

**TEXAS PERMANENT SCHOOL FUND
BOND GUARANTEE PROGRAM SUMMARY
Month Ending September 30, 2017**

The following information is provided for the benefit of holders of Texas school district bonds and charter district bonds that have been guaranteed by the Texas Permanent School Fund (Fund). In addition to the capacity limits established for the Bond Guarantee Program (Program) by relevant State law, the State Board of Education (SBOE) is also authorized to establish reserves of Program capacity. The most recent Program capacity reserve set by the SBOE is 5% of the permissible State limit for the Program.

	PROGRAM TOTAL	CHARTER DISTRICTS ³
Maximum Allowable For Guarantee under Federal law ¹	<u>\$ 117,318,653,038 ¹</u>	
Maximum Allowable For Guarantee under State law ¹	<u>\$ 119,896,290,551 ¹</u>	
Reserve of 5% of the Maximum Allowable for Guarantee ²	<u>\$ 5,966,622,143 ²</u>	<u>\$ 100,689,491 ⁶</u>
Charter District Allocation		5,684,088,740 ³
GUARANTEE CAPACITY AT September 30, 2017	\$ 117,318,653,038 ¹	\$ 2,013,789,828 ³
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Amounts Guaranteed as of September 30, 2017		
- School District Bonds	(73,714,393,056)	
- Charter District Refunding Bonds (≤ 50% of charter capacity)	(498,268,460)	(498,268,460) ⁴
- Charter District Non-Refunding Bonds	(904,786,540)	(904,786,540)
New Guarantees In Process		
- School District Bonds	(828,565,000)	
- Charter District Refunding Bonds (≤ 50% of charter capacity)	-	-
- Charter District Non-Refunding Bonds	-	-
Approved September 30, 2017		
- School District Bonds	(560,165,000)	
- Charter District Refunding Bonds (≤ 50% of charter capacity)	(3,510,000)	(3,510,000)
- Charter District Non-Refunding Bonds	(10,000,000)	(10,000,000)
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Maximum Charter District Refunding Capacity		<u>\$ 1,006,894,914 ⁴</u>
CHARTER DISTRICT RESERVE FUND BALANCE		<u>\$ 4,233,425 ⁵</u>
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NUMBER OF ISSUES GUARANTEED		
Number of Issues as of September 1, 2017	3,293	40
Fiscal Year Activity:		
District Issues Guaranteed During Fiscal Year	41	1
District Issues Refunded or Matured	(3)	-
Number of Issues as of September 30, 2017	<u>3,331</u>	<u>41</u>
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TOTAL BONDS GUARANTEED		
Balance as of September 1, 2017	\$ 74,266,090,023	\$ 1,381,610,000
Fiscal Year Activity:		
District Issues Guaranteed During Fiscal Year	1,080,409,091	23,400,000
District Issues Refunded or Matured	(229,051,058)	(1,955,000)
Balance as of September 30, 2017	<u>\$ 75,117,448,056</u>	<u>\$ 1,403,055,000</u>
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CUMULATIVE HISTORY OF BOND GUARANTEE PROGRAM		
District Issues Guaranteed:		
Amount of Issues Guaranteed from 1985 to August 31, 2017	\$ 166,284,962,207	\$ 1,418,120,000
Amount of Issues Guaranteed in Fiscal Year 2018	1,080,409,091	23,400,000
TOTAL AMOUNT OF ISSUES SINCE INCEPTION	<u>\$ 167,365,371,298</u>	<u>\$ 1,441,520,000</u>

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NOTES:

¹ For State law purposes, the General Land Office (GLO) managed assets are included in the Fund. However, prior to March 31, 2005, when a private letter ruling (the "2005 IRS Letter") was received from the Internal Revenue Service (the "IRS"), such assets were excluded by the Texas Education Agency (Agency) in calculating Fund values for purposes of determining the capacity of the Program under a program capacity limitation deriving from a prior IRS private letter ruling relating to the Fund. The 2005 IRS Letter clarified that the GLO managed assets may be included in Fund values for the purpose of calculating the capacity of the Program.

Beginning in FY 2006, the Agency has included, and for future years the Agency expects to include, GLO managed assets in its reporting of the Market Value and Book Value of the Fund. On December 16, 2009, the Agency received IRS Notice 2010-5 and based on the Notice, calculated the Maximum Allowable for Guarantee to be 5 times the cost value of the Fund on that day (\$117,318,653,038). The limit of the guarantee utilized here is based on the State Capacity Limit determined on the basis of the cost value of the Fund multiplied by the capacity multiplier determined annually by the SBOE, but not to exceed a multiplier of five. On May 21, 2010, the SBOE authorized an increase in the capacity multiplier from 2.5 to 3.0 times cost value of the combined PSF and GLO assets. This new multiplier became effective on July 1, 2010. The SBOE changed the reserve from 8% to 5% at its March 2010 meeting. At its meeting on September 11, 2015, the SBOE voted to increase the capacity multiplier from 3.0 to 3.25, effective February 1, 2016. On February 2, 2017, the SBOE voted to increase the capacity multiplier from 3.25 to 3.50, effective March 1, 2017, as well as increasing the capacity multiplier to 3.75 effective 9/1/2017. At September 30, 2017 the Market Value and the Book Value of total Fund assets were \$41,461,076,596 and \$31,972,344,147 respectively. In determining the Market Value of the PSF, the Agency uses current values for Agency managed investment portfolios and cash held by the GLO. Quarterly valuations provided by the GLO are used for real assets and mineral interests managed by the GLO.

² Per SBOE regulations, codified at Texas Administrative Code Title 19, Part 2, Chapter 33.65, the SBOE shall establish an amount of capacity to be held in reserve of no less than 5.0% of the fund's capacity.

³ At its January 2014 meeting the SBOE approved rules governing participation of Charter Districts in the Program. These rules are codified at Texas Administrative Code Title 19, Part 2, Chapters 33.1001 and 33.67. Chapter 33.67 stipulates that Charter District guarantee capacity shall be based on a ratio of charter students to total public school students, as annually determined by the Commissioner of Education (currently 5.10%), applied against the available capacity of the Bond Guarantee Program. The available capacity is defined in Chapter 33.65 and 33.67 as maximum allowable for guarantee less total amount of outstanding guaranteed bonds, and less the SBOE-established reserve. Effective 9/1/2017 the Texas 85th Legislature amends the Educational Code 45.0532 related to the calculation of the capacity of the bond guarantee program through Senate Bill 1480 (SB1480). SB1480 changes the Charter capacity calculation formula to apply the ratio of Charter students described above directly against the maximum allowable overall Program guarantee. This methodology is designed to be fully phased in over five years.

⁴ Texas Administrative Code Title 19, Part 2, Chapter 33.67 limits guarantees of charter district refunding bonds to no more than 50% of the available charter district capacity. This percentage is to be re-assessed by the Commissioner of Education annually.

⁵ Texas Administrative Code Title 19, Part 2, Chapter 33 Subchapter AA Section 33.1001 establishes rules governing the Charter District Bond Guarantee Reserve Fund. These rules require charter districts with a closing date before March 1, 2017, to initially remit 0.1% of the principal amount on the closing date for the bonds within 30 days of the closing date, and to remit annually to the Agency an amount equal to 0.1% of the principal amount outstanding on the anniversary of the closing date. For charter districts with a closing date on or after March 1, 2017, the Commissioner will calculate an amount equal to 10% of the savings on the charter district resulting from the lower interest rate on the bond due to guarantee by the Fund, in accordance with a methodology described in the Rule. This rate is to be applied against the outstanding bond principal balance, and is to be used for the first payment due, within 30 days of the closing date, and thereafter on the anniversary of the closing date for until all principal has been paid. Per Texas Administrative Code Title 19, Part 2, Chapter 33.67(l), this reserve is to be used to pay charter district principal and interest in the event of a default.

⁶ Texas Administrative Code Title 19, Part 2, Chapter 33.67 was amended to require a 5% reserve against total Charter District guarantee capacity, effective October 19, 2015. This reserve is administrative in nature, and does not impact determination of the total statutory charter district guarantee capacity.