

**OFFICIAL STATEMENT
DATED AUGUST 27, 2020**

NEW ISSUE - Book-Entry-Only

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

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds, defined herein, is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. (see "TAX MATTERS").

\$255,215,000

**AUSTIN INDEPENDENT SCHOOL DISTRICT
(A Political Subdivision of the State of Texas located in Travis County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2020**

Interest to accrue from Delivery Date

**Due: August 1
as shown on inside cover**

THE BONDS . . . The Austin Independent School District (the "District") is issuing its \$255,215,000 Unlimited Tax School Building Bonds, Series 2020 (the "Bonds") pursuant to the authority and for the purposes hereinafter specified.

PAYMENT TERMS . . . Interest on the Bonds will accrue from the date of delivery to the initial purchasers, anticipated to be September 23, 2020 (the "Delivery Date"), will be payable on February 1 and August 1 of each year commencing February 1, 2021, and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described herein. DTC will act as securities depository. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar (defined herein) to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS - Book-Entry-Only System".) The initial "Paying Agent/Registrar" is UMB Bank, Austin, Texas (see "THE BONDS - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including Chapter 45 Texas Education Code, as amended, Chapter 1371, Texas Government Code, as amended, ("Chapter 1371"), Elections (as defined herein) held within the District and an order (the "Bond Order") adopted by the Board of Trustees of the District (the "Board") on April 27, 2020. As permitted by the provisions of Chapter 1371, the Board, in the Bond Order, delegated the authority to certain District officials to execute a pricing certificate establishing pricing and other terms for the Bonds (the "Pricing Certificate"). The Bond Order and the Pricing Certificate are collectively referred to herein as the "Order". The Bonds are direct obligations of the District payable from an ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District as provided in the Order (see "THE BONDS – Security and Source of Payment"). The District has applied for conditional approval from the Texas Education Agency for the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined) which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

PURPOSE . . . Proceeds from the sale of the Bonds will be used (1) for construction, acquisition and equipment of school buildings and to purchase the necessary sites therefor; and (2) to pay costs of issuance of the Bonds. (see "THE BONDS – Sources and Uses of Bond Proceeds").

See following page for Maturity Schedule, Interest Rates, Yields, and CUSIP Numbers

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the initial purchasers thereof named below (the "Underwriters") and subject to the approving opinion of the Attorney General of Texas and the approval of certain legal matters by Orrick, Herrington & Sutcliffe LLP, Austin, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton LLP, Austin, Texas.

DELIVERY . . . It is expected that the Bonds will be available for initial delivery through the services of DTC, on or about September 23, 2020 ("Delivery Date").

**MORGAN STANLEY
PIPER SANDLER & Co.**

RAMIREZ & Co., INC.

**BAIRD
STIFEL**

MATURITY SCHEDULE, INTEREST RATES, YIELDS, AND CUSIP NUMBERS

CUSIP⁽¹⁾ Prefix: 052430

Maturity (August 1)	Principal Amount	Interest Rate	Initial Yield ⁽²⁾	CUSIP ⁽¹⁾ Suffix	Maturity (August 1)	Principal Amount	Interest Rate	Initial Yield ⁽²⁾	CUSIP ⁽¹⁾ Suffix
2021	\$38,185,000	5.00%	0.170%	RH0	2031	\$11,285,000	5.000%	1.050% ⁽³⁾	RT4
2022	7,275,000	5.00%	0.190%	RJ6	2032	11,850,000	5.000%	1.130% ⁽³⁾	RU1
2023	7,640,000	5.00%	0.220%	RK3	2033	12,440,000	4.000%	1.310% ⁽³⁾	RV9
2024	8,020,000	5.00%	0.280%	RL1	2034	12,940,000	4.000%	1.370% ⁽³⁾	RW7
2025	8,420,000	5.00%	0.350%	RM9	2035	13,455,000	4.000%	1.410% ⁽³⁾	RX5
2026	8,845,000	5.00%	0.470%	RN7	2036	13,995,000	4.000%	1.460% ⁽³⁾	RY3
2027	9,285,000	5.00%	0.600%	RP2	2037	14,555,000	4.000%	1.500% ⁽³⁾	RZ0
2028	9,750,000	5.00%	0.750%	RQ0	2038	15,140,000	1.875%	1.960%	SA4
2029	10,235,000	5.00%	0.870%	RR8	2039	15,420,000	2.000%	1.990% ⁽³⁾	SB2
2030	10,750,000	5.00%	0.970%	RS6	2040	15,730,000	2.000%	2.020%	SC0

(Interest to accrue from the Delivery Date.)

OPTIONAL REDEMPTION . . . The District reserves the right, at its option, to redeem the Bonds having stated maturities on and after August 1, 2031 in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 1, 2030, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE BONDS – Optional Redemption Provisions of the Bonds”).

⁽¹⁾ CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor’s Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the Underwriters, the District nor the Co-Financial Advisors are responsible for the selection or correctness of the CUSIP numbers set forth herein.

⁽²⁾ Initial yields have been established by and are the sole responsibility of the Underwriters and may be subsequently changed.

⁽³⁾ Yield calculated based upon the assumption that the Bonds sold at a premium will be redeemed on August 1, 2030, the first optional redemption date for the Bonds, at a redemption price of par plus accrued interest to the redemption date.

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

No dealer, broker, salesperson or other person has been authorized to give information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon.

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

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

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACT. THE REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAW OF THE STATES IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. THE BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

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

None of the District, the Underwriters, nor the Co-Financial Advisors 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 agreements of the District and others related to the Bonds are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the Bonds is to be construed as constituting an agreement with the purchasers of the Bonds. The cover page contains certain information for general reference and is not intended as a summary of this offering. INVESTORS SHOULD READ THIS ENTIRE OFFICIAL STATEMENT, INCLUDING ALL SCHEDULES AND 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 EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM THE FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS.

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

OFFICIAL STATEMENT SUMMARY

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

THE DISTRICT	The Austin Independent School District (the “District”) is a political subdivision of the State of Texas located in Travis County. The District is approximately 230 square miles. The District is governed by a nine-member Board of Trustees (the “Board”) who serve staggered four-year terms with elections being held in November of each even-numbered year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools, who is the chief administrative officer of the District. Support services are supplied by consultants and advisors. For more information regarding the District, see “Appendix A – General Information Regarding the District” and “Appendix B – Excerpts from the Austin Independent School District Annual Financial and Compliance Report”.
THE BONDS.....	The District is issuing its \$255,215,000 Unlimited Tax School Building Bonds, Series 2020 (the “Bonds”) pursuant to the authority and for the purposes hereinafter specified (see “INTRODUCTION”, “PLAN OF FINANCE” and “THE BONDS”).
PAYMENT OF INTEREST	Interest on the Bonds accrues from September 23, 2020, the date of initial delivery (the “Delivery Date”) thereof to the Underwriters and is payable on February 1, 2021 and on each August 1 and February 1 thereafter, until stated maturity or prior redemption and is payable as described herein (see “THE BONDS - Description of the Bonds”).
AUTHORITY FOR ISSUANCE	The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the “State”), including Chapter 45 Texas Education Code, as amended, Chapter 1371, Texas Government Code, as amended, Elections (as defined herein) held within the District and an order (the “Bond Order”) adopted by the Board of Trustees of the District (the “Board”) on April 27, 2020. As permitted by the provisions of Chapter 1371, the Board, in the Bond Order, delegated the authority to certain District officials to execute a pricing certificate establishing pricing and other terms for the Bonds (the “Pricing Certificate”). The Bond Order and the Pricing Certificate are collectively referred to herein as the “Order”. (see “THE BONDS – Authority for Issuance”).
SECURITY FOR THE BONDS.....	The Bonds are direct obligations of the District, payable from a continuing direct annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property within the District. Additionally, the District has applied for conditional approval from the Texas Education Agency for the Bonds to be guaranteed by the Permanent School Fund of the State of Texas which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds (see “THE BONDS – Security and Source of Payment” and “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).
PERMANENT SCHOOL FUND GUARANTEE	The District received approval from the Texas Education Agency for the Bonds to be guaranteed by the Permanent School Fund of the State of Texas (see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).
OPTIONAL REDEMPTION	The District reserves the right, at its option, to redeem the Bonds having stated maturities on and after August 1, 2031 in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 1, 2030, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE BONDS – Optional Redemption Provisions of the Bonds”). The Bonds may also be subject to mandatory sinking fund redemption in the event the Underwriters elect to aggregate two or more of the maturities as a term bond (see “THE BONDS – Mandatory Redemption of the Bonds”).
TAX EXEMPTION	In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. (see “TAX MATTERS”).
USE OF PROCEEDS	Proceeds from the sale of the Bonds will be used (1) for construction, acquisition and equipment of school buildings and to purchase the necessary sites therefor; and (2) to pay costs of issuance of the Bonds. (see “THE BONDS – Sources and Uses of Bond Proceeds”).

RATINGS “The Bonds have been rated “Aaa” by Moody’s Investors Service, Inc. (“Moody’s”) by virtue of the Permanent School Fund Guarantee of Texas. Bonds guaranteed by the Permanent School Fund of the State of Texas are generally rated “Aaa” by Moody’s. The Bonds and the presently outstanding unenhanced, tax supported debt of the District are rated “Aaa” by Moody’s. In addition to the Moody’s rating, the presently outstanding unenhanced, underlying ratings of the District’s debt are rated “AA+” by S&P Global Services (“S&P”) and “AA+” by Fitch Ratings (“Fitch”) (see “OTHER INFORMATION – Ratings”).

BOOK-ENTRY-ONLY

SYSTEM The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC, pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds (see "THE BONDS - Book-Entry-Only System").

PAYMENT RECORD The District has never defaulted in payment of its bonded indebtedness.

DELIVERY DATE Anticipated to occur on or about September 23, 2020.

SELECTED FINANCIAL INFORMATION

Year Ended 12/31 ⁽¹⁾	Estimated District Population ⁽²⁾	Taxable Assessed Valuation ⁽³⁾	Per Capita Taxable Assessed Valuation	Tax Debt ⁽⁵⁾	Per Capita Tax Debt	Ratio Debt to Taxable Assessed Valuation	% of Total Tax Collections
2016	1,209,415	\$ 81,020,802,709	\$ 66,992	\$ 882,082,966	\$ 729	1.09%	99.07%
2017	1,242,674	93,072,526,501	74,897	1,032,623,287	831	1.11%	98.58%
2018	1,273,741	103,221,367,551	81,038	982,756,549	772	0.95%	98.66%
2019	1,304,311	113,907,520,539	87,332	1,112,957,692	853	0.98%	98.69%
2020	1,334,310	124,516,925,487 ⁽⁴⁾	93,319	1,287,246,060 ⁽⁶⁾	965	1.03%	97.01% ⁽⁷⁾

⁽¹⁾ The District's fiscal year ends on June 30. Due to timing of tax collection receipts, the District budgets for its debt service payments incurred during the time period of September 1 through August 31, therefore, debt information is provided on a calendar year basis.

⁽²⁾ Source: City of Austin Planning & Zoning Department.

⁽³⁾ Source: As reported by the Travis Central Appraisal District on the District’s annual State Property Tax Reports. The total values are dated as of January 1, 2019. Such values are subject to change during the ensuing year.

⁽⁴⁾ Source: Travis Central Appraisal District. The total values are dated as of August 21, 2019. On February 12, 2020, Travis Central Appraisal District announced that it will not be reappraising residential properties for the 2020 tax year.

⁽⁵⁾ Excludes the District’s Commercial Paper Notes, Series A.

⁽⁶⁾ Includes the Bonds.

⁽⁷⁾ Projected.

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DISTRICT ADMINISTRATION

ELECTED OFFICIALS

	<u>Length of Service</u>	<u>Term Expires</u>	<u>District</u>
Geronimo M. Rodriguez Jr. President	3 Years, 1 Month	Nov. 2022	District 6
Cindy Anderson Vice President	3 Years, 6 Months	Nov. 2020	At-Large District 8
Amber Elenz Secretary	7 Years, 6 Months	Nov. 2020	District 5
LaTisha Anderson Member	6 Months	Nov. 2022	District 1
Jayne Mathias Member	7 Years, 6 Months	Nov. 2020	District 2
Ann Teich Member	7 Years, 6 Months	Nov. 2020	District 3
Kristin Ashy Member	6 Months	Nov. 2022	District 4
Yasmin Wagner Member	4 Years, 6 Months	Nov. 2022	District 7
Arati Singh Member	1 Year, 6 Months	Nov. 2022	At-Large District 9

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>
Dr. Stephanie Elizalde	Superintendent
Larry Throm	Chief Business Officer
Dr. Fernando Medina	Chief Human Capital Officer

CONSULTANTS AND ADVISORS

Auditors RSM US LLP
Austin, Texas

Co-Financial Advisors Estrada Hinojosa & Company, Inc.
Dallas and Austin, Texas

RBC Capital Markets, LLC
Houston, Texas

Bond Counsel Orrick, Herrington & Sutcliffe LLP
Austin, Texas

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**OFFICIAL STATEMENT
RELATING TO
\$255,215,000
AUSTIN INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2020**

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$255,215,000 Austin Independent School District Unlimited Tax School Building Bonds, Series 2020 (the “Bonds”). Capitalized terms used in this Official Statement not otherwise defined herein have the same meanings assigned to such terms in the order (the “Bond Order”) adopted by the Board of Trustees (the “Board”) of the Austin Independent School District (the “District” or “Issuer”) on April 27, 2020, which authorizes the issuance of the Bonds, except as otherwise indicated herein.

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 financial position or other affairs of the District. No representation is made that past experience, as is shown by financial and other information, will necessarily continue or be repeated in the future. (see “OTHER INFORMATION – Forward Looking Statements”).

There follows in this Official Statement descriptions of the Bonds and certain information regarding the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District's Co-Financial Advisors, Estrada Hinojosa & Company, Inc., Austin and Dallas, Texas, and RBC Capital Markets, LLC, Houston, Texas, in electronic format or upon payment of reasonable copying, handling and delivery charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the Official Statement will be deposited with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (“EMMA”) system. See “CONTINUING DISCLOSURE OF INFORMATION” for a description of the District’s undertaking to provide certain information on a continuing basis.

PLAN OF FINANCE

PURPOSE . . . Proceeds from the sale of the Bonds will be used (1) for construction, acquisition and equipment of school building and to purchase the necessary sites therefor; and (2) to pay costs of issuance of the Bonds. (see “THE BONDS – Sources and Uses of Bond Proceeds.”)

THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds will be issuable in denominations of \$5,000 or any integral multiple thereof. Interest on the Bonds will accrue from the date of delivery to the underwriters, anticipated to be September 23, 2020 (the “Delivery Date”) and will be payable on August 1 and February 1 of each year commencing February 1, 2021, and will be calculated on the basis of a 360-day year of twelve 30-day months.

The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”), New York, New York, pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see “THE BONDS - Book-Entry-Only System”).

If the date for any payment due on any Bond is a Saturday, Sunday, legal holiday, or day on which banking institutions in the city in which the designated corporate trust office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment will be the next succeeding day which is not such a day. The payment on such date has the same force and effect as if made on the original date payment was due.

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to (i) authority conferred by the Constitution and the laws of the State of Texas, particularly Chapter 45, Texas Education Code, as amended and Chapter 1371, Texas Government Code, as amended (“Chapter 1371”) (ii) Elections (herein defined) held within the District, and (iii) the Bond Order. As permitted by the provisions of Chapter 1371, the Board, in the Bond Order, delegated the authority to certain District officials to execute a Pricing Certificate establishing pricing and other terms for the Bonds (the “Pricing Certificate”). The Pricing Certificate and the Bond Order are referred to herein collectively as the “Order”.

SECURITY AND SOURCE OF PAYMENT . . . The Bonds are direct obligations of the District, payable from an ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District, as provided in the Order. **Additionally, the District has received approval from the Texas Education Agency for the payment of the principal of and interest on the Bonds to be guaranteed by the Permanent School Fund of Texas which guarantee will automatically become effective when the Attorney General of the State of Texas approves the issuance of the Bonds.** (See “THE BONDS – Permanent School Fund Guarantee” below).

PERMANENT SCHOOL FUND GUARANTEE . . . In connection with the sale of the Bonds, the District has received approval for the guarantee of the Bonds under the Permanent School Fund Guarantee Program (Chapter 45, Subchapter C, of the Texas Education Code, as amended). Subject to satisfying certain conditions discussed under the heading "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein, the payment of the principal of and interest on the Bonds will be absolutely and unconditionally guaranteed by the corpus of the Permanent School Fund of the State of Texas. In the event of default, registered owners will receive all payments due from the corpus of the Permanent School Fund.

OPTIONAL REDEMPTION PROVISIONS OF THE BONDS . . . The District reserves the right, at its option, to redeem the Bonds having stated maturity dates on or after August 1, 2031, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 1, 2030, or any date thereafter, at a price of par plus accrued interest to the date fixed for redemption.

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

NOTICE OF REDEMPTION . . . Not less than 30 days prior to an optional redemption date for the Bonds, a notice of redemption shall be sent by United States mail, first-class, postage prepaid, in the name of the District and at the District's expense, by the Paying Agent/Registrar to each registered owner of a Bond to be redeemed in whole or in part at the address of the registered owner appearing on the Security Register at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED WILL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION WILL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF WILL CEASE TO ACCRUE.

With respect to any optional redemption of the Bonds, unless certain prerequisites to such redemption required by the Order have been met and moneys sufficient to pay the redemption price of the Bonds to be redeemed shall have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may state that said redemption is conditional upon the satisfaction of such prerequisites and receipt of such moneys by the Paying Agent/Registrar on or prior to the date fixed for such redemption, or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not satisfied and/or sufficient moneys are not received, such notice shall be of no force and effect, the District shall not redeem such Bonds and the Paying Agent/Registrar shall give notice, in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

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

BOOK-ENTRY-ONLY SYSTEM . . . This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by DTC, New York, New York, 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 Co-Financial Advisors, and the Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered 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 certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, 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 Standard & Poor's rating of "AA+". The DTC Rules applicable to its Participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

Redemption proceeds, principal, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, security certificates for each maturity of the Bonds are required to be printed and delivered. The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, security certificates for each maturity of the Bonds will be printed and delivered to DTC and the Bonds will be subject to the transfer, exchange and registration provisions as set forth in the Order and summarized under "- Transfer, Exchange and Registration" below.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District, the Co-Financial Advisors, and the Underwriters believe to be reliable, but neither of the District, the Co-Financial Advisors, nor the Underwriters take responsibility for the accuracy thereof.

USE OF CERTAIN TERMS IN OTHER SECTIONS OF THIS OFFICIAL STATEMENT . . . In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, payment or notices that are to be given to registered owners under the Order will be given only to DTC.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is UMB Bank, Austin, Texas. In the Order, the District retains the right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company or financial institution or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

In the event the Book-Entry-Only System should be discontinued, interest on the Bonds will be paid to the registered owners appearing on the Security Register at the close of business on the Record Date (hereinafter defined), and such interest will be paid (i) by check sent by United States mail, first-class, postage prepaid to the address of the registered owner recorded in the Security Register or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of and premium, if any, on the Bonds will be paid to the registered owner at the stated maturity or, upon prior redemption, upon presentation and surrender to the designated payment/transfer office of the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, payments of principal on the Bonds and interest on the Bonds will be made as described in " - Book-Entry-Only System," above.

SUCCESSOR PAYING AGENT/REGISTRAR . . . The District reserves the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new Paying Agent/Registrar must accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor paying Agent/Registrar selected by the District shall be a commercial bank, a trust company, financial institution, or other entity duly qualified and legally authorized to serve and perform the duties of Paying Agent/Registrar for the Bonds.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred, assigned and exchanged on the Security Register only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange will be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated payment/transfer office of the Paying Agent/Registrar, or sent by United States mail, first-class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer will be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "THE BONDS - Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. Neither the District nor the Paying Agent/Registrar will be required to transfer or exchange any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer will not be applicable to an exchange by the registered owner of the uncalled balance of a Bond called for redemption in part.

RECORD DATE FOR INTEREST PAYMENT . . . The record date ("Record Date") for determining the person to whom the interest is payable on the Bonds on any interest payment date means the close of business on the fifteenth (15th) calendar day of the preceding month.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date", which shall be 15 days after the Special Record Date) will be sent at least five business days prior to the Special Record Date by United States mail, first-class, postage prepaid, to the address of each holder of a Bond appearing on the Security Register at the close of business on the last business day next preceding the date of mailing of such notice.

MUTILATED, DESTROYED, LOST, OR STOLEN BONDS . . . The District has agreed to replace mutilated, destroyed, lost, or stolen Bonds upon surrender of the mutilated Bonds to the Paying Agent/Registrar, or receipt of satisfactory evidence of such destruction, loss, or theft, and receipt by the District and Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The District may require payment of taxes, governmental charges, and other expenses in connection with any such replacement.

DEFEASANCE OF BONDS . . . The Order provides for the defeasance of the Bonds when payment of the principal amount of and interest on the Bonds to their due date (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with the Paying Agent/Registrar, or a trust company or commercial bank authorized to serve as Escrow Agent, (a) cash in an amount sufficient to make such payment or (b) pursuant to an escrow or trust agreement, cash and/or (i) direct non-callable 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 that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; and (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 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, the principal 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 money, if any, held in such escrow, will be sufficient to provide for the timely payment of the principal of and interest on such Bonds to their due date. Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding obligations for purposes of applying any limitation on indebtedness or for purposes of taxation.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of Bonds have been made as described above, all rights of the District to initiate proceedings to call such Bonds for redemption or take any other action amending the terms of such Bonds are extinguished; provided, however, that the right to call such Bonds for redemption is not extinguished if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call such Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the respective 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.

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

AMENDMENTS . . . The District may amend the Order, without the consent of or notice to any registered owners, in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then Outstanding, amend, add to, or rescind any of the provisions of the Order; except that, without the consent of the registered owners of all of the Outstanding Bonds, no such amendment, addition, or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any Bond is due and payable, reduce the principal amount 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 for consent to any amendment, addition, or rescission.

BONDHOLDERS' REMEDIES . . . The Order does not specify events of default with respect to the Bonds. If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due and the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, or the District defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, the registered owners may seek a writ of mandamus to compel the District or District officials to carry out the legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the Bonds or the Order and the District's obligations are not uncertain or disputed, as well as to enforce the rights of payment under the Permanent School Fund Guarantee. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia* 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the United States Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and by general principles of equity which permit the exercise of judicial discretion.

SOURCES AND USES OF BOND PROCEEDS . . . Proceeds from the sale of the Bonds are expected to be expended as follows:

Sources:

Par Amount of the Bonds	\$ 255,215,000.00
Premium	46,638,701.75
Total Sources of Funds	<u>\$ 301,853,701.75</u>

Uses:

Project Fund	\$ 300,000,000.00
Costs of Issuance	773,970.59
Underwriters' Discount	1,079,731.16
Total Uses of Funds	<u>\$ 301,853,701.75</u>

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 the State 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 (hereinafter defined)) that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. These include, for example, the issuance of Executive Order GA-18, which among other things, closed public and private schools throughout the State to in-person classroom attendance through the end of the 2019-2020 school year. Subsequent executive orders have been enacted and were aimed at gradually lifting restrictions that were aimed to slow the spread of the Pandemic. However, recent spikes in the number of Covid-19 cases in the State have resulted in the Governor tightening certain restrictions on activities and pausing future phases of reopening. TEA has released guidelines and suggestions for Texas school districts to follow for the 2020-2021 school year in order to receive attendance-based funding and instruct students during the Pandemic. According to the TEA, school districts can opt either a synchronous instruction method, where all participants in virtual classes will need to be present at the same time, or an asynchronous method, which is a self-paced method with periodic instruction from teachers and preassigned work. Both virtual instruction methods will earn school districts full-day funding with some exceptions. Asynchronous instruction requires students to be hands on and requires teachers to engage with students virtually once a day to check for attendance and secure attendance-based funding. The District has elected an asynchronous method for the 2020-2021 school year.

On July 7, 2020, TEA issued public planning health guidance to support school systems in planning for the 2020-2021 school year, addressing on campus and virtual instruction, administrative and extracurricular activities, and school visits. Within the guidance, TEA instructs schools to provide parental and public notices of the school district's plan to follow in order to mitigate COVID-19 within their facilities and confirms the attendance requirements for promotion (which may be completed by virtual education). The guidance further details screening mechanisms, identification of symptoms, and procedures for confirmed, suspected, and exposed cases. Certain actions, such as notification to health department officials and closure of high-traffic areas, will be required in the instance of confirmed cases. Schools are highly encouraged to engage in mitigation practices promoting health and hygiene consistent with guidelines provided by the Centers for Disease Control and Prevention (including social distancing, facial coverings, frequent disinfecting of all areas, limiting visitations, etc.) to avoid unnecessary exposure to others to prevent the spread of COVID-19.

The 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 PROPERTY TAXATION." 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. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM".

In response to the Pandemic, the District adopted a budget for the 2020/21 fiscal year with a 95% estimated tax collection rate, instead of its typical 99% estimated tax collection rate. The District has maintained its payroll throughout the Pandemic and incurred unanticipated expenses related to

the acquisition of personal protection equipment and other safety measures, including acquisition of hardware to monitor and manage COVID 19. Although these expenses were significant, the District maintains a fund balance that exceeds levels contemplated by its current fund balance policy. In addition, the District expects a substantial portion of the District's COVID-19 related expenses to qualify for reimbursement from federal and state sources, including funds received from the federal government pursuant to the Coronavirus Aid, Relief, and Economic Security (CARES) Act and from the Federal Emergency Management Agency. While the District continues to address the Pandemic and incur additional related expenses, the District intends to maintain its fund balance in accordance with its current fund balance policy; however, the District cannot make any representations regarding its ability to maintain its fund balance in excess of the levels contemplated by its current fund balance policy in future years.

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

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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 "SDBG 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 SDBG 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 SDBG Rules and the CDBG 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 SDBG and CDBG 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 SDBG 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 CDBG Rules provide for an additional 5% reserve of CDBG 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 SDBG 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 SDBG 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 "CDBG Rules"). The CDBG 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 CDBG 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 CDBG 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 CDBG 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 "CDBG Capacity"), which further increased the amount of the CDBG Capacity, beginning with State fiscal year 2018, but that provision of the law does not increase overall Program capacity, it merely allocates capacity between the School District Bond Guarantee Program and the Charter District Bond Guarantee Program. See "Capacity Limits for the Guarantee Program" and "2017 Legislative Changes to the Charter District Bond Guarantee Program." Other factors that could increase the CDBG Capacity include Fund investment performance, future increases in the Guarantee Program multiplier, changes in State law that govern the calculation of the CDBG Capacity, as described below, growth in the relative percentage of students enrolled in open-enrollment charter schools to the total State scholastic census, legislative and administrative changes in funding for charter districts, changes in level of school district or charter district participation in the Program, or a combination of such circumstances.

2017 LEGISLATIVE CHANGES TO THE CHARTER DISTRICT BOND GUARANTEE PROGRAM ... The CDBG Capacity is established by the Act. During the 85th Texas Legislature, which concluded on May 29, 2017, Senate Bill 1480 ("SB 1480") was enacted. The complete text of SB 1480 can be found at <http://www.capitol.state.tx.us/tlodocs/85R/billtext/pdf/SB01480F.pdf#navpanes=0>. SB 1480 modified how the CDBG Capacity will be established under the Act effective as of September 1, 2017, and made other substantive changes to the Act that affects the Charter District Bond Guarantee Program. Prior to the enactment of SB 1480, the CDBG Capacity was calculated as the State Capacity Limit less the amount of outstanding bond guarantees under the Guarantee Program multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population. As of August 31, 2019, the amount of outstanding bond guarantees represented 71.94% of the IRS Limit (which is currently the applicable capacity limit) for the Guarantee Program (based on unaudited data). SB 1480 amended the CDBG Capacity calculation so that the State Capacity Limit is multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population prior to the subtraction of the outstanding bond guarantees, thereby potentially substantially increasing the CDBG Capacity. However, certain provisions of SB 1480, described below, and other additional factors described herein, could result in less than the maximum amount of the potential increase provided by SB 1480 being implemented by the SBOE or otherwise used by charter districts. Still other factors used in determining the CDBG Capacity, such as the percentage of the charter district scholastic population to the overall public school scholastic population, could, in and of itself, increase the CDBG Capacity, as that percentage has grown from 3.53% in September, 2012 to 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 CDBG Capacity will begin with the State fiscal year that commences September 1, 2021 (the State's fiscal year 2022). However, for the intervening four fiscal years, beginning with fiscal year 2018, SB 1480 provides that the SBOE may establish a CDBG Capacity that increases the amount of charter district bonds that may be guaranteed by up to a cumulative 20% in each fiscal year (for a total maximum increase of 80% in fiscal year 2021) as compared to the capacity figure calculated under the Act as of January 1, 2017. However, SB 1480 provides that in making its annual determination of the magnitude of an increase for any year, the SBOE may establish a lower (or no) increase if the SBOE determines that an increase in the CDBG Capacity would likely result in a negative impact on the bond ratings for the Bond Guarantee Program (see "Ratings of Bonds Guaranteed Under the Guarantee Program") or if one or more charter districts default on payment of principal or interest on a guaranteed bond, resulting in a negative impact on the bond ratings of the Bond Guarantee Program. The provisions of SB 1480 that provide for discretionary, incremental increases in the CDBG expire September 1, 2022. If the SBOE makes a determination for any year based upon the potential ratings impact on the Bond Guarantee Program and modifies the increase that would otherwise be implemented under SB 1480 for that year, the SBOE may also make appropriate adjustments to the schedule for subsequent years to reflect the modification, provided that the CDBG Capacity for any year may not exceed the limit provided in the schedule set forth in SB 1480. As a result of SB 1480, the amount of charter district bonds eligible for guarantee in fiscal years 2018, 2019 and 2020 increased by the full 20% increase permitted by SB 1480, which increased the relative capacity of the Charter District Bond Guarantee Program to the School District Bond Guarantee Program for those fiscal years.

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

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

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the “Charter District Reserve Fund”). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10 percent of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20 percent of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However, the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to three percent (3.00%) of the total amount of outstanding guaranteed bonds issued by charter districts. As of 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 "Ratings" 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⁾						
Fiscal Year Ended 8/31	School District Bonds		Charter District Bonds		Totals	
	No. of Issues	Principal Amount	No. of Issues	Principal Amount	No. of Issues	Principal Amount
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⁾ At February 29, 2020 (based on unaudited data, which is subject to adjustment), there were \$87,684,853,251 of bonds guaranteed under the Guarantee Program, representing 3,361 school district issues, aggregating \$85,321,228,251 in principal amount and 54 charter district issues, aggregating \$2,363,625,000 in principal amount. At February 29, 2020, the capacity allocation of the Charter District Bond Guarantee Program was \$4,551,091,422 (based on unaudited data, which is subject to adjustment).

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

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

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

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

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

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

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

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

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

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

2011 AND 2019 CONSTITUTIONAL AMENDMENTS ... On November 8, 2011, a referendum was held in the State as a result of legislation enacted that year that proposed amendments to various sections of the Texas Constitution pertaining to the PSF. At that referendum, voters of State approved non-substantive changes to the Texas Constitution to clarify references to the Fund, and, in addition, approved amendments that effected an increase to the base amount used in calculating the Distribution Rate from the Fund to the ASF, and authorized the SLB to make direct transfers to the ASF, as described below.

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

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

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

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

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

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

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

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

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

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

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

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

On May 13, 2016, the Court issued its opinion in the most recent school finance litigation, *Morath v. The Texas Taxpayer & Student Fairness Coal.*, 490 S.W.3d 826 (Tex. 2016) (“Morath”). The plaintiffs and intervenors in the case had alleged that the Finance System, as modified by the Legislature in part in response to prior decisions of the Court, violated article VII, section 1 and article VIII, section 1-e of the Texas Constitution. In its opinion, the Court held that “[d]espite the imperfections of the current school funding regime, it meets minimum constitutional requirements.” The Court also noted that:

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

POSSIBLE EFFECTS OF 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 would be adversely affected by any such legislation. See “CURRENT PUBLIC SCHOOL FINANCE SYSTEM”.

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

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

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

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

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

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

State Compression Percentage. The “State Compression Percentage” for the State fiscal year ending in 2020 (the 2019-2020 school year) is a statutorily-defined percentage of the rate of \$1.00 per \$100 at which a school district must levy its Tier One Tax Rate to receive the full amount of the Tier One funding to which a school district is entitled. For the State fiscal year ending in 2020, the State Compression Percentage is set at 93% per \$100 of taxable value. Beginning in the State fiscal year ending in 2021, the State Compression Percentage is the lesser of three alternative calculations: (1) 93% or a lower percentage set by appropriation for a school year; (2) a percentage determined by formula if the

estimated total taxable property value of the State (as submitted annually to the State Legislature by the State Comptroller) has increased by at least 2.5% over the prior year; and (3) the prior year State Compression Percentage. For any year, the maximum State Compression Percentage is 93%.

Maximum Compressed Tax Rate. Pursuant to the 2019 Legislation, beginning with the State fiscal year ending in 2021 (the 2020-2021 school year) the Maximum Compressed Tax Rate (the “MCR”) is the tax rate per \$100 of valuation of taxable property at which a school district must levy its Tier One Tax Rate to receive the full amount of the Tier One funding to which the school district is entitled. The MCR is equal to the lesser of three alternative calculations: (1) the school district’s prior year MCR; (2) a percentage determined by formula if the school district experienced a year-over-year increase in property value of at least 2.5%; or (3) the product of the State Compression Percentage for the current year multiplied by \$1.00. However, each year the TEA shall evaluate the MCR for each school district in the State, and for any given year, if a school district’s MCR is calculated to be less than 90% of any other school district’s MCR for the current year, then the school district’s MCR is instead equal to the school district’s prior year MCR, until TEA determines that the difference between the school district’s MCR and any other school district’s MCR is not more than 10%. These compression formulas are intended to more closely equalize local generation of Tier One funding among districts with disparate tax bases and generally reduce the Tier One Tax Rates of school districts as property values increase.

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

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

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

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

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

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

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

Tier One. Tier One funding is the basic level of funding guaranteed to a school district, consisting of a State-appropriated baseline level of funding (the “Basic Allotment”) for each student in “Average Daily Attendance” (being generally calculated as the sum of student attendance for each State-mandated day of instruction divided by the number of State-mandated days of instruction, defined herein as “ADA”). The Basic Allotment is revised downward if a school district’s Tier One Tax Rate is less than the State-determined threshold. The Basic Allotment is

supplemented by additional State funds, allotted based upon the unique school district characteristics and demographics of students in ADA, to make up most of a school district's Tier One entitlement under the Foundation School Program.

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

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

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

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

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

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

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

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

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

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

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

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

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

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE AUSTIN INDEPENDENT SCHOOL DISTRICT

For 2019-2020, the District was designated as an "excess local revenue" district. Accordingly, the District has been required to exercise one of the permitted wealth equalization options. As a district with wealth per student less than the equalized wealth value, the District may benefit in the future by agreeing to accept taxable property or funding assistance from or agreeing to consolidate with a property-rich district to enable such district to reduce its wealth per student to the permitted level.

A district's 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. Pursuant to an agreement with the Texas Education Agency, the District has reduced its wealth per student for the 2019-20 school year by purchasing attendance credits pursuant to the equalization provisions of the State system of public school finance. In the 2018-19 school year, the District paid \$665 million to purchase attendance credits, and the District paid \$618 million in the 2019-20 school year for the purchase of attendance credits. The District estimates it will pay approximately \$606 million to purchase attendance credits in the 2020-21 school year. This is an estimate due to the reduced tax rate collection estimate. The Texas Education Agency has approved the District's election of this option to achieve the equalized wealth level.

As long as the District's wealth per student continues to exceed the maximum permitted level in future school years, the District will be required each year to exercise one or more 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 ratios of taxable property to debt could become diluted. If the District were to detach property voluntarily, a portion of its outstanding debt (including the Bonds) could be assumed by the district to which the property is annexed, in which case timely payment of the Bonds could become dependent in part on the financial performance of the annexing district.

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 July 25, 1959 in accordance with the provisions of Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended.

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

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

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

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

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

Section 45.0031 of the Texas Education Code, as amended, requires a school district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by voters of a school district at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds, collectively, "exempt bonds"), from a tax levied at a rate of \$0.50 per \$100 of assessed valuation before bonds may be issued (the "50-cent Test"). In demonstrating the ability to pay debt service at a rate of \$0.50, a school district may take into account EDA and IFA allotments to the school district, which effectively reduces the school district's local share of debt service, and may also take into account Tier One funds allotted to the school district. If a school district exercises this option, it may not adopt an I&S tax until it has credited to the school district's I&S fund an amount equal to all State allotments provided solely for payment of debt service and any Tier One funds needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Additionally, a school district may demonstrate its ability to comply with the 50-cent Test by applying the \$0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the school district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five (5) years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a school district uses projected future taxable values to meet the 50-cent Test and subsequently imposes a tax at a rate greater than \$0.50 per \$100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Texas Attorney General must find that the school district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the 50-cent Test from a tax rate of \$0.45 per \$100 of valuation. Once the prospective ability to pay such tax has been shown and the bonds are issued, a school district may levy an unlimited tax to pay debt service. Refunding bonds issued pursuant to Chapter 1371, 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 1371 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 a tax rate for the 2019 tax year that exceeds the school district's 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 meeting must be held for the purpose of adopting a budget for the succeeding year. A notice of public meeting to discuss the school district's budget and proposed tax rate must be published in the time, format and manner prescribed in Section 44.004 of the Texas Education Code. Section 44.004(e) of the Texas Education Code provides that a person who owns taxable property in a school district is entitled to an injunction restraining the collection of taxes by the school district if the school district has not complied with such notice requirements or the language and format requirements of such notice as set forth in Section 44.004(b), (c), (c-1), (c-2), and (d), and, if applicable, subsection (i), and if such failure to comply was not in good faith. Section 44.004(e) further provides the action to enjoin the collection of taxes must be filed before the date the school district delivers substantially all of its tax bills. A school district that elects to adopt a tax rate before the adoption of a budget for the fiscal year that begins in the current tax year may adopt a tax rate for the current tax year before receipt of the certified appraisal roll, so long as the chief appraiser of the appraisal district in which the school district participates

has certified to the assessor for the school district an estimate of the taxable value of property in the school district. If a school district adopts its tax rate prior to the adoption of its budget, both the no-new-revenue tax rate and the Voter-Approval Tax Rate of the school district shall be calculated based on the school district's certified estimate of taxable value. A school district that adopts a tax rate before adopting its budget must hold a public hearing on the proposed tax rate followed by another public hearing on the proposed budget rather than holding a single hearing on the two items.

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

AD VALOREM PROPERTY TAXATION

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

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

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

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

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

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

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

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

LEVY AND COLLECTION OF TAXES . . . The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%)

regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the District. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers. Furthermore, the District may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances.

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

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

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

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

THE PROPERTY TAX CODE AS APPLIED TO 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 \$15,000 local option exemption to disabled persons and an additional \$25,000 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; minimum exemption of \$5,000.

See Table 1 for a listing of the amounts of the exemptions described above.

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

The District does not tax nonbusiness personal property; and Travis County Tax Office collects taxes for the District.

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

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

The District currently has adopted a tax abatement policy.

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TABLE 1 – VALUATION, EXEMPTIONS AND TAX SUPPORTED DEBT

2020 Market Valuation Established by Travis Central Appraisal District ⁽¹⁾		\$ 166,263,647,484
Less Exemptions/Reductions at 100% Market Value:		
Agricultural Valuation	\$ 325,264,561	
Homestead Cap	2,828,210,531	
Homestead	2,893,837,525	
Over 65	1,195,364,438	
Disabled Persons & Veterans	386,799,927	
Exempt Property	20,688,982,791	
Prorated Exempt Property	229,910,988	
Historical	293,291,370	
Low Income Housing	43,008,723	
Pollution Control	25,264,190	
Leased Vehicles	326,930	
Solar	20,704,833	28,930,966,807
2020 Taxable Assessed Valuation		\$ 137,332,680,677
Deduct: Loss of Value for Over 65 Frozen Accounts		12,815,755,189
2020 Taxable Assessed Valuation (after freeze)		<u>\$ 124,516,925,487</u>
Debt Payable from Ad Valorem Taxes (as of September 23, 2020) ⁽²⁾⁽³⁾⁽⁴⁾		
Outstanding Unlimited Tax Bonds		\$ 1,032,031,060
The Bonds		255,215,000
Total Ad Valorem Tax Obligations		<u>\$ 1,287,246,060</u>
Interest and Sinking Fund Balance (as of 6-30-2020)		\$ 138,245,892
Ratio Funded Tax Supported Net Debt to Taxable Assessed Valuation (after freeze)		1.03%
Austin ISD 2019-2020 Enrollment	79,985	
2020 Estimated Population	1,334,310	
Per Capita Taxable Assessed Valuation	\$93,319	
Per Capita Net Funded Debt	\$965	
Land Area	230 Square Miles	

⁽¹⁾ On February 12, 2020, Travis Central Appraisal District announced that it will not be reappraising residential properties for the 2020 tax year.

⁽²⁾ Includes the Bonds.

⁽³⁾ Includes Qualified Zone Academy Bonds ("QZAB"), Series 2006, and Series 2008.

⁽⁴⁾ Excludes the District's Commercial Paper Notes, Series A, which may be issued from time to time up to an aggregate principal amount of \$150 million.

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TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY⁽¹⁾

Category	Taxable Appraised Value for Year Ended					
	2020 ⁽²⁾		2019		2018	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 72,593,570,668	43.66%	\$ 67,988,627,270	44.63%	\$ 62,207,172,475	44.72%
Real, Residential, Multi-Family	24,991,411,632	15.03%	22,568,199,349	14.82%	20,325,657,882	14.61%
Real, Vacant Lots/Tracts	1,660,988,201	1.00%	1,438,318,569	0.94%	1,270,028,625	0.91%
Real, Acreage (Land Only)	328,730,708	0.20%	353,561,486	0.23%	336,208,586	0.24%
Real, Farm and Ranch Improvements	279,611,427	0.17%	243,751,933	0.16%	281,652,683	0.20%
Real, Commercial/Industrial	38,624,233,972	23.23%	35,111,150,907	23.05%	30,981,316,670	22.27%
Real and Tangible Personal, Utilities	543,706,301	0.33%	547,316,440	0.36%	733,796,051	0.53%
Tangible Personal, Commercial/Industrial	5,298,080,282	3.19%	5,097,457,068	3.35%	4,831,395,736	3.47%
Mobile Homes	50,960,912	0.03%	48,897,056	0.03%	50,815,645	0.04%
Inventory	929,983,878	0.56%	537,635,797	0.35%	501,737,145	0.36%
Totally Exempt Property	20,962,369,504	12.61%	18,391,636,435	12.07%	17,585,801,712	12.64%
Total Appraised Value Before Exemptions	\$ 166,263,647,484	100.00%	\$ 152,326,552,309	100.00%	\$ 139,105,583,210	100.00%
Less: Total Exemptions/Reductions	(41,746,721,996)		(38,418,833,363)		(35,883,940,598)	
Less: Adjustments	-		(198,407)		(275,061)	
Total Appraised Value After Exemptions	<u>\$ 124,516,925,487</u>		<u>\$ 113,907,520,539</u>		<u>\$ 103,221,367,551</u>	

Category	Taxable Appraised Value For Year Ended			
	2017		2016	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 57,526,632,368	45.25%	\$ 51,845,342,494	47.17%
Real, Residential, Multi-Family	18,057,815,929	14.20%	15,100,813,328	13.74%
Real, Vacant Lots/Tracts	1,202,626,203	0.95%	1,026,708,971	0.93%
Real, Acreage (Land Only)	340,481,813	0.27%	331,885,298	0.30%
Real, Farm and Ranch Improvements	249,303,565	0.20%	228,028,621	0.21%
Real, Commercial/Industrial	28,133,399,279	22.13%	22,951,983,420	20.88%
Real and Tangible Personal, Utilities	483,553,880	0.38%	577,865,686	0.53%
Tangible Personal, Commercial/Industrial	4,779,030,500	3.76%	4,676,556,132	4.25%
Mobile Homes	51,626,129	0.04%	53,747,635	0.05%
Inventory	478,087,375	0.38%	401,414,983	0.37%
Totally Exempt Property	15,826,080,323	12.45%	12,714,081,479	11.57%
Total Appraised Value Before Exemptions	\$ 127,128,637,364	100.00%	\$ 109,908,428,047	100.00%
Less: Total Exemptions/Reductions	(33,088,912,199)		(28,270,926,682)	
Less: Adjustments	(967,198,664)		(616,698,656)	
Total Appraised Value After Exemptions	<u>\$ 93,072,526,501</u>		<u>\$ 81,020,802,709</u>	

⁽¹⁾ Source: As reported by the Travis Central Appraisal District on the District's annual State property tax reports. The appraised values shown are calculated at the beginning of each tax year (i.e. calendar year) and are subject to appeal and therefore may change.

⁽²⁾ Source: Travis Central Appraisal District. The total values are dated as of July 31, 2020. On February 12, 2020, Travis Central Appraisal District announced that it will not be reappraising residential properties for the 2020 tax year.

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TABLE 3 - VALUATION AND TAX SUPPORTED DEBT HISTORY

Year Ended 12/31 ⁽¹⁾	Estimated Population ⁽²⁾	Taxable Assessed Valuation ⁽³⁾	Taxable Assessed Valuation Per Capita	Tax Supported Debt Outstanding at End of Year ⁽⁵⁾	Ratio of Tax Supported Debt to Taxable Assessed Valuation	Funded Debt Per Capita
2016	1,209,415	\$ 81,020,802,709	\$ 66,992	\$ 882,082,966	1.09%	\$ 729
2017	1,242,674	93,072,526,501	74,897	1,032,623,287	1.11%	831
2018	1,273,741	103,221,367,551	81,038	982,756,549	0.95%	772
2019	1,304,311	113,907,520,539	87,332	1,112,957,692	0.98%	853
2020	1,334,310	124,516,925,487 ⁽⁴⁾	93,319	1,287,246,060 ⁽⁶⁾	1.03%	965

⁽¹⁾ The District's fiscal year ends on June 30. Due to timing of tax collection receipts, the District budgets for its debt service payments incurred during the time period of September 1 through August 31, therefore, debt information is provided on a calendar year basis.

⁽²⁾ Source: City of Austin Planning & Zoning Department.

⁽³⁾ Source: As reported by the Travis Central Appraisal District on the District's annual State Property Tax Reports. The total values are dated as of January 1, 2019. Such values are subject to change during the ensuing year.

⁽⁴⁾ Source: Travis Central Appraisal District. The total values are dated as of July 31, 2020. On February 12, 2020, Travis Central Appraisal District announced that it will not be reappraising residential properties for the 2020 tax year.

⁽⁵⁾ Excludes the District's Commercial Paper Notes, Series A.

⁽⁶⁾ Includes the Bonds.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Year Ending 12/31 ⁽¹⁾	Tax Rate	Distribution		Tax Levy	% Current Collections	% Total Collections
		General Fund	Interest and Sinking Fund			
2016	\$ 1.20200	\$ 1.07900	\$ 0.12300	\$ 1,039,299,288	98.78%	99.07%
2017	1.19200	1.07900	0.11300	1,183,195,146	98.50%	98.58%
2018	1.19200	1.07900	0.11300	1,312,556,016	98.53%	98.66%
2019	1.19200	1.07900	0.11300	1,448,894,898	98.59%	98.69%
2020	1.12200	1.00900	0.11300	1,499,978,185	97.01%	98.50%

Source: Austin Independent School District.

⁽¹⁾ The District's fiscal year ends on June 30. Due to timing of tax collection receipts, the District budgets for its debt service payments incurred during the time period of September 1 through August 31, therefore, debt information is provided on a calendar year basis.

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TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2020 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Columbia/St. David's Health Care	Health Care	\$ 548,627,142	0.43%
Finley Company	Real Estate	461,952,207	0.37%
CSHV-401 Congress LLC	Real Estate	401,326,200	0.32%
Domain Retail Property Owner LP	Real Estate	374,743,907	0.30%
GW Block 23 Office LLC	Real Estate	359,218,785	0.28%
CSHV-300 West 6th Street LLC	Real Estate	320,553,888	0.25%
Cousins-One Congress Plaza Inc.	Real Estate	314,372,182	0.25%
SVF Northside Austin LP	Real Estate	310,103,000	0.25%
Oracle America Inc.	Technology	303,318,290	0.24%
Domain Mall LLC	Retail	292,002,520	0.23%
		<u>\$ 3,686,218,121</u>	<u>2.92%</u>

Source: The Texas Comptroller of Public Accounts.

TABLE 6 - ESTIMATED OVERLAPPING DEBT

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

Taxing Jurisdiction	Tax Debt as of 9/23/2020	Estimated %	District's Overlapping Funded Debt
Austin ISD	\$ 1,287,246,060 ⁽¹⁾	100.00%	\$ 1,287,246,060 ⁽¹⁾
Austin CCD	404,420,000	52.73%	213,250,666
City of Austin	1,541,220,000	77.49%	1,194,291,378
Shady Hollow MUD	2,175,000	100.00%	2,175,000
Travis County	992,335,000	62.85%	623,682,548
Travis County ESD# 3	1,435,000	97.88%	1,404,578
Travis County Healthcare District	7,285,000	62.85%	4,578,623
Travis County MUD# 3	45,595,783	100.00%	45,595,783
Travis County MUD# 4	7,788,585	100.00%	7,788,585
Travis County MUD# 5	23,350,728	100.00%	23,350,728
Travis County MUD# 6	9,380,775	100.00%	9,380,775
Travis County MUD# 8	10,498,315	100.00%	10,498,315
Total Direct and Overlapping Tax Debt			\$ 3,423,243,038
Ratio of Direct Overlapping Tax Debt to Taxable Assessed Valuation			2.71%
Per Capita Overlapping Debt			\$ 2,565.55

⁽¹⁾ Includes the Bonds.

Source: Municipal Advisory Council of Texas.

DEBT INFORMATION

TABLE 7 – TAX SUPPORTED DEBT SERVICE REQUIREMENTS⁽¹⁾

Year Ended 12/31	Outstanding Debt ⁽¹⁾			The Bonds			Total Debt Service Requirements ⁽¹⁾⁽²⁾	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total		
2020	\$80,926,632	\$54,849,411	\$135,776,042	\$ -	\$ -	\$ -	\$135,776,042	
2021	49,532,170	46,493,853	96,026,023	38,185,000	9,136,713	47,321,713	143,347,736	
2022	51,589,965	44,145,881	95,735,846	7,275,000	8,770,025	16,045,025	111,780,871	
2023	53,894,965	41,739,677	95,634,643	7,640,000	8,406,275	16,046,275	111,680,918	
2024	56,349,965	39,185,459	95,535,425	8,020,000	8,024,275	16,044,275	111,579,700	25.83%
2025	57,072,332	36,497,597	93,569,929	8,420,000	7,623,275	16,043,275	109,613,204	
2026	59,592,332	33,758,735	93,351,067	8,845,000	7,202,275	16,047,275	109,398,342	
2027	63,257,332	30,908,002	94,165,335	9,285,000	6,760,025	16,045,025	110,210,360	
2028	65,442,332	27,876,465	93,318,797	9,750,000	6,295,775	16,045,775	109,364,572	
2029	69,082,332	24,768,347	93,850,679	10,235,000	5,808,275	16,043,275	109,893,954	52.22%
2030	72,257,332	21,455,335	93,712,667	10,750,000	5,296,525	16,046,525	109,759,192	
2031	67,765,000	17,943,204	85,708,204	11,285,000	4,759,025	16,044,025	101,752,229	
2032	61,440,000	14,900,837	76,340,837	11,850,000	4,194,775	16,044,775	92,385,612	
2033	63,985,000	12,243,949	76,228,949	12,440,000	3,602,275	16,042,275	92,271,224	
2034	60,670,000	9,638,129	70,308,129	12,940,000	3,104,675	16,044,675	86,352,804	80.38%
2035	52,450,000	7,165,229	59,615,229	13,455,000	2,587,075	16,042,075	75,657,304	
2036	45,030,000	5,013,780	50,043,780	13,995,000	2,048,875	16,043,875	66,087,655	
2037	36,440,000	3,207,575	39,647,575	14,555,000	1,489,075	16,044,075	55,691,650	
2038	25,650,000	1,739,847	27,389,847	15,140,000	906,875	16,046,875	43,436,722	
2039	20,530,000	821,200	21,351,200	15,420,000	623,000	16,043,000	37,394,200	
2040	-	-	-	15,730,000	314,600	16,044,600	16,044,600	100.00%
	<u>\$ 1,112,957,692</u>	<u>\$ 474,352,513</u>	<u>\$ 1,587,310,204</u>	<u>\$ 255,215,000</u>	<u>\$ 96,953,688</u>	<u>\$ 352,168,688</u>	<u>\$1,923,434,292</u>	

⁽¹⁾ Excludes the District's Commercial Paper Notes, Series A, which may be issued from time to time up to an aggregate principal amount of \$150 million outstanding at any time.

⁽²⁾ Represents debt service payments from September 1 through August 31. The District's fiscal year ends on June 30. Due to timing of tax collection receipts, the District budgets for its debt service payments incurred during the time period of September 1 through August 31.

TABLE 8 - ESTIMATED INTEREST AND SINKING FUND BUDGET PROJECTION

Estimated Tax Supported Debt Service Requirements, Fiscal Year Ending 6/30/2020 ⁽¹⁾		\$ 135,776,042 ⁽²⁾
Interest and Sinking Fund Balance at 06/30/20	\$ 138,245,892	
Estimated Interest and Sinking Fund Tax Levy @ 96% Collections	<u>135,075,961</u>	<u>273,321,853</u>
Estimated Balance as of 6/30/20		<u>\$ 137,545,811</u>

⁽¹⁾ The District's fiscal year ends on June 30. Due to timing of tax collection receipts, the District budgets for its debt service payments incurred during the time period of September 1 through August 31, therefore, debt information is provided on a calendar year basis.

⁽²⁾ Includes the Bonds. Also includes August 15, 2020 payments which have been budgeted for Fiscal Year 2020.

NOTE: Does not include the District's Commercial Paper Notes, Series A.

TABLE 9 - AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS

The District has \$443,188,710 remaining of authorized but unissued unlimited tax bonds from debt from bond elections held on September 11, 2004, May 10, 2008, May 11, 2013, and November 7, 2017 (collectively, the "Elections"). The District expects to continue issuing its Commercial Paper Notes, Series A to provide interim financing for projects authorized by the Elections. The District is authorized to issue such commercial paper notes from time to time up to an aggregate principal amount of \$150 million outstanding at any time. No commercial paper is currently outstanding.

ANTICIPATED ISSUANCE OF UNLIMITED TAX DEBT . . . The District does not anticipate the issuance of additional unlimited tax debt within the next 12 months.

OTHER OBLIGATIONS . . . See "Notes to the Financial Statements" in APPENDIX B - "AUSTIN INDEPENDENT SCHOOL DISTRICT ANNUAL FINANCIAL AND COMPLIANCE REPORT."

PENSION FUND . . . Pension funds for employees of Texas school districts, and any employee in public education in Texas, are administered by the Teacher Retirement System of Texas (the "System"). The individual employees contribute a fixed amount of their salary to the System, currently 6.4% of gross earnings, and the State of Texas contributes funds to the System based on statutory required minimum salary for certified personnel, except any District personnel paid by Federally funded programs. (For more detailed information concerning the retirement plan, see Note 11 in APPENDIX B, "AUSTIN INDEPENDENT SCHOOL DISTRICT ANNUAL FINANCIAL AND COMPLIANCE REPORT").

Other than its participation in TRS-CARE, (see Note 12 in APPENDIX B, "AUSTIN INDEPENDENT SCHOOL DISTRICT ANNUAL FINANCIAL AND COMPLIANCE REPORT"), the District generally does not offer any post-employment retirement benefits and has no liabilities for "Other Post Employment Retirement Benefits" as defined in GASB Statement No. 45.

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FINANCIAL INFORMATION

TABLE 10 - GENERAL FUND REVENUES AND EXPENDITURES

	Fiscal Years Ended June 30, ⁽¹⁾				
	2019	2018	2017	2016	2015
<u>General Revenues:</u>					
Local and Intermediate Sources	\$ 1,322,753,737	\$ 1,200,563,957	\$ 1,082,629,084	\$ 935,923,424	\$ 818,924,395
State Revenues	77,598,882	63,602,481	78,582,376	50,329,570	62,523,918
Federal Program Revenues	38,893,404	30,011,373	28,152,045	26,554,292	24,204,869
Total Revenues	<u>\$ 1,439,246,023</u>	<u>\$ 1,294,177,811</u>	<u>\$ 1,189,363,505</u>	<u>\$ 1,012,807,286</u>	<u>\$ 905,653,182</u>
<u>Expenditures</u>					
Instruction & Instructional Related Services	\$ 421,437,140	\$ 426,632,434	\$ 426,328,039	\$ 398,943,657	\$ 427,924,247
Instructional & School Leadership	88,946,750	91,503,488	93,434,892	63,551,621	76,065,763
Pupil Services	92,209,198	92,694,929	81,760,557	73,611,388	78,114,446
Administration	22,177,532	22,586,230	20,820,960	15,309,497	17,689,045
Support Services	117,383,842	117,469,776	123,970,865	95,636,156	112,918,127
Ancillary Services	7,633,198	8,077,798	6,152,649	4,404,619	4,973,026
Debt Service	476,890	496,029	481,862	372,020	507,085
Capital Outlay	1,806,470	1,485,313	7,254,841	1,957,830	2,212,410
Intergovernmental Charges	678,301,729	550,509,759	411,884,181	274,496,992	188,912,365
Total Expenditures	<u>\$ 1,430,372,749</u>	<u>\$ 1,311,455,756</u>	<u>\$ 1,172,088,846</u>	<u>\$ 928,283,780</u>	<u>\$ 909,316,514</u>
Increase (Decrease) in net assets before transfers and special items	\$ 8,873,274	\$ (17,277,945)	\$ 17,274,659	\$ 84,523,506 ⁽¹⁾	\$ (3,663,332)
<u>Other Financing Sources:</u>					
Other Resources	\$ -	\$ 137,448	\$ 54,642	\$ 20,584	\$ 425,852
Transfers In	-	-	-	-	-
Transfers Out	(5,000,000)	-	(8,000,000)	(10,000,000)	-
Other (Uses)	-	-	(6,898)	-	-
Total Other Financing Sources	<u>(5,000,000)</u>	<u>137,448</u>	<u>(7,952,256)</u>	<u>(9,979,416)</u>	<u>425,852</u>
Net Change in Fund Balances	\$ 3,873,274	\$ (17,140,497)	\$ 9,322,403	\$ 74,544,090	\$ (3,237,480)
Fund Balance - Beginning	284,448,924	301,589,421	292,267,018	217,722,928	220,960,408
Prior Period Adjustment	-	-	-	-	-
Fund Balance - Ending	<u>\$ 288,322,198</u>	<u>\$ 284,448,924</u>	<u>\$ 301,589,421</u>	<u>\$ 292,267,018</u>	<u>\$ 217,722,928</u>

Source: District's Annual Financial Reports.

⁽¹⁾ At the June 22, 2015 Board meeting, the District changed its Fiscal Year End from August 31st to June 30th.

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FINANCIAL POLICIES

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”). The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Government-wide and Fund Financial Statements . . . The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Government activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

Measurement Focus, Basis of Accounting and Basis of Presentation . . . The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue as soon as all eligibility requirements have been met.

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 50 days of the end of the current fiscal period, with the exception of intergovernmental revenues, which have a one-year period of availability. 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, claims and judgments, landfill closure/post closure costs, are recorded only when the liability has matured.

Property taxes, sales taxes, franchise fees and licenses, intergovernmental revenues, certain charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the District receives the cash as the resulting receivables are deemed immaterial.

District Budget Process . . . In 1994, the District began developing the annual budget using a program budget process. The basic premise of the process is to allow the District’s budget to be driven by the instructional programs and the services needed to support the instructional needs of the students.

Four basic objectives guide this process:

- Engagement of teachers, principals, central staff, and community in the budget development process;
- Focus of resources on those programs of the District that are essential to ensure that all students are learning at high levels;
- Prudence in using resources of the District to achieve maximum efficiency and effectiveness; and
- Alignment of resources to meet the needs of the students.

The process includes the establishment of a budget council made up of a cross-section of representatives from teachers, administrators, other employees, PTAs, parents, and others from the community. It is the charge of the budget council to review each program, the related expenditures, the proposed plan for the program, and the resources recommended to successfully achieve the goals of the program. Based on the review, the budget council makes recommendations for programmatic changes that result in additions and reductions to the budget.

The recommendations of the budget council are presented to the Superintendent’s Cabinet. The Cabinet analyzes the recommendations of the budget council, the needs of the students of the District, and develops recommendations that best utilize available resources to achieve the District’s goals.

The Budget is presented to the Board for final revision and adoption.

The budget process and adoption continue to meet the requirements of applicable State laws and District policies.

Fund Balance Position . . . The District’s Board has adopted policy that the District shall maintain an unassigned fund balance sufficiently adequate for fiscal cash liquidity purposes (i.e., fiscal reserve) that will provide for sufficient cash flow to minimize the potential of short-term tax anticipation borrowing. This amount shall be equal to not less than 20 percent of the combined budgeted expenditures of the District’s general fund.

INVESTMENTS

Under State law, the District is authorized to invest in obligations meeting the requirements of the Public Funds Investment Act, Texas Government Code, Chapter 2256, as amended (the "PFIA"), which may include: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the District selects from a list the governing body or designated investment committee of the entity adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the District selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the investing entity's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the District appoints as its custodian of the banking deposits issued for its account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the SEC and operating under Securities and Exchange Commission Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of the PFIA that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, and are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for District deposits, or (ii) certificates of deposits where (a) the funds are invested by the District through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the District as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the District, (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1), require the securities being purchased by the District or cash held by the District to be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) 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; (12) 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 United States or state bank; (13) no-load money market mutual funds registered with and regulated by the SEC that provide the District with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with Federal Securities and Exchange Commission Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); (14) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and either (a) a duration of one year or more and invest exclusively in obligations described under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities; and (15) for bond proceeds, guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract and are pledged to the District and deposited with the District or a third party selected and approved by the District. The District may invest its funds and funds under its control through an eligible investment pool if the board of trustees of the District by rule, order or resolution, as appropriate, authorizes investment in the particular pool. To be eligible, an investment pool must invest the funds it receives from the District in authorized investments permitted by the Act, and must furnish to the District's investment officer or other authorized representative of the District an offering circular or other similar disclosure instrument that contains, at a minimum, the following information: the types of investments in which money is allowed to be invested; the maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool; the maximum stated maturity date any investment security within the portfolio has; the objectives of the pool; the size of the pool; the names of the members of the advisory board of the pool and the dates their terms expire; the custodian bank that will safe keep the pool's assets; whether the intent of the pool is to maintain a net asset value of one dollar and the risk of market price fluctuation; whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secondary source of payment; the name and address of the independent auditor of the pool; the requirements to be satisfied for a District to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the District to invest funds in and withdraw funds from the pool; and the performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios; and the pool's policy regarding holding deposits in cash.

In order to maintain eligibility to receive funds from and invest funds on behalf of the District, an investment pool must also furnish to the investment officer or other authorized representative of the District: investment transaction confirmations; and a monthly report that contains, at a minimum, the following information: (A) the types and percentage breakdown of securities in which the pool is invested; (B) the current average dollar-weighted maturity, based on the stated maturity date, of the pool; (C) the current percentage of the pool's portfolio in investments that have stated maturities of more than one year; (D) the book value versus the market value of the pool's portfolio, using amortized cost valuation; (E) the size of the pool; (F) the number of participants in the pool; (G) the custodian bank that is safekeeping the assets of the pool; (H) a listing of daily transaction

activity of the District participating in the pool; (I) the yield and expense ratio of the pool; (J) the portfolio managers of the pool; and (K) any changes or addenda to the offering circular. In addition to the requirements of its investment policy and any other forms of reporting, a public funds investment pool created to function as a money market mutual fund shall report yield to its investors in accordance with regulations of the federal Securities and Exchange Commission applicable to reporting by money market funds. If the investment pool operates an Internet website, the information in a disclosure instrument or report must be posted on the website. To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must make available to the entity an annual audited financial statement of the investment pool in which the entity has funds invested. If an investment pool offers fee breakpoints based on fund balances invested, the investment pool in advertising investment rates must include either all levels of return based on the breakpoints provided or state the lowest possible level of return based on the smallest level of funds invested.

The District may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with its local funds.

A public funds investment pool created to function as a money market mutual fund must: mark its portfolio to market daily, and, to the extent reasonably possible, stabilize at a \$1 net asset value. If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than 0.995 or greater than 1.005, portfolio holdings shall be sold as necessary to maintain the ratio between 0.995 and 1.005; must have an advisory board composed: (A) equally of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for a public funds investment pool managed by a state agency; or (B) of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for other investment pools; and must be continuously rated no lower than "AAA" or "AAA-m" or at an equivalent rating 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 collateral 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 changes in a market index.

INVESTMENT POLICIES. . . Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for District funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

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

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TABLE 11 – CURRENT INVESTMENTS

As of June 30, 2020, the District’s funds were invested as follows:

Description	Percent of		
	Total	Market Value	Book Value
Lone Star	29.13%	\$ 350,052,687	\$ 350,052,687
Tex Pool	28.31%	340,225,079	340,225,079
Texas CLASS	9.72%	116,769,868	116,769,868
Texas Daily	22.18%	266,584,362	266,584,362
TexStar	0.00%	2,303	2,303
US Bank QZB	0.66%	7,876,785	7,346,791
BLB QZAB	0.48%	5,781,043	5,781,043
Corporate Commercial Paper	6.03%	72,516,737	72,516,737
Savings Account	3.50%	42,018,050	42,018,050
US Treasury Notes	0.00%	-	-
Total	100.00%	\$ 1,201,826,912	\$ 1,201,296,919

Source: Austin Independent School District's.

TexPool is a local government investment pool in the State of Texas. The State Comptroller of Public Accounts oversees TexPool. There is also a TexPool Advisory Board, composed of participants, which advises on TexPool’s investment policy and approves fee increases. The Lone Star Investment Pool is a member owned, member-governed public funds investment pool. It is managed by an eleven member Board of Trustees and the Board is authorized to adopt and maintain bylaws. There is also an Advisory Board composed of participants that gathers and exchanges information from participants relating to the operation of the Pool. TexStar and LOGIC are investment pools created under the Inter-local Cooperation Act and are administered by First Southwest and JP Morgan Asset Management. Texas Class (Texas Cooperative Liquid Assets Securities System Trust) is a pooled investment program administered by the Public Trust Advisors, LLC. Texas Class is governed by the Board of Trustees which has appointed an Advisory Board composed of Participants and other persons who are qualified to advise the Trust. TexasTERM was created by and for Texas local governments to provide investment programs tailored to the needs of Texas cities, counties, school districts and other public investors. TexasTERM portfolios seek to provide these investors with safety, flexibility and competitive yields. TexasDAILY, a portfolio offered by TexasTERM, is a money market portfolio with daily liquidity. For those pools measured at amortized cost, management is not aware of the presence of any limitations or restrictions on withdrawals such as redemption notice periods, maximum transactions amounts, or the investment pool’s authority to impose liquidity fees or redemption dates.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislature proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the District or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the District or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the District and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the District or the Beneficial Owners to incur significant expense.

OTHER INFORMATION

RATINGS. . . "The Bonds have been rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") by virtue of the Permanent School Fund Guarantee of Texas. Bonds guaranteed by the Permanent School Fund of the State of Texas are generally rated "Aaa" by Moody's." The currently outstanding unenhanced, tax supported debt of the District has an underlying rating of "Aaa" by Moody's, "AA+" by S&P Global Ratings ("S&P") and "AA+" by Fitch. The Bonds received an underlying rating of "Aaa" by Moody's. The District's currently outstanding bonds that are guaranteed by the Permanent School Fund are also rated "Aaa" by Moody's, "AAA" by Fitch and "AAA" by S&P by virtue of the guarantee of the Permanent School Fund. An explanation of such ratings may be obtained from Moody's, S&P and Fitch. The ratings will reflect only the view of such organization at the time such rating is given, and the District will make no representation as to the appropriateness of the ratings. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating company if, in the judgment of such rating company, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

LITIGATION. . . On the date of delivery of the Bonds to the Underwriters, the District will execute and deliver to the Underwriters a certificate to the effect that, except as disclosed herein, no litigation of any nature has been filed or is pending, as of that date, to restrain or enjoin the issuance or delivery of the Bonds or which would affect the provisions made for their payment or security or in any manner question the validity of the Bonds.

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

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE . . . The sale of the Bonds has not been registered under the federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2) thereof; and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction. The District assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS. . . Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code), provides that the Bonds constitute negotiable instruments, and are investment securities governed by Chapter 8, Texas Uniform Commercial Code, notwithstanding any provisions of law or court decision to the contrary, and are legal and authorized investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries, and, and for the sinking

funds of cities, towns, villages, school districts, and other political subdivisions or public agencies 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 (Chapter 2256, Texas Government Code), the Bonds may have to be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. See "OTHER INFORMATION - Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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.

LEGAL MATTERS. . The District will furnish the Underwriters with a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the District, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Orrick, Herrington & Sutcliffe LLP, Austin, Texas, Bond Counsel. Bond Counsel has been retained by and only represents the District. A form of Bond Counsel's opinion appears in Appendix C attached hereto.

Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information in this Official Statement appearing under the captions and subcaptions "PLAN OF FINANCE," "THE BONDS" (except for the information contained in the subcaptions "Permanent School Fund Guarantee," "Book-Entry-Only System," "Bondholders' Remedies" and "Sources and Uses of Bond Proceeds," as to which no opinion is expressed), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM", "TAX RATE LIMITATIONS," "TAX MATTERS," "OTHER INFORMATION - Registration and Qualification of Bonds for Sale," "OTHER INFORMATION - Legal Investments and Eligibility to Secure Public Funds in Texas," and "OTHER INFORMATION - Legal Matters" (except for the last sentence of the second paragraph thereof, as to which no opinion is expressed), and "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance with Prior Undertakings" as to which no opinion is expressed) and such firm is of the opinion that the information contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. The legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by McCall, Parkhurst & Horton LLP, Counsel to the Underwriters.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION. . The financial data and other information contained hereunder have been obtained from the District's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

EFFECTS OF SEQUESTRATION ON CERTAIN OBLIGATIONS . . Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, certain automatic reductions in federal spending took effect as of March 1, 2013. These required reductions in federal spending include a reduction to refundable credits under section 6431 of the Internal Revenue Code (the "Code") applicable to certain qualified bonds. The sequester reduction is applied to amounts claimed by an issuer of such qualified bonds which result in a payment to such issuer on or after March 1, 2013. Under the Budget Control Act of 2011, the Federal subsidies in 2013 were reduced by 8.7%. The Bipartisan Budget Act of 2013, signed by the President on December 26, 2013, extended cuts in those payments to issuers due to sequester of federal expenditures. According to the Bipartisan Budget Act of 2013, sequester for the above interest subsidy payments and other mandatory programs will continue for fiscal years 2014 through 2023. The sequester reduction percentage applied to the payments made to issuers of direct pay bonds in fiscal year 2020 is 5.9%. This percentage applies to all direct credit subsidy payments scheduled to be made on or after October 1, 2019 through and including September 30, 2020 at which point the sequester of such payments is again subject to change. These reductions apply to Build America Bonds, Qualified School Construction Bonds, Qualified Zone Academy Bonds, New Clean Renewable Energy Bonds, and Qualified Energy Conservation Bonds for which an issuer elected to receive a direct credit subsidy pursuant to section 6431 of the Code. The District has previously issued its Unlimited Tax School Building Bonds, Series 2010B (Direct Subsidy- Build America Bonds) (the "Affected Bonds"). It is anticipated that federal payments to the District for such Affected Bonds will be reduced as described above. Pursuant to the order authorizing the issuance of the Affected Bonds, the District is required to make interest and principal payments on the Affected Bonds regardless of whether any federal funding is received. If the sequestration continues, the District may be required to increase ad valorem tax rates in order to pay additional debt service expenses on the Affected Bonds resulting from decreased federal funding. The District can make no prediction as to the length or long-term effects of the sequestration.

CONTINUING DISCLOSURE OF INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and Beneficial Owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events to the MSRB via the EMMA system at www.emma.msrb.org.

ANNUAL REPORTS . . . The District will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under Tables numbered 1 through 5 and 7 through 11 and in Appendix B (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 B or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation and (ii) audited, if the District commissions an audit of such Financial Statements and the audit is completed within the period during which the Financial Statements must be provided. The District will 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 2019. 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. The District will provide the updated information to the MSRB through the Electronic Municipal Market Access ("EMMA") information system in accordance with the Rule.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet website or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by the Rule.

The District's current fiscal year end is June 30. Accordingly, it must provide the Annual Financial Information by December 31 in each year and the Financial Statements by June 30 the following year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

NOTICE OF CERTAIN EVENTS . . . The District will also provide notices of certain events to the MSRB. The District will provide notice in a timely manner not in excess of ten business days after the occurrence of any of the following events, as required by the Rule: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a Financial Obligation of the District or obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the Financial Obligation of the District, any of which reflect financial difficulties. In addition, the District will provide timely notice of any failure by the District to provide annual financial information in accordance with its agreement described above under "Annual Reports".

AVAILABILITY OF INFORMATION . . . The District has agreed to provide the foregoing information only as described above. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org.

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

The District may amend its continuing disclosure agreement 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, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the Outstanding Bonds consent to the amendment or (b) any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders 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 provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "ANNUAL REPORTS" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

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

MISCELLANEOUS

CO-FINANCIAL ADVISORS . . . Estrada Hinojosa & Company, Inc. and RBC Capital Markets, LLC are employed as Co-Financial Advisors to the District in connection with the issuance of the Bonds. The Co-Financial Advisors' fees for services rendered with respect to the sale of the Bonds are contingent upon the issuance and delivery of the Bonds. Estrada Hinojosa & Company, Inc. and RBC Capital Markets, LLC, in their capacity as Co-Financial Advisors, have relied on the opinion of Bond Counsel and have not verified and do not assume any responsibility for the information, covenants, and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

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

UNDERWRITING . . . The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the District at a price equal to the initial offering price to the public as shown on inside cover page of the official statement less an underwriting discount of \$1,079,731.16. The Underwriters' obligation is subject to certain conditions precedent. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such 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 responsibility to investors under 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.

Morgan Stanley & Co. LLC, an underwriter of the Series 2020 Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2020 Bonds.

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.

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 included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the District. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

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

In the Bond Order, the Board authorized the Pricing Officer to approve, and in the Pricing Certificate the Pricing Officer will approve, for and on behalf of the District, (i) the form and content of this Official Statement, and any addenda, supplement, or amendment thereto and (ii) the Underwriters' use of this Official Statement in connection with the public offering and sale of the Bonds in accordance with the provisions of the Rule.

/s/ Patrick Krishock
Pricing Officer
Austin Independent School District

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APPENDIX A

GENERAL INFORMATION REGARDING THE DISTRICT

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THE AUSTIN INDEPENDENT SCHOOL DISTRICT

The District was created in 1955, when all properties and operations of the City of Austin public free school system were transferred from the control of the City's governing body to the District, and all outstanding bonds previously issued by the City of Austin for public free school purposes were assumed by the District.

During a period of several years following the incorporation of the District, several adjoining independent and common school districts were annexed into the District. The outstanding bonds of these school districts were likewise assumed by, and consolidated into the bonded indebtedness of the District.

LOCATION . . . At the present time, the District comprises an area of approximately 230 square miles located entirely within Travis County, Texas. Its boundaries extend several miles beyond the corporate limits of Austin to the north and south, but there are small areas to the east and west where the city limits extend beyond the District boundaries. Because the District is surrounded by other suburban districts, it is likely to remain approximately the same size and configuration for the foreseeable future.

ADMINISTRATION . . . The District operates under policies established by a nine-member Board of Trustees. Seven members of the Board are elected from single member districts and two members are elected at large. All members of the Board are elected for four-year staggered terms. The staff of the District includes 5,793 teachers, 1,111 professional support personnel, 360 campus administrators, 30 central office administrators, 964 educational aides, and 3,189 auxiliary staff.

ENROLLMENT AND FACILITIES . . .

NUMBER AND TYPES OF SCHOOLS

Elementary (PreK Only)	3
Elementary (Grades PreK-K)	1
Elementary (Grades PreK-2)	1
Elementary (Grades PreK-5)	62
Elementary (Grades PreK-6)	3
Elementary (Grades K-5)	10
Elementary (Grades K-6)	4
Elementary (Grades 1-5)	1
Middle Schools (Grades 6-8)	18
Ann Richards School for Young Women (Grades 6-12)	1
International High Schools (Grades 9-12)	1
Senior High Schools (Grades 9-12)	14
Special Campuses	11
Total	130

SPECIAL EDUCATION UNITS

Lucy Read Pre-Kindergarten	1
Rosedale Development Center	1
Jerry Mac Clifton Center	1
Austin State Hospital	1
Homebound	1

ENROLLMENT

Fiscal Year	Peak Enrollment
2009 - 2010	84,245
2010 - 2011	85,273
2011 - 2012	86,124
2012 - 2013	86,233
2013 - 2014	85,014
2014 - 2015	84,191
2015 - 2016	83,270
2016 - 2017	82,766
2017 - 2018	81,346
2018 - 2019	79,985

Source: District's FY19 Audited Financial Statements.

AVERAGE DAILY ATTENDANCE . . . Historical average daily attendance for the District is as follows:

School Year	Average Daily Attendance
2009 - 2010	76,727
2010 - 2011	77,982
2011 - 2012	78,914
2012 - 2013	78,964
2013 - 2014	77,974
2014 - 2015	77,359
2015 - 2016	76,455
2016 - 2017	75,397
2017 - 2018	73,906
2018 - 2019	72,688

Source: Texas Education Agency.

EMPLOYMENT STATISTICS

	Travis County			State of Texas		
	June 2020	June 2019	June 2018	June 2020	June 2019	June 2018
Civilian Labor Force	729,182	739,439	720,561	13,844,386	14,009,283	13,836,874
Total Employment	673,540	719,531	698,300	12,612,804	13,489,259	13,254,102
Total Unemployment	55,642	19,908	22,261	1,231,582	520,024	582,772
Percentage Unemployment	7.6%	2.7%	3.1%	8.9%	3.7%	4.2%

Source: Texas Workforce Commission.

APPENDIX B

AUSTIN INDEPENDENT SCHOOL DISTRICT ANNUAL FINANCIAL AND COMPLIANCE REPORT

For the Fiscal Year Ended June 30, 2019

The information contained in this Appendix consists of excerpts from the Austin Independent School District Annual Financial and Compliance Report for the Fiscal Year Ended June 30, 2019, and is not intended to be a complete statement of the District's financial condition. Reference is made to the complete Report for further information.

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RSM US LLP

Independent Auditor's Report

To the Board of Trustees
Austin Independent School District

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 Austin 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 to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information: Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison Schedule—General Fund, Schedules of the District's Proportionate Share of the Net Pension Liability and Net OPEB Liability, and Schedules of District Contributions for the Pension and OPEB plans, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information: Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Other Supplementary Information, as listed in the table of contents, and the Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Other Supplementary Information and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements, or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Other Supplementary Information and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise of the District's basic financial statements. The Introductory Section and Statistical Section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has 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 assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

RSM US LLP

Austin, Texas
November 4, 2019

Austin Independent School District

Management's Discussion and Analysis June 30, 2019

This section of Austin Independent School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the year ended June 30, 2019. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets plus deferred outflows of resources of the District exceeded its liabilities plus deferred inflows of resources at the close of the year ended June 30, 2019. Net position was \$58.7 million. Net investment in capital assets was \$117.5 million. The District's restricted net position was \$131.2 million. Unrestricted net position was \$(190.0) million.
- During the year, the District's expenses were \$71.2 million less than the \$1,777.6 million generated in taxes and other revenues for governmental activities. Expenses totaled \$1,463.9 million after charges for services and operating grants and contributions (revenue). Total revenue from property taxes, state aid, unrestricted grants and contributions, investment income and miscellaneous revenues is \$1,535.1 million.
- At the end of the current fiscal year, the unassigned fund balance for the general fund was \$270.5 million, or 19% of the total general fund expenditures.
- The District issued \$298 million in bonds during the fiscal year 2018-2019.

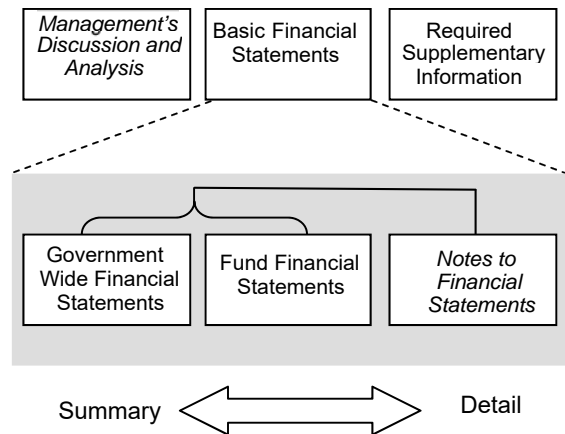
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the government, reporting the District's operations in more detail than the government-wide statements.
- The Governmental Funds statements tell how general government services were financed in the short term, as well as what remains for future spending.
- The Proprietary Fund statements provide information about the District's internal service funds, which are used to accumulate expenses to be charged to the governmental funds.
- Fiduciary Fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-1
Required Components of the
District's Annual Financial Report



Austin Independent School District

Management's Discussion and Analysis June 30, 2019

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of this overview section explains the structure and contents of each of the statements.

Figure A-2 Major Features of the District's Government-Wide and Fund Financial Statements

Type of Statement	Government-Wide	Governmental Funds	Fiduciary Funds
<i>Scope</i>	Entire District's government (except fiduciary funds)	The activities of the District that are not propriety or fiduciary	Instances in which the District is the trustee or agent for someone else's resources
<i>Required Financial Statements</i>	<ul style="list-style-type: none">• Statement of net position• Statement of activities	<ul style="list-style-type: none">• Balance sheet• Statement of revenues, expenditures, and changes in fund balances	<ul style="list-style-type: none">• Statement of fiduciary net position
<i>Accounting Basis and Measurement Focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<i>Type of Asset/Liability Information</i>	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	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included
<i>Type of Inflow/Outflow Information</i>	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 year-end, expenditures when goods or services have been received and payment is due during the year or soon thereafter	Agency funds do not report revenue and expenditures

Government-wide statements: The government-wide statements report information about the District as a whole, using accounting methods similar to those used by private-sector companies. The statement of net position includes all the government's assets, deferred outflows of resources, liabilities and deferred inflows of resources. All the current year's revenues and expenses are accounted for in the statement of activities on the accrual basis, regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how they have changed. Net position, the difference between the District's assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, are one way to measure the District's financial position.

- Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating.
- To assess the overall financial health of the District, one must consider additional factors, such as changes in the District's tax base.

Austin Independent School District

Management's Discussion and Analysis June 30, 2019

The government-wide financial statements of the District include the governmental activities. All the District's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services, and general administration. Property taxes and grants finance most of these activities.

Fund financial statements: The fund financial statements provide more detailed information about the District's major funds, rather than the District as a whole. Funds are a governmental accounting tool the District uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law and by bond covenants.
- The Board of Trustees establishes other funds to control and manage resources for specific purposes or to delineate the use of certain taxes and grants.

The District has three kinds of funds:

- **Governmental Funds:** Most of the District's basic services are included in Governmental Funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) on the balances left at year-end that are available for spending. Consequently, the Governmental Funds statements provide a detailed short-term view that helps determine the availability of financial resources to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the Governmental Funds statement, or on the subsequent page, that explains the relationship (or differences) between them. These include debt financing and capital projects.
- **Proprietary Funds:** Services for which the District charges internal departments a fee are generally reported in Proprietary Funds. Proprietary Funds, like the government-wide statements, provide both long and short-term financial information. In the District, internal service funds are used to report activities that provide supplies and services for the District's other programs and activities, such as the District's Self Insurance Fund.
- **Fiduciary Funds:** The District is the trustee, or fiduciary, for certain funds. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

Required supplementary information: The basic financial statements are followed by a section of required supplementary information. This section includes a Budgetary Comparison Schedule—General Fund, Schedules of the District's Proportionate Share of the Net Position Liability and Net OPEB Liability and the Schedules of the District's Contributions for the Pension and OPEB plans. The Budgetary Comparison Schedule—General Fund provides detailed comparisons of expenditures and intra-agency transfers at the legal level of control. Comparisons can be made between the original budget, final budget and actual costs for the year. The Schedules of the District's Proportionate Share of the Net Position Liability and Net OPEB Liability and Schedules of the District's Contributions for the Pension and OPEB plans disclose covered payroll and related comparison information, as of June 30, 2019.

Austin Independent School District

Management's Discussion and Analysis June 30, 2019

Financial Analysis of the District as a Whole

Net position: The District's combined net position was approximately \$58.7 million at June 30, 2019. The following is a schedule of the District's net position:

Table A-1
The District's Net Position
(In Millions of Dollars)

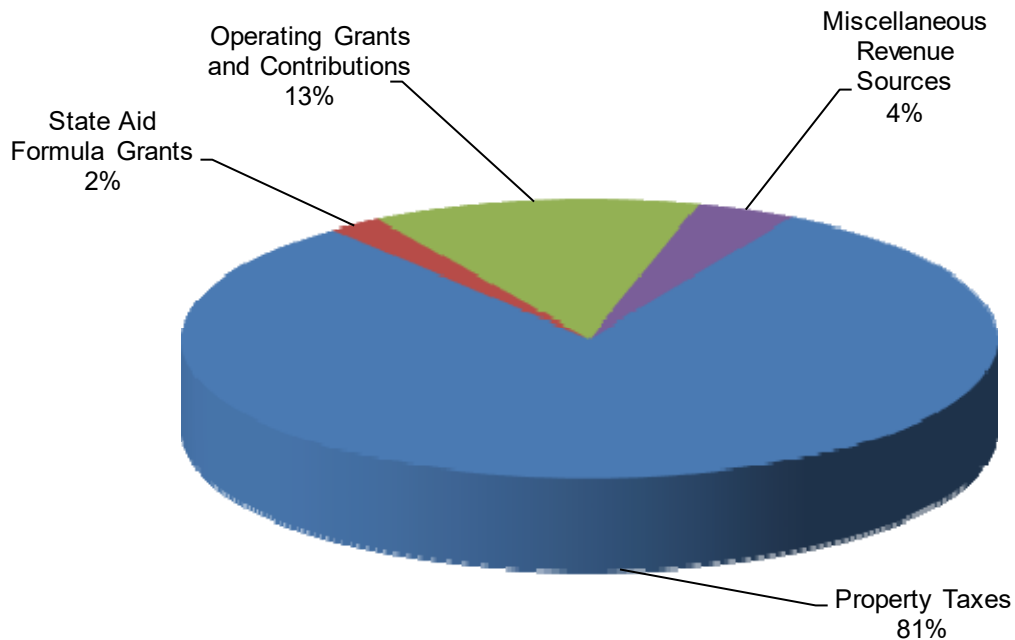
	Governmental Activities		Percentage Change
	2019	2018	
Current and other assets	\$ 1,076.7	\$ 798.0	35%
Capital assets	1,161.1	1,049.3	11%
Total assets	2,237.8	1,847.3	21%
Deferred loss on refunding	21.4	23.0	(7%)
Deferred outflow for TRS pension liability	61.5	14.4	327%
Deferred outflow for TRS OPEB liability	26.5	4.0	561%
Total deferred outflows of resources	109.4	41.4	164%
Current liabilities	423.0	319.4	32%
Long-term liabilities	1,705.4	1,421.9	20%
Total liabilities	2,128.4	1,741.3	22%
Deferred inflow for TRS pension liability	42.9	37.2	15%
Deferred inflow for TRS OPEB liability	117.2	122.8	(5%)
Total deferred inflows of resources	160.1	160.0	0%
Net position:			
Net investment in capital assets	117.5	64.3	83%
Restricted	131.2	124.0	6%
Unrestricted (deficit)	(190.0)	(200.8)	(5%)
Total net position	\$ 58.7	\$ (12.5)	(569%)

Austin Independent School District

Management's Discussion and Analysis June 30, 2019

Changes in net position: The District's total revenues were \$1,777.6 million. A significant portion, 81%, of the District's revenue comes from taxes; 2% comes from state aid formula grants, 13% is related to other operating grants and contributions; the remaining 4% comes from miscellaneous revenue sources.

**Figure A-3
Sources of Revenues for Fiscal Year 2019**



The total cost of all programs was \$1,706.4 million and \$1,307.7 million for the years ended June 30, 2019 and 2018, respectively. When adjusted for the \$669.3 million in expenses in 2019 and \$544.0 million in expenses in 2018 related to Chapter 41 and other pass-through costs, 70.2% and 68.7%, respectively, of these costs are for instructional and student services.

The total of all program and service costs for school leadership was 4.9% in 2019 and 4.5% in 2018, and 6.0% in 2019 and 7.6% in 2018 for plant maintenance and operations (including security services).

Austin Independent School District

**Management's Discussion and Analysis
June 30, 2019**

Table A-2
Changes in the District's Net Position
(In Millions of Dollars)

	Governmental Activities		Percentage
	2019	2018	Change
Revenues			
Program revenues:			
Charges for services	\$ 9.6	\$ 7.7	25%
Operating grants and contributions	233.0	34.8	569%
General revenues:			
Property taxes	1,436.6	1,304.3	10%
State aid—formula	37.7	27.4	37%
Investment earnings	19.9	11.6	72%
Other	40.8	48.9	(17%)
Total revenues	1,777.6	1,434.7	24%
Expenses			
Instruction and instructional related	530.3	376.7	41%
Instructional resources and media related	12.3	9.8	25%
Curriculum and staff development	28.1	14.2	98%
Instructional leadership	19.0	14.9	27%
School leadership	64.3	44.2	45%
Guidance, counseling and evaluation services	33.4	22.1	51%
Social work services	7.5	5.2	44%
Health services	13.6	12.7	7%
Student transportation	39.2	36.4	8%
Food services	44.5	29.1	53%
Extracurricular activities	19.6	18.5	6%
General administration	35.1	(10.8)	(425%)
Plant maintenance and operations	88.4	87.6	1%
Security and monitoring services	13.5	11.3	20%
Data processing services	24.0	36.8	(35%)
Community services	23.3	15.3	52%
Debt service	32.0	33.2	(3%)
Payments to fiscal agent/member districts—shared service	669.3	544.0	23%
Other governmental charges	9.0	6.5	38%
Total expenses	1,706.4	1,307.7	30%
Change in net position	71.2	127.0	(44%)
Net position at beginning of period, as previously reported	(12.5)	375.7	(103%)
Restatement required by GASB Statement No. 75	-	(515.2)	
Net position at beginning of period, as restated	(12.5)	(139.5)	
Net position at end of period	\$ 58.7	\$ (12.5)	(570%)

Table A-3 presents the cost of the District's largest functions, as well as each function's net cost (total costs less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded directly by state revenues, as well as local tax dollars.

Austin Independent School District

Management's Discussion and Analysis June 30, 2019

- The cost of all governmental activities in 2019 was \$1,706.4 million and, in 2018 was \$1,307.7 million.
- However, the amount the District's taxpayers paid for these activities through property taxes was only \$1,436.6 million in 2019 and \$1,304.3 million in 2018.
- Those who directly benefited paid some costs of the programs (\$9.6 million in 2019 and \$7.7 million in 2018), with grants and contributions (\$233.0 million in 2019 and \$34.8 million in 2018) sharing the load.

Table A-3
Net Cost of Selected District Functions
(In Millions of Dollars)

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2019	2018		2019	2018	
Instruction	\$ 570.7	\$ 400.7	42%	\$ 468.5	\$ 410.2	14%
School leadership	83.3	59.1	41%	68.6	61.3	12%
Plant maintenance and operations	88.4	87.6	1%	82.0	87.5	(6%)

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

At the end of the current fiscal year, the District's Governmental Funds reported combined ending fund balances of \$732.5 million. Approximately 37% of this total amount (\$270.5 million) is available for spending at the government's discretion (General Fund unassigned fund balance). The remainder of the fund balance is nonspendable, restricted, or assigned to indicate it is not available for new spending because it has already been committed for various purposes, including capital projects, repayment of debt, food service, wastewater plant and investment in inventories.

The General Fund is the primary operating fund of the District. At the end of the current fiscal year, the fund balance of the General Fund was \$288.3 million. Of this amount, \$17.3 million is assigned for various projects and \$0.5 million is nonspendable for investment in inventories. As a measure of the General Fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. The total General Fund balance represents approximately 20% of total fund expenditures. The fund balance increased by \$3.9 million during the current fiscal year period.

The Debt Service Fund had an increase in fund balance of \$3.5 million during the current year to bring the year end fund balance to \$138.5 million. The increase is primarily the result of current year bond proceeds, offset by principal and interest payments as well as transfers to the capital projects fund.

Austin Independent School District

Management's Discussion and Analysis June 30, 2019

The Capital Projects Fund accounts for the construction of school buildings and improvements. At the end of the current fiscal year, the fund balance was \$294.5 million, resulting from \$365.0 million in transfers from the general fund and debt service fund used to retire \$60.0 million in commercial paper during the year, an additional \$10.5 million in sales of buildings, as well as \$151.0 million related to construction costs.

General Fund Budgetary Highlights (See Exhibit G-1)

Over the course of the year, the District revised the General Fund annual revenue budget for changes in student counts, property tax assessed valuations adjustments, revised state formula funding amounts, and federal program revenues. The total change was \$23.4 million or 2% of total revenues. The expenditure budget was revised during the year to refine estimates after the year had started. Significant changes occurred to the following functional areas of spending: Transportation, Curricular/Extracurricular Activities, Capital Outlay and Contracted Instructional Services between Schools (Recapture). The total change was \$18.2 million or 1% of total expenditures.

Revenues

An unfavorable variance in the revenues was primarily due to the following:

- Local property tax collections were approximately \$13.8 million less than anticipated due to lower projected collections.
- Other local revenues were approximately \$2.0 million more than anticipated projections.
- State revenues were approximately \$2.6 million more than anticipated projections.
- Federal revenues were approximately \$14.7 million higher than anticipated due to a second annual revenue payment for Medicaid reimbursement in the amount of \$16.2 million at the end of June. This was an accelerated payment in order to reduce the lag time from two years to only one year in arrears.

Expenditures

A favorable variance in the expenditures was primarily due to the following:

- Employee expenditures, including the related TRS on behalf payments, were \$11.7 million less than budgeted amounts primarily due to conservative budgeting practices where an allocated FTE is budgeted for the entire year and not reduced for vacancies in the position.
- The District spent \$1.4 million less for facilities maintenance and operations than budgeted.
- The District spent \$6.3 million less for other contracted services than budgeted.
- The District spent \$3.3 million less for supplies and materials than budgeted.
- The District spent \$0.5 million less for capital outlay than budgeted.

Austin Independent School District

Management's Discussion and Analysis June 30, 2019

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets: At June 30, 2019, the District had invested \$1,161.1 million in a broad range of capital assets, including land, equipment, buildings, vehicles and capital lease assets. (See Table A-4 below.)

Table A-4
District's Capital Assets
(In Millions of Dollars)

	Governmental Activities		Percentage Change
	2019	2018	
Land	\$ 88.5	\$ 87.8	1%
Buildings and improvements	1,041.9	934.2	12%
Furniture fixtures and equipment	30.7	27.3	12%
	<u>\$ 1,161.1</u>	<u>\$ 1,049.3</u>	11%

During the District's fiscal year 2018-2019, capital spending totaled \$184.6 million in building and improvements and capital equipment. At June 30, 2019, the District is committed under contracts in the amount of approximately \$272 million. The commitments are for remaining work on various construction projects. These commitments are payable from the Capital Projects Fund. For more detailed information on capital assets, refer to Note 7 of the notes to the basic financial statements.

Debt administration: At June 30, 2019, the District had \$1,361.5 million in long-term debt outstanding, as shown in Table A-5 (below). Additionally, the District is approved for the issuance of Austin Independent School District Commercial Paper Notes, Series A (Commercial Paper) in an aggregate principal amount not to exceed \$150,000,000 for the purpose of funding new construction and rehabilitation and renovation of existing facilities. The Commercial Paper notes mature in not more than 270 days from issuance and are supported by a standby letter of credit with Sumitomo Mitsui Banking Corporation, acting through its New York Branch. The Commercial Paper is secured by a pledge of the proceeds of future general obligation bonds or loans issued by the District to pay the principal of the Commercial Paper or proceeds from ad valorem property taxes. The District had no outstanding Commercial Paper as of June 30, 2019.

Table A-5
District's Long-Term Debt
(In Millions of Dollars)

	Governmental Activities		Percentage Change
	2019	2018	
Bonds payable	\$ 1,359.4	\$ 1,103.7	23%
Notes and leases payable	2.1	2.5	(16%)
	<u>\$ 1,361.5</u>	<u>\$ 1,106.2</u>	23%

For more information on long-term debt, refer to Note 8 of the notes to the basic financial statements.

Austin Independent School District

Management's Discussion and Analysis June 30, 2019

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Many factors were considered by the District's administration during the process of developing the fiscal year 2019-2020 budget. Among them:

- Employee salary increase of 7% for teachers, counselors and librarians with more than five years of experience and 6% for all other staff
- Fiscal year 2019-2020 fund balance carry forward of \$288.3 million
- Contracted instructional services between schools (Local Revenue in Excess of Entitlement, previously known as Recapture) is estimated to decrease \$58.8 million due to the passing of House Bill 3 by the 86th Legislature
- Expanded and new investments in the program areas of thrive, read and excel:
 - Thrive: all schools meeting or exceeding local and state performance measures
 - Read: all students reading at grade level by 3rd grade
 - Excel: all teachers having competitive salaries and benefits

Also considered in the development of the budget is the impact of local economy and inflation in the surrounding area.

Net of Local Revenue in Excess of Entitlement, budgeted expenditures in the General Fund increased by 6% to \$813.8 million in fiscal year 2019-2020. Property taxes are expected to be the primary funding sources. The District's combined maintenance and operations tax rate and interest and sinking fund tax rate is \$1.192 per hundred dollars of assessed value for 2018-2019 and will decrease for the 2019-2020 school year to \$1.122 per hundred dollars of assessed value for 2019-2020.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Financial Services Department.

Basic Financial Statements

Austin Independent School District

Exhibit A-1 Statement of Net Position June 30, 2019

Data Control Codes		Governmental Activities
Assets		
1110	Cash and cash equivalents	\$ 1,534,327
1120	Investments, including restricted amounts of \$11,865,451	1,009,438,740
1225	Property taxes receivable, net	21,030,481
1240	Due from other governments	30,156,682
1250	Accrued interest	360,137
1290	Other receivables, net	9,709,664
1310	Inventories	3,722,770
1410	Prepays and other assets	750,800
	Capital assets:	
1510	Land	88,542,015
1520	Buildings and improvements, net	922,345,493
1530	Furniture and equipment, net	30,660,205
1580	Construction in progress	119,503,669
1000	Total assets	2,237,754,983
Deferred Outflows of Resources		
1701	Deferred loss on refunding	21,419,000
1705	Deferred outflow for TRS pension liability	61,520,635
1705	Deferred outflow for TRS OPEB liability	26,450,214
	Total deferred outflows of resources	109,389,849
Liabilities		
2110	Accounts payable	43,954,861
2150	Payroll deductions and withholdings	11,050,323
2160	Accrued wages payable	35,624,730
2180	Due to other governments	192,374,296
2200	Accrued expenses	17,206,503
2300	Unearned revenues	2,087,770
	Noncurrent liabilities:	
2501	Due within one year	120,678,666
2502	Due in more than one year	1,254,083,118
2540	Net pension liability—District's share	127,858,602
2540	Net OPEB liability—District's share	323,494,950
2000	Total liabilities	2,128,413,819
Deferred Inflows of Resources		
2605	Deferred inflow for TRS pension liability	42,874,177
2605	Deferred inflow for TRS OPEB liability	117,193,700
	Total deferred inflows of resources	160,067,877
Net Position		
3200	Net investment in capital assets	117,542,355
3800	Restricted for:	
	Retirement of long-term debt	123,114,262
	Federal and state funds grants	8,044,916
3900	Unrestricted (deficit)	(190,038,397)
3000	Total net position	\$ 58,663,136

See notes to basic financial statements.

Austin Independent School District

Exhibit B-1 Statement of Activities Year Ended June 30, 2019

Data Control Codes	Functions/Programs	Program Revenues		Net (Expense) Revenue and Changes in Net Position Governmental Activities
		1 Expenses	3 Charges for Services	4 Operating Grants and Contributions
	Government activities:			
11	Instruction	\$ 530,330,641	\$ 2,287,441	\$ 86,842,735
12	Instructional resources and media services	12,259,968	-	1,559,773
13	Curriculum and instructional staff development	28,060,999	-	11,498,187
21	Instructional leadership	18,985,306	-	4,063,788
23	School leadership	64,291,006	-	10,587,570
31	Guidance, counseling and evaluation services	33,388,507	-	7,518,089
32	Social work services	7,504,183	-	1,800,953
33	Health services	13,622,582	-	40,302,210
34	Student (pupil) transportation	39,154,134	-	4,321,519
35	Food services	44,543,568	-	41,049,250
36	Curricular/extracurricular activities	19,610,584	812,680	1,976,346
41	General administration	35,101,904	2,411,592	3,218,536
51	Plant maintenance and operations	88,415,542	-	6,428,964
52	Security and monitoring services	13,517,363	-	1,689,139
53	Data processing services	23,993,380	-	2,507,512
61	Community services	23,322,247	3,268,678	7,605,248
71	Interest on long-term debt	32,039,909	-	-
91	Contracted instructional services between schools	665,251,676	-	-
93	Payments related to shared services arrangements	4,080,590	835,342	-
99	Other intergovernmental charges	8,969,463	-	-
TG	Total governmental activities	1,706,443,552	9,615,733	232,969,819
TP	Total primary government	\$ 1,706,443,552	\$ 9,615,733	\$ 232,969,819
	General revenues:			
MT	Property taxes—levied for general purposes			1,300,394,799
DT	Property taxes—levied for debt service			136,227,358
SF	State aid—formula grants			37,668,557
GC	Grants and contributions not restricted to specific programs			4,584,968
IE	Investment earnings			19,919,697
MI	Miscellaneous			32,889,798
SI	Special item—gain on disposition of capital assets			3,386,478
TG	Total general revenues and special items			1,535,071,655
CN	Change in net position			71,213,655
NB	Net position (deficit) at beginning of period			(12,550,519)
NE	Net position at end of period			\$ 58,663,136

See notes to basic financial statements.

Austin Independent School District

Exhibit C-1 Balance Sheet—Governmental Funds June 30, 2019

Data Control Codes		General Fund	Debt Service Fund	Capital Projects Funds	Nonmajor Governmental Funds	Total Governmental Funds
	Assets					
1110	Cash and cash equivalents	\$ 1,351,842	\$ -	\$ -	\$ 181,382	\$ 1,533,224
1120	Investments	474,084,519	138,133,325	351,444,801	9,984,286	973,646,931
1210	Property taxes—current	3,414,683	366,513	-	-	3,781,196
1220	Property taxes—delinquent	40,758,340	4,680,720	-	-	45,439,060
1230	Allowance for uncollectible taxes	(25,287,589)	(2,902,186)	-	-	(28,189,775)
1240	Due from other governments	10,490,832	41,314	-	19,624,536	30,156,682
1250	Accrued interest	332,057	-	28,080	-	360,137
1260	Due from other funds	66,298,989	1,079	499,200	-	66,799,268
1290	Other receivables	877,826	-	100	881,076	1,759,002
1300	Inventories	494,865	-	-	3,181,609	3,676,474
1410	Prepays and other assets	800	-	750,000	-	750,800
1000	Total assets	\$ 572,817,164	\$ 140,320,765	\$ 352,722,181	\$ 33,852,889	\$ 1,099,712,999
	Liabilities					
2110	Accounts payable	\$ 38,175,860	\$ -	\$ 4,456,130	\$ 4,787	\$ 42,636,777
2150	Payroll deductions and withholdings	11,050,323	-	-	-	11,050,323
2160	Accrued wages payable	29,962,315	-	31,509	3,996,038	33,989,862
2170	Due to other funds	906,765	-	53,776,689	13,092,425	67,775,879
2180	Due to other governments	187,770,696	-	-	4,603,600	192,374,296
2300	Unearned revenues	1,158,256	-	-	929,514	2,087,770
2000	Total liabilities	269,024,215	-	58,264,328	22,626,364	349,914,907
	Deferred Inflows of Resources					
2600	Unavailable revenue—property taxes	15,470,751	1,778,534	-	-	17,249,285
	Total deferred inflows of resources	15,470,751	1,778,534	-	-	17,249,285
	Fund Balances					
3410	Nonspendable	495,665	-	750,000	3,181,609	4,427,274
3490	Restricted	-	138,542,231	-	8,044,916	146,587,147
3500	Assigned	17,350,000	-	293,707,853	-	311,057,853
3600	Unassigned	270,476,533	-	-	-	270,476,533
3000	Total fund balances	288,322,198	138,542,231	294,457,853	11,226,525	732,548,807
4000	Total liabilities, deferred inflows of resources and fund balances	\$ 572,817,164	\$ 140,320,765	\$ 352,722,181	\$ 33,852,889	\$ 1,099,712,999

See notes to basic financial statements.

Austin Independent School District

**Exhibit C-2 Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2019**

**Data
Control
Codes**

	Total fund balances—Governmental Funds balance sheet	\$ 732,548,807
	Amounts reported for governmental activities in the statement of net position (Exhibit A-1) are different because:	
1	Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,161,051,382
2	Amount of interest on debt payable in August is required to be recognized in the statement of net position.	(17,206,503)
3	Revenue in governmental activities is recognized in the period earned.	17,249,285
4	Internal Service Funds are used by management to charge the costs of certain activities, such as insurance to individual funds. The assets and liabilities of Internal Service Funds are included in governmental activities in the statement of net position.	30,181,798
5	Bonds and loans payable are not due and payable in the current period, and therefore, are not reported in the funds.	(1,361,533,279)
6	The accrual of vacation leave is not due and payable in the current period and, therefore, is not reported as expenditures in the governmental funds.	(1,596,774)
7	Unamortized loss on bond refunding in governmental activities, not reported in the governmental funds	21,419,000
8	Recognition of the District's proportionate share of the net pension liability, a deferred inflow of resources, and a deferred outflow of resources.	(109,212,144)
9	Recognition of the District's proportionate share of the OPEB liability, a deferred inflow of resources, and a deferred outflow of resources.	<u>(414,238,436)</u>
19	Net position of governmental activities	<u><u>\$ 58,663,136</u></u>

See notes to basic financial statements.

Austin Independent School District

Exhibit C-3 Statement of Revenues, Expenditures and Changes in Fund Balances—Governmental Funds Year Ended June 30, 2019

Data Control Codes		General Fund	Debt Service Fund	Capital Projects Funds	Nonmajor Governmental Funds	Total Governmental Funds
Revenues						
5700	Local and intermediate sources	\$ 1,322,753,737	\$ 138,362,064	\$ 3,613,007	\$ 19,599,633	\$ 1,484,328,441
5800	State program revenues	77,598,882	932,217	-	14,518,744	93,049,843
5900	Federal program revenues	38,893,404	-	-	87,037,615	125,931,019
5020	Total revenues	1,439,246,023	139,294,281	3,613,007	121,155,992	1,703,309,303
Expenditures						
Current:						
0011	Instruction	421,437,140	-	-	36,580,797	458,017,937
0012	Instructional resources and media services	10,734,617	-	-	197,497	10,932,114
0013	Curriculum and instructional staff development	12,140,936	-	-	10,683,014	22,823,950
0021	Instructional leadership	14,140,880	-	-	2,653,273	16,794,153
0023	School leadership	51,930,317	-	-	3,081,738	55,012,055
0031	Guidance, counseling and evaluation services	24,989,978	-	-	3,942,160	28,932,138
0032	Social work services	5,474,674	-	-	1,197,944	6,672,618
0033	Health services	8,199,189	-	-	5,279,553	13,478,742
0034	Student (pupil) transportation	35,746,128	-	8,956,862	233,500	44,936,490
0035	Food services	-	-	122,009	39,915,020	40,037,029
0036	Curricular/extracurricular activities	17,799,229	-	80	96,973	17,896,282
0041	General administration	22,177,532	-	259,427	773,678	23,210,637
0051	Plant maintenance and operations	83,698,867	-	3,878,515	62,838	87,640,220
0052	Security and monitoring services	12,734,746	-	264,998	147,308	13,147,052
0053	Data processing services	20,950,229	-	15,910,423	1,212,552	38,073,204
0061	Community services	7,633,198	-	-	12,492,229	20,125,427
Debt service						
0071	Principal on long-term debt	399,775	66,897,633	-	-	67,297,408
0072	Interest on long-term debt	77,115	43,372,754	-	-	43,449,869
0073	Bond issuance costs and fees	-	2,668,839	-	-	2,668,839
Capital outlay						
0081	Capital outlay	1,806,470	-	150,981,965	90,371	152,878,806
Intergovernmental						
0091	Contracted instructional services between schools	665,251,676	-	-	-	665,251,676
0093	Payments related to shared services arrangements	4,080,590	-	-	-	4,080,590
0099	Other intergovernmental charges	8,969,463	-	-	-	8,969,463
6030	Total expenditures	1,430,372,749	112,939,226	180,374,279	118,640,445	1,842,326,699
1100	Excess (deficiency) of revenues over (under) expenditures	8,873,274	26,355,055	(176,761,272)	2,515,547	(139,017,396)
Other Financing Sources and (Uses)						
7911	Capital-related debt issued (regular bonds)	-	298,180,000	-	-	298,180,000
7915	Transfers in	-	-	365,000,000	-	365,000,000
7916	Premium or discount on issuance of bonds	-	38,981,000	-	-	38,981,000
8911	Transfers out	(5,000,000)	(360,000,000)	-	-	(365,000,000)
7080	Total other financing sources and (uses)	(5,000,000)	(22,839,000)	365,000,000	-	337,161,000
Special items						
7918	Sale of buildings	-	-	10,554,488	-	10,554,488
	Total special items	-	-	10,554,488	-	10,554,488
1200	Net change in fund balances	3,873,274	3,516,055	198,793,216	2,515,547	208,698,092
0100	Fund balances at beginning of period	284,448,924	135,026,176	95,664,637	8,710,978	523,850,715
3000	Fund balances at end of period	\$ 288,322,198	\$ 138,542,231	\$ 294,457,853	\$ 11,226,525	\$ 732,548,807

See notes to basic financial statements.

Austin Independent School District

Exhibit C-4 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances—Governmental Funds to the Statement of Activities Year Ended June 30, 2019

Net change in fund balances—total Governmental Funds	\$ 208,698,092
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay (\$184,635,807) exceeded depreciation expense (\$69,554,987), land sales (\$16,000) and net asset removal (\$3,282,560).	111,782,260
Bond and noncurrent loan proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond and noncurrent loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which repayments of principal and loan principal (\$67,297,408) were exceeded by debt and loan proceeds (\$298,180,000).	(230,882,592)
Governmental funds report the effect of premiums when the debt is first issued whereas these amounts are deferred and amortized over the life of the bonds in the statement of activities. This is the amount by which the current year bond premium (\$38,981,000) exceeded amortization (\$14,563,952). There was no defeasance of bond premiums in 2019.	(24,417,048)
The amount of interest which is accrued, but not yet paid, for bond payments due in August is not recognized in the governmental funds. This is the net change in amount of interest payable.	1,120,940
Losses on refundings are not reported in the governmental funds, but are amortized over the life of the debt in the statement of activities. This is the amount of net change in the deferred loss on refunding between 2018 and 2019.	(1,614,131)
Delinquent property taxes do not provide current financial resources in the funds, and as such, are recognized as unearned revenue in the governmental funds. This is the net change between 2018 and 2019.	680,711
The revenues and expenses of the Internal Service Fund are distributed in the statement of activities and are not considered a governmental fund. The difference is the amount of net income (\$8,159,317), plus transfers in (\$0).	8,159,317
Costs associated with the accrual of vacation and sick leave are recognized as expenditures in the governmental funds when matured. This is the amount of net change in the vacation accrual between 2018 and 2019.	279,671
GASB Statement No. 68 requires that certain expenditures be recorded as deferred resources. This is the amount by which pension expense (\$15,364,313) and amortization of prior year deferred inflows and outflows of resources (\$34,527,419) exceeded the prior year contributions (\$7,825,296) and additional deferred items recognized in the current year (\$41,416,871).	(649,565)
The adoption of GASB Statement No. 75 required certain expenditures be recorded as deferred resources. This is the amount by which OPEB expense (\$21,790,762) and amortization of prior year deferred inflows and outflows of resources (\$12,629,993) exceeded the prior year contributions (\$4,469,481) and additional deferred items recognized in the current year (\$28,007,274).	(1,944,000)
Change in net position of governmental activities—statement of activities	\$ 71,213,655

See notes to basic financial statements.

Austin Independent School District

Exhibit D-1 Statement of Net Position—Proprietary Funds
June 30, 2019

Data Control Codes		Governmental Activities— Internal Service Fund
Assets		
	Current assets:	
	Cash and cash equivalents	\$ 1,103
	Investments	35,791,809
	Due from other funds	976,611
	Other receivables	7,950,662
	Inventories	46,296
	Total current assets	<u>44,766,481</u>
1000	Total assets	<u>44,766,481</u>
Liabilities		
	Current liabilities:	
	Accounts payable	1,318,084
	Accrued expenditures	38,094
	Claims payable—due within one year	9,614,200
	Total current liabilities	<u>10,970,378</u>
	Noncurrent liabilities:	
	Claims payable—due in more than one year	<u>3,614,305</u>
2000	Total liabilities	<u>14,584,683</u>
	Unrestricted net position	<u>30,181,798</u>
3000	Total net position	<u>\$ 30,181,798</u>

See notes to basic financial statements.

Austin Independent School District

**Exhibit D-2 Statement of Revenues, Expenses and Changes in Net Position—Proprietary Funds
Year Ended June 30, 2019**

Data Control Codes		Governmental Activities— Internal Service Fund
	Operating Revenues	
5700	Charges for services	\$ 92,781,844
	Total operating revenues	<u>92,781,844</u>
	Operating Expenses	
6100	Payroll costs	1,397,144
6200	Professional and contracted services	6,118,279
6300	Supplies and materials	122,272
6400	Insurance claims and expenses	73,448,419
6400	Other operating expenses	<u>4,283,668</u>
6030	Total operating expenses	<u>85,369,782</u>
	Operating income	7,412,062
	Nonoperating Revenues	
5742	Earnings from temporary deposits and investments	<u>747,255</u>
	Total nonoperating revenues	<u>747,255</u>
	Change in net position	<u>8,159,317</u>
0100	Net position at beginning of period	<u>22,022,481</u>
3300	Net position at end of period	<u>\$ 30,181,798</u>

See notes to basic financial statements.

Austin Independent School District

**Exhibit D-3 Statement of Cash Flows—Proprietary Funds
Year Ended June 30, 2019**

	Governmental Activities— Internal Service Fund
Cash flows from operating activities:	
Payments to suppliers	\$ (8,872,701)
Payments to employee salaries and benefits	(1,397,144)
Payments from other funds	84,831,182
Claims paid	(73,775,589)
Net cash provided by operating activities	<u>785,748</u>
Cash flows from noncapital financing:	
Interfund transactions	(1,582,557)
Net cash used in noncapital financing	<u>(1,582,557)</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	138,354,512
Outlays for purchase of investments	(138,378,205)
Interest income	747,255
Net cash provided by investing activities	<u>723,562</u>
Net decrease in cash and cash equivalents	(73,247)
Cash and cash equivalents at beginning of period	<u>74,350</u>
Cash and cash equivalents at end of period	<u>\$ 1,103</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 7,412,062
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in:	
Increase in accounts receivable	(7,950,662)
Decrease in inventory	15,835
Decrease in other assets	165,009
Increase in accounts payable and accrued expenditures	1,470,676
Decrease in claims payable	(327,172)
Net cash provided by operating activities	<u>\$ 785,748</u>

See notes to basic financial statements.

Austin Independent School District

Exhibit E-1 Statement of Fiduciary Assets and Liabilities—Fiduciary Funds
June 30, 2019

Data Control Codes		Agency Funds
	Assets	
1110	Cash and cash equivalents	\$ 10,802,088
	Investments	5,274,678
	Other receivables	<u>82,983</u>
1000	Total assets	<u><u>\$ 16,159,749</u></u>
	Liabilities	
	Accrued wages	\$ 231,780
	Due to other governments	5,713,156
2190	Due to student groups	<u>10,214,813</u>
2000	Total liabilities	<u><u>\$ 16,159,749</u></u>

See notes to basic financial statements.

Notes to Basic Financial Statements

Austin Independent School District

Notes to Basic Financial Statements June 30, 2019

Note 1. Reporting Entity

This report includes the financial statements of the funds required to account for those activities, organizations, and functions which are related to the Austin Independent School District (the District) and which are controlled by or dependent upon the District's governing body, the Board of Trustees (the Board). The Board, a nine-member group as a body corporate, has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency (TEA) or to the State Board of Education are reserved for the Board, and TEA may not substitute its judgment for the lawful exercise of those powers and duties of the Board.

The District receives funding from local, state and federal government sources and must comply with the applicable requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity," as defined by the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, since Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters. There are no component units reported within the reporting entity. The District is a governmental entity exempt from federal income taxation under Internal Revenue Code Section 115.

Note 2. Government-Wide and Fund Financial Statements

The government-wide financial statements consist of the statement of net position and the statement of activities. These statements report information on all nonfiduciary activities of the District. The effect of the interfund activity has been removed from these statements. The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues, and grants and contributions used for capital requirements for a given function. During fiscal year 2019, the District did not receive any grants or contributions for capital for a given function. Program revenues include charges to customers, grants and contributions used for operational requirements. Governmental activities are supported by tax revenues, state aid, charges for services, investment earnings and intergovernmental revenues such as grants.

Direct expenses are those that are clearly identifiable with a specific function. All capital asset depreciation is reported as a direct expense of the functional program that benefits from the use of the capital assets. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function and (2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The fund financial statements provide information about the District's funds, with separate statements for Governmental Funds, Proprietary Funds and Fiduciary Funds even though the latter are excluded from the government-wide financial statements. Major individual Governmental Funds are reported as separate columns in the fund financial statements.

Austin Independent School District

Notes to Basic Financial Statements June 30, 2019

Note 3. Summary of Significant Accounting Policies

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to governmental units in conjunction with TEA's *Financial Accountability System Resource Guide* (FAR). GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to, and accounted for the purpose of, carrying on specific activities in accordance with laws, regulations or other appropriate requirements.

Governmental fund types: The District reports the following major Governmental Funds:

The General Fund is the fund that accounts for financial resources in use for general types of operations. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. This is a budgeted fund, and any fund balances are considered as resources available for current operations. Fund balances may be appropriated by the Board to implement its responsibilities.

The Debt Service Fund is the fund that accounts for the use of debt service taxes and other revenues collected for the purposes of retiring bond principal and paying interest on long-term general obligation debt and other long-term debt for which a tax has been dedicated. This fund is also used to record all activity resulting from bond transactions, including all fees. This is a budgeted fund.

The Capital Projects Fund is the fund that accounts for transfers from the debt service fund related to proceeds from the sale of bonds restricted for capital improvements, and other revenues to be used for Board-authorized acquisition, construction, or renovations, as well as furnishing and equipping major capital facilities. Upon completion of a project, any unused bond proceeds are transferred to the Debt Service Fund and are used to retire related bond principal. This fund is budgeted on a project basis.

Additionally, the District reports the following Nonmajor funds:

The Special Revenue Funds are the funds that account for state and federally financed programs or expenditures legally restricted for specified purposes or where unused balances are returned to the grantor at the close of specified project periods. This fund type also includes the following funds which are allowed to maintain a fund balance: food service operations, State Textbook Fund, High School Allotment, Campus Activity Fund, Permanent Fund, child care operations and scholarships. The Food Service Fund is the only Special Revenue Fund that is required to be budgeted and balances are to be used exclusively for allowable child nutrition program purposes.

Austin Independent School District

Notes to Basic Financial Statements June 30, 2019

Note 3. Summary of Significant Accounting Policies (Continued)

Proprietary fund types: The Internal Service Fund, an unbudgeted fund, is the fund that accounts for the District's self-funding of workers' compensation claims, Campus Police, Print Shop, Laundry Services and Health and Dental Services. Revenues are generated in the Internal Service Fund through charges to various funds of the District. Internal Service Funds inherently create redundancy because their expenses are recorded a second time in the funds that are billed for the services they provide. Therefore, on the government-wide financial statements, the operations of the Internal Service Funds are consolidated and interfund transactions are eliminated.

Fiduciary fund types: Agency Funds, unbudgeted funds, are the funds that account for activities of student groups and other types of activities requiring clearing accounts. This fund type has no equity, assets are equal to liabilities, and do not include revenues and expenditures for general operations of the District.

B. Measurement Focus

The government-wide financial statements are reported using the flow of economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund type financial statements. All Governmental Funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance of Governmental Funds is considered a measure of "available spendable resources." The Fiduciary Fund financial statement does not have a measurement focus.

C. Basis of Accounting

The government-wide financial statements and Proprietary Fund and Fiduciary Fund type financial statements follow 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 state aid are recognized as revenues as soon as all eligibility requirements imposed by the provider are met and qualifying expenditures have been incurred. School Health and Related Services are recorded as revenue as the related services are rendered, and other local revenues such as fees and activity charges are recorded as revenue when cash is received.

The modified accrual basis of accounting is used for the Governmental Fund types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual (i.e., both available and measurable). Revenues other than grants are considered to be available when they are expected to be collected during the current budgetary period, or within 60 days thereafter, to pay liabilities outstanding at the close of the budgetary period. Revenues from state and federal grants are recognized as earned when they are expected to be collected within the current budgetary period, or within 60 days thereafter, and all eligibility requirements have been met. Funds received, but unearned, are reflected as unearned revenues, and funds expended, but not yet received, are shown as receivables. Interest revenue and building rentals are recorded when earned, since they are measurable and available. Other revenues such as fees, tuition, activity fees and miscellaneous revenues are recognized when measurable and available.

Austin Independent School District

Notes to Basic Financial Statements June 30, 2019

Note 3. Summary of Significant Accounting Policies (Continued)

The District maintains a stabilization arrangement sufficiently adequate for fiscal cash liquidity purposes that will provide for sufficient cash flow to minimize the potential of short-term tax anticipation borrowing. This amount shall be equal to not less than 20% of the combined budgeted expenditures, net of recapture function 91 expenditures, of the District's General Fund.

The stabilization arrangement balance represents balances available for appropriation at the discretion of the District's Board. However, the Board shall make every reasonable effort to use these unassigned funds for the following purposes, listed in order of priority:

1. To increase committed fund balances, as deemed necessary.
2. To increase assigned fund balances, as deemed necessary.
3. To use as beginning cash balance in support of the annual budget.

The District's Board recognizes that any such funds should be appropriated for nonrecurring expenditures, as they represent prior year surpluses that may or may not materialize in subsequent fiscal years.

When the District incurs an expenditure in governmental funds for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then from less restrictive classifications; committed and assigned, then unassigned fund balance, unless the District's Board has provided otherwise in its assignment actions.

Expenditures are recognized in the accounting period in which the fund liability is incurred, except expenditures for debt service, including unmatured interest on long-term debt and compensated absences. Expenditures for principal and interest on long-term debt and compensated absences are recognized when matured.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Proprietary Fund's principal ongoing operations. The principal operating revenues of the District's Internal Service Funds are health, dental and workers' compensation insurance premiums to participate in the District's self-insured health and workers' compensation programs. The principal operating expenses for the Internal Service Funds include the cost of health, dental and workers' compensation claims and administrative charges. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Austin Independent School District

Notes to Basic Financial Statements June 30, 2019

Note 3. Summary of Significant Accounting Policies (Continued)

Effective July 1, 2018, the District adopted GASB Statement No. 83, *Certain Asset Retirement Obligations* (Statement No. 83), and GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* (Statement No. 88). Statement No. 83 addresses accounting and financial reporting for certain asset retirement obligations which is a legally enforceable liability associated with the retirement of a tangible capital asset. The District does not have any asset retirement obligations. Statement No. 88 requires additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The adoption of these standards did not have a significant impact on the District's financial statements.

D. Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash on hand, bank deposit accounts, and non-participating certificates of deposit (CDs) owned with original stated maturities of three months or less.

E. Investments

State statutes and Board policy authorize the District to invest any and all of its funds in fully collateralized CDs, direct debt securities of the United States of America or the state of Texas, other obligations the principal and interest of which are unconditionally guaranteed by the state of Texas or the United States, fully collateralized direct repurchase agreements, bankers' acceptances, local government investment pools, money market mutual funds, and other investments specifically allowed by Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) and Sections 23.80 and 20.42 of the Texas Education Code. The District participates in several local government investment pools, and has investments primarily in U.S. Treasuries, corporate commercial paper, U.S. agency securities, savings accounts and certificates of deposit. The District accrues interest on local government investment pools, savings accounts and non-participating certificates of deposit based on the terms and interest rates of the specific investments. The District's policy is to report local government investment pools that meet the criteria of GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* (Statement No. 79), at the pool's net asset value (NAV) which is based on amortized cost. Nonparticipating certificates of deposit are reported at amortized cost plus accrued interest.

The District carries investments in debt securities and local government investment pools that do not meet the criteria of GASB Statement No. 79 at fair value using other observable significant inputs including but not limited to quoted prices for similar securities, interest rates, and fixed-income pricing models. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

F. Due From (To) Other Funds

Interfund receivables and payables arise from interfund receipts or disbursements of cash and are recorded in all affected funds in the period in which transactions are executed in the normal course of operations.

Austin Independent School District

Notes to Basic Financial Statements June 30, 2019

Note 3. Summary of Significant Accounting Policies (Continued)

G. Inventories

Inventory of materials and supplies are carried on the basis of the last invoice cost, which approximates first-in, first-out cost, and are subsequently charged to budgetary expenditures when consumed. Inventories include plant maintenance and operating supplies, as well as instructional materials. These inventories are offset at year-end by a nonspendable fund balance, which indicates they do not represent "available spendable resources."

Donated commodities in inventory at June 30, 2019, totaled \$224,418.

H. Capital Assets

Capital assets, which include land, buildings and improvements, furniture and equipment, and construction in progress, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of more than \$5,000, and an estimated useful life in excess of one year. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated acquisition value at the date of the donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

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

Asset Class	Estimated Useful Lives
Buildings and improvements	30 years
Furniture and equipment	5-10 years
Vehicles	5-7 years
Property under capital leases	10 years
Buses	8-10 years
Computer software and equipment	3-7 years
Portable buildings	10 years

I. Compensated Absences

The state of Texas has created a minimum sick leave program consisting of five days of personal leave per year that may be used for illness or discretionary personal leave with no limit on accumulation and transferability among districts for every eligible employee regularly employed in Texas public schools.

Each district's local board of education is required to establish a sick leave plan. Local school districts may provide additional sick leave beyond the state minimum. The District's policy provides six to eight additional sick leave days per year depending on the number of duty days scheduled to work during the school year.

Accumulated state leave at the end of the year remains in the employee's state personal leave account. Additional sick leave days provided by the District do not vest; therefore, at fiscal year-end, no liability exists.

Austin Independent School District

Notes to Basic Financial Statements June 30, 2019

Note 3. Summary of Significant Accounting Policies (Continued)

Teachers do not receive paid vacation, but are paid only for the number of days they are required to work each year. All regular employees are entitled to an annual vacation. In the government-wide financial statements, the District has a liability for unused vacation and sick leave pay for regular employees for all vacation and state sick leave earned as of June 30, 2019. The District allows unused vacation days to carry over through December 31, then it is lost.

A summary of changes in compensated absences for the year ended June 30, 2019, is as follows:

June 30, 2018 balance	\$ 1,876,445
Increases	2,326,003
Decreases	(2,605,674)
June 30, 2019 balance	<u>\$ 1,596,774</u>
Amount due within one year	<u>\$ 1,596,774</u>

The balance at June 30, 2019 is included in Accrued Wages Payable in the government wide statement of net position.

J. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; injuries to employees; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

The District participates in the Texas Association of School Boards Modified Self-Funded program for its vehicle liability insurance. The District has commercial insurance for all other risks of loss, except vehicle liability insurance, workers' compensation, employee health benefits, employee life, dental and accident insurance.

During fiscal year 2019, employees of the District were covered by a self-funded health insurance plan provided by Aetna. District employees were offered a choice of two PPO plans and one HSA plan with two networks (Seton only, Open Access and HSA Seton). Claims administration is contracted from a third-party administrator. Health benefit consultant services are contracted from an outside entity. The District maintains individual stop-loss coverage for catastrophic losses exceeding \$750,000 per claim.

K. Encumbrances

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders and contracts. An encumbrance represents a commitment of Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance, but does not represent an expenditure for the period, only a commitment to expend resources. Appropriations lapse at June 30 and encumbrances outstanding at that time are either cancelled or appropriately provided for in the subsequent year's budget. Outstanding encumbrances at June 30, 2019, that were subsequently provided for in the 2020 budget as July through September amendments for Board approval totaled \$1,869,726 in the General Fund. The Debt Service Fund, Capital Projects Fund and Nonmajor Fund had no outstanding encumbrances at June 30, 2019.

Austin Independent School District

Notes to Basic Financial Statements June 30, 2019

Note 3. Summary of Significant Accounting Policies (Continued)

L. Fund Balance and Net Position

The District reports the following types of Governmental Fund balances: committed, nonspendable, restricted, assigned and unassigned.

- Nonspendable fund balances are those that are not in a spendable form.
- Restricted fund balances are those that have constraints placed on the use of their resources. These constraints can be: (a) externally imposed by creditors (i.e., debt covenants), grantors, contributors or laws/regulations of other governments or (b) imposed by law through constitutional provision or enabling legislation. Both constraints are legally enforceable by an external party.
- The committed fund balance consists of funds that may be used only for a specific purpose, pursuant to constraints imposed by a formal action (resolution) of the District's Board. The purpose for the funds can be changed only by formal action of the District's Board.
- Assigned fund balances are those that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Assigned fund balances do not require District Board formal action and may be specified as "intent" simply through the budgeting process that the resources from these funds be spent for specific purposes within the fund. By Board policy, the assigned fund balance may be designated by the Board or by the Board's designees, the Superintendent, or the Chief Financial Officer.
- Unassigned fund balances are those within the General Fund and represent fund balances that have not been restricted, committed or assigned.

In the Governmental Fund financial statements, unassigned fund balances indicate available amounts for the budgeting of future operations. Restricted and assigned fund balances are that portion of fund balance which is not available for appropriation, or which has been legally separated for specific purposes. Designations of fund balance as nonspendable, restricted, committed, assigned, or unassigned are the representations of management for the utilization of financial resources in future periods.

In the Government Wide financial statements, net position represents the difference between assets plus deferred outflows of resources, and liabilities plus deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net investment in capital assets excludes unspent bond proceeds. Net position is reported as restricted when there are limitations imposed on their use through enabling legislation or through external restrictions imposed by creditors, grantors or laws through constitutional provision or enabling legislation.

M. Data Control Totals

Data control codes refer to the account code structure prescribed by TEA in the FAR. TEA requires school districts to display these codes in the financial statements filed with the agency in order to ensure accuracy in building a statewide database for policy development and funding plans.

Austin Independent School District

Notes to Basic Financial Statements June 30, 2019

Note 3. Summary of Significant Accounting Policies (Continued)

N. Unearned Revenue

The unearned revenue on the balance sheet of the General Fund, Debt Service Fund and the Nonmajor Governmental Funds primarily relates to, donated commodity inventory, pre-payments for school lunch tickets in the child nutrition program special revenue fund, and unearned cost reimbursement grant revenues related to the vocational education, child care, and other grants that support student academic success. These funds were received before all eligibility requirements have been met.

O. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

P. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the District's management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Q. Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the Statement of Net Position includes separate sections for deferred outflows/inflows of resources. These separate financial statement elements represent a consumption/acquisition of net position that applies to a future period(s) and will not be recognized as an outflow/inflow of resources (expense/revenue) until that time. Governments are only permitted to report deferred outflows/inflows of resources in circumstances specifically authorized by the GASB. Typical deferred outflows/inflows of resources for the District relate to pensions, OPEB and deferred charges on refunded debt. The deferred inflows of resources on the balance sheet of the General Fund and Debt Service Fund primarily relates to unavailable uncollected property taxes, less the allowance for doubtful accounts.

R. Pensions

The fiduciary net position of the Teachers 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.

S. Accrued Wages Payable

Depending on the district calendar and timing of the end of the school year, the actual number of days most employees work in June is less than 30. In order for these employees' pay streams to be unaffected, most of which are teachers, they are still paid one-twelfth of their yearly contract amount in June. As of June 30, salaries that have been earned, but that will be paid in July and August, are recorded as accrued wages payable.

Austin Independent School District

Notes to Basic Financial Statements June 30, 2019

Note 3. Summary of Significant Accounting Policies (Continued)

T. Other Post-Employment Benefits

The fiduciary net position of the TRS-Care Plan has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net 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 in the plan as this is a pay-as-you-go plan; however, there are assets accumulated in a trust which are primarily cash and receivables.

Note 4. Deposits and Investments

Deposits: Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, the District will not be able to recover its deposits or will not be able to recover its collateral securities that are in the possession of an outside party. The District's policies and state law require the District's funds to be deposited under the terms of a depository contract, the terms of which are set out in depository contract law. The depository bank may either place approved pledged securities for safekeeping with the District's agent or file a corporate surety bond in an amount greater than or equal to the District's deposits. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) coverage.

At June 30, 2019, all District deposits were with the contracted depository bank in accounts which were secured at the balance sheet date by FDIC coverage and by pledged securities, as approved by the School Depository Act, held by the District's agent, Wells Fargo Bank, N.A., in the name of the District, as described below.

At June 30, 2019, including student activity fund balances of \$8,940,040, the District had a general ledger balance of \$12,336,415, while the total of bank balances equaled \$19,528,731. Of the bank balances, \$500,000 is covered by federal depository insurance, and the remainder was covered by \$27,262,469 of collateral pledged in the District's name.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

1. Name of bank: Wells Fargo Bank, N.A.
2. The amount of bond and/or security pledged as of the date of the highest combined balance on deposit was a deficit of \$13,804,980.
3. The largest deposit combined account balance amounted to \$25,412,374 and occurred during the month of February 2019.
4. Total amount of FDIC coverage at the time of the largest combined balance was \$500,000.

Austin Independent School District

Notes to Basic Financial Statements June 30, 2019

Note 4. Deposits and Investments (Continued)

Investments: The District categorizes its fair value measurement disclosures within the fair value hierarchy established by generally accepted accounting principles. The hierarchy prioritizes valuation inputs used to measure the fair value of the asset or liability in three broad categories. Levels 1, 2 and 3 (lowest priority level) of the fair value hierarchy are defined as follows.

Level 1: Inputs using unadjusted quoted prices in active markets or exchanges in identical assets or liabilities.

Level 2: Significant other observable inputs, which may include, quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in non-active markets; and inputs other than quoted prices that are observable for the assets or liabilities, either directly or indirectly.

Level 3: Valuations for which one or more significant inputs are unobservable and may include situations where there is minimal, if any, market activity for the asset or liability.

If the fair value is measured using inputs from different levels in the fair value hierarchy, the measurement should be categorized based on the lowest priority level input that is significant to the valuation. The District's assessment of significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment. Investments measured at fair value using NAV per share (or equivalent) as a practical expedient to fair value are not classified in the fair value hierarchy.

The District's investments, including restricted assets, at June 30, 2019, are as follows:

	June 30, 2019	Level 1	Level 2	Level 3
Investments by fair value level:				
Debt securities:				
U.S. Treasuries	\$ 93,233,480	\$ -	\$ 93,233,480	\$ -
Corporate Commercial Paper	128,747,558	-	128,747,558	-
Federal Agricultural Mortgage Corporation	5,151,648	-	5,151,648	-
Federal Farm Credit Bank	12,012,330	-	12,012,330	-
Federal Home Loan Mortgage Corporation	2,333,628	-	2,333,628	-
Government National Mortgage Association	5,416,682	-	5,416,682	-
Federal National Mortgage Association	9,984,124	-	9,984,124	-
Small Business Administration	2,300,858	-	2,300,858	-
Total debt securities	259,180,308	-	259,180,308	-
External investment pool:				
Texas CLASS	90,784,007	-	90,784,007	-
TexStar	69,574,332	-	69,574,332	-
Total investment pool	160,358,339	-	160,358,339	-
Total investments by fair value level	419,538,647	\$ -	\$ 419,538,647	\$ -
Investments measured at NAV based on amortized cost:				
LoneStar	95,855,825			
Texas Term	79,033,495			
TexPool	419,010,678			
Total investments measured at NAV	593,899,998			
Investments measured at amortized cost:				
Savings accounts	1,274,773			
Total investments	\$1,014,713,418			

Austin Independent School District

Notes to Basic Financial Statements June 30, 2019

Note 4. Deposits and Investments (Continued)

Debt securities and external investment pools classified as Level 2 of the fair value hierarchy are valued using other observable significant inputs based on third party fixed-income pricing models. Investments in local government investment pools that meet the criteria of Statement No. 79 are measured at each pool's published NAV per share which is based on amortized cost.

Investment objectives: The primary objective of the District's investment activity is to provide the highest reasonable market return with the maximum security, while meeting daily cash flow requirements and conforming to all applicable state laws.

The District's investment policy contains investment strategies for each accounting fund of the District. The investment portfolio shall be diversified to eliminate the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issue, a specific class of securities, or a specific institution.

Credit risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the District. To help mitigate credit risk, the District's investment officer is to monitor changes in investment ratings and to liquidate investments that do not maintain satisfactory ratings. As of June 30, 2019, the District held \$754,258,337 in external investment pools, all of which were rated AAA by Standard & Poor's. In addition, as of June 30, 2019, the District had the following investments subject to credit risk:

Investment Type	AAA	AA	A	A-1	Total
Commercial Paper	\$ 17,498,913	\$ 19,981,878	\$ 31,701,041	\$ 59,565,726	\$ 128,747,558
Federal Agricultural Mortgage Corporation	-	5,151,648	-	-	5,151,648
Federal Farm Credit Bank	12,012,330	-	-	-	12,012,330
Federal Home Loan Mortgage Corporation	-	2,333,628	-	-	2,333,628
Federal National Mortgage Association	-	9,984,124	-	-	9,984,124
	<u>\$ 29,511,243</u>	<u>\$ 37,451,278</u>	<u>\$ 31,701,041</u>	<u>\$ 59,565,726</u>	<u>\$ 158,229,288</u>

Custodial credit risk: Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside third party. Investment securities are exposed to custodial risk if the securities are uninsured, are not registered in the name of the District and are held by the counterparty, its trust or agent, but not in the District's name. The District's investment securities are not exposed to custodial credit risk because all securities held by the District's custodial banks are in the District's name.

Concentration of credit risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District's investment policy requires the investment portfolio be diversified in terms of investment instruments, maturities and financial institutions to reduce the risk of loss resulting from overconcentration of assets in a specific class of investments, specific maturity or specific issuer. For those investments subject to concentration of credit risk, as of June 30, 2019, the District had none that exceeded 5.0%.

Interest rate risk: Interest rate risk is the risk that the changes in interest rates will adversely affect the fair value of an investment. As a means of limiting the exposure to fair value losses that could occur from rising interest rates, the District's investment policy limits the maturity of investments to no longer than one year, except for the Capital Projects Fund, which is one and one-half years.

Austin Independent School District

Notes to Basic Financial Statements June 30, 2019

Note 4. Deposits and Investments (Continued)

As of June 30, 2019, the District's investments in debt securities mature as follows:

Investment Type	Investment Maturities (in Days)				Fair Value
	90 Days or Less	91 to 180 Days	181 to 365 Days	Greater Than 365 Days	
U.S. Treasuries	\$ 92,565,396	\$ -	\$ -	\$ 668,084	\$ 93,233,480
Corporate Commercial Paper	84,163,337	29,777,333	14,806,888	-	128,747,558
Federal Agricultural Mortgage Corporation	-	5,151,648	-	-	5,151,648
Federal Farm Credit Bank	12,012,330	-	-	-	12,012,330
Federal Home Loan Mortgage Corporation	-	-	-	2,333,628	2,333,628
Government National Mortgage Association	-	-	-	5,416,682	5,416,682
Federal National Mortgage Association	9,984,124	-	-	-	9,984,124
Small Business Administration	-	-	-	2,300,858	2,300,858
Total debt securities	\$ 198,725,187	\$ 34,928,981	\$ 14,806,888	\$ 10,719,252	\$ 259,180,308

Texas Local Government Investment Pool: Texas Local Government Investment Pool (TexPool) is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed both of participants in TexPool and of other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, TexPool is rated AAAM by Standard & Poor's and has a weighted average maturity of 36 days.

TexPool meets the requirements of GASB Statement No. 79, and as such, measures its investments at amortized cost.

Lone Star Investment Pool: The Lone Star Investment Pool (Lone Star) is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Chapter 791, of the Texas Government Code, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. Lone Star is managed by an 11-member board of trustees and, pursuant to the investment agreement, the board of trustees is authorized and directed to adopt and maintain bylaws consistent with the bylaws of the Texas School Cash Management Program. Pursuant to Section 2256.016(g) of the Public Funds Investment Act, Lone Star has established an advisory board. The purpose of the advisory board is to gather and exchange information from participants and nonparticipants relating to Lone Star's operations. The Board has entered into an agreement with the Texas Association of School Boards (TASB), a Texas nonprofit corporation, pursuant to which TASB serves as administrator of Lone Star's operations. Standard & Poor's rates money market funds and has rated Lone Star as AAA. The District participates in the Government Overnight Fund and the Corporate Overnight Fund offered by Lone Star. The Government Overnight Fund and the Corporate Overnight Fund have a weighted average maturity of 26 days and 39 days, respectively.

The two Lone Star funds the District participates in both meet the requirements of GASB Statement No. 79, and as such, the District measures its investments at amortized cost.

Austin Independent School District

Notes to Basic Financial Statements June 30, 2019

Note 4. Deposits and Investments (Continued)

TexasTERM (TexasDAILY) Investment Pool: TexasDAILY is a public funds investment pool established by the TexasTERM Local Government Investment Pool (TexasTERM) advisory board, pursuant to provisions of the TexasTERM Common Investment Contract that established the TexasTERM Local Government Investment Pool and the series known as TexasDAILY. TexasDAILY was organized in conformity with the Interlocal Cooperation Act, Chapter 791, Texas Government Code and the Public Funds Investment Act, Chapter 2256, Texas Government Code. An advisory board, composed of participants and nonparticipant members elected by the participant shareholders of TexasTERM, is responsible for the overall management of TexasTERM, including formulation and implementation of its investment and operating policies. In addition, the advisory board members select and oversee the activities of the investment advisor and custodian of TexasTERM and monitor investment performance and the method of valuing the shares. The investment advisor and administrator for TexasDAILY is PFM Asset Management, LLC. TexasTERM and TexasDAILY are rated AAAm by Standard & Poor's. TexasDAILY has a weighted average maturity of 34 days.

TexasTERM meets the requirements of GASB Statement No. 79, and as such, measures its investments at amortized cost.

TexSTAR Investment Pool: TexSTAR is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256, of the Texas Government Code. The pool was created through a contract among its participating governmental units, and is governed by a board of directors to provide for the joint investment of participants' public funds and funds under their control. TexSTAR is managed by J.P. Morgan Investment Management, Inc., an affiliate of JPMorgan Chase Bank, N.A. a national banking association, and First Southwest Asset Management, Inc., an affiliate of Texas based First Southwest Company. TexSTAR's investment manager will maintain the dollar-weighted average maturity of 60 days or less, and the maximum stated maturity for any obligation of the United States, its agencies or instrumentalities is limited to 397 days for fixed rate securities and 24 months for variable rate notes. TexSTAR is rated AAAm by Standard and Poor's. TexSTAR has a weighted average maturity of 19 days.

TexSTAR does not meet the requirements of GASB Statement No. 79, and as such, measures its investments at fair value. The District, as a participant in TexSTAR, measures its investment in the pool at fair value determined by the pool.

Texas CLASS Investment Pool: The Texas Cooperative Liquid Assets Securities System Trust (Texas CLASS) was created as a local government investment pool pursuant to Section 2256.016 of the Public Funds Investment Act, Texas Government Code. Per state code, entities may pool any of their funds, or funds under their control, to preserve principal, maintain the liquidity of the funds, and maximize yield. The Texas CLASS Trust Agreement is an agreement of indefinite term regarding the investment, reinvestment and withdrawal of local government funds. The parties to the Trust Agreement are Texas local government entities that choose to participate in the Trust (the Participants), Public Trust Advisors, LLC (Public Trust) as Program Administrator, and Wells Fargo Bank Texas, N.A. as Custodian.

Texas CLASS is overseen by the Texas CLASS Board of Trustees, comprised of active members of the pool and elected by the Participants, guided by the Advisory Board. The Board is responsible for selecting the Administrator and Investment Advisor.

Austin Independent School District

Notes to Basic Financial Statements June 30, 2019

Note 4. Deposits and Investments (Continued)

Texas CLASS is rated AAAm by Standard and Poor's and has a weighted average maturity of 76 days.

Texas CLASS does not meet the requirements of Statement No. 79, and as such, measures its investments at fair value. The District, as a participant in Texas CLASS, measures its investment in the pool at fair value determined by the pool.

Note 5. Property Taxes

In accordance with Texas statutes, the Board of the District approves a tax rate and order to levy taxes in August of each year. Property taxes are billed by the county tax assessor collector as of October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are payable on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of the year following the District's order to levy taxes (the assessment date), a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed. The assessment date represents the date on which an enforceable legal claim arises and attaches as a lien on the assessed property. In the government-wide financial statements, property tax revenue is recognized as earned, net of an allowance for uncollectible taxes. In the Governmental Fund financial statements, property tax revenues are considered available when they become due and receivable within the current period, or within 60 days of year-end.

The final assessed value at January 1, 2018, upon which the October 2018 levy was based, was \$121,551,585,435. The tax rates assessed for the fiscal year ended June 30, 2019, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.079 and \$0.113 per \$100 valuation, respectively, for a total of \$1.192 per \$100 of assessed valuation.

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

As of June 30, 2019, property taxes receivable, net of estimated uncollectible taxes, totaled \$15,470,751 and \$1,778,534 for the General and Debt Service Funds, respectively.

Note 6. Receivables From Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the state through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of June 30, 2019 for the District's major fund and nonmajor funds are summarized below. All federal grants shown below are passed through TEA and are reported in the basic financial statements as receivable from other governments.

Fund	Local Entities	State Grants and Other	Federal Grants	Total
General Fund	\$ 393,003	\$ 9,766,785	\$ 331,044	\$ 10,490,832
Debt Service Fund	41,314	-	-	41,314
Nonmajor fund	1,206,257	17,256,452	1,161,827	19,624,536
	<u>\$ 1,640,574</u>	<u>\$ 27,023,237</u>	<u>\$ 1,492,871</u>	<u>\$ 30,156,682</u>

Austin Independent School District

Notes to Basic Financial Statements June 30, 2019

Note 7. Changes in Capital Assets

The following summarizes the change in capital assets for the fiscal year ended June 30, 2019:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 87,796,782	\$ 761,233	\$ (16,000)	\$ 88,542,015
Construction in progress	29,398,369	172,873,210	(82,767,910)	119,503,669
Total capital assets not being depreciated	117,195,151	173,634,443	(82,783,910)	208,045,684
Capital assets being depreciated:				
Buildings and improvements	1,755,211,114	82,767,910	(7,152,070)	1,830,826,954
Furniture and equipment	110,464,824	11,001,364	(36,752,047)	84,714,141
Total capital assets being depreciated	1,865,675,938	93,769,274	(43,904,117)	1,915,541,095
Less accumulated depreciation for:				
Buildings and improvements	(850,405,789)	(61,988,620)	3,912,948	(908,481,461)
Furniture and equipment	(83,196,178)	(7,566,367)	36,708,609	(54,053,936)
Total accumulated depreciation	(933,601,967)	(69,554,987)	40,621,557	(962,535,397)
Total capital assets being depreciated, net	932,073,971	24,214,287	(3,282,560)	953,005,698
Governmental activities capital assets, net	\$ 1,049,269,122	\$ 197,848,730	\$ (86,066,470)	\$ 1,161,051,382

Depreciation expense for the fiscal year ended June 30, 2019, was charged to functions/programs of primary government activities as follows:

Instruction	\$ 40,753,749
Instructional resources and media services	924,909
Curriculum and instructional staff development	1,704,121
Instructional leadership	1,417,437
School leadership	5,165,327
Guidance, counseling and evaluation services	2,576,041
Social work services	571,978
Health services	104,838
Student (pupil) transportation	2,963,615
Food services	2,133,294
Curricular/extracurricular activities	1,343,467
General administration	1,687,984
Plant maintenance and operations	4,373,210
Security and monitoring services	1,078,491
Data processing services	1,403,752
Community services	1,352,774
	<u>\$ 69,554,987</u>

Austin Independent School District

Notes to Basic Financial Statements June 30, 2019

Note 8. Long-Term Obligations

Long-term obligations include par bonds and loans, self-insurance claims payable, net pension liability and net OPEB liability. At June 30, 2019, the District's debt limitation under local policies, which represents 10.0% of the District's total assessed property value for school tax purposes, is \$121,551,585,435, and the District's legal debt margin is 1.12%.

The following is a summary of changes in long-term obligations (including general obligation bonds, loans, self-insurance claims payable, net pension liability and net OPEB liability) for the fiscal year ended June 30, 2019:

	Bonds Payable	Loans Payable	Self-Insurance Claims Payable	Net Pension Liability	Net OPEB Liability
Balance at June 30, 2018	\$ 1,103,686,465	\$ 2,547,174	\$ 13,555,677	\$ 85,792,166	\$ 293,543,676
Additions—bond premium	38,981,000	-	-	-	-
Current year claims and/or changes in estimates	-	-	73,087,537	-	-
Bond issuances	298,180,000	-	-	-	-
Retirements	(66,897,633)	(399,775)	-	-	-
Claim payments	-	-	(73,414,709)	-	-
Amortized bond premium	(14,563,952)	-	-	-	-
Additions, net pension/OPEB expense	-	-	-	15,364,313	21,790,762
Reductions, net deferred resources	-	-	-	34,527,419	12,629,993
Reductions—prior-year contributions	-	-	-	(7,825,296)	(4,469,481)
Balance at June 30, 2019	<u>\$ 1,359,385,880</u>	<u>\$ 2,147,399</u>	<u>\$ 13,228,505</u>	<u>\$ 127,858,602</u>	<u>\$ 323,494,950</u>
Amount due within one year	<u>\$ 110,669,556</u>	<u>\$ 394,910</u>	<u>\$ 9,614,200</u>	<u>\$ -</u>	<u>\$ -</u>

The District primarily liquidates debt through the Debt Service Fund. Self-insurance liabilities are liquidated through the Internal Service Fund. The net pension liability and net OPEB liability will be liquidated in future years by the General Fund.

Austin Independent School District**Notes to Basic Financial Statements****June 30, 2019**

Note 8. Long-Term Obligations (Continued)

The following is a summary of the interest rates and original issue amounts for the District's long-term debt as of June 30, 2019:

Description	Interest Rate Payable	Amounts Original Issue
Bonded indebtedness:		
2005B Unlimited Tax School Qualified Zone Academy Bonds	3.01%	\$ 4,491,923
2006 Unlimited Tax School Qualified Zone Academy Bonds	2.69%	6,408,071
2008 Unlimited Tax School Qualified Zone Academy Bonds	0.00%	2,442,131
2008 Unlimited Tax Refunding Bonds	4.00-5.25%	100,000,000
2009 Unlimited Tax Building and Refunding	2.00-5.00%	99,495,000
2010A Unlimited Tax Refunding Bonds	2.50-5.00%	25,165,000
2010B Unlimited Tax Refunding Bonds	3.68-5.24%	58,315,000
2011 Unlimited Tax Refunding Bonds	2.00-5.00%	91,625,000
2013A Unlimited Tax Refunding Bonds	1.50-5.50%	101,100,000
2013B Unlimited Tax Refunding Bonds	0.443-2.333%	8,555,000
2014A Unlimited Tax Refunding Bonds	2.00-5.00%	54,815,000
2014B Unlimited Tax Refunding Bonds	5.00%	89,595,000
2015A Unlimited Tax Refunding Bonds	3.15-5.00%	63,110,000
2015B Unlimited Tax Refunding Bonds	5.00%	87,295,000
2015 Unlimited Tax Qualified School Construction Bonds	4.85%	24,078,000
2016A Unlimited Tax Refunding	4.00-5.00%	100,230,000
2016B Unlimited Tax Refunding	4.00-5.00%	180,395,000
2016C Unlimited Tax Refunding	5.00%	43,620,000
2017 Unlimited Tax Building and Refunding	2.50-5.00%	218,960,000
2019 Unlimited Tax School Building & Refunding Bonds	4.00-5.00%	298,180,000
		<u>\$ 1,657,875,125</u>

Austin Independent School District

Notes to Basic Financial Statements June 30, 2019

Note 8. Long-Term Obligations (Continued)

Description	Amounts Outstanding June 30, 2018	Additions Current Year	Retired Current Year	Amounts Outstanding June 30, 2019
Bonded indebtedness:				
Building bonds:				
2005B Unlimited Tax School Qualified Zone Academy	\$ 4,491,923	\$ -	\$ -	\$ 4,491,923
2006 Unlimited Tax School Qualified Zone Academy	6,408,071	-	-	6,408,071
2008 Unlimited Tax School Qualified Zone Academy	915,801	-	(152,633)	763,168
2008 Unlimited Tax Refunding	3,410,000	-	(3,410,000)	-
2009 Unlimited Tax Building and Refunding	6,255,000	-	(3,065,000)	3,190,000
2010 Unlimited Tax Refunding	62,315,000	-	(4,000,000)	58,315,000
2011 Unlimited Tax Refunding	8,105,000	-	(2,570,000)	5,535,000
2013A Unlimited Tax Refunding	59,460,000	-	(3,265,000)	56,195,000
2013B Unlimited Tax Refunding	4,660,000	-	(2,310,000)	2,350,000
2014A Unlimited Tax Refunding	48,035,000	-	(2,025,000)	46,010,000
2014B Unlimited Tax Refunding	86,655,000	-	(8,455,000)	78,200,000
2015A Unlimited Tax Refunding	60,975,000	-	(2,220,000)	58,755,000
2015B Unlimited Tax Refunding	87,295,000	-	-	87,295,000
2015 Unlimited Tax Qualified School Construction Bonds	24,078,000	-	-	24,078,000
2016A Unlimited Tax Refunding	82,405,000	-	(17,025,000)	65,380,000
2016B Unlimited Tax Refunding	172,030,000	-	(7,960,000)	164,070,000
2016C Unlimited Tax Refunding	43,620,000	-	-	43,620,000
2017 Unlimited Tax Building and Refunding	218,960,000	-	(10,440,000)	208,520,000
2019 Unlimited Tax Building and Refunding	-	298,180,000	-	298,180,000
Bond premium	123,612,670	38,981,000	(14,563,952)	148,029,718
Total bond indebtedness	<u>\$ 1,103,686,465</u>	<u>\$ 337,161,000</u>	<u>\$ (81,461,585)</u>	<u>\$ 1,359,385,880</u>

The bonds issued by the District constitute direct obligations of the District, payable from a continuing, direct annual ad valorem tax levied, without legal limit as to rate or amount, against all taxable property within the District.

At June 30, 2019, approximately 80% of outstanding bonds issued by the District are guaranteed by the Texas Permanent School Fund Permanent School Fund Guarantee Program (Program). Through the Program, the Texas Permanent School Fund (TPSF) pledges to guarantee bonds issued by Texas school districts thus enhancing their credit rating. Bonds issued under the Bond Guarantee Program are rated AAA, thus allowing participating school districts to borrow at a lower cost.

There are no specific events of default, other than non-payment of principal or interest, established with respect to the bonds. In the event of default, holders of guaranteed school district bonds will receive all payments due on the bonds from the corpus of the Permanent School Fund. 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.

Austin Independent School District

**Notes to Basic Financial Statements
June 30, 2019**

Note 8. Long-Term Obligations (Continued)

Presented below is a summary of general obligation bonds requirements to maturity:

	Principal	Interest	Total
Years ending June 30:			
2020	\$ 110,669,556	\$ 50,856,916	\$ 161,526,472
2021	68,065,704	49,613,677	117,679,381
2022	48,167,633	46,498,679	94,666,312
2023	50,462,633	44,124,916	94,587,549
2024	52,777,636	41,672,456	94,450,092
2025-2029	296,235,000	167,064,852	463,299,852
2030-2034	358,988,000	88,785,455	447,773,455
2035-2039	225,990,000	24,633,562	250,623,562
2040-2041	-	410,600	410,600
	<u>\$ 1,211,356,162</u>	<u>\$ 513,661,114</u>	<u>\$ 1,725,017,276</u>

There are a number of limitations and restrictions contained in the District's general obligation bond indenture. Management of the District believes it is in compliance with all significant limitations and restrictions at June 30, 2019.

The District entered into a loan agreement in April 2012 with the State Energy Conservation Office—General Services Commission. The District will repay the loan amount, plus interest at 3%. The loan will be repaid as follows:

Fiscal Years	Principal	Interest	Total
2020	\$ 394,910	\$ 65,354	\$ 460,264
2021	406,891	53,372	460,263
2022	419,236	41,028	460,264
2023	431,955	28,308	460,263
2024	445,061	15,203	460,264
Thereafter	49,346	1,707	51,053
	<u>\$ 2,147,399</u>	<u>\$ 204,972</u>	<u>\$ 2,352,371</u>

During fiscal year 2019, interest expense and cash paid for interest for loans and general obligation bonds totaled \$43,449,869.

Austin Independent School District**Notes to Basic Financial Statements
June 30, 2019**

Note 9. Interfund Receivables and Payables

Interfund balances occur when one fund pays or receives resources for another fund. Interfund balances at June 30, 2019, consisted of the following fund receivables and payables:

	Due From	Due To
Major Fund—General:		
Debt Service	\$ -	\$ 1,079
Capital Projects	53,776,257	-
Nonmajor	12,522,732	-
Internal Service	-	905,686
Total General Fund	66,298,989	906,765
Major Fund—Debt Service:		
General	1,079	-
Total Debt Service Fund	1,079	-
Major Fund—Capital Projects:		
General	-	53,776,257
Nonmajor	499,200	-
Internal Service	-	432
Total Capital Projects Fund	499,200	53,776,689
Nonmajor Funds:		
General	-	12,522,732
Capital Projects	-	499,200
Internal Service	-	70,493
Total Nonmajor Funds	-	13,092,425
Internal Service Fund:		
General	905,686	-
Capital Projects	432	-
Nonmajor	70,493	-
Total Internal Service Fund	976,611	-
Total all funds	\$ 67,775,879	\$ 67,775,879

During the year, the Debt Service Fund and the General Fund transferred \$360,000,000 and \$5,000,000, respectively, to the Capital Projects Fund to fund capital outlay and retire commercial paper that originated and matured in the current fiscal year. See Notes 7 and 15 for more information.

Note 10. Commitments and Contingencies

At June 30, 2019, the District is committed under contracts in the amount of approximately \$272 million. The commitments are for remaining work on various construction projects. These commitments are payable from the Capital Projects Fund.

Austin Independent School District

Notes to Basic Financial Statements June 30, 2019

Note 10. Commitments and Contingencies (Continued)

The District participates in a number of federal financial assistance programs. Although the District's grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments and Subpart F of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* through June 30, 2019, these programs are still subject to financial and compliance audits and resolution of previously identified questioned costs. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

The District leases certain building facilities and equipment on a year-to-year basis. Total rent expenditures for the year ended June 30, 2019, was \$4,521,217. These leases are considered for accounting purposes to be operating leases.

The District has been named in several civil lawsuits. The outcome of these pending cases cannot presently be determined; however, the District plans to vigorously contest each action. In the opinion of management, disposition of these lawsuits will have no material adverse effect on the financial position of the District.

The Travis County Central Appraisal District is a defendant in various lawsuits involving the property values assigned to property located within the District's boundaries on which the District assesses property taxes. The District could be required to refund property taxes paid on values which were greater than the ultimate final assessed valuation assigned by the court. Such lawsuits could continue several years into the future. The District believes any refunds of taxes associated with contested property values would not be material to the financial statements.

Note 11. Defined Benefit Pension Plan

A. Plan Description

The District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by TRS. It is a defined benefit pension plan established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. 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.

B. Pension Plan Fiduciary Net Position

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

Austin Independent School District

Notes to Basic Financial Statements June 30, 2019

Note 11. Defined Benefit Pension Plan (Continued)

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

D. 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) established the employer contribution rates for fiscal years 2018 and 2019 would remain the same.

	2018	2019
Member	7.7%	7.7%
Nonemployer Contributing Entity (State) (NECE)	6.8%	6.8%
Employers	6.8%	6.8%
District's employer contributions	\$ 9,176,005	\$ 8,373,441
District's member contributions	\$ 42,824,881	\$ 42,423,763
District's NECE contributions	\$ 32,798,322	\$ 37,465,141

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

Austin Independent School District

Notes to Basic Financial Statements June 30, 2019

Note 11. Defined Benefit Pension Plan (Continued)

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

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

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

- When employing a retiree of the TRS the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district or charter school does not contribute to the Federal Old-Age, Survivors and Disability Insurance 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.

E. Actuarial Assumptions

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

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Discount Rate	6.907%
Long-Term Expected Investment Rate of Return	7.25%
Inflation	2.3%
Salary Increases including inflation	3.05% to 9.05%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

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

Austin Independent School District

Notes to Basic Financial Statements
June 30, 2019

Note 11. Defined Benefit Pension Plan (Continued)

F. Discount Rate

The discount rate used to measure the total pension liability was 6.907%. The single discount rate was based on the expected rate of return on pension plan investments of 7.25% and a municipal bond rate of 3.69%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the nonemployer 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 TRS' target asset allocation as of August 31, 2018, are summarized below:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns*
Global Equity:			
U.S.	18%	5.7%	1.0%
Non-U.S. Developed	13%	6.9%	0.9%
Emerging Markets	9%	9.0%	0.8%
Directional Hedge Funds	4%	3.5%	0.1%
Private Equity	13%	10.2%	1.3%
Stable Value:			
U.S. Treasuries	11%	1.1%	0.1%
Absolute Return	0%	0.0%	0.0%
Stable Value Hedge Funds	4%	3.1%	0.1%
Cash	1%	(0.3%)	0.0%
Real Return:			
Global Inflation Linked Bonds	3%	0.7%	0.0%
Real Assets	14%	5.2%	0.7%
Energy and Natural Resources	5%	7.5%	0.4%
Commodities	0%	0.0%	0.0%
Risk Parity:			
Risk Parity	5%	3.7%	0.2%
Inflation Expectation	0%	0.0%	2.4%
Alpha	0%	0.0%	(0.8%)
Total	100%		7.2%

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

Austin Independent School District

Notes to Basic Financial Statements June 30, 2019

Note 11. Defined Benefit Pension Plan (Continued)

G. Discount Rate Sensitivity Analysis

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

	1% Decrease in	Discount	1% Increase in
	Discount Rate (6.907%)	Rate (7.907%)	Discount Rate (8.907%)
District's proportionate share of the net pension liability	\$ 192,969,290	\$ 127,858,602	\$ 75,147,639

H. 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 \$127,858,602 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	\$ 127,858,602
State's proportionate share that is associated with the District	477,910,010
Total	<u>\$ 605,768,612</u>

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

At August 31, 2018, the employer's proportion of the collective net pension liability was 0.23229% which was a decrease of 13.43% 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:

- 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% as of August 31, 2017 to 6.907% as of August 31, 2018.
- The long-term assumed rate of return changed from 8.0% to 7.25%.

Austin Independent School District

Notes to Basic Financial Statements June 30, 2019

Note 11. Defined Benefit Pension Plan (Continued)

- 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 affect measurement of the total pension liability during the measurement period.

During the measurement period ended August 31, 2018, the District recognized pension expense of \$47,300,353 and revenue of \$47,300,353 for on-behalf payments provided by the state.

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

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual economic experience	\$ 796,966	\$ 3,137,145
Changes in actuarial assumptions	46,099,185	1,440,601
Difference between projected and actual investment earnings	6,644,720	9,070,746
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	1,073,480	29,225,685
Contributions paid to TRS subsequent to the measurement date	6,906,284	-
Total	<u>\$ 61,520,635</u>	<u>\$ 42,874,177</u>

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

	Pension Expense Amount
Years ending June 30:	
2020	\$ 2,963,686
2021	(2,141,545)
2022	(2,983,069)
2023	4,169,338
2024	5,918,401
Thereafter	3,813,363
	<u>\$ 11,740,174</u>

The deferred outflows and deferred inflows resulting from the difference between projected and actual earnings on pension plan investments will be recognized as a reduction of pension expense over five years. The other deferred inflows and outflows will be recognized in pension expense using the average expected remaining service lives of all members.

Austin Independent School District

Notes to Basic Financial Statements June 30, 2019

Note 12. Defined Other Post-Employment Benefit Plan

A. 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 OPEB plan that has a special funding situation. The plan is administered through a trust by the TRS Board of Trustees. It is established and administered in accordance with the Texas Insurance Code, Chapter 1575.

B. OPEB Plan Fiduciary Net Position

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

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

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

TRS-Care Monthly Rates for Retirees		
Effective January 1, 2108 through 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

Austin Independent School District

Notes to Basic Financial Statements
June 30, 2019

Note 12. Defined Other Post-Employment Benefit Plan (Continued)

D. 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 0.75% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

	<u>Contribution Rates</u>	
	<u>2018</u>	<u>2019</u>
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/private Funding remitted by Employers	1.25%	1.25%
District's employer contributions	\$4,389,421	\$4,834,413
District's member contributions	\$3,614,984	\$3,581,227
District's NECE contributions	\$6,732,279	\$6,886,974

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

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$182.6 million in fiscal year 2018. The 85th Texas Legislature, House Bill 30 provided an additional \$212 million in one-time, supplemental funding for the fiscal year 2018-2019 biennium to continue to support the program. This was also received in fiscal year 2018 bringing the total appropriations received in fiscal year 2018 to \$394.6 million.

Austin Independent School District

Notes to Basic Financial Statements June 30, 2019

Note 12. Defined Other Post-Employment Benefit Plan (Continued)

E. 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 following assumptions and other inputs used for members of TRS-Care are identical to the assumptions used in the TRS pension actuarial valuation:

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

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Discount Rate *	3.69% *
Aging Factors	Based on plan specific experience
Expenses	Third- party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Payroll Growth Rate	3.00%
Projected Salary Increases including inflation	3.05% to 9.05%
Healthcare Trend Rates **	6.75% to 10.74% **
Election Rates	Normal Retirement: 70% participation prior to age 65 and 75% participation after age 65
Ad hoc post-employment benefit changes	None

* Source: 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.

** Initial trend rates are 10.74% and 9.00% for Medicare retirees and 6.75% for non-Medicare retirees.

F. Discount Rate

A single discount rate of 3.69% was used to measure the total OPEB liability. There was a change of 0.27% 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.

Austin Independent School District**Notes to Basic Financial Statements
June 30, 2019**

Note 12. Defined Other Post-Employment Benefit Plan (Continued)**G. Discount Rate Sensitivity Analysis**

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

	1% Decrease in Discount Rate (2.69%)	Discount Rate (3.69%)	1% Increase in Discount Rate (4.69%)
District's proportionate share of the net OPEB liability	\$ 385,070,136	\$ 323,494,950	\$ 274,785,009

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

At June 30, 2019, the District reported a liability of \$323,494,950 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 pension liability	\$ 323,494,950
State's proportionate share that is associated with the District	500,634,072
Total	<u>\$ 824,129,022</u>

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 employer's proportion of the net OPEB liability was based on the employer's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2017, through August 31, 2018.

At August 31, 2018, the employer's proportion of the collective Plan's net OPEB liability was 0.64788% which was a decrease of 4.021% from the proportion measured as of August 31, 2017.

The following schedule shows the impact of the net OPEB liability if a healthcare trend rate that is 1% less than and 1% greater than the assumed 8.5% rate is used.

	1% Decrease in Healthcare Trend Rate (7.50%)	Healthcare Trend Rate (8.50%)	1% Increase in Healthcare Trend Rate (9.50%)
District's proportionate share of the net OPEB liability	\$ 268,667,825	\$ 323,494,950	\$ 395,703,460

Austin Independent School District

Notes to Basic Financial Statements June 30, 2019

Note 12. Defined Other Post-Employment Benefit Plan (Continued)

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

1. 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.
2. The health care trend rate assumption was updated to reflect the anticipated return of the Health Insurer Fee in 2020. This change increased the total OPEB liability.
3. 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.
4. The discount rate was changed from 3.42% as of August 31, 2017 to 3.69% as of August 31, 2018. This change lowered the total OPEB liability \$2.3 billion.

The following changes to benefit terms were made by the 85th Legislature, and became effective on September 1, 2017:

1. A high-deductible health plan was created 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.
2. A single Medicare Advantage plan and Medicare prescription drug plan for all was created for all Medicare eligible participants.
3. TRS is allowed to provide other, appropriate health benefit plans to address the needs of enrollees eligible for Medicare.
4. Retirees and their eligible dependents are allowed to enroll in TRS-Care when the retiree reaches 65 years of age, rather than waiting for the next enrollment period.
5. TRS-Care eliminated free coverage, except for certain disability retirees enrolled during plan years 2018 through 2021, requiring members to contribute \$200 per month toward their health insurance premiums.

During the measurement period ended August 31, 2018, the District recognized OPEB expense of \$18,210,062 and revenue of \$18,210,062 on-behalf payments provided by the state.

Austin Independent School District

Notes to Basic Financial Statements June 30, 2019

Note 12. Defined Other Post-Employment Benefit Plan (Continued)

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

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual actuarial experience	\$ 17,166,674	\$ 5,105,225
Changes in actuarial assumptions	5,398,254	97,191,671
Difference between projected and actual investment earnings	56,575	-
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	1,177	14,896,804
Contributions paid to TRS subsequent to the measurement date	3,827,534	-
Total	<u>\$ 26,450,214</u>	<u>\$ 117,193,700</u>

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

	OPEB Expense Amount
Years ending June 30:	
2020	\$ (14,584,963)
2021	(14,584,963)
2022	(14,584,963)
2023	(14,595,662)
2024	(14,601,782)
Thereafter	(21,618,687)
	<u>\$ (94,571,020)</u>

Note 13. Health Care Coverage

A. Health Insurance Plan

During fiscal year 2019, employees of the District were covered by a self-funded health insurance plan provided by Aetna. District employees were offered a choice of two PPO plans and one HSA plan with two networks (Seton Only, Open Access and HSA Seton). Claims administration is contracted from a third-party administrator. Health benefit consultant services are contracted from an outside entity. The District maintains individual stop-loss coverage for catastrophic losses exceeding \$750,000 per claim.

Under Aetna, the District contributed \$545 per month, per employee to the plans. In addition, a salary banded rate was implemented in fiscal year 2018 for the Seton Only plan. All contributions were paid to licensed insurers. The contracts between the District and the licensed insurer provide terms of coverage and contribution costs. The latest financial statements for the insurance company, available for the year ended December 31, 2018, are filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

Austin Independent School District

Notes to Basic Financial Statements June 30, 2019

Note 13. Health Care Coverage (Continued)

B. Medicare Part D

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which became effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf payments must be recognized as equal revenues and expenditures/expenses by the District. These payments totaled \$2,100,631, \$1,691,460, and \$1,714,194 for fiscal years 2019, 2018, and 2017, respectively.

Note 14. Self-Insurance

The District participates in the Texas Association of School Boards Modified Self-Funded Program for its vehicle liability insurance. In connection therewith, stop-loss insurance for bodily injury over \$100,000 per person, \$300,000 per occurrence, and \$100,000 for personal property is maintained. The District is responsible for claims up to these amounts.

The District is self-insured for workers' compensation coverage. The District contributes amounts to the Internal Service Fund based on an estimate of the ultimate cost of claims expected to be incurred each year and changes in amounts estimated in prior years. The District's retention under this program is limited to \$600,000 per occurrence (all claims relating to an event are considered an occurrence). Through the Texas Association of School Boards Risk Management Fund, the District has contracted with Safety National Casualty Corporation, a commercial insurer licensed in the state of Texas, to provide the coverage per occurrence in excess of \$600,000 up to the statutory limit, as described by state law.

During fiscal year 2019, employees of the District were covered by a self-funded health insurance plan provided by Aetna. District employees were offered a choice of two PPO plans and one HSA plan with two networks (Seton Only, Open Access and HSA Seton). Claims administration is contracted from a third-party administrator. Health benefit consultant services are contracted from an outside entity. The District maintains individual stop-loss coverage for catastrophic losses exceeding \$750,000 per claim.

Changes in workers' compensation and health insurance claims liability amounts are as follows:

	2019		2018	
	Workers' Compensation	Health Insurance	Workers' Compensation	Health Insurance
Beginning of the year liability	\$ 6,966,677	\$ 6,589,000	\$ 6,739,115	\$ 7,459,000
Current year claims	3,266,274	67,395,965	3,217,500	73,536,157
Changes in estimates	(451,675)	2,876,973	35,144	(1,389,426)
Claim payments	(2,866,971)	(70,547,738)	(3,025,082)	(73,016,731)
End of the year liability	\$ 6,914,305	\$ 6,314,200	\$ 6,966,677	\$ 6,589,000

Austin Independent School District

Notes to Basic Financial Statements June 30, 2019

Note 14. Self-Insurance (Continued)

The end of the year liability includes claims incurred and reported and estimated claims incurred, but not reported based on historical activity. Due to the types of risk self-insured, the ultimate amount to be paid out may be more or less than the amount accrued at June 30, 2019. The District has a contingent liability in the event the insurer is unable to fulfill its responsibility under the contract or the incurred claims exceed the amounts covered by stop-loss coverage. There have been no claim settlements exceeding the District's retention limits in the last three years.

Note 15. Short-Term Debt

In June 2005, the Board approved the issuance of Austin Independent School District Commercial Paper Notes, Series A (Commercial Paper) in an aggregate principal amount not to exceed \$150,000,000 for the purpose of funding new construction and rehabilitation and renovation of existing facilities. The Commercial Paper notes mature in not more than 270 days from issuance and are supported by a standby letter of credit with Sumitomo Mitsui Banking Corporation, acting through its New York Branch. The Commercial Paper is secured by a pledge of the proceeds of future general obligation bonds or loans issued by the District to pay the principal of the Commercial Paper or proceeds from ad valorem property taxes. As of June 30, 2019, the District had no outstanding Commercial Paper. Since the beginning of the Commercial Paper Program, the District has issued approximately \$1.005 billion in bonds, using a portion of the proceeds from each of the bond issuances to partially refinance the Commercial Paper. As of June 30, 2019, \$1.041 billion of bond proceeds have been used to refinance the Commercial Paper.

Changes in the Commercial Paper are as follows:

	June 30	
	2019	2018
Beginning of the period liability	\$ -	\$ -
Bonds issued	35,000,000	-
Transfers in to retire commercial paper	(60,000,000)	(26,000,000)
Commercial paper issuances	25,000,000	26,000,000
End of the period liability	\$ -	\$ -

Austin Independent School District

Notes to Basic Financial Statements June 30, 2019

Note 16. Fund Balance

Governmental fund balance as of June 30, 2019, were as follows:

	General Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Fund balances:					
3410 Nonspendable:					
Inventories	\$ 494,865	\$ -	\$ -	\$ 3,181,609	\$ 3,676,474
Prepays and other assets	800	-	750,000	-	750,800
3490 Restricted:					
Retirement of long-term debt	-	138,542,231	-	-	138,542,231
Federal and state funds grants	-	-	-	8,044,916	8,044,916
3500 Assigned:					
Campus enrollment adjustments	1,000,000	-	-	-	1,000,000
Economic stabilization reserve	5,000,000	-	-	-	5,000,000
ERP stabilization	1,000,000	-	-	-	1,000,000
Facilities improvements	-	-	293,707,853	-	293,707,853
Headquarters furniture	1,215,000	-	-	-	1,215,000
Police vehicles	785,000	-	-	-	785,000
Professional pathways for teachers	5,100,000	-	-	-	5,100,000
Program evaluation	100,000	-	-	-	100,000
School safety facility emergency needs	2,000,000	-	-	-	2,000,000
Special projects (e-rate reimbursements)	1,150,000	-	-	-	1,150,000
3600 Unassigned	270,476,533	-	-	-	270,476,533
Total fund balances	<u>\$ 288,322,198</u>	<u>\$ 138,542,231</u>	<u>\$ 294,457,853</u>	<u>\$ 11,226,525</u>	<u>\$ 732,548,807</u>

Note 17. Shared Services Arrangements

The District is the fiscal agent for one shared services arrangement (SSA) which provides deaf education services to member districts whose students are enrolled in the Regional Day School Program for the Deaf. In addition to the District, other member districts in this SSA include the Del Valle ISD.

The District, acting as the fiscal agent, receives monies from the granting agencies and administers the programs. The fiscal agent is responsible for employment of personnel, budgeting, accounting, and reporting. According to guidance provided in TEA's FAR, the District has accounted for the activities of the SSA in the appropriate Special Revenue Funds. Additionally, the SSA's are accounted for using the "Accounting and Reporting Treatment Guidance Section" of FAR.

According to the SSA agreements, costs incurred by the SSA's shall be divided among the member districts in proportion to the number of students each member district has attending the Regional Day School Program and/or receiving services through the Indian Education Formula Grant Consortium.

Austin Independent School District**Notes to Basic Financial Statements
June 30, 2019**

Note 17. Shared Services Arrangements (Continued)

Expenditures allocated to the SSA members as of June 30, 2019, are summarized below by program:

Regional Day School for the Deaf	All Districts	Austin ISD	Del Valle ISD
Number of Students	59	54	5
Fund Year			
315.8	\$ 12,360	\$ 11,313	\$ 1,047
315.9	70,713	64,720	5,993
Discretionary Deaf	83,073	76,033	7,040
340.8	416	381	35
340.9	459	420	39
Early Intervention	875	801	74
435.8	80,361	73,551	6,810
435.9	328,940	301,064	27,876
State Deaf	409,301	374,615	34,686
Total	\$ 493,249	\$ 451,449	\$ 41,800

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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September 23, 2020

WE HAVE ACTED as Bond Counsel in connection with the issuance by the Austin Independent School District (the “District”) of its AUSTIN INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2020, dated September 23, 2020, in the aggregate principal amount of \$255,215,000, maturing on August 1 in each of the years 2021 through 2040, inclusive. The Bonds are issuable in fully-registered form only, in denominations of \$5,000 or integral multiples thereof, are subject to redemption, bear interest, and may be transferred and exchanged as set out in the Bonds, the order (the “Bond Order”) adopted by the Board of Trustees of the District (the “Board”) and the Pricing Certificate dated as of August 27, 2020 (the “Pricing Certificate” and, together with the Bond Order, the “Order”) authorizing their issuance.

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

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the District or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the District’s Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

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

- (1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect; the Bonds constitute valid and



legally binding obligations of the District enforceable in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases; and the Bonds have been authorized and delivered in accordance with law; and

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

THE OPINIONS EXPRESSED herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Order and the Tax Certificate (as hereinafter defined) executed by the District in connection with the issuance of the Bonds, including, without limitation, covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes.

ALSO BASED ON OUR EXAMINATION AS DESCRIBED ABOVE, it is our further opinion that, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

IN PROVIDING THE OPINION set forth in the foregoing paragraph, we are assuming continuing compliance with the Covenants (as hereinafter defined) by the District. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied after the issuance of the Bonds in order for interest on the Bonds to be and remain excludable from gross income for purposes of federal income taxation. These requirements include, by way of example and not limitation, restrictions on the use, expenditure and investment of the proceeds of the Bonds and the use of the property financed by the Bonds, limitations on the source of the payment of and the security for the Bonds, and the obligation to rebate certain excess earnings on the gross proceeds of the Bonds to the United States Treasury. The Order and the District's tax certificate for the Bonds (the "Tax Certificate") contain covenants (the "Covenants") under which the District has agreed to comply with such requirements. If the District fails to comply with the Covenants interest on the Bonds could become includable in gross income for federal income tax purposes retroactively to their date of issue. In the event of noncompliance with the Covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Bonds from becoming includable in gross income for federal income tax purposes. We have no responsibility to monitor compliance with the Covenants after the date of issue of the Bonds.

CERTAIN REQUIREMENTS AND PROCEDURES contained, incorporated or referred to in the Order and Tax Certificate, including the Covenants, may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents.

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

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