

**DISSOLUTION COMMITTEE FOR THE FORMER  
BOARD OF DALLAS COUNTY SCHOOL TRUSTEES**

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May 23, 2018

Attached is a copy of the Declaratory Judgment signed yesterday by the Honorable Dale Tillery of the 134<sup>th</sup> Judicial District in Dallas County. The Dissolution Committee's financial advisors are currently working to reconcile the claim amounts in Exhibit A to the Declaratory Judgment and prepare the final projected payout schedule. The Dissolution Committee does not anticipate any changes that would materially alter our payout schedule as originally estimated.



1) Plaintiff is the statutorily created Dissolution Committee for the legislatively abolished Board of Dallas County Schools Trustees (“DCS”). The Dissolution Committee is the duly appointed statutory committee to administer the dissolution process for DCS (“Dissolution Committee”), which authority includes, without limitation, the collection and liquidation of DCS assets and the payment of valid and enforceable DCS liabilities. The Dissolution Committee has standing to seek the requested relief in the First Amended Petition for Declaratory Relief.

2) This Court has subject-matter jurisdiction over this matter because the Dissolution Committee seeks an interpretation of the statutory duties and obligations owed by the Dissolution Committee and Dallas County, regarding the manner in which the ad valorem tax will be assessed, collected and applied to the debts of DCS via a determination, confirmation and declaration of which debts satisfy the prerequisites for payment from the available tax revenues. Certain creditors holding long term debt of DCS have asserted rights to the available tax revenues and the Dissolution Committee cannot agree that all of the long term debt meets the statutory requirements in order to be repaid from the available tax revenues. The County of Dallas cannot assess and collect the ad valorem taxes, on behalf of the Dissolution Committee, as required by the statute, without the resolution of this uncertainty, and the Dissolution Committee cannot utilize the tax revenues to pay such debts without such resolution. The relief requested in the First Amended Petition seeking declaratory relief is necessary to effectuate the terms of Senate Bill 2065 (“S.B. 2065”), assure that available tax revenues are collected and paid to the creditors listed on Schedule A hereto whose debt may be in default, and to resolve material disputes in order to permit the Dissolution Committee to fulfill its statutorily designated purpose.

3) Prior to being abolished by the Texas Legislature, DCS was an intermediate educational agency primarily engaged in providing transportation services for certain Independent School Districts in Dallas County, Texas (the “DCS customer Districts”). DCS also

provided additional services, including a school bus safety program, a police department, risk management offerings, and a school crossing guard program

4) Previously, the operations of DCS were funded by three main sources: 1) funding pursuant to the state's "Transportation Allotment" for eligible student transportation; 2) revenues received from DCS customer Districts for services provided by DCS, and 3) ad valorem tax revenues, assessed by the DCS Board, as authorized by statute. Specifically, DCS levied a tax not to exceed \$.01 on every \$100 of ad valorem valuation of Dallas County real property (the "Ad Valorem Tax").

5) In 2014, DCS entered into an agreement with Force Multiplier Solutions, Inc. ("FMS") to purchase the exclusive license for the State of Texas to market and sell certain camera systems and to assist with violation enforcement services for a Stop-Arm Camera Program. Under this program, cameras were installed on school buses to detect and record motorists who failed to stop when a school bus's stop-arm was extended. In jurisdictions where stop arm violation ordinances were passed, citations could be issued to offending motorists.

6) Over time, allegations of waste, mismanagement and ultimately criminal conduct surfaced, with regard to Stop-Arm related procurement decisions made by DCS's former Superintendent Rick Sorrells. During its 2017 Regular Session, the 85<sup>th</sup> Texas Legislature passed S.B. 2065, which provided for the abolition of DCS unless DCS was continued by a majority vote in the November 2017 election. On November 7, 2017, Dallas County voters did not vote in favor of continuing DCS. Pursuant to S.B. 2065, the former DCS ceased to exist on November 15, 2017, at which time the Dissolution Committee was vested with control over the operations and winding down of the former DCS.

7) The Texas Legislature, in Section 15.001(h) of S.B. 2065, established a Dissolution Committee with responsibility to wind-up DCS's financial affairs "subject to the

other requirements of this Act, the dissolution committee shall determine the manner in which all assets, liabilities, contracts, and services of [DCS] are divided, transferred, or discontinued.”

8) S.B. 2065 also requires the Dissolution Committee to continue providing transportation services to the DCS customer Districts for the remainder of the 2017-2018 school year. *See* S.B. 2065 § 15.001(i). Thereafter, the Committee is required to transfer DCS’s buses, vehicles and bus service centers to the DCS customer Districts in proportionate shares equal to the proportion that the membership in each district bears to total membership in the county as of September 1, 2018, at no cost to the districts. *See* S.B. 2065 § 15.001(j). As of April 2018, approximately 1616 buses remain in DCS’s fleet, of which approximately 231 buses were acquired by DCS pursuant to lease-purchase agreements, and for which approximately \$23 million remains due to Creditors Texas Capital Bank, N.A. and Wells Fargo Equipment Finance, Inc. (“Bus Debts”).

9) The Dissolution Committee has conclusively established that there are insufficient assets on hand to satisfy all of the liabilities of the former DCS.

10) Section 15.001(o) of S.B. 2065 requires Dallas County to continue assessing the Ad Valorem Tax as the exclusive source of payment for the satisfaction of certain debts incurred by DCS, described more fully on Schedule “A”, until the principal and interest of such debts are fully paid: “An ad valorem tax assessed by [DCS] shall continue to be assessed by the county on behalf of [DCS] for the purpose of paying the principal of and interest on any bonds issued by [DCS] until all bonds are paid in full.”

11) S.B. 2065 provides authority for the repayment of long term debt obligations of DCS that may be paid from tax revenue to allow for the payment of the remaining valid debts against DCS from other DCS assets and permit the buses and bus service centers to be transferred at no cost to the DCS customer Districts. After the end of the 2017-2018 school year,

the Ad Valorem Tax will constitute the sole continuing source of revenue available to satisfy these pre-existing DCS obligations.

12) Without waiving any of their existing rights or remedies, the creditors listed on Schedule A attached hereto, whose debt may be in default, have agreed (temporarily) not to seek enforcement of any remedies or collection efforts until this declaratory request is resolved. These creditors have agreed that if the Court provides judicial confirmation that their debts will be repaid from the Ad Valorem Tax assessment as provided in S.B. 2065, these creditors will agree to accept a payout of their indebtedness solely from this source of revenue and will continue to forbear from exercising their rights and remedies against the remaining assets of former DCS. This treatment of the Schedule A creditors is judicially approved and confirmed and shall be enforceable against those parties.

14) Nonetheless, the Court has determined that all creditors and debts listed on Schedule A ("Secured Tax Revenue Debts") constitute debts that qualify to have their principal balances, plus accrued contractual non-default interest (or such lower rate agreed to by the creditor), along with interest accrued annually at the contractual non-default rate on any remaining principal balance until paid in full, to be paid from the Ad Valorem Tax to be assessed and collected by the County of Dallas for the tax year 2018, and each every year thereafter until the principal and accrued interest on the Secured Tax Revenue Debts are paid in full; provided, however, that such debts must be valid, legal and enforceable debt of DCS and not subject to offset or avoidance in whole or in part. Schedule A reflects the debts to be paid from the tax revenues hereunder in amounts claimed by the holders of the debt but subject to reconciliation with the DCS books and records.

15) The County of Dallas shall assess the Ad Valorem Tax, up to \$.01 per \$100 of real property valuation, collect the tax revenue and turnover all collected funds, net of appraisal

and collection fees, to the Dissolution Committee for DCS as and when such revenue is collected and, with respect to the collection of delinquent taxes, such collection by the County of Dallas shall be in the manner provided by rule of the Commissioner of Education, 19 TAC Chapter 61 §13.01.

16) The Dissolution Committee shall deposit all collected funds from the County of Dallas in a segregated bank account (“Tax Revenue Account”) for the sole purpose of paying the Secured Tax Revenue Debts in annual pro rata payments on or before March 30th of each year beginning in 2019 and continuing until the principal balances plus accrued interest are paid in full; provided, however, that 2015 Acquisitions 5, LLC, Phoenix Life Insurance Company, PHL Variable Insurance Company, Federated Mutual Insurance Company, Federated Life Insurance Company, and Federated Service Insurance Company shall receive only annual interest payments on their principal obligations at the rate of 5% from the Tax Revenue Account until such time as all other Secured Tax Revenue Debts have been satisfied in full after which time the principal obligations shall then be paid from the continued collection of annual net tax revenues received by the Dissolution Committee and deposited in the Tax Revenue Account.

17) The Dissolution Committee shall provide an annual accounting of all collected funds and disbursements from the Tax Revenue Account to the holders of the Secured Tax Revenue Debts and to the Dallas County Tax Assessor/Collector at or about the time of each annual disbursement but in no event later than April 30th of each year.

18) The Dissolution Committee shall not utilize funds in the Tax Revenue Account to pay any other indebtedness of DCS or of the Dissolution Committee, or expense, fee, charge or claim other than the principal and accrued interest for the Secured Tax Revenue Debts. Once the principal and accrued interest of the Secured Tax Revenue Debts have been paid in full, such claims shall be deemed to be fully and finally satisfied and neither DCS nor the County of Dallas

shall have any further liability to the holders of such claims, and no further assessment shall be made by the County of Dallas for ad valorem taxes on behalf of DCS or for the payment of any debts of DCS.

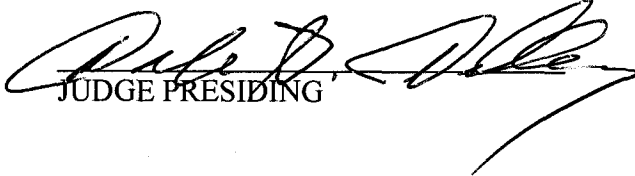
19) Nothing herein shall be deemed to constitute a release or termination of any valid and enforceable liens and security interests of the holders of the Secured Tax Revenue Debts against their respective collateral. In the event that the Dissolution Committee does not set the Ad Valorem Tax rate, or the County of Dallas does not assess or collect the Ad Valorem Tax, the holders of the Secured Tax Revenue Debts shall be entitled to assert any and all rights of enforcement, payment and collection of all indebtedness and other amounts owing under their respective contracts and applicable law existing prior to the entry of this Judgment, and such rights are expressly reserved, including, but not limited to, the right to collect any and all indebtedness and other amounts owing from collateral securing such claims. The County of Dallas and the Dissolution Committee likewise reserve and retain their right to defend any such enforcement and collection actions, including assertion of any applicable governmental immunity, as well as any available counterclaims and offsets under the respective contracts and applicable law.

20) Nothing herein shall constitute a release of any non-derivative claims or causes of action that the holders of the Secured Tax Revenue Debts may have against any of DCS' former officers, directors, executives, employees, or other agents arising from or directly related to such Secured Tax Revenue Debts ("Preserved Claims"), provided that neither funds in the Tax Revenue Account nor any other assets or interests of DCS are implicated or affected and the Dissolution Committee is not a party to any suit or proceeding involving a creditor's Preserved Claims.



21) This Court retains jurisdiction to hear and determine any and all disputes arising from this Judgment or related to the Secured Tax Revenue Debts. In that regard, if the Dissolution Committee determines that any such debts are invalid in whole or in part or any holder of a Secured Tax Revenue Debt was a participant in any fraudulent, illegal, unlawful or wrongful activity with respect to their original transactions with DCS, following reasonable investigation and an opportunity for the holder to respond to such assertions, the Dissolution Committee shall be entitled to segregate that holder's annual disbursement in a disputed claim reserve until all disputes are resolved through settlement or final order of this Court, and the reserving of such disbursements shall not constitute a default under this Judgment.

SIGNED this 22<sup>nd</sup> day of May, 2018

  
JUDGE PRESIDING

**SCHEDULE A - DEBT HOLDERS FOR TAX REVENUE PAYMENT**

CREDITOR / PAYEE	CLAIM (1)
Leasing Innovations, Inc., Boston, MA	2,064,845.20
Origin Bank, Ruston, LA	1,076,718.30
Origin Bank, Ruston, LA	1,874,860.66
Leasing Innovations, Inc., Boston, MA	668,549.87
Grinnell State Bank & Trust, Johnston, IA	1,429,286.83
Leasing Innovations, Inc., Boston, MA	736,074.08
Prime Alliance Bank and Leasing Innovations, Inc.	2,104,404.62
Growth Funding Equipment Finance	1,004,477.49
Prime Alliance Bank, Woods Cross, UT	840,330.00
Growth Funding Equipment Finance, Riverton, UT	479,082.51
Lakeside Bank, Chicago, IL	1,691,559.24
Lakeside Bank, Chicago, IL	1,226,469.36
Lakeside Bank, Chicago, IL	1,016,441.45
Texas Capital Bank, N.A.	15,617,256.24
Wells Fargo Equipment Finance, Inc.	7,141,490.37
US Bank Trust, N.A. - Pub Property Fin Obligations, Series 2012-A	7,596,375.00
US Bank Trust, N.A. - Pub Property Fin Obligations, Series 2013	9,716,975.00
US Bank Trust, N.A. - Pub Property Fin Obligations, Series 2014	16,232,175.00
US Bank Trust, N.A. - Pub Property Fin Obligations, Taxable Series 2014	6,911,598.75
Wilmington Trust, NA - Tax and Revenue Anticipation Note	9,254,036.51
Bus Service Centers Debt (2)	24,418,381.47
	\$ 113,101,387.95

(1) Debtholders' claim amounts as of March 2018

Subject to review for validity of debt and final confirmation of claim figures

(2) Holders include 2015 Acquisitions 5, LLC, Phoenix Life Insurance Company, PHL Variable Insurance Company, Federated Mutual Insurance Company, and Federated Life Insurance Company and Federated Service Insurance Company