

**BOARD OF TRUSTEES
AGENDA**

<input type="checkbox"/> Workshop	<input checked="" type="checkbox"/> Regular	<input type="checkbox"/> Special
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(A) ☒ Report Only ☐ Recognition

Presenter(s): DAVID GONZALEZ, ESTRADA-HINOJOSA & COMPANY, INC.

Briefly describe the subject of the report or recognition presentation.

PRESENTATION ON UNLIMITED TAX REFUNDING BONDS, SERIES 2015

(B) ☐ Action Item

Presenter(s):

Briefly describe the action required.

(C) **Funding source: Identify the source of funds if any are required.**

(D) **Clarification: Explain any question or issues that might be raised regarding this item.**

SEE ATTACHED INFORMATION

June 9, 2015



\$9,345,000

UNLIMITED TAX REFUNDING BONDS, SERIES 2015

ESTRADA • HINOJOSA

INVESTMENT BANKERS

Dallas • Austin • Chicago • Houston • Miami • New York • San Antonio • San Diego

Proposed Financing Team

▪ Issuer	EAGLE PASS INDEPENDENT SCHOOL DISTRICT
▪ Financial Advisor	Estrada Hinojosa & Co., Inc.
▪ Bond Counsel	Escamilla & Poneck PC
▪ Underwriters	Stifel Nicolaus William Blair Frost Bank
▪ Underwriters Counsel	Winstead PC
▪ Rating Agency	Standard & Poor's Moody's
▪ Bond Insurance	PSF TEA Guarantee
▪ Paying Agent	Bank of Texas
▪ Verification Agent	Arbitrage Group

Sources and Uses of Funds

Sources of Funds:

Par Amount	\$ 9,345,000.00
Premium	633,816.70
Total Sources of Funds	<u>\$ 9,978,816.70</u>

Uses of Funds:

Deposit to Escrow Fund	\$ 9,788,201.00
Cost of Issuance	140,900.30
Underwriter's Discount	49,715.40
Total Uses of Funds	<u>\$ 9,978,816.70</u>

Refunding Summary

- Based on current BQ rates, significant NPV and annual savings can be realized by refunding the District's Unlimited Tax Refunding Bonds, Series 2005.

Refunding Summary	
Delivered:	5/21/2015
Par Amount of Refunding Bonds:	\$9,345,000
Par Amount of Refunded Bonds:	\$9,585,000
Net PV Savings:	\$858,886
% Savings of Refunded Bonds:	8.960%
Avg. Annual Savings (FYE 2015-2022):	\$112,704
Avg. Coupon of Refunded Bonds:	4.273%
True Interest Cost (TIC):	1.338%
Current Market Non-BQPSF Rates as of:	5/21/2015

Eligible Bonds to be Refunded

- As shown in the adjacent chart, current rates offer significant savings on a maturity-by-maturity basis versus the existing interest rates.

Eligible Bonds to be Refunded							
Series	Maturity Date	Existing Coupon	Par Amount	Call Date	Call Price	Current Rates	Rate Difference
<i>U/L Tax Refunding Bonds, Series 2005</i>							
Serials	8/15/2016	4.000%	\$ 1,220,000	8/15/2015	100%	0.550%	0.420%
	8/15/2017	4.000%	2,420,000	8/15/2015	100%	0.810%	0.700%
	8/15/2018	5.000%	1,085,000	8/15/2015	100%	1.070%	1.000%
Term 2022	8/15/2019	4.250%	1,140,000	8/15/2015	100%	1.260%	1.170%
	8/15/2020	4.250%	1,190,000	8/15/2015	100%	1.450%	1.320%
	8/15/2021	4.250%	1,240,000	8/15/2015	100%	1.680%	1.420%
	8/15/2022	4.250%	1,290,000	8/15/2015	100%	1.870%	1.500%
			<u>\$9,585,000</u> Total Bonds to be Refunded				

Savings Summary

FYE 8/31	Prior Debt Service	Refunding Debt Service	Savings	Present Value Savings	FYE 8/31
2015	203,200	200,415	2,785	2,777	2015
2016	1,626,400	1,496,300	130,100	128,574	2016
2017	2,777,600	2,649,700	127,900	124,863	2017
2018	1,345,800	1,217,400	128,400	123,784	2018
2019	1,346,550	1,220,900	125,650	119,629	2019
2020	1,348,100	1,218,350	129,750	122,007	2020
2021	1,347,525	1,219,900	127,625	118,532	2021
2022	1,344,825	1,215,400	129,425	118,719	2022
	\$11,340,000	\$10,438,365	\$901,635	\$858,886	

Savings Summary

Net FV Savings from cash flow:	\$901,635
Net PV Savings from cash flow:	\$858,886
% Savings of Refunded Bonds:	8.960%
Avg. Annual Savings (FYE 2015-2022):	\$112,704

Credit and Rating Enhancement

UNDERLYING RATING

Standard & Poor's (S&P)	"A-"
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Fitch	"A+"
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WITH PERMANENT SCHOOL FUND GUARANTEE (PSF)

Standard & Poor's (S&P)	"AAA"
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Fitch	"AAA"
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* Eagle Pass Independent School District received a "AAA" by virtue of the PSF Guarantee Program provided by TEA. This rating represent the highest quality rating assigned by S&P and Fitch for long-term debt. This rating is based upon the insurance and not the District's stand-alone financial condition.

PRELIMINARY OFFICIAL STATEMENT

Dated April 13, 2015

NEW ISSUE - Book-Entry-Only

RATINGS:

Standard & Poor's: Applied For

Fitch: Applied For

PSF Guaranteed

**(See "OTHER INFORMATION – Ratings"
and "THE PERMANENT SCHOOL FUND
GUARANTEE PROGRAM" herein)**

In the opinion of Bond Counsel (identified below), assuming continuing compliance by the District (defined below) after the date of initial delivery of the bonds described below (the "Bonds") with certain covenants contained in the Order authorizing the Bonds and subject to the matters set forth under "TAX MATTERS" herein, interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income of the owners thereof pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Bonds, and (2) will not be included in computing the alternative minimum taxable income of individuals or, except as described herein, corporations (see "TAX MATTERS" herein).

THE DISTRICT WILL NOT DESIGNATE THE BONDS AS "QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS"

\$10,685,000*

EAGLE PASS INDEPENDENT SCHOOL DISTRICT

(Maverick County, Texas)

UNLIMITED TAX REFUNDING BONDS, SERIES 2015

Dated Date: May 1, 2015

Due: August 15, as shown on inside cover

Interest to accrue from Date of Delivery

PAYMENT TERMS . . . The \$10,685,000* Eagle Pass Independent School District Unlimited Tax Refunding Bonds, Series 2015 (the "Bonds") will be issued in denominations of \$5,000 or any integral multiple thereof. Interest on the Bonds will accrue from May 21, 2015 (the "Delivery Date") and will be payable on February 15 and August 15 of each year commencing August 15, 2015, 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, premium, if any, 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" herein. It will be the responsibility of the Underwriters of the Bonds to complete and file the DTC Eligibility Questionnaire. The initial Paying Agent/Registrar is BOKF, NA dba Bank of Texas, 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 1207, Texas Government Code, as amended ("Chapter 1207"), and an order adopted by the Board of Trustees (the "Board") of the Eagle Pass Independent School District (the "District") on February 10, 2015 authorizing the issuance of the Bonds (the "Order"). As permitted by Chapter 1207, the Board, in the Order, delegated the authority to certain District officials to execute an "Approval Certificate" evidencing final sales terms of the Bonds. 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 – Authority for Issuance"). **The District has applied to the Texas Education Agency and received conditional approval for the Bonds to be additionally secured by the corpus of the Permanent School Fund of the State of Texas, which will automatically become effective when the Attorney General of Texas approves the issuance of the Bonds (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").**

PURPOSE . . . Proceeds from the sale of the Bonds will be used (1) to refund certain outstanding obligations of the District (the "Refunded Bonds"), as more particularly described in SCHEDULE I – Schedule of Refunded Bonds, in order to achieve debt service savings, and (2) to pay costs related to the issuance of the Bonds (see "PLAN OF FINANCE - Purpose").

See Maturity Schedule, Interest Rates, Yields and CUSIP Numbers on Inside Cover

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the initial purchasers (the "Underwriters") and subject to the approving opinion of the Attorney General of Texas and the approval of certain legal matters by Escamilla & Poneck, LLP, San Antonio, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Winstead PC, San Antonio, Texas.

DELIVERY . . . The Bonds are expected to be available for initial delivery through the services of DTC, on or about May 21, 2015 (the "Delivery Date").

WILLIAM BLAIR

STIFEL, NICOLAUS & COMPANY INCORPORATED

FROST BANK

***Preliminary, subject to change.**

This Preliminary Official Statement and the information herein are subject to change, completion or amendment without notice. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to buy, nor may there be any sale of these securities in any jurisdiction in which such offer, solicitation or sales would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

EAGLE PASS INDEPENDENT SCHOOL DISTRICT

\$10,685,000*

Unlimited Tax Refunding Bonds, Series 2015

Preliminary Timetable of Events

FEBRUARY 2015							MARCH 2015							APRIL 2015							MAY 2015							JUNE 2015						
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S
1	2	3	4	5	6	7	1	2	3	4	5	6	7																					
8	9	10	11	12	13	14	8	9	10	11	12	13	14	5	6	7	8	9	10	11														
15	16	17	18	19	20	21	15	16	17	18	19	20	21	12	13	14	15	16	17	18														
22	23	24	25	26	27	28	22	23	24	25	26	27	28	19	20	21	22	23	24	25														
							29	30	31					26	27	28	29	30			24	25	26	27	28	29	30	28	29	30				

February 5, 2015	(Thursday)	Bond Counsel delivers agenda language to District for February 10th meeting.
February 10, 2015	(Tuesday)	Regular scheduled board meeting to consider approving plan of finance. Board adopts Resolution authorizing "Q" Authority for the issuance of the Series 2015 Refunding Bonds.
February 18, 2015	(Wednesday)	Distribute 1st draft of the Preliminary Official Statement (POS) to bond counsel and District Staff.
February 26, 2015	(Thursday)	Receive comments on the 1st draft of the POS.
March 6, 2015	(Friday)	Distribute 2nd draft of the POS and bond documents to bond counsel, district staff, & underwriters.
March 16, 2015	(Monday)	Receive PSF Guarantee from TEA.
March 17, 2015	(Tuesday)	Receive comments on the 2nd draft of the POS and bond documents.
March 24, 2015	(Tuesday)	Distribute the 3rd draft of the POS to the entire working group.
March 31, 2015	(Tuesday)	Receive comments on FINAL draft of the POS.
Week of April 1st		Rating Agency and Due Diligence Conference Calls.
April 13, 2015	(Monday)	Print and Distribute the POS.
April 15, 2015	(Wednesday)	Receive Ratings.
April 20, 2015	(Monday)	Price the Bonds.
April 22, 2015	(Wednesday)	Submit document to Texas Attorney General.
April 28, 2015	(Tuesday)	Print and Distribute FINAL Official Statement.
May 20, 2015	(Wednesday)	Receive approval from Texas Attorney General.
May 21, 2015	(Thursday)	Close on the financing.
May 28, 2015	(Thursday)	Call the Bonds.
June 9, 2015	(Tuesday)	Regular Scheduled Meeting. Final Pricing Results Presentation.

* Preliminary, subject to change.

Eagle Pass Independent School District, Texas

Unlimited Tax Bonds New Issue Report

Ratings

New Issue^a

Unlimited Tax Refunding Bonds,
Series 2015 AAA

Outstanding Debt

Unlimited Tax Bonds A+

^aThe 'AAA' rating is based on a guarantee provided by the Texas Permanent School Fund, whose insurer strength is rated 'AAA' by Fitch Ratings. The bonds' underlying rating, reflecting the credit quality before consideration of the guaranty, is 'A+'.

Rating Outlook

Stable

New Issue Details

Sale Information: \$10,685,000 Unlimited Tax Refunding Bonds, Series 2015, scheduled to sell April 22 by negotiation.

Security: Unlimited ad valorem tax pledge levied against all taxable property within the district and further secured as to principal and interest payment by the Texas Permanent School Fund (PSF) guarantee.

Purpose: To refund a portion of the district's outstanding debt for interest cost savings.

Final Maturity: Aug. 15, 2022.

Key Rating Drivers

Satisfactory Financial Reserves: Sound reserves have grown as a result of several years of generally positive financial performance. Budget balance has been largely preserved despite state funding reductions in some years.

Moderately Concentrated Resource Base: The local economy centers on trade with Mexico and oil and gas production, and top taxpayer concentration is moderately high. The rating reflects the potential tax base volatility driven by economic activity surrounding the Eagle Ford Shale formation. While taxable assessed valuation (TAV) growth has been strong in recent years, ongoing oil price declines are likely to affect future growth. Ongoing commercial development and state funding mechanisms should offset the potential impact on operating revenue.

Below-Average Demographic Profile: Growth in per capita income has outpaced that of the state and U.S., but overall wealth indices and educational attainment remain very weak.

Affordable Debt Burden: Outstanding debt levels are moderately low, and the carrying costs for debt service and retiree benefits are modest due to state subsidies. The rate of amortization is average, and the district's capital needs are limited. The district's debt service tax rate is well below the state's threshold for new debt issuance.

Rating Sensitivities

Shift in Fundamentals: The rating is sensitive to shifts in the fundamental credit characteristics of the district, including its conservative budget practices and ongoing economic diversification. The Stable Rating Outlook reflects Fitch's expectation that the district will continue to maintain its sufficient level of operating reserves.

Related Research

Fitch Rates Eagle Pass ISD, TX ULT Bonds 'AAA' PSF/A+' Underlying; Outlook Stable (April 2015)

Fitch Affirms Eagle Pass ISD, TX, ULT Bonds at 'A+'; Outlook Stable (January 2015)

Fitch Affirms Eagle Pass ISD, TX's ULTs at 'A+' Underlying; Outlook Stable (January 2013)

Analysts

Shane Sellstrom
+1 512 215-3727
shane.sellstrom@fitchratings.com

Rebecca Moses
+1 512 215-3739
rebecca.moses@fitchratings.com

Rating History

Rating	Action	Outlook/ Watch	Date
A+	Affirmed	Stable	4/14/15
A+	Affirmed	Stable	1/20/15
A+	Affirmed	Stable	1/31/13
A+	Revised	Stable	4/30/10
A-	Affirmed	Stable	8/1/08
A-	Affirmed	Stable	1/15/08
A-	Assigned	Stable	3/1/05

Credit Profile

This 15,000-student district is located along the U.S.-Mexico border, approximately 150 miles southwest of San Antonio. The county seat, Eagle Pass (GO bonds rated 'A+/Stable' by Fitch), serves as the port of entry into Mexico at Piedras Negras, Coahuila.

Local Economy Linked to Mexico and Oil/Gas Activity

The population of the Eagle Pass and Piedras Negras metropolitan area approximates 200,000, providing a solid base for trade and tourism that is complemented by agriculture and oil/gas production in the surrounding Maverick County. Increased oil and gas activity in recent years is tied to drilling in the Eagle Ford Shale, a large natural gas play spanning southern Texas and underlying portions of the district's tax base.

The drilling activity has spurred residential and commercial development which, together with positive reappraisals, produced a 10.7% gain in fiscal 2015 TAV to \$2.2 billion. Average annual TAV growth since fiscal 2008 has been strong at 7%, but future TAV changes related to the Eagle Ford Shale will likely be affected over at least the near term by price declines in oil. Fitch's rating reflects some tax base variability due to the district's participation in this volatile economic sector. However, ongoing retail, hospitality, and gaming development helps diversify the district's tax base to offset potential declines in mineral values.

The top 10 taxpayers comprise a slightly elevated 14% of fiscal 2015 TAV, with ConocoPhillips alone representing 4.6% (long-term issuer default rating of 'A/Stable'). There is some energy-industry concentration among the top payers (four out of 10), which exposes the district to economic cyclicity in that sector. The remaining top payers span healthcare, retail, real estate, and utilities. The large amount of farm and ranch land in Maverick County makes up the largest share of the tax roll and contributes to an average per-capita market value of \$61,000.

Enrollment, on which state aid is largely based, has flattened in recent years, with fiscal 2014 enrollment up 0.5% from the prior year. Officials project flat enrollment to continue in the near term.

Persistently High Unemployment, Low Wealth

Top employers include the school district, retail, healthcare, and a casino, though the area's large migrant-worker labor force has contributed to historically elevated unemployment rates. County unemployment in January 2015 dropped to 11.7% from 13.7% year over year due to employment and labor force growth, though this figure is well above the state (4.6%) and U.S. (6.1%) rates. Resident wealth levels are below average, with per capita income at 53% of the state average and individual poverty at twice the national rate.

Prudent Budget Practices Add to Reserves

Conservative budgeting practices yielded operating surpluses in five of the past six years, with only a modest deficit in fiscal 2012 due to state budget cuts. Increased local and state revenues produced positive results in fiscal years 2013 and 2014, as the district outperformed budget expectations in each year. The general fund produced a modest surplus of \$478,000 (0.4% of spending) in fiscal 2014, despite a \$3.6 million transfer to the capital projects fund. The fiscal 2014 unrestricted fund balance totaled \$16.3 million, or a solid 12% of spending. Liquid general fund assets remained satisfactory.

Related Criteria

[Tax Supported Rating Criteria \(August 2012\)](#)

[U.S. Local Government Tax Supported Rating Criteria \(August 2012\)](#)

General Fund Financial Summary

(\$000, Audited Fiscal Years Ended Aug. 31)

	2010	2011	2012	2013	2014
Revenues	111,904	114,570	111,783	117,572	124,069
Expenditures	109,774	107,356	110,167	115,185	118,568
Operating Surplus	2,130	7,214	1,616	2,387	5,501
Transfers In	8,255	8,149	9,739	12,965	12,501
Other Sources	31	10	24	5	5
Transfers Out	9,313	9,745	12,160	13,296	17,529
Net Surplus/(Deficit)	1,103	5,628	(781)	2,061	478
Total Fund Balance	9,779	15,408	14,627	16,688	17,166
As % of Expenditures, Transfers Out, and Other Uses	8.2	13.2	12.0	13.0	12.6
Unreserved Fund Balance ^a	9,322	—	—	—	—
As % of Expenditures, Transfers Out, and Other Uses	7.8	—	—	—	—
Unrestricted Fund Balance ^b	—	14,634	13,606	15,722	16,277
As % of Expenditures, Transfers Out, and Other Uses	—	12.5	11.1	12.2	12.0

^aPre GASB 54. ^bReflects GASB 54 classifications: Sum of committed, assigned, and unassigned. Note: Numbers may not add due to rounding.

The district's 2015 budget includes a general fund deficit of \$1.1 million (0.8% of spending), reflecting flat enrollment projections. However, officials expect to achieve a modest year-end surplus due to revised state revenue estimates. The district typically budgets conservatively for state funding and maintains a degree of expenditure flexibility in its ability to increase class sizes, which are currently below the state's maximum. Fitch expects that reserves and liquidity will remain sound.

Low Debt Service Burden Due to State Subsidies

Overall debt ratios, including direct and overlapping debt, are low to moderate at \$1,913 per capita and 3.1% of market value. Debt service is heavily subsidized by state funds, totaling 63% of annual debt service. Net of state subsidies, debt service is only 1.6% of governmental fund spending. The rate of amortization is average, with 45% of principal retiring in 10 years.

The district maintains a five-year facility plan that includes annual cash funding of improvements as needed. Due to the district's flat enrollment trend, officials indicate no near-term borrowing plans.

The current tax rate for debt service is \$0.11 per \$100 of TAV, which is very competitive with other school districts and affords significant capacity if debt needs were to arise.

Debt Statistics

(\$000)

This Issue	10,685
Outstanding Direct Debt — Net of Refunding	45,315
Total Net Direct Debt	56,000
Overlapping Debt	59,786
Total Overall Debt	115,786
Debt Ratios	
Net Direct Debt Per Capita (\$) ^a	925
As % of Market Value ^b	1.5
Overall Debt Per Capita (\$) ^a	1,913
As % of Market Value ^b	3.1

^aPopulation: 60,520 (2015 estimate). ^bMarket value: \$3,698,356,000 (fiscal 2015). Note: Numbers may not add due to rounding.

Affordable Pension Obligations

Pension benefits are provided through the state's Teacher Retirement System (TRS), a cost-sharing multiple employer plan. The state pays the bulk of the required contributions on behalf of the district and currently funds TRS at 74.5% using an adjusted 7% investment return rate. The district's annual required contribution to TRS was \$597,000 in fiscal 2014, or a marginal 0.4% of governmental fund spending. Combined carrying costs for debt service and pensions totaled 2% of spending.

Texas School Funding Litigation

A Texas district judge ruled in August 2014 that the state's school finance system is unconstitutional. The ruling, which was in response to a consolidation of six lawsuits representing 75% of Texas school children, found the system inefficient, inequitable, and underfunded. The judge also ruled that local school property taxes are effectively a statewide property tax due to lack of local discretion and therefore are unconstitutional.

Following a similar ruling in February 2013, the judge granted a motion to reopen the lawsuit four months later after state legislative action that partially restored state funding levels and made other program changes. Fitch expects the state will appeal the latest ruling to the state supreme court. If the state school finance system is ultimately found unconstitutional, the Legislature will be directed to make changes to the system to restore its constitutionality. Fitch would view positively any changes that include additional funding for schools and more local discretion over tax rates.

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RatingsDirect®

Summary:

Eagle Pass Independent School District, Texas; School State Program

Primary Credit Analyst:

Jennifer K Garza (Mann), Dallas (1) 214-871-1422; jennifer.garza@standardandpoors.com

Secondary Contact:

Omar M Tabani, Dallas (1) 214-871-1472; omar.tabani@standardandpoors.com

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Rationale

Outlook

Related Criteria And Research

Summary:

Eagle Pass Independent School District, Texas; School State Program

Credit Profile

US\$10.685 mil unlt'd tax rfdg bnds ser 2015 dtd 05/01/2015 due 08/15/2022

<i>Long Term Rating</i>	AAA/Stable	New
<i>Underlying Rating for Credit Program</i>	A-/Positive	New
Eagle Pass Indpt Sch Dist PSF/CRS		
<i>Long Term Rating</i>	AAA/Stable	Current
<i>Underlying Rating for Credit Program</i>	A-/Positive	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'A-' underlying rating and 'AAA' enhanced rating to Eagle Pass Independent School District, Texas' series 2015 unlimited tax (GO) refunding bonds. At the same time, Standard & Poor's affirmed its 'A-' underlying rating on the district's existing GO bonds. The outlook on the underlying is positive, based on our view of the continued improvement in the district's financial position, which coupled with continued expansion of the property tax base, could result in a raised rating within the next two years. The outlook on the long-term rating is stable, reflecting the state's enhanced rating.

The 'AAA' program rating reflects the strength of the enhancement program which is the Texas Permanent School Fund guarantee.

The rating reflects our opinion of the district's:

- Expanding and increasingly diverse property tax base, coupled with stable student enrollment, and
- Good financial management practices, which support an improving general fund reserve position.

In our opinion, the district's low wealth and income levels and relatively high unemployment rate are limiting rating factors.

The district's unlimited ad valorem tax pledge secures the bonds. Management indicates bond proceeds will be used to refund the district's existing debt for present value savings.

Eagle Pass Independent School District, with an estimated population of 60,520, is on the Mexican border in south Texas about 140 miles southwest of San Antonio and encompasses most of Maverick County. The district's economy is closely tied to international trade. Eagle Pass has two international bridges that link it with Piedras Negras, which has a population of about 250,000, in the Mexican state of Coahuila. Despite growth in trade and trade-related services, the local economy remains fairly limited to small retail, light manufacturing, and ranching. Unemployment rates in Maverick County remained high at 11.7% as compared with 4.4% and 5.7% for the state and national averages,

respectively, for January 2015. In addition, median household effective buying income is, in our opinion, low at 63% of the national average.

The property tax base growth has remained stable for the past few years. Assessed value (AV) grew by a 7.9% annual average during the past three years to \$2.15 billion in fiscal 2015. Market value, however, is adequate at \$35,647 per capita. The district is projecting AV will continue to grow between 3% and 5% during the next two years. The district's enrollment has increased by a cumulative 1.5% since 2011 to 15,076 students in fiscal 2014. Management expects enrollment will remain steady for the next few years as well. Average daily attendance, which is driven by enrollment growth, is a key determinant of state funding.

In our view, the district's financial position remains strong, as evidenced by reported surpluses in four of the past five fiscal years. In fiscal 2013, the district reported a \$2.1 million operating surplus, which management attributes to conservative budgeting practices, including an underestimation of local property taxes and state aid, both of which performed stronger than budgeted. This resulted in a year-end available general fund balance of \$15.7 million or 13.7% of expenditures, which we consider strong. Audited results for fiscal 2014 indicate yet another surplus of \$478,000, slightly increasing the total available reserves to \$16.3 million or 13.7% of expenditures. The adopted fiscal 2015 budget includes a general fund deficit of \$1.1 million, which is largely based on an assumption of a \$2.4 million decline in state aid. However, management is estimating a \$1.3 million operating surplus in the general fund due to provision two funding and plans to use the surplus for non-recurring purposes. The district's long-term financial projections indicate continued strengthening in the general fund balance, which management expects might reach approximately \$18.6 million by fiscal 2017. We believe that continued strengthening in the district's level of reserves will contribute to a higher level of financial flexibility and potential improvement in the district's credit profile.

The fiscal 2015 tax rate remained stable at \$1.15 per \$100 of AV, including an operations levy of \$1.04 per \$100 of AV. The district continues to have revenue-raising flexibility because officials can increase the operations levy by an additional 13 cents, with electorate approval, for a state-authorized maximum operations rate of \$1.17 per \$100 of AV. However, officials report that they have no plans to adjust the rate in the near future.

We consider the district's management practices "good" under Standard & Poor's Financial Management Assessment (FMA). A FMA of "good" indicates that practices exist in most areas, although not all may be formalized or regularly monitored by governance officials. The district's practices include a conservative estimation of revenues and expenditures, monthly reporting to the board on budgetary performance and investment holdings and performance, and an informal target to maintain general fund reserves of at least one month of operations. The district does not have a formal debt management policy and long-term financial and capital planning is done informally and not as part of a board-approved document that is reviewed annually.

Eagle Pass Independent School District receives state support that covers about 62% of its debt service payments, which greatly reduces its overall net debt burden. Its overall debt burden is 3.8% of AV, which we consider moderate, and \$1,359 per capita, which we consider low. Debt amortization is slower than average, with only 45% of principal due to be retired in 10 years. The district reports that it has not entered into any alternative financing or direct purchase transactions and has no authorized but unissued debt remaining. Management does not have any plans to approach voters for a bond election within the next few years.

The district provides pension benefits to eligible employees by participating in the Teachers' Retirement System of Texas (TRS) and contributed \$597,000 and the state contributed about \$5.3 million, the remainder of the annual required contribution, in fiscal 2014, which combined equaled about 4.3% of total governmental fund expenditures. In addition, eligible district employees participate in TRS-CARE, with payments made largely by the state on behalf of the district amounting to about \$217,325 during fiscal 2014. Both the pension and other postemployment benefit obligation contributions combined equal 4.4% of the governmental funds budget.

Outlook

The positive outlook reflects the continuing improvement in the district's financial position, which we believe is largely the result of an expanding property tax base and conservative budget assumptions. Should this performance continue, as evidenced by strong operating results through year-end fiscal 2015 and a similar trend in the adopted budget for fiscal 2016, we could raise the rating by one notch. Conversely, we could revise the outlook to stable if fiscal 2015 year-end results reflect a reduction in general fund reserves and the adopted fiscal 2016 budget points to a continued declining trend in reserves. The outlook on the long-term rating is stable, reflecting the state's enhanced rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: State Credit Enhancement Programs, Nov. 13, 2008
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

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1701 North Congress Avenue • Austin, Texas 78701-1494 • 512 463-9734 • 512 463-9838 FAX • tea.texas.gov

Michael Williams
Commissioner

March 30, 2015

Mr. Gilberto Gonzalez, Superintendent
Eagle Pass Independent School District
1420 Eidson Road
Eagle Pass, Texas 78852-5604

Dear Mr. Gonzalez:

Please be informed that your application for guarantee pursuant to the bond guarantee program (the "Guarantee Program") administered by the Texas Education Agency (the "Agency") of the Eagle Pass Independent School District's (the "District") Unlimited Tax Refunding Bonds, Series 2015, dated April 15, 2015, in the principal amount of \$10,685,000.00 (the "Bonds") has been preliminarily approved for guarantee in accordance with the Guarantee Program, subject to the following requirements: (1) the bond rating of the issue must be below the "AAA" category by a nationally recognized municipal bond rating service, (2) the District must include in its Official Statement relating to the Bonds the language set forth in the PSF Bond Guarantee Program Disclosure Language (the "Official Statement Disclosure"), entitled "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" available at the following web link: http://tea.texas.gov/Finance_and_Grants/State_Funding/Facilities_Funding_and_Standards/Bond_Guarantee_Program/, and (3) each Bond must have printed on or attached to it the statement of guarantee in the form of the attachment to this letter entitled "PSF CERTIFICATE" (the "Bond Legend").

The preliminary approval of the Guarantee Program was based upon the capacity of the Permanent School Fund to guarantee bonds according to statutory and regulatory limits. At this time capacity is at a level that interim notifications of the district's intention to move forward with the sale of the bonds are not necessary.

In consideration for the application fee of the District, other valuable consideration with respect to the issuance of the Bonds by the District and the agreement of the District evidenced by the acceptance of the terms of this letter, and in order to induce investors to purchase the Bonds (and for their benefit) the Agency will (1) comply with the terms of the portion of State Board of Education investment policy codified in Section I of the Agency's Investment Procedure Manual ("Section I"), undertaking to provide ongoing information with respect to the Guarantee Program (including, specifically, the Permanent School Fund), and (2) provide or cause to be provided audited annual financial statements for the Guarantee Program, the Permanent School Fund (the "PSF") and the State of Texas to the MSRB (as such term is defined in Section I), when and if available, as required by rule

15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12"). Financial data provided in accordance with this agreement will include 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. Financial statements of the PSF will be prepared on a flow of economic resources measurement focus and the accrual basis of accounting in accordance with Statement No. 20 of the Governmental Accounting Standards Board, or such other accounting principles as the Agency is required to employ from time to time pursuant to State law or regulation.

This agreement shall become effective with respect to the Bonds upon the issuance of the Bonds, if the District takes the steps required by this letter for the effectuation of the guarantee of the Bonds by the PSF pursuant to the Guarantee Program, and will remain in effect (and may be enforced in an action for mandamus or specific performance by beneficial owners of the Bonds but not otherwise) so long as the Agency or the State is an "obligated person" with respect to such guarantee within the meaning of Rule 15c2-12.

Because of limitations on Agency staff dedicated to the administration of the Guarantee Program, the Agency will be unable to respond to requests to review and comment upon proposed Official Statement disclosures concerning Rule 15c2-12 undertaking by the Agency or upon the Bond Legend to be printed on or attached to the Bonds. However, the Agency hereby represents to the District for its benefit and the benefit of the underwriters of the Bonds (if the Bonds are being sold in a negotiated sale) or the initial purchasers of the Bonds (if the Bonds are being sold competitively) that the information in the Official Statement Disclosure is accurate as of the date of this letter.

Upon sale of the bonds, please provide written notification to the Office of School Finance within ten (10) calendar days as to whether or not the guarantee is in effect. Should the PSF guarantee be in effect, this notification must include a copy of each of the following:

1. The order of the Board of Trustees certifying the sale of the guaranteed bonds (which is to include a statement that if the guaranteed bonds are defeased, the guarantee of such bonds would be removed in its entirety), and a statement that in case of default, and in accordance with Texas Education Code §45.061, the comptroller of public accounts will withhold the amount paid, plus interest, from the first state money payable to the school district in the following order: Foundation School Fund, Available School Fund,
2. the Official Notice of Sale,
3. the Final Official Statement and
4. for refunded bonds, a present value final savings schedule.

Only after the above items have been received will an original of the Bond Legend to be printed or attached to the Bonds and the "Certificate With Respect To Arbitrage" be sent to your bond counselor with copies to your financial advisor and the rating service(s). Sample copies of these two documents are enclosed for your convenience.

If bonds guaranteed by the Guarantee Program are defeased, the district shall notify the Office of School Finance in writing within ten (10) calendar days of such action. If you have questions, please feel free to contact Cassie Huggins at (512) 463-9232.

Thank you for your cooperation and assistance.

Sincerely,

A handwritten signature in orange ink, reading "Lisa Dawn-Fisher". The signature is fluid and cursive, with a small blue mark above the "a" in "Dawn".

Lisa Dawn-Fisher, Ph.D.
Associate Commissioner School Finance/Chief School Finance Officer

Enclosures

cc: David Gonzalez; Juan Aguilera; Moodys; Standard & Poors

CERTIFICATE WITH RESPECT TO ARBITRAGE

THE STATE OF TEXAS: TEXAS EDUCATION AGENCY:

The Texas Education Agency hereby certifies with respect to the issuance by Eagle Pass Independent School District (the "District") of the Unlimited Tax Refunding Bonds, Series 2015, dated April 15, 2015, in the principal amount of \$10,685,000.00 (the "Bonds") as follows:

1. The Permanent School Fund (the "Fund") created by Article 7, Section 5 of the Texas Constitution is a perpetual state trust fund authorized for the benefit of the public schools of the State of Texas.
2. The Bonds are guaranteed, pursuant to Article 7, Section 5 of the Texas Constitution and Section 45.051, et seq., of the Texas Education Code, by the corpus of the Fund.
3. The Fund has satisfied each of the factual requirements of paragraphs (d)(1)(i) through (d)(1)(iii) of Section 1.148-11(d)(1) of the Treasury Regulations on and after August 16, 1986.
4. Based upon the unaudited records of the Texas Education Agency and the General Land Office, the outstanding amount of the bonds guaranteed by the Fund on the sale date of the bonds did not exceed 500 percent of the total cost of the assets held by the Fund on December 16, 2009.
5. If the Bonds are defeased, the Fund guarantee shall be withdrawn in its entirety.

TEXAS EDUCATION AGENCY

By Lisa Dawn-Fisher, Ph.D.
Associate Commissioner School Finance/Chief School Finance Officer



1701 North Congress Avenue • Austin, Texas 78701-1494 • 512 463-9734 • 512 463-9838 FAX • tea.texas.gov

Michael Williams
Commissioner

PSF CERTIFICATE

Under the authority granted by Article 7, Section 5 of the Texas Constitution and Subchapter C of Chapter 45 of the Texas Education Code, the payment, when due, of the principal of and interest on the issuance by the Eagle Pass Independent School District of its Unlimited Tax Refunding Bonds, Series 2015, dated April 15, 2015, in the principal amount of \$10,685,000.00 is guaranteed by the corpus of the Permanent School Fund of the State pursuant to the bond guarantee program administered by the Texas Education Agency. This guarantee shall be removed in its entirety upon defeasance of such bonds.

[Reference is hereby made to the continuing disclosure agreement of the Texas Education Agency, set forth in Section I of the Agency's Investment Procedure Manual and the Agency's commitment letter for the guarantee. Such disclosure agreement has been made with respect to the bond guarantee program, in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission, for the benefit of the holders and beneficial owners of the bonds.]*

In witness thereof I have caused my signature to be placed in facsimile on this bond.

Michael Williams
Commissioner of Education

This statement authorizes the use of my signature to be placed in facsimile on the above bonds.

*The bracketed paragraph should be omitted from bond issues which aggregate less than \$1,000,000, as such offerings are totally exempted from Rule 15c2-12.

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