Ratings: Moody's "Aaa" / "Aa2"
S&P "AAA" / "AA-"
(See "RATINGS" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein)

PRELIMINARY OFFICIAL STATEMENT
Dated: May 14, 2020

NEW ISSUE: BOOK-ENTRY-ONLY

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

$30,205,000*
SPRING INDEPENDENT SCHOOL DISTRICT
(Harris County, Texas)
Unlimited Tax Refunding Bonds, Series 2020

Dated Date: June 1 **Due: August 15, as shown on page ii**
Interest Accrual Date: Date of Delivery (defined below)

The Spring Independent School District (the "District") is issuing its $30,205,000* Unlimited Tax Refunding Bonds, Series 2020 (the "Bonds") in accordance with the Constitution and general laws of the State of Texas, particularly Chapter 1207 ("Chapter 1207"), Texas Government Code, as amended, Chapter 1371 ("Chapter 1371"), Texas Government Code, as amended, and an order authorizing the issuance of the Bonds (the "Bond Order"). In the Bond Order, the Board delegated to officers of the District, pursuant to certain provisions of Chapter 1207 and Chapter 1371, authority to complete the sale of the Bonds. The terms of the sale will be included in a "Pricing Certificate," which will complete the sale of the Bonds (the Bond Order and the Pricing Certificate are collectively referred to as the "Order").

The Bonds constitute direct obligations of the District and are payable as to principal and interest from the proceeds of an ad valorem tax levied, without legal limit as to rate or amount, against all taxable property located within the District (see "THE BONDS – Authorization and Purpose" herein). The District has received conditional approval from the Texas Education Agency for the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (herein defined) which will automatically become effective when the Attorney General of Texas approves the Bonds (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein).

Interest on the Bonds will accrue from the date they are initially delivered to the underwriters named below (the "Underwriters") and will be payable on February 15 and August 15 of each year, commencing August 15, 2020, until maturity or prior redemption. The Bonds will be issued in principal denominations of $5,000 or any integral multiple within a maturity. Interest accruing on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months (see "THE BONDS – General Description" herein).

The District intends to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York ("DTC"), but reserves the right on its behalf or on behalf of DTC to discontinue such system. The principal and interest on the Bonds will be payable to Cede & Co., as nominee for DTC, by The Bank of New York Mellon Trust Company, N.A., Dallas, 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 beneficial owners thereof**. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer of the Bonds (see "BOOK-ENTRY-ONLY SYSTEM" herein).

Proceeds from the sale of the Bonds will be used to (i) refund a portion of the District's outstanding debt, as more particularly described in SCHEDULE I –REFUNDED BONDS (the "Refunded Bonds") in order to lower the overall debt service requirements of the District and (ii) pay the costs of issuance of the Bonds (see "THE BONDS – Authorization and Purpose").

CUSIP PREFIX: 850000
MATURITY SCHEDULE
See Schedule on Page ii

The Bonds are offered when as and if issued, subject to the opinion of the Attorney General of Texas, and the opinion of Bracewell LLP of Houston, Texas, ("Bond Counsel"). Certain legal matters will be passed upon for the Underwriters by Orrick Herrington & Sutcliffe LLP, Houston, Texas, as counsel to the Underwriters. The Bonds are expected to be available for initial delivery through the services of DTC on or about June 16, 2020 (the "Date of Delivery").

PIPER SANDLER & CO.

SIEBERT WILLIAMS SHANK & CO., LLC | **BOK FINANCIAL SECURITIES, INC**

* Preliminary, subject to change.

CUSIP Prefix: 850000[(A)]

MATURITY SCHEDULE*

$30,205,000*
UNLIMITED TAX REFUNDING BONDS, SERIES 2020

Maturity Date (8/15)	Principal Amount*	Interest Rate	Initial Reoffering Yield[(B)]	CUSIP Suffix[(A)]
2020	$475,000	%	%	
2021	5,000,000			
2022	4,605,000			
2023	4,910,000			
2024	4,780,000			
2025	5,070,000			
2026	5,365,000			

(Interest to Accrue from the Date of Delivery)

Optional Redemption…The Bonds are not subject to optional redemption prior to their stated maturity.

* Preliminary, subject to change.

(A) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. This data is included solely for the convenience of the registered owners of the Bonds, 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, nor the Underwriters are responsible for the selection or correctness of the CUSIP numbers set forth herein.
(B) The initial yields are established by and are the sole responsibility of the Underwriters, and may subsequently be changed. Initial yields are calculated to maturity or the first optional redemption date, whichever produces the lowest yield.

SPRING INDEPENDENT SCHOOL DISTRICT

ELECTED OFFICIALS

Name	Term Expires	Occupation
Ms. Rhonda Newhouse, President	Nov 2020	Field Supervisor of Principals & Counselor Certification, Prairie View A&M University
Dr. Deborah Jensen, Vice President	Nov 2022	Retired Educator
Mr. Donald Davis, Secretary	Nov 2021	Retired Educator
Mr. Winford Adams Jr.	Nov 2020	Public Information & Policy Manager, Harris County Dept of Education
Ms. Justine Durant	Nov 2022	Regional Director, Cigna Healthcare
Ms. Jana Gonzales	Nov 2021	VP, InvesTex Credit Union
Ms. Kelly P. Hodges	Nov 2022	ED, Historic Houston Texans YMCA

CERTAIN DISTRICT OFFICIALS

Name	Position
Dr. Rodney E. Watson	Superintendent
Ms. Ann Westbrooks	Chief Financial Officer
Ms. Stephenie Frisch	Senior Accountant – Bond & Construction

CONSULTANTS AND ADVISORS

Bracewell LLP Houston, Texas	Bond Counsel
RBC Capital Markets, LLC Dallas, Texas	Financial Advisor
Whitley Penn, LLP Certified Public Accountants Houston, Texas	Independent Auditor

FOR ADDITIONAL INFORMATION PLEASE CONTACT:

Ann Westbrooks
Chief Financial Officer
Spring Independent School District
16717 Ella Blvd
Houston, Texas 77090
Phone: (281) 891-6077

Clarence Grier
Managing Director
RBC Capital Markets, LLC
609 Main Street, 36th Floor
Houston, Texas 77002
Phone: (713) 853-0823

USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

This Official Statement, which includes the cover page and the Appendices, is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. See "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 and the District, respectively, to provide certain information on a continuing basis.

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.

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.

Neither the District nor the Underwriters make any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company or its Book-Entry-Only system or the affairs of the Texas Education Agency described under "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM."

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

References to website 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 websites and the information or links contained therein are not incorporated into, and are not part of, this final official statement for any purposes.

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

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 (see "FORWARD LOOKING STATEMENTS" herein).

TABLE OF CONTENTS

The cover page hereof, the section entitled "Selected Data from the Official Statement," this Table of Contents, Schedule I 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.

The Issuer	Spring Independent School District (the "District") is a political subdivision located in Harris 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").
Authority for Issuance	The District's Unlimited Tax Refunding Bonds, Series 2020 (the "Bonds") are being issued pursuant to the Constitution and general laws of the state of Texas, including particularly Chapter 1207, Texas Government Code, as amended, Chapter 1371 ("Chapter 1371"), Texas Government Code, as amended and an order passed by the Board (the "Bond Order"). In the Bond Order, the Board delegated to officers of the District (the "Authorized Officers"), pursuant to certain provisions of Chapter 1207 and Chapter 1371, authority to complete the sale of the Bonds. The terms of the sale will be included in a "Pricing Certificate," which will complete the sale of the Bonds (the Bond Order and the Pricing Certificate are collectively referred to as the "Order").
Use of Proceeds	Proceeds from the sale of the Bonds will be used to (i) refund a portion of the District's outstanding debt, as more particularly described in SCHEDULE I –REFUNDED BONDS (the "Refunded Bonds") in order to lower the overall debt service requirements of the District and (ii) pay the costs of issuance of the Bonds (see "THE BONDS – Authorization and Purpose").
Payment of Interest	Interest on the Bonds will accrue from the date they are initially delivered (the "Date of Delivery") to the initial purchasers thereof named on the cover page of this Official Statement (the "Underwriters"), and will be payable semiannually on February 15 and August 15 each year, commencing August 15, 2020, until maturity or prior redemption (see "THE BONDS – General Description").
Paying Agent/Registrar	The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, 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 New York, New York ("DTC") (see "BOOK-ENTRY-ONLY SYSTEM" herein).
Security	The Bonds constitute direct obligations of the District, payable as to principal and interest from ad valorem taxes levied, without legal limit as to rate or amount, against all taxable property located within the District. Additionally, the payment of the Bonds will be guaranteed by the corpus of the Permanent School Fund of Texas (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "THE BONDS – Security" herein). For a discussion of recent developments in State law affecting the financing of school districts in Texas, see "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM." For a discussion of regarding the impact of COVID-19 on the District, see "INFECTIOUS DISEASE OUTBREAK – COVID-19."
No Optional Redemption	The Bonds are not subject to optional redemption prior to their stated maturity.
Ratings	Moody's Investors Service ("Moody's") and S&P Global Ratings ("S&P") have assigned municipal bond ratings of "AAA" and "AAA", respectively, to the Bonds based upon the Permanent School Fund Guarantee. Moody's and S&P generally rate all bond issues guaranteed by the Permanent School Fund of the State of Texas "Aaa" and "AAA", respectively. The District's underlying ratings for the Bonds, without consideration of the Permanent School Fund Guarantee, are "Aa2" by Moody's and "AA-" by S&P (see "RATINGS" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

Tax Exemption	In the opinion of Bracewell LLP, Houston, Texas, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes and the Bonds under section 103 of the Internal Revenue Code of 1986, as amended, and is not a specific preference item for purposes of the alternative minimum tax (see "TAX MATTERS" herein, for a discussion of the opinion of Bond Counsel).
Payment Record	The District has never defaulted on the payment of its bonded indebtedness.
Legal Opinion	Bracewell LLP, Houston, Texas, Bond Counsel.

$30,205,000*
SPRING INDEPENDENT SCHOOL DISTRICT
(Harris County, Texas)
Unlimited Tax Refunding Bonds, Series 2020

INTRODUCTORY STATEMENT

This Official Statement, including Schedule I, Appendices A, B and D, has been prepared by the Spring Independent School District (the "District") located in Harris County, Texas, in connection with the offering of its Unlimited Tax Refunding Bonds, Series 2020 (the "Bonds").

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").

This Official Statement speaks only as of its date, and the information contained herein is subject to change. A copy of the final Official Statement will be submitted to 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 OF INFORMATION" for a description of the undertakings of the Texas Education Agency and the District, respectively, to provide certain information on a continuing basis.

THE BONDS

Authorization and Purpose

The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Chapter 1207 ("Chapter 1207"), Texas Government Code, as amended, Chapter 1371 ("Chapter 1371"), Texas Government Code, as amended, and an order authorizing the issuance of the Bonds (the "Bond Order"). In the Bond Order, the Board delegated to officers of the District (the "Authorized Officers"), pursuant to certain provisions of Chapter 1207 and 1371, authority to complete the sale of the Bonds. The terms of the sale will be included in a "Pricing Certificate," which will complete the sale of the Bonds (the Bond Order and the Pricing Certificate are collectively referred to as the "Order"). Capitalized terms used herein and not otherwise defined have the meanings assigned to such terms in the Order.

Proceeds from the sale of the Bonds will be used to (i) refund a portion of the District's outstanding debt, as more particularly described in SCHEDULE I –REFUNDED BONDS (the "Refunded Bonds") in order to lower the overall debt service requirements of the District and (ii) pay the costs of issuance of the Bonds.

Refunded Bonds

A description and identification of the Refunded Bonds appears in SCHEDULE I attached hereto. The Refunded Bonds and the interest due thereon are to be paid on their interest payment dates and redemption date from funds to be deposited with The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, as escrow agent (the "Escrow Agent") pursuant to an Escrow Agreement for the Bonds (the "Escrow Agreement") between the District and the Escrow Agent.

The Order provides that from the proceeds of the sale of the Bonds to the Underwriters, the District will deposit with the Escrow Agent an amount which, when added to the investment earnings thereon, will be sufficient to pay all amounts coming due on the Refunded Bonds on their interest payment dates and to accomplish the discharge and final payment of the Refunded Bonds on their redemption date. Such funds will be held by the Escrow Agent in an escrow account for the Bonds (the "Escrow Fund") and used to purchase certain governmental obligations permitted by the orders that authorized the issuance of the Refunded Bonds (the "Escrowed Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds.

Robert Thomas CPA, LLC, a firm of independent certified public accountants (the "Verification Agent") will verify at the time of delivery of the Bonds to the initial purchasers of the Bonds listed on the cover page hereof (the "Underwriters") that the Escrowed Securities will mature and pay interest in such amounts which, together with the uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds. Such maturing principal of and interest on the Escrowed Securities will not be available to pay debt service on the Bonds (see "VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS").

By the deposit of the Escrowed Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of the Refunded Bonds pursuant to the terms of Chapter 1207 and the proceedings authorizing the issuance of the

* Preliminary, subject to change.

Refunded Bonds. In the opinion of Bond Counsel, as a result of such defeasance and in reliance upon the report from the Verification Agent, the Refunded Bonds will be outstanding only for the purpose of receiving payments from the Escrowed Securities and cash held for such purpose by the Escrow Agent, and the Refunded Bonds will not be deemed as being outstanding obligations of the District payable from the sources and secured in the manner provided in the proceedings authorizing their issuance or for any other purpose.

General Description

The Bonds are to mature on the dates and in the principal amounts shown on page ii herein. The Bonds will each be issued as fully registered obligations in principal denominations of $5,000 or any integral multiple thereof within a maturity. Interest on the Bonds will accrue from the date they are initially delivered to the Underwriters, and will be payable on February 15 and August 15 of each year, commencing August 15, 2020, until maturity or prior redemption. The Bonds shall be dated June 1, 2020. Interest on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months. The paying agent and registrar (the "Paying Agent/Registrar") for the Bonds is initially The Bank of New York Mellon Trust Company, N.A., Dallas, Texas.

Initially, the Bonds will be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described below. No physical delivery of the Bonds will be made to the beneficial owners. Principal 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" below for a more complete description of such 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. The record date (the "Record Date") for the interest payable on any interest payment date is the last business day of the month next preceding such interest payment date (see "REGISTRATION, TRANSFER AND EXCHANGE – Record Date for Interest Payment" herein). The principal of the Bonds will be payable only upon presentation of such Bonds at the designated office of the Paying Agent/Registrar upon maturity; 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.

No Optional Redemption

The Bonds maturing are not subject to optional redemption prior to their stated maturity.

Security

The Bonds are direct obligations of the District and are payable as to both principal and interest from an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property within the District, as provided in the Order. Additionally, the payment of the Bonds is guaranteed by the corpus of the Permanent School Fund of the State of Texas (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM," "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "TAX RATE LIMITATIONS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM"). For a discussion of regarding the impact of COVID-19 on the District, see "INFECTIOUS DISEASE OUTBREAK – COVID-19."

Permanent School Fund Guarantee

In connection with the sale of the Bonds, the District has submitted an application to the Texas Education Agency, and has received conditional approval from the Commissioner of Education, for the guarantee of the Bonds under the Guarantee Program for School District Bonds (Chapter 45, Subchapter C, of the Texas Education Code). Subject to meeting certain conditions discussed under the heading "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein, the payment of the Bonds will be guaranteed by the corpus of the Permanent School Fund of the State of Texas in accordance with the terms of the Guarantee Program for School District Bonds ("Permanent School Fund Guarantee").

In the event of default, registered owners will receive all payments due from the corpus of the Permanent School Fund. In the event the District defeases any of the Bonds, the payment of such defeased Bonds will cease to be guaranteed by the Permanent School Fund Guarantee (see "THE BONDS – Defeasance of Bonds").

Legality

The Bonds are offered when, as and if issued, and subject to the approval of legality by the Attorney General of the State of Texas and the opinion of Bracewell LLP, Houston Texas, Bond Counsel (see "LEGAL MATTERS" and "APPENDIX C – FORM OF LEGAL OPINION OF BOND COUNSEL" herein).

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 in any manner now or hereafter permitted by law, including (but not limited to) by depositing with an authorized entity either: (a) cash in an amount equal to the principal amount of and interest on Bonds to the date of maturity, or earlier redemption, if any, or (b) pursuant to an escrow or trust agreement, cash and/or (i) direct noncallable obligations of United States of America, including obligations that are unconditionally guaranteed by the United States of America; (ii) non-callable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; or (iii) non-callable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, which, in the case of (i), (ii) or (iii), may be in book-entry form, and the principal of and interest on which will, when due or redeemable at the option of the holder, without further investment or reinvestment of either the principal amount thereof or the interest earnings thereon, provide money in an amount which (together with other moneys, if any, held in such escrow at the same time and available for such purpose) will be sufficient to provide for the timely payment of the principal of and interest on Bonds to the date of maturity or earlier redemption, if any. Upon such deposit as described above, such Bonds shall no longer be regarded as being outstanding or unpaid. The District has reserved the option, however, to be exercised at the time of the defeasance of the Bonds, to call for redemption, at an earlier date, those Bonds which have been defeased to their maturity date, if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call such Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of such 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.

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Order does not contractually limit such investments, registered owners are deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law.

Upon such deposit, the Permanent School Fund Guarantee will terminate with respect to the Bonds defeased in the manner described above.

Amendments to the Order

The District may amend the Order without the consent of or notice to any registered owner in any manner not detrimental to the interest of the registered owners, including the curing of any ambiguity inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Order; except that, without consent of the registered owners of all of the Bonds outstanding, no such amendment, addition or rescission may (1) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof or the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required to be held by holders 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	$
	[Net] Original Issue Premium/(Discount)	
	Total Sources of Funds	**$**
Uses:		
	Deposit to Escrow Fund	$
	Costs of Issuance	
	Underwriters' Discount	
	Total Uses of Funds	**$**

REGISTERED OWNERS' REMEDIES

The Order does not establish specific events of default with respect to the Bonds or provide for the appointment of a trustee to represent the interests of the bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition. Under Texas law, there is no right to the acceleration of maturity of the Bonds upon the failure of the District to observe any covenant under the Order. Such registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the District to levy, assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as it becomes due. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis.

On June 30, 2006, the Texas Supreme Court ruled in Tooke v. City of Mexia, 197 S.W.3rd 325 (Tex. 2006) ("Tooke") that a waiver of sovereign immunity must be provided for by statute in "clear and unambiguous" language. In so ruling, the Court declared that statutory language such as "sue and be sued", in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. In Tooke, the Court noted the enactment in 2005 of sections 271.151-.160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities in certain circumstances." The Local Government Immunity Waiver Act covers school districts and relates to contracts entered into by school districts for providing goods or services to school districts.

Neither the remedy of mandamus nor any other type of injunctive relief was at issue in Tooke, and it is unclear whether Tooke will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party.

The District is also eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or 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 another federal or state court); and, the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors of political subdivisions of the State relative to their creditors and may be limited by general principles of equity which permit the exercise of judicial discretion.

See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, redemption payments 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 none of the District, the Financial Advisor or the Underwriters take any responsibility for the accuracy or completeness thereof.

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

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

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

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

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

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on the payable date in accordance with their respective holdings shown on DTC's records. Payments 0by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the District, the Financial Advisor or the Underwriters.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The Bank of New York Mellon Trust Company, N.A., Dallas, 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 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. A Bond may be assigned by the execution of an assignment form on the 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 its duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in 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 for the interest 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 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 shall be required to issue, transfer, or exchange any Bonds during a period beginning at the close of business on any Record Date and ending with the next interest payment date.

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 such expenses as the Paying Agent/Registrar may incur in connection therewith.

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

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

On May 13, 2016, the Court issued its opinion in the most recent school finance litigation, *Morath, et.al v. The Texas Taxpayer and Student Fairness Coalition, et al.*, No. 14-0776 (Tex. May 13, 2016) ("*Morath*"). The plaintiffs and intervenors in the case had alleged that the Finance System, as modified by the Legislature in part in response to prior decisions of the Court, violated article VII, section 1 and article VIII, section 1-e of the Texas Constitution. In its opinion, the Court held that "[d]espite the imperfections of the current school funding regime, it meets minimum constitutional requirements." The Court also noted that:

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

Possible Effects of Changes in Law on District Bonds

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

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

Overview

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

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

Prior to the 2019 Legislative Session, a school district's maximum M&O tax rate for a given tax year was determined by multiplying that school district's 2005 M&O tax rate levy by an amount equal a compression percentage set by legislative appropriation or, in the absence of legislative appropriation, by the Commissioner of Education (the "Commissioner"). This compression percentage was historically set at 66.67%, effectively setting the maximum compressed M&O tax rate for most school districts at $1.00 per $100 of taxable value, since most school districts in the State had a voted maximum M&O tax rate of $1.50 per $100 of taxable value (though certain school districts located in Harris County had special M&O tax rate authorizations allowing a higher M&O tax rate). School districts were permitted, however, to generate additional local funds by raising their M&O tax rate up to $0.04 above the compressed tax rate or, with voter-approval at a valid election in the school district, up to $0.17 above the compressed tax rate (for most school districts, this equated to an M&O tax rate between $1.04 and $1.17 per $100 of taxable value). School districts received additional State funds in proportion to such taxing effort.

Local Funding for School Districts

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

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

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

10%. These compression formulas are intended to more closely equalize local generation of Tier One funding among districts with disparate tax bases and generally reduce the Tier One Tax Rates of school districts as property values increase.

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

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

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

State Funding for School Districts

State funding for school districts is provided through the two-tiered Foundation School Program, which guarantees certain levels of funding for school districts in the State. School districts are entitled to a legislatively appropriated guaranteed yield on their Tier One Tax Rate and Enrichment Tax Rate. When a school district's Tier One Tax Rate and Enrichment Tax Rate generate tax revenues at a level below the respective entitlement, the State will provide "Tier One" funding or "Tier Two" funding, respectively, to fund the difference between the school district's entitlements and the calculated M&O revenues generated by the school district's respective M&O tax rates.

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

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

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

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

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

Tier Two. Tier Two supplements Tier One funding and provides two levels of enrichment with different guaranteed yields (i.e., Golden Pennies and Copper Pennies) depending on the school district's Enrichment Tax Rate. Golden Pennies generate a guaranteed yield equal to the greater of (i) the local revenue per student in WADA per cent of tax effort available to a school district at the ninety-sixth (96th) percentile of wealth per student in WADA, or (ii) the Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.016. For the 2020- 2021 State fiscal biennium, school districts are guaranteed a yield of $98.56 per student in WADA for each Golden Penny levied. Copper Pennies generate a guaranteed yield per student in WADA equal to the school district's Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.008. For the 2020-2021 State fiscal biennium, school districts are guaranteed a yield of $49.28 per student in WADA for each Copper Penny levied. For any school year in which the guaranteed yield of Copper Pennies per student in WADA exceeds the guaranteed yield of Copper Pennies per student in WADA for the preceding school year, a school district is required to reduce its Copper Pennies levied so as to generate no more revenue per student in WADA than was available to the school district for the preceding year. Accordingly, the increase in the guaranteed yield from $31.95 per Copper Penny per student in WADA for the 2018-2019 school year to $49.28 per Copper Penny per student in WADA for the 2019-2020 school year requires school districts to compress their levy of Copper Pennies by a factor of 0.64834. As such, school districts that levied an Enrichment Tax Rate of $0.17 in school year 2018-2019 must reduce their Enrichment Tax Rate to approximately $0.138 per $100 taxable value for the 2019-2020 school year.

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

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

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

A school district may also qualify for a NIFA allotment, which provides assistance to school districts for operational expenses associated with opening new instructional facilities. In the 2019 Legislative Session, the State Legislature appropriated funds in the amount of $100,000,000 for each fiscal year of the 2020-2021 State fiscal biennium for NIFA allotments.

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

Additionally, the Commissioner may proportionally reduce the amount of funding a school district receives under the Foundation School Program and the ADA calculation if the school district operates on a calendar that provides less than the State-mandated minimum instruction time in a school year. The Commissioner may also adjust a school district's ADA as it relates to State funding where disaster, flood, extreme weather or other calamity has a significant effect on a school district's attendance.

Furthermore, "property-wealthy" school districts that received additional State funds under the public school finance system prior to the enactment of the 2019 Legislation are entitled to an equalized wealth transition grant on an annual basis through the 2023-2024 school year in an amount equal to the amount of additional revenue such school district would have received under former Texas Education Code Sections 41.002(e) through (g), as those sections existed on January 1, 2019. This grant is phased out through the 2023-2024 school year as follows: (1) 20% reduction for the 2020-2021 school year, (2) 40% reduction for the 2021-2022 school year, (3) 60% reduction for the 2022-2023 school year, and (4) 80% reduction for the 2023-2024 school year.

Local Revenue Level in Excess of Entitlement

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

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

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

The District's wealth per student for the 2019-20 school year is less than the equalized wealth value. Accordingly, the District has not been required to exercise one of the permitted wealth equalization options.

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

The District is unable to predict the future actions of courts and the Texas legislature with respect to funding of the Finance System. Changes made to the Finance System could materially affect the financial condition of the District. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS – Litigation Related to the Texas Public School Finance System."

AD VALOREM PROPERTY TAXATION

Property Tax Code and County-Wide Appraisal District

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

Valuation of Taxable Property

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

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

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

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

State Mandated Homestead Exemptions

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

Local Option Homestead Exemptions

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

State Mandated Freeze on School District Taxes

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

Personal Property

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

Freeport and Goods-In-Transit Exemptions

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

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

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

Other Exemption Property

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

Tax Increment Reinvestment Zones

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

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

Tax Limitation Agreements

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

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

District and Taxpayer Remedies

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

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

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

Levy and Collection of Taxes

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

District's Rights in the Event of Tax Delinquencies

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

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

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

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

The Property Tax Code as Applied to the District

The Appraisal District has the responsibility for appraising property in the District as well as other taxing units in Harris County. The Appraisal District is individually governed by a board of five directors appointed by voters of the governing bodies of various political subdivisions in Harris County. The District's taxes are collected by the District.

The District grants disabled person, disabled veterans, homestead and over age 65 exemptions as mandated by State Law. The District also grants an additional $20,000 local option exemption to persons over age 65 (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2019 Legislation").

The District has not granted an additional exemption of 20% of the market value of residence homesteads.

The District has applied the tax freeze for citizens who are disabled or 65 years of age or older.

The District does tax Freeport Property.

The District does not grant an exemption for "Goods-in-transit."

The District has not adopted a tax abatement policy.

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 on or about October 15 or when billed, whichever comes later of the same year and become delinquent on February 1 of the following year. Split payments of taxes are not permitted.

TAX RATE LIMITATIONS

M&O Tax Rate Limitations

The District is authorized to levy an M&O tax rate pursuant to the approval of the voters of the District at an election held on March 21, 1970 in accordance with the provisions of Chapter 20, Texas Education Code (now codified at Section 45.003, Texas Education Code, as amended.

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

> For the 2019 tax year, the maximum M&O tax rate per $100 of taxable value that may be adopted by a school district is the sum of $0.17 and the product of the State Compression Percentage multiplied by $1.00. For the 2019 tax year, the state compression percentage has been set at 93%.
>
> For the 2020 and subsequent tax years, the maximum M&O tax rate per $100 of taxable value that may be adopted by a school district is the sum of $0.17 and the school district's MCR. A school district's MCR is, generally, inversely proportional to the change in taxable property values both within the school district and the State, and is subject to recalculation annually. For any year, the highest possible MCR for a school district is $0.93 (see "TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Funding for School Districts" herein).

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

I&S Tax Rate Limitations

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

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

Public Hearing and Voter Approval Tax Rate

A school district's total tax rate is the combination of the M&O tax rate and the I&S tax rate. Generally, the highest rate at which a school district may levy taxes for any given year without holding an election to approve the tax rate is the "Voter-Approval Tax Rate", as described below.

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

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

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

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

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

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

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

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

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

LEGAL MATTERS

The District will furnish to the Underwriters a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, with respect to the Bonds issued in compliance with the provisions of the Order. The form of Bond Counsel's opinion is attached hereto as Appendix C.

Bond Counsel was engaged by, and only represents, the District. Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under the captions, "THE BONDS" (except under the subcaptions "Permanent School Fund Guarantee," "Payment Record," and "Sources and Uses of Funds"), "REGISTRATION, TRANSFER AND EXCHANGE," "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM," "TAX RATE LIMITATIONS," "LEGAL MATTERS," "TAX MATTERS," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE," and "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance With Prior Undertakings") and such firm is of the opinion that the information relating to the

Bonds and legal matters contained under such captions is an accurate description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick Herrington & Sutcliffe LLP Houston, Texas. 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 provisions made for their payment or security, or in any manner questioning the validity of said Bonds will also be furnished.

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.

TAX MATTERS

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

Tax Exemption

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

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

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

Except as stated above, Bond Counsel will express no opinion as to the amount of interest on the Bonds or any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Bonds. Certain actions may be taken or omitted subject to the terms and conditions set forth in the Bond Order upon the advice or with the approving opinion of Bond Counsel. Bond Counsel will express no opinion with respect to Bond Counsel's ability to render an opinion that such actions, if taken or omitted, will not adversely affect the excludability of interest of the Bonds from gross income for federal income tax purposes.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds regardless of the ultimate outcome of the audit.

Additional Federal Income Tax Considerations

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

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

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

*Tax Accounting Treatment of Original Issue Discount Bonds…*The issue price of all or a portion of the Bonds may be less than the stated redemption price payable at maturity of such Bonds (the "Original Issue Discount Bonds"). In such case, the difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds. Generally, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussions regarding interest on the Bonds under the captions "TAX MATTERS – Tax Exemption" and "TAX MATTERS – Additional Federal Income Tax Considerations – Collateral Tax Consequences" and "—Tax Legislative Changes" generally apply and should be considered in connection with the discussion in this portion of the Official Statement.

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

The foregoing discussion assumes that (i) the Underwriter has purchased the Bonds for contemporaneous sale to the public and (ii) all of the Original Issue Discount Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the inside cover page of this Official Statement. Neither the District nor Bond Counsel has made any investigation or offers any comfort that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

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

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

Tax Legislative Changes

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Bonds (i) are negotiable instruments, (ii) are investment securities to which Chapter 8 of the Texas Business and Commerce Code applies, and (iii) are legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds may have to be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. See "RATINGS" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least $1 million of capital and savings and loan associations.

The District has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bond 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.

INVESTMENT AUTHORITY AND INVESTMENT OBJECTIVES OF THE DISTRICT

Available District funds are invested as authorized by Texas law and in accordance with investment policies approved by the Board of Trustees. Both State law and the District's investment policies are subject to change. Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit and share certificates meeting the requirements of the Public Funds Investment Act (Chapter 2256 of the Texas Government Code, as amended) (the "PFIA") (i) that are issued by an institution that has its main office or a branch office in the State of Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (5) or clause (13) or in any other manner and amount provided by law for District deposits, or (ii) that are invested by the District through a depository institution that has its main office or a branch office in the State of Texas and otherwise meet the requirements of the PFIA; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State primary government securities dealer or a financial institution doing business in the State; (9) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) 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 (6) above, clauses (11) through (13) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less, (10) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency, (11) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (12) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share, and (13) no-load mutual funds registered with the United States Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

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

As a school district that qualifies as an "issuer" under Chapter 1371, as amended, Texas Government Code, the District is also authorized to purchase, sell, and invest its funds in corporate bonds, but only if the District has formally amended its investment policy to authorize such investments. Texas 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 subsidy 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.

Investment Objectives

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, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each 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 probable income to be derived." At least quarterly the District's investment officers must submit an investment report to the Board detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, the ending market value and fully accrued interest during the reporting period of each pooled fund group, (4) the book value and market value of each separately listed asset at the end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) Texas law. No person may invest District funds without express written authority from the Board of Trustees.

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

Current Investments

As of March 31, 2020, the District's investable funds were invested in the following investment instruments:

Investment Instrument	Market Value	Percentage
Investment Pools[(A)]	$274,148,433.46	86.22%
Other Investments	43,803,788.73	13.78%
Total	**$317,952,222.19**	**100.00%**

[(A)] Each of the investment pools that the District participates in operates as a money market equivalent, in a manner consistent with the SEC's Rule 2a-7 under the Investment Company Act of 1940.

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.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

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

History and Purpose

The PSF was created with a $2,000,000 appropriation by the Texas Legislature (the "Legislature") in 1854 expressly for the benefit of the public schools of Texas. The Constitution of 1876 stipulated that certain lands and all proceeds from the sale of these lands should also constitute the PSF. Additional acts later gave more public domain land and rights to the PSF. In 1953, the U.S. Congress passed the Submerged Lands Act that relinquished to coastal states all rights of the U.S. navigable waters within state boundaries. If the state, by law, had set a larger boundary prior to or at the time of admission to the Union, or if the boundary had been approved by

Congress, then the larger boundary applied. After three years of litigation (1957-1960), the U. S. Supreme Court on May 31, 1960, affirmed Texas' historic three marine leagues (10.35 miles) seaward boundary. Texas proved its submerged lands property rights to three leagues into the Gulf of Mexico by citing historic laws and treaties dating back to 1836. All lands lying within that limit belong to the PSF. The proceeds from the sale and the mineral-related rental of these lands, including bonuses, delay rentals and royalty payments, become the corpus of the Fund. Prior to the approval by the voters of the State of an amendment to the constitutional provision under which the Fund is established and administered, which occurred on September 13, 2003 (the "Total Return Constitutional Amendment"), and which is further described below, the PSF had as its main sources of revenues capital gains from securities transactions and royalties from the sale of oil and natural gas. The Total Return Constitutional Amendment provides that interest and dividends produced by Fund investments will be additional revenue to the PSF. The State School Land Board ("SLB") maintains the land endowment of the Fund on behalf of the Fund and is generally authorized to manage the investments of the capital gains, royalties and other investment income relating to the land endowment. The SLB is a five member board, the membership of which consists of the Commissioner of the Texas General Land Office (the "Land Commissioner") and four citizen members appointed by the Governor. (See "2019 Texas Legislative Session" for a description of legislation that changed the composition of the SLB). As of August 31, 2019, the General Land Office (the "GLO") managed approximately 26% of the PSF, as reflected in the fund balance of the PSF at that date.

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

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

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

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

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

The sole purpose of the PSF is to assist in the funding of public education for present and future generations. Prior to the adoption of the Total Return Constitutional Amendment, all interest and dividends produced by Fund investments flowed into the Available School Fund (the "ASF"), where they are distributed to local school districts and open-enrollment charter schools based on average daily attendance. Any net gains from investments of the Fund accrue to the corpus of the PSF. Prior to the approval by the voters of the State of the Total Return Constitutional Amendment, costs of administering the PSF were allocated to the ASF. With the approval of the Total Return Constitutional Amendment, the administrative costs of the Fund have shifted from the ASF to the PSF. In fiscal year 2019, distributions to the ASF amounted to an estimated $306 per student and the total amount distributed to the ASF was $1,535.8 million.

Audited financial information for the PSF is provided annually through the PSF Comprehensive Annual Financial Report (the "Annual Report"), which is filed with the Municipal Securities Rulemaking Board ("MSRB"). The Annual Report includes the Message of the Executive Administrator of the Fund (the "Message") and the Management's Discussion and Analysis ("MD&A"). The Annual Report for the year ended August 31, 2019, as filed with the MSRB in accordance with the PSF undertaking and agreement made in accordance with Rule 15c2-12 ("Rule 15c2-12") of the federal Securities and Exchange Commission (the "SEC"), as described below, is hereby incorporated by reference into this disclosure. Information included herein for the year ended August 31, 2019 is derived from the audited financial statements of the PSF, which are included in the Annual Report as it is filed and posted. Reference is made to the Annual Report for the complete Message and MD&A for the year ended August 31, 2019 and for a description of the financial results of the PSF for the year ended August 31, 2019, the most recent year for which audited financial information regarding the Fund is available. The 2019 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2019 Annual Report or any other Annual Report. The TEA posts each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, the most recent disclosure for the Guarantee Program, the Statement of Investment Objectives, Policies and Guidelines of the Texas Permanent School Fund, which is codified at 19 Texas Administrative Code, Chapter 33 (the "Investment Policy"), monthly updates with respect to the capacity of the Guarantee Program (collectively, the "Web Site Materials") on the TEA web site at http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/ and with the MSRB at 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. A list of the Fund's equity and fixed income holdings as of August 31 of each year is posted to the TEA web site and filed with the MSRB. Such list excludes holdings in the Fund's securities lending program. Such list, as filed, is incorporated herein and made a part hereof for all purposes.

2019 Texas Legislative Session

During the 86th Regular Session of the Texas Legislature, which concluded on May 27, 2019 (the "86th Session"), various bills were enacted that relate to the PSF. Among such enacted legislation are bills that relate to the composition of the SLB and its relationship to the SBOE with respect to the management of the PSF. Legislation was approved that will change the composition of the SLB to a five member board from a three member board. Under that bill, the Land Commissioner will continue to head the SLB, but the remaining four members will be appointed by the Governor, and of those four members, two are required to be selected from a list of nominees to be submitted to the Governor by the SBOE. That legislation also requires an annual joint meeting of the SLB and the SBOE for the purpose of discussing the allocation of the assets of the PSF and the investment of money in the PSF. Other enacted legislation requires the SLB and the SBOE to provide quarterly financial reports to each other and creates a "permanent school fund liquid account" in the PSF for the purpose of receiving funds transferred from the SLB on a quarterly basis that are not then invested by the SLB or needed within the forthcoming quarter for investment by the SBOE. Such funds shall be invested in liquid assets in the same manner that the PSF is managed until such time as the funds are required for investment by the SLB. That legislation also requires the Texas Education Agency, in consultation with the GLO, to conduct a study regarding distributions to the ASF from the PSF. In addition, a joint resolution was approved that proposed a constitutional amendment to the Texas Constitution to increase the permissible amount of distributions to the ASF from revenue derived during a year from PSF land or other properties from $300 million to $600 million annually by one or more entities. That constitutional change was approved by State voters at a referendum on November 5, 2019. See "2011 and 2019 Constitutional Amendments."

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

No assessment has been made by the TEA or PSF staff as to the potential financial impact of any legislation enacted during the 86th Session, including the increase in the permissible amount that may be transferred from the PSF to the ASF, as approved by State voters at the November 5, 2019 referendum.

The Total Return Constitutional Amendment

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

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

See "2011 and 2019 Constitutional Amendments" below for a discussion of the historic and current Distribution Rates, and a description of amendments made to the Texas Constitution on November 8, 2011 and November 5, 2019 that may affect Distribution Rate decisions.

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

With respect to the management of the Fund's financial assets portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted from time to time by the SBOE. The SBOE generally reviews the asset allocations during its summer meeting in even numbered years. The first asset allocation policy adopted by the SBOE following the Total Return Constitutional Amendment was in February 2004, and the policy was reviewed and modified or reaffirmed in the summers of each even-numbered year, most recently in 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 large cap equities at 14%, emerging market 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. In accordance with legislation enacted during the 86th Session and effective September 1, 2019, the PSF has established an investment account for purposes of investing cash received from the GLO to be invested in liquid assets and managed by the SBOE in the same manner it manages the PSF. That cash has previously been included in the PSF valuation, but was held and invested by the State Comptroller.

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, 2019, the Fund's financial assets portfolio was invested as follows: 34.91% in public market equity investments; 13.35% in fixed income investments; 10.58% in absolute return assets; 11.31% in private equity assets; 8.71% in real estate assets; 7.46% in risk parity assets; 6.16% in real return assets; 7.03% in emerging market debt; and 0.49% in unallocated cash.

Following on previous decisions to create strategic relationships with investment managers in certain asset classes, in September 2015 and January 2016, the SBOE approved the implementation of direct investment programs in private equity and absolute return assets, respectively, which has continued to reduce administrative costs 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 SLB. Administrative duties related to the land and mineral rights reside with the GLO, which is under the guidance of the Commissioner of the GLO. In 2007, the Legislature established the real estate special fund account of the PSF (the "Real Estate Account") consisting of proceeds and revenue from land, mineral or royalty interest, real estate investment, or other interest, including revenue received from those sources, that is set apart to the PSF under the Texas Constitution and laws, together with the mineral estate in riverbeds, channels, and the tidelands, including islands. The investment of the Real Estate Account is subject to the sole and exclusive management and control of the SLB and the Land Commissioner, who is also the head of the GLO. The 2007 legislation presented constitutional questions regarding the respective roles of the SBOE and the SLB relating to the disposition of proceeds of real estate transactions to the ASF, among other questions. Amounts in the investment portfolio of the PSF are taken into account by the SBOE for purposes of determining the Distribution Rate. An amendment to the Texas Constitution was approved by State voters on November 8, 2011, which permits the SLB to make transfers directly to the ASF, see "2011 and 2019 Constitutional Amendments" below.

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

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

Capacity Limits for the Guarantee Program

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

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

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

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

At its September 2015 meeting, the SBOE voted to modify the SDBGP Rules and the CDBGP Rules to increase the State Law Capacity from 3 times the cost value multiplier to 3.25 times. At that meeting, the SBOE also approved a new 5% capacity reserve for the Charter District Bond Guarantee Program. The change to the State Law Capacity became effective on February 1, 2016. At its November 2016 meeting, the SBOE again voted to increase the State Law Capacity and, in accordance with applicable requirements for the modification of SDBGP and CDBGP Rules, a second and final vote to approve the increase in the State Law Capacity occurred on February 3, 2017. As a result, the State Law Capacity increased from 3.25 times the cost value multiplier to 3.50 times effective March 1, 2017. The State Law Capacity increased from $118,511,255,268 on August 31, 2018 to $123,509,204,770 on August 31, 2019 (but at such date the IRS Limit was lower, $117,318,653,038, so it is the currently effective capacity limit for the Fund).

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

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

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

The School District Bond Guarantee Program

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

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

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

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

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

The Charter District Bond Guarantee Program

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

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

As of March 20, 2020 (the most recent date for which data is available), the percentage of students enrolled in open-enrollment charter schools (excluding charter schools authorized by school districts) to the total State scholastic census was approximately 6.15%. At March 24, 2020, there were 183 active open-enrollment charter schools in the State and there were 790 charter school campuses operating under such charters (though as of such date, four of such campuses are not currently serving students for various reasons). Section 12.101, Texas Education Code, as amended by the Legislature in 2013, limits the number of charters that the Commissioner may grant to 215 charters as of the end of fiscal year 2014, with the number increasing in each fiscal year thereafter through 2019 to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see "Capacity Limits for the Guarantee Program." The Act provides that the Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

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

The Act provides that immediately following receipt of notice that a charter district will be or is unable to pay maturing or matured principal or interest on a guaranteed bond, the Commissioner is required to instruct the Comptroller to transfer from the Charter District Reserve Fund to the district's paying agent an amount necessary to pay the maturing or matured principal or interest. If money in the Charter District Reserve Fund is insufficient to pay the amount due on a bond for which a notice of default has been received, the Commissioner is required to instruct the Comptroller to transfer from the PSF to the district's paying agent the amount necessary to pay the balance of the unpaid maturing or matured principal or interest. If a total of two or more payments are made under the

Charter District Bond Guarantee Program on charter district bonds and the Commissioner determines that the charter district is acting in bad faith under the program, the Commissioner may request the Attorney General to institute appropriate legal action to compel the charter district and its officers, agents, and employees to comply with the duties required of them by law in regard to the guaranteed bonds. As is the case with the School District Bond Guarantee Program, the Act provides a funding "intercept" feature that obligates the Commissioner to instruct the Comptroller to withhold the amount paid with respect to the Charter District Bond Guarantee Program, plus interest, from the first State money payable to a charter district that fails to make a guaranteed payment on its bonds. The amount withheld will be deposited, first, to the credit of the PSF, and then to restore any amount drawn from the Charter District Reserve Fund as a result of the non-payment.

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

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

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

2017 Legislative Changes to the Charter District Bond Guarantee Program

The CDBGP Capacity is established by the Act. During the 85th Texas Legislature, which concluded on May 29, 2017, Senate Bill 1480 ("SB 1480") was enacted. The complete text of SB 1480 can be found at http://www.capitol.state.tx.us/tlodocs/85R/billtext/pdf/SB01480F.pdf#navpanes=0. SB 1480 modified how the CDBGP Capacity will be established under the Act effective as of September 1, 2017, and made other substantive changes to the Act that affects the Charter District Bond Guarantee Program. Prior to the enactment of SB 1480, the CDBGP Capacity was calculated as the State Capacity Limit less the amount of outstanding bond guarantees under the Guarantee Program multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population. As of August 31, 2019, the amount of outstanding bond guarantees represented 71.94% of the IRS Limit (which is currently the applicable capacity limit) for the Guarantee Program (based on unaudited data). SB 1480 amended the CDBGP Capacity calculation so that the State Capacity Limit is multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population prior to the subtraction of the outstanding bond guarantees, thereby potentially substantially increasing the CDBGP Capacity. However, certain provisions of SB 1480, described below, and other additional factors described herein, could result in less than the maximum amount of the potential increase provided by SB 1480 being implemented by the SBOE or otherwise used by charter districts. Still other factors used in determining the CDBGP Capacity, such as the percentage of the charter district scholastic population to the overall public school scholastic population, could, in and of itself, increase the CDBGP Capacity, as that percentage has grown from 3.53% in September, 2012 to 5.85% in February 2019. TEA is unable to predict how the ratio of charter district students to the total State scholastic population will change over time.

SB 1480 provides that the implementation of the new method of calculating the CDBGP Capacity will begin with the State fiscal year that commences September 1, 2021 (the State's fiscal year 2022). However, for the intervening four fiscal years, beginning with fiscal year 2018, SB 1480 provides that the SBOE may establish a CDBGP Capacity that increases the amount of charter district bonds that may be guaranteed by up to a cumulative 20% in each fiscal year (for a total maximum increase of 80% in fiscal year 2021) as compared to the capacity figure calculated under the Act as of January 1, 2017. However, SB 1480 provides that in making its annual determination of the magnitude of an increase for any year, the SBOE may establish a lower (or no) increase if the SBOE determines that an increase in the CDBGP Capacity would likely result in a negative impact on the bond ratings for the Bond Guarantee Program (see "Ratings of Bonds Guaranteed Under the Guarantee Program") or if one or more charter districts default on payment of principal or interest on a guaranteed bond, resulting in a negative impact on the bond ratings of the Bond Guarantee Program. The provisions of SB 1480 that provide for discretionary, incremental increases in the CDBGP expire September 1, 2022. If the SBOE makes a determination for any year based upon the potential ratings impact on the Bond Guarantee Program and modifies the increase that would otherwise be implemented under SB 1480 for that year, the SBOE may also make appropriate adjustments to the schedule for subsequent years to reflect the modification, provided that the CDBGP Capacity for any year may not exceed the limit provided in the schedule set forth in SB 1480. As a result of SB 1480, the amount of charter district bonds eligible for guarantee in fiscal years 2018, 2019 and 2020 increased by the full 20% increase permitted by SB 1480, which increased the relative capacity of the Charter District Bond Guarantee Program to the School District Bond Guarantee Program for those fiscal years.

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

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

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the "Charter District Reserve Fund"). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10 percent of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20 percent of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However, the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to three percent (3.00%) of the total amount of outstanding guaranteed bonds issued by charter districts. As of February 29, 2020, the Charter District Reserve Fund contained $35,183,564, which represented approximately 1.49% of the guaranteed charter district bonds. SB 1480 also authorized the SBOE to manage the Charter District Reserve Fund in the same manner as it manages the PSF. Previously, the Charter District Reserve Fund was held by the Comptroller, but effective April 1, 2018, the management of the Reserve Fund was transferred to the PSF division of TEA, where it will be held and invested as a non-commingled fund under the administration of the PSF staff.

Charter District Risk Factors

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

Other than credit support for charter district bonds that is provided to qualifying charter districts by the Charter District Bond Guarantee Program, State funding for charter district facilities construction is limited to a program established by the Legislature in 2017, which provides $60 million per year for eligible charter districts with an acceptable performance rating for a variety of funding purposes, including for lease or purchase payments for instructional facilities. Since State funding for charter facilities is so limited, charter schools generally issue revenue bonds to fund facility construction and acquisition, or fund facilities from cash flows of the school. Some charter districts have issued non-guaranteed debt in addition to debt guaranteed under the Charter District Bond Guarantee Program, and such non-guaranteed debt is likely to be secured by a deed of trust covering all or part of the charter district's facilities. In March 2017, the TEA began requiring charter districts to provide the TEA with a lien against charter district property as a condition to receiving a guarantee under the Charter District Bond Guarantee Program. However, charter district bonds issued and guaranteed under the Charter District Bond Guarantee Program prior to the implementation of the new requirement did not have the benefit of a security interest in real property, although other existing debts of such charter districts that are not guaranteed under the Charter District Bond Guarantee Program may be secured by real property that could be foreclosed on in the event of a bond default.

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

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

Infectious Disease Outbreak

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

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

As noted herein, the PSF investments are in diversified investment portfolios and it is expected that the Fund will reflect the general performance returns of the markets in which it is invested. Stock values, crude oil prices and other investment categories in the U.S. and globally in which the Fund is invested or which provide income to the Fund, have seen significant volatility attributed to COVID-19 concerns, which could adversely affect the Fund's values.

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

Impact of COVID-19 on School Districts and Charter Districts. TEA cannot predict whether any school or charter district may experience short- or longer-term cash flow emergencies as a direct or indirect effect of COVID-19 that would require a payment from the PSF to be made to a paying agent for a guaranteed bond. Most school district bonds in the State are issued as fixed rate debt, with semiannual payments in February and August. Taxes levied by school districts for payment of bonds are generally collected by the end of January in each year. Consequently, PSF management is of the view that scheduled bond payments for school districts for the 2020 calendar year are unlikely to be affected by COVID-19. TEA has issued guidance to school districts and charter districts regarding, among other matters, the closure of schools, and TEA has established waivers for payment to school districts and charter districts, as such payments are in large part based on school attendance. Those waivers are intended to provide continued funding during the period of closure, although certain of the waivers require schools to provide on-line or at home curriculum in order to benefit from waivers. Reference is made to "Charter School Risk Factors," herein for a description of unique circumstances that pertain to the funding of charter districts.

Ratings of Bonds Guaranteed Under the Guarantee Program

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

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations

Fiscal Year Ended 8/31	Book Value(1)	Market Value(1)
2015	$29,081,052,900	$36,196,265,273
2016	30,128,037,903	37,279,799,335
2017	31,870,581,428	41,438,672,573
2018	33,860,358,647	44,074,197,940
2019(2)	35,288,344,219	46,464,447,981

(1) SLB managed assets are included in the market value and book value of the Fund. In determining the market value of the PSF from time to time during a fiscal year, the TEA uses current, unaudited values for TEA managed investment portfolios and cash held by the SLB. With respect to SLB managed assets shown in the table above, market values of land and mineral interests, internally managed real estate, investments in externally managed real estate funds and cash are based upon information reported to the PSF by the SLB. The SLB reports that information to the PSF on a quarterly basis. The valuation of such assets at any point in time is dependent upon a variety of factors, including economic conditions in the State and nation in general, and the values of these assets, and, in particular, the valuation of mineral holdings administered by the SLB, can be volatile and subject to material changes from period to period.
(2) At August 31, 2019, mineral assets, sovereign and other lands and internally managed discretionary real estate, external discretionary real estate investments, domestic equities, and cash managed by the SLB had book values of approximately $13.4 million, $216.7 million, $3,640.2 million, $7.5 million, and $4,457.3 million, respectively, and market values of approximately $3,198.2 million, $619.7 million, $3,927.6 million, $1.3 million, and $4,457.3 million, respectively. At February 29, 2020, the PSF had a book value of $35,908,691,818 and a market value of $46,992,040,588. February 29, 2020 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds

At 8/31	Principal Amount(1)
2015	$63,955,449,047
2016	68,303,328,445
2017	74,266,090,023
2018	79,080,901,069
2019	84,397,900,203(2)

(1) Represents original principal amount; does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount shown excludes bonds that have been refunded and released from the Guarantee Program. The TEA does not maintain records of the accreted value of capital appreciation bonds that are guaranteed under the Guarantee Program.
(2) As of August 31, 2019 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts and charter districts over the remaining life of the bonds guaranteed by the Guarantee Program was $133,188,149,265, of which $48,790,249,062 represents interest to be paid. As shown in the table above, at August 31, 2019, there were $84,397,900,203 in principal amount of bonds guaranteed under the Guarantee Program, 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), 97.22% of Program capacity was available to the School District Bond Guarantee Program and 2.78% was available to the Charter District Bond Guarantee Program.

Permanent School Fund Guaranteed Bonds by Category[1]

	School District Bonds		Charter District Bonds		Totals	
Fiscal Year Ended 8/31	No. of Issues	Principal Amount	No. of Issues	Principal Amount	No. of Issues	Principal Amount
2015	3,089	$63,197,514,047	28	$ 757,935,000	3,117	$63,955,449,047
2016	3,244	67,342,303,445	35	961,025,000	3,279	68,303,328,445
2017	3,253	72,884,480,023	40	1,381,610,000	3,293	74,266,090,023
2018	3,249	77,647,966,069	44	1,432,935,000	3,293	79,080,901,069
2019[2]	3,297	82,537,755,203	49	1,860,145,000	3,346	84,397,900,203

[1] Represents original principal amount; does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount shown excludes bonds that have been refunded and released from the Guarantee Program.
[2] Fiscal 2014 was the first year of operation of the Charter District Bond Guarantee Program.
[3] At September 30, 2018 (based on unaudited data, which is subject to adjustment), there were $79,828,771,069 of bonds guaranteed under the Guarantee Program, representing 3,265 school district issues, aggregating $78,395,836,069 in principal amount and 45 charter district issues, aggregating $1,432,935,000 in principal amount. At September 30, 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). 2018 data is unaudited, which is subject to adjustment.

Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2019

The following discussion is derived from the Annual Report for the year ended August 31, 2019, including the Message of the Executive Administrator of the Fund and the Management's Discussion and Analysis contained therein. Reference is made to the Annual Report, as filed with the MSRB, for the complete Message and MD&A. Investment assets managed by the fifteen member SBOE are referred to throughout this MD&A as the PSF(SBOE) assets. As of August 31, 2019, the Fund's land, mineral rights and certain real assets are managed by the three-member SLB and these assets are referred to throughout as the PSF(SLB) assets. The current PSF asset allocation policy includes an allocation for real estate investments, and as such investments are made, and become a part of the PSF investment portfolio, those investments will be managed by the SBOE and not the SLB.

At the end of fiscal 2019, the Fund balance was $46.5 billion, an increase of $2.4 billion from the prior year. This increase is primarily due to overall increases in value of all asset classes in which the Fund has invested and restatements of fund balance. During the year, the SBOE continued implementing the long-term strategic asset allocation, diversifying the PSF(SBOE) to strengthen the Fund. The asset allocation is projected to increase returns over the long run while reducing risk and portfolio return volatility. The PSF(SBOE) annual rates of return for the one-year, five-year, and ten-year periods ending August 31, 2019, net of fees, were 4.17%, 5.25% and 8.18%, respectively (total return takes into consideration the change in the market value of the Fund during the year as well as the interest and dividend income generated by the Fund's investments). In addition, the SLB continued its shift into externally managed real asset investment funds, and the one-year, five-year, and ten-year annualized total returns for the PSF(SLB) externally managed real assets, net of fees and including cash, were 5.84%, 6.13%, and 6.41%, respectively.

The market value of the Fund's assets is directly impacted by the performance of the various financial markets in which the assets are invested. The most important factors affecting investment performance are the asset allocation decisions made by the SBOE and SLB. The current SBOE long term asset allocation policy allows for diversification of the PSF(SBOE) portfolio into alternative asset classes whose returns are not as positively correlated as traditional asset classes. The implementation of the long term asset allocation will occur over several fiscal years and is expected to provide incremental total return at reduced risk. As of August 31, 2019, the PSF(SBOE) portion of the Fund had diversified into emerging market and large cap international equities, absolute return funds, real estate, private equity, risk parity, real return Treasury Inflation-Protected Securities, real return commodities, and emerging market debt.

As of August 31, 2019, the SBOE has approved and the Fund made capital commitments to externally managed real estate investment funds in a total amount of $5.1 billion and capital commitments to private equity limited partnerships for a total of $6.3 billion. Unfunded commitments at August 31, 2019, totaled $1.9 billion in real estate investments and $2.3 billion in private equity investments.

The PSF(SLB) portfolio is generally characterized by three broad categories: (1) discretionary real assets investments, (2) sovereign and other lands, and (3) mineral interests. Discretionary real assets investments consist of externally managed real estate, infrastructure, and energy/minerals investment funds; internally managed direct real estate investments, and cash. Sovereign and other lands consist primarily of the lands set aside to the PSF when it was created. Mineral interests consist of all of the minerals that are associated with PSF lands. The investment focus of PSF(SLB) discretionary real assets investments has shifted from internally managed direct real estate investments to externally managed real assets investment funds. The PSF(SLB) makes investments in certain limited partnerships that legally commit it to possible future capital contributions. At August 31, 2019, the remaining commitments totaled approximately $2.5 billion.

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

For fiscal year 2019, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled $3.7 billion, a decrease of $0.3 billion from fiscal year 2018 earnings of $4.0 billion. This decrease reflects the performance of the securities markets in which the Fund was invested in fiscal year 2019. In fiscal year 2019, revenues earned by the Fund included lease payments, bonuses and royalty income received from oil, gas and mineral leases; lease payments from commercial real estate; surface lease and easement revenues; revenues from the resale of natural and liquid gas supplies; dividends, interest, and securities lending revenues; the net change in the fair value of the investment portfolio; and, other miscellaneous fees and income.

Expenditures are paid from the Fund before distributions are made under the total return formula. Such expenditures include the costs incurred by the SLB to manage the land endowment, as well as operational costs of the Fund, including external management fees paid from appropriated funds. Total operating expenditures, net of security lending rebates and fees, decreased 10.0% for the fiscal year ending August 31, 2019. This decrease is primarily attributable to a decrease in PSF(SLB) quantities of purchased gas for resale in the State Energy Management Program, which is administered by the SLB as part of the Fund.

The Fund supports the public school system in the State by distributing a predetermined percentage of its asset value to the ASF. For fiscal years 2018 and 2019, the distribution from the SBOE to the ASF totaled $1.2 billion and $1.2 billion, respectively. Distributions from the SLB to the ASF for fiscal years 2018 and 2019 totaled $0 and $300 million, respectively.

At the end of the 2019 fiscal year, PSF assets guaranteed $84.4 billion in bonds issued by 863 local school districts and charter districts, the latter of which entered into the Program during the 2014 fiscal year. Since its inception in 1983, the Fund has guaranteed 7,443 school district and charter district bond issues totaling $186.2 billion in principal amount. During the 2019 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program totaled 3,346. The dollar amount of guaranteed school and charter bond issues outstanding increased by $5.3 billion or 6.7%. The State Capacity Limit increased by $5.0 billion, or 4.2%, during fiscal year 2019 due to continued growth in the cost basis of the Fund used to calculate that Program capacity limit. The effective capacity of the Program did not increase during fiscal year 2019 as the IRS Limit was reached during the prior fiscal year, and it is the lower of the two State and federal capacity limits for the Program.

2011 and 2019 Constitutional Amendment

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

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

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

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

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

Other Events and Disclosures

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

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

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

As of August 31, 2019, certain lawsuits were pending against the State and/or the GLO, which challenge the Fund's title to certain real property and/or past or future mineral income from that property, and other litigation arising in the normal course of the investment activities of the PSF. Reference is made to the Annual Report, when filed, for a description of such lawsuits that are pending, which may represent contingent liabilities of the Fund.

PSF Continuing Disclosure Undertaking

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

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

Annual Reports

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

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

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

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

Event Notices

The TEA will also provide timely notices of certain events to the MSRB. Such notices will be provided not more than ten business days after the occurrence of the event. The TEA will provide notice of any of the following events with respect to the Guarantee Program: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if such event is material within the meaning of the federal securities laws; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt status of the Guarantee Program, or other material events affecting the tax status of the Guarantee Program; (7) modifications to rights of holders of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (8) bond calls, if such event is material within the meaning of the federal securities laws, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the Guarantee Program (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Guarantee Program in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Guarantee Program, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Guarantee Program); (13) the consummation of a merger, consolidation, or acquisition involving the Guarantee

Program or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) the appointment of a successor or additional trustee with respect to the Guarantee Program or the change of name of a trustee, if such event is material within the meaning of the federal securities laws; (15) the incurrence of a financial obligation of the Guarantee Program, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Program, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Guarantee Program, any of which reflect financial difficulties. (Neither the Act nor any other law, regulation or instrument pertaining to the Guarantee Program make any provision with respect to the Guarantee Program for bond calls, debt service reserves, credit enhancement, liquidity enhancement, early redemption or the appointment of a trustee with respect to the Guarantee Program.) In addition, the TEA will provide timely notice of any failure by the TEA to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information

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

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.

EMPLOYEES BENEFIT PLAN

The District's employees participate in a retirement plan (the "Plan") with the State of Texas. 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. The District contributes to a retiree health care through the Texas Public School Retired Employees Group Insurance Program ("TRS Care"), a cost sharing multiple-employer defined benefit post-employment health care plan administered by TRS. TRS Care provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. In addition to the TRS retirement plan, the District participates in the State health insurance plan to provide health care coverage for its employees. For a discussion of the TRS retirement plan and TRS Care, see Notes 11 and 12 to the audited financial statements of the District that are attached hereto as Appendix D.

In June 2012, Government Accounting Standards Board (GASB) Statement No. 68 (Accounting and Financial Reporting for Pensions) was issued to improve accounting and financial reporting by state and local governments regarding pensions. GASB Statement No. 68 requires reporting entities, such as the District, to recognize their proportionate share of the net pension liability and operating statement activity related to changes in collective pension liability. This means that reporting entities, such as the District, that contribute to the TRS retirement plan will report a liability on the face of their government-wide financial statements. Such reporting began with the District's fiscal year ending June 30, 2015. GASB Statement No. 68 applies only to pension benefits and does not apply to Other Post-Employment Benefits (OPEB) or TRS-Care related liabilities.

GASB Statement No. 75 (Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions) is now effective and requires governments to report a liability on the face of its financial statements for the other postemployment benefits (OPEB) that they provide. GASB Statement 75 requires governments in all types of OPEB plans to present more extensive note disclosures and requires supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on reported OPEB liability of using a discount rate and healthcare costs trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements. The District's proportionate share of the TRS's net OPEB liability at fiscal year-end 2019 was $146,423,651. This liability amount does not impact the District's fund financial statements.

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

INFECTIOUS DISEASE OUTBREAK – COVID-19

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

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the Pandemic. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency (including TEA) that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19 preparedness and mitigation. These include, for example, the issuance on May 5, 2020 of Executive Order GA-21 (as amended by Executive Order GA-22), which order remains in effect until May 19, 2020, subject to extension based on the status of COVID-19 in Texas and the recommendations of the Governor's Strike Force to Open Texas, the White House Coronavirus Task Force, and the CDC. Executive Order GA-21, among other things, addressed limitations on social gatherings and in-person contact except where necessary to provide or obtain essential services or reopened services (including certain retail services) as such services are defined in state and federal guidance and future executive orders or proclamations of the Governor. Executive Order GA-21 closed school districts throughout the state for the remainder of the 2019-2020 school year. Executive Order GA-21 encouraged public education teachers and staff to continue to work remotely from home if possible, but may return to schools to conduct remote video instruction, as well as perform administrative duties, under the minimum standard health protocols found in guidance issued by the TEA. In addition to the actions by state and federal officials, local officials have declared local states of disaster and the County Judge of Harris County has issued a "stay home, work safe" order that is in effect until May 20, 2020. Many of the federal, state and local actions and policies under the aforementioned disaster declarations have focused on limiting instances where the public can congregate, which affects the operation of schools.

In accordance with the Governor's disaster declaration issued on March 13, 2020, the District closed schools for in-person attendance and offices beginning March 16, 2020. District schools will remain closed for in-person attendance through the remainder of the 2019-2020 academic year in accordance with Executive Order GA-21 described above. TEA has informed Texas school districts that COVID-19-related school closings and/or absenteeism will not impact ADA calculations and school funding so long as a school district commits to support students instructionally while they are at home. The District is currently providing remote instruction for its students. Therefore, the District does not anticipate a reduction in State funding as a result of the closures for in-person attendance at this time. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM."

As a result of the COVID-19 pandemic, the District has incurred increased expenditures, primarily related to purchase of certain equipment to facilitate remote instruction for the spring and summer term, increased payroll for certain employees, facility cleaning and personal protective equipment for employees interfacing with the public. As of the date hereof, such expenses total approximately $4,483,892 million; the District may incur additional costs in this and future fiscal years. Although the District anticipates realizing costs savings in a number of operating costs, including utilities, gasoline, purchasing and overtime, such savings may be offset by decreased revenues from various areas due in part to the effects of COVID-19.

The District continues to monitor the spread of COVID-19 and is working with local, state, and national agencies to address the potential impact of the Pandemic upon the District. While the potential impact of the Pandemic on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District's operations and financial condition.

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide. These negative impacts may reduce or negatively affect property values within the District (see "AD VALOREM TAX PROCEDURES"). The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District's share of operations and maintenance expenses payable from ad valorem taxes.

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

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

EXPOSURE TO OIL AND GAS INDUSTRY

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

SEVERE WEATHER EVENTS IN THE GREATER HOUSTON AREA

The greater Houston area, including the District, is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected.

The greater Houston area, including the District, has experienced three storms exceeding a 0.2% probability (i.e. "500-year flood" events) since 2015. The most recent event was Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days. As a result of Hurricane Harvey, District officials cancelled classes on August 25, 2017 and classes resumed on September 11, 2017. Anderson Elementary School suffered significant damage to the gym and fine arts temporary buildings but was able to resume classes on September 11, 2017. After a complete assessment of all of the District's facilities, it was determined that no material damage inhibiting the continued operation and use of the District's facilities, except as noted above, had occurred and thus operations resumed with limited modifications. The District also incurred additional expenditures to properly secure District's facilities and to shelter students and members of the community during and after the storm. Additionally, although parts of the District experienced localized flooding, the District does not expect any long term material financial challenges resulting from damage related to Hurricane Harvey.

If a future weather event significantly damaged all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase the District's tax rate. Further, there can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will even carry flood or other casualty insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District could be adversely affected.

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 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 execute a general or special consent to service of process in any jurisdiction.

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 an "obligated person" with respect to the Bonds, within the meaning of the Securities and Exchange Commission's Rule 15c2-12 (the "Rule"). Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access ("EMMA") system. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" for a description of the TEA's continuing disclosure undertaking to provide certain updated financial information and operating data annually with respect to the Permanent School Fund and the State of Texas, as the case may be, and to provide timely notice of certain events related to the guarantee to the MSRB.

Annual Reports

The District will provide certain updated financial information and operating data annually to the MSRB. The information to be updated includes financial information and operating data with respect to the District of the general type included in this Official Statement in "APPENDIX A – FINANCIAL INFORMATION REGARDING THE DISTRICT" under Tables 1 through 6 and 8 through 12 (the "Annual Financial Information"). The District will additionally provide financial statements of the District (the "Financial Statements"), that will be (i) prepared in accordance with the accounting principles described in Appendix D or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation and shall be in substantially the form included in Appendix D and (ii) audited, if the District commissions an audit of such Financial Statements and the audit is completed within the period during which they must be provided. The District will update and provide the Annual Financial Information within six months after the end of each fiscal year and the Financial Statements within 12 months of the end of each fiscal year, in each case beginning with the fiscal year ending in and after 2020. The District may provide the Financial Statements earlier, including at the time it provides its Annual Financial Information, but if the audit of such Financial Statements is not complete within 12 months after any such fiscal year end, then the District shall file unaudited Financial Statements within such 12-month period and audited Financial Statements for the applicable fiscal year, when and if the audit report on such Financial Statements becomes available.

If the District changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the District otherwise would be required to provide financial information and operating data pursuant to this section.

Notice of Certain Events

The District will also provide timely notices of certain events to the MSRB. The District will provide notice of any of the following events with respect to the Bonds, to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance of the Internal Revenue

Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of a name of a trustee, if material; (15) incurrence of a financial obligation of the District or other obligated person within the meaning of the Rule, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or other obligated person within the meaning of the Rule, any of which affect Beneficial Owners of the Bonds, 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 District or other obligated person within the meaning of the Rule, any of which reflect financial difficulties. In addition, the District will provide timely notice of any failure by the District to provide information, data or financial statements in accordance with its agreement described above under "Annual Reports".

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

The term "Financial Obligation" shall mean, for purposes of the events described in clauses (15) and (16) above, a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing, or planned debt obligation; or (iii) guarantee of (i) or (ii). The term "Financial Obligation" shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule. Additionally, the District intends the words used in clauses (15) and (16) of the preceding paragraphs to have the same meanings as when they are used in the Rule, as evidenced by SEC Release No. 34-83885, dated August 20, 2018.

Availability of Information

The District has agreed to provide the foregoing information only to the MSRB. The information will be available to holders of Bonds free of charge through the MSRB's EMMA system.

Format, Identifying Information, and Incorporation by Reference

All financial information, operating data, financial statements, and notices required to be provided to the MSRB shall be provided in an electronic format and be accompanied by identifying information prescribed by the MSRB.

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

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

Compliance with Prior Undertakings

The fiscal year 2019 Annual Financial Information and Financial Statements were filed on January 6, 2020 with EMMA, past the filing deadline of December 31, 2019. The Financial Advisor contracts with the District to make such filings on behalf of the District. The District and the Financial Advisor have developed enhanced procedures to ensure timely filings in the future.

AUDITED FINANCIAL STATEMENTS

Whitley Penn, LLP, the District's independent auditor, has not reviewed, commented on, or approved, and is not associated with, this Official Statement. The report of Whitley Penn, LLP relating to District's financial statements for the fiscal year ended June 30, 2019 is included in this Official Statement in APPENDIX D; however, Whitley Penn, LLP has not performed any procedures on such financial statements since the date of such report, and has not performed any procedures on any other financial information of the District, including without limitation any of the information contained in this Official Statement.

RATINGS

Moody's Investors Service Inc. ("Moody's") and S&P Global Ratings, an S&P Global business ("S&P"), have assigned municipal bond ratings of "Aaa" and "AAA" to the Bonds, respectively, based upon the Permanent School Fund Guarantee. Moody's and S&P generally rate all bond issues guaranteed by the Permanent School Fund of the State of Texas "Aaa" and "AAA", respectively (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein). The District's underlying ratings for the Bonds (without consideration of the Permanent School Fund Guarantee or other credit enhancement) are "Aa2" by Moody's and "AA-" by S&P. The District also has other issues outstanding that are not guaranteed by the PSF.

An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the views of such organizations and the District makes no representation as to the appropriateness of such rating. The rating is not a recommendation to buy, sell or hold the Bonds, and such rating may be subject to revision or withdrawal at any time by either or both of such rating companies. Any downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

In addition, due to the ongoing uncertainty regarding the economy and debt of the United States of America, including, without limitation, general economic conditions and political developments that may affect the financial condition of the United States government, the United States debt limit, and bond and credit ratings of the United States and its instrumentalities, the ratings of obligations issued by state and local governments, such as the Bonds, could be adversely affected.

LITIGATION

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

FINANCIAL ADVISOR

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

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 the inside cover page, less an Underwriters' discount of $_____________. The Underwriters' obligations are subject to certain conditions precedent, and they 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 this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Piper Sandler & Co., one of the underwriters of the Bonds, has entered into a distribution agreement ("Distribution Agreement") with Charles Schwab & Co., Inc. ("CS&Co") for the retail distribution of certain securities offerings including the Bonds, at the original issue prices. Pursuant to the Distribution Agreement, CS&Co. will purchase Bonds from Piper at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that CS&Co. sells.

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

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the District for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the District.

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

The Bond Order delegated to the Authorized Officer (as defined in the Bond Order) the authority to approve the form and content of this Official Statement for distribution in accordance with the provisions of the Securities and Exchange Commission's rule codified at 17 C.F.R. §240.15c2-12, as amended.

/s/ ______________________________

Authorized Officer
Spring Independent School District

SCHEDULE I
SCHEDULE OF BONDS TO BE REFUNDED*

Unlimited Tax Refunding Bonds, Series 2011

Original Dated Date	Original Principal Amount	Total Principal Amount Outstanding	Maturities Being Refunded	Principal Amount Outstanding	Principal Amount Being Refunded	Redemption Date
08/01/2011	$60,965,000.00	$37,570,000.00	08/15/2021	$ 5,040,000.00	$ 5,040,000.00	08/15/2020
			08/15/2022	5,290,000.00	5,290,000.00	08/15/2020
			08/15/2023	5,530,000.00	5,530,000.00	08/15/2020
			08/15/2024	5,335,000.00	5,335,000.00	08/15/2020
			08/15/2025	5,655,000.00	5,655,000.00	08/15/2020
			08/15/2026	5,975,000.00	5,975,000.00	08/15/2020
Total Refunded Bonds				**$ 32,825,000.00**	**$ 32,825,000.00**	

*Preliminary, subject to change.

APPENDIX A

FINANCIAL INFORMATION REGARDING THE DISTRICT

FINANCIAL INFORMATION REGARDING
THE SPRING INDEPENDENT SCHOOL DISTRICT

TABLE 1 - ASSESSED VALUATION[(A)]

2019/20 Total Appraised Valuation	$	17,042,810,505
2019/20 Certified Taxable Assessed Valuation	$	14,382,619,556

[(A)] Source: The District and Harris County Appraisal District "HCAD").

TABLE 2 - GENERAL OBLIGATION DEBT OUTSTANDING

Unlimited Tax Bonds Outstanding as of June 1, 2020	$	710,180,000
Less: The Refunded Bonds		(32,825,000) [(B)]
Plus: The Bonds		30,205,000 [(B)]
Total Unlimited Tax Bonds Outstanding	**$**	**707,560,000**
Ratio of Direct Debt to 2019/20 Certified Taxable Asssessed Valuation		4.920%

2020 Estimated Population:	156,892 [(A)]
Per Capita Direct Debt:	$4,527
Per Capita 2019 Assessed Valuation:	$91,672
2019/20 Student Enrollment:	35,300
Per Student Direct Debt:	$20,118
Per Student 2019 Assessed Valuation:	$407,440

[(A)] Source: Municipal Advisory Council of Texas.
[(B)] Preliminary, subject to change.

TABLE 3 - CLASSIFICATION OF ASSESSED VALUATION

	Taxable Assessed Value for Tax Year								
	2019[(A)]			2018[(B)]			2017[(B)]		
		Amount	%		Amount	%		Amount	%
Residential	$	7,023,084,130	41.21%	$	6,375,054,709	40.82%	$	6,152,394,247	41.06%
Commercial, Industrial & Bus		9,386,155,210	55.07%		8,607,541,644	55.11%		8,229,643,312	54.92%
Acreage		58,649,056	0.34%		46,726,300	0.30%		85,904,275	0.57%
Vacant Lots & Trucks		407,136,357	2.39%		439,131,028	2.81%		370,605,827	2.47%
Utilities		157,363,944	0.92%		146,575,435	0.94%		140,507,169	0.94%
Mineral Reserves		10,421,808	0.06%		4,045,995	0.03%		4,526,389	0.03%
Total Appraised Value	$	17,042,810,505	100.00%	$	15,619,075,111	100.00%	$	14,983,581,219	100.00%
Less Exemptions:		(2,660,190,949)			(2,520,746,034)			(2,420,402,565)	
Total Taxable Value	**$**	**14,382,619,556**		**$**	**13,098,329,077**		**$**	**12,563,178,654**	

	Taxable Assessed Value for Tax Year					
	2016[(B)]			2015[(B)]		
		Amount	%		Amount	%
Residential	$	5,601,039,376	40.05%	$	5,161,812,169	40.17%
Commercial, Industrial & Bus		7,824,949,989	55.95%		7,167,888,407	55.79%
Acreage		73,182,473	0.52%		62,714,427	0.49%
Vacant Lots & Trucks		342,882,280	2.45%		314,362,865	2.45%
Utilities		138,538,932	0.99%		132,022,815	1.03%
Mineral Reserves		4,618,741	0.03%		9,685,109	0.08%
Total Appraised Value	$	13,985,211,790	100.00%	$	12,848,485,792	100.00%
Less Exemptions:		(2,311,454,564)			(2,210,629,962)	
Total Taxable Value	**$**	**11,673,757,226**		**$**	**10,637,855,830**	

[(A)] Source: The District and Harris County Appraisal District.

[(B)] Source: The District's Comprehensive Annual Financial Report.

NOTE: Certified values are subject to change throughout the year as contested values are resolved and the HCAD updates records.

TABLE 4 - TAX RATE DISTRIBUTION

Tax Year	2019	2018	2017	2016	2015
Local Maintenance	$0.97000	$1.06000	$1.04000	$1.04000	$1.04000
Debt Service	0.46000	0.45000	0.47000	0.42996	0.42996
TOTAL	**$1.43000**	**$1.51000**	**$1.51000**	**$1.46996**	**$1.46996**

TABLE 5 - TAX COLLECTIONS

Tax Year	Taxable Asssessed Valuation[(A)]	Tax Rate	Tax Levy[(B)]	Current Collections Amount	Current Collections %	Total Collections Amount	Total Collections %	Fiscal Year Ending
2014	$9,048,303,759	$1.51000	$134,873,776	$132,927,166	98.56%	$134,490,905	99.72%	06/30/15
2015	10,637,855,830	1.46996	153,725,057	151,989,138	98.87%	152,881,923	99.45%	06/30/16
2016	11,673,757,226	1.46996	169,650,346	166,826,072	98.34%	167,103,567	98.50%	06/30/17
2017	12,563,178,654	1.51000	186,829,949	183,388,547	98.16%	183,796,834	98.38%	06/30/18
2018	13,098,329,077	1.51000	194,068,046	190,998,714	98.42%	192,275,422	99.08%	06/30/19
	Five-Year Average Collections…………………………………..…				**98.47%**		**99.02%**	
2019	$14,382,619,556	$1.43000	$205,671,460	$197,671,929 [(C)]	96.11%	$197,671,929 [(C)]	96.11%	06/30/20

[(A)] Source: The District and Harris County Appraisal District.

[(B)] Source: The District's Comprehensive Annual Financial Report.

[(C)] Partial collections as of April 20, 2020.

TABLE 6 - PRINCIPAL TAXPAYERS

Name of Taxpayer	Type of Property	2019/20 Taxable Assessed Valuation	Percent of T.A.V.
Palmetto Transoceanic LLC[A]	Oil & Gas	$1,202,471,874	9.18%
10000 Energy Drive Owner LP	Office Buildings	150,998,787	1.15%
Centerpoint Energy Inc	Electric Utility/Power Plant	93,648,752	0.71%
Springwoods 4A Inc	Office Buildings	89,827,893	0.69%
Springwoods Realty Inc	Residential	82,847,271	0.63%
Houston NW Manager LLC	Hospital	79,864,016	0.61%
Cardinal Health 200 Inc	Wholesale Supplier/Distribution Center	79,727,896	0.61%
HP Plaza SPV LLC	Office Buildings	78,392,425	0.60%
Ean Holdings LLC	Car Rentals	72,743,275	0.56%
SWV FS Hotel Owner LLC	Hotel/Motel	65,049,235	0.50%
Total..........		**$1,995,571,424**	**15.24%**

Name of Taxpayer	Type of Property	2018/19 Taxable Assessed Valuation	Percent of T.A.V.
Palmetto Transoceanic LLC[A]	Oil & Gas	$1,195,025,847	7.72%
Southwestern Energy Co.	Electric Utility	141,575,352	0.91%
HNMC Inc.	Medical Center	71,697,806	0.46%
Springwoods Realty Inc.	Real Estate	70,785,664	0.46%
Ean Holdings LLC	Auto Rentals	68,223,846	0.44%
CenterPoint Energy Inc.	Electric Utility	66,549,948	0.43%
Cardinal Health 200 Inc.	Healthcare	55,710,468	0.36%
CP Residential CP	Auto Rentals	50,402,093	0.33%
Springwoods Residential LLP	Real Estate	49,961,174	0.32%
Health Care REIT Inc.	Medical Center	46,994,150	0.30%
Total..........		**$1,816,926,348**	**11.73%**

Source: The Texas Municipal Advisory Council and HCAD.

[A] An affiliate of the ExxonMobil Corporation, Palmetto Transoceanic LLC ("Palmetto") accounts for almost 10% of the District's tax base. This entity is primarily involved in the oil and gas industry. Recent declines in oil prices in the United States and globally may lead to adverse conditions in the oil and gas industry. Such adverse conditions may result in reduced revenues, declines in capital and operating expenditures, business failures, and the layoff of workers within the oil and gas industry. In the past, the greater Houston area has been particularly affected by adverse conditions in the oil and gas industry. Adverse conditions in the oil and gas industry and spillover effects into other industries could adversely impact the businesses of ad valorem property taxpayers and the property values in the District, resulting in a reduction in property tax revenue. If any major taxpayer such as Palmetto Transoceanic LLC were to default in the payment of taxes, the abilitiy of the District to make timely payment of debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien, which is a time-consuming process. See "THE BONDS - Bondholder's Remedies," "EXPOSURE TO OIL & GAS INDUSTRY," and "TAX INFORMATION - Property Assessment and Tax Payment" in the offering document.

TABLE 7 - ESTIMATED OVERLAPPING DEBT STATEMENT

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

	Gross Debt[(A)]		Overlapping	
Taxing Entity	**Amount**	**As of**	**Percent (%)[(A)]**	**Amount ($)**
CNP UD	$ 25,930,000	03/31/2020	100.00%	$ 25,930,000
Harris Co	1,885,182,125	03/31/2020	2.71%	51,088,436
Harris Co Dept of Ed	6,320,000	03/31/2020	2.71%	171,272
Harris Co Flood Control Dist	83,075,000	03/31/2020	2.71%	2,251,333
Harris Co Hosp Dist	55,005,000	03/31/2020	2.71%	1,490,636
Harris Co Improvement Dist # 18	33,805,000	03/31/2020	100.00%	33,805,000
Harris Co Improvement Dist # 18	134,750,000	03/31/2020	99.44%	133,995,400
Harris Co MUD # 5	17,100,000	03/31/2020	48.69%	8,325,990
Harris Co MUD # 16	11,690,000	03/31/2020	100.00%	11,690,000
Harris Co MUD # 43	10,460,000	03/31/2020	100.00%	10,460,000
Harris Co MUD # 58	3,860,000	03/31/2020	100.00%	3,860,000
Harris Co MUD # 82	23,660,000	03/31/2020	100.00%	23,660,000
Harris Co MUD # 86	10,150,000	03/31/2020	95.53%	9,696,295
Harris Co MUD # 96	22,350,000	03/31/2020	99.57%	22,253,895
Harris Co MUD #150	16,090,000	03/31/2020	67.79%	10,907,411
Harris Co MUD #154	13,540,000	03/31/2020	82.40%	11,156,960
Harris Co MUD #189	2,725,000	03/31/2020	100.00%	2,725,000
Harris Co MUD #200	9,190,000	03/31/2020	100.00%	9,190,000
Harris Co MUD #211	1,825,000	03/31/2020	100.00%	1,825,000
Harris Co MUD #217	3,195,000	03/31/2020	100.00%	3,195,000
Harris Co MUD #221	3,060,000	03/31/2020	73.61%	2,252,466
Harris Co MUD #233	8,070,000	03/31/2020	100.00%	8,070,000
Harris Co MUD #249	7,390,000	03/31/2020	100.00%	7,390,000
Harris Co MUD #304	15,120,000	03/31/2020	100.00%	15,120,000
Harris Co MUD #399	12,675,000	03/31/2020	100.00%	12,675,000
Harris Co Toll Road	-	03/31/2020	2.71%	-
Harris Co UD # 16	23,950,000	03/31/2020	34.18%	8,186,110
Harris Co WC&ID #109	4,940,000	03/31/2020	4.32%	213,408
Harris Co WC&ID #110	15,590,000	03/31/2020	65.10%	10,149,090
Harris Co WC&ID #136	6,015,000	03/31/2020	100.00%	6,015,000
Houston, City of	3,423,995,000	03/31/2020	0.16%	5,478,392
Inverness Forest ID	3,500,000	03/31/2020	10.84%	379,400
Lone Star College Sys	570,885,000	03/31/2020	6.94%	39,619,419
North Forest MUD	5,055,000	03/31/2020	100.00%	5,055,000
North Park PUD	3,265,000	03/31/2020	91.90%	3,000,535
Northgate Crossing MUD # 1	12,850,000	03/31/2020	100.00%	12,850,000

(continued on next page)

TABLE 7 - ESTIMATED OVERLAPPING DEBT STATEMENT

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

(continued from previous page)

	Gross Debt[A]		Overlapping	
Taxing Entity	**Amount**	**As of**	**Percent (%)[A]**	**Amount ($)**
Northgate Crossing MUD # 2	$ 12,814,985	03/31/2020	100.00%	$ 12,814,985
Northgate Crossing RUD	2,879,998	03/31/2020	100.00%	2,879,998
NW Harris Co MUD # 22	2,505,000	03/31/2020	100.00%	2,505,000
NW Harris Co MUD # 23	6,940,000	03/31/2020	100.00%	6,940,000
Pt of Houston Auth	572,569,397	03/31/2020	2.71%	15,516,631
Post Wood MUD	6,445,000	03/31/2020	100.00%	6,445,000
Rankin Road West MUD	5,889,925	03/31/2020	100.00%	5,889,925
Spring West MUD	24,975,000	03/31/2020	60.30%	15,059,925
Tattor Rd Municipal District	7,220,000	03/31/2020	100.00%	7,220,000
Timber Lane UD	53,730,000	03/31/2020	75.87%	40,764,951
Westador MUD	485,000	03/31/2020	100.00%	485,000
Total Overlapping Debt				$ 630,652,862
Spring Independent School District	$ 710,180,000	03/31/2020		710,180,000
Total Direct and Overlapping Debt				$ 1,340,832,862
Ratio of Total Direct and Overlapping Debt to 2019 Certified Taxable Valuation				9.32%
Per Capita Direct and Overlapping Debt				$ 8,546

[A] Source: Municipal Advisory Council of Texas.

TABLE 8 - DEBT SERVICE REQUIREMENTS

Period Ending (8/31)	Outstanding Debt Service[A] Principal	Outstanding Debt Service[A] Interest	Less: The Refunded Bonds Debt Service[B]	Plus: The Bonds[C] Principal	Plus: The Bonds[C] Interest	Total Debt Service
2020	$ 31,580,000	$ 33,546,721	$ 724,026	475,000	245,956	65,123,651
2021	34,825,000	31,999,971	6,488,053	5,000,000	1,486,500	66,823,419
2022	37,465,000	30,292,446	6,486,053	4,605,000	1,236,500	67,112,894
2023	39,240,000	28,523,259	6,560,740	4,910,000	1,006,250	67,118,769
2024	41,080,000	26,677,019	6,183,250	4,780,000	760,750	67,114,519
2025	43,140,000	24,632,719	6,236,500	5,070,000	521,750	67,127,969
2026	44,295,000	22,508,494	6,273,750	5,365,000	268,250	66,162,994
2027	46,505,000	20,307,731	-	-	-	66,812,731
2028	48,815,000	17,995,831	-	-	-	66,810,831
2029	51,255,000	15,564,375	-	-	-	66,819,375
2030	49,805,000	13,377,650	-	-	-	63,182,650
2031	27,625,000	11,107,500	-	-	-	38,732,500
2032	28,855,000	9,891,450	-	-	-	38,746,450
2033	23,730,000	8,592,700	-	-	-	32,322,700
2034	19,655,000	7,470,300	-	-	-	27,125,300
2035	14,355,000	6,594,150	-	-	-	20,949,150
2036	15,025,000	5,925,500	-	-	-	20,950,500
2037	15,730,000	5,225,350	-	-	-	20,955,350
2038	16,465,000	4,492,050	-	-	-	20,957,050
2039	17,240,000	3,724,150	-	-	-	20,964,150
2040	18,050,000	2,919,750	-	-	-	20,969,750
2041	18,900,000	2,077,250	-	-	-	20,977,250
2042	19,785,000	1,194,700	-	-	-	20,979,700
2043	6,760,000	270,400	-	-	-	7,030,400
TOTAL	**$ 710,180,000**	**$ 334,911,466**	**$ 38,952,371**	**$ 30,205,000**	**$ 5,525,956**	**$ 1,041,870,051**

[A] Does not include any potential funding the District may receive from the State of Texas from either the Instructional Facilities Allotment and/or Existing Debt Allotment Programs.
[B] Preliminary, subject to change.
[C] Debt service on the Bonds is shown with an interest rate of 1.837% for illustrative purposes only. Preliminary, subject to change.

TABLE 9 - AD VALOREM TAX BONDS AUTHORIZED BUT UNISSUED

Purpose	Date Authorized	Amount Authorized	Issued To Date	Unissued
School Buildings & Security	11/08/2016	$330,000,000	$330,000,000	$0

TABLE 10 - TAX ADEQUACY

Maximum Annual Debt Service Requirements (FY2025)	$	67,127,969
Estimated State Funding for Debt Service		(1,023,464) [(A)]
Net Maximum Annual Debt Service Requirements	$	66,104,505
$0.5150 tax rate on 2019/20 TAV @ 98% collection rate produces	$	72,589,081
Average Annual Debt Service Requirements (FY2020-FY2044)	$	43,411,252
Estimated State Funding for Debt Service		(1,023,464) [(A)]
Net Average Annual Debt Service Requirements	$	42,387,788
$0.3303 tax rate on 2019/20 TAV @ 98% collection rate produces	$	46,555,677

[(A)] A portion of the debt service payable on the District's outstanding bonds has been paid with funds received from the State of Texas pursuant to the Existing Debt Allotment Program. The amount of State funding for debt service may differ substantially from year to year, depending on a number of factors, including amounts, if any, appropriated for that purpose by the Texas Legislature from time to time. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM."

TABLE 11 - GENERAL FUND REVENUES AND EXPENDITURES HISTORY

	Fiscal Years Ending June 30,				
	2019	**2018**	**2017**	**2016**	**2015**
Revenues					
Local and intermediate sources	$ 139,549,058	$ 129,211,219	$ 121,012,398	$ 111,242,324	$ 94,295,615
State Program Revenues	181,925,312	171,918,923	172,481,335	196,802,537	202,270,519
Federal Revenues	11,524,138	7,311,794	6,449,375	5,169,690	7,234,572
Total Revenues	**$ 332,998,508**	**$ 308,441,936**	**$ 299,943,108**	**$ 313,214,551**	**$ 303,800,706**
Expenditures					
Current:					
Instructional	$ 180,758,688	$ 180,066,044	$ 176,064,956	$ 184,006,961	$ 180,974,704
Instl Resources & Media Services	2,768,316	2,421,321	2,504,292	2,689,716	2,751,688
Curriculum & Instructional Staff Dev	3,398,233	3,425,001	2,951,137	3,504,399	3,052,008
Instructional Leadership	9,063,398	8,438,341	6,765,143	5,671,467	5,190,769
School Leadership	21,673,672	19,567,259	19,246,390	19,020,905	18,267,449
Guidance & Counseling Services	10,960,414	10,744,977	10,561,678	10,525,023	9,275,404
Social Work Services	576,023	387,586	302,597	313,452	310,199
Health Services	2,637,983	2,741,226	2,585,088	2,615,173	2,485,734
Student Transportation	14,964,661	14,701,124	13,143,516	12,348,694	13,659,005
Co-Curricular Activities	5,840,549	5,313,894	5,255,001	5,287,558	5,444,567
General Administration	11,707,340	11,759,101	12,941,353	12,950,792	10,942,549
Plant Maintenance & Operations	26,603,525	24,738,562	26,813,885	26,504,810	25,579,615
Security and Monitoring Services	5,949,071	5,824,871	5,431,938	5,342,444	5,059,194
Data Processing Services	6,565,377	6,213,547	4,777,264	5,461,521	5,267,993
Community Services	578,236	607,803	1,022,161	715,229	713,355
Intergovernmental Charges:					
Fiscal Agent/Shared Service Agrmnt	13,291	11,354	16,925	24,443	25,873
Alternative Education	64,800	-	118,800	78,158	-
Payments to Tax Increment Fund	695,707	596,952	579,271	482,378	406,144
Other Intergovernmental Charges	1,411,069	1,339,461	1,214,247	1,121,057	1,022,820
Capital Outlay					
Facilities acquisition and construction	1,073,144	690,076	4,041,911	397,036	3,350,110
Debt Service:					
Principal Retirement of Bonds	37,699	34,253	36,425	-	-
Interest on Long-term Debt	9,691	13,137	10,965	-	-
Total Expenditures	**$ 307,350,887**	**$ 299,635,890**	**$ 296,384,943**	**$ 299,061,216**	**$ 293,779,180**
NET REVENUES (Deficit)	**$ 25,647,621**	**$ 8,806,046**	**$ 3,558,165**	**$ 14,153,335**	**$ 10,021,526**
Other Resources and Uses	(5,971,700)	(3,077,959)	(3,287,350)	(6,170,605)	23,534
Net changes in fund balance	19,675,921	5,728,087	270,815	7,982,730	10,045,060
Beginning Fund Balance, July 1	**$ 106,234,055**	**$ 100,505,968**	**$ 100,235,153**	**$ 92,252,423**	**$ 82,207,363**
Ending Fund Balance, June 30	**$ 125,909,976**	**$ 106,234,055**	**$ 100,505,968**	**$ 100,235,153**	**$ 92,252,423**

Source: The District's Comprehensive Annual Financial Reports.

TABLE 12 - DEBT SERVICE FUND REVENUES AND EXPENDITURES HISTORY

	Fiscal Years Ending June 30,				
	2019	**2018**	**2017**	**2016**	**2015**
Revenues					
Local and intermediate resouces	$ 59,369,155	$ 59,842,282	$ 50,696,084	$ 46,366,799	$ 42,903,214
State program revenues	2,022,755	1,744,078	3,589,081	9,519,471	12,370,164
Interest & misc. earnings	-	-	242,076	95,936	235,598
Total Revenues	**$ 61,391,910**	**$ 61,586,360**	**$ 54,527,241**	**$ 55,982,206**	**$ 55,508,976**
Expenditures					
Debt Service	$ 58,401,284	$ 53,707,713	$ 49,442,878	$ 45,330,381	$ 47,971,830
Bond Issuance Costs and Fees	28,650	13,492,460	2,459,440	1,134,183	788,226
Total Expenditures	**$ 58,429,934**	**$ 67,200,173**	**$ 51,902,318**	**$ 46,464,564**	**$ 48,760,056**
NET REVENUES (Deficit)	$ 2,961,976	$ (5,613,813)	$ 2,624,923	$ 9,517,642	$ 6,748,920
Beginning Fund Balance	**$ 61,222,792**	**$ 54,831,581**	**$ 51,486,368**	**$ 43,471,836**	**$ 38,120,630**
Other Sources (Uses)	2,055,296	12,005,024	720,290	(1,503,110)	(1,397,714)
Ending Fund Balance	**$ 66,240,064**	**$ 61,222,792**	**$ 54,831,581**	**$ 51,486,368**	**$ 43,471,836**

Source: The District's Comprehensive Annual Financial Reports.

APPENDIX B

GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY

GENERAL INFORMATION REGARDING THE DISTRICT

District Description

Spring Independent School District, containing 57.6 square miles of land, is located in the northern portion of Harris County, Texas, some 20 miles north of downtown Houston. IH-45 traverses the District north to south and FM 1960 bisects the District east to west at its approximate midpoint. The unincorporated community of Spring is located in the District. The District's system presently includes 26 elementary schools, 8 middle schools, a middle school leadership academy, 3 high schools, a high school career academy and an early college high school. All District schools are fully accredited by the Texas Education Agency and the Southern Association of Colleges and Schools.

Currently, the District employs approximately 5,000 persons, of which approximately 60% are in the professional field. Salaries for new teachers with bachelor's degrees start at $54,000 annually and range to $66,875 annually for teachers with postgraduate degrees and classroom experience.

Administration

Principal staff managing the finances of the District includes:

Dr. Rodney E. Watson, Superintendent of Schools. Dr. Watson was hired by the District on June 23, 2014. Prior to his hiring, he served as a chief of human resources in the Houston Independent School District. Dr. Watson previously served as a national trainer and consultant for Haberman Education Foundation and as a Clinical Adjunct Professor at the University of Texas – Austin and the University of Missouri – Kansas City. Dr. Watson has a Bachelor of Arts in Psychology and Music Education from Northwest Missouri State University, a Master of Arts in Counseling Psychology from Webster University, and an Education Specialist degree in Higher Education Administration and K-8 Administration from the University of Missouri-Kansas City. He earned his Doctor of Philosophy degree in Urban Leadership and Policy Analysis and Curriculum and Instruction from the University of Missouri, School of Graduate Studies – Kansas City.

Ann Westbrooks, Chief Financial Officer. Ms. Westbrooks joined the District in March 2006 serving as Assistant Controller prior to being appointed to Controller in December 2007, Assistant Superintendent of Financial Services in February 2013, and her current position in June 2015. She comes from a public accounting background. Ms. Westbrooks has 18 years accounting experience, 14 of which are in school district financial management, and is a certified public accountant who holds a BBA from Sam Houston State University.

Student Enrollment

District Enrollment History

		Increase/(Decrease)	
Fiscal Year	**Enrollment***	**Number**	**Percentage**
2010-11	36,230	954	2.70%
2011-12	36,423	193	0.53%
2012-13	36,028	-395	-1.08%
2013-14	36,258	230	0.46%
2014-15	36,781	523	1.44%
2015-16	36,925	144	0.39%
2016-17	36,767	-158	-0.43%
2017-18	36,079	-688	-1.87%
2018-19	35,275	-804	-2.23%
2019-20	35,300	25	0.07%

*Enrollment count is as of last Friday in October of each year.
Source: District Records.

Enrollment By School

School	Year Constructed	Maximum Student Capacity	2019-20 Enrollment
Dekaney High	2007	2,500	2,113
Spring Early College Academy	2015	400	430
Spring High	1968	2,500	2,772
Westfield High	1976	2,500	2,821
Wunsche Academy	2006	1,500	1,481
Richey Academy – DAEP	2015	250	132
High School Total		9,650	9,749
Bailey Middle	2006	1,200	909
Bammel Middle	2003	1,200	934
Claughton Middle	2003	1,200	1,171
Dueitt Middle	1980	1,200	991
Roberson Middle	1971	1,200	803
Spring Leadership Academy	1984	400	385
Springwoods Village Middle	2019	525	495
Twin Creeks Middle	1984	1,061	1,042
Wells Middle	1977	1,200	1,117
Middle School Total		9,186	7,847
Anderson Elementary	1979	704	578
Bammel Elementary	2010	800	727
Beneke Elementary	1986	800	690
Booker Elementary	2008	800	757
Burchett Elementary	2005	800	701
Clark Intermediate	2003	800	670
Clark Primary	1990	770	487
Cooper Elementary	2005	800	756
Eickenroht Elementary	2009	800	664
Heritage Elementary	2000	770	716
Hirsch Elementay	1978	770	723
Hoyland Elementary	2009	800	709
Jenkins Elementary	1976	800	607
Lewis Elementary	2006	800	694
Link Elementary	1982	792	613
Major Elementary	2009	800	691
Marshall Elementary	2010	800	761
McNabb Elementary	2006	800	686
Meyer Elementary	1976	800	735
Northgate Crossing Elementary	2008	800	717
Ponderosa Elementary	1971	800	808
Reynolds Elementary	1973	792	778
Salyers Elementary	2003	800	656
Smith Elementary	1986	800	569
Thompson Elementary	1996	800	710
Winship Elementary	1972	748	501
Elementary Total		20,546	17,704
DISTRICT TOTAL		**39,132**	**35,300**

Student Transportation

District students who reside more than one mile from their school or in a board-designated hazardous area are provided free bus service by the District. During the 2019-20 school year, the District transported 13,458 students daily and operated 235 buses for this purpose. District school buses traveled a total of 2,359,786 miles in the 2019-20 school year, an average of 19,030 miles per school day.

INFORMATION REGARDING THE LOCAL ECONOMY

Economic Activity

The expansion of the Houston metropolitan area northward along IH-45, the main Houston/Dallas traffic artery, and along FM 1960 has had a substantial impact on the economy of the District. Although the District has remained primarily residential in character, including over 50 single-family residential subdivisions and numerous multifamily residential complexes, numerous shopping centers, automobile dealerships, hotels and combination business park/multi-family developments have been built along IH-45 and FM 1960.

Major Commerce within the District

The FM 1960 and IH-45 Area. Thirty-one banks, two credit unions and several savings and loans are located in the District along FM 1960 and IH-45. These include branches of Amegy Bank, Bank of America, Bank of Houston, Compass Bank, First Convenience Bank, JP Morgan Chase Bank, Paradigm Bank Texas, Prosperity Bank, Regions Bank, Republic National Bank, Sterling Bank Trustmark Bank, Wells Fargo Bank and Wood Forest Bank.

An American Telephone and Telegraph Company microwave installation is located in the District. The microwave station is capable of handling over 100,000 long distance circuits. The installation also acts as the central maintenance center for a 32,000 square mile area of southeast Texas.

Numerous shopping centers, single and/or multi-family subdivisions, and combination business park/multi-family developments are located in the District.

The Houston Northwest Medical Center, located just off FM 1960 and the third largest taxpayer in the District, currently operates a full service hospital, employing approximately 1,600 persons. An estimated 600 active physicians are on the staff of the hospital and surrounding clinic facilities.

North Belt/Greenspoint Trade Area. In addition to the FM 1960 area, the North Belt/Greenspoint area has developed into a major employment center for residents of the District. Numerous multi-use developments are located in the North Belt area, which is approximately two miles from the southeast corner of the District. These developments include retail shopping centers (both mall and specialty centers), low to mid-rise office buildings, hotels, restaurants and high-density residential complexes.

George Bush Intercontinental Airport ("IAH"), the chief air terminal facility serving the Houston metropolitan area, is located east of the District and northeast of the IH-45/North Belt intersection. The airport currently has five operating terminals that accommodate 27 passenger airlines that offer non-stop flights to 185 destinations. In 2017, IAH served more than 40 million passengers.

ExxonMobil. ExxonMobil has built a corporate campus in North Houston within the boundaries of the District to consolidate its employees working in a variety of locations in the Houston area. The complex is located on a 385-acre wooded site and contains multiple low-rise office buildings, a laboratory, conference and training centers, and facilities such as child care, a wellness center and other employee amenities. The campus houses ExxonMobil personnel devoted to energy exploration, refining, chemicals, corporate law, finance, and other aspects of the business. The campus accommodates more than 10,000 employees and visitors annually and is part of a planned community that includes both business and residential properties.

Labor Force Statistics

Comparative Unemployment Rates

	2016	**2017**	**2018**	**2019**	**2020**[(A)]
Houston-Woodlands-Sugarland MSA	5.3%	5.0%	4.3%	3.8%	5.1%
Harris County	5.3%	5.1%	4.4%	3.8%	5.2%
State of Texas	4.6%	4.3%	3.8%	3.7%	4.4%
United States of America	4.9%	4.4%	3.9%	3.5%	4.7%

[(A)] As of March, 2020.
Source: Labor Market Information Department, Texas Workforce Commission.

APPENDIX C

FORM OF LEGAL OPINION OF
BOND COUNSEL

APPENDIX D

AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

16717 ELLA BLVD.
HOUSTON, TEXAS 77090
281-891-6077
www.springisd.org

November 12, 2019

The Honorable Board of Trustees
Spring Independent School District
16717 Ella Blvd.
Houston, Texas 77090

Dear Board Members and Citizens:

The Comprehensive Annual Financial Report of the Spring Independent School District (the "District", "Spring ISD" or "SISD"), Houston, Texas, for the fiscal year ended June 30, 2019, is submitted herewith. The Comprehensive Annual Financial Report is management's report of financial operations to the Board of Trustees (the Board), taxpayers, grantor agencies, employees, the Texas Education Agency (TEA), and other interested parties. The government-wide financial statements in this report provide an overview of the District's governmental activities, while detailed fund financial statements describe specific activities of each fund group used in accounting for the District's financial transactions. This report was prepared by the District's Office of Financial Services in accordance with generally accepted accounting principles (GAAP) and reporting standards as promulgated by the Governmental Accounting Standards Board (GASB).

Responsibility for the accuracy of the data and completeness and fairness of the presentation, including all disclosures, rests with the District. We believe that the data, as presented, is accurate in all material respects; that information is presented in a manner designed to set forth fairly the financial position and results of operations of the District as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of the District's financial activities have been included. In order to provide a reasonable basis for making these representations of responsibility, management of the District has established a comprehensive internal control framework that is designed to protect the District's assets from loss, theft or misuse. Additionally, the internal control framework is designed to compile sufficient reliable information for the preparation of the District's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the District's comprehensive framework of internal controls has been designed to provide reasonable assurance rather than absolute assurance that the financial statements will be free from material misstatement. To the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The financial statements of the District have been audited by Whitley Penn, a firm of licensed certified public accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2019, are free of material misstatement. The independent audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the District's financial statements for the fiscal year ended June 30, 2019, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

The independent audit of the financial statements is part of a broader, federally mandated "Single Audit" designed to meet the special need of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the District's separately issued Single Audit Report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the report of the independent auditors.

Reporting Entity

An act of the Thirty-Eighth Legislature of the State of Texas in 1923 provided the statutory authority for the creation of independent school districts in the State of Texas. The District was established and incorporated in 1935 by the combination of two separate school districts, the Spring School District and the Harrell School District. As an independent school district, a seven-member board of trustees elected from residents of the District constitutes the governing body. Based on legislative authority codified in the Texas Education Code, the trustees (1) have exclusive power to manage and govern the District; (2) can acquire and hold real and personal property; (3) shall have power to levy and collect taxes and to issue bonds; (4) can contract for appointed officers, teachers, and other personnel as well as for goods and services; and (5) have the right of eminent domain to acquire real property. The District is not included in any other governmental reporting entity and the District is not financially accountable for any other organizations; therefore, no component units are included within the reporting entity.

As required by GAAP, the financial statements of the reporting entity include those of the District (the primary government), an independent reporting entity clearly within the criteria established by GASB.

The District encompasses approximately 58 square miles and is located in northern Harris County, Texas, approximately 20 miles north of downtown Houston. Interstate Highway 45 (I-45) traverses the District north to south, and Farm-to-Market Road 1960 (FM 1960) bisects the District east to west approximately at its midpoint. The unincorporated community of Spring is located in the District.

The District's system presently includes twenty-six elementary schools, six traditional middle schools, a school-of-choice middle school, three traditional high schools, a school-of-choice high school, a virtual school, and an early college academy. The ages of the school buildings range from eight years to fifty-one years.

The District is one of twenty-one public school districts located in Harris County. It provides a program of public education from pre-kindergarten through grade twelve. The purpose and responsibility of the District is to provide a thorough and efficient educational system for the children enrolled in public schools within its boundaries whereby each child has access to programs and services that are appropriate to his or her educational needs. In addition to the regular educational program, the District offers programs in areas such as vocational education, special education, gifted and talented, bilingual, and compensatory education. All District schools are fully accredited by the TEA and the Southern Association of Colleges and Schools.

The District's average daily attendance (ADA) has been slowly declining over the last few years. ADA was 32,373 in 2019 and 32,854 in 2018, a decrease of 481 and a decrease of 562 students respectively.

Long-term Financial Planning

Enrollment is projected to remain flat or decrease slightly during the 2019-2020 and 2020-2021 school years. Currently, there are 606 students per square mile in the District.

Each school district in Texas is required by law to prepare annually a budget of anticipated revenues and expenditures for the General Fund, Debt Service Fund and the Child Nutrition Fund. The District's approach to operating in a restricted funding environment with increasing academic standards has been to ensure that the budget process is led by data driven decisions and guided by the five-year strategic plan. The major budget priorities are to ensure financial stability in an ever changing economic environment while providing engaging learning opportunities for staff and students.

Organization Purpose

Vision Statement

This statement reads, "Spring Independent School District will be a district of choice known for high quality academics with innovative and specialized programs that meet the needs of all students in a positive learning environment."

Mission Statement

The mission of the Spring Independent School District is to prepare students to be lifelong learners, critical thinkers, and responsible citizens who display good character – ready to contribute, compete, and lead in today's global society.

Guiding Principles

1. High-quality teaching drives student learning.
2. Literacy is the foundation of academic success.
3. The learning needs of each student must be met.
4. Students learn best in safe environments where school leaders cultivate parent and community partnerships.
5. Every district resource must center on student learning with a focus on accountability.

Core Values

- We base our decisions on what is best for our students.
- We strive for excellence in all we do.
- We build trust through integrity and lead by example.
- We communicate openly.
- We value diversity and treat everyone with dignity and respect.
- We win as a team.

Key Imperatives to Drive Change

Preparing students for success in college, career and life should be the mission of every school district and every school – both here in the United States and abroad. Unfortunately, many students today – including students here at Spring ISD – are graduating from high school lacking some of the needed skills to compete in an ever-more-complex global marketplace. Whereas in the past, content mastery and good problem-solving skills were the goals set for education systems, today the bar is much higher. Nowadays, to be truly college and career ready, students must be able to work collaboratively, use technology to problem solve and communicate, have an awareness of cultural differences, and demonstrate basic proficiency in a second language.

This is indeed a high bar – a bar that only the most committed and innovative school districts can reach. As we started our strategic planning process, this was the bar that we set for ourselves. It was also the bar that our community expects us to reach. We know it will require hard work; but we also know that our students and the Spring community deserve the best.

While the details of our five-year plan are complex, it has been organized around five straightforward key imperatives – designed to be true levers for the needed changes across the Spring Independent School District.

Naturally, these strategic imperatives start with our students at the center of everything we do. Currently, Spring ISD serves approximately 35,000 students. Like so many communities across Houston, the state of Texas and the nation, the diversity of our students and their families has grown exponentially over the last two decades. Today, 58 different languages are spoken at homes across the district and more than one out of every ten students receives bilingual education support in our schools. While diversity can challenge many education systems, EVERY CHILD 2020 is designed to value the diversity found here in Spring and leverage it as a competitive advantage for our students who will live – and compete – in a global society.

As you'll see, each key imperative is supported by strong commitments from the District – goals that we will work toward, communicating progress frequently and with transparency.

reach EVERY STUDENT
Commitment 1: Strong Literacy Foundation for All
Commitment 2: Excellent Curriculum and Instruction
Commitment 3: Excellent Systems of Support and Acceleration
Commitment 4: Graduates Who Are 21st Century Learners

excellence IN EVERY SCHOOL
Commitment 1: Excellent Leadership Teams in Every School
Commitment 2: Operational Excellence Across Every School and Every Department
Commitment 3: Safe and Secure Learning and Work Environments for All

high performance FROM EVERY EMPLOYEE
Commitment 1: Excellent Recruitment and Retention
Commitment 2: Comprehensive, Job-Embedded Workforce Development
Commitment 3: Culture of High Performance

opportunities & choice FOR EVERY FAMILY
Commitment 1: Best-in-Class Specialized Programs
Commitment 2: Excellent Early Childhood Programs
Commitment 3: Strong College Readiness Support Structure

engaged stakeholders IN EVERY COMMUNITY
Commitment 1: Culture of High Community Engagement
Commitment 2: Families as Partners in Student Success
Commitment 3: Trusted Source of Information

Education Foundation

The District receives support from the Spring Education Foundation (the Foundation), a non-profit organization. The Foundation seeks funds to support initiatives related to the District's Five-Year Strategic Plan. The goal of the Foundation is to raise funds for teacher initiative projects and for campus initiative projects that attempt to improve student achievement and success. Grant awards are up to $1,000 for teacher or classroom projects, up to $5,000 for campus teams, and up to $10,000 for multi-campus projects. During 2018-2019, grants were awarded totaling $45,000 to improve services to students. The Foundation has awarded over $1,000,000 in grants since it began in 1993. The Foundation does not meet the criteria for inclusion in the District's financial statements under the provisions of GASB Statement No. 39.

Economic Condition and Outlook

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the District operates.

The Houston metropolitan area ranks as the sixth-largest metropolitan area in the country. Demographically and economically, the region has rapidly diversified into a cosmopolitan, international center of business and industry. The District must be prepared to meet the challenges of educating an increasingly heterogeneous student population. Furthermore, in light of the recent growth of service-sector jobs in the Houston area, these children must be prepared for careers requiring high-level skills in mathematics, science, and technology in addition to solid reading and writing skills.

ExxonMobil's state-of-the-art complex is located on a 385-acre wooded site within the boundaries of Spring ISD. It contains multiple low-rise office buildings, a laboratory, conference and training centers and facilities such as child care, a wellness center and other employee amenities. The campus houses more than 10,000 ExxonMobil personnel devoted to energy exploration, refining, chemicals, corporate law, finance, and other aspects of the business. With a value of over $1 billion in tax year 2018, the ExxonMobil campus makes up approximately 10% of the District's tax base.

Local Economy

The District is primarily commercial in character with numerous shopping centers, automobile dealerships, hotels and combination business park/multi-family developments that have been built along I-45 and FM 1960. The following is a summary of the tax base by category for fiscal years 2019 and 2018:

	2019		2018	
Type of Property	Amount	%	Amount	%
Residential	$6,375,054,709	40.81%	$6,152,394,247	41.07%
Commercial, Industrial, and Multi-Family	8,607,541,644	55.11%	8,229,643,312	54.92%
Acreage	46,726,300	0.30%	85,904,275	0.57%
Vacant Lots and Tracts	439,131,028	2.81%	370,605,827	2.47%
Utilities	146,575,435	0.94%	140,507,169	0.94%
Mineral Reserves	4,045,995	0.03%	4,526,389	0.03%
Total Assessed Value	15,619,075,111	100%	14,983,581,219	100%
Less: Exemptions	(2,520,746,034)		(2,420,402,565)	
Actual Taxable Value	$13,098,329,077		$12,563,178,654	

The percentage mix of property values by category in the District has been consistent over the past few years.

Residential Properties

For the 2019 fiscal year, the Harris County Appraisal District listed 43,825 single-family residences. This compares to 43,175 dwellings in this category for last year. Developers continue to develop new subdivisions throughout all geographic areas. The 650 new residences occurred throughout the District.

The average actual taxable value of the residential property in the 2019 fiscal year was $119,404 which compares to $114,939 in the 2018 fiscal year. This represents an 3.88% increase in the average actual taxable home value from the prior year. During the 2019 fiscal year, the assessed value for residential properties increased $222,660,462 or 3.62% over the previous year.

Commercial, Industrial and Multi-Family Properties

We have seen an increase in commercial growth due to market value increases in the following property types: multi-family, retail multi-occupancy, convenience food market and neighborhood shopping centers. During the 2019 fiscal year, the assessed value for commercial properties increased $377,898,332 or 4.59% over the previous year.

Acreage, Vacant Lots and Tracts

The value of acreage in the District decreased. The total number of vacant lots continuously changes due to new subdivision sections.

Utilities

The assessed value for utilities increased by $6,068,266 or 4.32%. The increase was primarily caused by the increase in the value of electric companies and major cable TV systems.

Mineral Reserves

The assessed value for the various mineral reserves experienced a decrease of $480,394 or 10.61% under the previous year as a result of changes in oil prices.

Financial Reporting Awards

GFOA Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the District for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2018. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

ASBO Certificate of Excellence

The District received the Association of School Business Officials' (ASBO) Certificate of Excellence in Financial Reporting for the fiscal year ended June 30, 2018. This award certifies that the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2018, substantially conforms to the principles and standards of financial reporting as recommended and adopted by the ASBO. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Excellence Program's requirements and we are submitting it to the ASBO to determine its eligibility for another certificate.

Acknowledgements

The preparation of this report on a timely basis could not be accomplished without the dedicated services of the entire staff of the Office of Financial Services. Also, we would like to express our appreciation to other divisions, departments, schools, and individuals who assisted in its preparation. Moreover, we wish to thank and express appreciation to the administrators and other employees of the District for their interest and support in planning and conducting the financial affairs of the District in a responsible and progressive manner.

Respectively submitted,

Mary Welch

Mary Welch, RTSBA
Director of Accounting
Office of Financial Services

Ann Westbrooks

Ann Westbrooks, CPA, RTSBA
Chief Financial Officer
Office of Financial Services

Rodney Watson

Rodney E. Watson, Ph.D.
Superintendent of Schools

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Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Spring Independent School District

Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2018

Christopher P. Morrill

Executive Director/CEO

ASSOCIATION OF SCHOOL BUSINESS OFFICIALS INTERNATIONAL

The Certificate of Excellence in Financial Reporting
is presented to

Spring Independent School District

for its Comprehensive Annual Financial Report (CAFR)
for the Fiscal Year Ended June 30, 2018.

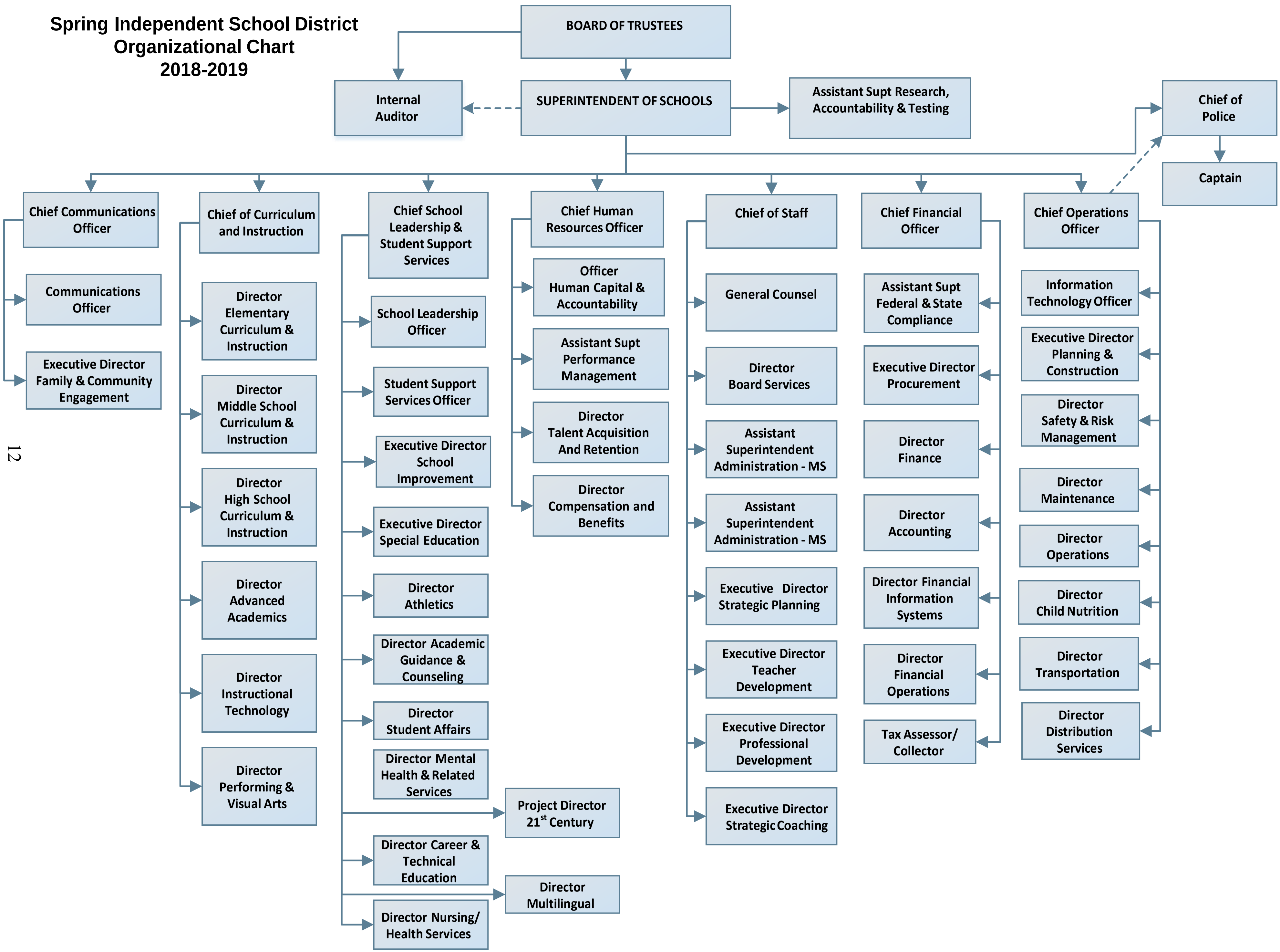
The CAFR meets the criteria established for
ASBO International's Certificate of Excellence.

CERTIFICATE OF EXCELLENCE IN FINANCIAL REPORTING

Tom Wohlleber, CSRM
President

Siobhán McMahon, CAE
Chief Operating Officer

Spring Independent School District
Organizational Chart
2018-2019



SPRING INDEPENDENT SCHOOL DISTRICT
PRINCIPAL OFFICIALS AND ADVISORS

BOARD OF TRUSTEES

ADMINISTRATION

Dr. Rodney E. Watson, Superintendent of Schools

Julie F. Hill, J.D., Chief of Staff

Lupita Hinojosa, Ed.D., Chief of School Leadership and Student Support Services

Tiffany Dunne-Oldfield, Chief Communications Officer

Ann Westbrooks, Chief Financial Officer

Deeone G. McKeithan, Chief Human Resources Officer

Mark Miranda, Chief Operations Officer

Kenneth Culbreath, Chief of Police

Khechara Bradford, Chief of Curriculum and Instruction

CONSULTANTS AND ADVISORS

Whitley Penn, L.L.P., Independent Auditors

Thompson & Horton, L.L.P., Legal Counsel

Perdue, Brandon, Fielder, Collins & Mott, L.L.P., Tax Attorneys

RBC Capital Markets, L.L.C., Financial Advisors

CERTIFICATE OF BOARD

Spring Independent School District	Harris	101-919
Name of School District	County	Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and approved for the year ended June 30, 2019, at a meeting of the Board of Trustees of such school district on the 12th day of November, 2019.

Signature of Board Secretary

Rhonda R. Newhouse

Signature of Board President

FINANCIAL
Section

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whitleypenn

Houston Office
3737 Buffalo Speedway
Suite 1600
Houston, Texas 77098
713.621.1515 Main

whitleypenn.com

REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees
Spring Independent School District
Houston, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Spring Independent School District (the "District"), as of and for the year ended June 30, 2019, 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 fraud or error.

Auditor's Responsibility

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

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

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

To the Board of Trustees
Spring Independent School District
Houston, Texas

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2019, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 19 through 29 and budgetary comparison information, pension information, and other-post employment benefit information on pages 75 through 82, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the 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 accompanying supplementary information, such as the combining and individual fund statements and schedules, other supplementary information and other information, such as the introductory and statistical section, are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements and schedules and other supplementary information 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 financial statements and schedules and other supplementary information are fairly stated in all material respects in relation to the basic financial statements as a whole.

To the Board of Trustees
Spring Independent School District
Houston, Texas

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2019, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Whitley Penn LLP

Houston, Texas
October 29, 2019

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Our discussion and analysis of Spring Independent School District's (the District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2019. It should be read in conjunction with the District's financial statements.

Financial Highlights

On the government-wide financial statements, the liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources of the District at June 30, 2019, by $10,237,608. Of this amount, ($104,949,713) is unrestricted.

At June 30, 2019, the District's governmental funds financial statements reported combined ending fund balances of $372,832,915. Of this amount, $5,025,849 is non-spendable in the General Fund, $5,000,000 is committed, $45,852,355 is assigned and $70,031,772 is unassigned and available to spend at the District's discretion.

At the end of the current fiscal year, total fund balance for the General Fund was $125,909,976, or 40.97% of total General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains required supplementary information and other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

All the District's services are reported in the government-wide financial statements, including instruction, student transportation, general administration, school leadership, and child nutrition services. Property taxes, state and federal aid, and interest and investment earnings finance most of the activities. Additionally, all capital and debt financing activities are reported here.

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

The statement of net position presents information on all of the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as net position.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Fund Financial Statements

The District uses fund accounting to record and report specific sources of funding and spending for particular purposes. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds. The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Most of the District's activities are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available. However, unlike the government-wide financial statements, governmental fund financial statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information in Figure A-1 that explains the relationship (or differences) between them.

The District's governmental funds are the General Fund, Debt Service Fund, Capital Projects Fund and Non-Major Governmental Funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Debt Service Fund and Capital Projects Fund, each of which is considered to be a major fund. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations and/or other funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities and a statement of changes in fiduciary assets and liabilities. The District's fiduciary fund is considered to be an agency fund which accounts for the District's Student Activity Funds. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets.

Notes to the Basic Financial Statements

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

Other Information

In addition to the basic financial statements and accompanying notes to the basic financial statements, this report also presents certain required supplementary information concerning a comparison of the District's General Fund budgeted and actual revenues and expenditures.

The combining and individual fund statements and schedules referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information.

The statements are followed by a section of other supplementary information that further explains and supports the information in the financial statements. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements. Figure A-1 summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain.

Figure A-1 Major Features of the District's Government-wide and Fund Financial Statements

		Fund Statements	
Type of Statements	**Government-wide**	**Governmental Funds**	**Fiduciary Funds**
Scope	Entire District's governmental activities (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary	Instances in which the District is the trustee or agent for someone else's resources: student activity funds
Required financial statements	Statement of net position	Balance sheet	Statement of fiduciary assets and liabilities
	Statement of activities	Statement of revenues, expenditures and changes in fund balances	Statement of changes in assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and custodial in nature
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term
Type of inflow/outflow	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

Government-wide Financial Analysis

The District's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by $10.2 million at June 30, 2019, which is an increase in the net position of $24.9 million over last fiscal year.

Figure A-2 The District's Net Position

	Governmental Activities	
	2019	2018
Current and other assets	$447,426,117	$424,789,500
Capital assets	688,081,572	573,805,970
Total Assets	1,135,507,689	998,595,470
Total deferred outflows of resources	101,063,209	59,500,353
Current liabilities	80,451,791	57,789,995
Noncurrent liabilities	1,109,007,178	959,103,360
Total Liabilities	1,189,458,969	1,016,893,355
Total deferred inflows of resources	57,349,537	76,374,398
Net Position:		
Net investment in capital assets	34,470,958	23,310,013
Restricted	60,241,147	55,052,320
Unrestricted	(104,949,713)	(113,534,263)
Total Net Position	($10,237,608)	($35,171,930)

The District's net position is comprised of the following elements as illustrated in Figure A-2: *Net Investment in Capital Assets* $34.5 million reflects the District's investment of $688.1 million in capital assets (e.g., land, construction-in-progress, buildings and equipment) less the outstanding debt used to acquire those assets.

The second element of net position shown in Figure A-2 is *Restricted,* which is used to segregate the net position on which external constraints have been placed (e.g., constraints imposed by creditors, grantors or by law). The District is reporting a balance of $60.2 million which represents balances for debt service, federal and state programs, and local grants.

The third element of net position is *Unrestricted,* which consists of the net position that does not meet the criteria of the other two elements described above. The District is reporting a balance of ($104.9) million in this category.

Changes in Net Position

The District's total revenues for the fiscal year ended June 30, 2019, were $462,724,430. A significant portion of the District's revenue (41.65%) comes from taxes. State aid and other grant revenues represent 38.35%, while only 1.05% relate to charges for services (See Figure A-3). The total cost of all programs and services was $437,790,108 of which 53.55% is for instruction and instructional-related services (See Figure A-4).

Figure A-3 Sources of Revenue for the Fiscal Year Ended June 30, 2019

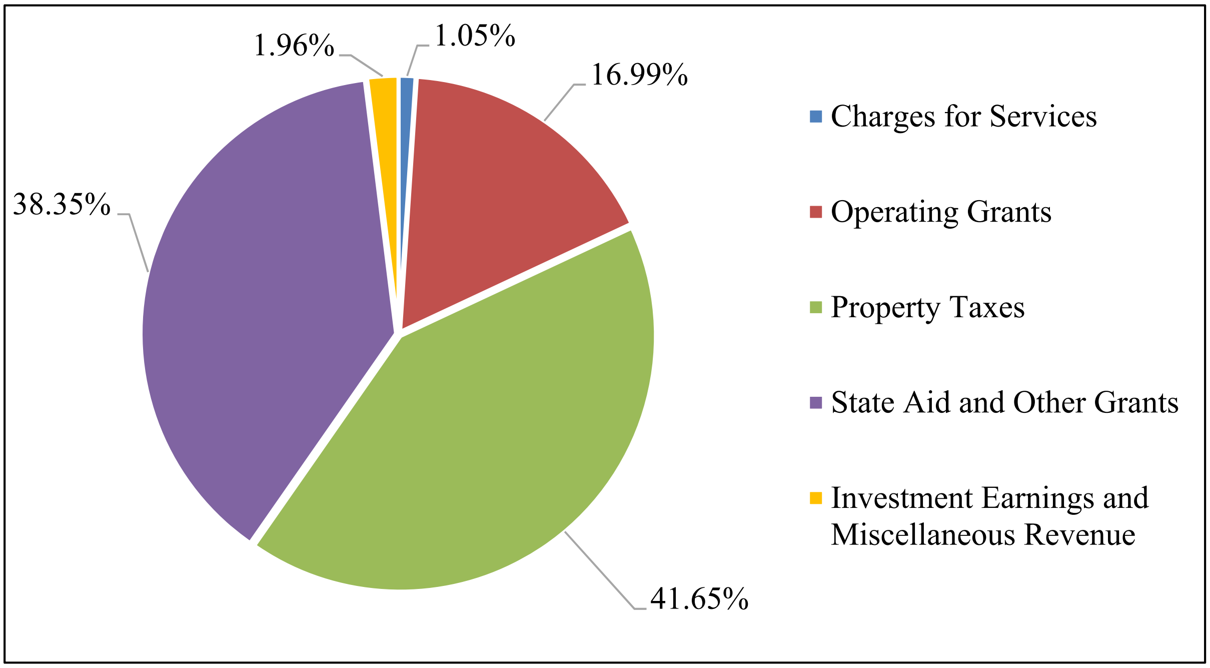
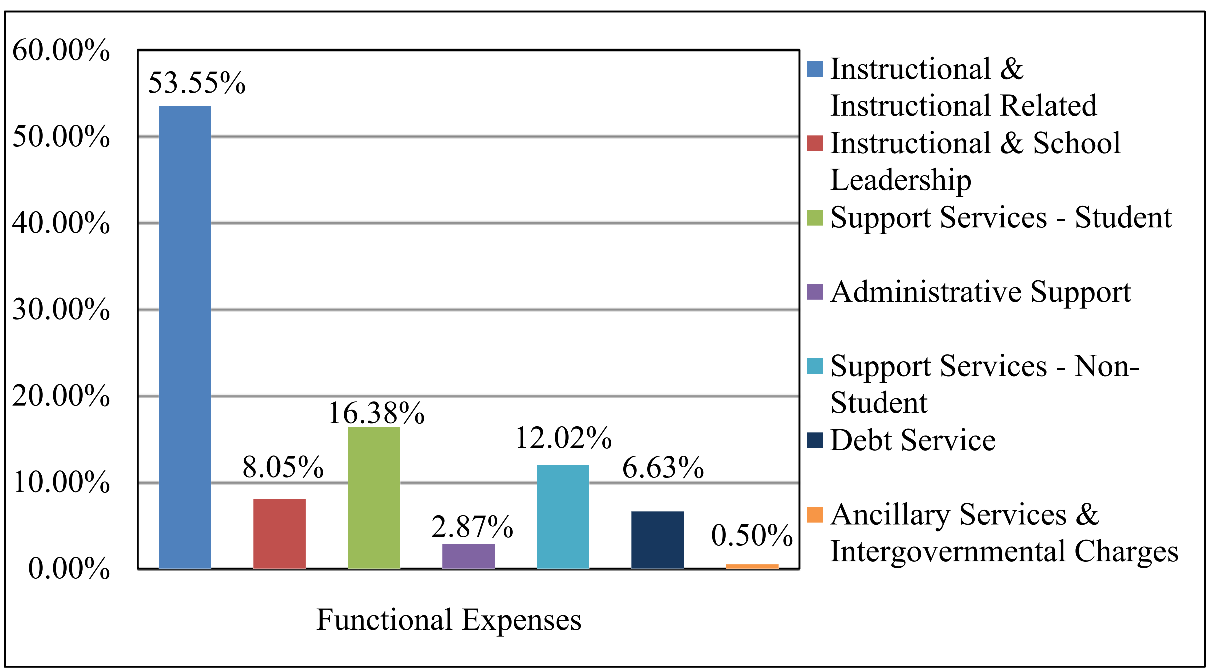


Figure A-4 Expenses by Major Function for the Fiscal Year Ended June 30, 2019



Governmental Activities

Governmental activities increased the District's net position by $24,934,322 for the fiscal year ended June 30, 2019. The following table presents the changes in the District's net position for the fiscal years ended June 30, 2019 and 2018:

Changes in the District's Net Position

	Governmental Activities	
	2019	2018
Revenues		
Program Revenues:		
Charges for services	$4,873,452	$5,116,058
Operating grants and contributions	78,609,832	6,431,240
General Revenues:		
Property taxes	192,707,614	186,203,677
State aid and other grants	177,454,989	163,058,837
Investment earnings	7,955,011	4,429,999
Miscellaneous	1,123,532	558,291
Total revenues	462,724,430	365,798,102
Expenses		
Instruction	221,328,291	147,616,967
Instructional resources and media services	4,746,773	2,115,612
Curriculum/staff development	8,358,199	5,563,655
Instructional leadership	11,053,479	6,233,209
School leadership	24,203,136	12,545,997
Guidance and counseling services	15,180,620	8,635,608
Social work services	589,023	365,591
Health services	3,113,606	1,726,200
Student (pupil) transportation	17,907,605	12,885,874
Child nutrition services	27,487,164	21,815,052
Co-curricular activities	7,430,235	5,301,056
General administration	12,581,802	9,084,446
Plant maintenance and operations	35,338,383	29,021,983
Security and monitoring services	6,550,805	4,610,893
Data processing services	9,161,986	5,768,085
Community services	1,558,176	666,657
Interest and fiscal charges	29,010,433	29,153,091
Fiscal agent/shared services arrangement	18,816	15,469
Alternative education	64,800	
Payments to tax increment fund	695,707	596,952
Other intergovernmental charges	1,411,069	1,339,461
Total governmental activities	437,790,108	305,061,858
Change in net position	24,934,322	60,736,244
Beginning Net Position	(35,171,930)	117,986,009
Prior Period Adjustment - GASB 75 implementation		(213,894,183)
Ending Net Position	($10,237,608)	($35,171,930)

The increase in revenues and expenditures in 2019 compared to 2018 is primarily due to changes in the recognition of revenues and expenditures related to other postemployment benefits as a result of the implementation of GASB 75 in 2018 which required the recognition of negative on-behalf activity in the amount of ($61,060,906).

The following table presents the cost of each of the District's largest functions as well as each function's net cost for the fiscal year ended June 30, 2019, (total cost less charges for services generated by the activities and operating grants and contributions). The net cost reflects what was funded by state revenues as well as local tax dollars.

- The cost of all governmental activities this year was $437,790,108.
- The amount of the cost that was paid by those who directly benefited from the program was $4,873,452.
- The amount paid by grants and contributions was $78,609,832.
- The amount that our taxpayers paid for these activities through property taxes was $192,707,614.

Net Cost of Selected District Functions
(in millions of dollars)

	2019		2018	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instructional	$234.4	$194.7	$155.3	$163.3
Plant maintenance & operations	$35.3	$33.3	$29.0	$28.5
Interest and fiscal charges	$29.0	$27.0	$29.2	$27.4

Financial Analysis of the District's Funds

The District's accounting records for general governmental operations are maintained on a modified accrual basis as prescribed by the Texas Education Agency in the *Financial Accountability System Resource Guide*, with the revenues being recorded when available and measurable to finance expenditures of the fiscal period. Expenditures are recorded when services or goods are received and the fund liabilities are incurred, except for outstanding long-term debt. The general governmental operations include the following funds: General, Debt Service, Capital Projects, and Special Revenue.

Revenues for general governmental functions totaled $454,850,274 for the fiscal year ended June 30, 2019, an increase of 5.76% from the prior fiscal year. The increase was due to an increase in property tax revenues as a result of higher property values. The increase was also due to additional state aid received as a supplemental appropriation via Senate Bill 500 for property value declines as a result of Hurricane Harvey which impacted the District in the fall of 2017.

Expenditures for general governmental operations totaled $558,347,236 during the fiscal year ended June 30, 2019, an increase of 22.18% from the prior fiscal year. The increased expenditures were primarily associated with projects funded by the 2016 bond program. The related expenditures include: construction of new facilities and renovations to existing facilities, and upgrades to security and technology equipment and infrastructure. The increase in expenditures was also due to a one-time retention supplement of $1,500 and $750 paid to full-time and half-time employees respectively that were in good standing and who returned to work for the District in the 2018-2019 school year.

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned funds of the General Fund were $70,031,772 while total fund balance was $125,909,976. Unassigned fund balance represented 22.79% of total General Fund expenditures, while total fund balance represented 40.97%. Due to non-recurring revenues received as a result of Senate Bill 500, as well as conservative budgeting, revenues exceeded expenditures by $25,647,621. The net of other financing sources and uses was ($5,971,700) which included an operating transfer to the Capital Projects Fund of $6,000,000 for future district-wide capital improvements, technology equipment purchases, and infrastructure upgrades needed to support the District's five-year strategic plan. The net change to the fund balance was $19,675,921.

The Debt Service Fund had a total fund balance of $66,240,064 all of which is restricted for the payment of debt service. The District makes semi-annual debt service payments in February and August each year. The total debt service payments including fees for the fiscal year ended June 30, 2019, was $58,429,934. The increase to fund balance of $5,017,272 relates to an increase in property values and a transfer of funds from the Capital Projects Fund.

The Capital Projects Fund balance of $174,402,648 is a net decrease of $21,703,374 as compared to prior year. This is due to the use of bond proceeds to fund projects related to the 2016 bond program, offset by proceeds from the issuance of Unlimited Tax School Building Bonds, Series 2019.

General Fund Budgetary Highlights

Over the course of the year, the District revised its budget three times. These adjustments resulted in an increase in the final expenditure budget of $4,492,450 over the original budget. The variance in final budgeted expenditures versus actual expenditures is primarily due to conservative budgeting as well as savings in payroll and benefits as a result of position vacancies that occurred throughout the fiscal year.

Final budgeted revenues and other financing sources were increased during the year by $8,253,314 over the original revenue budget. The variance in the final total budgeted revenues versus actual revenues is primarily due to the supplemental appropriation received as a result of Senate Bill 500 which provided districts impacted by Hurricane Harvey with additional state aid intended to hold districts harmless for 100% of the projected losses in local maintenance and operations revenue due to the storm. This revenue was received after the final budget adjustments were approved by the Board of Trustees.

The difference between the original budget and the final amended budget of the General Fund can be briefly summarized below:

Appropriation	
$2,000,000	Increase for program updates to equipment and learning spaces for the Career and Technical Education (CTE) program and the purchase of a learning management system.
1,000,000	TRS On-Behalf
963,096	Increase in miscellaneous appropriations resulting from 2017-2018 rollover encumbrances
388,704	Miscellaneous increases to other appropriations to account for use of insurance proceeds, E-Rate funds, donations and miscellaneous receipts
140,650	Increase due to increased enrollment of English as a Second Language (ESL) students
$4,492,450	**Total Appropriations Increase**

Revenues and Other Financing Sources	
$3,448,246	Increase to state revenues for Foundation and Available School Funds as a result of property value audits for tax years 2015 and 2016
1,765,412	A net increase to federal revenues for School Health and Related Services, FEMA reimbursement due to Hurricane Harvey and indirect costs
1,215,000	Increase due to interest earnings
1,000,000	TRS On-Behalf
513,030	Increase to miscellaneous revenue for revenues received from the Harris County Special Inventory Taxes
311,626	Miscellaneous net increases in other estimated revenues to account for use of E-Rate funds, donations, and other miscellaneous receipts
$8,253,314	**Total Revenues and Other Financing Sources Increase**

Capital Assets and Debt Administration

Capital Assets

The District has invested a net $688.1 million in a broad range of capital assets, including land, buildings and improvements, furniture and equipment, and vehicles. This amount represents a net increase (including additions and deductions net of accumulated depreciation) of $114.3 million from last year, primarily due to construction-in-progress projects, including the District's replacement stadium, the new Roberson Middle School, and the new Springwoods Village Middle School all being in the final stages of construction with anticipated completion dates in the summer and fall of 2019.

District's Capital Assets
(net of depreciation)

	2019	2018
Land	$81,017,065	$81,017,065
Construction-in-progress	139,408,171	14,808,998
Buildings and improvement	439,143,011	445,400,204
Equipment and furniture	15,545,494	17,984,724
Vehicles	12,967,831	14,594,979
Net capital assets	$688,081,572	$573,805,970

More detailed information about the District's capital assets is presented in Note 5 to the basic financial statements.

Debt Administration

Debt-management policies seek to provide the most favorable climate for District debt projects while upholding the highest rating possible for debt instruments. Management policies include the following points:

- All debt service obligations will be met when due.
- Long-term financing will be restricted to capital projects and purchases of equipment.
- Long-term bonds will not be issued to finance current operations.
- The District will cooperate and communicate with bond-rating agencies and work towards obtaining the most favorable municipal bond rating possible.
- Outstanding obligations will be reviewed frequently to ensure the most favorable funding structure for the District.
- All necessary information and material regarding the District's financial status will be provided to the appropriate parties.

The ratio of net general bonded debt to assessed valuation is a useful indicator of the District's debt position. This data is presented in the schedule "Ratios of Net General Obligation Bonded Debt Outstanding" (Table 10) in the statistical section and reflects a ratio of net bonded debt to actual taxable value of 5.95%, as compared to 5.64% last year.

The District continues to enjoy strong underlying bond ratings. The latest Moody's Investor Services, Inc. affirmed rating is Aa2 and Standard and Poor's Corporation affirmed rating is AA- for the District's debt obligations. All of the outstanding ad valorem tax bonds of the District carry a credit enhancement rating of AAA due to the Permanent School Fund guarantee.

More detailed information about the District's debt administration is presented in Note 8 to the basic financial statements.

Economic Factors and Next Year's Budget and Rates

The priorities of the 2019-2020 budget were Special Education, Arts Integration, Performing and Visual Arts, Gifted and Talented and Dual Language. General operating fund spending per student is budgeted to be $9,174 based upon the assumption that student enrollment will be 35,391.

Total revenues in the 2019-2020 General Fund budget are $324.7 million, a decrease of 2.49% under the final 2019 revenues of $333 million. This decrease is primarily due to non-recurring revenues received for 2018-2019 due to Senate Bill 500. The District budget for 2019-2020 was heavily impacted by the passage of House Bill 3 during the 86th Texas Legislative session.

Expenditures are budgeted for the 2019-2020 fiscal year at $324.7 million, an increase of 5.63% over the final 2019 expenditures.

The 2019-2020 expenditure budget was heavily driven by requirements of House Bill 3 which required 30% of the increase in funding to go towards compensation increases for employees other than administrators. Specifically, classroom teachers, registered nurses, counselors and librarians were to receive an increase funded with 75% of the 30% and 25% of the 30% was to be allocated to all other non-administrative staff compensation increases. Under this guidance, the District provided raises for classroom teachers which ranged from 4% to 6% depending on experience. Registered nurses, counselors and librarians received a 3.5% increase and all other employees received a 2% increase.

The Debt Service Fund revenues are budgeted at $66.3 million which is an increase of 8% over the final 2019 revenues of $61.4 million. This increase is anticipated due to an increase in the debt service tax rate from $0.45 to $0.46 which will result in more taxes collected. The debt service expenditures are budgeted at $64.4 million, an increase of 10.3% over prior year final expenditures of $58.4 million. This increase in expenditures is necessary due to increased debt service obligations related to the issuance of Unlimited Tax School Building Bonds, Series 2019.

Request for Information

This financial report is designed to provide our citizens, taxpayers, business community, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Chief Financial Officer at 16717 Ella Blvd., Houston, Texas 77090 or call (281) 891-6077.

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BASIC FINANCIAL STATEMENTS

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SPRING INDEPENDENT SCHOOL DISTRICT **Exhibit A-1**

STATEMENT OF NET POSITION

June 30, 2019

	Primary Government
	Governmental Activities
ASSETS	
Cash	$5,251,912
Temporary investments	362,809,474
Receivables:	
Property taxes	12,052,996
Allowance for uncollectible taxes	(4,732,100)
Due from governmental agencies	59,152,232
Accrued interest and other receivables	446,334
Inventories, at cost	2,987,300
Prepaid items	2,163,745
Long-term investments	7,294,224
Capital assets not being depreciated:	
Land	81,017,065
Construction-in-progress	139,408,171
Capital assets net of accumulated depreciation:	
Buildings and improvements	439,143,011
Furniture and equipment	15,545,494
Vehicles	12,967,831
Total assets	1,135,507,689
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows relating to pension activities	65,231,173
Deferred outflows relating to OPEB activities	19,133,754
Deferred charge on refunding	16,698,282
Total deferred outflows of resources	101,063,209
LIABILITIES	
Accounts payable	29,806,351
Interest payable	12,885,052
Accrued wages payable	32,812,712
Due to state and others	66,770
Unearned revenue	4,880,906
Non-current liabilities:	
Due within one year	31,962,705
Due in more than one year	805,604,691
Net pension liability	125,016,131
Net OPEB liability	146,423,651
Total liabilities	1,189,458,969
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows relating to pension activities	10,174,773
Deferred inflows relating to OPEB activities	46,302,686
Deferred gain on refunding	872,078
Total deferred inflows of resources	57,349,537
NET POSITION	
Net investment in capital assets	34,470,958
Restricted for:	
Debt service	55,155,253
Federal & state programs	5,085,415
Local grants	479
Unrestricted	(104,949,713)
TOTAL NET POSITION	($10,237,608)

See accompanying notes to basic financial statements.

SPRING INDEPENDENT SCHOOL DISTRICT **Exhibit A-2**

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expenses) Revenue and Changes in Net Position: Governmental Activities
Primary government				
Governmental activities:				
Instruction	$221,328,291	$2,222,661	$31,169,390	($187,936,240)
Instructional resources and media services	4,746,773		1,375,003	(3,371,770)
Curriculum and staff development	8,358,199		4,960,937	(3,397,262)
Instructional leadership	11,053,479		1,955,786	(9,097,693)
School leadership	24,203,136		2,437,924	(21,765,212)
Guidance and counseling services	15,180,620		4,200,152	(10,980,468)
Social work services	589,023		29,717	(559,306)
Health services	3,113,606		430,833	(2,682,773)
Student (pupil) transportation	17,907,605	2,250	1,352,656	(16,552,699)
Child nutrition services	27,487,164	1,966,665	23,650,638	(1,869,861)
Co-curricular activities	7,430,235	255,066	512,415	(6,662,754)
General administration	12,581,802	55,896	897,082	(11,628,824)
Plant maintenance and operations	35,338,383	285,811	1,705,032	(33,347,540)
Security and monitoring services	6,550,805	14,830	520,038	(6,015,937)
Data processing services	9,161,986		506,171	(8,655,815)
Community services	1,558,176	70,273	877,622	(610,281)
Interest and fiscal charges	29,010,433		2,022,755	(26,987,678)
Fiscal agent/shared services arrangement	18,816		5,681	(13,135)
Alternative education	64,800			(64,800)
Payments to tax increment fund	695,707			(695,707)
Other intergovernmental charges	1,411,069			(1,411,069)
Total governmental activities	$437,790,108	$4,873,452	$78,609,832	(354,306,824)

General revenues:	
Taxes:	
Property taxes - maintenance & operations	134,664,416
Property taxes - debt service	58,043,198
State aid - formula grants	166,425,430
Grants and contributions not restricted to specific programs	11,029,559
Investment earnings	7,955,011
Miscellaneous	1,123,532
Total general revenues	379,241,146
Change in net position	24,934,322
Net Position - beginning	(35,171,930)
Net Position - ending	($10,237,608)

See accompanying notes to basic financial statements.

SPRING INDEPENDENT SCHOOL DISTRICT

Exhibit B-1

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2019

	General Fund	Debt Service Fund	Capital Projects Fund	Non-Major Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash	$4,039,995			$1,211,917	$5,251,912
Temporary investments	106,165,555	$65,721,313	$184,801,830	6,120,776	362,809,474
Receivables:					
Property taxes	8,618,382	3,434,614			12,052,996
Allowance for uncollectible taxes	(3,506,600)	(1,225,500)			(4,732,100)
Due from governmental agencies	48,988,997			10,163,235	59,152,232
Interfund receivables	2,377,805	88,954	6,317,244	4,910,073	13,694,076
Accrued interest and other receivables	228,706	20,924	189,438	7,266	446,334
Inventories, at cost	2,936,104			51,196	2,987,300
Prepaid items	2,089,745		74,000		2,163,745
Long-term investments	499,716		6,794,508		7,294,224
TOTAL ASSETS	$172,438,405	$68,040,305	$198,177,020	$22,464,463	$461,120,193
LIABILITIES					
Accounts payable	$5,449,024		$23,774,372	$582,955	$29,806,351
Accrued salaries and expenditures	29,380,215			3,432,497	32,812,712
Interfund payables	6,406,198			7,287,878	13,694,076
Due to state and others	66,770				66,770
Claims payable	1,082,680				1,082,680
Unearned revenue				4,880,906	4,880,906
Total Liabilities	42,384,887		23,774,372	16,184,236	82,343,495
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue-property taxes	4,143,542	$1,800,241			5,943,783
Total Deferred Inflows of Resources	4,143,542	1,800,241			5,943,783
FUND BALANCES					
Non-spendable:					
Inventory	2,936,104				2,936,104
Prepaid items	2,089,745		74,000		2,163,745
Restricted:					
Grant funds				5,085,894	5,085,894
Capital projects			165,501,623		165,501,623
Debt service		66,240,064			66,240,064
Committed:					
School activity funds				1,194,333	1,194,333
Other	5,000,000				5,000,000
Assigned:					
Other	45,852,355		8,827,025		54,679,380
Unassigned	70,031,772				70,031,772
Total Fund Balances	125,909,976	66,240,064	174,402,648	6,280,227	372,832,915
TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES	$172,438,405	$68,040,305	$198,177,020	$22,464,463	$461,120,193

See accompanying notes to basic financial statements.

SPRING INDEPENDENT SCHOOL DISTRICT

Exhibit B-2

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2019

Total fund balances-governmental funds (Exhibit B-1)		$372,832,915
Amounts reported for governmental activities in the statement of net position (Exhibit A-1) are different because:		
· Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		688,081,572
· Property taxes receivable, which will be collected subsequent to year-end, but are not available soon enough to pay for current period expenditures and, therefore, are deferred at the fund level.		5,943,783
· Deferred charge on refunding		16,698,282
· Deferred outflows relating to pension activities		65,231,173
· Deferred outflows relating to OPEB activities		19,133,754
· Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long term liabilities at year-end consist of:		
Bonds payable	($738,520,000)	
Premiums on bond issuance	(96,404,956)	
Capital leases	(87,485)	
Accrued compensated absences	(1,297,045)	
Workers' compensation claims	(175,230)	
Accrued interest on bonds	(12,885,052)	
Net pension liability	(125,016,131)	
Net OPEB liability	(146,423,651)	(1,120,809,550)
· Deferred gain on refunding		(872,078)
· Deferred inflows relating to pension activities		(10,174,773)
· Deferred inflows relating to OPEB activities		(46,302,686)
Total net position of governmental activities (Exhibit A-1)		($10,237,608)

See accompanying notes to basic financial statements.

SPRING INDEPENDENT SCHOOL DISTRICT **Exhibit B-3**

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2019

	General Fund	Debt Service Fund	Capital Projects Fund	Non-Major Other Governmental Funds	Total Governmental Funds
REVENUES					
Local and intermediate sources	$139,549,058	$59,369,155	$4,613,250	$4,487,856	$208,019,319
State program revenues	181,925,312	2,022,755		866,970	184,815,037
Federal program revenues	11,524,138		2,500,085	47,991,695	62,015,918
Total Revenues	332,998,508	61,391,910	7,113,335	53,346,521	454,850,274
EXPENDITURES					
Current:					
Instruction	180,758,688		1,077,147	15,193,393	197,029,228
Instructional resources and media services	2,768,316			1,112,282	3,880,598
Curriculum and staff development	3,398,233		26,823	4,561,143	7,986,199
Instructional leadership	9,063,398			1,088,886	10,152,284
School leadership	21,673,672		7,598	316,176	21,997,446
Guidance and counseling services	10,960,414			3,065,931	14,026,345
Social work services	576,023				576,023
Health services	2,637,983			168,577	2,806,560
Student (pupil) transportation	14,964,661		309,040	101,506	15,375,207
Child nutrition services				24,915,309	24,915,309
Co-curricular activities	5,840,549			145,778	5,986,327
General administration	11,707,340		71,311	476	11,779,127
Plant maintenance and operations	26,603,525		81,361	333,652	27,018,538
Security and monitoring services	5,949,071		3,798,492	15,549	9,763,112
Data processing services	6,565,377		2,660,743		9,226,120
Community services	578,236			808,826	1,387,062
Debt Service:					
Principal on long-term debt	37,699	27,295,000			27,332,699
Interest on long-term debt	9,691	31,106,284			31,115,975
Bond issuance costs and fees		28,650	825,483		854,133
Capital Outlay:					
Facilities acquisition and construction	1,073,144		131,875,408		132,948,552
Intergovernmental Charges:					
Fiscal agent/shared services arrangement	13,291			5,525	18,816
Alternative education	64,800				64,800
Payments to tax increment fund	695,707				695,707
Other intergovernmental charges	1,411,069				1,411,069
Total Expenditures	307,350,887	58,429,934	140,733,406	51,833,009	558,347,236
Excess (deficiency) of revenues over (under) expenditures	25,647,621	2,961,976	(133,620,071)	1,513,512	(103,496,962)
OTHER FINANCING SOURCES (USES)					
Issuance of capital related bonds			98,070,000		98,070,000
Sale of property	66,506		91,214	9,991	167,711
Transfers in		2,055,296	6,000,000	38,206	8,093,502
Premium on issuance of bonds			9,810,779		9,810,779
Transfers out	(6,038,206)		(2,055,296)		(8,093,502)
Total Other Financing Sources (Uses)	(5,971,700)	2,055,296	111,916,697	48,197	108,048,490
Net change in fund balances	19,675,921	5,017,272	(21,703,374)	1,561,709	4,551,528
FUND BALANCES, JULY 1	106,234,055	61,222,792	196,106,022	4,718,518	368,281,387
FUND BALANCES, JUNE 30	$125,909,976	$66,240,064	$174,402,648	$6,280,227	$372,832,915

See accompanying notes to basic financial statements.

SPRING INDEPENDENT SCHOOL DISTRICT **Exhibit B-4**

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2019

Net change in fund balances-total governmental funds (Exhibit B-3)		$4,551,528
Amounts reported for governmental activities in the statement of net activities (Exhibit A-2) are different because:		
· Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays of $137,943,538 exceeded depreciation of $23,667,936 in the current period.		114,275,602
· Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(1,177,573)
· Other unavailable revenues in the statement of activities that do not provide current financial resources and are not reported as revenue in the funds.		(2,497,770)
· Proceeds from issuance of long-term debt of $98,070,000 and premium received from issuance of $9,810,779 are reported as other financing sources in the governmental funds. In the government-wide financial statements, proceeds are treated as an increase in long-term liabilities.		(107,880,779)
· Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		27,295,000
· Interest on long-term debt in the statement of activities differs from the amounts reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The decrease in interest reported in the statement of activities consists of the following:		
Accrued interest on bonds payable increased	($1,126,014)	
Amortization of bond premium	5,429,585	
Amortization of deferred gain on refunding	61,740	
Amortization of deferred charge on refunding	(1,405,636)	2,959,675
· Pension contributions made after the measurement date are reported as expenditures in the governmental funds and are reported as deferred outflows on the face of the statement of net position.		7,678,130
· OPEB contributions made after the measurement date are reported as expenditures in the governmental funds and are reported as deferred outflows on the face of the statement of net position.		2,072,841
· Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the statement of net position.		37,699
· The net decrease in accrued compensated absences is reported in the statement of activities but is not reported in the governmental funds.		1,696
· The net decrease in the long-term portion of workers' compensation claims payable is reported in the statement of activities but is not reported at the fund level.		225,706
· Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in the governmental funds:		
Pension expense for the pension plan measurement year		(18,051,202)
OPEB expense for the OPEB plan measurement year		(4,556,231)
Change in net position of governmental activities (Exhibit A-2)		$24,934,322

See accompanying notes to basic financial statements.

SPRING INDEPENDENT SCHOOL DISTRICT **Exhibit B-5**

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

June 30, 2019

	Agency Fund
ASSETS	
Cash	$251,464
Total Assets	$251,464
LIABILITIES	
Due to state and others	$27,301
Due to student groups	224,163
Total Liabilities	$251,464

See accompanying notes to basic financial statements.

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Note 1 - Summary of Significant Accounting Policies

A. Reporting Entity

The Spring Independent School District (the District) Board of Trustees (the Board) is a seven-member group, which has governance responsibilities over all activities related to public school education within the District. Because members of the Board are elected by the public; have authority to make decisions; appoint management and significantly influence operations; and have primary accountability for fiscal matters; the District is not included in any other governmental "reporting entity" as defined in the Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus; an amendment of GASB Statements No. 14 and No. 34.* The District is not financially accountable for any other organizations; therefore, no component units are included within the reporting entity.

The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Direct expenses are not eliminated from the various functional categories. Interfund services that are provided and used are not eliminated in the process of consolidation. Governmental activities are normally supported by taxes and intergovernmental revenues.

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

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

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

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

The Fiduciary Fund financial statements reflect the District's Agency Fund. The Agency Fund reports only assets and liabilities and does not have a measurement focus.

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. The District considers property tax revenues to be available if they are collected within 60 days of the end of the fiscal year-end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The accounting policies of the District comply with the rules prescribed in the *Financial Accountability System Resource Guide* by the Texas Education Agency (TEA). These accounting policies conform to generally accepted accounting principles (GAAP) applicable to governments.

The District's accounting system is organized and operated on the basis of funds, each of which is a separate accounting entity with a self-balancing set of accounts. The District's resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The individual funds are grouped into two basic fund categories and are briefly described below.

<u>Governmental Funds</u> - Those through which most governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities are accounted for through the Governmental Fund Types.

The District reports the following major governmental funds:

- General Fund - The General Fund is the District's general operating fund and accounts for all financial transactions except those required to be accounted for in another fund. Major revenue sources within the General Fund include local property taxes, state funding under the Foundation School Program, and federal source revenues not accounted for in Special Revenue Funds. Expenditures include all costs associated with the daily operations of the schools except for specific programs funded by certain local, state and federal sources, capital projects, and debt service.

- Debt Service Fund - This fund accounts for the accumulation of resources for, and the payment of, general obligation bonds principal, interest, and related costs. The primary revenue sources are local property taxes levied specifically for debt service and state funding under the Existing Debt Allotment. These financial resources are restricted for debt service.

- Capital Projects Fund - This fund accounts for the proceeds of bond sales and other financial resources to be used for capital outlays, including the purchase of school sites, construction and renovation of school facilities, technology improvements, and the purchase of school buses and other capital assets. The financial resources from bond proceeds in this fund are restricted, whereas the proceeds from other financial resources are committed or assigned.

The District reports the following non-major governmental funds:

- Special Revenue Funds - These funds account for the District's Child Nutrition Fund, School Activity Funds, state funding of the instructional materials allotment and all non-major federal, state, and locally funded grants. These grants are awarded to the District with the purpose of accomplishing specific educational tasks as defined in the grant awards. The proceeds of these specific revenue sources are restricted or committed.

Additionally, the District reports the following fund:

<u>Fiduciary Fund</u> - Used to account for amounts held by the District in a trustee capacity. This fund is accounted for on an accrual basis.

- Agency Fund - This fund is custodial in nature (assets equal liabilities) and does not involve measurements of results of operations. This fund accounts for the District's Student Activity Funds, which collect monies through fund-raising efforts of the individual schools or school-sponsored groups. The school principals are responsible, under the authority of the Board, for collecting, controlling, disbursing and accounting for all student activity funds.

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

<u>Deposits and Investments</u>

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments are reported at fair value, which is the amount at which the investment can be exchanged in a current transaction between willing parties.

The District categorizes fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The net increase or decrease in the fair value of investments is netted with investment income in local sources or revenue. Investments are generally held to maturity. The District's local government investment pools are recorded at amortized costs as permitted by GASB Statement No. 79 *Certain Investment Pools and Pool Participants.*

<u>Receivables and Payables</u>

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." All other outstanding balances between funds are reported as "interfund receivables/payables."

Property taxes receivable include unpaid property taxes at year-end along with penalties and interest assessed on these unpaid taxes, net of an allowance for uncollectible taxes.

The appraisal of property within the District is the responsibility of the Harris County Appraisal District (HCAD), an independent governmental unit with a board of directors appointed by the taxing jurisdictions within the county and funded from assessments against those taxing jurisdictions. On January 1 of each year an enforceable lien is placed on all real property within the District to secure collection of property taxes. Property taxes for a fiscal year are levied based on HCAD appraised values on approximately October 1 and are due by the following January 31. Unpaid taxes become delinquent on February 1.

The tax rates applicable to general governmental services and debt service for 2018-2019 were $1.06000 and $0.45000, respectively, based on a taxable value of $13,098,329,077. Uncollected taxes are recorded as unavailable revenue in the fund financial statement net of the related allowance for uncollectible taxes. The resulting net taxes receivable is stated at the amount estimated to be collectible based upon the District's collection experience. The allowance for uncollectible property taxes is equal to 39.26% of outstanding property taxes at June 30, 2019.

Refunds to taxpayers result when property taxes are reduced subsequent to being levied due to a reduction of appraised value resulting from a taxpayer lawsuit filed against HCAD, the correction of tax roll errors, or overpayments made by taxpayers.

Inventories

Under the District's system of accounting for inventories, materials and supplies are charged to an inventory account on the basis of the weighted average invoice cost, and are subsequently recognized as expenditures when used or consumed (consumption method) rather than when purchased. Inventories include custodial, maintenance, office and instructional supplies, gasoline, and food consumables. Child Nutrition commodity inventory is recorded at fair market value on the date received. Revenue is recognized at fair market value when commodities are distributed to the schools.

General Fund inventory is categorized as a non-spendable portion of fund balance to indicate that the assets are not available financial resources. Child Nutrition's inventory consists primarily of food items that will be available for sale, and therefore its inventory is included in restricted fund balance.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements using the consumption method of accounting. Prepaid items are categorized as non-spendable portions of fund balance to indicate that the assets are not available financial resources.

Capital Assets

Capital assets which include land, construction-in-progress, buildings and improvements, and furniture and equipment are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of $5,000 or more and an estimated useful life of greater than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. When assets are retired or otherwise disposed of, the related costs or other recorded amounts are removed.

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

Assets	Useful Life (Years)
Buildings and improvements	20 - 40
Automotive equipment	
Buses	15
Other	10
Furniture and equipment	5 - 20
Software	5 - 10

Land and construction-in-progress are not depreciated.

Deferred Outflows/Inflows of Resources

Deferred outflows and inflows of resources are reported in the statement of net position as described below:

A *deferred outflow of resources* is a consumption of a government's net position (a decrease in assets in excess of any related decrease in liabilities or an increase in liabilities in excess of any related increase in assets) by the government that is applicable to a future reporting period. The District has three items that qualify for reporting in this category:

- Deferred outflows of resources for refunding - Reported in the government-wide financial statement of net position, this deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

- Deferred outflows of resources for pension - Reported in the government-wide financial statement of net position, this deferred outflow could result from pension plan contributions made after the measurement date of the net pension liability and the results of (1) differences between projected and actual earnings on pension plan investments; (2) changes in actuarial assumptions; (3) differences between expected and actual actuarial experiences and (4) changes in the District's proportional share of pension liabilities. The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. If reported, deferred outflows resulting from differences between projected and actual earnings on pension plan investments will be amortized over a closed five-year period. The remaining pension related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.

- Deferred outflows of resources for other post-employment benefits (OPEB) - Reported in the government-wide financial statement of net position, this deferred outflow could result from OPEB plan contributions made after the measurement date of the net OPEB liability and the results of (1) differences between projected and actual earnings on OPEB plan investments; (2) changes in actuarial assumptions; (3) differences between expected and actual actuarial experiences and (4) changes in the District's proportional share of OPEB liabilities. The 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 next fiscal year. If reported, deferred outflows resulting from differences between projected and actual earnings on OPEB plan investments will be amortized over a closed five-year period. The remaining OPEB related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with OPEB benefits through the OPEB plan.

A *deferred inflow of resources* is an acquisition of a government's net position (an increase in assets in excess of any related increase in liabilities or a decrease in liabilities in excess of any related decrease in assets) by the government that is applicable to a future reporting period. The District has four items that qualify for reporting in this category:

- Deferred inflows of resources for unavailable revenues - Reported only in the governmental funds balance sheet, unavailable revenues from property taxes and other sources arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

- Deferred inflows of resources for refunding - Reported in the government-wide financial statement of net position, this deferred gain on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

- Deferred inflows of resources for pension - Reported in the government-wide financial statement of net position, this deferred inflow could result from (1) differences between projected and actual earnings on pension plan investments; (2) changes in actuarial assumptions; (3) differences between expected and actual actuarial experiences and (4) changes in the District's proportional share of pension liabilities. If reported, deferred inflows resulting from differences between projected and actual earnings on pension plan investments will be amortized over a closed five-year period. The remaining pension related deferred inflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.

- Deferred inflows of resources for OPEB - Reported in the government-wide financial statement of net position, this deferred inflow could result from (1) differences between projected and actual earnings on OPEB plan investments; (2) changes in actuarial assumptions; (3) differences between expected and actual actuarial experiences and (4) changes in the District's proportional share of OPEB liabilities. If reported, deferred inflows resulting from differences between projected and actual earnings on OPEB plan investments will be amortized over a closed five-year period. The remaining OPEB related deferred inflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with OPEB benefits through the OPEB plan.

<u>Pensions</u>

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 (OPEB)

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

Compensated Absences

District policy does not allow staff members to be compensated for accrued and unused sick leave. Full time staff members can contribute one day of sick leave annually to benefit staff members whose own leave has been exhausted due to catastrophic illness. Twelve-month classified staff members (maintenance, warehouse and nonexempt supervisory staff members) are granted annual vacation days based on consecutive years of service. Staff members may carry no more than 60 days of accrued vacation days to the following year. Staff members are paid for accumulated unused vacation time only upon termination of employment. The estimated liability for accrued compensated absences is reported in the government-wide financial statements.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are recognized as an expense in the period incurred.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

The fund balance in governmental funds has been classified as follows to describe the relative strength of the spending constraints:

- Non-spendable fund balance - amounts that are not in spendable form or are required to be maintained intact. As such, the inventory in the General Fund and the prepaid items in the General Fund and the Capital Projects Fund have been properly classified as non-spendable in the Governmental Funds Balance Sheet (Exhibit B-1).

- Restricted fund balance - amounts that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors. With the exception of School Activity Funds, the fund balances of grant funds are classified as restricted. The fund balance of the Debt Service Fund in the amount of $66,240,064, and the fund balance of the Capital Projects Fund which is from the proceeds of bond sales in the amount of $165,501,623 are also classified as restricted.

- Committed fund balance - amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e. the Board of Trustees). To be reported as committed, amounts cannot be used for any other purposes unless the District takes the same highest level of action to remove or change the constraint. The District establishes (and modifies or rescinds) the fund balance commitments by passage of a resolution. The District has committed the School Activity Funds balances in the amount of $1,194,333 in the Special Revenue Funds. The District also committed $5,000,000 in the General Fund balance for a strategic compensation plan.

- Assigned fund balance - amounts the District intends to use for a specific purpose. Intent can be expressed by the District or by an official or body to which the Board of Trustees delegates the authority. The Board approved a resolution authorizing the Superintendent or the Chief Financial Officer to assign fund balance.

  The General Fund had an assigned fund balance of $45,852,355 which includes:

Assignment	Key Imperative	Commitment	Amount
Encumbrances for education supplies and projects	Reach every student	Excellent systems of support and acceleration	$1,323,694
Resources to improve student achievement including renovations and construction of educational facilities, educational supplies, employee benefits to promote retention, and additional resources targeted to assist with transforming the District's comprehensive middle schools known as the Lift 6.	Reach every student	Safe and secure learning and work environments for all Excellent systems of support and acceleration Excellent curriculum and instruction Excellent recruitment and retention	19,528,661
Maintain sufficient cash flow	Reach every student	Excellent systems of support and acceleration	25,000,000
Total General Fund Assigned Fund Balance			$45,852,355

The Capital Projects Fund has an assigned fund balance of $8,827,025. These are funds transferred from the General Fund to the Capital Projects Fund which are assigned for renovations, construction projects, technology improvements, and the purchase of one-time

- Unassigned fund balance - amounts that are available for any legal expenditure. It is not possible to report a positive amount of unassigned fund balance in a governmental fund other than General Fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance (the total of committed, assigned, and unassigned fund balance) is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

Accounting Estimates

The preparation of the financial statements in accordance with GAAP requires management to make use of estimates and assumptions that affect amounts reported in the financial statements as well as certain disclosures. Actual results could differ from these estimates.

Implementation of New Standards

In the current fiscal year, the District implemented the following new standards. The applicable provisions of these new standards are summarized below. Implementation is reflected in the financial statements and the notes to the financial statements.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.* This statement improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

Note 2 – Stewardship, Compliance, and Accountability

Budgetary Information

Each school district in Texas is required by law to prepare annually a budget of anticipated revenues and expenditures for the General Fund, Child Nutrition Fund and Debt Service Fund for the fiscal year beginning September 1 (or July 1, if the District has elected to change the start of the fiscal year). The Texas Education Code requires the budget to be prepared not later than August 20 (June 19 for a fiscal year start date of July 1) and adopted by August 31 (June 30 for a fiscal year start date of July 1) of each year. The District's administration determines budgetary funding priorities using a modified zero-based budgeting concept, which is consistent with GAAP. Final budget allocations are determined by the Board, which subsequently establishes a tax rate sufficient to support the approved budget. The annual budget, which is prepared on the modified accrual basis of accounting, must be adopted by the Board at a scheduled meeting after giving ten days public notice of the meeting. The District annually adopts a legally authorized appropriated budget for the General Fund, Child Nutrition Fund, and Debt Service Fund.

The District's administration performs budget reviews three times a year by which budget requirements are re-evaluated and revisions recommended to the Board. The Board approves amendments to the budget, which are required when a change is made to any one of the functional expenditure categories defined by the TEA. Expenditures may not legally exceed budgeted appropriations, as amended, at the function level by fund. Unexpended appropriations lapse at year-end.

Encumbrances

The District utilizes encumbrance accounting in its governmental funds. Encumbrances represent commitments related to contracts not yet performed (executory contracts), and are used to control expenditures for the year and to enhance cash management. The District often issues purchase orders or signs contracts for the purchase of goods and services to be received in the future. At the time these commitments are made, which in its simplest form means that when a purchase order is prepared, the appropriate account is checked for available funds. If an adequate balance exists, the amount of the order is immediately charged to the account to reduce the available balance for control purposes. The encumbrance account does not represent an expenditure for the period, only a commitment to expend resources.

Prior to the end of the year, every effort is made to liquidate outstanding encumbrances. When encumbrances are outstanding at the fiscal year end, the District likely will honor the open purchase orders or contracts that support the encumbrances. For reporting purposes, as noted earlier, outstanding encumbrances are not considered expenditures for the fiscal year. If the District allows encumbrances to lapse, even though it plans to honor the encumbrances, the appropriations authority expires and the items represented by the encumbrances are usually reappropriated in the following year's budget. Outstanding encumbrances at fiscal year-end are included in restricted, committed or assigned fund balance as appropriate. At June 30, 2019, the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

General Fund	$1,323,694
Capital Projects Fund	74,752,392
Non-Major Other Governmental Funds	5,426,642
Total	$81,502,728

Note 3 - Cash and Investments

The District's banking and investment policies are in accordance with laws and regulations of the Public Funds Investment Act (the Act), State of Texas and the TEA. The Act and policies mandated by the District's Board authorize the District to invest in obligations of the U.S. Treasury or the State of Texas, certain U.S. Agencies, certificates of deposit, money market savings accounts, repurchase agreements, commercial paper, and 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, approved pledged collateral in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved collateral is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

Cash

At year-end, the carrying amount of the District's cash on deposit was $5,503,376 and the bank balance was $7,009,219. The depository cash balances were covered by FDIC insurance and by collateral held by the District's agents in the District's name.

The District's depository cash balances were properly collateralized at all times during the year.

Investments

As of June 30, 2019, the District's investments consisted of balances held by Texas Local Government Investment Pool (TexPool), TexasTERM Local Government Investment Pool (TexasTERM), U.S. Treasury Securities, U.S. Agency Securities, Commercial Paper, and BBVA Bank Money Market accounts.

TexPool is a public funds investment pool created by the Texas Treasury Safekeeping Trust Company (the Trust Company) to provide a safe environment for the placement of local government funds. The portfolio consists of U.S. Treasury and government agency securities, repurchase agreements, certain mutual funds, collateralized repurchase and reverse repurchase agreements, no-load money market mutual funds regulated by the Securities and Exchange Commission and rated AAA or equivalent by at least one nationally recognized statistical rating organization, securities lending programs, and certificates of deposit. TexPool is overseen by the State Comptroller of Public Accounts and administered by Federated Investors, Inc. The State Street Bank is the custodial bank. TexPool follows chapter 2256 of the Texas Public Funds Investment Act. TexPool uses amortized cost rather than fair value to report net assets to compute share prices. The fair value of the position in TexPool is the same as the value of TexPool shares. Accordingly, the District's investments in TexPool are stated at amortized cost, which approximates fair value.

TexasTERM is a public funds investment pool created by and for Texas local governments to provide investment options with safety, flexibility, and competitive yields. PFM Asset Management, LLC acts as the investment advisor of the pool. The pool consists of TexasDAILY and TexasTERM Certificate of Deposit (CD) Purchase Program. TexasDAILY is a money market portfolio with daily liquidity, whose investment objective is to produce the highest income consistent with preserving principal and maintaining liquidity, and to maintain a stable $1.00 net asset value (NAV). TexasDAILY has received a rating of AAAm from Standard & Poor's. TexasTERM CD Purchase Program is a fixed-rate, fixed-term investment option enabling Investors to invest in FDIC-insured CDs from banks throughout the United States. Participants may lock in a rate for a term of 90 days to 365 days. Each CD is held in the name of the Participant. It is a fundamental objective of TexasTERM to assure the return of principal and interest at the date planned for redemption of shares; however, the net asset value of shares may fluctuate prior to the planned redemption date. GASB Statement No. 31 allows that the value at maturity and fair value to be the same for investment positions that mature within one year of the purchase date of the position. Therefore, TexasTERM's fair value and the value at maturity for the District's investment are the same.

The District has long term investments in U.S. Treasury Securities and U.S. Agency Securities. These securities are held in a BBVA Bank safekeeping account in the District's name, and are being managed by Hilltop Securities Asset Management (HSAM), a Hilltop Holdings Company, with whom the District contracted for investment advisory services. HSAM is a SEC registered

Investment Advisor under the Investment Advisor Act of 1940. The treasury and agency securities carrying values reflect the fair value of the investments.

BBVA Bank offers a Public Funds Money Market Account that has a competitive yield. Money Market accounts are a type of savings account that usually pay a higher interest rate. These funds are considered liquid; however, the account has a limit of six electronic withdrawals per month. Withdrawals are governed by law, and if exceeded, could result in the bank reclassifying the account. BBVA Bank Money Market accounts are pledged by FDIC Insurance and the approved collateral.

As noted in the District's Significant Accounting Policies, the District reports its local government investment pools at amortized cost as permitted by GASB Statement No. 79 *Certain External Investment Pools and Pool Participants.* In addition, both TexPool and TexasDAILY do not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. Both pools do not impose any liquidity fees or redemption gates.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72, *Fair Value Measurement and Application* provides a framework for measuring fair value which establishes the following three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities:

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

- Level 2 inputs are inputs-other than quoted prices included within Level 1-that are observable for an asset or liability, either directly or indirectly.

- Level 3 inputs are unobservable inputs for an asset or liability.

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

The District's Money Market, Certificates of Deposit, Commercial Paper, U.S. Treasury Securities, and U.S. Agency Securities are reported at fair value using Level 2 inputs. The fair value measurements are based on quoted market prices using matrix pricing technique by the pricing source that values securities based on their relationship to benchmark quoted prices (Level 2 inputs). The District does not have any investments that are measured using Level 1 or 3 inputs.

At June 30, 2019, the fair value, credit rating, percentage of investments, and weighted average maturity of the District's investments are summarized as follows:

	Fair Value	Credit Rating	Percentage of Investments	Weighted Average Maturity (Days)
Temporary Investments:				
Money Market	$17,400,955	n/a	4.70%	1
TexPool	240,550,522	AAAm	65.00%	35
TexPool Prime	66,951,217	AAAm	18.09%	39
TexasTERM				
TexasDAILY	5,117,737	AAAm	1.38%	34
Certificates of Deposit	9,465,000	n/a	2.56%	165
Commercial Paper	23,324,043	A1+	6.30%	138
Total temporary investments	362,809,474		98.03%	
Long-term Investments:				
U.S. Treasury Securities	499,716	AA+	0.13%	15
U.S. Government Agencies:				
Federal Home Loan Mortgage Corporation	6,794,508	AA+	1.84%	19
Total long-term investments	7,294,224		1.97%	
Total	$370,103,698		100.00%	
Portfolio weighted average maturity				44

Although TexPool and TexasDAILY have a weighted average maturity greater than one, the funds are available to the District within one day.

Credit Risk

Credit risk is the risk that a counter party to a deposit or investment transaction will not fulfill its obligations. This is not to be confused with market risk, which is the risk that the fair value of an investment, collateral protecting a deposit, or securities underlying a repurchase agreement, will decline. Market risk is not depicted in this note.

State law and the District’s investment policy limits investments in all categories to top ratings issued by nationally recognized statistical rating organizations.

Concentration of Credit Risk

The District has no specific policy relating to the credit risk of investments. However, the District’s investment policy requires that the investment portfolio be diversified to avoid incurring undue concentration in securities of one type at one financial institution, so that no single investment or class of investments can have a disproportionate impact on the total portfolio. This restriction does not apply to U.S. Treasury Securities or investment pools.

Interest Rate Risk

As a means of minimizing risk of loss due to interest rate fluctuations, the District requires that the total portfolio's weighted average maturity is less than 365 days. The District's Investment Policy also limits that no investment shall have an original stated maturity greater than two or three years depending on the instrument. The District also ensures diversification and holds investment instruments until maturity.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker dealer) to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in the possession of another party. The District's policy requires that a third party custodian or a bank trust department hold all securities owned by the District.

Adjustment to Investments' Fair Value

The District's portfolio value fluctuates in an inverse relationship to any change in interest rate. Accordingly, if interest rates have risen, the portfolio value will have declined. If interest rates have fallen, the portfolio value will have risen. Fair values of commercial paper are based on quoted market prices. The investments are reported by the District at fair value in accordance with GAAP. The District had no gains or losses from the sale of securities because they were held to maturity. All securities are quoted at fair value including accrued interest.

The District recorded a $1,080,420 increase in the fair value of investments for the year that is included in investment income. The total investment income was $7,955,011.

Note 4 - Receivables

Receivables as of June 30, 2019, for the District's individual major funds and non-major funds in the aggregate, including applicable allowances for uncollectible accounts are as follows:

	General Fund	Debt Service Fund	Capital Projects Fund	Non-Major Other Governmental Funds	Total
Property taxes	$8,618,382	$3,434,614			$12,052,996
Due from state	48,772,266			$10,030,542	58,802,808
Due from other governments	216,731			132,693	349,424
Accrued interest	152,817	20,924	$189,438		363,179
Miscellaneous receivables	75,889			7,266	83,155
Gross receivables	57,836,085	3,455,538	189,438	10,170,501	71,651,562
Less allowance for uncollectibles	(3,506,600)	(1,225,500)			(4,732,100)
Total net receivables	$54,329,485	$2,230,038	$189,438	$10,170,501	$66,919,462

Note 5 - Capital Assets

A summary of changes in capital asset activity for the year ended June 30, 2019 is as follows:

	Balance June 30, 2018	Additions	Retirements and Transfers	Balance June 30, 2019
Capital assets not being depreciated:				
Land	$81,017,065			$81,017,065
Construction-in-progress	14,808,998	$133,556,086	($8,956,913)	139,408,171
Total capital assets not being depreciated	95,826,063	133,556,086	($8,956,913)	220,425,236
Capital assets being depreciated:				
Buildings and improvements	742,137,633	2,649,913	8,956,913	753,744,459
Furniture and equipment	87,707,903	1,376,744	(1,487,265)	87,597,382
Vehicles	33,687,081	360,795	(1,137,531)	32,910,345
Total capital assets being depreciated	863,532,617	4,387,452	6,332,117	874,252,186
Less accumulated depreciation:				
Buildings and improvements	(296,737,429)	(17,864,019)		(314,601,448)
Furniture and equipment	(69,723,179)	(3,779,549)	1,450,840	(72,051,888)
Vehicles	(19,092,102)	(2,024,368)	1,173,956	(19,942,514)
Total accumulated depreciation	(385,552,710)	(23,667,936)	2,624,796	(406,595,850)
Governmental activities capital assets, net	$573,805,970	$114,275,602	$	$688,081,572

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

Instruction	$9,340,520
Instructional resources and media services	511,175
Instructional leadership	159,195
School leadership	409,690
Guidance and counseling services	73,865
Health services	70,046
Student (pupil) transportation	2,057,438
Child nutrition services	1,763,767
Co-curricular activities	1,276,429
General administration	167,674
Plant maintenance and operations	5,474,390
Security and monitoring services	164,345
Data processing services	2,177,288
Community services	22,114
Total	$23,667,936

At June 30, 2019 the District has ongoing construction projects where the active commitments with contractors are as follows:

	Construction in Progress	Remaining Commitments
Spring High School: 9th Grade Center	$7,594,620	$22,856,429
Westfield High School: 9th Grade Center	1,196,056	397,952
Dekaney High School: 9th Grade Center	4,640,715	6,485,581
Wells Middle School Renovation	3,724,311	518,446
Dueitt Middle School Renovation	4,191,648	2,003,683
Twin Creeks Middle School Renovation	3,530,448	1,758,310
Link Elementary School Renovation	2,577,194	337,669
Roberson Middle School - New Campus	38,334,445	1,832,212
Springwoods Village Middle School - New Middle School #8	33,543,697	5,822,154
Spring Leadership Academy Renovation - New Middle School #9	1,164,684	1,526,056
Early College Renovations at Lone Star College - North Harris	10,400	215,549
Transportation Department Renovation	5,000	59,101
District Stadium	33,612,205	11,776,893
District Wide Safety & Security	3,637,464	5,656,710
District Building - Replace Rooftop HVAC Unit	6,375	1,125
District Wide Telephone System	1,638,909	791,788
Total	$139,408,171	$62,039,658

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances in the fund financial statements as of June 30, 2019, was as follows:

	Receivable	Payable
General Fund	$2,377,805	$6,406,198
Debt Service Fund	88,954	
Capital Projects Fund	6,317,244	
Non-Major Other Governmental Funds	4,910,073	7,287,878
Total	$13,694,076	$13,694,076

All interfund balances are routine in nature, used to pay back funds as necessary, and are expected to be repaid within one year. Most of the amounts represent short-term borrowing between funds for operating expense payments.

Interfund transfers are defined as "flows of assets without equivalent flow of assets in return and without requirement for repayment". The following is a summary of the District's transfers for the year ended June 30, 2019:

Transfer Out	Transfer In	Amount
General Fund	Capital Projects Fund	$6,000,000
General Fund	Child Nutrition Fund	38,206
Capital Projects Fund	Debt Service Fund	2,055,296
		$8,093,502

The transfer from the General Fund to the Capital Projects Fund was to fund renovations, construction projects, technology improvements, and the purchase of one-time capital assets. The transfer from the General Fund to the Child Nutrition Fund was for the reimbursement of unpaid student lunch charges. The transfer from the Capital Projects Fund to the Debt Service Fund was for additional proceeds from the 2019 bond issuance to be used for the first bond interest payment.

Note 7 - Deferred Inflows of Resources and Unearned Revenue

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are considered to be unavailable to liquidate liabilities in the current period. Revenue recognition in governmental funds does not occur until resources that have been received in advance are earned.

The following is a summary of deferred inflows of resources and unearned revenue by fund at June 30, 2019:

	Unavailable Revenue	Unearned Revenue
Deferred Inflows of Resources:		
General Fund - Property Taxes	$4,143,542	
Debt Service Fund - Property Taxes	1,800,241	
Unearned Revenue:		
Non-Major Other Governmental Funds - Advance Funding		$4,880,906
Total	$5,943,783	$4,880,906

Note 8 - Long-Term Liabilities

The District's long-term liabilities consist of bond indebtedness, capital leases, accrued compensated absences, and workers' compensation liability. Bonds are payable solely from future revenues of the Debt Service Fund which consist principally of property taxes collected by the District, state funding, and investment income. Capital lease obligations are payable from the General Fund. The same governmental funds used to pay the employee's salary are used to liquidate the liability for accrued compensated absences. These funds have included the General Fund and the Child Nutrition Fund. Workers' compensation claim liabilities are generally liquidated by the General Fund in the current and prior year.

Changes in Long-term Liabilities

The following is a summary of the long-term liability activity of the District for the fiscal year ended June 30, 2019:

	Balance July 1, 2018	Additions	Retirements	Balance June 30, 2019	Due Within One Year
General obligation bonds	$667,745,000	$98,070,000	($27,295,000)	$738,520,000	$30,290,000
Premium from sale of bonds	92,023,762	9,810,779	(5,429,585)	96,404,956	
Total bonds payable	759,768,762	107,880,779	(32,724,585)	834,924,956	30,290,000
Capital leases	125,184		(37,699)	87,485	41,573
Accrued compensated absences	1,298,741	547,474	(549,170)	1,297,045	548,452
Workers' compensation claims	1,258,966	1,717,862	(1,718,918)	1,257,910	1,082,680
Total long-term liabilities	$762,451,653	$110,146,115	($35,030,372)	$837,567,396	$31,962,705

General Obligation Bonds

The District issues general obligation bonds to provide funds for the construction, acquisition, and equipment of school buildings, including safety, security, and technology improvements, for the purchase of necessary sites for school buildings, for the purchase of new school buses, and for refunding outstanding bonds of the District. These bonds are direct obligations and pledge the full faith and credit of the District. These are issued as current interest bonds, term bonds, and/or serial bonds with various amounts of principal maturing each year. Certain outstanding bonds may be redeemed at their par value prior to their normal maturity dates in accordance with the terms of the related bond indentures.

General obligation bonds payable at June 30, 2019, are summarized as follows:

Date Series Issued	Series Maturing Through	Interest Rates (%)	Original Issuance	Outstanding Balance
2011	2026	3.000 - 5.000	$60,965,000	$42,120,000
2012	2027	3.000 - 5.000	21,410,000	14,265,000
2013	2027	4.000 - 5.250	38,110,000	24,565,000
2013A	2029	3.250 - 5.000	33,005,000	24,375,000
2014	2030	2.000 - 5.000	76,865,000	73,150,000
2015	2033	4.000 - 5.000	136,870,000	133,865,000
2016	2034	3.500 - 5.000	80,120,000	70,305,000
2017	2042	4.000 - 5.000	198,715,000	194,750,000
2017A	2029	3.000 - 5.000	53,615,000	53,615,000
2018	2033	4.000 - 5.000	10,385,000	9,440,000
2019	2043	4.000 - 5.000	98,070,000	98,070,000
			$808,130,000	$738,520,000

In February 2019, the District utilized $105,000,000 of the remaining 2016 bond authorization through new debt issuance of $98,070,000 Unlimited Tax School Building Bonds, Series 2019 with a related premium of $9,810,779. The cost of issuance totaled $825,483 and additional proceeds of $2,055,296 were transferred to the Debt Service Fund.

At June 30, 2019, the District had no authorized but unissued bonds.

In the current and prior years, the District defeased certain outstanding bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts and the liability for the defeased bonds are not included in the District's financial statements.

At June 30, 2019, the following outstanding bonds are considered defeased:

Series Refunded	Year Refunded	Maturing	Callable	Outstanding Balance
2005A	2017	2026-2029	8/15/2019	$57,695,000
				$57,695,000

Principal and interest payments on general obligation bonds payable at June 30, 2019, are summarized as follows:

Year Ending June 30	Principal	Interest	Total
2020	$30,290,000	$34,106,014	$64,396,014
2021	31,680,000	32,774,596	64,454,596
2022	34,930,000	31,147,521	66,077,521
2023	37,580,000	29,409,290	66,989,290
2024	39,350,000	27,601,514	66,951,514
2025-2029	224,430,000	106,572,910	331,002,910
2030-2034	178,295,000	54,449,450	232,744,450
2035-2039	81,230,000	27,834,275	109,064,275
2040-2044	80,735,000	8,324,175	89,059,175
Total	$738,520,000	$352,219,745	$1,090,739,745

In accordance with the provisions of Section 148 of the Internal Revenue Code of 1986, as amended, bonds must satisfy certain arbitrage rebate requirements. Rebatable arbitrage is the excess of the amount earned on investments purchased with bond proceeds over the amount that such investments would have earned had such investments been invested at a rate equal to the yield on the bond issue. Rebatable arbitrage must be paid to the U.S. Treasury at the end of each five-year anniversary of the bond issue and upon final redemption of all outstanding bonds of the issue. The District has estimated that it has no arbitrage liability as of June 30, 2019.

Capital Lease Obligations

In 2017, the District entered into lease agreements with Susquehanna Commercial Finance, Inc. for a booklet making system and with Canon Financial Services, Inc. for a production printer with an interest rate of 5.48% and 14.25%, respectively. Each lease meets the criteria of a capital lease as defined by generally accepted accounting principles, which define a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

Capital assets acquired by the leases have been capitalized in an amount equal to the present value of the future minimum lease payments at the time of acquisition totaling $195,862. Principal and interest payments in the fiscal year 2019 totaled $37,699 and $9,691, respectively. The depreciation expense on the capital assets acquired by leases was $39,172 and the net book value at June 30, 2019 is $104,563.

The future minimum lease obligations and the net present value of these minimum equipment lease payments as of June 30, 2019 are as follows:

Year ended June 30	Governmental Activities
2020	$47,390
2021	47,390
Total minimum lease payments	94,780
Less: amount representing interest	(7,295)
Present value of minimum lease payments	$87,485

Note 9 - Revenues from Local and Intermediate Sources

During the current year, revenues from local and intermediate sources reported in governmental funds consisted of the following:

	General Fund	Debt Service Fund	Capital Projects Fund	Non-Major Other Governmental Funds	Total Governmental Funds
Property taxes	$134,662,332	$58,032,417			$192,694,749
Penalty & interest	828,740	361,698			1,190,438
Tuition and fees	106,879			$16,766	123,645
Earnings on investments	2,332,327	961,327	$4,608,250	53,107	7,955,011
Food sales				1,966,665	1,966,665
Other local	1,618,780	13,713	5,000	2,451,318	4,088,811
Total	$139,549,058	$59,369,155	$4,613,250	$4,487,856	$208,019,319

Note 10 - Risk Management

Property, Casualty and Liability Insurance

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of property; errors and omissions; and natural disasters for which the District carries commercial insurance. Settled claims have not exceeded insurance coverage in any of the previous three fiscal years. There has not been any significant reduction in insurance coverage from that of the previous year.

Workers' Compensation

The District established a self-insured risk management program for workers' compensation. Transactions related to the plan are accounted for in the General Fund. Claims administration, loss control, and consultant services are provided by a third-party administrator. Liabilities that are considered due and payable as of June 30, 2019, are included in the governmental funds financial statements. Liabilities also include an estimated amount for claims that have been incurred but not yet reported, which was determined based on the District’s historical claims experience and an estimate of the remaining liability for known claims. This estimated amount is accounted for in the government-wide financial statements as a long-term liability. An excess coverage insurance policy provides coverage in excess of $400,000 per occurrence for workers’ compensation injuries. It also provides coverage in excess of $400,000 per employee for occupational disease claims, if they should arise. There were no significant reductions in insurance coverage from the prior year. The amount of settlements has not exceeded insurance coverage in each of the past three fiscal years.

The following is a summary of the changes in workers' compensation claims payable for fiscal years 2019 and 2018:

Fiscal Year	Beginning of Fiscal Year Claims Payable	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year End	Portion of Balance Due and Payable at Year End
2019	$1,258,966	$1,717,862	$1,718,918	$1,257,910	$1,082,680
2018	$1,127,266	$1,456,046	$1,324,346	$1,258,966	$858,030

Note 11 - Defined Benefit Pension Plan

Plan Description

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

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

Pension Plan Fiduciary Net Position

Detail information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at https://www.trs.texas.gov/TRS%20Documents/cafr_2018.pdf; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling 1-800-223-8778.

Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic 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 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 85th Texas Legislature, General Appropriations Act (GAA) affirmed that the employer contribution rates for fiscal years 2018 and 2019 would remain the same.

	Contribution Rates Plan Fiscal Year Ending August 31,	
	2018	2019
Member (Employee)	7.7%	7.7%
Non-employer contributing entity (State)	6.8%	6.8%
District	6.8%	6.8%

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA). Contributions and pension expense for all contributors were as follows:

	Measurement Year (2018)		Fiscal Year (2019)
	Contributions Required and Made	Pension Expense	TRS Contributions
Member (Employee)	$18,605,861		$18,674,614
Non-employer contributing entity (State)	$11,436,473	$18,505,890	$11,773,876
District	$7,651,329	$18,051,202	$7,678,129

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

Public school employers 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.

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

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

- When a school district or charter school does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

Actuarial Assumptions

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

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

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

Discount Rate

The single discount rate used to measure the total pension liability was 6.907%. The single discount rate was based on the expected rate of return on pension plan investments of 7.25 percent and a municipal bond rate of 3.69 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was sufficient to finance the benefit payments until the year 2069. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2069, and the municipal bond rate was applied to all benefit payments after that date. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2018 are summarized below:

Asset Class	Target Allocation [1]	Long-Term Expected Arithmetic Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns
Global Equity			
U.S.	18%	5.70%	1.04%
Non-U.S. Developed	13%	6.90%	0.90%
Emerging Markets	9%	8.95%	0.80%
Directional Hedge Funds	4%	3.53%	0.14%
Private Equity	13%	10.18%	1.32%
Stable Value			
U.S. Treasuries	11%	1.11%	0.12%
Absolute Return	0%	0.00%	0.00%
Stable Value Hedge Funds	4%	3.09%	0.12%
Cash	1%	-0.30%	0.00%
Real Return			
Global Inflation Linked Bonds	3%	0.70%	0.02%
Real Assets	14%	5.21%	0.73%
Energy and Natural Resources	5%	7.48%	0.37%
Commodities	0%	0.00%	0.00%
Risk Parity			
Risk Parity	5%	3.70%	0.18%
Inflation Expectation			2.30%
Volatility Drag [2]			-0.79%
Total	100%		7.25%

[1] Target allocations are based on the FY2016 policy model.

[2] The Expected Contribution to Long-Term Portfolio Returns incorporates the volatility drag resulting from the conversion between arithmetic and geometric mean returns.

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the net pension liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (6.907%) in measuring the 2018 net pension liability:

	1% Decrease in Discount Rate (5.907%)	Discount Rate (6.907%)	1% Increase in Discount Rate (7.907%)
District's proportionate share of the net pension liability	$188,679,320	$125,016,131	$73,477,004

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

At June 30, 2019, the District reported a liability of $125,016,131 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	$125,016,131
State's proportionate share of the net pension liability associated with the District	186,978,519
Total	$311,994,650

The net pension liability was measured as of August 31, 2017 and rolled forward to August 31, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 31, 2017 rolled forward to August 31, 2018. The District's proportion of the net pension liability was based on the District's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2017 through August 31, 2018.

At August 31, 2018, the District's proportion of the collective net pension liability was 0.2271% which was a decrease of 0.0069% from its proportion measured as of August 31, 2017.

Changes Since the Prior Actuarial Valuation

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

- The total pension liability as of August 31, 2018 was developed using a roll-forward method from the August 31, 2017 valuation.

- Demographic assumptions including post-retirement mortality, termination rates, and rates of retirement were updated based on the experience study performed for TRS for the period ending August 31, 2017.

- Economic assumptions including rates of salary increase for individual participants was updated based on the same experience study.

- The discount rate changed from 8.0 percent as of August 31, 2017 to 6.907 percent as of August 31, 2018.

- The long-term assumed rate of return changed from 8.0 percent to 7.25 percent.

- The change in the long-term assumed rate of return combined with the change in the single discount rate was the primary reason for the increase in the net pension liability.

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

For the year ended June 30, 2019, the District recognized pension expense of $18,051,202 as well as revenue of $18,505,890 representing pension expense incurred by the State on behalf of the District.

At June 30, 2019, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experience	$779,248	($3,067,402)
Changes in actuarial assumptions	45,074,337	(1,408,574)
Differences between projected and actual investment earnings		(2,372,092)
Changes in proportion and differences between the District's contributions and proportionate share of contributions	12,878,303	(3,326,705)
Contributions paid to TRS subsequent to the measurement date	6,499,285	
Total	$65,231,173	($10,174,773)

The $6,499,285 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 June 30, 2020. The net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30	Pension Expense Amount
2020	$13,684,807
2021	8,692,911
2022	7,204,039
2023	7,357,115
2024	6,912,735
Thereafter	4,705,508
	$48,557,115

Note 12 – Defined Other Post-Employment 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 defined Other Post-Employment Benefit (OPEB) plan that has a special funding situation. The plan is administered through a trust by the Teacher Retirement System of Texas (TRS) Board of Trustees. It is established and administered in accordance with the Texas Insurance Code, Chapter 1575.

OPEB Plan Fiduciary Net Position

Detail information about the TRS-Care's fiduciary net position is available in the separately-issued TRS Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at https://www.trs.texas.gov/TRS%20Documents/cafr_2018.pdf; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling 1-800-223-8778.

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 cost-of-living adjustments (COLAs).

The premium rates for the optional health insurance are based on years of service of the member. The schedule below shows the monthly rates for a retiree with and without Medicare coverage.

	TRS-Care Monthly Rates for Retirees January 1, 2018 - December 31, 2018	
	Medicare	Non-Medicare
Retiree*	$135	$200
Retiree and Spouse	$529	$689
Retiree* and Children	$468	$408
Retiree and Family	$1,020	$999

* 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 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate which is .75% 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.

	Contribution Rates Plan Fiscal Year Ending August 31,	
	2018	2019
Active employee	0.65%	0.65%
Non-employer contributing entity (State)	1.25%	1.25%
District	0.75%	0.75%
Federal/private funding remitted by District	1.25%	1.25%

In addition to the District contribution rates 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 hiring a TRS retiree, employers are required to pay TRS-Care, a monthly surcharge of $535 per retiree.

Contributions and OPEB expense for all contributors were as follows:

	Measurement Year (2018)		Fiscal Year (2019)
	Contributions Required and Made	OPEB Expense	TRS-Care Contributions
Member (Employee)	$1,570,624		$1,576,429
Non-employer contributing entity (State)	$2,825,084	$7,448,213	$2,798,439
District	$2,023,023	$4,556,231	$2,073,777

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of $182.6 million in fiscal year 2018. The 85th Texas Legislature, House Bill 30 provided an additional $212 million in one-time, supplemental funding for the FY2018-19 biennium to continue to support the program. This was also received in FY2018 bringing the total appropriations received in fiscal year 2018 to $394.6 million.

Actuarial Assumptions

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

The actuarial valuation of TRS-Care is similar to the actuarial valuations performed for the pension plan, except that the OPEB valuation is more complex. All of the demographic assumptions, including rates of retirement, termination, and disability, and most of the economic assumptions, including general inflation, salary increases, and general payroll growth, used in this OPEB valuation were identical to those used in the respective TRS pension valuation. Since the assumptions were based upon a recent actuarial experience study performed and they were reasonable for this OPEB valuation, they were employed in this report.

The active mortality rates were based on 90 percent of the RP-2014 Employee Mortality Tables for males and females, with full generational mortality using Scale BB. The Post-retirement mortality rates were based on the 2018 TRS of Texas Healthy Pensioner Mortality Tables, with full generational projection using the ultimate improvement rates from the most recently published scale (U-MP).

The following assumptions and other inputs used for members of TRS-Care are identical to the assumptions used in the August 31, 2017 TRS pension actuarial valuation that was rolled forward to August 31, 2018:

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

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2017, rolled forward to August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Single Discount Rate	3.69%. Source for the rate is Fixed Income municipal bonds with 20 years to maturity that include only federal tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of August 31, 2018.
Aging Factors	Based on plan specific experience
Election Rates	Normal Retirement: 70% participation prior to age 65 and 75% participation after age 65.
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age adjusted claims costs.
Projected Salary Increases	3.05% to 9.05%, including inflation
Ad hoc post-employment benefit changes	None
Healthcare Trend Rates*	6.75% to 107.74%

* Initial medical trend rates of 107.74 percent and 9.00 percent for Medicare retirees and an initial medical trend rate of 6.75 percent for non-Medicare retirees.

Discount Rate

A single discount rate of 3.69% was used to measure the total OPEB liability. There was an increase of .27 percent in the discount rate since the previous year. 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.

Sensitivity of the Net OPEB Liability

Discount Rate

The following presents the District's proportional share of the net OPEB liability of the plan using the discount rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one-percentage point lower (2.69%) or one-percentage point higher (4.69%) than the AA/Aa rate:

Sensitivity of the Net OPEB Liability to the Single Discount Rate Assumptions

1% Decrease in Discount Rate (2.69%)	Current Single Discount Rate (3.69%)	1% Increase in Discount Rate (4.69%)
$174,294,452	$146,423,651	$124,376,050

Healthcare Cost Trend Rates

The following presents the District's proportional share of the net OPEB liability of the plan using the assumed healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is one-percentage point lower or one-percentage point higher than the assumed healthcare cost trend rate:

Sensitivity of the Net OPEB Liability to the Healthcare Cost Trend Rate Assumptions

1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
$121,607,226	$146,423,651	$179,107,418

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

At June 30, 2019, the District reported a liability of $146,423,651 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	$146,423,651
State's proportionate share that is associated with the District	204,767,526
Total	$351,191,177

The net OPEB liability was measured as of August 31, 2017 and rolled forward to August 31, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on the District's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2017 through August 31, 2018.

At August 31, 2018 the District's proportion of the collective net OPEB liability was 0.2933% which was an increase of 0.0131% from its proportion measured as of August 31, 2017.

Changes Since the Prior Actuarial Valuation

The following assumptions, methods and plan changes which are specific to TRS-Care were updated from the prior year's report:

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

Deferred Outflows and Deferred Inflows of Resources Related to OPEB

At June 30, 2019, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experience	$7,770,159	($2,310,780)
Changes in actuarial assumptions	2,443,414	(43,991,906)
Difference between projected and actual investment earnings	25,608	
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	7,158,313	
Contributions paid to TRS subsequent to the measurement date	1,736,260	
Total	$19,133,754	($46,302,686)

The $1,736,260 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 June 30, 2020. 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:

Year ended June 30:	OPEB Expense Amount
2020	($4,872,396)
2021	(4,872,396)
2022	(4,872,396)
2023	(4,877,238)
2024	(4,880,008)
Thereafter	(4,530,758)
	($28,905,192)

Texas Legislature House Bill 21 TRS Appropriation

$212,000,000 was transferred to TRS to pay for TRS-Care during the 85th First Legislative Special Session House Bill 21, Section 10. GASB Statement No. 85 requires that an on-behalf payment be recorded for the districts proportionate share. The proportionate share was determined using the GASB Statement No. 75 TRS-Care proportionate share allocation. For the year ended June 30, 2019, the District recorded an expenditure for their proportionate share of the funds along with the corresponding revenue of $148,502.

Medicare Part D

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. Under Medicare Part D, TRS-Care receives retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These payments are recorded as equal revenues and expenditures in the governmental funds financial statements of the District. For the years ended June 30, 2019, 2018, and 2017, the subsidy payments received by TRS-Care on-behalf of the District are as follows:

Fiscal Year	Medicare Part D
2019	$774,288
2018	$939,551
2017	$1,096,810

Note 13 - Shared Services Arrangement

The District participates in a shared services arrangement for a Regional Day School for the Deaf with seven other school districts. Although .48% of the activity of the shared services arrangement is attributable to the District's participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. Cypress-Fairbanks Independent School District is the fiscal agent manager and is responsible for all financial activities of the shared services arrangement.

Presented below are the revenues paid to the fiscal agent manager by the State and the District and related program expenditures incurred by the fiscal agent manager on behalf of the District:

Revenues:	
State revenue distributed by TEA	$6,319
Local revenue paid by the District	13,291
Total Revenues	$19,610
Expenditures:	
Payroll costs	$19,539
Contracted services	8
Miscellaneous expenses	63
Total Expenditures	$19,610

The District also participates in a shared services arrangement with a Regional Day School for the Deaf with Aldine Independent School District. This arrangement differs from that of Cypress-Fairbanks Independent School District in that the District only pays for services provided to students that are not enrolled in the Regional Day School for the Deaf. The costs associated with these services vary based on need.

Total costs paid to Aldine Independent School District for evaluation and admission, review and dismissal (ARD) services for non-enrolled students totaled $5,525 for the fiscal year ended June 30, 2019.

Note 14 - Commitments and Contingencies

The District received significant financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies and the TEA. Any disallowed claims resulting from such audits would become a liability of the General Fund. However, in the opinion of management, potential disallowed claims, if any, would not have a material effect on the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2019.

From time to time, the District is a defendant in legal proceedings relating to its operations as a school district. In the best judgment of the District's management, the outcome of any present legal proceedings will not have any material adverse effect on the District's financial condition.

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REQUIRED SUPPLEMENTARY INFORMATION

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SPRING INDEPENDENT SCHOOL DISTRICT

Exhibit C-1

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

GENERAL FUND

For the Fiscal Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Local and intermediate sources	$138,986,529	$140,895,668	$139,549,058	($1,346,610)
State program revenues	168,378,549	172,831,795	181,925,312	9,093,517
Federal program revenues	5,000,000	6,855,929	11,524,138	4,668,209
Total Revenues	312,365,078	320,583,392	332,998,508	12,415,116
EXPENDITURES				
Current:				
Instruction	184,224,439	183,658,740	180,758,688	2,900,052
Instructional resources and media services	2,982,068	3,045,047	2,768,316	276,731
Curriculum and staff development	3,869,281	4,032,738	3,398,233	634,505
Instructional leadership	7,705,309	9,332,306	9,063,398	268,908
School leadership	20,756,165	22,285,318	21,673,672	611,646
Guidance and counseling services	11,268,296	11,373,642	10,960,414	413,228
Social work services	440,874	761,454	576,023	185,431
Health services	2,796,330	2,936,385	2,637,983	298,402
Student (pupil) transportation	15,719,936	15,409,920	14,964,661	445,259
Co-curricular activities	6,285,622	6,276,544	5,840,549	435,995
General administration	13,323,061	12,216,097	11,707,340	508,757
Plant maintenance and operations	28,070,026	28,099,988	26,603,525	1,496,463
Security and monitoring services	5,807,112	6,129,095	5,949,071	180,024
Data processing services	5,896,451	6,847,757	6,565,377	282,380
Community services	654,776	687,350	578,236	109,114
Debt Service:				
Principal on long-term debt	36,425	36,426	37,699	(1,273)
Interest on long-term debt	10,965	10,965	9,691	1,274
Capital Outlay:				
Facilities acquisition and construction	427,942	1,467,516	1,073,144	394,372
Intergovernmental Charges:				
Fiscal agent/shared services arrangement	30,000	40,240	13,291	26,949
Alternative education	100,000	100,000	64,800	35,200
Payments to tax increment fund	650,000	700,000	695,707	4,293
Other intergovernmental charges	1,350,000	1,450,000	1,411,069	38,931
Total Expenditures	312,405,078	316,897,528	307,350,887	9,546,641
Excess (deficiency) of revenues over (under) expenditures	(40,000)	3,685,864	25,647,621	21,961,757
OTHER FINANCING SOURCES (USES)				
Sale of property	40,000	75,000	66,506	(8,494)
Transfers out			(6,038,206)	(6,038,206)
Total Other Financing Sources (Uses)	40,000	75,000	(5,971,700)	(6,046,700)
Net change in fund balance		3,760,864	19,675,921	15,915,057
FUND BALANCE, JULY 1	106,234,055	106,234,055	106,234,055	
FUND BALANCE, JUNE 30	$106,234,055	$109,994,919	$125,909,976	$15,915,057

See accompanying notes to required supplementary information.

Note 1 - Budgets and Budgetary Accounting

Each school district in Texas is required by law to prepare annually a budget of anticipated revenues and expenditures for the General Fund for the fiscal year beginning September 1 (or July 1, if the District has elected to change the start of the fiscal year). The Texas Education Code requires the budget to be prepared not later than August 20 (June 19th for a fiscal year start date of July 1) and adopted by August 31 (June 30 for a fiscal year start date of July 1) of each year. The District's administration determines budgetary funding priorities using a modified zero-based budgeting concept, which is consistent with GAAP. Final budget allocations are determined by the Board, which subsequently establishes a tax rate sufficient to support the approved budget. The annual budget, which is prepared on the modified accrual basis of accounting, must be adopted by the Board at a scheduled meeting after giving ten days public notice of the meeting. The District annually adopts a legally authorized appropriated budget for the General Fund.

The District's administration performs budget reviews three times a year by which budget requirements are re-evaluated and revisions recommended to the Board. The Board may approve amendments to the budget, which are required when a change is made to any one of the functional expenditure categories or revenue object accounts defined by the TEA. Expenditures may not legally exceed budgeted appropriations, as amended, at the function level by fund. Unexpended appropriations lapse at year-end.

Management may amend the budget without seeking Board approval if appropriations are not moved between functions. Therefore, appropriations may be transferred between objects, sub-objects, organizations, programs, and projects without Board approval. During fiscal year 2019, General Fund appropriations were increased by $4,492,450 and revenues and other financing sources were increased by $8,253,314.

Note 2 - Variances with Final Budget

General Fund - The variance in the final total budgeted revenues versus actual revenues is primarily due to funds received from Senate Bill 500 which were received after the Board of Trustees had approved the final budget amendments for the fiscal year.

The variance in final budgeted expenditures versus actual expenditures is primarily due to conservative budgeting and savings from payroll and benefits as a result of position vacancies which occurred throughout the year.

SPRING INDEPENDENT SCHOOL DISTRICT **Exhibit C-3**

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Teacher Retirement System of Texas

For the Last Five Measurement Years Ended August 31

	2018	2017	2016	2015	2014
District's proportion of the net pension liability	0.2271%	0.2340%	0.2390%	0.2456%	0.1423%
District's proportionate share of the net pension liability	$125,016,131	$74,806,160	$90,303,341	$86,829,092	$38,024,295
State's proportionate share of the net pension liability associated with the District	186,978,519	107,986,931	137,445,154	134,342,127	111,344,913
Total	$311,994,650	$182,793,091	$227,748,495	$221,171,219	$149,369,208
District's covered payroll (for measurement year)	$241,634,541	$234,411,778	$237,943,264	$230,700,849	$205,978,531
District's proportionate share of the net pension liability as a percentage of it's covered payroll	51.7%	31.9%	38.0%	37.6%	18.5%
Plan fiduciary net position as a percentage of the total pension liability *	73.74%	82.17%	78.00%	78.43%	83.25%
Plan's net pension liability as a percentage of covered payroll *	126.11%	75.93%	92.75%	91.94%	72.89%

Notes: The amounts presented are for each Plan year which ends the preceding August 31 of the District's fiscal year.
Ten years of data should be presented in this schedule but data is unavailable prior to 2014.
Net pension liability and related ratios will be presented prospectively as data becomes available.

* Per Teacher Retirement System of Texas' Comprehensive Annual Financial Report

SPRING INDEPENDENT SCHOOL DISTRICT

Exhibit C-4

SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS

Teacher Retirement System of Texas

For the Last Ten Fiscal Years Ended June 30

	2019	2018	2017	2016	2015
Contractually required contributions	$7,678,129	$7,681,399	$7,731,778	$7,605,202	$6,544,720
Contributions in relation to the contractual required contributions	7,678,129	7,681,399	7,731,778	7,605,202	6,544,720
Contribution deficiency (excess)	$	$	$	$	$
District's covered payroll	$242,527,457	$240,462,954	$235,330,934	$237,796,109	$224,935,326
Contributions as a percentage of covered payroll	3.17%	3.19%	3.29%	3.20%	2.91%

	2014	2013	2012	2011	2010
Contractually required contributions	$3,547,693	$2,715,354	$2,582,495	$3,246,240	$4,420,085
Contributions in relation to the contractual required contributions	3,547,693	2,715,354	2,582,495	3,246,240	4,420,085
Contribution deficiency (excess)	$	$	$	$	$
District's covered payroll	$202,678,708	$188,119,626	$186,627,986	$204,162,238	$201,819,386
Contributions as a percentage of covered payroll	1.75%	1.44%	1.38%	1.59%	2.19%

Changes of Assumptions

Assumptions, methods, and plan changes which are specific to the Pension Trust Fund were updated from the prior year's report. The net pension liability increased significantly since the prior measurement date due to a change in the following actuarial assumptions:

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

Changes in Benefit Terms

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

Other Information

Effective September 1, 2014, employers who did not contribute to Social Security for TRS-eligible employees were required to contribute an additional 1.5% of TRS-eligible compensation which nearly doubled the District's contributions into the Plan. Because the District's proportional share of the plan is determined by its proportional share of contributions, the District recognized a corresponding increase in its share of net pension liability.

SPRING INDEPENDENT SCHOOL DISTRICT **Exhibit C-6**

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY

Teachers Retirement System of Texas

For the Last Two Measurement Years Ended August 31

	2018	2017
District's proportion of the net OPEB liability	0.2933%	0.2802%
District's proportionate share of the net OPEB liability	$146,423,651	$121,845,547
State's proportionate share of the net OPEB liability associated with the District	204,767,526	182,474,757
Total	$351,191,177	$304,320,304
District's covered payroll (for measurement year)	$241,634,541	$234,411,778
District's proportionate share of the net OPEB liability as a percentage of it's covered payroll	60.6%	52.0%
Plan fiduciary net position as a percentage of the total OPEB liability *	1.57%	0.91%
Plan's net OPEB liability as a percentage of covered payroll *	146.64%	132.55%

Note: The amounts presented are for each Plan year which ends the preceding August 31 of the District's fiscal year.
Ten years of data should be presented in this schedule but data is unavailable prior to 2017.
Net OPEB liability and related ratios will be presented prospectively as data becomes available.

* Per Teacher Retirement System of Texas' Comprehensive Annual Financial Report

SPRING INDEPENDENT SCHOOL DISTRICT

Exhibit C-7

SCHEDULE OF DISTRICT'S OPEB CONTRIBUTIONS

Teachers Retirement System of Texas

For the Last Ten Fiscal Years Ended June 30

	2019	2018	2017	2016	2015
Contractually required contributions	$2,073,777	$1,924,258	$1,468,548	$1,476,499	$1,398,022
Contributions in relation to the contractual required contributions	2,073,777	1,924,258	1,468,548	1,476,499	1,398,022
Contribution deficiency (excess)	$	$	$	$	$
District's covered payroll	$242,527,457	$240,462,954	$235,330,934	$237,796,109	$224,935,326
Contributions as a percentage of covered payroll	0.86%	0.80%	0.62%	0.62%	0.62%

	2014	2013	2012	2011	2010
Contractually required contributions	$1,245,976	$1,092,047	$1,124,821	$1,234,783	$1,193,496
Contributions in relation to the contractual required contributions	1,245,976	1,092,047	1,124,821	1,234,783	1,193,496
Contribution deficiency (excess)	$	$	$	$	$
District's covered payroll	$202,678,708	$188,119,626	$186,627,986	$204,162,238	$201,819,386
Contributions as a percentage of covered payroll	0.61%	0.58%	0.60%	0.60%	0.59%

Changes of Assumptions

The following assumptions, methods and plan changes which are specific to TRS-Care were updated from the prior year's report:

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

Changes in Benefit Terms

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. This change in plan benefits significantly lowered the OPEB liability and had an immediate effect on the OPEB expenses recognized by participating entities.

The 85th Legislature, Regular Session, passed the following statutory changes in House Bill 3976 which became effective on September 1, 2017:

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