



# Certification of the Permanent School Fund's Bond Guarantee Program for Fiscal Year 2015

February 5, 2016

Members of the Legislative Audit Committee:

The State Auditor's Office certifies that, for the fiscal year ended August 31, 2015, the amount of school district and charter district bonds guaranteed by the Permanent School Fund's (Fund) Bond Guarantee Program (Program) was within the limits applicable to the Program. In addition, the Fund had sufficient capacity of \$4.4 billion to meet the State Board of Education's (Board) requirement to hold no less than 5 percent of the total guarantee capacity in reserve for the same time period.

As of August 31, 2015, the total principal of the 3,117 outstanding bond issues guaranteed by the Program was \$64.0 billion. (See attachment for additional information on the Program's fiscal year 2015 activity.)

Table 1 shows the limits applicable to the Program as of August 31, 2015, imposed by the Board, state statute, and the U.S. Internal Revenue Service. As of August 31, 2015, the Program could guarantee an additional \$18.9 billion in bonds before reaching the limit imposed by Board rules and statute, net of its \$4.4 billion reserve. The final remaining capacity is equal to 21.7 percent of the Program's statutory capacity.

Table 1

Limits Applicable to the Program		
Type of Limit	Limit Amount	Total Applicable Bonds Guaranteed as of August 31, 2015
Total guarantee capacity limit imposed by Board and statute	\$87.3 billion <sup>a</sup>	\$64.0 billion
Total guarantee capacity limit imposed by the U.S. Internal Revenue Service	\$117.3 billion <sup>b</sup>	\$64.0 billion
Charter district allocation	\$825.7 million <sup>c</sup>	\$757.9 million
Charter district refunding bonds	\$412.9 million <sup>d</sup>	\$388.5 million

<sup>a</sup> Title 19, Texas Administrative Code, Section 33.65(e), set a limit on the Program's bond guarantee capacity of three times the cost value of the Fund, as permitted by Texas Education Code, Section 45.053(d).

<sup>b</sup> The U.S. Treasury and the U.S. Internal Revenue Service published proposed rules in the *Federal Register* (Volume 78, pages 56842-56851) that established a bond guarantee capacity limit of no more than 500 percent of the total cost of the assets held by the Fund as of December 16, 2009.

<sup>c</sup> Texas Education Code, Section 45.0532(a), limits the available bond capacity for charter districts based on the percentage of the number of students enrolled in open-enrollment charter districts compared to the total number of students enrolled in all Texas public schools. For fiscal year 2015, that percentage was 4.36 percent.

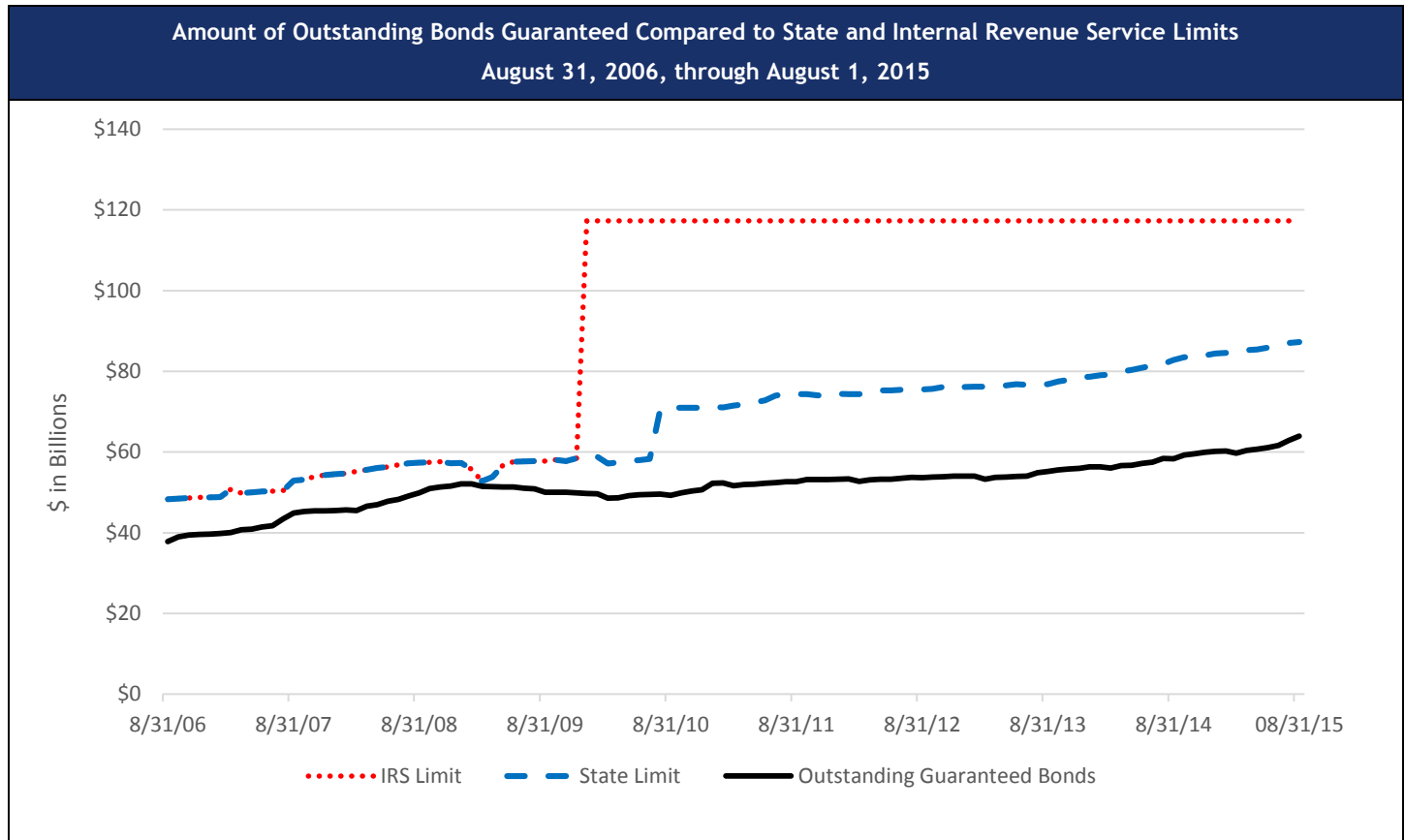
<sup>d</sup> Texas Education Code, Section 45.0532(a-1), limits the amount the commissioner of education can approve for charter district refunding or refinanced bonds for guarantee to one-half of the total amount available for the guarantee of charter district bonds.

Sources: Texas Administrative Code, *Federal Register* (Volume 78, pages 56842-56851), Texas Education Code, and the *Texas Permanent School Fund Comprehensive Annual Financial Report for the Fiscal Year Ending August 31, 2015*.

SAO Report No. 16-014

Figure 1 shows the amounts of outstanding bonds guaranteed and the statutory and U.S. Internal Revenue Service guarantee limits from August 31, 2006, through August 31, 2015. The Board’s additional reserve is not presented in the graph.

Figure 1



Sources: *Texas Permanent School Fund Comprehensive Annual Financial Report for the Fiscal Year Ending August 31, 2015*, and Program data from the Texas Education Agency.

The guarantee saves school districts and charter districts money by enhancing their bond ratings to the highest possible rating. Without the Program’s guarantee, school districts and charter districts would need to (1) purchase private bond insurance or (2) pay higher interest rates on the bonds they sell.

We appreciate the Texas Education Agency's cooperation during this audit, particularly the cooperation of staff of the Permanent School Fund. If you have any questions, please contact Angelica Ramirez, Audit Manager, or me at (512) 936-9500.

Sincerely,

Lisa R. Collier, CPA, CIDA  
First Assistant State Auditor

Attachment

cc: The Honorable Greg Abbott, Governor  
Members of the State Board of Education

Ms. Donna Bahorich, Chair  
Mr. Thomas Ratliff, Vice Chair  
Mr. Lawrence A. Allen, Jr.  
Ms. Erika Beltran  
Mr. David Bradley  
Ms. Barbara Cargill  
Mr. Ruben Cortez, Jr.  
Dr. Martha Dominguez  
Ms. Patricia Hardy  
Mr. Tom Maynard  
Ms. Sue Melton-Malone  
Mr. Ken Mercer  
Ms. Geraldine Miller  
Ms. Marisa Perez  
Mr. Marty Rowley

Texas Education Agency

Mr. Mike Morath, Commissioner of Education  
Mr. Holland Timmins, Executive Administrator and Chief Investment Officer, Permanent School Fund

#### Objective, Scope, and Methodology

The objective of this audit was to determine whether the total amount of school district and charter school bonds the Permanent School Fund's (Fund) Bond Guarantee Program (Program) guarantees is within the limits established by state statute.

The scope of this audit covered the Fund's valuation and all bonds guaranteed by the Fund at the end of fiscal year 2015.

Audit work included reviewing the State Board of Education's bond guarantee limit and reserve calculations for accuracy and determining the Fund's total cost value as of the end of fiscal year 2015.

Auditors also assessed the design and operation of applicable internal controls. That assessment included observing key controls relevant to the Program.

Audit fieldwork was conducted from November 2015 through December 2015. We conducted this audit in conjunction with the financial opinion audit of the Permanent School Fund and in accordance with generally accepted governmental auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. The following staff of the State Auditor's Office performed the audit:

- Hillary Eckford, CIA (Project Manager)
- Ann E. Karnes, CPA
- Dennis Ray Bushnell, CPA (Quality Control Reviewer)
- Angelica M. Ramirez, CPA (Audit Manager)



This document is not copyrighted. Readers may make additional copies of this report as needed. In addition, most State Auditor's Office reports may be downloaded from our Web site: [www.sao.texas.gov](http://www.sao.texas.gov).

In compliance with the Americans with Disabilities Act, this document may also be requested in alternative formats. To do so, contact our report request line at (512) 936-9500 (Voice), (512) 936-9400 (FAX), 1-800-RELAY-TX (TDD), or visit the Robert E. Johnson Building, 1501 North Congress Avenue, Suite 4.224, Austin, Texas 78701.

The State Auditor's Office is an equal opportunity employer and does not discriminate on the basis of race, color, religion, sex, national origin, age, or disability in employment or in the provision of services, programs, or activities.

To report waste, fraud, or abuse in state government call the SAO Hotline: 1-800-TX-AUDIT.

# Attachment

Section 1

## Summary of Bond Guarantee Information

Tables 2 and 3 provide a summary of fiscal year 2015 activity for the Permanent School Fund's Bond Guarantee Program (Program) and show the changes in the number and dollar amount of outstanding bonds guaranteed by the Program.

Table 2

Number of Guaranteed Bonds Outstanding			
Category	School Districts	Charter Districts	Total Number of Issues
Balance on August 31, 2014	2,869	10	2,879
Issued during fiscal year 2015	543	18	561
Issues that matured during fiscal year 2015	(248)	0	(248)
Issues that refunded during fiscal year 2015	(75)	0	(75)
<b>Number of Issues on August 31, 2015</b>	<b>3,089</b>	<b>28</b>	<b>3,117</b>

Source: Supplementary information in the Permanent School Fund's *Comprehensive Annual Financial Report for the Fiscal Year Ending August 31, 2015*.

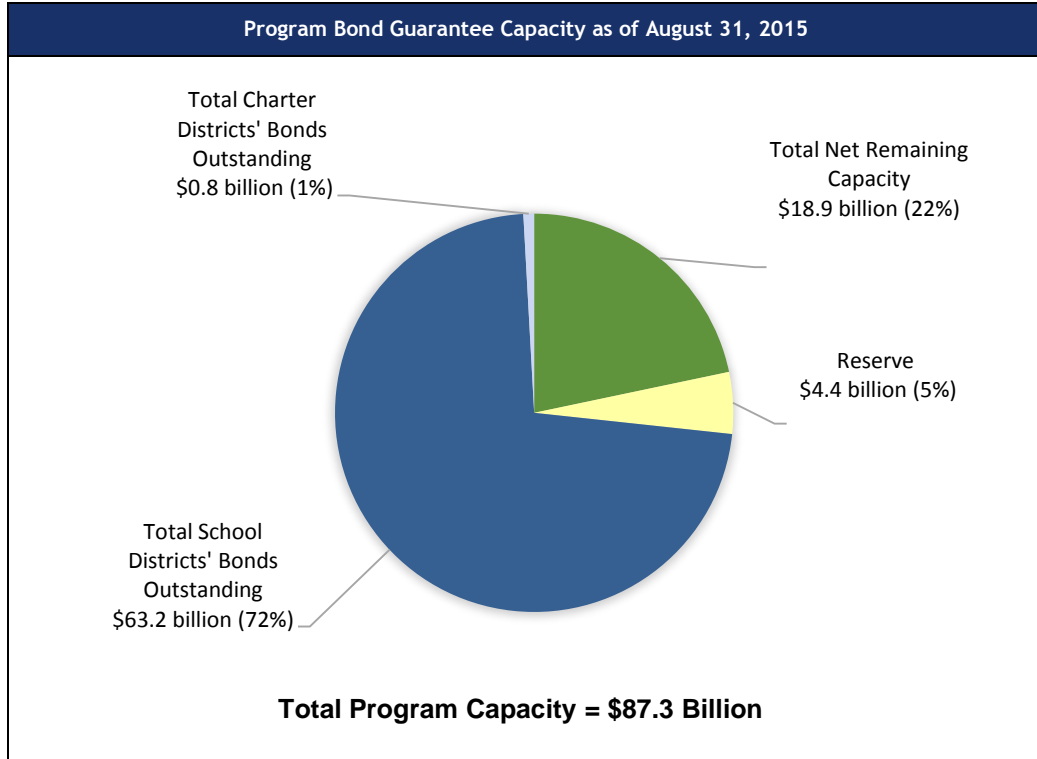
Table 3

Balance of Guaranteed Bonds Outstanding			
Category	School Districts	Charter Districts	Total Amount of Issues
Balance on August 31, 2014	\$ 58,061,805,783	\$ 302,545,000	\$ 58,364,350,783
Issued during fiscal year 2015	17,286,017,818	461,853,000	17,747,870,818
Issues that matured during fiscal year 2015	(2,329,023,333)	(6,463,000)	(2,335,486,333)
Issues that refunded during fiscal year 2015	(9,630,190,220)	0	(9,630,190,220)
Other Adjustments	(191,096,001)	0	(191,096,001)
<b>Balance on August 31, 2015</b>	<b>\$63,197,514,047</b>	<b>\$757,935,000</b>	<b>\$63,955,449,047</b>

Source: Supplementary information in the Permanent School Fund's *Comprehensive Annual Financial Report for the Fiscal Year Ending August 31, 2015*.

Figure 2 provides a summary of the Program’s capacity as of August 31, 2015. The total net remaining capacity of \$18.9 billion includes \$18.1 billion for school districts and \$0.8 billion for charter districts.

Figure 2



Source: Based on Program data from the Texas Education Agency.