

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM - PSF Continuing Disclosure Undertaking” and “CONTINUING DISCLOSURE OF INFORMATION” for a description of the undertakings of the Texas Education Agency (the “TEA”) and the District, respectively, to provide certain information on a continuing basis.

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

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

None of the District, the Financial Advisor or the Underwriters make any representation or warranty with respect to the information contained in this Official Statement regarding the Depository Trust Company (“DTC”) or its Book-Entry-Only System or the affairs of the TEA described under “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” as such information has been provided by DTC and TEA, respectively.

The agreements of the District and others related to the Bonds are contained solely in the Order and 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 THIS ENTIRE OFFICIAL STATEMENT, INCLUDING THE SCHEDULES AND ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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

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*The cover page hereof, the section entitled "Selected Data from the Official Statement," this Table of Contents and the Appendices attached hereto are part of this Official Statement.*

## SELECTED DATA FROM THE OFFICIAL STATEMENT

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

<b>The District</b>	Lake Travis Independent School District (the “District”) is a political subdivision located in Travis County, Texas. The District 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. For more information regarding the District, see “Appendix A – Financial Information Regarding the District” and “Appendix B – General Information Regarding the District and Its Economy.”
<b>Authority for Issuance and Use of Proceeds</b>	The District’s \$92,705,000 Unlimited Tax School Building Bonds, Series 2019 (the “Bonds”) are being issued pursuant to the Constitution and general laws of the State of Texas, including, particularly, Chapter 45, Texas Education Code, as amended, Chapter 1371, Texas Government Code, as amended, an order adopted on December 19, 2018 by the Board of Trustees of the District (the “Order”) authorizing the issuance of the Bonds and delegating authority to certain officers of the District to complete the sale of the Bonds through the execution of a pricing certificate” (the “Pricing Certificate”), and an election held within the District on November 7, 2017 (the “Election”). The Pricing Certificate establishing the final terms of the Bonds was executed by an authorized District official on January 23, 2019. Proceeds from the sale of the Bonds will be used for (i) the purposes of designing, constructing, renovating, improving, acquiring, and equipping school facilities (and any necessary or related removal of existing facilities), the purchase of the necessary sites for school buildings, and the purchase of new school buses and (ii) paying the costs of issuing the Bonds. (See “THE BONDS – Authorization and Purpose”).
<b>Payment of Interest</b>	Interest on the Bonds will accrue from the Delivery Date, and will be payable on February 15 and August 15 each year, commencing February 15, 2020 until stated maturity or prior redemption. (See “THE BONDS – General Description”).
<b>Paying Agent/Registrar</b>	The initial Paying Agent/Registrar for the Bonds is UMB Bank, N.A., Austin, Texas (see “REGISTRATION, TRANSFER AND EXCHANGE – Paying Agent/Registrar” herein). Initially, the District intends to use the Book-Entry-Only System of The Depository Trust Company. (See “BOOK-ENTRY-ONLY SYSTEM”).
<b>Security</b>	The Bonds will constitute direct obligations of the District payable as to principal and interest, from a continuing and direct ad valorem tax levied by the District against all taxable property located within the District, without legal limitation as to rate or amount. (See “THE BONDS - Security”). Also see “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS” and “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” for a discussion of recent developments in State law affecting the financing of school districts in Texas.
<b>Permanent School Fund Guarantee Program</b>	In connection with the sale of the Bonds, the District has received conditional approval from the Commissioner of Education of the Texas Education Agency for the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas under the Guarantee Program for School District Bonds (Chapter 45, Subchapter C, of the Texas Education Code, as amended). (See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.”)
<b>Redemption Provisions</b>	The District reserves the right, at its option, to redeem certain Bonds prior to their respective dates of stated maturity, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, at the par value thereof plus accrued interest to the date of redemption. The Bonds maturing on February 15, 2046 are callable on February 15, 2025 or any date thereafter; the Bonds maturing on February 15 in the years 2029 through and including 2041 and 2044 are callable on February 15, 2028 or any date thereafter. The Term Bonds, hereinafter defined, are also subject to mandatory sinking fund redemption as described herein. (See “THE BONDS – Redemption Provisions.”)
<b>Ratings</b>	The Bonds have been assigned ratings of “AAA” by S&P Global Ratings (“S&P”), and “AAA” by Fitch Ratings, Inc. (“Fitch”) by virtue of the Guarantee of the Permanent School Fund of the State of Texas. The presently outstanding unenhanced tax-supported debt of the District is rated

“AA+” by S&P and “AA+” by Fitch, respectively. (See “RATINGS” and “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).

**Tax Exemption**

In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes under existing statutes, regulations, published rulings and court decisions, subject to the matters described under “TAX MATTERS” herein, and is not includable in the alternative minimum taxable income of the owners thereof. See “TAX MATTERS” for a discussion of the opinion of Bond Counsel.

**Book-Entry-Only System**

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

**Payment Record**

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

**Legal Opinion**

Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel. (See “LEGAL MATTERS” and “Form of Legal Opinion of Bond Counsel” attached hereto as Appendix D).

**Delivery**

When issued, anticipated on or about February 20, 2019.

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**OFFICIAL STATEMENT RELATING TO**

**\$92,705,000**

**LAKE TRAVIS INDEPENDENT SCHOOL DISTRICT  
(A political subdivision of the State of Texas located in Travis County, Texas)  
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2019**

**INTRODUCTORY STATEMENT**

This Official Statement, including solely Appendices A, B and C hereto, has been prepared by the Lake Travis Independent School District located in Travis County, Texas (the “District”) in connection with the offering by the District of its Unlimited Tax School Building Bonds, Series 2019 (the “Bonds”) identified on the cover page hereof.

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 historic 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 that financial and other information, will necessarily continue or be repeated in the future. (See “FORWARD LOOKING STATEMENTS”).

There follows in this Official Statement descriptions of the Bonds and the Order (as defined herein), and certain other 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 by electronic mail or upon payment of reasonable copying, mailing, and handling charges by writing the Lake Travis Independent School District, 3322 Ranch Road 620, Austin, Texas 78738, and, during the offering period, from the District’s Financial Advisor, RBC Capital Markets LLC, 303 Pearl Parkway, Suite 220, San Antonio, Texas 78215, by electronic mail or upon payment of reasonable handling, mailing and delivery charges.

This Official Statement speaks only as of its date and the information contained herein is subject to change. A copy of the Official Statement will be deposited with the Municipal Securities Rulemaking Board, through its Electronic Municipal Market Access (“EMMA”) system. See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM - PSF Continuing Disclosure Undertaking” and “CONTINUING DISCLOSURE INFORMATION” for a description of the undertakings of the Texas Education Agency (the “TEA”) and the District, respectively, to provide certain information on a continuing basis.

**THE BONDS**

**Authorization and Purpose**

The Bonds are being issued in accordance with the Constitution and general laws of the State of Texas, including, particularly, Chapter 45, Texas Education Code, as amended, Chapter 1371, Texas Government Code, as amended, an order adopted on December 19, 2018 by the Board of Trustees of the District (the “Order”) authorizing the issuance of the Bonds and delegating authority to certain officers of the District to complete the sale of the Bonds through the execution of a pricing certificate (the “Pricing Certificate”), and an election held within the District on November 7, 2017 (the “Election”). The Pricing Certificate establishing the final terms of the Bonds was executed by an authorized District official on January 23, 2019. Capitalized terms used herein have the same meanings assigned to such terms in the Order, except as otherwise indicated.

Proceeds from the sale of the Bonds will be used for (i) the purposes of designing, constructing, renovating, improving, acquiring, and equipping school facilities (and any necessary or related removal of existing facilities), the purchase of the necessary sites for school buildings, and the purchase of new school buses and (ii) paying the costs of issuing the Bonds.

**General Description**

The Bonds will be dated January 15, 2019. Interest on the Bonds will accrue from the Delivery Date, will be calculated on the basis of a 360-day year consisting of twelve 30-day months, and will be payable on February 15 and August 15 each year, commencing February 15, 2020 until stated maturity or prior redemption. The Bonds mature on the dates and in the principal amounts shown on the inside cover, page ii hereof. The Bonds will be issued as fully registered obligations in principal denominations of \$5,000 or any integral multiple thereof within a stated maturity. The paying agent/registrant for the Bonds is initially UMB Bank, N.A., Austin, Texas (the “Paying Agent/Registrar”).

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 beneficial

owners. Principal of, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will distribute the amounts paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM” herein for a more complete description of such system.

In the event the Bonds are no longer held in the Book-Entry-Only System, interest on the Bonds shall be payable to the registered owner whose name appears on the bond registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined) and such accrued interest will be paid by (i) check sent United States mail, first class, postage prepaid, to the address of the registered owner appearing on such registration books of the Paying Agent/Registrar or (ii) such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. If the date for any payment on the Bonds shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated corporate office of the Paying Agent/Registrar is located is authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due. The principal of the Bonds is payable at maturity or, upon prior redemption, upon their presentation and surrender to the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under “BOOK-ENTRY-ONLY SYSTEM” herein.

**Redemption Provisions**

Optional Redemption of Bonds . . . The District reserves the right, at its option, to redeem certain Bonds prior to their respective dates of stated maturity, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, at the par value thereof plus accrued interest to the date of redemption. The Bonds maturing on February 15, 2046 are callable on February 15, 2025 or any date thereafter; the Bonds maturing on February 15 in the years 2029 through and including 2041 and 2044 are callable on February 15, 2028 or any date thereafter. The Term Bonds, hereinafter defined, are also subject to mandatory sinking fund redemption as described herein.

Mandatory Redemption . . . The Bonds stated to mature on February 15, 2044 (5.00% coupon), February 15, 2044 (4.00% coupon), and February 15, 2046 (the “Term Bonds”) are subject to mandatory sinking fund redemption in part, prior to their stated maturity at the redemption price of par plus accrued interest to the date of redemption on the dates and in the principal amounts as follows:

**Term Bonds due February 15, 2044 (5.00% coupon)**

<b><u>Mandatory Redemption Date (2/15)</u></b>	<b><u>Principal Amount</u></b>
2042	\$ 2,560,000
2043	2,695,000
2044*	2,845,000

**Term Bonds due February 15, 2044 (4.00% coupon)**

<b><u>Mandatory Redemption Date (2/15)</u></b>	<b><u>Principal Amount</u></b>
2042	\$ 1,985,000
2043	2,065,000
2044*	2,135,000

**Term Bonds due February 15, 2046**

<b><u>Mandatory Redemption Date (2/15)</u></b>	<b><u>Principal Amount</u></b>
2045	\$ 5,190,000
2046*	5,390,000

\*Stated Maturity

Approximately forty-five (45) days prior to each mandatory redemption date for any Term Bond, the Paying Agent/Registrar shall randomly select by lot or other customary method the numbers of the Term Bonds within the applicable Stated Maturity to be redeemed on the next following February 15 from moneys set aside for that purpose in the Bond Fund (as defined in the Order). Any Term Bonds not selected for prior redemption shall be paid on the date of their Stated Maturity.

The principal amount of a Term Bond required to be redeemed pursuant to the operation of such mandatory redemption provisions shall be reduced, at the option of the District, by the principal amount of any Term Bonds of such Stated Maturity which, at least fifty (50) days prior to the mandatory redemption date (i) shall have been defeased or acquired by the District and delivered to the Paying Agent/Registrar for cancellation, (ii) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the District, or (iii) shall have been redeemed pursuant to the optional redemption provisions set forth above and not theretofore credited against a mandatory redemption requirement.

Selection of Bonds for Redemption . . . If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

Notice of Redemption . . . Not less than thirty (30) days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN AND 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.

DTC Redemption Provisions . . . The Paying Agent/Registrar, so long as a book-entry system is used for the Bonds, will send any notice of redemption, or other notices with respect to the Bonds only to DTC (or any successor securities depository for the Bonds). Any failure by DTC to advise any Direct Participant (defined herein), or of any Direct Participant or Indirect Participant (defined herein) to notify the Beneficial Owner (defined herein), will not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of Direct Participants in accordance with its rules or other agreements with Direct Participants and then Direct 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 Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to Direct Participants, Indirect Participants, or the persons for whom Direct Participants act as nominees, with respect to the payments on the Bonds or the providing of notice to Direct Participants, Indirect Participants, or Beneficial Owners of the selection of portions of the Bonds for redemption. (See “BOOK-ENTRY-ONLY SYSTEM” herein).

## **Security**

The Bonds are direct obligations of the District and are payable as to principal and interest from a direct and continuing ad valorem tax levied annually on all taxable property within the District, without legal limitation as to rate or amount, as provided in the Order. Additionally, the District has made application and has received conditional approval for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of State of Texas. (See “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS”, “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” and “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).

## **Permanent School Fund Guarantee**

In connection with the sale of the Bonds, the District has received conditional approval from the Commissioner of Education for the Bonds to be guaranteed under the Permanent School Fund Guarantee Program (Chapter 45, Subchapter C of the Texas Education Code). Subject to satisfying certain conditions discussed under the heading “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein, the Bonds will be absolutely and unconditionally guaranteed by the corpus of the Permanent School Fund of the State of Texas.

## **Legality**

The Bonds are offered when, as and if issued, and subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel. (See “LEGAL MATTERS” and “Appendix D – Form of Legal Opinion of Bond Counsel”).

## **Payment Record**

The District has never defaulted with respect to the payment of its bonded indebtedness.

**Defeasance of Bonds**

The Order provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, in trust (1) money sufficient to make such payment, (2) Government Obligations (defined below), which mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, or (3) a combination of money and Government Obligations together so certified sufficient to make such payment. The District has additionally reserved the right in the Order, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Obligations for the Government Obligations originally deposited, to reinvest the uninvested money on deposit for such defeasance and to withdraw for the benefit of the District money in excess of the amount required for such defeasance. 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, and (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. 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.

Upon such deposit as described above, such Bonds will no longer be regarded to be outstanding obligations for purposes of applying any limitation on indebtedness or for purposes of taxation. 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, that, the District's right to redeem Bonds defeased to stated maturity is not extinguished if the District has reserved the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption, at an earlier date, those Bonds which have been defeased to their stated 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 cancel the Permanent School Fund Guarantee with respect to those defeased Bonds.

**Amendments**

In the Order, the District has reserved the right, without the consent of or notice to any Beneficial Owners, from time to time and at any time, to amend the Order in any manner not detrimental to the interests of the Owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein.

In addition, the District may, with the consent of Beneficial Owners who own a majority of the aggregate principal amount of the Bonds then Outstanding affected thereby, amend, add to, or rescind any of the provisions of the Order; provided that, without the consent of all Beneficial Owners of Bonds affected, no such amendment, addition, or rescission shall (i) extend the time or times of payment of the principal of, premium, if any, and interest on the Bonds, reduce the principal amount thereof, the redemption price, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of, premium, if any, or interest on the Bonds, (ii) give any preference to any Bond over any other Bond, or (iii) reduce the aggregate principal amount of Bonds required to be held by Beneficial Owners for consent to any such amendment, addition, or rescission.

**Sources and Uses of Funds**

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

**Sources:**

Principal Amount of the Bonds	\$ 92,705,000.00
Net Reoffering Premium on the Bonds	<u>8,073,584.90</u>
<b>Total Source of Funds</b>	<b><u>\$100,778,584.90</u></b>

**Uses:**

Deposit to the Project Fund	\$100,000,000.00
Costs of Issuance, Underwriters' Discount and excess proceeds	<u>778,584.90</u>
<b>Total Uses of Funds</b>	<b><u>\$100,778,584.90</u></b>

## REGISTERED OWNERS' REMEDIES

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, or the District defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, the registered owners may seek a writ of mandamus to compel the District or District officials to carry out the 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, as well as to enforce the rights of payment under the Permanent School Fund Guarantee. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

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, as amended, Texas Government Code ("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 (see "THE BONDS – Authorization and Purpose" herein), 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 outside of Chapter 1371, bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants in the absence of District action. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

## BOOK-ENTRY-ONLY SYSTEM

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

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository

Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has an S&P Global Ratings rating of “AA+”. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [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 the Bonds (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

Redemption notices relating to the Bonds 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 (hereinafter defined). The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the District or Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name”, and will be the responsibility of such Participant and not of DTC 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. Payment of interest and principal to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities 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, the Bonds are required to be printed and delivered. The District may decide to discontinue use of the system of book-

entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will 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, the Financial Advisor and the Underwriters believe to be reliable, but the District, the Financial Advisor and the Underwriters take no responsibility for the accuracy thereof.

So long as Cede & Co. is the registered owner of the Bonds, the District will have no obligation or responsibility to the DTC, Participants or Indirect Participants, or the persons for which they act as nominees, with respect to payment to or providing of notice to such Participants, or the persons for which they act as nominees.

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

### **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 Book-Entry-Only form, 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, payment or notices that are to be given to registered owners under the Order will be given only to DTC.

## **REGISTRATION, TRANSFER AND EXCHANGE**

### **Paying Agent/Registrar**

UMB Bank, N.A., Austin, Texas, has been named to serve as initial Paying Agent/Registrar for the Bonds. In the Order, the District retains the right to replace the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a commercial bank; a trust company organized under the applicable law; or other entity duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

### **Future Registration**

In the event the Book-Entry-Only System is discontinued, printed Bond certificates will be delivered to the Beneficial Owners of the Bonds and thereafter the Bonds may be transferred, registered and assigned on the registration books 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. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bond 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. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the Registered Owner or assignee of the Registered Owner in not more than three (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 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 the ownership and transferability of the Bonds.

### **Record Date for Interest Payment**

The record date ("Record Date") for determining the party to whom the interest on a Bond is payable on any interest payment date for the Bonds means the close of business on the last business day of the month next preceding such interest payment date. In the event of a nonpayment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "Special Payment Date" which shall be 15 days after the Special Record Date) shall be sent at least five business days

prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each Registered Owner of a Bond appearing on the books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

### **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**

If any Bond is mutilated, destroyed, stolen or lost, a new Bond in the same principal 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 of satisfactory evidence to the effect 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 indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond must pay taxes, governmental charges and other expenses as the Paying Agent/Registrar may incur in connection therewith.

## **AD VALOREM TAX PROCEDURES**

### **Property Tax Code and County-Wide Appraisal District**

The Texas Tax Code (the "Tax Code") provides for county-wide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board responsible for appraising property for all taxable units within the county. The Travis Central Appraisal District (the "Appraisal District") is responsible for appraising property within the District, generally, as of January 1 of each year. The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board (the "Appraisal Review Board"), the members of which are appointed by the Board of Directors of the Appraisal District. Such appraisal rolls, as approved by the Appraisal Review Board, are used by the District in establishing its tax roll and tax rate.

Reference is made to the Tax Code, for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

### **Property Subject to Taxation by the District**

Except for certain exemptions provided by Texas law, all real and certain tangible personal property with a tax situs in the District is subject to taxation by the District. Principal categories of exempt property (including certain exemptions which are subject to local option by the Board of Trustees) include property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain improvements to real property and certain tangible personal property located in designated reinvestment zones on which the District has agreed to abate ad valorem taxes; certain household goods, family supplies and personal effects; farm products owned by the producers; certain property of a nonprofit corporation used in scientific research and educational activities benefiting a college or university; and designated historic sites. Other principal categories of exempt property include tangible personal property not held or used for production of income, solar and windpowered energy devices; most individually owned automobiles; \$10,000 exemption to residential homesteads of disabled persons or persons ages 65 or over; an exemption from \$5,000 to a maximum of \$12,000 for real or personal property of disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; in the case of a disabled veteran who receives a 100% disability compensation from the United States Department of Veterans Affairs or its successor due to a service-connected disability and a rating of 100% disabled or of individual un-employability, exemption from taxation of the total appraised value of the veteran's residence homestead; \$25,000 in market value for all residential homesteads; and certain classes of intangible property. In addition, except for increases attributable to certain improvements, the District is prohibited by State law from increasing the total ad valorem tax of the residence homestead of persons who are 65 years of age or older or disabled above the amount of tax imposed in the year such residence qualified for an exemption based on the age or disability of the owner; a "disabled" person is one who is "under a disability for purposes of payment of disability insurance benefits under the Federal Old Age, Survivors and Disability Insurance." The freeze on ad valorem taxes on the homesteads of persons who are 65 years of age or older and persons who are disabled is also transferable to a different



residence homestead. The surviving spouse of a deceased veteran who had received a disability rating of 100% are entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as (i) the taxpayer died in a year in which he qualified for the exemption, (ii) the surviving spouse was at least 55 years of age when the taxpayer died and (iii) the property was the residence homestead of the surviving spouse when the taxpayer died and the property remains the residence homestead of the surviving spouse. Pursuant to state law and a Constitutional amendment, taxes paid on the residence homestead of persons 65 years of age or over of disabled persons were reduced to correspond to reductions in local school district tax rates from the 2005 tax year to the 2006 tax year and from the 2006 tax year to the 2007 tax year. (See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Overview"). The school property tax limitation provided by the Constitutional amendment and enabling legislation apply to the 2007 and subsequent tax years.

Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for "freeport property," which is defined as goods detained in the state for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took action prior to April 1, 1990 may continue to tax freeport property and decisions to continue to tax Freeport property may be reversed in the future. However, decisions to exempt freeport property are not subject to reversal. Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit" is defined by Section 11.253 of the Tax Code, as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. Section 11.253 permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax "goods-in-transit" during the following tax year. A taxpayer may only receive either the freeport exemption or the "goods-in-transit" exemption for items of personal property.

A city may create, and a county may participate in a tax increment financing district ("TIF") within the city or county with defined boundaries and establish a base value of taxable property in the TIF at the time of its creation. Overlapping taxing units, including school districts, may agree with the city to contribute all or part of future ad valorem taxes levied and collected against the "incremental value" (taxable value in excess of the base value) of taxable real property in the TIF to pay or finance the costs of certain public improvements in the TIF, and such taxes levied and collected for and on behalf of the TIF are not available for general use by such contributing taxing units. Effective September 1, 2001, school districts may not enter into tax abatement agreements under the general statute that permits municipalities and counties to initiate tax abatement agreements. In addition, credit will not be given by the Commissioner of Education in determining a district's property value wealth per student for (1) the appraisal value, in excess of the "frozen" value, of property that is located in a tax increment financing zone created after May 31, 1999 (except in certain limited circumstances where the municipality creating the tax increment financing zone gave notice prior to May 31, 1999 to all other taxing units that levy ad valorem taxes in the zone of its intention to create the zone and the zone is created and has its final project and financing plan approved by the municipality prior to August 31, 1999) or (2) for the loss of value of abated property under any abatement agreement entered into after May 31, 1993. Notwithstanding the foregoing, in 2001 the Legislature enacted legislation known as the Texas Economic Development Act, which provides incentives for school districts to grant limitations on appraised property values and provide ad valorem tax credits to certain corporations and limited liability companies to encourage economic development within the district. Generally, during the last eight years of the ten-year term of a tax limitation agreement, the school district may only levy and collect ad valorem taxes for maintenance and operation purposes on the agreed-to limited appraised property value. The taxpayer is entitled to a tax credit from the school district for the amount of taxes imposed during the first two years of the tax limitation agreement on the appraised value of the property above the agreed-to limited value. Additional State funding is provided to a school district for each year of such tax limitation in the amount of the tax credit provided to the taxpayer. During the first two years of a tax limitation agreement, the school district may not adopt a tax rate that exceeds the district's rollback tax rate. (See "AD VALOREM TAX PROCEDURES – Public Hearing and Rollback Tax Rate").

See "APPENDIX A – Financial Information Regarding the District" and "THE TAX CODE AS APPLIED TO THE DISTRICT" for a schedule of exemptions allowed by the District.

### **Valuation of Property for Taxation**

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. In determining the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal or the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. Oil and gas reserves are appraised on the basis of pricing information contained in the most recently published Early Release Overview of the Annual Energy Outlook published by the United States Energy Information Administration (the "Annual Energy Outlook"), as well as appraisal formulas developed by the State Comptroller of Public Accounts. The appraisal of oil and gas reserves depends upon pricing information in either the standard edition of the Annual Energy Outlook or, if the most recently published edition of the Annual Energy Outlook was published before December 1 of the

preceding calendar year, the Short-Term Energy Outlook report published in January of the current calendar year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Tax Code are based on one hundred percent (100%) of market value, except as described below, and no assessment ratio can be applied.

State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence 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 residence homestead for a tax year to an amount not to exceed the lesser of (1) the property's market value in the most recent tax year in which the market value was determined by the Appraisal District or (2) the sum of (a) 10% of the property's appraised value for the preceding tax year, (b) the appraised value of the property for the preceding tax year; and (c) the market value of all new improvements to the property.

Article VIII of the Texas Constitution and the Tax Code permit land designated for agricultural use (Section 1-d), open space or timberland (Section 1-d-1) to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. Landowners wishing to avail themselves of the agricultural use designation must apply for the designation, and the appraiser is required by the Tax Code to act on each claimant's right to the designation individually. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes for previous years based on the new value, including three years for agricultural use and five years for agricultural open-space land and timberland prior to the loss of the designation. The same land may not be qualified under both Section 1-d and Section 1-d-1.

The Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three years. The District, at its expense, has the right to obtain from the Appraisal District a current estimate of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraisal values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the Appraisal District chooses to formally include such values on its appraisal roll.

### **Residential Homestead Exemption**

Under Section 1-b, Article VIII of the Texas Constitution and State law, the governing body of a political subdivision, at its option, may grant an exemption of not less than \$3,000 of the market value of the residence homestead of persons 65 years of age or older or the disabled from all ad valorem taxes thereafter levied by the political subdivision. Once authorized, such exemption may be repealed or decreased or increased in amount (i) by the governing body of the political subdivision or (ii) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than \$3,000 of the market value.

The surviving spouse of an individual who qualifies for the foregoing exemption for the residence homestead of a person 65 or older (but not the disabled) is entitled to an exemption for the same property in an amount equal to that of the exemption for which the deceased spouse qualified if (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse. In addition, the Texas Tax Code provides that a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. The surviving spouse of a deceased veteran who had received a disability rating of 100% is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries. A partially disabled veteran or the surviving spouse of a partially disabled veteran, if such spouse has not remarried since the death of the disabled veteran and the property was the residence homestead of the surviving spouse when the disabled veteran died and remains the residence homestead of the surviving spouse, is entitled to an exemption equal to the percentage of the veteran's disability, if the residence was donated to the disabled veteran by a charitable organization at no cost to the disabled veteran, or at some cost to the disabled veteran in the form of a cash payment, a mortgage, or both in an aggregate amount that is not more than 50% of the good faith estimate of the market value of the residence homestead made by the charitable organization as of the date the donation is made. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

Also, the surviving spouse of a member of the armed forces who is killed in action is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residences homestead, if the surviving spouse has not remarried since the

service member's death and said property was the service member's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

The surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residence homestead, if the surviving spouse has not remarried since the first responder's death and said property was the first responder's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

In addition to any other exemptions provided by the Tax Code, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of \$5,000. The governing body of a political subdivision is prohibited from repealing or reducing an optional homestead exemption that was in place for the 2014 tax year (fiscal year 2015) for a period ending December 31, 2019.

In the case of residence homestead exemptions granted under Section 1-b, Article VIII, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created.

Voters in the State approved a constitutional amendment on November 3, 2015 increasing the mandatory homestead exemption for school districts from \$15,000 to \$25,000, and requiring that the tax limitation for taxpayers who are age 65 and older or disabled be reduced to reflect the additional exemption.

### **District and Taxpayer Remedies**

Under certain circumstances, taxpayers and taxing units, including the District, may appeal orders of the Appraisal Review Board by filing a petition for review in district court within 45 days after notice is received that a final order has been entered. In such event, the property value in question may be determined by the court, or by a jury, if requested by any party, or through binding arbitration, if requested by the taxpayer. Additionally, taxing units may bring suit against the Appraisal District to compel compliance with the Tax Code.

### **Public Hearing and Rollback Tax Rate**

In setting its annual tax rate, the governing body of a school district generally cannot adopt a tax rate exceeding the district's "rollback tax rate" without approval by a majority of the voters voting at an election approving the higher rate. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service. The rollback tax rate for a school district is the lesser of (A) the sum of (1) the product of the district's "state compression percentage" for that year multiplied by \$1.50, (2) the rate of \$0.04, (3) any rate increases above the rollback tax rate in prior years that were approved by voters, and (4) the district's current debt rate, or (B) the sum of (1) the district's effective maintenance and operations tax rate, (2) the product of the district's state compression percentage for that year multiplied by \$0.06; and (3) the district's current debt rate (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Overview" for a description of the "state compression percentage"). If for the preceding tax year a district adopted a maintenance and operations tax rate that was less than its effective maintenance and operations tax rate for that preceding tax year, the district's rollback tax for the current year is calculated as if the district had adopted a maintenance and operations tax rate for the preceding tax year equal to its effective maintenance and operations tax rate for that preceding tax year.

The "effective maintenance and operations tax rate" for a school district is the tax rate that, applied to the current tax values, would provide local maintenance and operating funds, when added to state funds to be distributed to the district pursuant to Chapter 42 of the Texas Education Code for the school year beginning in the current tax year, in the same amount as would have been available to the district in the preceding year if the funding elements of wealth equalization and state funding for the current year had been in effect for the preceding year.

Section 26.05 of the Tax Code provides that the governing body of a taxing unit is required to adopt the annual tax rate for the unit before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the taxing unit, and a failure to adopt a tax rate by such required date will result in the tax rate for the taxing unit for the tax year to be the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the taxing unit for the preceding tax year. 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 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 district if the 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) and (d) 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 district delivers substantially all of its tax bills. Beginning September 1, 2009, a district may adopt its budget after adopting a tax rate for the tax year in which the fiscal year covered by the budget begins if the district elects to adopt its tax rate before receiving the certified appraisal roll. A 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.

### **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. Before the later of September 30 or the 60th day after the date that the certified appraisal roll is received by the District, the rate of taxation must be set by the Board of Trustees of the District based upon the valuation of property within the District as of the preceding January 1 and the amount required to be raised for debt service, maintenance purpose and authorized contractual obligations. 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 from six percent (6%) to twelve percent (12%) of the amount of the tax, depending on the time of payment, and accrues interest at the rate of one percent (1%) per month. If the tax is not paid by the following July 1, an additional penalty of up to twenty percent (20%) may under certain circumstances be imposed by the District. The Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date 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. The District has no lien for unpaid taxes on personal property but does have a lien for unpaid taxes upon real property, which lien is discharged upon payment. On January 1 of each year, such tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on the property. The District's tax lien is on a parity with the tax liens of other such taxing units. A tax lien on real property takes priority over the claims 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. 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. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

Except with respect to taxpayers who are 65 years of age or older, 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. A taxpayer who is 65 years of age or older or who is disabled may defer the collection of delinquent property taxes on his or her residence homestead and prevent the filing of a lawsuit to collect delinquent taxes until the 181st day after the taxpayer no longer owns and occupies the property as a residence homestead. However, taxes and interest continue to accrue against the property, and the delinquent taxes incur a penalty of 8% per annum with no additional penalties or interest assessed. The lien securing such taxes and interest remains in existence during the deferral or abatement period. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights, or by bankruptcy proceedings which restrict the collection of taxpayer debts.

## **THE TAX CODE AS APPLIED TO THE LAKE TRAVIS INDEPENDENT SCHOOL DISTRICT**

The Appraisal District has the responsibility for appraising property in the District as well as other taxing units in Travis County. The Appraisal District is governed by a board of nine directors appointed by voters of the governing bodies of various Travis County political subdivisions. In addition, the County Assessor also serves as a non-voting member of the Board of Directors. The District's taxes are collected by the Travis County Tax Assessor-Collector.

The District grants a state mandated \$25,000 general homestead exemption, and a 20% local optional homestead exemption.

The District grants a state mandated \$10,000 residence homestead exemption for persons 65 years of age or older or the disabled.

The District does not tax non-business personal property.

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 grant a freeport exemption.

The District has not elected to tax goods-in-transit for the 2011 tax year and beyond.

The District is not currently a participant in any Tax Increment Reinvestment Zone.

The District does not currently grant any tax abatements.

Charges for penalties and interest on the unpaid balance of delinquent taxes are as follows:

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

After July, penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, an additional penalty of 15% is assessed on July 1 in order to defray attorney collection expenses.

Property within the District is assessed as of January 1 of each year (except business inventories which may be assessed as of September 1 and mineral values which are assessed on the basis of a twelve month average) and taxes become due October 1 of the same year, or when filed, whichever comes later, and become delinquent on February 15 of the following year. Split payments of taxes are not permitted. Discounts for the early payment of taxes are not permitted.

### **EMPLOYEES BENEFIT PLAN**

The District’s employees participate in a retirement plan (the “Plan”) with the State. The Plan is administered by the Teacher Retirement System of Texas (“TRS”). State contributions are made to cover costs of the TRS retirement plan up to certain statutory limits. The District is obligated for a portion of TRS costs relating to employee salaries that exceed the statutory limit. For the year ended August 31, 2018, the State contributed \$1,995,785 to TRS on behalf of the District, District employees paid \$4,059,301 and other contributions (District, Federal and private grants) totaled \$1,434,482. As a result of its participation in TRS and having no other post-employment retirement benefit plans, the District has no obligations for other post-employment benefits within the meaning of Governmental Accounting Standards Board Statement No. 45. For a discussion of the TRS Plan, see “Note 12 – Defined Benefit Pension Plans” in the audited financial statements of the District that are attached hereto as Appendix C.

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

### **STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS**

#### **Litigation Relating to the Texas Public School Finance System**

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

On May 13, 2016, the Court issued its opinion in the most recent school finance litigation, *Morath v. The Texas Taxpayer & Student Fairness Coal.*, 490 S.W.3d 826 (Tex. 2016) (“*Morath*”). The plaintiffs and intervenors in the case had alleged that the Finance System, as modified by the Legislature in part in response to prior decisions of the Court, violated article VII, section 1 and article VIII, section 1-e of the Texas Constitution. In its opinion, the Court held that “[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 Litigation and Changes in Law on District Bonds**

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

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

## **CURRENT PUBLIC SCHOOL FINANCE SYSTEM**

### **Overview**

The following language constitutes only a summary of the 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 Texas Education Code, Chapters 41 through 46, as amended.

Funding for school districts in the State is provided primarily from State and local sources. State funding for all school districts is provided through a set of funding formulas comprising the “Foundation School Program,” as well as two facilities funding programs. Generally, the Finance System is designed to promote wealth equalization among school districts by balancing State and local sources of funds available to school districts. In particular, because districts with relatively high levels of property wealth per student can raise more local funding, such districts receive less State aid, and in some cases, are required to disburse local funds to equalize their overall funding relative to other school districts. Conversely, because districts with relatively low levels of property wealth per student have limited access to local funding, the Finance System is designed to provide more State funding to such districts. Thus, as a school district’s property wealth per student increases, State funding to the school district is reduced. As a school district’s property wealth per student declines, the Finance System is designed to increase that district’s State funding. The Finance System provides a similar equalization system for facilities funding wherein districts with the same tax rate for debt service raise the same amount of combined State and local funding. Facilities funding for debt incurred in prior years is expected to continue in future years; however, State funding for new school facilities has not been consistently appropriated by the Texas Legislature, as further described below.

Local funding is derived from collections of ad valorem taxes levied on property located within each district’s boundaries. School districts are authorized to levy two types of property taxes: a limited M&O tax to pay current expenses and an unlimited interest and sinking fund (“I&S”) tax to pay debt service on bonds. Generally, under current law, M&O tax rates are subject to a statutory maximum rate of \$1.17 per \$100 of taxable value for most school districts (although a few districts can exceed the \$1.17 limit as a result of authorization approved in the 1960s). Current law also requires school districts to demonstrate their ability to pay debt service on outstanding indebtedness through the levy of an ad valorem tax at a rate of not to exceed \$0.50 per \$100 of taxable

property at the time bonds are issued. Once bonds are issued, however, districts may levy a tax to pay debt service on such bonds unlimited as to rate or amount (see “TAX RATE LIMITATIONS” herein). As noted above, because property values vary widely among school districts, the amount of local funding generated by the same tax rate is also subject to wide variation among school districts.

### **Local Funding for School Districts**

The primary source of local funding for school districts is collections from ad valorem taxes levied against taxable property located in each school district. Prior to reform legislation that became effective during the 2006-2007 fiscal year (the “Reform Legislation”), the maximum M&O tax rate for most school districts was generally limited to \$1.50 per \$100 of taxable value. At the time the Reform Legislation was enacted, the majority of school districts were levying an M&O tax rate of \$1.50 per \$100 of taxable value. The Reform Legislation required each school district to “compress” its tax rate by an amount equal to the “State Compression Percentage”. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. For the 2018-19 State fiscal biennium, the State Compression Percentage has been 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. School districts are permitted, however, to generate additional local funds by raising their M&O tax rate by up to \$0.04 above the compressed tax rate without voter approval (for most districts, up to \$1.04 per \$100 of taxable value). In addition, if the voters approve a tax rate increase through a local referendum, districts may, in general, increase their M&O tax rate up to a maximum M&O tax rate of \$1.17 per \$100 of taxable value and receive State equalization funds for such taxing effort (see “AD VALOREM TAX PROCEDURES – Public Hearing and Rollback Tax Rate” herein). Elections authorizing the levy of M&O taxes held in certain school districts under older laws, however, may subject M&O tax rates in such districts to other limitations (see “TAX RATE LIMITATIONS” herein).

### **State Funding for School Districts**

State funding for school districts is provided through the Foundation School Program, which provides each school district with a minimum level of funding (a “Basic Allotment”) for each student in average daily attendance (“ADA”). The Basic Allotment is calculated for each school district using various weights and adjustments based on the number of students in average daily attendance and also varies depending on each district’s compressed tax rate. This Basic Allotment formula determines most of the allotments making up a district’s basic level of funding, referred to as “Tier One” of the Foundation School Program. The basic level of funding is then “enriched” with additional funds known as “Tier Two” of the Foundation School Program. Tier Two provides a guaranteed level of funding for each cent of local tax effort that exceeds the compressed tax rate (for most districts, M&O tax rates above \$1.00 per \$100 of taxable value). The 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. In 2017, the 85th Texas Legislature appropriated funds in the amount of \$1,378,500,000 for the 2018-19 State fiscal biennium 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 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. Tier One and Tier Two allotments and existing EDA and IFA allotments are generally required to be funded each year by the Texas Legislature. Since future-year IFA awards were not funded by the Texas Legislature for the 2018-19 State fiscal biennium and debt service assistance on school district bonds that are not yet eligible for EDA is not available, debt service on new bonds issued by districts to construct, acquire and improve facilities must be funded solely from local I&S taxes.

Tier One allotments are intended to provide all districts a basic level of education necessary to meet applicable legal standards. Tier Two allotments are intended to guarantee each school district that is not subject to the wealth transfer provisions described below an opportunity to supplement that basic program at a level of its own choice; however, Tier Two allotments may not be used for the payment of debt service or capital outlay.

As described above, the cost of the basic program is based on an allotment per student known as the “Basic Allotment”. For the 2018-19 State fiscal biennium, the Basic Allotment is \$5,140 for each student in average daily attendance. The Basic Allotment is then adjusted for all districts by several different weights to account for inherent differences between school districts. These weights consist of (i) a cost adjustment factor intended to address varying economic conditions that affect teacher hiring known as the “cost of education index”, (ii) district-size adjustments for small and mid-size districts, and (iii) an adjustment for the sparsity of the district’s student population. The cost of education index, district-size and population sparsity adjustments, as applied to the Basic Allotment, create what is referred to as the “Adjusted Allotment”. The Adjusted Allotment is used to compute a “regular program allotment”, as well as various other allotments associated with educating students with other specified educational needs.

Tier Two supplements the basic funding of Tier One and provides two levels of enrichment with different guaranteed yields (i.e., guaranteed levels of funding by the State) depending on the district's local tax effort. The first six cents of tax effort that exceeds the compressed tax rate (for most districts, M&O tax rates ranging from \$1.00 to \$1.06 per \$100 of taxable value) will, for most districts, generate the a guaranteed yield of \$99.41 and \$106.28 per cent per weighted student in average daily attendance ("WADA") in the 2017-18 and 2018-19 State fiscal years, respectively. The second level of Tier Two is generated by tax effort that exceeds the district's compressed tax rate plus six cents (for most districts eligible for this level of funding, M&O tax rates ranging from \$1.06 to \$1.17 per \$100 of taxable value) and has a guaranteed yield per cent per WADA of \$31.95 for the 2018-19 State fiscal biennium. Property-wealthy school districts that have an M&O tax rate that exceeds the district's compressed tax rate plus six cents are subject to recapture above this tax rate level at the equivalent wealth per student of \$319,500 (see "Wealth Transfer Provisions" below).

Previously, a district with a compressed tax rate below \$1.00 per \$100 of taxable value (known as a "fractionally funded district") received a Basic Allotment which was reduced proportionately to the degree that the district's compressed tax rate fell short of \$1.00. Beginning in the 2017-2018 fiscal year, the compressed tax rate of a fractionally funded district now includes the portion of such district's current M&O tax rate in excess of the first six cents above the district's compressed tax rate until the district's compressed tax rate is equal to the state maximum compressed tax rate of \$1.00. Thus, for fractionally funded districts, each eligible one cent of M&O tax levy above the district's compressed tax rate plus six cents will have a guaranteed yield based on Tier One funding instead of the Tier Two yield, thereby reducing the penalty against the Basic Allotment.

In addition to the operations funding components of the Foundation School Program discussed above, the Foundation School Program provides a facilities funding component consisting of the Instructional Facilities Allotment (IFA) program and the Existing Debt Allotment (EDA) program. These programs assist school districts in funding facilities by, generally, equalizing a district's I&S tax effort. The IFA guarantees each awarded school district a specified amount per student (the "IFA Guaranteed Yield") in State and local funds for each cent of tax effort to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The guaranteed yield per cent of local tax effort per student in ADA 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 the State Legislature allocates appropriated funds for new IFA awards, a school district must apply to the Commissioner in accordance with rules adopted by the Commissioner before issuing the bonds to be paid with IFA state assistance. The total amount of debt service assistance over a biennium for which a district may be awarded is limited to the lesser of (1) the actual debt service payments made by the 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 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. The 85th State Legislature did not appropriate any funds for new IFA awards for the 2018-2019 State fiscal biennium; 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") was the same as the IFA Guaranteed Yield (\$35 per cent of local tax effort per student in ADA). The 85th Texas Legislature changed the EDA Yield to the lesser of (i) \$40 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 districts would have been entitled to if the EDA Yield were \$35. The yield for the 2018-2019 fiscal year is approximately \$37. The portion of a district's local debt service rate that qualifies for EDA assistance is limited to the first 29 cents of debt service tax (or a greater amount for any year provided by appropriation by the Texas Legislature). In general, a district's bonds are eligible for EDA assistance if (i) the district made payments on the bonds during the final fiscal year of the preceding State fiscal biennium, or (ii) the 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 district may not receive EDA funding for the principal and interest on a series of otherwise eligible bonds for which the district receives IFA funding.

A district may also qualify for a NIFA allotment, which provides assistance to districts for operational expenses associated with opening new instructional facilities. The 85th Texas Legislature appropriated funds in the amount of \$23,750,000 for each of the 2017-18 and 2018-19 State fiscal years for NIFA allotments.

## **2006 Legislation**

Since the enactment of the Reform Legislation in 2006, most school districts in the State have operated with a "target" funding level per student ("Target Revenue") that is based upon the "hold harmless" principles embodied in the Reform Legislation. This system of Target Revenue was superimposed on the Foundation School Program and made existing funding formulas substantially less important for most school districts. The Reform Legislation was intended to lower M&O tax rates in order to give school districts "meaningful discretion" in setting their M&O tax rates, while holding school districts harmless by providing them with the same level of overall funding they received prior to the enactment of the Reform Legislation. To make up for this shortfall, the



Reform Legislation authorized Additional State Aid for Tax Reduction (“ASATR”) for each school district in an amount equal to the difference between the amount that each district would receive under the Foundation School Program and the amount of each district’s Target Revenue funding level. However, in subsequent legislative sessions, the Texas Legislature has gradually reduced the reliance on ASATR by increasing the funding formulas, and beginning with the 2017-18 school year, the statutes authorizing ASATR were repealed (eliminating revenue targets and ASATR funding).

### **2017 Legislation**

The 85th Texas Legislature, including the regular session which concluded on May 29, 2017 and the special session which concluded on August 15, 2017, did not enact substantive changes to the Finance System. However, certain bills during the regular session and House Bill 21, which was passed during the special session and signed by the Governor on August 16, 2017, revised certain aspects of the formulas used to determine school district entitlements under the Finance System. In addition to amounts previously discussed, the 85th Texas Legislature additionally appropriated funds to (i) establish a Financial Hardship Transition Program, which provides grants (“Hardship Grants”) to those districts which were heavily reliant on ASATR funding, and (ii) provide an Adjustment for Rapid Decline in Taxable Value of Property (“DPV Decline Adjustment”) for districts which experienced a decline in their tax base of more than four percent for tax years 2015 and 2016. A district may receive either a Hardship Grant or a DPV Decline Adjustment, but cannot receive both. In a case where a district would have been eligible to receive funding under both programs, the district will receive the greater of the two amounts.

### **2019 Legislative Session**

On January 8, 2019, the 86th Texas Legislature convened in general session, and is scheduled to adjourn on May 27, 2019. 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 Texas school finance. 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.

### **Wealth Transfer Provisions**

Some districts have sufficient property wealth per student in WADA (“wealth per student”) to generate their statutory level of funding through collections of local property taxes alone. Districts whose wealth per student generates local property tax collections in excess of their statutory level of funding are referred to as “Chapter 41” districts because they are subject to the wealth equalization provisions contained in Chapter 41 of the Texas Education Code. Chapter 41 districts may receive State funds for certain competitive grants and a few programs that remain outside the Foundation School Program. Otherwise, Chapter 41 districts are not eligible to receive State funding. Furthermore, Chapter 41 districts must exercise certain options in order to reduce their wealth level to equalized wealth levels of funding, as determined by formulas set forth in the Reform Legislation. For most Chapter 41 districts, this equalization process entails paying the portion of the district’s local taxes collected in excess of the equalized wealth levels of funding to the State (for redistribution to other school districts) or directly to other school districts with a wealth per student that does not generate local funds sufficient to meet the statutory level of funding; a process known as “recapture”.

The equalized wealth levels that subject Chapter 41 districts to recapture for the 2018-2019 State fiscal biennium are set at (i) \$514,000 per student in WADA with respect to that portion of a district’s M&O tax effort that does not exceed its compressed tax rate (for most districts, the first \$1.00 per \$100 of taxable value) and (ii) \$319,500 per WADA with respect to that portion of a district’s M&O tax effort that is beyond its compressed rate plus \$.06 (for most districts, M&O taxes levied above \$1.06 per \$100 in taxable value). So long as the State’s equalization program under Chapter 42 of the Texas Education Code is funded to provide tax revenue equivalent to that raised by the Austin Independent School District on the first six pennies of tax effort that exceed the compressed tax rate, then M&O taxes levied above \$1.00 but at or below \$1.06 per \$100 of taxable value (“Golden Pennies”) are not subject to the wealth equalization provisions of Chapter 41. Because funding at the Austin Independent School District level is currently being provided to school districts under Chapter 42 of the Texas Education Code, no recapture is currently associated with the Golden Pennies. Chapter 41 districts with a wealth per student above the lower equalized wealth level but below the higher equalized wealth level must equalize their wealth only with respect to the portion of their M&O tax rate, if any, in excess of \$1.06 per \$100 of taxable value.

Under Chapter 41, a district has five options to reduce its wealth per student so that it does not exceed the equalized wealth levels: (1) a district may consolidate by agreement with one or more districts to form a consolidated district; all property and debt of the consolidating districts vest in the consolidated district; (2) a district may detach property from its territory for annexation by a property-poor district; (3) a district may purchase attendance credits from the State; (4) a district may contract to educate nonresident students from a property-poor district by sending money directly to one or more property-poor districts; or (5) a district may consolidate by agreement with one or more districts to form a consolidated taxing district solely to levy and distribute

either M&O taxes or both M&O taxes and I&S taxes. A Chapter 41 district may also exercise any combination of these remedies. Options (3), (4) and (5) require prior approval by the transferring district's voters.

A district may not adopt a tax rate until its effective wealth per student is at or below the equalized wealth level. If a district fails to exercise a permitted option, the Commissioner must reduce the district's property wealth per student to the equalized wealth level by detaching certain types of property from the district and annexing the property to a property-poor district or, if necessary, consolidate the district with a property-poor district. Provisions governing detachment and annexation of taxable property by the Commissioner do not provide for assumption of any of the transferring district's existing debt. The Commissioner has not been required to detach property in the absence of a district failing to select another wealth-equalization option.

### **The School Finance System as Applied to the District**

The District's wealth per student for the 2018-19 school year is more than the equalized wealth value. Accordingly, the District has been required to exercise one of the permitted wealth equalization options. As a District with wealth per student in excess of the equalized wealth value, the District has reduced its wealth per student by sending payments directly to the State to purchase weighted average daily attendance credits (Option 3) under Chapter 41, Texas Education Code for the purpose of achieving property wealth equalization. As a so-called "Chapter 41 district", the District does not receive EDA, IFA, or NIFA to pay debt service requirements on its outstanding indebtedness, including the Bonds. For a detailed discussion of State funding for school districts, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for Local School Districts." The District's wealth equalization agreements have been approved by the Texas Education Agency.

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

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

*The District has made application to the Texas Education Agency (the "TEA") for a Permanent School Fund Guarantee of the Bonds and has received conditional approval for the Bonds to be guaranteed under the Guarantee Program (as defined and described below). The information below concerning the Permanent School Fund and the Guarantee Program for School District Bonds has been provided by the TEA 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 authorized to manage the investments of the capital gains, royalties and other investment income relating to the land endowment. The SLB is a three member board, the membership of which consists of the Commissioner of the Texas General Land Office (the “Land Commissioner”) and two citizen members, one appointed by the Governor and one by the Texas Attorney General (the “Attorney General”). As of August 31, 2018, the General Land Office (the “GLO”) managed approximately 23% of the PSF, as reflected in the fund balance of the PSF at that date.

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

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

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

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

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

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

Audited financial information for the PSF is provided annually through the PSF Comprehensive Annual Financial Report (the “Annual Report”), which is filed with the Municipal Securities Rulemaking Board (“MSRB”). The Annual Report includes the Message of the Executive Administrator of the Fund (the “Message”) and the Management’s Discussion and Analysis (“MD&A”). The Annual Report for the year ended August 31, 2018, as filed with the MSRB in accordance with the PSF undertaking and agreement made in accordance with Rule 15c2-12 (“Rule 15c2-12”) of the federal Securities and Exchange Commission (the “SEC”), as described below, is hereby incorporated by reference into this disclosure. Information included herein for the year ended August 31, 2018 is derived from the audited financial statements of the PSF, which are included in the Annual Report when it is filed and posted. Reference is made to the Annual Report for the complete Message and MD&A for the year ended August 31, 2018 and for a description of the financial results of the PSF for the year ended August 31, 2018, the most recent year for which audited financial information regarding the Fund is available. The 2018 Annual Report speaks only as of its date and the

TEA has not obligated itself to update the 2018 Annual Report or any other Annual Report. The TEA posts each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, the most recent disclosure for the Guarantee Program, the Statement of Investment Objectives, Policies and Guidelines of the Texas Permanent School Fund, which is codified at 19 Texas Administrative Code, Chapter 33 (the “Investment Policy”), monthly updates with respect to the capacity of the Guarantee Program (collectively, the “Web Site Materials”) on the TEA web site at [http://tea.texas.gov/Finance\\_and\\_Grants/Permanent\\_School\\_Fund/](http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/) and with the MSRB at [www.emma.msrb.org](http://www.emma.msrb.org). Such monthly updates regarding the Guarantee Program are also incorporated herein and made a part hereof for all purposes. In addition to the Web Site Materials, the Fund is required to make quarterly filings with the SEC under Section 13(f) of the Securities Exchange Act of 1934. Such filings, which consist of a list of the Fund’s holdings of securities specified in Section 13(f), including exchange-traded (e.g., NYSE) or NASDAQ-quoted stocks, equity options and warrants, shares of closed-end investment companies and certain convertible debt securities, is available from the SEC at [www.sec.gov/edgar.shtml](http://www.sec.gov/edgar.shtml). A list of the Fund’s equity and fixed income holdings as of August 31 of each year is posted to the TEA web site and filed with the MSRB. Such list excludes holdings in the Fund’s securities lending program. Such list, as filed, is incorporated herein and made a part hereof for all purposes.

## **2019 Texas Legislative Session**

The Texas Legislature commenced its 86th Regular Legislative Session on January 8, 2019, and that session (the “86th Session”) must conclude by May 28, 2019. During the 86th Session, legislation potentially affecting the Fund and the Guarantee Program may be introduced, but TEA is unable to predict whether any such legislation will be enacted during the 86th Session.

## **The Total Return Constitutional Amendment**

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

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

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

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

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

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

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

In accordance with the Texas Constitution, the SBOE views the PSF as a perpetual institution, and the Fund is managed as an endowment fund with a long-term investment horizon. Under the total-return investment objective, the Investment Policy provides that the PSF shall be managed consistently with respect to the following: generating income for the benefit of the public free schools of Texas, the real growth of the corpus of the PSF, protecting capital, and balancing the needs of present and future generations of Texas school children. As described above, the Total Return Constitutional Amendment restricts the annual 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 three-member SLB, which consists of the elected Commissioner of the GLO, an appointee of the Governor, and an appointee of the Attorney General. Administrative duties related to the land and mineral rights reside with the GLO, which is under the guidance of the Commissioner of the GLO. In 2007, the Legislature established the real estate special fund account of the PSF (the "Real Estate Account") consisting of proceeds and revenue from land, mineral or royalty interest, real estate investment, or other interest, including revenue received from those sources, that is set apart to the PSF under the Texas Constitution and laws, together with the mineral estate in riverbeds, channels, and the tidelands, including islands. The investment of the Real Estate Account is subject to the sole and exclusive management and control of the SLB and the Land Commissioner, who is also the head of the GLO. The 2007 legislation presented constitutional questions regarding the respective roles of the SBOE and the SLB relating to the disposition of proceeds of real estate transactions to the ASF, among other questions. Amounts in the investment portfolio of the PSF are taken into account by the SBOE for purposes of determining the Distribution Rate. An amendment to the Texas Constitution was approved by State voters on November 8, 2011, which permits the SLB to make transfers directly to the ASF, see "2011 Constitutional Amendment" below.

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

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

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

The capacity of the Fund to guarantee bonds under the Guarantee Program is limited in two ways: by State law (the "State Capacity Limit") and by regulations and a notice issued by the IRS (the "IRS Limit"). Prior to May 20, 2003, the State Capacity Limit was equal to two times the lower of cost or fair market value of the Fund's assets, exclusive of real estate. During the 78th Regular Session of the Legislature in 2003, legislation was enacted that increased the State Capacity Limit by 25%, to two and one

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

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

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

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

At its September 2015 meeting, the SBOE voted to modify the SDBGP Rules and the CDBGP Rules to increase the State Law Capacity from 3 times the cost value multiplier to 3.25 times. At that meeting, the SBOE also approved a new 5% capacity reserve for the Charter District Bond Guarantee Program. The change to the State Law Capacity became effective on February 1, 2016. At its November 2016 meeting, the SBOE again voted to increase the State Law Capacity and, in accordance with applicable requirements for the modification of SDBGP and CDBGP Rules, a second and final vote to approve the increase in the State Law Capacity occurred on February 3, 2017. As a result, the State Law Capacity increased from 3.25 times the cost value multiplier to 3.50 times effective March 1, 2017 and increased again to 3.75 times effective September 1, 2017; however, as described under "2017 Legislative Changes to the Charter District Bond Guarantee Program," the SBOE took action at its Winter 2018 meeting to rollback of a portion of the multiplier increase, which became effective in late March 2018. Based upon the cost basis of the Fund at August 31, 2018, the State Law Capacity increased from \$111,568,711,072 on August 31, 2017 to \$118,511,255,268 on August 31, 2018 (but at such date the IRS Limit was lower, \$117,318,653,038, so it is the currently effective capacity limit for the Fund).

Since July 1991, when the SBOE amended the Guarantee Program Rules to broaden the range of bonds that are eligible for guarantee under the Guarantee Program to encompass most Texas school district bonds, the principal amount of bonds guaranteed under the Guarantee Program has increased sharply. In addition, in recent years a number of factors have caused an increase in the amount of bonds issued by school districts in the State. See the table "Permanent School Fund Guaranteed Bonds" below. Effective September 1, 2009, the Act provides that the SBOE may annually establish a percentage of the cost value of the Fund to be reserved from use in guaranteeing bonds. The capacity of the Guarantee Program in excess of any reserved portion is referred to herein as the "Capacity Reserve." The SDBGP Rules provide for a minimum Capacity Reserve for the overall Guarantee Program of no less than 5%, and provide that the amount of the Capacity Reserve may be increased by a majority vote of the SBOE. The CDBGP Rules provide for an additional 5% reserve of CDBGP capacity. The Commissioner is authorized to change

the Capacity Reserve, which decision must be ratified or rejected by the SBOE at its next meeting following any change made by the Commissioner. The current Capacity Reserve is noted in the monthly updates with respect to the capacity of the Guarantee Program on the TEA web site at [http://tea.texas.gov/Finance\\_and\\_Grants/Permanent\\_School\\_Fund/](http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/), which are also filed with the MSRB.

Based upon historical performance of the Fund, the legal restrictions relating to the amount of bonds that may be guaranteed has generally resulted in a lower ratio of guaranteed bonds to available assets as compared to many other types of credit enhancements that may be available for Texas school district bonds and charter district bonds. However, 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, 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, among other factors, could adversely affect the ratio of Fund assets to guaranteed bonds and the growth of the Fund in general. It is anticipated that the issuance of the IRS Notice and the Proposed IRS Regulations will likely result in a substantial increase in the amount of bonds guaranteed under the Guarantee Program. The implementation of the Charter School Bond Guarantee Program is also expected to increase the amount of guaranteed bonds.

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

### **The School District Bond Guarantee Program**

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

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

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

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

Generally, the SDBGP Rules limit guarantees to certain types of notes and bonds, including, with respect to refunding bonds issued by school districts, a requirement that the bonds produce debt service savings, and that bonds issued for capital facilities of school districts must have been voted as unlimited tax debt of the issuing district. The Guarantee Program Rules include certain accreditation criteria for districts applying for a guarantee of their bonds, and limit guarantees to districts that have less than the



amount of annual debt service per average daily attendance that represents the 90th percentile of annual debt service per average daily attendance for all school districts, but such limitation will not apply to school districts that have enrollment growth of at least 25% over the previous five school years. The SDBGP Rules are codified in the Texas Administrative Code at 19 TAC section 33.65, and are available at <http://ritter.tea.state.tx.us/rules/tac/chapter033/ch033a.html#33.65>.

### **Charter District Bond Guarantee Program**

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

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

As of February 21, 2018 (the most recent date for which data is available), the percentage of students enrolled in open-enrollment charter schools (excluding charter schools authorized by school districts) to the total State scholastic census was approximately 5.5%. As of January 23, 2019, there were 181 active open-enrollment charter schools in the State and there were 762 charter school campuses operating under such charters (though as of such date, eight of such campuses have not begun serving students for various reasons). Section 12.101, Texas Education Code, as amended by the Legislature in 2013, limits the number of charters that the Commissioner may grant to 215 charters as of the end of fiscal year 2014, with the number increasing in each fiscal year thereafter through 2019 to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see "Capacity Limits for the Guarantee Program." The Act provides that the Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

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

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

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

The CDBGP Rules provide that an open-enrollment charter holder applying for charter district designation and a guarantee of its bonds under the Charter District Bond Guarantee Program satisfy various provisions of the regulations, including the following: It must (i) have operated at least one open-enrollment charter school with enrolled students in the State for at least three years; (ii) agree that the bonded indebtedness for which the guarantee is sought will be undertaken as an obligation of all entities under common control of the open-enrollment charter holder, and that all such entities will be liable for the obligation if the open-enrollment charter holder defaults on the bonded indebtedness, provided, however, that an entity that does not operate a charter school in Texas is subject to this provision only to the extent it has received state funds from the open-enrollment charter holder; (iii) have had completed for the past three years an audit for each such year that included unqualified or unmodified audit opinions; and (iv) have received an investment grade credit rating within the last year. Upon receipt of an application for guarantee under the Charter District Bond Guarantee Program, the Commissioner is required to conduct an investigation into the financial status of the applicant charter district and of the accreditation status of all open-enrollment charter schools operated under the charter, within the scope set forth in the CDBGP Rules. Such financial investigation must establish that an applying charter district has a historical debt service coverage ratio, based on annual debt service, of at least 1.1 for the most recently completed fiscal year, and a projected debt service coverage ratio, based on projected revenues and expenses and maximum annual debt service, of at least 1.2. The failure of an open-enrollment charter holder to comply with the Act or the applicable regulations, including by making any material misrepresentations in the charter holder's application for charter district designation or guarantee under the Charter District Bond Guarantee Program, constitutes a material violation of the open-enrollment charter holder's charter.

Beginning in July 2015, TEA began limiting new guarantees under the Charter District Bond Guarantee Program to conform to the Act and, subsequently, with CDBGP Rules that require the maintenance of a capacity reserve for the Charter District Bond Guarantee Program. Following the increase in the Program multiplier in February 2016 and the update of the percentage of students enrolled in open-enrollment charter schools to the total State scholastic census in March 2016, some new capacity became available under the Charter District Bond Guarantee Program, but that capacity was quickly exhausted. In accordance with the action of the SBOE on February 3, 2017, additional capacity for the Charter District Bond Guarantee Program became effective in two increments, implemented on March 1, 2017 and on September 1, 2017 (as described under "2017 Legislative Changes to the Charter District Bond Guarantee Program," an item to reverse the September 1, 2017 increase in the Program multiplier was approved by the SBOE at its Winter 2018 meeting). In addition, legislation enacted during the Legislature's 2017 regular session modifies the manner of calculating the capacity of the Charter District Bond Guarantee Program (the "CDBGP Capacity"), which further increases the amount of the CDBGP Capacity, beginning with State fiscal year 2018, but that provision of the law does not increase overall Program capacity, it merely allocates capacity between the School District Bond Guarantee Program and the Charter District Bond Guarantee Program. See "Capacity Limits for the Guarantee Program" and "2017 Legislative Changes to the Charter District Bond Guarantee Program." Other factors that could increase the CDBGP Capacity include Fund investment performance, future increases in the Guarantee Program multiplier, changes in State law that govern the calculation of the CDBGP Capacity, as described below, growth in the relative percentage of students enrolled in open-enrollment charter schools to the total State scholastic census, legislative and administrative changes in funding for charter districts, changes in level of school district or charter district participation in the Program, or a combination of such circumstances.

### **2017 Legislative Changes to the Charter District Bond Guarantee Program**

The CDBGP Capacity is established by the Act. During the 85th Texas Legislature, which concluded on May 29, 2017, Senate Bill 1480 ("SB 1480") was enacted. The complete text of SB 1480 can be found at <http://www.capitol.state.tx.us/tlodocs/85R/billtext/pdf/SB01480F.pdf#navpanes=0>. SB 1480 modified how the CDBGP Capacity will be established under the Act effective as of September 1, 2017, and made other substantive changes to the Act that affects the Charter District Bond Guarantee Program. Prior to the enactment of SB 1480, the CDBGP Capacity was calculated as the State Capacity Limit less the amount of outstanding bond guarantees under the Guarantee Program multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population. As of December 31, 2018, the amount of outstanding bond guarantees represented 68.97% of the IRS Limit (which is currently the applicable capacity limit) for the Guarantee Program (based on unaudited data). SB 1480 amended the CDBGP Capacity calculation so that the State Capacity Limit is multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population prior to the subtraction of the outstanding bond guarantees, thereby potentially substantially increasing the CDBGP Capacity. However, certain provisions of SB 1480, described below, and other additional factors described herein, could result in less than the maximum amount of the potential increase provided by SB 1480 being implemented by the SBOE or otherwise used by charter districts. Still other factors used in determining the CDBGP Capacity, such as the percentage of the charter district

scholastic population to the overall public school scholastic population, could, in and of itself, increase the CDBGP Capacity, as that percentage has grown from 3.53% in September, 2012 to 5.50% in December 2018, representing a cumulative growth during that period of 1.97%. TEA is unable to predict how the ratio of charter district students to the total State scholastic population will change over time.

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

Taking into account the enactment of SB 1480 and the increase in the CDBGP Capacity effected thereby, at Winter 2018 meeting the SBOE approved the second of two required readings amending the SDBGP Rules to rollback the multiplier from 3.75 times market value to 3.50 times, and the rollback became effective in late March 2018.

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

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the "Charter District Reserve Fund"). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10 percent of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20 percent of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However, the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to three percent (3.00%) of the total amount of outstanding guaranteed bonds issued by charter districts. As of December 31, 2018, the Charter District Reserve Fund represented approximately 00.85% of the guaranteed charter district bonds. SB 1480 also authorized the SBOE to manage the Charter District Reserve Fund in the same manner as it manages the PSF. Previously, the Charter District Reserve Fund was held by the Comptroller, but effective April 1 2018, the management of the Reserve Fund was transferred to the PSF division of TEA, where it will be held and invested as a non-commingled fund under the administration of the PSF staff.

### **Charter District Risk Factors**

Open-enrollment charter schools in the State may not charge tuition and, unlike school districts, charter districts have no taxing power. Funding for charter district operations is largely from amounts appropriated by the Legislature. The amount of such State

payments a charter district receives is based on a variety of factors, including the enrollment at the schools operated by a charter district. The overall amount of education aid provided by the State for charter schools in any year is also subject to appropriation by the Legislature. The Legislature may base its decisions about appropriations for charter schools on many factors, including the State's economic performance. Further, because some public officials, their constituents, commentators and others have viewed charter schools as controversial, political factors may also come to bear on charter school funding, and such factors are subject to change.

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

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

As described above, the Act includes a funding "intercept" function that applies to both the School District Bond Guarantee Program and the Charter District Bond Guarantee Program. However, school districts are viewed as the "educator of last resort" for students residing in the geographical territory of the district, which makes it unlikely that State funding for those school districts would be discontinued, although the TEA can require the dissolution and merger into another school district if necessary to ensure sound education and financial management of a school district. That is not the case with a charter district, however, and open-enrollment charter schools in the State have been dissolved by TEA from time to time. If a charter district that has bonds outstanding that are guaranteed by the Charter District Bond Guarantee Program should be dissolved, debt service on guaranteed bonds of the district would continue to be paid to bondholders in accordance with the Charter District Bond Guarantee Program, but there would be no funding available for reimbursement of the PSF by the Comptroller for such payments. As described under "The Charter District Bond Guarantee Program," the Act establishes a Charter District Reserve Fund, which could in the future be a significant reimbursement resource for the PSF. At December 31, 2018, the Charter District Reserve Fund contained \$14,379,807.

### **Potential Impact of Hurricane Harvey on the PSF**

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

The TEA, members of the Legislature and the Governor, among others, have stated that they are developing programs to provide financial assistance to affected school districts and charter districts, particularly with regard to funding assistance for facility repairs and construction and to offset tax base and/or revenue loss to affected districts. The composition of any final programs that may be implemented cannot be predicted, and are likely to be subject to future State legislative and administrative actions, available amounts of federal and private disaster relief for affected schools, and other factors. For fiscal year 2018, TEA initiated programs designed to hold school districts and charter districts harmless for the loss of State funding associated with declines in average daily attendance. In the past, storm damage has caused multiple year impacts to affected schools with respect to both attendance figures and tax base (for school districts). In June 2018 TEA received results of a survey of tax appraisal districts in

the area affected by the hurricane with respect to the impact of the hurricane on the tax rolls of affected school districts. In aggregate, the tax rolls of affected districts appear to have increased slightly for fiscal 2018 over 2017, but the increases were at a lower rate than had been anticipated in the State’s general appropriation act for the biennium. TEA notes that as of June 2018 the negative effect of the hurricane on the average daily attendance of districts in the affected area appears to have been less than TEA had initially anticipated.

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

### Ratings of Bonds Guaranteed Under the Guarantee Program

Moody’s Investors Service, 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 “RATINGS” herein.

### Valuation of the PSF and Guaranteed Bonds

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

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

<sup>(2)</sup> At August 31, 2018, mineral assets, sovereign and other lands and internally managed discretionary real estate, external discretionary real estate investments, domestic equities, and cash managed by the SLB had book values of approximately \$13.4 million, \$238.8 million, \$2,983.3 million, \$7.5 million, and \$4,247.3 million, respectively, and market values of approximately \$2,022.8 million, \$661.1 million, \$3,126.7 million, \$4.2 million, and \$4,247.3 million, respectively. At December 31, 2018, the PSF had a book value of \$34,294,290,975 and a market value of \$42,053,979,467. December 31, 2018 values are based on unaudited data, which is subject to adjustment.

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

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

<sup>(2)</sup> As of August 31, 2018 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts over the remaining life of the bonds guaranteed by the Guarantee Program was \$126,346,333,815, of which \$47,265,432,746 represents interest to be paid. As shown in the table above, at August 31, 2018, there were \$79,080,901,069 in principal amount of bonds guaranteed under the Guarantee Program, and using the IRS Limit at

that date of \$117,318,653,038 (the IRS Limit is currently the lower of the two federal and State capacity limits of Program capacity), 97.35% of Program capacity was available to the School District Bond Guarantee Program and 2.65% was available to the Charter District Bond Guarantee Program.

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

	<u>School District Bonds</u>		<u>Charter District Bonds</u>		<u>Totals</u>	
	Number of Issues	Principal Amount Guaranteed	Number of Issues	Principal Amount Guaranteed	Number Of Issues	Principal Amount Guaranteed
At 8/31						
2014 <sup>(2)</sup>	2,869	\$58,061,805,783	10	\$302,545,000	2,879	\$58,364,350,783
2015	3,089	63,197,514,047	28	757,935,000	3,117	63,955,449,047
2016	3,244	67,342,303,445	35	961,025,000	3,279	68,303,328,445
2017	3,253	72,884,480,023	40	1,381,610,000	3,293	74,266,090,023
2018 <sup>(3)</sup>	3,249	77,647,966,069	44	1,432,935,000	3,293	79,080,901,069

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

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

<sup>(3)</sup> At December 31, 2018 (based on unaudited data, which is subject to adjustment), there were \$80,917,388,559 of bonds guaranteed under the Guarantee Program, representing 3,290 school district issues, aggregating \$79,217,608,559 in principal amount and 46 charter district issues, aggregating \$1,699,780,000 in principal amount. At December 31, 2018, the capacity allocation of the Charter District Bond Guarantee Program was \$3,109,688,908 (based on unaudited data, which is subject to adjustment).

**Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2018**

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

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

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

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

The PSF(SLB) portfolio is generally characterized by three broad categories: (1) discretionary real assets investments, (2) sovereign and other lands, and (3) mineral interests. Discretionary real assets investments consist of externally managed real

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

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

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

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

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

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

## **2011 Constitutional Amendment**

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

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

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

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

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

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

#### **Other Events and Disclosures**

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

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

Since 2007, TEA has made supplemental appropriation requests to the Legislature for the purpose of funding the implementation of the 2008 Asset Allocation Policy, but those requests have been denied or partly funded. In the 2011 legislative session, the Legislature approved an increase of 31 positions in the full-time equivalent employees for the administration of the Fund, which was funded as part of an \$18 million appropriation for each year of the 2012-13 biennium, in addition to the operational appropriation of \$11 million for each year of the biennium. The TEA has begun increasing the PSF administrative staff in accordance with the 2011 legislative appropriation, and the TEA received an appropriation of \$30.2 million for the administration of the PSF for fiscal years 2016 and 2017, respectively, and \$30.4 million for each of the fiscal years 2018 and 2019.

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

#### **PSF Continuing Disclosure Undertaking**

The SBOE has adopted an investment policy rule (the "TEA Rule") pertaining to the PSF and the Guarantee Program. The TEA Rule is codified in Section I of the TEA Investment Procedure Manual, which relates to the Guarantee Program and is posted to



the TEA web site at [http://tea.texas.gov/Finance\\_and\\_Grants/Texas\\_Permanent\\_School\\_Fund/Texas\\_Permanent\\_School\\_Fund\\_Disclosure\\_Statement\\_-\\_Bond\\_Guarantee\\_Program/](http://tea.texas.gov/Finance_and_Grants/Texas_Permanent_School_Fund/Texas_Permanent_School_Fund_Disclosure_Statement_-_Bond_Guarantee_Program/). The most recent amendment to the TEA Rule was adopted by the SBOE on November 16, 2018, 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 15c-12 to make all disclosures and filings relating directly to guaranteed bonds, and the TEA takes no responsibility with respect to such undertakings. Under the TEA agreement, the TEA will be obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to the MSRB.

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

### **Annual Reports**

The TEA will annually provide certain updated financial information and operating data to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the Guarantee Program and the PSF of the general type included in this Official Statement under the heading “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.” The information also includes the Annual Report. The TEA will update and provide this information within six months after the end of each fiscal year.

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

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

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

### **Event Notices**

The TEA will also provide timely notices of certain events to the MSRB. Such notices will be provided not more than ten business days after the occurrence of the event. The TEA will provide notice of any of the following events with respect to the Guarantee Program: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if such event is material within the meaning of the federal securities laws; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt status of the Guarantee Program, or other material events affecting the tax status of the Guarantee Program; (7) modifications to rights of holders of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (8) bond calls, if such event is material within the meaning of the federal securities laws, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the Guarantee Program (which is considered to occur when any of the following occur: the appointment of a

receiver, fiscal agent, or similar officer for the Guarantee Program in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Guarantee Program, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Guarantee Program); (13) the consummation of a merger, consolidation, or acquisition involving the Guarantee Program or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) the appointment of a successor or additional trustee with respect to the Guarantee Program or the change of name of a trustee, if such event is material within the meaning of the federal securities laws; (15) the incurrence of a financial obligation of the Guarantee Program, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Program, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Guarantee Program, any of which reflect financial difficulties. (Neither the Act nor any other law, regulation or instrument pertaining to the Guarantee Program make any provision with respect to the Guarantee Program for bond calls, debt service reserves, credit enhancement, liquidity enhancement, early redemption or the appointment of a trustee with respect to the Guarantee Program.) In addition, the TEA will provide timely notice of any failure by the TEA to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.”

### **Availability of Information**

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

### **Limitations and Amendments**

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

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

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

### **Compliance with Prior Undertakings**

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

## **SEC Exemptive Relief**

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

## **TAX RATE LIMITATIONS**

A school district is authorized to levy maintenance and operation (“M&O”) taxes subject to approval of a proposition submitted to district voters. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the next succeeding paragraphs. The maximum voted M&O tax rate for the District is \$1.50 per \$100 of assessed valuation as approved by the voters at an election held on October 24, 1981 pursuant to the provisions of Chapter 20, Texas Education Code, now codified as Section 45.003, Texas Education Code.

The maximum tax rate per \$100 of assessed valuation that may be adopted by the District may not exceed the lesser of (A) \$1.50 and (B) the sum of (1) the rate of \$0.17, and (2) the product of the “State Compression Percentage” multiplied by \$1.50. The State Compression Percentage has been set, and will remain, at 66.67% for the 2018-19 State Fiscal biennium. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. For a more detailed description of the State Compression Percentage, see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Local Funding for School Districts.” Furthermore, a school district cannot annually increase its tax rate in excess of the district's “rollback tax rate” without submitting such tax rate to a referendum election and a majority of the voters voting at such election approving the adopted rate. See “AD VALOREM TAX PROCEDURES – Public Hearing and Rollback Tax Rate” and “Appendix A – Table 3 – Tax Rate Distribution.”

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 “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS” and “THE BONDS – Security”).

Chapter 45 of the Texas Education Code, as amended, requires a district to demonstrate to the Texas Attorney General that it has the prospective ability to pay debt service on a proposed issue of bonds, together with debt service on other outstanding “new debt” of the district, from a tax levied at a rate of \$0.50 per \$100 of assessed valuation before bonds may be issued. In demonstrating the ability to pay debt service at a rate of \$0.50, a district may take into account State allotments to the district which effectively reduce the district’s local share of debt service. Once the prospective ability to pay such tax has been shown and the bonds are issued, a district may levy an unlimited tax to pay debt service. Taxes levied to pay debt service on bonds approved by district voters at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds) are not subject to the foregoing threshold tax rate test. In addition, taxes levied to pay “refunding” bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the \$0.50 tax rate test; however, taxes levied to pay debt service on such bonds are included in the calculation of the \$0.50 tax rate test as applied to subsequent issues of “new debt.” The Bonds are being issued as “new debt” under Chapter 45, Texas Education Code, as amended, and are therefore subject to the \$0.50 threshold tax rate test. Under current law, a district may demonstrate its ability to comply with the \$0.50 threshold tax rate test by applying the \$0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a district uses projected future taxable values to meet the \$0.50 threshold tax rate test and subsequently imposes a tax rate greater than \$0.50 per \$100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Attorney General must find that the district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the \$0.50 threshold tax rate test from a tax rate of \$0.45 per \$100 of valuation. The District has not used projected property values to satisfy this threshold test.

## **RATINGS**

The Bonds have been assigned ratings of “AAA” by S&P Global Ratings (“S&P”) and “AAA” by Fitch Ratings, Inc. (“Fitch”), by virtue of the Guarantee of the Permanent School Fund of the State of Texas. The presently outstanding unenhanced tax-supported debt of the District is rated “AA+” and “AA+” by S&P and Fitch, respectively (see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).

An explanation of the significance of such ratings may be obtained from S&P and Fitch. The rating of the Bonds by S&P and Fitch reflect only the views of said companies at the time the ratings are given, and the District makes no representations as to the appropriateness of the ratings. There is no assurance that the ratings will continue for any given period of time, or that the ratings will not be revised downward or withdrawn entirely by S&P or Fitch if, in the judgment of such companies, circumstances so warrant.

## LEGAL MATTERS

### Legal Opinions

The District will furnish the Underwriters with 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 initial Bond is a valid and legally binding obligation of the District, and based upon examination of such transcript of proceedings, the legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX MATTERS" herein.

Though it represents the Financial Advisor and the Underwriters from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by, and only represents, the District in the issuance of the Bonds. Except as noted below, Bond Counsel did not take part in the preparation of this Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, Norton Rose Fulbright US LLP, San Antonio, Texas has reviewed the information under the captions and subcaptions "THE BONDS" (except for the subcaptions "Permanent School Fund Guarantee", "Payment Record", and "Sources and Uses of Funds" as to which no opinion is expressed), "REGISTRATION, TRANSFER AND EXCHANGE", "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" (except the information under the subheading "The School Finance System as Applied to the District"), "TAX RATE LIMITATIONS" (first paragraph only), "LEGAL MATTERS" (except for the last three sentences of the third paragraph of subheading "Legal Opinions", as to which no opinion is expressed), "TAX MATTERS", and "CONTINUING DISCLOSURE OF INFORMATION" (except the information under the subheading "Compliance with Prior Undertakings" as to which no opinion is expressed) in the Official Statement and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Bonds will also be furnished.

The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of Bonds are contingent on the sale and delivery of the Bonds. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by McCall, Parkhurst & Horton L.L.P., Austin, Texas, as counsel to the Underwriters. 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. The legal fee of such firm is contingent upon the sale and delivery of the Bonds.

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

### Legal Investment and Eligibility to Secure Public Funds in Texas

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. In accordance with the Public Funds Investment Act, Chapter 2256, Texas Government Code, the Bonds must be rated at least "A" or its equivalent as to investment quality by a national rating agency in order for most municipalities or other political subdivisions or public agencies of the State of Texas to invest in the Bonds, except for purchases of interest and sinking funds of such entities. See "RATINGS" herein. Moreover, municipalities or other political subdivisions or public agencies of the State of Texas that have adopted investment policies and guidelines in

accordance with the Public Funds Investment Act may have other, more stringent requirements for purchasing securities, including the Bonds. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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

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

No registration statement relating to the Bonds has been filed with the Securities and Exchange Commission 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 Securities and Exchange Commission, nor has the Securities and Exchange Commission 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 acts 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.

## **TAX MATTERS**

### **Tax Exemption**

The delivery of the Bonds is subject to the opinion of Norton Rose Fulbright US LLP, San Antonio, 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. A form of Bond Counsel's opinion appears in Appendix D hereto.

In rendering the foregoing opinions, Bond Counsel will rely upon the representations and certifications of the District made in a certificate dated the date of delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the District with the provisions of the Order 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 financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants would cause interest on the Bonds to be includable in the gross income of the owners thereof from 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 Registered Owners 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 required to 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 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.

## **INVESTMENT POLICIES**

### **Investments**

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

### **Legal Investments**

Under State law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, or otherwise meeting the requirements of the Texas Public Funds Investment Act; (8) certificates of deposit and share certificates that (i) are issued by or through an institution that has its main office or a branch in Texas and (a) are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, (b) are secured as to principal by obligations described in clauses (1) through (7) above, or (c) secured in any other manner and amount provided by law for District deposits, or (ii) certificates of deposit where (a) the funds are invested by the District through a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the District as required by law, or a depository institution that has its main office or a branch office in the State of Texas that is selected by the District; (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the United States Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 as custodian for the District with respect to the certificates of deposit issued for the account of the District; (9) fully collateralized repurchase agreements that (i) have a defined termination date, (ii) are fully secured by a combination of cash and obligations described in clause (1), (iii) require the securities being purchased by the District or cash held by the District to be pledged to the District, held in the District's name and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and (iv) are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (10) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time, and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (7) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (7) above and clauses (12) through (15) below, (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District, (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas, and (iv) the agreement to lend securities has a term of one year or less; (11) certain bankers' acceptances if the bankers' acceptance (i) has a stated maturity of 270 days or fewer from the date of issuance, (ii) will be, in accordance with its terms, liquidated in full at maturity, (iii) is eligible for collateral for borrowing from a Federal Reserve Bank, and (iv) is accepted by a State or Federal bank, if the short-term obligations of the accepting bank or its holding company (if the accepting bank is the largest subsidiary) are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with (i) a stated maturity of 270 days or less from the date of issuance, and (ii) a rating of at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (13) no-load money market mutual funds that are (i) registered with and regulated by the United States Securities and Exchange Commission, (ii) provide the District with a prospectus and other information required by the Securities and Exchange Act of 1934; and (iii) comply with Federal Securities and Exchange Commission Rule 2a-7; (14) no-load mutual funds that are (i) registered with the United States Securities and Exchange Commission, (ii) have an average weighted maturity of less than two years, and (iii) either (a) have a duration of one year or more and are invested exclusively in obligations described in this paragraph, or (b) have a duration of less than one year and the investment portfolio is limited to investment grade securities,

excluding asset-backed securities; (15) investment pools if the District has authorized investment in the particular pool and the pool invests solely in investments permitted by the Texas Public Funds Investment Act, and is continuously rated no lower than "AAA" or "AAAm" or at an equivalent rating by at least one nationally recognized rating service; and (16) guaranteed investment contracts that (i) have a defined termination date, (ii) are secured by obligations which meet the requirements of the Texas Public Funds Investment Act in an amount at least equal to the amount of bond proceeds invested under such contract, and (iii) are pledged to the District and deposited with the District or with a third party selected and approved by the District.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAAm" or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution.

As a school district that qualifies as an "issuer" under Chapter 1371, the District is also authorized to purchase, sell, and invest its funds in corporate bonds. State law defines "corporate bonds" as senior secured debt obligations issued by a domestic business entity and rated not lower than "AA-" or the equivalent by a nationally recognized investment rating firm. The term does not include a bond that is convertible into stocks or shares in the entity issuing the bond (or an affiliate or subsidiary thereof) or any unsecured debt. Corporate bonds must finally mature not later than 3 years from their date of purchase by the school district. A school district may not (1) invest more than 15% of its monthly average fund balance (excluding bond proceeds, reserves, and other funds held for the payment of debt service) in corporate bonds; or (2) invest more than 25% of the funds invested in corporate bonds in any one domestic business entity (including subsidiaries and affiliates thereof). Corporate bonds held by a school district must be sold if they are at any time downgraded below "AA-" (or the equivalent thereof) or, with respect to a corporate bond rated "AA-" (or the equivalent thereof), such corporate bond is placed on negative credit watch. Corporate bonds are not an eligible investment for a public funds investment pool. To invest in corporate bonds, an eligible school district must first (i) amend its investment policy to authorize corporate bonds as an eligible investment, (ii) adopt procedures for monitoring rating changes in corporate bonds and liquidating an investment in corporate bonds, and (iii) identify funds eligible to be invested in corporate bonds. As of the date of this Official Statement, the District has not taken the steps necessary to allow for investing in corporate bonds or made investments in that type of instrument.

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

### **Investment Policies**

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

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



## **Additional Provisions**

Under Texas law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) require any investment officers with personal business relationships or family relationships with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the District, (3) require the registered principal of firms seeking to sell securities to the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the District's investment policy, (5) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement, (6) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, (7) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements and (8) provide specific investment training for the Treasurer, the chief financial officer (if not the Treasurer) and the investment officer.

## **CONTINUING DISCLOSURE OF INFORMATION**

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access ("EMMA") system where it will be available to the general public, free of charge at [www.emma.msrb.com](http://www.emma.msrb.com). See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" for a description of the continuing disclosure undertaking to provide certain updated financial information and operating data annually with respect to the Permanent School Fund and the State of Texas as the case may be, and to provide timely notice of specified events related to the guarantee to the MSRB.

### **Annual Report**

The District will file 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 District of the general type included in this Official Statement in Appendix A (Tables 1-6 and 8-14) and in Appendix C. The District will update and provide this information within six months after the end of each fiscal year ending in or after 2019.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public or the MSRB's EMMA Internet Website or filed with the United States Securities and Exchange Commission (the "SEC"); as permitted by 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 the audit report becomes 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 August 31. Accordingly, it must provide updated information by the last day of February in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

### **Notice of Certain Events**

The District will file with the MSRB notice of any of the following events with respect to the Bonds in a timely manner (and not more than 10 business days after occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults; (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 status of the Bonds, or other material events affecting the tax determinations with respect to 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 sale of substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional Paying Agent/Registrar or the change of name of a Paying

Agent/Registrar, if material. Neither the Bonds nor the Order make any provision for debt service reserves, credit enhancement (except with respect to the Permanent School Fund guarantee), or liquidity enhancement. 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, any event described in Clause (12) of 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 the 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.

### **Availability of Information**

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, by and through EMMA. Access to such filings will be provided, without charge to the general public, by the MSRB through EMMA at [www.emma.msrb.org](http://www.emma.msrb.org).

### **Limitations and Amendments**

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

This continuing disclosure agreement may be amended by the District from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with Rule 15c2-12, taking into account any amendments or interpretations of Rule 15c2-12 to the date of such amendment as well as such changed circumstances, and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Order that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interest of the registered owners and Beneficial Owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of Rule 15c2-12 are invalid, and the District also may amend the provisions of this continuing disclosure agreement in its discretion in any other manner or circumstance, but in any case only if and to the extent that the provisions of this sentence would not have prevented 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 Rule 15c2-12. If the District amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in type of information and data provided.

### **Compliance with Prior Undertakings**

During the past five years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

## **LITIGATION**

The District is not a party to any litigation or other proceeding pending or to its knowledge, threatened, in any court, agency or other administrative body (either state or federal) which, if decided adversely to the District, would have a material adverse effect on the financial statements or operations of the District. At the time of the 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.

## **FINANCIAL ADVISOR**

RBC Capital Markets, LLC is employed as Financial Advisor to the District. The fee paid to the Financial Advisor for services rendered in connection with the issuance and sale of the Bonds is based on the amount of Bonds actually issued, sold and delivered, and therefore such fee is contingent on the sale and delivery of the Bonds.

The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

## **UNDERWRITING**

The Underwriters have agreed, subject to certain customary conditions, to purchase the Bonds at a price equal to the initial offering prices to the public, as shown on page ii, less an Underwriters' discount of \$462,576.83. The Underwriters' obligations are subject to certain conditions precedent, and the Underwriters will be obligated to purchase all of the Bonds if any 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 the Official Statement in accordance with their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

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

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Products Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

Wells Fargo Bank, National Association, acting through its Municipal Products Group ("WFBNA"), one of the underwriters of the Bonds, has entered into an agreement (the "WFA Distribution Agreement") with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name "Wells Fargo Advisors") ("WFA"), for the distribution of certain municipal securities offerings, including the Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Bonds with WFA. WFBNA has also entered into an agreement (the "WFSLLC Distribution Agreement") with its affiliate Wells Fargo Securities, LLC ("WFSLLC"), for the distribution of municipal securities offerings, including the Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

## **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.

## CONCLUDING STATEMENT

The information set forth herein has been obtained from the District's records, audited financial statements and other sources which are considered by the District to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents and the Order contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and the Order. These summaries do not purport to be complete statements of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects.

## MISCELLANEOUS

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, SEC Rule 15c2-12.

In the Order, the Board delegated to certain officers of the District the authority to approve the form and content of the Official Statement, and any addenda, supplement or amendment thereto, and the Board authorized its further use in the reoffering of the Bonds by the Underwriters.

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

*/s/ Kim Flasch*

\_\_\_\_\_  
President, Board of Trustees

ATTEST:

*/s/ Bob Dorsett, Jr.*

\_\_\_\_\_  
Secretary, Board of Trustees

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

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**FINANCIAL INFORMATION REGARDING THE  
LAKE TRAVIS INDEPENDENT SCHOOL DISTRICT**

**Table 1  
2018/19 ASSESSED VALUATION**

2018/19 Total Assessed Valuation.....	\$ 15,111,432,897
2018/19 Taxable Assessed Valuation*.....	\$ 12,309,934,413
* Net of the following deductions provided under Article VIII of the State Constitution.	
<u>Exemption</u>	<u>Total</u>
Residential Homestead Exemption and Local Optional Homestead Exemption. ....	\$ 2,024,643,354
10% Residential Cap. ....	357,873,535
Over 65/Disabled Person.....	49,572,260
Disabled Veteran.....	51,799,481
Productivity Loss.....	313,476,761
Other.....	4,133,093
Total (18.54% of Total Assessed Valuation).....	\$ 2,801,498,484

Source: Travis Central Appraisal District.

**Table 2  
GENERAL OBLIGATION DEBT OUTSTANDING\***

Unlimited Tax Bonds Outstanding (as of January 15, 2019).....	\$ 338,405,000			
The Bonds.....	92,705,000			
Less: Interest & Sinking Fund Balance (as of August 31, 2018).....	6,501,714			
NET UNLIMITED TAX SUPPORTED DEBT.....	\$ 424,608,286			
Ratio Net Debt to Taxable Assessed Valuation .....	3.45%			
Estimated Population	62,115		Per Capita Taxable Assessed Valuation	\$198,180
2018/19 Enrollment	10,708		Per Capita Total Assessed Valuation	\$243,282
Area (square miles) <sup>(1)</sup>	120		Per Capita Net Debt	\$6,836

\*In June 2010, the District annexed a portion of Marble Falls Independent School District and agreed to pay Marble Falls Independent School District approximately \$80,000 annually for the debt service of Marble Falls Independent School District allocable to the annexed property. Such payment is not included in the debt service shown on this table.

<sup>(1)</sup> According to District records.

**Table 3**  
**PROPERTY TAX RATES AND COLLECTIONS<sup>(1)</sup>**

<b>Tax Year</b>	<b>Taxable Assessed Valuation</b>	<b>Tax Rate</b>	<b>% Collections</b>		<b>F/Y Ended</b>
			<b>Current</b>	<b>Total<sup>(2)</sup></b>	
2008	\$ 6,001,878,058	\$ 1.3159	97.94%	99.27%	8-31-09
2009	6,362,010,530	1.3159	95.66%	96.99%	8-31-10
2010	6,191,859,335	1.3159	97.66%	99.42%	8-31-11
2011	6,355,057,732	1.3159	98.74%	100.18%	8-31-12
2012	6,647,760,522	1.4075	98.07%	98.83%	8-31-13
2013	7,157,958,622	1.4075	98.58%	99.58%	8-31-14
2014	7,960,090,271	1.4075	98.36%	99.17%	8-31-15
2015	8,990,965,485	1.4075	98.36%	98.96%	8-31-16
2016	10,019,351,336	1.4075	98.71%	99.38%	8-31-17
2017	10,975,753,835	1.4075	98.42%	98.59%	8-31-18
2018	12,309,934,413	1.4075	(In Process of Collection)		8-31-19

<sup>(1)</sup> Source: District's Audited Financial Statements, Travis Central Appraisal District, Texas Comptroller of Public Accounts State Property Tax Reports and District Records.

<sup>(2)</sup> Excludes penalty and interest.

**TAX RATE DISTRIBUTION**

	<u>2018/19</u>	<u>2017/18<sup>(1)</sup></u>	<u>2016/17</u>	<u>2015/16</u>	<u>2014/15</u>
Local Maintenance	\$1.0600	\$1.0600	\$1.0400	\$1.0400	\$1.0400
Interest & Sinking Fund	<u>0.3475</u>	<u>0.3475</u>	<u>0.3675</u>	<u>0.3675</u>	<u>0.3675</u>
Total	<u><b>\$1.4075</b></u>	<u><b>\$1.4075</b></u>	<u><b>\$1.4075</b></u>	<u><b>\$1.4075</b></u>	<u><b>\$1.4075</b></u>

Source: District's Audited Financial Statements and District Records.

<sup>(1)</sup> On November 7, 2017 the District successfully conducted a tax ratification election at which the voters of the District authorized the District to levy a maintenance and operations tax in the amount of \$1.06 per \$100 assessed valuation.

**Table 4**  
**VALUATION AND FUNDED DEBT HISTORY**

<b>F.Y.E.</b>	<b>Taxable Assessed Valuation</b>	<b>Basis of Assessment</b>	<b>Principal Amount of Funded Debt Outstanding*</b>	<b>Ratio Debt to T.A.V.</b>
<b>8-31</b>				
2010	\$ 6,362,010,530	100%	\$ 176,316,269	2.77%
2011	6,191,859,335	100%	162,231,266	2.62%
2012	6,355,057,732	100%	301,975,420	4.75%
2013	6,647,760,522	100%	290,317,804	4.37%
2014	7,157,958,622	100%	277,933,303	3.88%
2015	7,960,090,271	100%	263,059,308	3.30%
2016	8,990,965,485	100%	246,575,000	2.74%
2017	10,019,351,336	100%	222,725,000	2.22%
2018	10,975,753,835	100%	338,405,000	3.08%
2019	12,309,934,413	100%	406,365,000 <sup>(1)</sup>	3.30%

\*In June 2010, the District annexed a portion of Marble Falls Independent School District and agreed to pay Marble Falls Independent School District approximately \$80,000 annually for the debt service of Marble Falls Independent School District allocable to the annexed property. Such payment is not included in the debt service shown on this table.

<sup>(1)</sup> Excludes \$3,505,000 from the District's Variable Rate Unlimited Tax School Building Bonds, Series 2018B which is expected to be defeased February 15, 2019.



**Table 5**  
**CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY**

<b>Property Use Category</b>	<b>Total Tax Roll for Fiscal Years</b>				
	<b>2018/19</b>	<b>2017/18</b>	<b>2016/17</b>	<b>2015/16</b>	<b>2014/15</b>
Real and Personal Property					
Single-Family Residential	\$ 11,266,910,237	\$ 9,888,631,613	\$ 9,064,633,849	\$ 8,212,468,544	\$ 7,306,638,187
Multi-Family Residential	432,197,654	392,538,413	342,152,096	292,125,794	196,135,933
Vacant Lots/Tracts	522,506,439	438,341,924	447,090,030	485,258,122	473,042,623
Acreage (Land and Improvements)	494,184,953	483,605,457	485,307,116	479,831,680	419,810,089
Commercial and Industrial	1,944,794,503	1,687,263,091	1,464,304,149	1,175,753,126	931,409,378
Tangible Personal Property					
Business	244,615,291	235,289,358	230,519,522	211,286,709	227,992,306
Other	3,527,510	3,555,260	3,734,616	3,029,093	2,628,257
Real & Tangible Personal Property					
Utilities	40,370,635	38,928,302	38,539,878	36,506,942	31,238,613
Residential Inventory	157,912,231	172,573,482	195,161,793	186,455,724	124,199,831
Special Inventory	4,413,444	4,882,615	3,392,984	1,155,944	1,057,912
<b>Total Assessed Valuation</b>	<b>\$ 15,111,432,897</b>	<b>\$ 13,345,609,515</b>	<b>\$ 12,274,836,033</b>	<b>\$ 11,083,871,678</b>	<b>\$ 9,714,153,129</b>
<b>Less Total Exemptions</b>	<b>\$ 2,801,498,484</b>	<b>\$ 2,369,855,680</b>	<b>\$ 2,255,484,697</b>	<b>\$ 2,092,906,193</b>	<b>\$ 1,754,062,858</b>
<b>Taxable Assessed Valuation</b>	<b>\$ 12,309,934,413</b>	<b>\$ 10,975,753,835</b>	<b>\$ 10,019,351,336</b>	<b>\$ 8,990,965,485</b>	<b>\$ 7,960,090,271</b>

Source: Travis Central Appraisal District and the Texas Comptroller of Public Accounts Property Tax Division.

**PERCENTAGE TOTAL ASSESSED VALUATION BY CATEGORY**

<b>Property Use Category</b>	<b>Percent of Total Tax Roll for Fiscal Years</b>				
	<b>2018/19</b>	<b>2017/18</b>	<b>2016/17</b>	<b>2015/16</b>	<b>2014/15</b>
Real Property					
Single-Family Residential	74.56%	74.10%	73.85%	74.09%	75.22%
Multi-Family Residential	2.86%	2.94%	2.79%	2.64%	2.02%
Vacant Lots/Tracts	3.46%	3.28%	3.64%	4.38%	4.87%
Acreage (Land and Improvements)	3.27%	3.62%	3.95%	4.33%	4.32%
Commercial and Industrial	12.87%	12.64%	11.93%	10.61%	9.59%
Tangible Personal Property					
Business	1.62%	1.76%	1.88%	1.91%	2.35%
Other	0.02%	0.03%	0.03%	0.03%	0.03%
Real & Tangible Personal Property					
Utilities	0.27%	0.29%	0.31%	0.33%	0.32%
Residential Inventory	1.04%	1.29%	1.59%	1.68%	1.28%
Special Inventory	<u>0.03%</u>	<u>0.04%</u>	<u>0.03%</u>	<u>0.01%</u>	<u>0.01%</u>
<b>Total</b>	<b><u>100.00%</u></b>	<b><u>100.00%</u></b>	<b><u>100.00%</u></b>	<b><u>100.00%</u></b>	<b><u>100.00%</u></b>

**Table 6**  
**PRINCIPAL TAXPAYERS AND THEIR 2018/19 TAXABLE ASSESSED VALUATIONS**

<u>Name of Taxpayer</u>	<u>Type of Property</u>	<u>Taxable</u>	
		<u>Assessed Valuation</u>	<u>% T.A.V.</u>
CSHV HCG Retail LLC	Retail	\$ 306,948,042	2.49%
IVT Shops at Galleria	Retail	144,959,855	1.18%
Madrone Acquisition LP	Apartment Complex	99,460,000	0.81%
FHF I Oaks at Lakeway LLC	Retail	85,237,736	0.69%
Western RIM Investors 2013-4 LP	Apartment Complex	67,871,846	0.55%
Lakeway Realty LLC	Real Estate	65,368,958	0.53%
Bee Cave Owner LLC	Real Estate	55,150,000	0.45%
Avanti Hills LLC	Real Estate	50,680,000	0.41%
WSH 71 Tx Partners LLC	Real Estate	47,000,000	0.38%
CSHV HGC Office LLC	Retail	39,986,439	0.32%
<b>Total.....</b>		<b>\$ 962,662,876</b>	<b>7.82%</b>

Source: Travis Central Appraisal District.

**Table 7**  
**ESTIMATED OVERLAPPING DEBT STATEMENT**

<u>Taxing Body</u>	<u>Gross Amount</u>	<u>As of</u>	<u>% Overlap</u>	<u>\$ Overlap</u>
Bee Cave, City of	\$ 9,795,000	01/15/19	100.00%	\$ 9,795,000
Belvedere MUD	5,800,000	01/15/19	100.00%	5,800,000
Briarcliff, Village of	706,680	01/15/19	100.00%	706,680
Cypress Ranch WC&ID #1	17,500,000	01/15/19	100.00%	17,500,000
Hurst Creek MUD	4,110,000	01/15/19	100.00%	4,110,000
Lake Pointe MUD	1,010,000	01/15/19	100.00%	1,010,000
Lakeway MUD	3,333,293	01/15/19	100.00%	3,333,293
Lakeway, City of	32,655,000	01/15/19	100.00%	32,655,000
Lazy Nine MUD #1B	37,070,000	01/15/19	100.00%	37,070,000
Travis Co.	705,136,179	01/15/19	6.21%	43,788,957
Travis Co. Bee Cave Rd Dist #1	11,000,000	01/15/19	100.00%	11,000,000
Travis Co. ESD #6	3,380,000	01/15/19	100.00%	3,380,000
Travis Co. Healthcare District	9,380,000	01/15/19	6.21%	582,498
Travis Co. MUD #11	18,400,000	01/15/19	100.00%	18,400,000
Travis Co. MUD #12	18,725,000	01/15/19	100.00%	18,725,000
Travis Co. MUD #13	16,980,000	01/15/19	100.00%	16,980,000
Travis Co. MUD #16	22,365,000	01/15/19	100.00%	22,365,000
Travis Co. MUD #18	16,465,000	01/15/19	100.00%	16,465,000
Travis Co. WC&ID #17 (Flintrock)	16,765,000	01/15/19	100.00%	16,765,000
Travis Co. WC&ID #17 (Serene)	20,305,000	01/15/19	100.00%	20,305,000
W Travis MUD #6	10,510,000	01/15/19	100.00%	10,510,000
W Travis MUD #8	7,790,000	01/15/19	100.00%	7,790,000
Total Net Overlapping Debt				\$ 319,036,428
<b>Lake Travis ISD</b>	<b>431,110,000</b> <sup>(1)</sup>	<b>01/15/19</b>	<b>100.00%</b>	<b>431,110,000</b>
<b>Total Direct and Overlapping Debt</b>				<b>\$ 750,146,428</b>

Ratio Direct and Overlapping Debt to Taxable Assessed Valuation	6.09%
Ratio Direct and Overlapping Debt to Total Assessed Valuation	4.96%
Per Capita Direct and Overlapping Debt	\$ 12,077

Source: Texas Municipal Reports.

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

**Table 8**  
**OUTSTANDING UNLIMITED TAX DEBT SERVICE\***

Fiscal Year Ending 8/31	Outstanding Unlimited Tax Debt Service Requirements	The Bonds			Total Outstanding Unlimited Tax Debt Service Requirements
		Principal	Interest	Debt Service	
		2019 <sup>(1)</sup>	\$ 40,784,780		
2020	28,500,444	\$ 2,975,000	\$ 6,044,404	\$ 9,019,404	37,519,848
2021	29,326,031	5,345,000	3,854,675	9,199,675	38,525,706
2022	22,515,416	1,815,000	3,675,675	5,490,675	28,006,091
2023	19,539,675	1,910,000	3,582,550	5,492,550	25,032,225
2024	19,639,625	2,005,000	3,484,675	5,489,675	25,129,300
2025	19,718,675	2,110,000	3,381,800	5,491,800	25,210,475
2026	21,975,425	2,220,000	3,273,550	5,493,550	27,468,975
2027	21,837,450	2,330,000	3,159,800	5,489,800	27,327,250
2028	21,843,675	2,450,000	3,040,300	5,490,300	27,333,975
2029	21,841,375	2,575,000	2,914,675	5,489,675	27,331,050
2030	21,875,925	2,710,000	2,782,550	5,492,550	27,368,475
2031	21,839,175	2,845,000	2,643,675	5,488,675	27,327,850
2032	21,844,725	2,995,000	2,497,675	5,492,675	27,337,400
2033	21,841,750	3,145,000	2,344,175	5,489,175	27,330,925
2034	21,845,275	3,290,000	2,199,750	5,489,750	27,335,025
2035	21,846,325	3,425,000	2,065,450	5,490,450	27,336,775
2036	21,571,150	3,565,000	1,925,650	5,490,650	27,061,800
2037	15,360,063	3,710,000	1,780,150	5,490,150	20,850,213
2038	16,169,081	3,860,000	1,628,750	5,488,750	21,657,831
2039	16,168,388	4,020,000	1,471,150	5,491,150	21,659,538
2040	16,169,006	4,185,000	1,307,050	5,492,050	21,661,056
2041	9,510,163	4,355,000	1,136,250	5,491,250	15,001,413
2042	9,574,575	4,545,000	945,450	5,490,450	15,065,025
2043	8,559,025	4,760,000	733,075	5,493,075	14,052,100
2044	8,553,225	4,980,000	510,575	5,490,575	14,043,800
2045	8,554,450	5,190,000	299,438	5,489,438	14,043,888
2046	8,553,800	5,390,000	101,063	5,491,063	14,044,863
2047	8,559,675	-	-	-	8,559,675
2048	8,550,750	-	-	-	8,550,750
<b>TOTAL</b>	<b>\$ 554,469,096</b>	<b>\$ 92,705,000</b>	<b>\$ 62,783,979</b>	<b>\$ 155,488,979</b>	<b>\$ 709,958,075</b>

\*In June 2010, the District annexed a portion of Marble Falls Independent School District and agreed to pay Marble Falls Independent School District approximately \$80,000 annually for the debt service of Marble Falls Independent School District allocable to the annexed property. Such payment is not included in the debt service shown on this table.

<sup>(1)</sup> Includes an estimated \$3,540,000 to be placed in to escrow on February 15, 2019 which will defease \$3,505,000 of the District's Variable Rate Unlimited Tax School Building Bonds, Series 2018B.

**Table 9**  
**TAX ADEQUACY WITH RESPECT TO THE DISTRICT'S OUTSTANDING  
UNLIMITED TAX DEBT SERVICE REQUIREMENTS**

Maximum Principal and Interest Requirements, Fiscal Year Ending August 31, 2019	\$ 40,784,780
\$0.3492 Tax Rate @ 98% Collection Produces	\$ 40,790,694

**Table 10**  
**AUTHORIZED BUT UNISSUED BONDS**

After the issuance of the Bonds the District will have no voter-authorized but unissued unlimited tax bonds. The District may also 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.

**Table 11**  
**TAX ADEQUACY\***

Estimated Tax Supported Debt Service Requirements, Fiscal Year 2019		\$ 40,784,780
Interest and Sinking Fund, 8-31-18	6,501,714	
2018/19 Estimated Interest and Sinking Fund Tax Levy @ 98% Collection	<u>40,592,113</u>	<u>47,093,827</u>
Estimated Interest and Sinking Fund Balance at 8-31-19		\$ 6,309,047

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\*In June 2010, the District annexed a portion of Marble Falls Independent School District and agreed to pay Marble Falls Independent School District approximately \$80,000 annually for the debt service of Marble Falls Independent School District allocable to the annexed property. Such payment is not included in the debt service shown on this table.

**Table 12**  
**COMPARATIVE STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES**

	Fiscal Years Ended August 31,				
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Beginning Fund Balance</b>	\$ 32,016,834	\$ 29,704,752	\$ 30,455,130	\$ 30,062,683	\$ 29,466,980
<b>Revenues:</b>					
Local and Intermediate Sources	\$ 113,698,430	\$ 102,797,579	\$ 92,083,278	\$ 81,451,956	\$ 73,652,722
State Sources	7,436,309	6,870,592	6,660,374	9,473,029	10,864,031
Federal Sources	503,943	522,086	283,121	191,967	177,574
<b>Total Revenues</b>	<u>\$ 121,638,682</u>	<u>\$ 110,190,257</u>	<u>\$ 99,026,773</u>	<u>\$ 91,116,952</u>	<u>\$ 84,694,327</u>
<b>Expenditures:</b>					
Instruction	\$ 43,994,774	\$ 41,267,003	\$ 38,994,756	\$ 36,021,997	\$ 33,716,899
Instructional Resources & Media Services	809,769	781,554	782,184	718,173	664,985
Curriculum & Staff Development	685,689	510,225	530,133	522,820	679,560
Instructional Leadership	1,102,670	1,052,727	752,655	719,053	535,953
School Leadership	3,644,184	3,623,542	3,354,204	3,090,445	2,925,910
Guidance, Counseling & Evaluation	2,569,010	2,290,876	2,340,721	2,174,984	1,983,931
Health Services	640,794	606,625	592,754	595,309	534,173
Pupil Transportation	3,986,277	3,484,161	2,993,923	2,668,582	2,396,908
Food Services	67,053	67,694	61,929	51,918	55,349
Co-Curricular/Extracurricular Activities	2,385,203	2,230,498	2,104,650	2,052,661	1,964,364
General Administration	3,425,618	2,970,891	2,765,009	2,705,566	2,791,935
Plant Maintenance & Operations	8,702,507	8,737,360	8,408,564	8,479,906	7,687,232
Security and Monitoring Services	318,785	302,250	282,290	274,739	312,320
Facilities Acquisition & Construction	16,442	13,542	10,996	11,638	12,333
Debt Service	-	-	-	-	-
Community Services	344,276	339,336	301,000	280,077	192,560
Data Processing Services	2,098,949	2,011,260	1,918,633	1,786,060	1,410,274
Intergovernmental	44,252,412	37,588,631	33,582,750	28,570,577	26,233,938
<b>Total Expenditures</b>	<u>\$ 119,044,412</u>	<u>\$ 107,878,175</u>	<u>\$ 99,777,151</u>	<u>\$ 90,724,505</u>	<u>\$ 84,098,624</u>
Other Resources and (Uses):					
Other Financing Sources	\$ -	\$ -	\$ -	\$ -	\$ -
Other Financing Uses	-	-	-	-	-
<b>Total Other Resources and (Uses)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Excess (Deficiency) of Revenues & Other Sources Over (Under) Expenditures & Other Uses	\$ 2,594,270	\$ 2,312,082	\$ (750,378)	\$ 392,447	\$ 595,703
Residual Equity Transfer-In (Out)	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Fund Balance, End of Year</b>	<u>\$ 34,611,104</u>	<u>\$ 32,016,834</u>	<u>\$ 29,704,752</u>	<u>\$ 30,455,130</u>	<u>\$ 30,062,683</u>

Source: District's Audited Financial Statements.

**Table 13**  
**CHANGE IN NET ASSETS<sup>(1)</sup>**  
**(In Thousands of Dollars)**

	<b>Fiscal Year Ending August 31,</b>				
	<u><b>2018</b></u>	<u><b>2017</b></u>	<u><b>2016</b></u>	<u><b>2015</b></u>	<u><b>2014</b></u>
<b>Revenues:</b>					
<b>Program Revenues</b>					
Charges for Services	\$ 8,546 <sup>(2)</sup>	\$ 8,050	\$ 7,582	\$ 6,827	\$ 5,769
Operating Grants and Contributions	<u>22,495</u>	<u>10,432</u>	<u>10,863</u>	<u>12,036</u>	<u>9,973</u>
Total Program Revenues	\$ 31,041	\$ 18,482	\$ 18,445	\$ 18,863	\$ 15,742
<b>General Revenues</b>					
Property Taxes	\$ 148,430	\$ 136,605	\$ 122,488	\$ 108,457	\$ 98,485
Grants and Contributions Not Restricted	4,800	4,360	4,349	7,241	8,324
Other	<u>2,324</u>	<u>762</u>	<u>474</u>	<u>686</u>	<u>600</u>
Total General Revenues	\$ 155,554	\$ 141,727	\$ 127,311	\$ 116,384	\$ 107,409
<b>Total Revenues.....</b>	<b><u>\$ 186,595</u></b>	<b><u>\$ 160,209</u></b>	<b><u>\$ 145,756</u></b>	<b><u>\$ 135,247</u></b>	<b><u>\$ 123,151</u></b>
<b>Expenses</b>					
Instruction and Instruction Related	\$ 58,018	\$ 53,030	\$ 49,239	\$ 44,600	\$ 42,687
Instructional resources and Media Services	935	866	887	770	729
Student Support Services	24,601	22,490	21,341	18,657	17,082
General Administration	3,672	3,085	2,931	2,709	2,828
Support Services	13,249	12,852	13,869	12,657	10,405
Community Services	997	924	732	325	241
Interest on long-term debt and other debt service	2,495	9,353	10,340	11,240	16,075
Facilities Acquisition and Constructions	5,300	1,807	1,513	4,247	9,045
Contracted Instructional Services Between Schools	43,528	36,914	32,942	27,971	25,724
Other	740	675	641	615	510
Community Education	<u>2,454</u>	<u>2,361</u>	<u>2,293</u>	<u>2,283</u>	<u>1,498</u>
<b>Total Expenses.....</b>	<b><u>\$ 155,989</u></b>	<b><u>\$ 144,357</u></b>	<b><u>\$ 136,728</u></b>	<b><u>\$ 126,074</u></b>	<b><u>\$ 126,824</u></b>
Beginning Net Assets	29,124	55,361	46,333	44,690	48,363
Prior Period Adjustment	-	(42,089) <sup>(3)</sup>	-	(7,530) <sup>(4)</sup>	-
Increase/(Decrease) In Net Assets	<u>30,606</u>	<u>15,852</u>	<u>9,028</u>	<u>9,173</u>	<u>(3,673)</u>
<b>Ending Net Assets .....</b>	<b><u>\$ 59,730</u></b>	<b><u>\$ 29,124</u></b>	<b><u>\$ 55,361</u></b>	<b><u>\$ 46,333</u></b>	<b><u>\$ 44,690</u></b>

<sup>(1)</sup> Audited financial operations for all governmental activities in accordance with GASB Statement No. 34.

<sup>(2)</sup> Due to a clerical error, Table 2 of "Appendix C -- Audited Financial Report for the Year Ended August 31, 2018" shows an aggregate "Charges for Services" of \$8,549 (in thousands) instead of \$8,546. The District has requested that the amount be corrected in the Fiscal Year 2019 audit of the District.

<sup>(3)</sup> See Appendix C, "Audited Financial Statement for the Year Ended August 31, 2018" and "Note 19. Prior Period Adjustment", which discusses the prior period adjustment resulting from the District's implementation of GASB 75.

<sup>(4)</sup> See Appendix C, "Audited Financial Statement for the Year Ended August 31, 2015" and "Note 1. Summary of Significant Accounting Policies", which discusses the prior period adjustment resulting from the District's implementation of GASB 68.

**Table 14**  
**CURRENT INVESTMENTS**

As of August 31, 2018 the District's investable funds were invested in the following investment instruments:

<u><b>Investment Instrument</b></u>	<u><b>Book Value</b></u>	<u><b>Percentage</b></u>
TexPool	\$ 120,487,962	80.18%
MBIA Texas CLASS	4,695,359	3.12%
Money Market Accounts	<u>25,080,894</u>	<u>16.69%</u>
Total	\$ 150,264,215	100.00%

As of such date, the market value of such instruments (as determined by the District) by reference to published quotations, dealer bids and comparable information) was approximately 100% of book value.

Note: 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.

Source: District's Audited Financial Statement for the Fiscal Year Ended August 31, 2018.

**APPENDIX B**

**GENERAL INFORMATION REGARDING  
THE DISTRICT AND ITS ECONOMY**

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## GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY

Lake Travis Independent School District (the “District”) is located in Travis County which is in Central Texas, adjacent to the west side of the City of Austin, Texas. The District covers an area of 120 square miles that includes parts of Austin as well as the municipalities of the Hills of Lakeway and the City of Lakeway, Village of Bee Cave and the Village of Briarcliff.

The District is governed by a seven member Board of Trustees (the “Board”). The Board of Trustees serve three-year staggered terms with at large elections being held every year. Board policy and decisions are decided by a majority vote of the Board. The Superintendent of Schools is selected by the Board; other District officials are employed as a result of action by the Superintendent and the Board.

The District’s physical plant consists of 5 elementary schools (grades K through 5), 2 middle schools (grades 6 through 8), and 1 high school (grades 9 through 12).

Elementary Schools	5	
Middle Schools	2	
High Schools	<u>1</u>	
<b>Total</b>	<b><u>8</u></b>	

In addition, the District owns and operates additional facilities, which include an administration building, a transportation/maintenance service center, a staff development center, and an athletic complex.

### Education Program

While the District is recognized as a leader in teaching the fundamentals of reading, writing and mathematics, a comprehensive educational program including fine arts, career technology, special education, and gifted and advanced level programs are available to meet the individual needs of students. Student performance exceeds state, regional and national norms on all evaluative tests.

## DISTRICT ENROLLMENT INFORMATION

### Scholastic Enrollment History

<u>Year</u>	<u>Enrollment</u>	<u>Increase/(Decrease)</u>	<u>Percent Change</u>
1999-00	3,756	241	6.86%
2000-01	4,163	407	10.84%
2001-02	4,354	191	4.59%
2002-03	4,650	296	6.80%
2003-04	4,809	159	3.42%
2004-05	5,075	266	5.53%
2005-06	5,294	219	4.32%
2006-07	5,568	274	5.18%
2007-08	5,823	255	4.58%
2008-09	6,144	321	5.51%
2009-10	6,303	159	2.59%
2010-11	6,940	637	10.10%
2011-12	7,376	436	6.28%
2012-13	7,809	433	5.87%
2013-14	8,257	448	5.74%
2014-15	8,833	576	6.98%
2015-16	9,238	405	4.59%
2016-17	9,825	587	6.35%
2017-18	10,420	595	6.06%
2018-19 <sup>(1)</sup>	10,708	288	2.76%

<sup>(1)</sup> Enrollment as of January 11, 2019.

**Projected Student Enrollment**

<b><u>Year</u></b>	<b><u>Enrollment</u></b>	<b><u>Increase/(Decrease)</u></b>	<b><u>Percent Change</u></b>
2019-20	11,090	352	3.28%
2020-21	11,490	400	3.61%
2021-22	11,856	366	3.19%
2022-23	12,197	341	2.88%

**EMPLOYMENT OF THE DISTRICT**

Teachers	618
Administrators	31
Teacher Aides & Secretaries	144
Auxiliary Employees	182
Other	<u>203</u>
<b>Total Number of Employees</b>	<b><u>1,178</u></b>

The District employs a staff of approximately 1,178. Beginning with the 2018-19 school year, entry-level teachers without advanced degrees earn \$47,000 annually. Teachers with advanced degrees and longevity can earn up to \$67,032 annually. All teachers receive health insurance benefits worth approximately \$500 monthly.

**PRESENT SCHOOL FACILITIES**

<b><u>Location</u></b>	<b><u>Grades Served</u></b>	<b><u>Present Enrollment<sup>(A)</sup></u></b>
Lake Travis High School	9 - 12	<u>3,184</u>
<b>High School Total</b>		<b><u>3,184</u></b>
Lake Travis Middle School	6 - 8	1,548
Hudson Bend Middle School	6 - 8	<u>1,136</u>
<b>Middle School Total</b>		<b><u>2,684</u></b>
Bee Cave Elementary School	K - 5	805
Lake Pointe Elementary School	K - 5	704
Lake Travis Elementary School	K - 5	862
Lakeway Elementary School	K - 5	695
Serene Hills Elementary School	K - 5	897
West Cypress Hills Elementary School	K - 5	<u>877</u>
<b>Elementary School Total</b>		<b><u>4,840</u></b>
<b>Total</b>		<b><u>10,708</u></b>

<sup>(A)</sup> Enrollment as of January 11, 2019.

**CITY OF AUSTIN, TEXAS  
ECONOMIC AND DEMOGRAPHIC INFORMATION**

**Location**

The City of Austin (the “City”) is the state capital of Texas and the county seat of Travis County, a major commercial and educational center, located on Interstate 35. The City’s economy is primarily based on its importance as a governmental and educational center, being the site of The University of Texas at Austin and over 137 state and 48 federal agencies.

**Population Trend 2013-2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Travis County	1,242,674	1,209,415	1,173,051	1,151,145	1,122,748
City of Austin	937,065	925,491	899,119	878,002	841,629
State of Texas	28,797,290	27,862,596	27,429,639	26,944,751	26,505,637

Source: Texas Workforce Commission; US Census.

**Higher Education**

Since the mid-1800s, Austin has drawn the best minds of the South to study at some of the region's best public and private universities and colleges. Now students from all over the world attend the area's varied institutions of higher learning, studying with the world's finest faculty and benefiting from the world's best facilities.

The Austin metropolitan area is home to seven area colleges and universities with more than 130,000 students enrolled.

<u>College/University</u>	<u>Enrollment</u>
University of Texas at Austin, The	51,525
Austin Community College	40,803
Texas State University, San Marcos	38,666
St. Edwards University	4,447
Concordia University at Austin	2,620
Southwestern University, Georgetown	1,396
Huston-Tillotson University	1,102

Source: National Center for Education Statistics – Fall 2017 Estimated.

**Major Employers**

Almost 40% of the manufacturers identified by the Greater Austin Chamber of Commerce are high tech manufacturers.

<u>Employer</u>	<u>Product of Service</u>	<u>Local Employees</u>
State Government	State Government	38,353
University of Texas at Austin, The	Higher Education, Research & Public Service	23,131
City of Austin	City Government	13,825
Federal Government	Federal Government	12,700
HEB Grocery Co.	Grocery Stores	12,198
Dell Computer Corp.	Personal Computer Systems	12,000
Austin Independent School District	Austin School District	11,447
Seton Healthcare Network	Healthcare	10,270
St. David’s Healthcare Partnership	Healthcare	8,598
Samsung Austin Semiconductor	Computer Services and Management	6,074

Source: City of Austin, 2017 Annual Financial Report.

## CITY OF AUSTIN LABOR FORCE STATISTICS

### Labor Force History

	<u>2018<sup>(1)</sup></u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Labor Force	599,854	572,348	556,712	539,664	529,958
Employed	584,814	555,738	539,781	523,592	510,565
Unemployed	15,040	16,610	16,931	16,072	19,393
Percent of Labor Force Unemployed	2.5%	2.9%	3.0%	3.0%	3.7%

<sup>(1)</sup> As of December 2018.

Source: Labor Market Information Department, Texas Workforce Commission.

## TRAVIS COUNTY, TEXAS ECONOMIC AND DEMOGRAPHIC INFORMATION

### Overview

Travis County is a part of the Austin-San Marcos Metropolitan Statistical Area (MSA). Five Counties make up the MSA: Bastrop, Caldwell, Hays, Travis and Williamson. The Austin-San Marcos MSA is located amidst the Texas highland lakes, which are a series of seven man-made lakes created by dams on the Colorado River and its tributaries. These lakes provide water supply and hydroelectric power, as well as a source of recreation for area residents.

### Climate

The climate is temperate, with 300 days of sunshine annually. Average temperatures range from 42 to 62 degrees in winter and 75 to 95 degrees in the summer. Average rainfall is 32.49 inches. Snowfall is rare.

### Transportation

#### Ground

There are several major highways that link Travis County to the rest of Texas and the nation. Interstate Highway 35 serves as the major north-south route. US 290 and State Highway 71 11 runs east and west through the County, while US 183 runs northwest and southeast. One bus line provides passenger service, parcel and freight service to the County. Greyhound/Trailways Bus Line maintains a terminal in Austin. There are numerous trucking firms that provide motor freight service to Travis County. Truck deliveries can be made to most destinations in the continental United States within as little as 3 days. Rail service is provided by Union Pacific, Amtrak, Georgetown Railroad and Longhorn Railway.

#### Air

Austin-Bergstrom International Airport (“ABIA”) handles commercial passenger flights, along with private and commercial cargo planes. Alaska, American, Delta, Frontier, JetBlue Airways, Southwest, Air Canada, British Airways, Virgin, and United all have regularly scheduled flights.

#### Austin-Bergstrom International Airport

<u>Year</u>	<u>Total Passengers</u>	<u>Total Cargo (lbs)</u>
2011	9,080,875	153,370,987
2012	9,430,314	155,617,785
2013	10,017,958	158,553,202
2014	10,718,854	155,440,494
2015	11,897,959	157,484,666
2016	12,436,849	174,739,682
2017	13,889,305	189,362,637
2018 <sup>(1)</sup>	14,556,777	167,526,583

Source: City of Austin, ABIA.

<sup>(1)</sup> As of November 30, 2018

ABIA opened in May 1999 at the site of the former Bergstrom Air Force Base, replacing Robert Mueller Municipal Airport. The 700-acre Mueller Airport site, approximately three miles from downtown Austin, is being redeveloped as a mixed-use urban community by the City under a public-private partnership agreement. The Mueller Airport property has no aviation facilities and is not part of the Airport System.

ABIA occupies a 4,240-acre site approximately eight miles southeast of downtown Austin. Airport access is provided by Texas State Highway 71 (SH 71), a six-lane divided highway running east-west, and U.S. Highway 183 (US 183), a four-lane divided highway running north-south. SH 71 provides access to Interstate Highway 35 (I-35) approximately six miles to the west.

The Airport's two parallel north-south runways, designated 17L-35R and 17R-35L, are 9,000 feet and 12,250 feet long, respectively, 150 feet wide, and capable of accommodating all aircraft now in commercial service. The runways are separated by 6,700 feet, allowing their use for the simultaneous arrival of aircraft in virtually all weather conditions.

The main passenger terminal, the Barbara Jordan Terminal (the "Terminal" or the "North Terminal"), is 736,000 square feet and contains four levels.

Source: City of Austin and Greater Austin Chamber of Commerce

### TRAVIS COUNTY LABOR FORCE STATISTICS

#### Labor Force History

	<u>2018<sup>(1)</sup></u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Labor Force	732,428	698,755	678,367	658,215	649,426
Employed	713,324	677,830	657,085	636,685	623,322
Unemployed	19,104	20,925	21,282	21,530	26,104
Percent of Labor Force Unemployed	2.6%	3.0%	3.1%	3.3%	4.0%

<sup>(1)</sup> As of December 2018.

Source: Labor Market Information Department, Texas Workforce Commission.

#### Comparative Unemployment Rates

	<u>2018<sup>(1)</sup></u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City of Austin	2.5%	2.9%	3.0%	3.0%	3.7%
Travis County	2.6	3.0	3.1	3.3	4.0
State of Texas	3.6	4.3	4.6	4.5	5.1
United States of America	3.7	4.4	4.9	5.3	6.2

<sup>(1)</sup> As of December 2018.

Source: Labor Market Information Department, Texas Workforce Commission.

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**APPENDIX C**  
**AUDITED FINANCIAL STATEMENT**  
**FOR THE YEAR ENDED AUGUST 31, 2018**

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**LAKE TRAVIS INDEPENDENT  
SCHOOL DISTRICT**

**Annual Financial Report  
for the Fiscal Year Ended  
August 31, 2018**



# LAKE TRAVIS INDEPENDENT SCHOOL DISTRICT

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# LAKE TRAVIS INDEPENDENT SCHOOL DISTRICT

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**CERTIFICATE OF BOARD**

Lake Travis Independent School District

Name of School District

Travis

County

227913

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 August 31, 2018 at a meeting of the Board of Trustees of such school district on the \_\_\_ day of \_\_\_\_\_, 2018.

\_\_\_\_\_  
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**



MAXWELL LOCKE & RITTER LLP

*Accountants and Consultants*

*An Affiliate of CPAmerica International*

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Round Rock, TX 78664

## **INDEPENDENT AUDITORS' REPORT**

The Board of Trustees of  
Lake Travis 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 Lake Travis Independent School District (the "District"), as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

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

Affiliated Company

ML&R WEALTH MANAGEMENT LLC

*"A Registered Investment Advisor"*

*This firm is not a CPA firm*

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 August 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As described in Note 1 and Note 19 to the financial statements, for the year ended August 31, 2018, the District adopted new accounting guidance, Governmental Accounting Standards Board (“GASB”) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, resulting in a restatement of the District’s net position as of August 31, 2017. Our opinions are not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, the schedule of the District’s proportionate share of the net pension liability, the schedule of District contributions - pensions, the schedule of the District’s proportionate share of the net OPEB liability, the schedule of District contributions - OPEB, and the note to the required supplementary information on pages 5 through 14, 56, 57, 58, 59, and 60, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB 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 combining and individual fund statements and schedules, other schedules, and the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements and schedules, other schedules, 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 fund statements and schedules, other schedules, and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2018 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

*Maxwell Locke & Ritter LLP*

Austin, Texas  
November 7, 2018



## **LAKE TRAVIS INDEPENDENT SCHOOL DISTRICT MANAGEMENT’S DISCUSSION AND ANALYSIS**

In this section of the annual financial report, we, the managers of Lake Travis Independent School District (the “District”), discuss and analyze the District’s financial performance for the fiscal year ended August 31, 2018. Please read it in conjunction with the independent auditors’ report that begins on page 2, and the District’s basic financial statements that begin on page 15.

### **FINANCIAL HIGHLIGHTS**

- The assets and deferred outflows of the District exceeded its liabilities and deferred inflows at the close of the most recent period by \$59.7 million. Of this amount, (\$3.8 million) was unrestricted net position.
- As of the close of the current fiscal year, the District’s governmental funds reported combined ending fund balances of \$140.7 million. Approximately 24 percent of this total amount, \$34 million, is available for spending at the government’s discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$34 million, or 29 percent of the total General Fund expenditures (45 percent after factoring out recapture costs).
- In February 2018, the District made an early payment of \$16,285,000 on its Series 2012 bonds. By paying this debt prior to its maturity, the District saved approximately \$11,390,618 of interest costs.
- For the year ended August 31, 2018, the District adopted Governmental Accounting Standards Board (“GASB”) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The implementation of this standard resulted in a prior period adjustment to net position of \$42,088,299 to recognize the net other post-employment benefits (“OPEB”) liability at the measurement period ending August 31, 2016, and the deferred outflows of resources related to the District’s contributions after the measurement period ending August 31, 2016 through August 31, 2017.

### **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 15 and 16). These provide information about the activities of the District as a whole and present a longer-term view of the District’s property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 17) report the District’s operations in more detail than the government-wide statements by providing information about the District’s most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget.

The Notes to Basic Financial Statements (starting on page 25) provide narrative explanations or additional data that are an integral part for full disclosure in the government-wide statements or the fund financial statements.

The combining statements and budget comparisons included as supplementary information provide detail of all nonmajor governmental funds and budgetary comparisons for the Debt Service major governmental fund and the Food and Nutrition Services nonmajor governmental fund.

The Other Schedules section provides additional supporting schedules, including a Schedule of Delinquent Taxes Receivable, and Exhibit L-1 Required Responses to School First Indicators.

The Required Supplementary Information includes the Schedule of the District's Proportionate Share of the Net Pension Liability, Schedule of District Contributions - Pensions, the Schedule of the District's Proportionate Share of the Net OPEB Liability, Schedule of District Contributions - OPEB, and the Note to Required Supplementary Information related to the District's contributions to a cost-sharing pension and OPEB plan with the Teacher Retirement System of Texas.

The Federal Awards Section contains data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

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

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

The analysis of the District's overall financial condition and operations begins on page 15. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets, deferred outflows, liabilities, and deferred inflows at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by the private sector.

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

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

In the Statement of Net Position and the Statement of Activities, the District has two types of activities:

- **Governmental activities** - The District's basic services are reported here, including instruction, counseling, co-curricular activities, food services, transportation, maintenance, and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.
- **Business-type activities** - The District's community education function is reported here as the intention is to recover all or a significant portion of their costs through user fees and charges. In addition, the District's video display board operations are also reported here as the intention is to recover all costs of operating the video display board through advertising revenues.

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

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

The fund financial statements begin on page 17 and provide detailed information about the most significant funds - not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act/ Every Student Succeeds Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes, such as campus activities. The District uses the following funds for its accounting:

- Governmental funds - The District's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. The differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds are described in reconciliation schedules following each of the fund financial statements.
- Proprietary funds - The District reports the activities for which it charges users (whether outside customers or other units of the District) in proprietary funds using the same accounting methods employed in the Statement of Net Position and the Statement of Activities. In fact, the District's Enterprise Funds (one category of proprietary funds) are the business-type activities reported in the government-wide statements but containing more detail and additional information, such as cash flows.

### **The District as Trustee**

#### ***Reporting the District's Fiduciary Responsibilities***

The District is the trustee, or fiduciary, for money raised by student activities. These resources are excluded from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Both current and prior year data are presented with discussion of significant changes in the accounts. Our analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the District's government-wide activities.

This two-year comparison provides an indication of the District's financial well being. Increases and decreases in net position may serve over time as a useful indicator of a government's financial position. As of August 31, 2018, the District's assets and deferred outflows exceed its liabilities and deferred inflows by \$59.7 million compared to prior year net position of \$29.1 million, as restated. This increase was caused primarily from additional property tax revenues from increased property values and a decrease in the District's net pension and OPEB liabilities.

**Table 1**  
**The District's Net Position**  
(in thousands)

	Governmental Activities 8/31/2018	Governmental Activities 8/31/2017	Business-type Activities 8/31/2018	Business-type Activities 8/31/2017	Total 8/31/2018	Total 8/31/2017
<b>Assets:</b>						
Current and other assets	\$ 161,334	\$ 49,335	\$ 2,012	\$ 1,660	\$ 163,346	\$ 50,995
Capital assets	324,661	286,769	337	359	324,998	287,128
Total assets	485,995	336,104	2,349	2,019	488,344	338,123
<b>Deferred outflows:</b>						
Deferred charges on bond refundings	13,013	4,757	-	-	13,013	4,757
Pension contributions after measurement date	1,434	1,361	-	-	1,434	1,361
Deferred outflows related to pension liability	3,800	5,625	-	-	3,800	5,625
OPEB contributions after measurement date	413	-	-	-	413	-
Deferred outflows related to OPEB liability	4	-	-	-	4	-
Total deferred outflows	18,664	11,743	-	-	18,664	11,743
<b>Liabilities:</b>						
Current and other liabilities	41,499	19,001	6	-	41,505	19,001
Long-term liabilities	393,701	258,757	-	-	393,701	258,757
Total liabilities	435,200	277,758	6	-	435,206	277,758
<b>Deferred inflows:</b>						
Deferred inflows related to pension liability	2,032	895	-	-	2,032	895
Deferred inflows related to OPEB liability	10,040	-	-	-	10,040	-
Total deferred inflows	12,072	895	-	-	12,072	895
<b>Net position:</b>						
Net investment in capital assets	57,575	40,133	337	359	57,912	40,492
Restricted	5,628	6,194	-	-	5,628	6,194
Unrestricted	(5,816)	22,867	2,006	1,660	(3,810)	24,527
Total net position	57,387	69,194	2,343	2,019	59,730	71,213
Prior period adjustment	-	(42,089)	-	-	-	(42,089)
Total net position, as restated	\$ 57,387	\$ 27,105	\$ 2,343	\$ 2,019	\$ 59,730	\$ 29,124

Investment in capital assets (e.g., land, construction in progress, buildings and improvements, furniture and equipment, and vehicles) less any related debt used to acquire those assets that is still outstanding is \$58 million. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, generally property taxes, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the District's net position (\$5.6 million or approximately 9.4 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is (\$3.8 million).

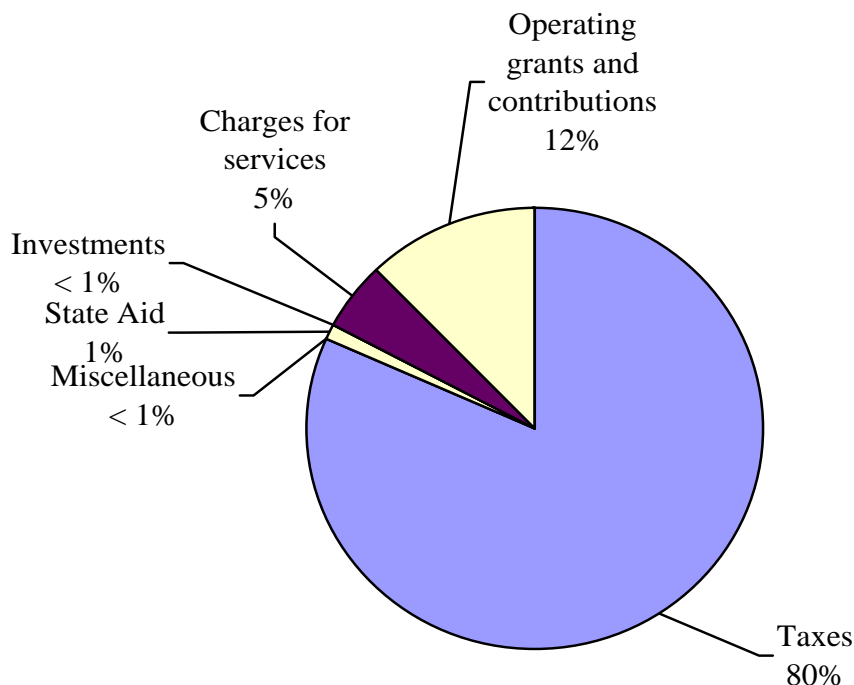
**Changes in net position** - As described at Table 2, the District's total net position increased by \$30.6 million. The total cost of all government-wide activities this year was \$153.5 million. The amount that our taxpayers paid for these activities through property taxes was \$148.4 million or 97 percent, a 9 percent increase from the previous year.

**Table 2**  
**The District's Change in Net Position**  
(in thousands)

	Governmental Activities Year Ended 8/31/2018	Governmental Activities Year Ended 8/31/2017	Business-type Activities Year Ended 8/31/2018	Business-type Activities Year Ended 8/31/2017	Total Year Ended 8/31/2018	Total Year Ended 8/31/2017
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 5,768	\$ 5,595	\$ 2,778	\$ 2,455	\$ 8,549	\$ 8,050
Operating grants and contributions	22,495	10,432	-	-	22,495	10,432
<b>General revenues:</b>						
Property taxes	148,430	136,605	-	-	148,430	136,605
State aid-formula grants	4,800	4,360	-	-	4,800	4,360
Other	2,324	762	-	-	2,324	762
<b>Total revenues</b>	<b>183,817</b>	<b>157,754</b>	<b>2,778</b>	<b>2,455</b>	<b>186,595</b>	<b>160,209</b>
<b>Expenses:</b>						
<b>Governmental activities:</b>						
Instruction	58,018	53,030	-	-	58,018	53,030
Instructional resources and media services	935	866	-	-	935	866
Student support services	24,601	22,490	-	-	24,601	22,490
General administration	3,672	3,085	-	-	3,672	3,085
Support services	13,249	12,852	-	-	13,249	12,852
Community services	997	924	-	-	997	924
Interest on long-term debt and other debt services	2,495	9,353	-	-	2,495	9,353
Facilities acquisition and construction	5,300	1,807	-	-	5,300	1,807
Contracted instructional services between schools	43,528	36,914	-	-	43,528	36,914
Other	740	675	-	-	740	675
<b>Business-type activities:</b>						
Community education	-	-	2,432	2,323	2,432	2,323
Video display board	-	-	22	38	22	38
<b>Total expenses</b>	<b>153,535</b>	<b>141,996</b>	<b>2,454</b>	<b>2,361</b>	<b>155,989</b>	<b>144,357</b>
<b>Change in net position</b>	<b>30,282</b>	<b>15,758</b>	<b>324</b>	<b>94</b>	<b>30,606</b>	<b>15,852</b>
<b>Beginning net position</b>	<b>27,105</b>	<b>53,436</b>	<b>2,019</b>	<b>1,925</b>	<b>29,124</b>	<b>55,361</b>
<b>Prior period adjustment</b>	<b>-</b>	<b>(42,089)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(42,089)</b>
<b>Ending net position, as restated</b>	<b>\$ 57,387</b>	<b>\$ 27,105</b>	<b>\$ 2,343</b>	<b>\$ 2,019</b>	<b>\$ 59,730</b>	<b>\$ 29,124</b>

The District's total revenues were \$186.6 million. A significant portion, 80 percent, of the District's revenue comes from taxes (See Figure 1); 1 percent comes from state aid - formula grants, 5 percent relates to charges for services, and 12 percent comes from operating grants and contributions.

**Figure 1**  
**Sources of Revenue for**  
**the Year Ended August 31, 2018**



The District is considered wealthy under Chapter 41 of the Texas Education Code because its wealth level per student of 890,970 exceeded the state level of \$514,000. Under Chapter 41 of the Texas Education Code, the District's voters approved for the District to equalize its excess wealth by either purchasing *attendance credits* from the State or purchasing *weighted average daily attendance* from other school districts. The District contracts with the State to equalize its wealth. This recapture payment results in an outflow of local tax dollars to the other school districts and the State. Due to an increase in property taxes collected compared to the prior year as a result of higher property values offset by a decrease in State aid, the District's recapture amount paid to the State has increased to \$43.5 million compared to \$36.9 million in the prior year. This equates to 42.3 percent of each tax dollar raised under maintenance and operations. Debt service taxes are excluded from recapture.

The District's program and general revenues increased by \$26.4 million (16 percent) due primarily to an increase in taxes collected which was due to an increase of 9.9% in property values.

In April 2018, the District sold \$143 million in bonds to fund construction and equipping of school buildings and to pay the costs of issuance of the bonds. A task force drawn from across the community formulated a bond proposal that called for new instructional facilities; maintenance and repair of existing facilities; purchase of instructional resources, including technology; and the purchase of buses and other vehicles. Instructional facilities include one new 850 student elementary school, one new 1,300 student middle school, the renovation of the high school Performing Arts Center (PAC), and the expansion of the Transportation Center and the Distribution and Network Operating Center. Overall, bond program expenditures totaled \$54.6 million this fiscal year compared to \$4.1 million in the prior year. The primary source of revenue for bond payments is from property taxes.

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

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, bond covenants, and segregation for particular purposes.

### **Governmental funds**

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

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, the District's governmental funds reported a combined ending fund balance of \$140.7 million. Of this amount \$34 million constitutes unassigned fund balance available for use in the General Fund activities at the District's discretion. The remainder of the fund balance is nonspendable due to form or restricted, committed or assigned to indicate that it is not available for new spending because it has already been designated for other obligations of the District. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to the total fund expenditures. Unassigned fund balance represents 29 percent of the total General Fund expenditures.

The District's General Fund's fund balance increased by approximately \$2.6 million. This is more than the prior year's increase of \$2.3 million.

The Debt Service Fund has a total fund balance of \$6.5 million, all of which is restricted for the payment of debt service. The net increase in fund balance during the period in the Debt Service Fund was \$1.3 million. This increase was from the District making additional payments prior to maturity dates on its outstanding bonds in prior year 2017; see Note 8 for details.

The District's Capital Project Fund had a total fund balance of \$97 million, which increased by \$100.5 million from the prior year.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

During the fiscal year, the District's Board approved amendments to the budget.

The District made the following larger amendments to budgeted revenue:

- \$924,067 increase in State funding due to FSP Hardship Grant
- \$314,067 increase in Recapture due to increase in tax collections
- \$110,000 increase in appropriations due to the recognition of a one-time pay supplement
- \$300,000 increase in Transportation due to summer help installing seat belts
- \$200,000 increase in Athletics due to above District travel

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

The District's investment in capital assets for its governmental activities and business-type activities as of August 31, 2018 amounts to \$324.7 million and \$337,000, respectively, (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, furniture and equipment, and vehicles.

	<b>District's Capital Assets</b> (Net of Depreciation) (in thousands)	
	2018	2017
Land	\$ 28,418	\$ 28,418
Construction in progress	44,229	2,872
Buildings and improvements	240,386	248,306
Furniture and equipment	4,193	4,426
Vehicles	7,772	3,106
Total capital assets (net of accumulated depreciation)	<u>\$ 324,998</u>	<u>\$ 287,128</u>

Additional information on the District's capital assets can be found in Note 6 on pages 36 and 37 of this report.

### Long-term Debt

As of August 31, 2018, the District had total outstanding long-term debt of \$338.4 million, an increase of \$115.7 million from the prior year. Payments on bond principal for 2017-2018 totaled \$26.7 million.

The "AAA" long-term rating on the District's bonds reflects the Texas Permanent School Fund guarantee. The District's underlying credit rating is "AA+" by both Standard and Poor's (2018) and by Fitch Rating Services (2018).

State statutes have limits on the amount of general obligation debt a governmental entity may issue. A school district may not exceed \$0.50/\$100 on its debt service tax rate for new debt (debt issued after August 31, 1992). The District's current debt service tax rate is \$0.3475/\$100. This would leave up to an additional \$0.1525/\$100 available on the tax rate. Based on these limitations, the District has the ability to fund future bond issues. The District's last bond election was successfully held in November 2017.

Additional information on the District's long-term liabilities can be found in Note 8 on pages 37 through 39 of this report.



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

The District is located in what has been one of the fastest growing regions in the state and the country. The District has a diversified tax base with the principal tax payers (the top-ten tax payers) making up only 8.2% of the District's overall tax base. For the 2017 tax year, Galleria Texas, LLC was the District's largest taxpayer.

The principal taxpayers for the District, along with the percent of assessed value for the District, are listed below:

1. CSHV HCG Retail, LLC	2.57%
2. IVT Shops at Galleria	1.16%
3. Madrone Acquisition, LP	0.92%
4. FHF I Oaks at Lakeway, LLC	0.82%
5. Lakeway Realty, LLC	0.65%
6. Bee Cave Owner, LLC	0.50%
7. Avanti Hills, LLC	0.45%
8. Western RIM Investors 2013-14, LP	0.40%
9. CHHC Bee Cave, LP	0.38%
10. CSHV HGC Office, LLC	0.35%

The District set its operating tax rate at \$1.06 and its debt service tax rate at \$0.3475 for the 2017-2018 school year, and the Board has set its operating tax rate at \$1.06 and its debt service rate at \$0.3475 for the 2018-2019 school year.

Due to growth in students the 2018-2019 budget includes the following:

- The August 2018 unemployment rate for Travis County is 2.9 percent while the state unemployment rate is 3.8 percent.
- The District's student attendance rate remained stable at 95.4 percent for the 2017-2018 school year, which is within the typical annual range.
- The District has experienced an enrollment increase of 5.7 percent; this is down slightly from the previous year, and reflects an overall increase in growth of 33.5 % over the past five years.
- The District's taxable valuation has increased by 11.59 percent for the 2018-2019 school year. This is up slightly from an increase of 9.56 percent last year.
- The District has appropriated General Fund revenues and expenditures in the 2018-2019 budget of \$135.8 million and \$133.8 million, respectively. Significant changes to the budget include the cost to educate approximately 613 new students (\$3.3 million), the increase cost of recapture (\$7.0 million) and the 3.0 % staff salary increase (\$1.5 million).
- In a 2011 special legislative session, the state legislature passed Senate Bill 1 that reduced the Foundation School Program by \$5.4 billion over the biennium. As a result, the District incurred a net decrease in state and local revenues of \$3.3 million (6.5% of net operating budget) in 2011-2012 and \$4.8 million (8.7% of net operating budget) in 2012-2013.
- In 2013, under the 83rd legislative session, Congress passed Senate Bill 1, which restored \$3.0 billion of the previously reduced funding to the Foundation School Program. However, a majority of this funding was strategically placed with low-equity districts. As a result, under Senate Bill 1, the District still received less state and local revenues than pre-2011 cuts: \$4.0 million (6.8% of net operating budget) in 2013-2014 and \$3.8 million (6.1% of net operating budget) in 2014-2015.

- In 2015, under the 84th legislative session, Congress passed House Bill 1, which increased the Basic Allotment/Equalized Wealth Level by \$1.2 billion. Unfortunately, districts that were still receiving Additional State Aid for Tax Reduction (ASATR) had a balancing off-set that kept them from receiving new funding. Additionally, the State did not extend funding for their mandate TRS-Care Employer Contribution (1.5%). As a result, the District continued to receive less state and local revenues than pre-2011 cuts: \$4.6 million (6.7% of net operating budget) in 2015-2016 and \$2.7 million (3.7% of net operating budget) in 2016-2017.
- In 2017, under the 85<sup>th</sup> Legislative session, Congress passed Senate Bill 1. The only new funding introduced in this session was to increase the Austin Yield (4 -“golden pennies” and 2 - “silver pennies”) from \$77.53 in 2016-2017, to \$99.41 in 2017-2018 and \$106.28 in 2018-2019. There was no change to the basic allotment, funding weights, no extension of ASATR, or no new round of facilities funding. As a result, the District continued to receive less state and local revenues than pre - 2011 amounts: \$5.2 million (4.4% of net operating budget) in 2017-2018. With the Per Capita Rate increasing from \$206.57 to \$447.18 in 2018-19, Lake Travis ISD will be fully restored for the first time since the cuts made in 2011 with \$671 thousand (0.50% of net operating budget). The overall financial impact to the District as a result of the last four legislative sessions is \$27.7 million (\$3.5 million/year).

On the Interest and Sinking (I & S) Fund, increased property values throughout the District will allow the District to redeem an additional \$3.5 million of its 2018B Current Interest Obligations. By paying down the District’s debt requirement prior to their scheduled maturity dates, the District estimates an overall debt savings of approximately \$5.6 million.

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

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District’s finances as well as demonstrate accountability for funds the District receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Assistant Superintendent for Business, Financial and Auxiliary Services, Lake Travis Independent School District, 3322 Ranch Road 620 South, Austin, Texas 78738.

## **BASIC FINANCIAL STATEMENTS**

# LAKE TRAVIS INDEPENDENT SCHOOL DISTRICT

## Statement of Net Position

August 31, 2018

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 8,124,332	2,012,220	10,136,552
Temporary investments	150,264,215	-	150,264,215
Receivables:			
Property taxes - delinquent	3,391,668	-	3,391,668
Allowance for uncollectible taxes	(1,183,058)	-	(1,183,058)
Due from other governments	653,845	-	653,845
Other receivables	12,343	-	12,343
Inventory	71,020	-	71,020
Capital assets (net of accumulated depreciation):			
Land	28,417,557	-	28,417,557
Construction in progress	44,229,486	-	44,229,486
Buildings and improvements	240,049,094	336,757	240,385,851
Furniture and equipment	4,193,163	-	4,193,163
Vehicles	7,771,645	-	7,771,645
Total assets	485,995,310	2,348,977	488,344,287
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred charges on bond refundings	13,012,522	-	13,012,522
Pension contributions after measurement date	1,434,482	-	1,434,482
Deferred outflows related to pension liability	3,799,651	-	3,799,651
OPEB contributions after measurement date	412,926	-	412,926
Deferred outflows related to OPEB liability	3,755	-	3,755
Total deferred outflows of resources	18,663,336	-	18,663,336
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	10,169,223	5,879	10,175,102
Accrued expenditures	1,798,634	-	1,798,634
Payroll deductions and withholdings payable	797,615	-	797,615
Accrued wages payable	4,293,364	-	4,293,364
Due to other governments	3,815	-	3,815
Unearned revenue	419,205	-	419,205
Bond interest payable	2,777,106	-	2,777,106
Bonds payable	21,240,000	-	21,240,000
Noncurrent liabilities:			
Bonds payable	355,872,902	-	355,872,902
Compensated absences	542,649	-	542,649
Net pension liability	13,282,490	-	13,282,490
Net OPEB liability	24,002,534	-	24,002,534
Total liabilities	435,199,537	5,879	435,205,416
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pension liability	2,031,539	-	2,031,539
Deferred inflows related to OPEB liability	10,040,305	-	10,040,305
Total deferred inflows of resources	12,071,844	-	12,071,844
<b>NET POSITION</b>			
Net investment in capital assets	57,575,452	336,757	57,912,209
Restricted for:			
Debt service	4,275,143	-	4,275,143
Food service	1,352,918	-	1,352,918
Unrestricted	(5,816,248)	2,006,341	(3,809,907)
Total net position	\$ 57,387,265	2,343,098	59,730,363

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

# LAKE TRAVIS INDEPENDENT SCHOOL DISTRICT

## Statement of Activities Year Ended August 31, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:						
Instruction	\$ 58,017,594	78,980	15,172,019	(42,766,595)	-	(42,766,595)
Instructional resources and media services	935,102	-	190,912	(744,190)	-	(744,190)
Curriculum and staff development	932,493	-	341,937	(590,556)	-	(590,556)
Instructional leadership	1,211,692	-	262,494	(949,198)	-	(949,198)
School leadership	4,234,511	-	923,661	(3,310,850)	-	(3,310,850)
Guidance, counseling, and evaluation services	3,401,339	211,500	854,773	(2,335,066)	-	(2,335,066)
Health services	742,168	-	160,251	(581,917)	-	(581,917)
Student transportation	4,923,404	-	893,708	(4,029,696)	-	(4,029,696)
Food services	4,949,368	4,563,104	515,006	128,742	-	128,742
Extracurricular activities	4,206,338	476,749	1,366,606	(2,362,983)	-	(2,362,983)
General administration	3,671,741	-	610,400	(3,061,341)	-	(3,061,341)
Facilities maintenance and operations	10,045,159	437,493	515,337	(9,092,329)	-	(9,092,329)
Security and monitoring services	325,866	-	20,545	(305,321)	-	(305,321)
Data processing services	2,877,811	-	302,535	(2,575,276)	-	(2,575,276)
Community services	997,103	-	124,354	(872,749)	-	(872,749)
Interest on long-term debt	478,285	-	236,249	(242,036)	-	(242,036)
Other debt service	2,016,545	-	-	(2,016,545)	-	(2,016,545)
Facilities acquisition and construction	5,300,417	-	4,246	(5,296,171)	-	(5,296,171)
Contracted instructional services between schools	43,527,535	-	-	(43,527,535)	-	(43,527,535)
Incremental costs related to Chapter 41	293,383	-	-	(293,383)	-	(293,383)
Payments related to shared services arrangements	42,508	-	-	(42,508)	-	(42,508)
Other intergovernmental charges	403,986	-	-	(403,986)	-	(403,986)
Total governmental activities	\$ 153,534,348	5,767,826	22,495,033	(125,271,489)	-	(125,271,489)
Business-type activities:						
Community education	\$ 2,431,457	2,673,980	-	-	242,523	242,523
Video display board	22,450	103,434	-	-	80,984	80,984
Total business-type activities	\$ 2,453,907	2,777,414	-	-	323,507	323,507
Total primary government	\$ 155,988,255	8,545,240	22,495,033	(125,271,489)	323,507	(124,947,982)
General revenues:						
Property taxes, levied for general purposes				\$ 111,779,292	-	111,779,292
Property taxes, levied for debt service				36,650,526	-	36,650,526
State aid-formula grants				4,799,557	-	4,799,557
Investment earnings				2,122,979	-	2,122,979
Miscellaneous revenue				201,137	-	201,137
Total general revenues				155,553,491	-	155,553,491
Change in net position				30,282,002	323,507	30,605,509
Net position - beginning, as restated				27,105,263	2,019,591	29,124,854
Net position - ending				\$ 57,387,265	2,343,098	59,730,363

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

**LAKE TRAVIS INDEPENDENT SCHOOL DISTRICT**  
**Balance Sheet**  
**Governmental Funds**  
**August 31, 2018**

	General	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 907,512	740,102	1,668,194	3,074,602	6,390,410
Temporary investments	38,394,757	5,761,612	105,997,941	-	150,154,310
Receivables:					
Property taxes - delinquent	2,572,690	818,978	-	-	3,391,668
Allowance for uncollectible taxes	(914,615)	(268,443)	-	-	(1,183,058)
Due from other governments	-	-	-	653,845	653,845
Due from other funds	698,890	-	-	-	698,890
Other receivables	9,131	-	-	3,212	12,343
Inventory	49,520	-	-	21,500	71,020
Total assets	<u>\$ 41,717,885</u>	<u>7,052,249</u>	<u>107,666,135</u>	<u>3,753,159</u>	<u>160,189,428</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 345,324	-	8,852,614	53,342	9,251,280
Accrued expenditures	-	-	1,798,634	-	1,798,634
Payroll deductions and withholdings payable	797,615	-	-	-	797,615
Accrued wages payable	4,123,015	-	-	170,349	4,293,364
Due to other governments	3,815	-	-	-	3,815
Due to other funds	14,174	-	-	698,890	713,064
Unearned revenue	164,763	-	-	254,442	419,205
Total liabilities	<u>5,448,706</u>	<u>-</u>	<u>10,651,248</u>	<u>1,177,023</u>	<u>17,276,977</u>
Deferred inflows of resources-					
Deferred revenue - property taxes	1,658,075	550,535	-	-	2,208,610
Fund balances:					
Nonspendable	49,520	-	-	-	49,520
Restricted for:					
Debt service	-	6,501,714	-	-	6,501,714
Authorized construction	-	-	97,014,887	-	97,014,887
Food service	-	-	-	1,352,918	1,352,918
Committed to:					
Compensated absences	542,649	-	-	-	542,649
Campus activities	-	-	-	1,010,831	1,010,831
Assigned to-					
Locally funded campus programs	-	-	-	212,387	212,387
Unassigned	34,018,935	-	-	-	34,018,935
Total fund balances	<u>34,611,104</u>	<u>6,501,714</u>	<u>97,014,887</u>	<u>2,576,136</u>	<u>140,703,841</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 41,717,885</u>	<u>7,052,249</u>	<u>107,666,135</u>	<u>3,753,159</u>	

Amounts reported for *governmental activities* in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	324,660,945
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	2,208,610
The Internal Service Fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the statement of net position.	940,058
The following liabilities and deferred inflows and outflows of resources are not due and payable in the current period and, therefore, are not reported in the funds:	
Bonds payable, including premiums	(377,112,902)
Less: Deferred charges on bond refundings	13,012,522
Bond interest payable	(2,777,106)
Compensated absences	(542,649)
Net pension liability	(13,282,490)
Net OPEB liability	(24,002,534)
Pension contributions after measurement date	1,434,482
OPEB contributions after measurement date	412,926
Deferred outflows related to pension liability	3,799,651
Deferred outflows related to OPEB liability	3,755
Deferred inflows related to pension liability	(2,031,539)
Deferred inflows related to OPEB liability	(10,040,305)
Net position of governmental activities	<u>\$ 57,387,265</u>

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

**LAKE TRAVIS INDEPENDENT SCHOOL DISTRICT**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended August 31, 2018**

	General	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Local and intermediate sources	\$ 113,698,430	36,708,073	947,831	7,613,494	158,967,828
State program revenues	7,436,309	236,249	-	534,049	8,206,607
Federal program revenues	503,943	-	-	2,447,253	2,951,196
Total revenues	<u>121,638,682</u>	<u>36,944,322</u>	<u>947,831</u>	<u>10,594,796</u>	<u>170,125,631</u>
<b>EXPENDITURES</b>					
Current:					
Instruction	43,994,774	-	-	3,830,214	47,824,988
Instructional resources and media services	809,769	-	-	-	809,769
Curriculum and staff development	685,689	-	-	196,779	882,468
Instructional leadership	1,102,670	-	-	-	1,102,670
School leadership	3,644,184	-	-	-	3,644,184
Guidance, counseling and evaluation services	2,569,010	-	-	479,156	3,048,166
Health services	640,794	-	-	-	640,794
Student transportation	3,986,277	-	-	9,374	3,995,651
Food services	67,053	-	-	4,603,766	4,670,819
Extracurricular activities	2,385,203	-	-	1,088,417	3,473,620
General administration	3,425,618	-	-	-	3,425,618
Facilities maintenance and operations	8,702,507	-	-	-	8,702,507
Security and monitoring services	318,785	-	-	-	318,785
Data processing services	2,098,949	-	-	-	2,098,949
Community services	344,276	-	-	50,120	394,396
Debt service:					
Principal on long-term debt	-	26,740,000	-	-	26,740,000
Interest on long-term debt	-	8,845,843	-	-	8,845,843
Other debt service expenditures	-	872,218	1,144,327	-	2,016,545
Facilities acquisition and construction	16,442	-	53,470,691	-	53,487,133
Intergovernmental:					
Contracted instructional services between schools	43,527,535	-	-	-	43,527,535
Incremental costs related to Chapter 41	293,383	-	-	-	293,383
Payments related to shared services arrangements	27,508	-	-	15,000	42,508
Other intergovernmental charges	403,986	-	-	-	403,986
Total expenditures	<u>119,044,412</u>	<u>36,458,061</u>	<u>54,615,018</u>	<u>10,272,826</u>	<u>220,390,317</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,594,270</u>	<u>486,261</u>	<u>(53,667,187)</u>	<u>321,970</u>	<u>(50,264,686)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Issuance of bonds	-	18,266	143,586,734	-	143,605,000
Issuance of refunding bonds	-	82,905,000	-	-	82,905,000
Premium on sale of bonds	-	10,939,218	10,557,593	-	21,496,811
Payment to refunded bond escrow agent	-	(93,079,114)	-	-	(93,079,114)
Total other financing sources, net	<u>-</u>	<u>783,370</u>	<u>154,144,327</u>	<u>-</u>	<u>154,927,697</u>
Net change in fund balances	2,594,270	1,269,631	100,477,140	321,970	104,663,011
Fund balances, beginning	32,016,834	5,232,083	(3,462,253)	2,254,166	36,040,830
Fund balances, ending	<u>\$ 34,611,104</u>	<u>6,501,714</u>	<u>97,014,887</u>	<u>2,576,136</u>	<u>140,703,841</u>

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

**LAKE TRAVIS INDEPENDENT SCHOOL DISTRICT**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
**Year Ended August 31, 2018**

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Net change in fund balances - total governmental funds	\$ 104,663,011
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures.	
However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Capital outlay	48,188,179
Disposal of capital assets	(14,695)
Depreciation expense	(10,280,764)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Change in deferred tax revenue	250,504
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.	
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
Bond proceeds, including premiums	(248,006,811)
Repayment of bond principal	26,740,000
Payment to refunded bond escrow agent	93,079,114
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.	
Change in bond interest payable	(2,355,194)
Amortization of deferred charges on bond refundings	(733,187)
Amortization of bond premiums	11,455,939
Change in compensated absences	(112,208)
Pension contributions made during the measurement year	1,358,835
Change in pension contributions made after the measurement date	73,019
Proportionate share of collective pension expense	882,879
Adjustment for ending deferred inflows and outflows related to net pension liability	(2,962,128)
OPEB contributions made during the measurement year	289,606
Change in OPEB contributions made after the measurement date	125,963
Proportionate share of collective OPEB expense	18,083,122
Adjustment for ending deferred inflows and outflows related to net OPEB liability	(10,036,550)
The Internal Service Fund is used by management to charge the costs of insurance to individual funds. The change in net position of the Internal Service Fund is reported with governmental activities.	
	(406,632)
Change in net position of governmental activities	\$ 30,282,002

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



**LAKE TRAVIS INDEPENDENT SCHOOL DISTRICT**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**General Fund**  
**Year Ended August 31, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Local and intermediate sources	\$ 113,723,766	113,723,766	113,698,430	(25,336)
State program revenues	6,032,167	6,956,234	7,436,309	480,075
Federal program revenues	320,000	320,000	503,943	183,943
Total revenues	<u>120,075,933</u>	<u>121,000,000</u>	<u>121,638,682</u>	<u>638,682</u>
<b>EXPENDITURES</b>				
Current:				
Instruction	44,043,331	44,043,331	43,994,774	48,557
Instructional resources and media services	807,497	822,497	809,769	12,728
Curriculum and staff development	682,738	692,738	685,689	7,049
Instructional leadership	1,088,530	1,108,530	1,102,670	5,860
School leadership	3,676,979	3,676,979	3,644,184	32,795
Guidance, counseling and evaluation services	2,649,957	2,649,957	2,569,010	80,947
Health services	643,117	653,117	640,794	12,323
Student transportation	3,823,730	4,123,730	3,986,277	137,453
Food services	75,000	85,000	67,053	17,947
Extracurricular activities	2,283,233	2,483,233	2,385,203	98,030
General administration	3,508,344	3,508,344	3,425,618	82,726
Facilities maintenance and operations	9,444,323	9,444,323	8,702,507	741,816
Security and monitoring services	358,087	363,087	318,785	44,302
Data processing services	2,270,607	2,270,607	2,098,949	171,658
Community services	364,120	374,120	344,276	29,844
Facilities acquisition and construction	20,000	30,000	16,442	13,558
Intergovernmental:				
Contracted instructional services between schools	43,498,187	43,812,254	43,527,535	284,719
Incremental costs related to Chapter 41	339,990	339,990	293,383	46,607
Payments related to shared services arrangements	15,000	35,000	27,508	7,492
Payments related to juvenile justice alternative education programs	15,000	15,000	-	15,000
Other intergovernmental charges	468,163	468,163	403,986	64,177
Total expenditures	<u>120,075,933</u>	<u>121,000,000</u>	<u>119,044,412</u>	<u>1,955,588</u>
Excess of revenues over expenditures	<u>-</u>	<u>-</u>	<u>2,594,270</u>	<u>2,594,270</u>
Fund balance, beginning	<u>32,016,834</u>	<u>32,016,834</u>	<u>32,016,834</u>	<u>-</u>
Fund balance, ending	<u>\$ 32,016,834</u>	<u>32,016,834</u>	<u>34,611,104</u>	<u>2,594,270</u>

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

**LAKE TRAVIS INDEPENDENT SCHOOL DISTRICT**  
**Statements of Net Position**  
**Proprietary Funds**  
**August 31, 2018**

	<b>Business-type Activities- Nonmajor Enterprise Funds</b>	<b>Governmental Activities- Nonmajor Internal Service Funds</b>	<b>Total Proprietary Funds</b>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 2,012,220	\$ 1,733,922	\$ 3,746,142
Temporary investments	-	109,905	109,905
Due from other funds	-	14,174	14,174
Total current assets	<u>2,012,220</u>	<u>1,858,001</u>	<u>3,870,221</u>
Noncurrent assets-			
Capital assets:			
Buildings and improvements	449,008	-	449,008
Accumulated depreciation	<u>(112,251)</u>	<u>-</u>	<u>(112,251)</u>
Total noncurrent assets	<u>336,757</u>	<u>-</u>	<u>336,757</u>
Total assets	<u>2,348,977</u>	<u>1,858,001</u>	<u>4,206,978</u>
<b>LIABILITIES</b>			
Current liabilities-			
Accounts payable	5,879	917,943	923,822
<b>NET POSITION</b>			
Net investment in capital assets	336,757	-	336,757
Unrestricted	<u>2,006,341</u>	<u>940,058</u>	<u>2,946,399</u>
Total net position	<u>\$ 2,343,098</u>	<u>\$ 940,058</u>	<u>\$ 3,283,156</u>

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

**LAKE TRAVIS INDEPENDENT SCHOOL DISTRICT**  
**Statements of Revenues, Expenses, and Changes in Fund Net Position**  
**Proprietary Funds**  
**Year Ended August 31, 2018**

	<b>Business-type Activities- Nonmajor Enterprise Funds</b>	<b>Governmental Activities- Nonmajor Internal Service Funds</b>	<b>Total Proprietary Funds</b>
<b>Operating revenues-</b>			
Charges for services	\$ 2,777,414	\$ 10,374,729	\$ 13,152,143
<b>Operating expenses:</b>			
Payroll costs	2,039,856	-	2,039,856
Professional and contracted services	202,734	221,358	424,092
Supplies and materials	98,022	-	98,022
Claims	-	10,605,566	10,605,566
Other operating	90,845	85,413	176,258
Depreciation	22,450	-	22,450
Total operating expenses	2,453,907	10,912,337	13,366,244
Operating income (loss)	323,507	(537,608)	(214,101)
<b>Nonoperating revenue-</b>			
Investment and interest income	-	130,976	130,976
Change in net position	323,507	(406,632)	(83,125)
Total net position, beginning	2,019,591	1,346,690	3,366,281
Total net position, ending	\$ 2,343,098	\$ 940,058	\$ 3,283,156

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

**LAKE TRAVIS INDEPENDENT SCHOOL DISTRICT**  
**Statements of Cash Flows**  
**Proprietary Funds**  
**Year Ended August 31, 2018**

	<b>Business-type Activities- Nonmajor Enterprise Funds</b>	<b>Governmental Activities- Nonmajor Internal Service Funds</b>	<b>Total Proprietary Funds</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from interfund services provided	\$ 2,777,414	\$ -	\$ 2,777,414
Receipts from contributors	-	10,374,729	10,374,729
Payments to employees	(2,039,856)	-	(2,039,856)
Payments to suppliers	(385,722)	(319,232)	(704,954)
Claims paid	-	(10,605,566)	(10,605,566)
Net cash provided by (used in) operating activities	<u>351,836</u>	<u>(550,069)</u>	<u>(198,233)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of investments	-	(1,575)	(1,575)
Interest received	-	130,976	130,976
Net cash provided by investing activities	<u>-</u>	<u>129,401</u>	<u>129,401</u>
Net increase (decrease) in cash and cash equivalents	351,836	(420,668)	(68,832)
Cash and cash equivalents, beginning of the year	1,660,384	2,154,590	3,814,974
Cash and cash equivalents, end of the year	<u>\$ 2,012,220</u>	<u>\$ 1,733,922</u>	<u>\$ 3,746,142</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>			
Operating income (loss)	\$ 323,507	\$ (537,608)	\$ (214,101)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	22,450	-	22,450
Increase in accounts payable	5,879	-	5,879
Increase in due from other funds	-	(12,461)	(12,461)
Net cash provided by (used in) operating activities	<u>\$ 351,836</u>	<u>\$ (550,069)</u>	<u>\$ (198,233)</u>

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

**LAKE TRAVIS INDEPENDENT SCHOOL DISTRICT**  
**Statement of Fiduciary Net Position**  
**Agency Funds**  
**August 31, 2018**

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	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 111,680
Total assets	<u>\$ 111,680</u>
<b>LIABILITIES</b>	
Due to student groups	\$ 111,680
Total liabilities	<u>\$ 111,680</u>

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

# LAKE TRAVIS INDEPENDENT SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED AUGUST 31, 2018

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **The Financial Reporting Entity**

This report includes those activities, organizations and functions which are related to the Lake Travis Independent School District (the “District”) and which are controlled by or dependent upon the District’s governing body, the Board of School Trustees (the “Board”). The Board, a seven member group, is the level of government which has governance responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the District. Since the District receives funding from local, state and federal government sources, it must comply with the requirements of the entities providing those funds. However, the District is not included in any other governmental “reporting entity” as defined by the Governmental Accounting Standards Board (“GASB”), since Board members are elected by the public and have decision making authority. There are no component units included within the reporting entity.

The accounting policies of the District substantially comply with the rules prescribed by the Texas Education Agency’s Financial Accountability System Resource Guide. These accounting policies conform to generally accepted accounting principles applicable to state and local governments.

#### **Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. Governmental activities, which are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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 and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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. Major individual governmental funds are reported as separate columns in the fund financial statements.

## **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Agency funds have no measurement focus. 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. Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided and 2) operating grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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 government considers revenues to be available if they are collected within sixty 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 are recorded only when payment is due.

Major revenue sources considered susceptible to accrual include state and federal program revenues, interest income, and property taxes. No accrual for property taxes collected within sixty days of year end has been made as such amounts are deemed immaterial; delinquent property taxes at year end are reported as deferred inflows of resources.

The District reports the following major governmental funds:

The General Fund includes financial resources used for general operations. It is a budgeted fund, and any unassigned fund balance is considered resources available for current operations.

The Debt Service Fund includes debt service taxes and other revenues collected to retire bond principal and to pay interest due. It is a budgeted fund.

The Capital Projects Fund includes the proceeds from the sale of bonds and other revenues to be used for authorized construction and other capital asset acquisitions.

Additionally, the District reports the following fund types:

Special Revenue Funds are governmental funds which include resources restricted, committed, or assigned for specific purposes by a grantor or the Board. Federally financed programs where unused balances are returned to the grantor at the close of specified project periods are accounted for in these funds. The District uses project accounting to maintain integrity for the various sources of funds.

The Enterprise Funds are proprietary funds used to account for the operations of the District's community education programs and the operations of and advertising revenues generated from the District's video display board.

The Internal Service Funds are proprietary funds used to account for the District's workers compensation self-insurance fund, self-funded health insurance fund, and employee health savings account fund.

The Agency Fund is an unbudgeted fund and is used to account for activities of student groups. This fund has no equity, assets are equal to liabilities, and they do not include revenues and expenditures for general operations of the District.

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. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

### **Budgetary Information**

Budgets are prepared annually for the General Fund, the Debt Service Fund, and the Food and Nutrition Services Fund (special revenue fund) on the modified accrual basis, which is consistent with generally accepted accounting principles. A formal budget is prepared by the end of August and is adopted by the Board at a public meeting after public notice of the meeting has been given no earlier than the 30th day or later than the 10th day before the public hearing. The legal level of control for budgeted expenditures is the function level within the budgeted funds. Amendments to the budget are required prior to expending amounts greater than the budgeted amounts at the function level. Budgets are controlled at the departmental or campus level, the same level at which responsibility for operations is assigned. The budget was amended by the Board as needed throughout the year. For the year ended August 31, 2018, total expenditures in the General Fund were below budgeted amounts by \$1,955,588, total expenditures in the Food and Nutrition Services Fund were below budgeted amounts by \$245,234, and total expenditures in the Debt Service Fund were below budgeted amounts by \$280,229.



## **Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balance**

Investments - Temporary investments throughout the year consisted of investments in external local government investment pools and money markets, which are recognized at amortized cost and fair value, respectfully. External local government investment pools are recognized at amortized cost as permitted by GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. The District is entitled to invest any and all of its funds in certificates of deposit, direct debt securities of the United States of America or the State of Texas, certain Federal agency securities and other types of municipal bonds, fully collateralized repurchase agreements, commercial paper and local government investment pools. The District's investment policies and types of investments are governed by Section 2256 of the Texas Government Code ("Public Funds Investment Act"). The District's management believes that it complied with the requirements of the Public Funds Investment Act and the District's investment policy. The District accrues interest on temporary investments based on the terms and effective interest rates of the specific investments.

Inventories - Inventories in the General Fund consist of expendable supplies held for consumption. Inventories are charged to expenditures when consumed. Supply and furniture and equipment inventory are recorded at cost (FIFO method) and are offset by a fund balance reserves which indicate that they do not represent "available expendable resources." Inventories in the Food and Nutrition Services Fund consist of commodities, purchased food and supplies. Purchased food and supplies are recorded at cost (FIFO method) and charged to expense when consumed. The commodity portion of inventory is valued at estimated market values supplied by the Texas Department of Human Services.

Capital Assets - Capital assets, which include land, buildings and improvements, construction in progress, furniture and equipment, and vehicles are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of at least \$5,000. Such assets are recorded at historical cost, if purchased, or at acquisition value at the date of donation, if donated. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized. Capital assets (other than land and construction in progress) are depreciated using the straight line method over the following estimated useful lives: buildings and improvements - fifteen to forty years, furniture and equipment - three to twenty years, vehicles - seven to ten years.

Ad Valorem Property Taxes - Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectibles within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

Accumulated Sick Leave Liability - The State of Texas (the "State") has created a minimum sick leave program consisting of five days of sick leave per year with no limit on accumulation and transferability among districts for every person regularly employed in Texas public schools. Each district's local Board is required to establish a sick leave plan. Local school districts may provide additional sick leave beyond the state minimum.

The District's liability for accrued compensated absences as of August 31, 2018 was \$542,649 and is included in the government-wide financial statements. A liability is reported as an expenditure in governmental funds only if they matured, for example, as a result of employee resignations and retirements. Compensated absences are generally liquidated by the General Fund.

Pensions - The fiduciary net position of the Teacher Retirement System of Texas ("TRS") has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Post-Employment Benefits - The District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The fiduciary net position of the 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 other post-employment benefits ("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.

Deferred Outflows and Deferred Inflows of Resources - The District complies with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which provides guidance for reporting the financial statement elements of deferred outflows of resources, which represent the consumption of the District's net position that is applicable to a future reporting period, and deferred inflows of resources, which represent the District's acquisition of net position applicable to a future reporting period.

The District complies with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. See Note 7, 12 and 13 for additional information on deferred inflows and outflows of resources.

Fund Balance/Deficit - The District complies with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. See Note 11 for additional information on those fund balance classifications.

Statement of Cash Flows - For purposes of the statement of cash flows of the Proprietary Funds, cash and cash equivalents include demand deposits.

Fair Value Measurements - The District complies with GASB Statement No. 72, *Fair Value Measurement and Application*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. Fair value accounting requires characterization of the inputs used to measure fair value into a three-level fair value hierarchy as follows:

- Level 1 inputs are based on unadjusted quoted market prices for identical assets or liabilities in an active market the entity has the ability to access.
- Level 2 inputs are observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity.
- Level 3 inputs are unobservable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

There are three general valuation techniques that may be used to measure fair value:

- Market approach - uses prices generated by market transactions involving identical or comparable assets or liabilities.
- Cost approach - uses the amount that currently would be required to replace the service capacity of an asset (replacement cost).
- Income approach - uses valuation techniques to convert future amounts to present amounts based on current market expectations.

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

### **Recently Issued Accounting Pronouncements**

In June 2017, the GASB issued GASB Statement No. 87, *Leases*, effective for fiscal years beginning after December 15, 2019. The objective of GASB Statement No. 87 is to improve accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. GASB Statement No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB Statement No. 87, a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and deferred inflow of resources. Management is evaluating the effects that the full implementation of GASB Statement No. 87 will have on its financial statements for the year ended August 31, 2021.

## 2. DEPOSITS AND INVESTMENTS

The Public Funds Investment Act authorizes the District to invest in funds under a written investment policy, which is approved annually by the Board. The primary objectives of the District's investment strategy for operating and agency funds, in order of priority, are safety, investment liquidity and maturity sufficient to meet anticipated cash flow requirements. The primary objective of the District's investment strategy for Debt Service and Capital Projects Funds is sufficient investment liquidity to meet related obligations.

The District is authorized to invest in the following investment instruments provided that they meet the guidelines established in the investment policy:

- Obligations of, or guaranteed by, governmental entities
- Certificates of deposit and share certificates
- Fully collateralized repurchase agreements
- Securities lending program
- Banker's acceptances
- Commercial paper
- No-load money market mutual funds and no-load mutual funds
- Guaranteed investment contracts as an investment vehicle for bond proceeds
- Public funds investment pools

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the School Depository Act. The depository bank deposits for safekeeping and trust with the District's agent approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance. Therefore the District is not exposed to custodial credit risk. Under the depository contract, the District, at its own discretion, may invest funds in time deposits and certificates of deposit provided by the depository bank at interest rates approximating United States Treasury Bill rates.

At August 31, 2018, the carrying amount of the District's deposits was \$10,248,232 and the bank balance was \$18,257,427. The District's deposits with financial institutions at August 31, 2018 and during the year ended August 31, 2018 were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name. The deposits were collateralized in accordance with Texas law and the Texas Education Agency maintains copies of all safekeeping receipts in the name of the District.

Funds were properly secured at all times throughout the year and the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a) Name of depository bank: Prosperity Bank and Chase Bank
- b) Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was \$81,689,545.
- c) Largest cash, savings and time deposit combined account balance amounted to \$52,616,712 and occurred during the month of July 2018.
- d) Total amount of FDIC coverage at the time of highest combined balance was \$500,000.

The District maintains a cash pool consisting of demand deposits. The combined pool is available for use by most Special Revenue Funds. If a fund overdraws its share of the pool, the overdraft is reported as an interfund payable in that fund. The offsetting interfund receivable is reported in the General Fund.

Investments held at August 31, 2018 consisted of the following:

Type	Fair Value	Weighted Average Maturity (Days)	Standard & Poor's Rating
Local Governmental Investment Pool:			
TexPool	\$ 120,487,962	1	AAAm
MBIA Texas CLASS	<u>4,695,359</u>	1	AAAm
	125,183,321		
Prosperity Bank-			
Money market accounts	<u>25,080,894</u>	1	N/A
	<u>\$ 150,264,215</u>		

The District had investments in two external local governmental investment pools at August 31, 2018, consisting of the Texas Local Governmental Investment Pool (“TexPool”) and MBIA Texas CLASS (“MBIA”).

Although TexPool is not registered with the SEC as an investment company, it operates in a manner consistent with the SEC’s Rule 2a7-of the Investment Company Act of 1940. MBIA is registered with the SEC. These investments are stated at amortized cost in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

TexPool is overseen by the Texas State Comptroller of Public Accounts, who is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust Company which is authorized to operate TexPool. TexPool also has an advisory board to advise on TexPool's investment policy, which is made up equally of participants and nonparticipants who do not have a business relationship with TexPool. Federated Investors manages daily operations of TexPool under a contract with the Comptroller and is the investment manager for the pool. TexPool's investment policy stipulates that it must invest in accordance with the Public Funds Investment Act.

MBIA is administered by MBIA-Municipal Investors Service Corporation ("MISC") and Wells Fargo Bank Texas. MISC is a subsidiary of MBIA Asset Management Group, one of the nation's largest providers of administrative and portfolio management services for local government investment pools. MBIA is supervised by a Board of Trustees who are elected by participants. The responsibility of the Board of Trustees includes the ability to influence operations, designation of management and accountability for fiscal matters. In addition, MBIA has an Advisory Board which provides input and feedback on the operations and direction of the program. Standard and Poor's reviews the pool on a weekly basis to ensure the pool's compliance with its rating requirements. MBIA's investment policy stipulates that it must invest in accordance with the Public Funds Investment Act.

In accordance with GASB Statement No. 79, the external local government investment pools do not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. These pools do not impose any liquidity fees or redemption gates.

Money markets are valued using Level 1 inputs that are based on market data obtained from independent sources. The investments are reported by the District at fair value in accordance with GASB Statement No. 72.

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized agencies are designed to give an indication of credit risk. At August 31, 2018, investments were included in external local government investment pools and money market accounts with ratings from Standard & Poor's in compliance with the District's investment policy.

Custodial Credit Risk - Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the District, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name. At August 31, 2018, the District was not exposed to custodial credit risk.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investments in a single issuer. Information regarding investments in any one issuer that represents five percent or more of the District's total investments must be disclosed under GASB Statement No. 40, excluding investments issued or explicitly guaranteed by the U.S. government. At August 31, 2018, the District had 100% of its investments in money market accounts and external local government investment pools.

Interest Rate Risk - As a means of minimizing risk of loss due to interest rate fluctuations, the District's investment policy requires that maturities will not exceed the weighted average maturity of 180 days for any internally created pool fund group and one year from the time of purchase for any other individual investment. The Board may specifically authorize a longer maturity for a given investment, within legal limits. The District considers the holdings in the external local government investment pools to have a one day weighted average maturity due to the fact that the share position can usually be redeemed each day at the discretion of the shareholders, unless there has been a significant change in value. At August 31, 2018, investments were included in external local government investment pools and money market accounts which have a weighted average maturity of one day.

### **3. PROPERTY TAXES**

The Texas Legislature in 1979 adopted a comprehensive Property Tax Code (the "Code") which established a county-wide appraisal district and an appraisal review board in each county in the State. The Travis Central Appraisal District (the "Appraisal District") is responsible for the recording and appraisal of all property in the District. Under the Code, the Board sets the tax rates on property and the Travis County Tax Office provides tax collection services. The Appraisal District is required under the Code to assess property at 100% of its appraised value. Further, real property must be reappraised at least every three years. Under certain circumstances, taxpayers and taxing units, including the District, may challenge orders of the Appraisal Review Board through various appeals and, if necessary, legal action.

Property taxes are levied as of October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes and penalties and interest that are ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period, including those property taxes expected to be collected during a 60 day period after the end of the District's fiscal year. The assessed value at January 1, 2017, upon which the October 2017 levy was based was \$10,969,867,472. The District levied taxes based on a combined tax rate of \$1.4075 per \$100 of assessed valuation for local maintenance (general governmental services) and debt service.

In May 1993, the Texas Legislature passed Senate Bill 7. Senate Bill 7 significantly changed certain aspects of the school finance system relative to accountability, teacher appraisal, career ladder, funding allotments, district local share, distribution of Foundation School Funds, tax limitations and rollback tax provisions. Funding equalization for school districts is a major component of the bill. Districts with wealth per student in excess of \$319,500 are required to take action to bring their wealth down to the equalized State level. During the year ended August 31, 2018, the District was required to pay \$43,527,535 to purchase attendance credits to equalize its wealth per weighted average daily attendance ("WADA"). This purchase of WADA was made to the Texas Education Agency and was incorporated into the District's budget.

**4. DUE FROM/TO OTHER GOVERNMENTS**

The District participates in a variety of federal and state programs from which it receives grants to partially or fully fund certain activities. The District also receives entitlements from the State through the School Foundation and Per Capita Programs. The District is also required to make payments to the State to equalize its WADA (see Note 3). These amounts are reported in the basic financial statements as Due from/to Other Governments and are summarized below as of August 31, 2018.

	General Fund	Nonmajor Governmental Funds	Total
Federal and state grants	\$ -	653,845	653,845
Total due from other governments	<u>\$ -</u>	<u>653,845</u>	<u>653,845</u>
Other	\$ 3,815	-	3,815
Total due to other governments	<u>\$ 3,815</u>	<u>-</u>	<u>3,815</u>

**5. INTERFUND RECEIVABLES AND PAYABLES**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds.” The composition of interfund balances as of August 31, 2018 was as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Special Revenue Funds	\$ 698,890
Internal Service Fund	General Fund	<u>14,174</u>
Total		<u>\$ 713,064</u>



## 6. CAPITAL ASSETS

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

	Beginning Balance	Increases	Disposals	Transfers	Ending Balance
<b>Governmental activities:</b>					
Capital assets, not being depreciated:					
Land	\$ 28,417,557	-	-	-	28,417,557
Construction in progress	2,872,169	42,213,133	-	(855,816)	44,229,486
Total capital assets, not being depreciated	31,289,726	42,213,133	-	(855,816)	72,647,043
Capital assets, being depreciated:					
Buildings and improvements	328,889,887	-	-	855,816	329,745,703
Furniture and equipment	15,403,932	691,197	-	-	16,095,129
Vehicles	8,421,973	5,283,849	(1,415,796)	-	12,290,026
Total capital assets being depreciated	352,715,792	5,975,046	(1,415,796)	855,816	358,130,858
Less accumulated depreciation for:					
Buildings and improvements	(80,942,691)	(8,753,918)	-	-	(89,696,609)
Furniture and equipment	(10,978,498)	(923,468)	-	-	(11,901,966)
Vehicles	(5,316,104)	(603,378)	1,401,101	-	(4,518,381)
Total accumulated depreciation	(97,237,293)	(10,280,764)	1,401,101	-	(106,116,956)
Total capital assets, being depreciated, net	255,478,499	(4,305,718)	(14,695)	855,816	252,013,902
Governmental activities capital assets, net	\$286,768,225	37,907,415	(14,695)	-	324,660,945
<b>Business-type activities:</b>					
Buildings and improvements	\$ 449,008	-	-	-	449,008
Accumulated depreciation	(89,801)	(22,450)	-	-	(112,251)
Business-type activities capital assets, net	\$ 359,207	(22,450)	-	-	336,757

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

**Governmental activities:**

Instruction	\$ 6,317,204
Instructional resources and media services	59,539
Instructional leadership	18,558
School leadership	272,004
Guidance, counseling, and evaluation services	150,833
Health services	46,147
Student transportation	608,288
Food services	272,581
Extracurricular activities	608,402
General administration	35,760
Facilities maintenance and operations	1,177,334
Data processing services	674,598
Community services	39,516
	<u>                    </u>
Total depreciation expense - governmental activities	<u>\$ 10,280,764</u>

**Business-type activities-**

Video display board	<u>\$ 22,450</u>
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**7. DEFERRED CHARGES ON BOND REFUNDINGS**

The following is a summary of changes in deferred charges on bond refundings for the year ended August 31, 2018:

Deferred charges on bond refundings - August 31, 2017	\$ 4,756,595
Additions from Series 2017 refunding	8,989,114
Retirements from refundings	<u>(733,187)</u>
Deferred charges on bond refundings - August 31, 2018	<u>\$ 13,012,522</u>

**8. LONG-TERM LIABILITIES**

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

	Beginning Balance	Additions	Retirements	Ending Balance
General obligation bonds	\$ 222,725,000	226,510,000	(110,830,000)	338,405,000
Premiums on bonds	28,667,030	21,496,811	(11,455,939)	38,707,902
Compensated absences	430,441	112,208	-	542,649
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total	<u>\$ 251,822,471</u>	<u>248,119,019</u>	<u>(122,285,939)</u>	<u>377,655,551</u>

Bonded debt consisted of the following at August 31, 2018:

General Obligation Bonds Series	Date of Issue	Amounts of Original Issue	Maturity Date	Interest Rate	Outstanding at 8-31-18	Due Within One Year
2012	08-15-12	143,120,000	2042	3-5%	23,625,000	3,490,000
2013	02-28-13	104,600,000	2036	1.5-5%	90,135,000	5,050,000
2017	12-21-17	82,905,000	2040	1.5-5%	81,040,000	-
2018A	04-03-18	108,735,000	2048	3-5%	108,735,000	12,700,000
2018B	04-05-18	34,870,000	2048	2.65-7%	34,870,000	-
		<u>\$ 474,230,000</u>			<u>\$ 338,405,000</u>	<u>\$ 21,240,000</u>

For the general obligation bonds, the District has pledged as collateral the proceeds of a continuing, direct annual tax levied against taxable property within the District without limitation as to rate. The Texas Education Code generally limits issuance of additional ad valorem tax bonds if the tax rate needed to pay aggregate principal and interest amounts of the District's tax bond indebtedness exceeds \$0.50 per \$100 of assessed valuation of taxable property within the District. The District currently has a debt service tax rate of \$0.3475.

On December 21, 2017, the District issued \$82,905,000 of Unlimited Tax Refunding Bonds to advance refund \$84,090,000 of previously issued District bonds in order to lower its overall debt service requirements. The net proceeds of \$93,082,577 (after payment of \$772,655 in underwriting fees, insurance, and other issuance costs) were used for the following: \$93,079,114 was deposited with an escrow agent to provide the debt service payment on the portion of bonds advance refunded and \$3,463 was deposited in the Debt Service Fund for future interest and principal payments. As a result, \$84,090,000 of bond principal is considered defeased and the liability for these bonds was removed from the basic financial statements. The reacquisition price exceeded the net carrying amount of the old debt by \$8,989,114. This amount is recorded as a deferred outflow of resources and amortized over the remaining life of the refunded debt which is shorter than the life of the new debt issued. The advance refunding reduced debt service payments by \$14,614,871 and resulted in an economic gain of \$10,771,250.

On April 3, 2018, the District issued \$108,735,000 in Unlimited Tax School Building Bonds, Series 2018A, for the acquisition, construction, renovation and equipment of school facilities in the District, including the purchase of school sites and school buses, to fund capitalized interest on the bonds, and to pay costs of issuance of the bonds. The net proceeds of \$118,011,047 (after payment of \$840,092 in underwriting fees, insurance, and other issuance costs) were used for the following: \$118,000,000 was invested by the District to fund future construction and \$11,047 was deposited in the Debt Service Fund for future interest and principal payments and bond issuance costs.

On April 5, 2018, the District issued \$34,870,000 in Variable Rate Unlimited Tax School Building Bonds, Series 2018B, for the acquisition, construction, renovation and equipment of school facilities in the District, including the purchase of school sites and school buses, to fund capitalized interest on the bonds, and to pay costs of issuance of the bonds. The net proceeds of \$35,007,219 (after payment of \$304,235 in underwriting fees, insurance, and other issuance costs) were used for the following: \$35,000,000 was invested by the District to fund future construction and \$7,219 was deposited in the Debt Service Fund for future interest and principal payments and bond issuance costs.

In February 2018, the District made early payments of \$17,414,789 on its Series 2012 bonds prior to its scheduled maturity date. This included \$16,285,000 and \$1,129,789 of principal and accrued interest, respectively. The Series 2012 bonds paid had maturity dates of February 2023 through 2042. These early payments resulted in overall debt service savings to the District of approximately \$11,390,618.

In the current and prior year, the District defeased certain outstanding general obligation bonds by placing advance payments made by the District in irrevocable trusts to provide for all the future debt service payments on the bonds redeemed early by the District. Accordingly, the trust account assets and the defeased bonds are not included in the District's financial statements. At August 31, 2018, outstanding bonds of \$105,760,000 are considered defeased.

The annual principal installments for each of the outstanding issues vary each year. As of August 31, 2018, the debt service requirements to maturity for general obligation bonds are as follows:

Year Ended August 31,	Governmental Activities		
	Principal	Interest	Total
2019	\$ 21,240,000	16,050,784	37,290,784
2020	15,545,000	13,047,451	28,592,451
2021	17,110,000	12,308,038	29,418,038
2022	10,265,000	12,419,094	22,684,094
2023	7,000,000	12,785,025	19,785,025
2024-2028	48,100,000	58,141,600	106,241,600
2029-2033	65,345,000	45,124,700	110,469,700
2034-2038	68,265,000	29,965,945	98,230,945
2039-2043	46,110,000	16,152,083	62,262,083
2044-2048	39,425,000	5,632,850	45,057,850
Total	<u>\$ 338,405,000</u>	<u>221,627,570</u>	<u>560,032,570</u>

The Series 2018B Bonds are variable interest bonds and will bear interest at a per annum rate of 2.65% through February 14, 2022. Thereafter, the bonds will bear interest at a rate or rates determined by the remarketing agent as provided in the bond order.

At August 31, 2018, the District had \$100 million of its general obligation bonds authorized by voters of the District that had not been issued.

**9. UNEARNED REVENUE**

At August 31, 2018, unearned revenue in the governmental funds consisted of the following:

	General Fund	Nonmajor Governmental Funds	Total
Football season tickets	\$ 164,763	-	164,763
Prepayments for student meals	-	254,442	254,442
<b>Total</b>	<b>\$ 164,763</b>	<b>254,442</b>	<b>419,205</b>

**10. REVENUES FROM LOCAL AND INTERMEDIATE SOURCES**

For the year ended August 31, 2018, revenues from local and intermediate sources in the governmental funds consisted of the following:

	General Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total
Property taxes	\$111,039,630	36,400,880	-	-	147,440,510
Investment earnings	923,814	111,965	947,831	8,393	1,992,003
Penalties, interest, and other tax related income	543,576	195,228	-	-	738,804
Tuition and fees from patrons	78,980	-	-	2,210,942	2,289,922
Food service	-	-	-	4,563,104	4,563,104
Co-curricular student activities	476,749	-	-	-	476,749
Rent	437,493	-	-	-	437,493
Gifts and donations	-	-	-	831,055	831,055
Other	198,188	-	-	-	198,188
<b>Total</b>	<b>\$113,698,430</b>	<b>36,708,073</b>	<b>947,831</b>	<b>7,613,494</b>	<b>158,967,828</b>

## 11. FUND BALANCES

The District complies with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Those fund balance classifications are described below.

Nonspendable - Amounts that cannot be spent because they are either not in a spendable form or are legally or contractually required to be maintained intact.

Restricted - Amounts that can be spent only for specific purposes because of constraints imposed by external providers, or imposed by constitutional provisions or enabling legislation.

Committed - Amounts that can only be used for specific purposes pursuant to approval by formal action by the Board.

Assigned - For the General Fund, the Board, or an official or body that has been delegated authority by the Board, may appropriate amounts that are to be used for a specific purpose. For all other governmental funds, any remaining positive amounts not previously classified as nonspendable, restricted or committed.

Unassigned - Amounts that are available for any purpose; these amounts can be reported only in the District's General Fund.

The detail of the fund balances are included in the Governmental Funds Balance Sheet on page 17.

Fund balance of the District may be committed for a specific purpose by formal action of the Board, the District's highest level of decision-making authority. Commitments may be established, modified, or rescinded only through a resolution approved by the Board. The Board has delegated authority to the Superintendent or the Assistant Superintendent for Business, Financial and Auxiliary Services to assign fund balance for a specific purpose.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

## **12. DEFINED BENEFIT PENSION PLANS**

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

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load 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 <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

### **Benefits Provided**

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

### **Contributions**

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83<sup>rd</sup> Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 83<sup>rd</sup> Texas Legislature, General Appropriations Act (“GAA”) established the employer contribution rates for fiscal years 2014 and 2015. The 84<sup>th</sup> Texas Legislature GAA established the employer contributions rates for fiscal years 2016 and 2017.

	2017	2018
Contribution Rates:		
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
FY 2018 District Contributions		\$ 1,434,482
FY 2018 Member Contributions		\$ 4,059,301
FY 2018 NECE On-behalf Contributions		\$ 1,995,785

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the GAA.

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

- On the portion of the member’s salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member’s first 90 days of employment.
- When any part or all of an employee’s salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.



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

- When employing a retiree of 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 Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

**Actuarial Assumptions**

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

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.50%
Salary Increases including inflation	3.50% to 9.50%
Payroll Growth Rate	2.50%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

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

**Discount Rate**

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8.0%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of geometric real rates of return for each major asset class included in TRS' target asset allocation as of August 31, 2017 are summarized below:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Return*
Global Equity:			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value:			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	(0.2%)	0.0%
Real Return:			
Global Inflation-Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity-			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
Total	<u>100%</u>		<u>8.7%</u>

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

### Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2017 Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
District's proportionate share of the net pension liability	\$ 22,391,654	\$ 13,282,490	\$ 5,697,633

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At August 31, 2018, the District reported a liability of \$13,282,490 for its proportionate share of the TRS’s net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District’s Proportionate share of the collective net pension liability	\$ 13,282,490
State’s proportionate share that is associated with the District	<u>26,164,741</u>
Total	<u>\$ 39,447,231</u>

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

At August 31, 2017 the employer’s proportion of the collective net pension liability was 0.04154% which was an increase of 0.00046% from its proportion measured as of August 31, 2016.

**Changes Since the Prior Actuarial Valuation**

There were no changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

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

For the year ended August 31, 2018, the District recognized pension expense of \$2,081,877 and revenue of \$1,995,742 for support provided by the State.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 194,329	\$ 716,307
Changes in actuarial assumptions	605,039	346,370
Difference between projected and actual investment earnings	-	967,999
Changes in proportion and difference between the employer’s contributions and the proportionate share of contributions	3,000,283	863
Contributions paid to TRS subsequent to the measurement date	<u>1,434,482</u>	<u>-</u>
Total	<u>\$ 5,234,133</u>	<u>\$ 2,031,539</u>

The \$1,434,482 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2019. The net amounts of the employer’s balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>Pension Expense Amount</u>
Year ended August 31:	
2019	\$ 313,976
2020	1,161,832
2021	248,828
2022	(18,762)
2023	57,502
Thereafter	4,736

### 13. DEFINED OTHER POST-EMPLOYEMENT BENEFIT PLANS

#### Plan Description

The District participates in the Texas Public School Retired Employees Group Insurance Program (“TRS-Care”). It is a multiple-employer, cost-sharing OPEB plan that has a special funding situation. The plan is administered through a trust by the TRS Board of Trustees. It is established and administered in accordance with the Texas Insurance Code, Chapter 1575.

## OPEB Plan Fiduciary Net Position

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

## Benefits Provided

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

Eligible retirees and their dependents not enrolled in Medicare may pay premiums to participate in one of two optional insurance plans with more comprehensive benefits (TRS-Care 2 and TRS-Care 3). Eligible retirees and dependents enrolled in Medicare may elect to participate in one of the two Medicare health plans for an additional fee. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. The Board of Trustees is granted the authority to establish basic and optional group insurance coverage for participants as well as to amend benefit terms as needed under Chapter 1575.052. There are no automatic post-employment benefit changes; including automatic COLAs.

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

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

	TRS-Care 1 Basic Plan	TRS-Care 2 Optional Plan	TRS-Care 3 Optional Plan
Retiree*	\$ -	\$ 70	\$ 100
Retiree and Spouse	20	175	255
Retiree* and Children	41	132	182
Retiree and Family	61	237	337
Surviving Children only	28	62	82

*\*or surviving spouse*

## Contributions

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

Texas Insurance Code, section 1575.202 establishes the state’s contribution rate which is 1.0% of the employee’s salary. Section 1575.203 establishes the active employee’s rate which is 0.65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

	<u>2017</u>	<u>2018</u>
<b>Contribution Rates:</b>		
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.00%	1.25%
Employers	0.55%	0.75%
Federal/private Funding remitted by Employers	1.00%	1.25%
FY 2018 District Contributions		\$ 412,926
FY 2018 Member Contributions		\$ 342,670
FY 2018 NECE On-behalf Contributions		\$ 483,887

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

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$15.6 million in fiscal year 2017 and \$182.6 million in fiscal year 2018.

### **Actuarial Assumptions**

The total OPEB liability in the August 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

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

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

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.50%
Discount Rate	3.42%
Aging Factors	Based on plan specific experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs
Payroll Growth Rate	2.50%
Projected Salary Increases	3.50% to 9.50%
Healthcare Trend Rates	4.50% to 12.00%
Election Rates	Normal retirement: 70% participation prior to age 65 and 75% participation after age 65
Ad hoc post-employment benefit changes	None

There was a significant plan change adopted in the fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option will be offered and all retirees will be required to contribute monthly premiums for coverage. Assumption changes made for the August 31, 2017 valuation include a change to the assumption regarding the phase-out of the Medicare Part D subsidies and a change to the discount rate from 2.98% as of August 31, 2016 to 3.42% as of August 31, 2017.

**Discount Rate**

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

Best estimates of geometric real rates of return for each major asset class included in TRS' target asset allocation as of August 31, 2017 are summarized below.

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Return*
<b>Global Equity:</b>			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
<b>Stable Value:</b>			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	(0.2%)	0.0%
<b>Real Return:</b>			
Global Inflation-Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity- Risk Parity	5%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
<b>Total</b>	<b>100%</b>		<b>8.7%</b>

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

### Sensitivity Analysis

*Discount Rate* - The following schedule shows the impact of the Net OPEB Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.42%) in measuring the 2017 Net OPEB Liability.

	1% Decrease in Discount Rate (2.42%)	Discount Rate (3.42%)	1% Increase in Discount Rate (4.42%)
District's proportionate share of the net OPEB liability	\$ 28,328,949	\$ 24,002,534	\$ 20,525,072



*Healthcare Cost Trend Rates* - The following schedule shows the impact of the Net OPEB Liability if the healthcare cost trend rates used were 1% less than and 1% greater than the healthcare cost trend rates that was used in measuring the 2017 Net OPEB Liability.

	1% Decrease in Healthcare Cost Trend Rates	Current Healthcare Cost Trend Rates	1% Increase in Healthcare Cost Trend Rates
	<u>                    </u>	<u>                    </u>	<u>                    </u>
District's proportionate share of the net OPEB liability	\$ 19,984,508	\$ 24,002,534	\$ 29,274,691

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

At August 31, 2018, the District reported a liability of \$24,002,534 for its proportionate share of the TRS's net OPEB liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's Proportionate share of the collective net OPEB liability	\$ 24,002,534
State's proportionate share that is associated with the District	<u>40,861,087</u>
Total	<u><u>\$ 64,863,621</u></u>

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

At August 31, 2017 the employer's proportion of the collective net OPEB liability was 0.05520% which was the same proportion measured as of August 31, 2016.

**Changes Since the Prior Actuarial Valuation**

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

- Significant plan changes were adopted during the fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option will exist (instead of three), and all retirees will be required to contribute monthly premiums for coverage. The health plan changes triggered changes to several of the assumptions, including participation rates, retirement rates, and spousal participation rates.

- The August 31, 2016 valuation had assumed that the savings related to the Medicare Part D reimbursements would phase out by 2022. This assumption was removed for the August 31, 2017 valuation. Although there is uncertainty regarding these federal subsidies, the new assumption better reflects the current substantive plan. This change was unrelated to the plan amendment, and its impact was included as an assumption change in the reconciliation of the total OPEB liability. This change significantly lowered the OPEB liability.
- The discount rate changed from 2.98 percent as of August 31, 2016 to 3.42 percent as of August 31, 2017. This change lowered the total OPEB liability.

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

For the year ended August 31, 2018, the District recognized OPEB expense of \$(8,046,267) and revenue of \$13,673,206 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 501,071
Changes in actuarial assumptions	-	9,539,234
Difference between projected and actual investment earnings	3,646	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	109	-
Contributions paid to TRS subsequent to the measurement date	412,926	-
Total	<u>\$ 416,681</u>	<u>\$ 10,040,305</u>

The \$412,926 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended August 31, 2019. The net amounts of the employer's balances of deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	OPEB Expense Amount
Year ended August 31:	
2019	\$ (1,324,334)
2020	(1,324,334)
2021	(1,324,334)
2022	(1,324,334)
2023	(1,325,245)
Thereafter	(3,413,969)

#### 14. ON-BEHALF PAYMENTS

The District recognizes as revenues and expenditures retiree drug subsidy reimbursements under the provisions of Medicare Part D made by the federal governments to TRS on behalf of the District. For the year ended August 31, 2018, reimbursements of \$157,080 were received by TRS and allocated to the District.

#### 15. HEALTH CARE COVERAGE

During the year ended August 31, 2018, employees of the District were covered by a health insurance plan (the “Plan”). The District contributed \$500 per month per employee to the Plan, and employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents.

In fiscal year 2016, the District started a self-funded health insurance plan administered by Blue Cross Blue Shield. The District established an Internal Service Fund to account for and finance this partially uninsured risk of loss. The District is obligated to pay its own claims up to \$175,000 per claim. The claim liability below is an estimate of potential loss exposure on health insurance claims at year end which includes incurred but not reported (“IBNR”) claims and claims reported but not paid. A reconciliation of the estimated claim liability is as follows:

<u>Year Ended August 31,</u>	<u>Beginning Liability</u>	<u>Estimated Current Year Claims</u>	<u>Claim Payments</u>	<u>Ending Liability</u>
2016	\$ -	6,674,887	(6,344,849)	330,038
2017	\$ 330,038	11,080,368	(10,722,700)	687,706
2018	\$ 687,706	10,436,261	(10,436,261)	687,706

#### 16. RISK MANAGEMENT

The District’s risk management program includes coverages through third party insurance providers for property, automobile liability, school professional liability, crime, and other miscellaneous bonds. During the year ended August 31, 2018, there were no significant reductions in insurance coverage from coverage in the prior year. Losses in excess of the various deductible levels are covered through traditional indemnity coverage for buildings and contents, and vehicle liability with various insurance firms. Settled claims have not exceeded insurance limits for the past three years.

**17. SELF-INSURANCE FUND**

The District has a partially self-insured workers’ compensation plan administered by Texas Public School’s Workers Compensation Project (“SchoolComp”) which is an insurance pool. The District established an Internal Service Fund to account for and finance this partially uninsured risk of loss. The District is obligated to pay its own claims up to \$75,000 per claim. The claim liability below is an estimate of potential loss exposure on workers’ compensation claims at year end which includes incurred but not reported (“IBNR”) claims and claims reported but not paid. A reconciliation of the estimated claim liability is as follows:

Year Ended August 31,	Beginning Liability	Estimated Current Year Claims	Claim Payments	Ending Liability
2016	\$ 225,909	79,056	(65,164)	239,801
2017	\$ 239,801	54,478	(64,042)	230,237
2018	\$ 230,237	208,935	(208,935)	230,237

**18. COMMITMENTS AND CONTINGENCIES**

The District participates in a number of federal financial assistance programs. Although the District grant programs have been audited in accordance with the provisions of the Uniform Guidance for the year ended August 31, 2018, these programs are subject to financial and compliance audits. The amounts, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

At August 31, 2018, the District is also committed under construction contracts with a remaining balance of \$41,237,304.

**19. PRIOR PERIOD ADJUSTMENT**

In accordance with the adoption of GASB Statement No. 75 in the current fiscal year, the District must record its proportionate share of the net OPEB liability related to its contributions to the TRS cost-sharing OPEB plan at the beginning of the measurement period ending August 31, 2017. In addition, the District must record a deferred outflow of resources for its contributions to TRS-Care from the beginning of the measurement period through August 31, 2017. The effect of this change in accounting principle is as follows:

Net position - governmental activities - August 31, 2017	\$ 69,193,562
Net OPEB liability - August 31, 2016	(42,375,262)
District contributions - September 1, 2016 - August 31, 2017	<u>286,963</u>
Net position - governmental activities - August 31, 2017, as restated	<u>\$ 27,105,263</u>

**APPENDIX D**  
**FORM OF LEGAL OPINION**  
**OF BOND COUNSEL**

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**FINAL**

IN REGARD to the authorization and issuance of the “Lake Travis Independent School District Unlimited Tax School Building Bonds, Series 2019” (the *Bonds*), dated January 15, 2019, in the aggregate original principal amount of \$92,705,000 we have reviewed the legality and validity of the issuance thereof by the Lake Travis 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 15 in each of the years 2020 through 2041, February 15, 2044 (5.000% coupon), February 15, 2044 (4.000% coupon), and February 15, 2046, unless optionally or mandatorily 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

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**Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of “LAKE TRAVIS INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2019”**

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.

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 in 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.



**Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of “LAKE TRAVIS INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2019”**

Norton Rose Fulbright US LLP

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