

**OFFICIAL NOTICE OF SALE,
OFFICIAL BID FORM,
AND
PRELIMINARY OFFICIAL STATEMENT**

\$70,000,000*

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT
(Galveston County, Texas)**

**UNLIMITED TAX SCHOOL BUILDING BONDS,
SERIES 2018**

**Bids due
Tuesday, June 26, 2018
at
11:00 A.M., Central Time**

*Preliminary, subject to change based on bid structures. See "THE BONDS – ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE BONDS" IN THE OFFICIAL NOTICE OF SALE.

This Official Notice of Sale does not alone constitute an invitation for bids but is merely notice of sale of the Bonds defined and described herein. The invitation for bids on the Bonds is being made by means of this Official Notice of Sale, the Official Bid Form and the Preliminary Official Statement.

OFFICIAL NOTICE OF SALE

\$70,000,000*

TEXAS CITY INDEPENDENT SCHOOL DISTRICT

(A political subdivision of the State of Texas located in Galveston County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018

BONDS OFFERED FOR SALE AT COMPETITIVE BID: The Board of Trustees (the “Board”) of the Texas City Independent School District (the “District” or the “Issuer”) is offering for sale at competitive bid its \$70,000,000* Unlimited Tax School Building Bonds, Series 2018 (the “Bonds”).

BIDS BY INTERNET: Interested bidders may, at their option and risk, submit their bid by electronic media, as described below, by 11:00 A.M., Central Time, on June 26, 2018. Bidders submitting a bid by internet shall not be required to submit signed Official Bid Forms prior to the award. Any prospective bidder that intends to submit an electronic bid must submit its electronic bid via the facilities of the i-Deal, LLC Parity System (“PARITY”) and should, as a courtesy, register with PARITY by 9:00 A.M., Central Time, on June 26, 2018 indicating their intent to submit a bid by internet.

In the event of a malfunction in the electronic bidding process, bidders may submit their bids by email to mmcliney@samcocapital.com. If there is a malfunction of the electronic bidding process and a bidder submits a bid via email or facsimile, please call 210-832-9760 to notify the Financial Advisor of the incoming bid. Any bid received after the scheduled time for their receipt will not be accepted.

The official time for the receipt of bids shall be the time maintained by PARITY. All electronic bids shall be deemed to incorporate the provisions of this Official Notice of Sale, Official Bid Form and the Preliminary Official Statement. To the extent that any instructions or directions set forth in PARITY conflict with this Official Notice of Sale, the terms of this Official Notice of Sale shall control. For further information about the PARITY System, potential bidders may contact PARITY, c/o Ipreo Holdings LLC, 1359 Broadway, New York, New York 10018, 212-849-5021.

An electronic bid made through the facilities of PARITY shall be deemed an irrevocable offer to purchase the Bonds on the terms provided in this Official Notice of Sale, and shall be binding upon the bidder as if made by a signed sealed bid delivered to the District. The District shall not be responsible for any malfunction or mistake made by, or as a result of the use of PARITY, the use of such facilities being at the sole risk of the prospective bidder.

OPENING OF BIDS: The bids for the Bonds will be publicly opened and reviewed at the San Antonio offices of SAMCO Capital Markets, Inc., 1020 NE Loop 410, Suite 640, San Antonio, Texas, 78209, at 11:00 A.M., Central Time, on Tuesday, June 26, 2018.

AWARD AND SALE OF THE BONDS: By 12:00 Noon Central Time, on the date set for receipt of bids, the District’s representative shall award the Bonds to the low qualified bidder (the “Winning Bidder”), as described in the section entitled “CONDITIONS OF SALE – Basis for Award” herein subject to final approval of the Board of Trustees of the District, which will take action to adopt an order (the “Order”) authorizing the issuance and awarding sale of the Bonds or will reject all bids promptly at a scheduled meeting to commence at 6:00 P.M. Central Time on Tuesday, June 26, 2018. The District reserves the right to reject any or all bids and to waive any irregularities, except time of filing.

*Preliminary, subject to change based on bid structures. See “THE BONDS – ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE BONDS” herein.

THE BONDS

DESCRIPTION OF CERTAIN TERMS OF THE BONDS: The Bonds will be dated July 1, 2018 (the "Dated Date") with interest to accrue from the Dated Date and will be payable initially on February 15, 2019 and semiannually thereafter on each August 15 and February 15 until the earlier of stated maturity or prior redemption. The Bonds will be issued as fully registered Bonds in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository (the "Securities Depository"). Book-entry interests in the Bonds will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Bonds ("Beneficial Owners") will not receive physical delivery of Bonds representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, the principal of and interest on the Bonds will be payable by UMB Bank, N.A., Austin, Texas, as Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its Participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. (See "BOOK-ENTRY-ONLY SYSTEM" in the Official Statement.) The Bonds will be stated to mature on August 15 in each of the following years in the following amounts:

MATURITY SCHEDULE (Due August 15)

Stated Maturity	Principal Amount*		Stated Maturity	Principal Amount*		Stated Maturity	Principal Amount*
2019	\$ 2,520,000		2029	\$ 1,020,000		2039	\$ 2,530,000
2020	2,730,000		2030	1,110,000		2040	2,630,000
2021	2,840,000		2031	1,160,000		2041	2,740,000
2022	2,950,000		2032	1,260,000		2042	2,850,000
2023	3,070,000		2033	1,350,000		2043	2,960,000
2024	3,180,000		2034	1,440,000		2044	3,080,000
2025	3,240,000		2035	2,170,000		2045	3,200,000
2026	750,000		2036	2,250,000		2046	3,330,000
2027	860,000		2037	2,340,000		2047	3,470,000
2028	940,000		2038	2,430,000		2048	3,600,000

ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE BONDS: The District reserves the right to increase or decrease the principal (maturity) amount of any maturity of the Bonds, including the elimination of a maturity or maturities; provided, however, that the aggregate principal (denominational) amount of the Bonds shall not exceed \$70,000,000. Notice of any such changes shall be given to the successful bidder as soon as practicable following the notification of award, as described below, and this Notice of Sale may be amended at the sole discretion of the District to reflect such increase or decrease. The District will attempt to maintain total per Bond underwriting spread when adjusting maturities. No such adjustment will have the effect of altering the basis upon which the best bid is determined. The successful bidder may not withdraw its bids or change the rates bid or any initial reoffering prices as a result of any changes made to the principal (denominational) amounts.

SERIAL BONDS AND/OR TERM BONDS: Bidders may provide that all of the Bonds be issued as serial maturities or may provide that any two or more consecutive annual principal amounts be combined into one or more term bond (the "Term Bonds"), not to exceed three Term Bonds.

MANDATORY SINKING FUND REDEMPTION: If the Winning Bidder designates principal amounts to be combined into one or more Term Bonds, each such Term Bond will be subject to mandatory sinking fund redemption commencing on August 15 of the first year which has been combined to form such Term Bond and continuing on August 15 in each year thereafter until the stated maturity date of that Term Bond. The amount redeemed in any year will be equal to the principal amount for such year set forth in the table above under the caption "MATURITY SCHEDULE". Bonds to be redeemed in any year by mandatory sinking fund redemption will be redeemed at par and will be selected by lot from among the Bonds then subject to redemption. The District, at its option, may credit against any mandatory sinking fund redemption requirement Term Bonds of the maturity then subject to redemption which have been purchased and canceled by the District or have been optionally redeemed and not theretofore applied as a credit against any mandatory sinking fund redemption requirement.

OPTIONAL REDEMPTION: The District reserves the right, at its option, to redeem the Bonds maturing on or after August 15, 2029, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2028, or any date thereafter, at the redemption price of par plus accrued interest as further described in the Official Statement.

SECURITY FOR PAYMENT: The Bonds will be issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including Sections 45.001 and 45.003(b)(1), as amended, Texas Education Code, an election held on May 5, 2018 (the "Election"), and an order (the "Order") to be adopted by the District's Board of Trustees (the "Board") on June 26, 2018 and are payable from an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District.

OTHER TERMS AND COVENANTS: Other terms of the Order and the various covenants of the District contained in the Order are described in the Official Statement, to which reference is made for all purposes.

*Preliminary, subject to change.

SUCCESSOR PAYING AGENT/REGISTRAR: The initial Paying Agent/Registrar is UMB Bank, N.A., Austin, Texas. In the Order, the District covenants to provide a Paying Agent/Registrar at all times while the Bonds are outstanding, and any Paying Agent/Registrar selected by the District shall be a commercial bank or trust company organized under the laws of the United States and any state and duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds. The Paying Agent/Registrar will maintain the Security Register containing the names and addresses of the registered owners of the Bonds.

In the Order, the District retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new Paying Agent/Registrar shall 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 at the sole discretion of the District, shall be qualified as described in the Preliminary Official Statement. Upon a change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class, postage prepaid.

CONDITIONS OF SALE

TYPES OF BIDS AND INTEREST RATES: The Bonds will be sold in one block on an "All or None" basis, and at a price of not less than their par value, plus accrued interest on the Bonds from the Dated Date of the Bonds to the date of Initial Delivery (defined herein) of the Bonds. **No bid producing a cash premium on the Bonds that results in a dollar price of less than 100.5% nor greater than 110% will be considered; provided, however, that any bid is subject to adjustment as described under the caption "ADJUSTMENT OF INITIAL PRINCIPAL AMOUNTS".** Bidders are invited to name the rate(s) of interest to be borne by the Bonds, provided that each rate bid must be in a multiple of 1/8 of 1% or 1/20 of 1% and the net effective interest for the Bonds (calculated in the manner required by Chapter 1204, as amended, Texas Government Code) must not exceed 15%. **The highest rate bid may not exceed the lowest rate bid by more than 300 basis points (or 3% in rate). No limitation is imposed upon bidders as to the number of rates or changes which may be used.** All Bonds of one stated maturity must bear one and the same rate. No bids involving supplemental interest rates will be considered.

BASIS OF AWARD: The sale of the Bonds will be awarded to the bidder making a bid that conforms to the specifications herein (the "Winning Bidder" or "Purchaser") and which produces the lowest True Interest Cost (defined herein) rate to the District. The "True Interest Cost" rate is that rate which, when used to compute the total present value as of the Dated Date of all debt service payments on the Bonds on the basis of semi-annual compounding, produces an amount equal to the sum of the par value of the Bonds plus the premium bid, (but not interest accrued from the Dated Date to the date of their initial delivery to the Purchaser). In the event of a bidder's error in interest cost rate calculations, the interest rates, and premium, set forth in the Official Bid Form will be considered as the intended bid.

In order to provide the District with information required to enable it to comply with certain conditions of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Bonds (the "Code"), relating to the excludability of interest on the Bonds from the gross income of their owners, the Purchaser will be required to complete, execute, and deliver to the District (on or before the date of initial delivery of the Bonds) a certification as to their initial offering prices of the Bonds (the "Issue Price Certificate") substantially in the form and to the effect attached hereto or accompanying this Official Notice of Sale. (See "ESTABLISHMENT OF ISSUE PRICE" herein.)

ESTABLISHMENT OF ISSUE PRICE:

(a) The Winning Bidder shall assist the District in establishing the issue price of the Bonds and shall execute and deliver to the District by the Delivery Date an "issue price" or similar certificate setting forth the reasonably expected initial offering price to the public, together with the supporting pricing wires or equivalent communications, such issue price certificate substantially in the form attached hereto, with such modifications as may be appropriate or necessary, in the reasonable judgment of the Winning Bidder, the District, and Norton Rose Fulbright US LLP, the District's Bond Counsel (but not to the extent that would preclude the establishment of issue price of the Bonds under applicable federal regulations). All actions to be taken by the District under this Official Notice of Sale to establish the issue price of the Bonds may be taken on behalf of the District by the District's Financial Advisor and any notice or report to be provided to the District may be provided to the District's Financial Advisor.

(b) The District intends that the provisions of Treasury Regulation Section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of the Bonds) will apply to the initial sale of the Bonds (the "competitive sale requirements") because:

- (1) the District shall disseminate this Official Notice of Sale to potential underwriters (defined below) in a manner that is reasonably designed to reach potential underwriters;
- (2) all bidders shall have an equal opportunity to bid;
- (3) the District may receive bids from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and
- (4) the District anticipates awarding the sale of the Bonds to the bidder who submits a firm offer to purchase the Bonds at the highest price (or lowest interest cost), as set forth in this Official Notice of Sale.

Any bid submitted pursuant to this Official Notice of Sale shall be considered a firm offer for the purchase of the Bonds, as specified in the bid.

(c) In the event that the competitive sale requirements are not satisfied, the District shall so advise the Winning Bidder. In such event, the District intends to treat the initial offering price to the public (defined below) as of the sale date (defined below) of each maturity of the Bonds as the issue price of that maturity (the “hold-the-offering-price rule”). The District shall promptly advise the Winning Bidder, at or before the time of award of the Bonds, if the competitive sale requirements were not satisfied, in which case the hold-the-offering-price rule shall apply to the Bonds. **Bids will not be subject to cancellation in the event that the competitive sale requirements are not satisfied and the hold-the-offering-price rule applies.** In the event that the competitive sale requirements are not satisfied, resulting in the application of the hold-the-offering price rule, the issue price certificate shall be modified as necessary in the reasonable judgment of Bond Counsel and the District.

(d) By submitting a bid, the Winning Bidder shall (i) confirm that the underwriters have offered or will offer the Bonds to the public on or before the date of award at the offering price or prices (the “initial offering price”), or at the corresponding yield or yields, set forth in the bid submitted by the Winning Bidder and (ii) agree, on behalf of the underwriters participating in the purchase of the Bonds, that the underwriters will neither offer nor sell unsold Bonds of any maturity to which the hold-the-offering-price rule applies to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

- (1) the close of the fifth (5th) business day after the sale date; or
- (2) the date on which the underwriters have sold at least 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The Winning Bidder shall promptly advise the District when the underwriters have sold 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public, if that occurs prior to the close of the fifth (5th) business day after the sale date.

(e) If the competitive sale requirements are not satisfied, then until the 10% test has been satisfied as to each maturity of the Bonds, the Winning Bidder agrees to promptly report to the District the prices at which the unsold Bonds of that maturity have been sold to the public. That reporting obligation shall continue, whether or not the Delivery Date has occurred, until the 10% test has been satisfied as to the Bonds of that maturity or until all Bonds of that maturity have been sold. The 10% test shall be considered satisfied with respect to a maturity when at least 10% of the Bonds of that maturity have been sold to the public at a particular price.

(f) The District acknowledges that, in making the representation set forth above, the Winning Bidder will rely on (i) the agreement of each underwriter to comply with the hold-the-offering-price rule, as set forth in an agreement among underwriters and the related pricing wires, (ii) in the event a selling group has been created in connection with the initial sale of the Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the hold-the-offering-price rule, as set forth in a selling group agreement and the related pricing wires, and (iii) in the event that an underwriter is a party to a retail distribution agreement that was employed in connection with the initial sale of the Bonds to the public, the agreement of each broker-dealer that is a party to such agreement to comply with the hold-the-offering-price rule, as set forth in the retail distribution agreement and the related pricing wires. The District further acknowledges that each underwriter shall be solely liable for its failure to comply with its agreement regarding the hold-the-offering-price rule and that no underwriter shall be liable for the failure of any other underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a retail distribution agreement to comply with its corresponding agreement regarding the hold-the-offering-price rule as applicable to the Bonds.

(g) By submitting a bid, each bidder confirms that: (i) any agreement among underwriters, any selling group agreement and each retail distribution agreement (to which the bidder is a party) relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group, and each broker-dealer that is a party to such retail distribution agreement, as applicable, to (A) report the prices at which it sells to the public the unsold Bonds of each maturity allotted to it until it is notified by the Winning Bidder that either the 10% test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the public and (B) to comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the Winning Bidder and as set forth in the related pricing wires, and (ii) any agreement among underwriters relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter that is a party to a retail distribution agreement to be employed in connection with the initial sale of the Bonds to the public to require each broker-dealer that is a party to such retail distribution agreement to (A) report the prices at which it sells to the public the unsold Bonds of each maturity allotted to it until it is notified by the Winning Bidder or such underwriter that either the 10% test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the public and (B) comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the Winning Bidder or such underwriter and as set forth in the related pricing wires.

(h) Sales of any Bonds to any person that is a related party (defined below) to an underwriter shall not constitute sales to the public for purposes of this Official Notice of Sale. Further, for purposes of this section of the Official Notice of Sale entitled “ESTABLISHMENT OF ISSUE PRICE”:

- (1) “public” means any person other than an underwriter or a related party,

- (2) “underwriter” means (A) any person that agrees pursuant to a written contract with the District (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the public),
- (3) a purchaser of any of the Bonds is a “related party” to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and
- (4) “sale date” means the date that the Bonds are awarded by the District to the Winning Bidder.

ADJUSTMENT OF INITIAL PRINCIPAL AMOUNTS: See “THE BONDS – ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE BONDS” for a description of the District’s reservation of the right to increase or decrease the principal (maturity) amount of any maturity of the Bonds, including the elimination of a maturity or maturities.

GOOD FAITH DEPOSIT: A bank cashier’s check payable to the order of “Texas City Independent School District” in the amount of \$1,400,000, which is 2% of the par value of the Bonds (the “Good Faith Deposit”), is required. The Good Faith Deposit will be retained uncashed by the District until the Bonds are delivered, and at that time it will be returned to the Purchaser uncashed on the date of delivery of the Bonds; however, should the Purchaser fail or refuse to take up and pay for the Bonds, said Good Faith Deposit is to be cashed by the District and the proceeds accepted as full and complete liquidated damages. The above mentioned Good Faith Deposit may accompany the bid, or it may be submitted separately; however, if submitted separately, it shall be made available to the District prior to the opening of the bids and shall be accompanied by instructions from the bank on which it is drawn which will authorize its use as a Good Faith Deposit by the Purchaser who shall be named in such instructions. No interest will be paid or allowed on any Good Faith Deposit. The checks accompanying all other bids will be returned immediately after the bids are opened and the award of the sale of the Bonds has been made.

ADDITIONAL CONDITION OF AWARD — DISCLOSURE OF INTERESTED PARTY FORM; COMPLIANCE WITH H.B. 89 AND S.B. 252, 8TH TEXAS LEGISLATURE: New obligation of the District to receive information from winning bidder if bidder is not a publicly traded business entity (a “Privately Held Bidder”). Effective January 1, 2018, pursuant to Texas Government Code Section 2252.908 (the “Interested Party Disclosure Act”), the District may not award the Bonds to a winning bidder which is a Privately Held Bidder unless such party submits a Certificate of Interested Parties Form 1295 (the “Disclosure Form”) to the District as prescribed by the Texas Ethics Commission (“TEC”). In the event that a Privately Held Bidder’s bid for the Bonds is the best bid received, the District, acting through its financial advisor, will promptly notify the winning Privately Held Bidder. That notification will serve as the District’s conditional verbal acceptance of the bid, and will obligate the winning Privately Held Bidder to establish (unless such winning Privately Held Bidder has previously so established) an account with the TEC, and promptly file a completed Disclosure Form, as described below, in order to allow the District to complete the award.

Process for completing the Disclosure Form. For purposes of illustration, the Disclosure Form is attached hereto, and reference should be made to such form for the following information needed to complete it: (a) item 2 - name of the governmental entity (Texas City Independent School District) and (b) item 3 - the identification number assigned to this contract by the District (TCISD UTB 2018 – Bid Form) and description of the goods or services (Purchase of the Texas City Independent School District Unlimited Tax School Building Bonds, Series 2018). The Interested Party Disclosure Act and the rules adopted by the TEC with respect thereto (the “Disclosure Rules”) require a non-publicly traded business entity contracting with the District to complete the Disclosure Form electronically at <https://www.ethics.state.tx.us/main/file.htm>, print, sign, and deliver, in physical form, the certified Disclosure Form that is generated by the TEC’s “electronic portal” to the District. The executed Disclosure Form must be sent by email to the District’s financial advisor at mmcliney@samcocapital.com, as soon as possible following the notification of conditional verbal acceptance and prior to the final written award. Upon receipt of the final written award, the Disclosure Form with original signatures must be submitted by mail to Clay Binford, c/o Norton Rose Fulbright US LLP, 300 Convent Street, Suite 2100, San Antonio, Texas 78205, along with a PDF executed version sent to clayton.binford@nortonrosefulbright.com.

Preparations for completion, and the significance of, the reported information. In accordance with the Interested Party Disclosure Act, the information reported by the winning Privately Held Bidder must be declared by an authorized agent of the Privately Held Winning Bidder. No exceptions may be made to that requirement. The Interested Party Disclosure Act and the Disclosure Form provides that such acknowledgment is made “under penalty of perjury.” Consequently, a winning Privately Held Bidder should take appropriate steps prior to completion of the Disclosure Form to familiarize itself with the Interested Party Disclosure Act, the Disclosure Rules and the Disclosure Form. Time will be of the essence in submitting the form to the District, and no final award will be made by the District regarding the sale of the Bonds until a completed Disclosure Form is received. If applicable, the District reserves the right to reject any bid that does not satisfy the requirement of a completed Disclosure Form, as described herein. Neither the District nor its consultants have the ability to verify the information included in a Disclosure Form, and neither party has an obligation nor undertakes responsibility for advising any bidder with respect to (1) the bidder’s obligation to submit the Disclosure Form or (2) the proper completion of the Disclosure Form. Consequently, an entity intending to bid on the Bonds should consult its own advisors to the extent it deems necessary and be prepared to submit the completed form, if required, promptly upon notification from the District that its bid is the conditional winning bid. Instructional videos on logging in and creating a certificate are provided on the TEC’s website at https://www.ethics.state.tx.us/whatsnew/elf_info_form1295.htm.

To the extent the sale of Bonds that is the subject of this Official Notice of Sale is a contract for goods or services within the meaning of Section 2270.002 of the Texas Government Code, each Bidder, through submittal of an executed Official Bid Form, hereby verifies that it is a company which does not boycott Israel and will not boycott Israel through the term of this Agreement. The foregoing verification is made solely to comply with Section 2270.002, Texas Government Code, and to the extent such Section does not contravene applicable Federal law. As used in the foregoing verification, "company" and "boycott Israel" have the meanings ascribed to such terms by Chapter 808 of the Texas Government Code.

Pursuant to Subchapter F, Chapter 2252, Texas Government Code, to the extent applicable to the sale of Bonds that is the subject of this Notice of Sale, each Bidder, through submittal of an executed Official Bid Form, represents that it is not a company (as defined in Section 2270.0001(2), Texas Government Code) which is on a list prepared and maintained by the Comptroller of Public Accounts of the State of Texas under Sections 2270.0201 or 2252.153, Texas Government Code. The foregoing representation is made solely to comply with Section 2252.152, Texas Government Code, and to the extent such section does not contravene applicable Federal law and excludes the Bidder and each of its affiliates, if any, that the United States government has affirmatively declared to be excluded from its federal sanctions regime relating to Sudan or Iran or any federal sanctions regime relating to a foreign terrorist organization.

IMPACT OF BIDDING SYNDICATE ON AWARD: For purposes of contracting for the sale of the Bonds, the entity signing the bid form as Purchaser shall be solely responsible for the payment of the purchase price of the Bonds. The Purchaser may serve as a syndicate manager and contract under a separate agreement with other syndicate members. However, the District is not a party to that agreement and any information provided regarding syndicate managers would be for informational purposes only.

OFFICIAL STATEMENT

To assist the Purchaser in complying with Rule 15c2-12, as amended (the "Rule"), of the United States Securities and Exchange Commission ("SEC"), the District and the Purchaser contract and agree, by the submission and acceptance of the winning bid, as follows:

COMPLIANCE WITH RULE: The District has approved and authorized distribution of the accompanying Preliminary Official Statement for dissemination to potential purchasers of the Bonds, but does not presently intend to prepare any other document or version thereof for such purpose, except as described below. Accordingly, the District deems the accompanying Preliminary Official Statement to be final as of its date, within the meaning of the Rule, except for information relating to the offering prices, interest rates, final debt service schedule, selling compensation, identity of the Purchaser and other similar information, terms and provisions to be specified in the competitive bidding process. The Purchaser shall be responsible for promptly informing the District of the initial offering yields of the Bonds.

The District agrees to provide, or cause to be provided, to the Purchaser, the Preliminary Official Statement and the Official Statement and any amendments or supplements thereto in a "designated electronic format" (or printed format with respect to the final Official Statement) as may be required for the Purchaser to comply with the Rule or the rules of the Municipal Securities Rulemaking Board ("MSRB"). The District consents to the distribution of such documents in a "designated electronic format." Upon receipt, the Purchaser shall promptly file the Official Statement with the MSRB in accordance with the applicable MSRB rules.

The District will complete and authorize distribution of the Official Statement identifying the Purchaser and containing information omitted from the Preliminary Official Statement. The District does not intend to amend or supplement the Official Statement otherwise, except to take into account certain subsequent events, if any, as described below. By delivering the final Official Statement or any amendment or supplement thereto in the requested quantity to the Purchaser on or after the sale date, the District intends the same to be final as of such date, within the meaning of Section 15c2-12(b)(3) of the Rule. Notwithstanding the foregoing, the District makes no representation concerning the absence of material misstatements or omissions from the Official Statement, except only as and to the extent under "CERTIFICATION OF THE OFFICIAL STATEMENT" as described below. To the best knowledge and belief of the District, the Official Statement contains information, including financial information or operating data, concerning every entity, enterprise, fund, account, or person that is material to an evaluation of the offering of the Bonds.

FINAL OFFICIAL STATEMENT: In addition to delivering the Official Statement in a "designated electronic format", the District will furnish to the Purchaser, within seven (7) days after the sale date, an aggregate maximum of fifty (50) copies of the Official Statement, together with information regarding interest rates and other terms relating to the reoffering of the Bonds, in accordance with Section 15c2-12(b)(3) of the Rule. The Purchaser may arrange, at its own expense, to have the Official Statement reproduced and printed if it requires more than 100 copies and may also arrange, at its own expense and responsibility, for completion and perfection of the first or cover page of the Official Statement so as to reflect interest rates and other terms and information related to the reoffering of the Bonds. The Purchaser will be responsible for providing information concerning the District and the Bonds to subsequent purchasers of the Bonds, and the District will undertake no responsibility for providing such information other than to make the Official Statement available to the Purchaser as provided herein. The District agrees to provide, or cause to be provided, to the Purchaser the Preliminary Official Statement and the Official Statement and any amendments or supplements thereto in a "designated electronic format" (or printed format with respect to the final Official Statement) as may be required for the Purchaser to comply with the Rule or the rules of the MSRB. The District consents to the distribution of such documents in a "designated electronic format". Upon receipt, the Purchaser shall promptly file the Official Statement with the MSRB in accordance with the MSRB Rule G-32. The District's obligation to supplement the Official Statement to correct key representations determined to be materially misleading, after the date of the Official Statement, shall terminate upon initial delivery of the Bonds to the Purchaser, unless the Purchaser notifies, in writing, the District that less than all of the Bonds have been sold to ultimate customers on or before such date, in which case the obligation will extend for an additional period of time (but not more than 90 days after the sale date) until all of the Bonds have been sold to ultimate customers.

CHANGES TO OFFICIAL STATEMENT: If, subsequent to the date of the Official Statement, the District learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the Purchaser of any adverse event which causes the Official Statement to be materially misleading, and unless the Purchaser elects to terminate its obligation to purchase the Bonds, as described below under "DELIVERY AND ACCOMPANYING DOCUMENTS - CONDITIONS TO DELIVERY", the District will promptly prepare and supply to the Purchaser an appropriate amendment or supplement to the Official Statement satisfactory to the Purchaser and in a "designated electronic format"; provided, however, that the obligation of the District to do so will terminate when the District delivers the Bonds to the Purchaser, unless the Purchaser notifies the District on or before such date that less than all of the Bonds have been sold to ultimate customers, in which case the District's obligations hereunder will extend for an additional period of time (but not more than 90 days after the date the District delivers the Bonds) until all of the Bonds have been sold to ultimate customers.

CERTIFICATION OF THE OFFICIAL STATEMENT: At the time of payment for and delivery of the hereinafter defined Initial Bond (the "Delivery Date"), the Purchaser will be furnished a certificate, executed by proper officials of the District, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the District contained in its Official Statement, and any addenda, supplement or amendment thereto, for the Bonds, on the date of such Official Statement, on the date of sale of said Bonds and the acceptance of the best bid therefor, and on the date of the initial delivery thereof, were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the District, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the District believes to be reliable and the District has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the District since the date of the last financial statements of the District appearing in the Official Statement. The Official Statement and Official Notice of Sale will be approved as to form and content and the use thereof in the offering of the Bonds will be authorized, ratified and approved by the Board of Trustees of the District on the date of sale, and the Purchaser will be furnished, upon request, at the time of payment for and the delivery of the Bonds, a certified copy of such approval, duly executed by the proper officials of the District.

CONTINUING DISCLOSURE AGREEMENT: The District will agree in the Order to provide certain periodic information and notices of certain events in accordance with the Rule, as described in the Official Statement under "CONTINUING DISCLOSURE OF INFORMATION". The Purchaser's obligation to accept and pay for the Bonds is conditioned upon delivery to the Purchaser or its agent of a certified copy of the Order containing the agreement described under such heading.

COMPLIANCE WITH PRIOR UNDERTAKINGS: Since EMMA's effective date in 2009, the District has complied in all material respects with its continuing disclosure agreements in accordance with the Rule.

However, prior to 2009, the District failed to file the annual financial information for its fiscal year ended 2005 by the due date of February 28, 2006. The information was filed on March 10, 2006, and a notice of the event was filed with the MSRB through EMMA on December 1, 2014. In addition, the Fiscal Year ended 2007 and 2008 filings were only filed with Bloomberg. It is the District's understanding that an investment banking firm, based upon these failures, self-reported the District pursuant to the SEC's MCDC initiative. The District believes, based upon its independent evaluation of the facts, that none of these failures to report information were "material" under applicable federal securities laws and judicial interpretations thereof.

On March 13, 2015, Moody's Investors Service, Inc., downgraded the District's underlying rating from a "Aa2" to a "Aa3". On March 16, 2015, the District filed a notice of this material event with the MSRB through EMMA (see "OTHER PERTINENT INFORMATION – Ratings" in the Official Statement").

DELIVERY AND ACCOMPANYING DOCUMENTS

INITIAL DELIVERY OF INITIAL BOND: The initial delivery of the Bonds to the Purchaser on the Delivery Date, will be accomplished by the issuance of either (i) a single fully registered Bond in the total principal amount of \$70,000,000 (preliminary, subject to change) payable in stated installments to the Purchaser and numbered T-1, or (ii) as one (1) fully registered Bond for each year of stated maturity in the applicable principal amount and denomination, to be numbered consecutively from R-1 and upward (in either case, the "Initial Bond"), signed by manual or facsimile signature of the President and Secretary of the Board approved by the Attorney General of Texas, and registered and manually signed by an authorized representative of the Comptroller of Public Accounts of the State of Texas. Initial Delivery (defined below) of the Bonds will be at the corporate trust office of the Paying Agent/Registrar. Upon delivery of the Initial Bond, they shall be immediately canceled and one Bond for each stated maturity will be registered in the name of Cede & Co. and deposited with DTC in connection with DTC's Book-Entry-Only System. Payment for the Initial Bond must be made in immediately available funds for unconditional credit to the District, or as otherwise directed by the District. The Purchaser will be given six (6) business days' notice of the time fixed for delivery of the Bonds. It is anticipated that Initial Delivery of the Initial Bond can be made on or about July 25, 2018, but if for any reason the District is unable to make delivery by July 25, 2018, then the District shall immediately contact the Purchaser and offer to allow the Purchaser to extend for an additional thirty (30) days its obligation to take up and pay for the Bonds. If the Purchaser does not so elect within six (6) business days thereafter, then the Good Faith Deposit will be returned, and both the District and the Purchaser shall be relieved of further obligation. In no event shall the District be liable for any damages by reason of its failure to deliver the Bonds, provided such failure is due to circumstances beyond the District's reasonable control.

EXCHANGE OF INITIAL BOND FOR DEFINITIVE BONDS: Upon payment for the Initial Bond at the time of such delivery, the Initial Bond is to be canceled by the Paying Agent/Registrar and registered definitive Bonds delivered in lieu thereof, in multiples of \$5,000 for each stated maturity, in accordance with written instructions received from the Purchaser and/or members of the Purchaser's syndicate. Such Bonds shall be registered by the Paying Agent/Registrar. It shall be the duty of the Purchaser and/or members of the Purchaser's syndicate to furnish to the Paying Agent/Registrar, at least five days prior to the delivery of the Initial Bond, final written instructions identifying the names and addresses of the registered owners, the stated maturities, interest rates, and denominations. The Paying Agent/Registrar will not be required to

accept changes in such written instructions after the five day period, and if such written instructions are not received by the Paying Agent/Registrar five days prior to the delivery, the cancellation of the Initial Bond and delivery of registered definitive Bonds may be delayed until the fifth day next following the receipt of such written instructions by the Paying Agent/Registrar.

CUSIP NUMBERS: It is anticipated that CUSIP identification numbers will be printed on the Bonds, but neither the failure to print such number on any Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the Purchaser to accept delivery of and pay for the Bonds in accordance with the terms of the Official Bid Form and this Official Notice of Sale. All expenses in relation to the printing of CUSIP numbers on the Bonds shall be paid by the District; however, the CUSIP Service Bureau's charge for the assignment of the numbers shall be paid by the Purchaser.

CONDITIONS TO DELIVERY: The obligation to take up and pay for the Bonds is subject to the following conditions: the issuance of an approving opinion of the Attorney General of Texas, the Purchaser's acknowledgment of the receipt of the Initial Bond, the Purchaser's receipt of the legal opinions of Bond Counsel and the no-litigation certificate, and the non-occurrence of the events described below under the caption "NO MATERIAL ADVERSE CHANGE", all as described below. In addition, if the District fails to comply with its obligations described under "OFFICIAL STATEMENT - FINAL OFFICIAL STATEMENT" above, the Purchaser may terminate its contract to purchase the Bonds by delivering written notice to the District within five (5) days thereafter.

NO MATERIAL ADVERSE CHANGE: The obligation of the Purchaser to take up and pay for the Bonds, and of the District to deliver the Initial Bond, is subject to the condition that, up to the time of delivery of and receipt of payment for the Initial Bond, there shall have been no material adverse change in the affairs of the District subsequent to the date of sale from that set forth in the Preliminary Official Statement, as it may have been finalized, supplemented or amended through the date of delivery.

LEGAL OPINIONS: The Bonds are offered when, as and if issued, subject to the approval of certain legal matters by the Attorney General of the State of Texas and Bond Counsel (see discussion "LEGAL MATTERS - Legal Opinions and No-Litigation Certificate" in the Preliminary Official Statement).

CHANGE IN TAX-EXEMPT STATUS: At any time before the Bonds are tendered for initial delivery to the Purchaser, the Purchaser may withdraw its bid if the interest on obligations such as the Bonds shall be declared to be includable in the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes, either by U.S. Treasury regulations, by ruling or administrative guidance of the Internal Revenue Service, by a decision of any federal court, or by the terms of any federal income tax legislation enacted subsequent to the date of this Official Notice of Sale.

GENERAL CONSIDERATIONS

FUTURE REGISTRATION: The Bonds may be transferred, registered, and assigned on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration and transfer shall 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 and transfer. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bonds being transferred or exchanged at the corporate trust office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk, and expense. 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 (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or its duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in denominations of \$5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount and interest rate as the Bonds surrendered for exchange or transfer.

RECORD DATE: The record date ("Record Date") for determining the party to whom the semiannual interest on the Bonds is payable on any interest payment date is the last business day of the month next preceding such interest payment date (except with respect to the initial interest payment date, for which the Record Date shall be the Bonds' initial delivery date).

RATING: A municipal bond rating application has been made to S&P Global Ratings ("S&P") and Moody's Investors Service, Inc. ("Moody's"). The outcome of the results will be made available to the Purchaser as soon as possible. S&P and Moody's generally rates all bonds guaranteed by the Texas Permanent School Fund of the State of Texas "AAA". (See "OTHER PERTINENT INFORMATION - Ratings" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" in the Preliminary Official Statement). An explanation of the significance of such a rating may be obtained from S&P and Moody's. The rating of the Bonds by S&P and Moody's reflects only the views of S&P and Moody's at the time the ratings are given, and the District makes no representations as to the appropriateness of the ratings. There is no assurance that the ratings will continue for any given period of time, or that the ratings will not be revised downward or withdrawn entirely by S&P or Moody's if, in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

SALE OF ADDITIONAL BONDS: The District currently has no plans to issue additional ad valorem tax supported debt in 2018, except potentially issuing refunding bonds for debt service savings.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE: No registration statement relating to the Bonds has been filed with the SEC under the Securities Act of 1933, as amended (the “Act”), in reliance upon exemptions provided in such Act. The Bonds have not been approved or disapproved by the SEC, nor has the SEC passed upon the accuracy or adequacy of the Official Statement. Any representation to the contrary is a criminal offense. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon exemptions contained therein, nor have the Bonds been registered or qualified under the securities acts of any other jurisdiction. The District assumes no responsibility for registration or 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 registration or 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 or qualification provisions.

It is the obligation of the Purchaser to register or qualify the sale of the Bonds under the securities laws of any jurisdiction which so requires. The District agrees to cooperate, at the Purchaser's written request and expense and within reasonable limits, in registering or qualifying the Bonds, or in obtaining an exemption from registration or qualification in any state where such action is necessary, but will in no instance execute a general consent to service of process in any state that the Bonds are offered for sale.

ADDITIONAL COPIES: Subject to the limitations described herein, an electronic copy of this Official Notice of Sale, the Official Bid Form, and the Official Statement may be obtained from www.samco.com.

The Board has approved the form and content of the Official Notice of Sale, the Official Bid Form, and the Official Statement and authorized the use thereof in its initial offering of the Bonds. On the date of the sale, the Bonds will, in the Order authorizing the issuance of the Bonds, reconfirm its approval of the form and content of the Official Statement, and any addenda, supplement, or amendment thereto, and authorize its further use in the reoffering of the Bonds by the Purchaser.

/s/ Dickey Campbell

President, Board of Trustees
Texas City Independent School District

ATTEST:

/s/ Adriana Lyle

Secretary, Board of Trustees
Texas City Independent School District

June 19, 2018

OFFICIAL BID FORM

President and Board of Trustees
Texas City Independent School District
1700 Ninth Avenue North
Texas City, Texas 77590

June 26, 2018

Dear Ladies and Gentlemen:

Subject to the terms of your Official Notice of Sale and Official Statement dated June 19, 2018, which terms are incorporated by reference to this proposal, we hereby submit the following bid for \$70,000,000 (preliminary, subject to change) TEXAS CITY INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018, dated July 1, 2018 (the "Bonds").

For said legally issued Bonds, we will pay you \$_____ (being a price of no less than 100.5% and no more than 110% of par value) plus accrued interest from their date to the date of delivery to us for Bonds maturing on August 15 in each of the years and bearing interest per annum as follows:

Year of Stated Maturity	Principal Amount at Stated Maturity	Coupon %	Year of Stated Maturity	Principal Amount at Stated Maturity	Coupon %
2019	\$2,520,000		2034*	\$1,440,000	
2020	2,730,000		2035*	2,170,000	
2021	2,840,000		2036*	2,250,000	
2022	2,950,000		2037*	2,340,000	
2023	3,070,000		2038*	2,430,000	
2024	3,180,000		2039*	2,530,000	
2025	3,240,000		2040*	2,630,000	
2026	750,000		2041*	2,740,000	
2027	860,000		2042*	2,850,000	
2028	940,000		2043*	2,960,000	
2029*	1,020,000		2044*	3,080,000	
2030*	1,110,000		2045*	3,200,000	
2031*	1,160,000		2046*	3,330,000	
2032*	1,260,000		2047*	3,470,000	
2033*	1,350,000		2048*	3,600,000	

*Maturities available for Term Bonds.

Our calculation (which is not part of this bid) of the True
Interest Cost from the above is: _____%

ADJUSTMENT OF INITIAL PRINCIPAL AMOUNTS: As a condition to our submittal of this bid for the Bonds, we acknowledge the following: The District reserves the right to increase or decrease the principal (maturity) amount of any maturity of the Bonds, including the elimination of a maturity or maturities; provided, however, that the aggregate principal (denominational) amount of the Bonds shall not exceed \$70,000,000. Notice of any such changes shall be given to the successful bidder as soon as practicable following the notification of award, as described below, and this Official Notice of Sale may be amended at the sole discretion of the District to reflect such increase or decrease. The District will attempt to maintain the total per bond underwriting spread when adjusting maturities. No such adjustment will have the effect of altering the basis upon which the best bid is determined. The successful bidder may not withdraw its bids or change the rates bid or any initial reoffering prices as a result of any changes made to the principal (denominational) amounts.

Of the principal maturities set forth in the table above, we have created term bonds (the "Term Bonds") as indicated in the following table (which may include no more than three Term Bonds). For those years which have been combined into a Term Bond, the principal amount shown in the table shown on page ii of the Official Notice of Sale will be the mandatory sinking fund redemption amounts in such years except that the amount shown in the year of the Term Bond maturity date will mature in such year. The Term Bonds created are as follows:

Term Bond Maturity Date August 15	Year of First Mandatory Redemption	Principal Amount of Term Bond	Interest Rate
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

The Initial Bond shall be registered in the name of _____, which will, upon payment for the Bonds, be cancelled by the Paying Agent/Registrar. The Bonds will then be registered in the name of Cede & Co. (DTC's partnership nominee), under the Book-Entry-Only System.

Cashier's Check of _____ Bank, _____, Texas, in the amount of \$1,400,000, which represents our Good Faith Deposit (is attached hereto) or (has been made available to you prior to the opening of this Bid), and is submitted in accordance with the terms as set forth in the Official Notice of Sale, said check is to be returned to the Purchaser.

We agree to accept delivery of the Bonds utilizing the Book-Entry-Only System through DTC and make payment for the Initial Bond in immediately available funds at the Corporate Trust Division, UMB Bank, N.A., Austin Texas, not later than 10:00 A.M., Central Time, on Wednesday, July 25, 2018, or thereafter on the date the Bonds are tendered for delivery, pursuant to the terms set forth in the Official Notice of Sale. It will be the obligation of the purchaser of the Bonds to complete and file the DTC Eligibility Questionnaire. The undersigned agrees to the provisions of the Official Notice of Sale under the heading "CONDITIONS OF SALE – ESTABLISHMENT OF ISSUE PRICE" and, as evidenced thereof, agrees to complete, execute, and deliver to the District, by the Delivery Date, a certificate relating to the "issue price" of the Bonds in the form and to the effect attached to or accompanying the Official Notice of Sale, with such changes thereto as may be acceptable to Bond Counsel for the District. (See "CONDITIONS OF SALE – ESTABLISHMENT OF ISSUE PRICE" in the Official Notice of Sale.)

Through submittal of this executed Official Bid Form, the undersigned verifies that, except to the extent otherwise required by applicable Federal law, it does not and will not "boycott Israel" and is not a company that engages in business with Iran, Sudan, or any "foreign terrorist organizations" and it is not on the Texas Comptroller's list concerning the same prepared and maintained thereby under applicable Texas law, all as more fully provided in the Official Notice of Sale under the heading "ADDITIONAL CONDITION OF AWARD – DISCLOSURE OF INTERESTED PARTY FORM; COMPLIANCE WITH H.B. 89 AND S.B. 252, 85TH TEXAS LEGISLATURE".

For purposes of contracting for the sale of the Bonds, the entity signing the bid form as Purchaser shall be solely responsible for the payment of the purchase price of the Bonds. The Purchaser may serve as a syndicate manager and contract under a separate agreement with other syndicate members. However, the District is not a party to that agreement and any information provided regarding syndicate managers would be for informational purposes only.

Upon notification of conditional verbal acceptance, the undersigned will complete an electronic form of the Certificate of Interested Parties Form 1295 (the "Disclosure Form") through the Texas Ethics Commission's (the "TEC") electronic portal and the resulting certified Disclosure Form that is generated by the TEC's electronic portal will be printed, signed, notarized, and sent by email to the District's financial advisor at afriedman@samcocapital.com and Bond Counsel at clayton.binford@nortonrosefulbright.com. The undersigned understands that the failure to provide the certified Disclosure Form will prohibit the District from providing final written award of the enclosed bid.

By: _____
Authorized Representative

Telephone Number

Email Address

ACCEPTANCE CLAUSE

The above and foregoing bid is hereby in all things accepted by the Texas City Independent School District, subject to and in accordance with the Official Notice of Sale and Official Bid Form, this 26th day of June 2018.

President, Board of Trustees
Texas City Independent School District

ATTEST:

Secretary, Board of Trustees
Texas City Independent School District

\$70,000,000*
TEXAS CITY INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018

ISSUE PRICE CERTIFICATE

The undersigned, on behalf of _____, _____, _____ (“_____”), hereby certifies as set forth below with respect to the sale of the above-captioned obligations (the “Obligations”) of the Texas City Independent School District (the “Issuer”).

1. Reasonably Expected Initial Offering Price.

(a) As of the Sale Date, the reasonably expected initial offering prices of the Obligations to the Public by _____ are the prices listed in Schedule A (the “Expected Offering Prices”). The Expected Offering Prices are the prices for the Maturities of the Obligations used by _____ in formulating its bid to purchase the Obligations. Attached as Schedule B is a true and correct copy of the bid provided by _____ to purchase the Obligations.

(b) _____ was not given the opportunity to review other bids prior to submitting its bid.

(c) The bid submitted by _____ constituted a firm offer to purchase the Obligations.

2. Defined Terms.

(a) *Maturity* means Obligations with the same credit and payment terms. Obligations with different maturity dates, or Obligations with the same maturity date but different stated interest rates, are treated as separate Maturities.

(b) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term “related party” for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(c) *Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Obligations. The Sale Date of the Obligations is June 26, 2018.

(d) *Underwriter* means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Obligations to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Obligations to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Obligations to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents _____ interpretation of any laws, including specifically sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Certificate with respect to the Obligations and with respect to compliance with the federal income tax rules affecting the Obligations, and by Norton Rose Fulbright US LLP in connection with rendering its opinion that the interest on the Obligations is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Obligations.

By: _____

Name: _____

Title: _____

Dated: _____

*Preliminary, subject to change.

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SCHEDULE A
EXPECTED OFFERING PRICES

(this page intentionally left blank)

SCHEDULE B
COPY OF UNDERWRITER'S BID

(this page intentionally left blank)

NEW ISSUE - BOOK-ENTRY-ONLY

Enhanced/Unenhanced Ratings: S&P: "Applied For"

Moody's: "Applied For"

PSF Guarantee: "Applied For"

(See "OTHER PERTINENT INFORMATION – Ratings" and

"THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein)

PRELIMINARY OFFICIAL STATEMENT

Dated June 19, 2018

In the opinion of Bond Counsel (defined below), assuming continuing compliance by the District (defined below) after the date of initial delivery of the Bonds (defined below) with certain covenants contained in the Order (defined below) 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.

\$70,000,000*

TEXAS CITY INDEPENDENT SCHOOL DISTRICT

(A political subdivision of the State of Texas located in Galveston County, Texas)

UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018

Dated Date: July 1, 2018

Due: August 15, as shown on following page

The \$70,000,000* Texas City Independent School District Unlimited Tax School Building Bonds, Series 2018 (the "Bonds") are being issued by the Texas City Independent School District (the "Issuer" or the "District") pursuant to the Constitution and general laws of the State of Texas (the "State"), including Sections 45.001 and 45.003(b)(1), as amended, Texas Education Code, an election held on May 5, 2018 (the "Election"), and an order (the "Order") to be adopted by the District's Board of Trustees (the "Board") on June 26, 2018. (See "THE BONDS - Authority for Issuance" herein.)

The Bonds are direct obligations payable from an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District. (See "THE BONDS - Security for Payment" herein.) The Issuer has applied for and received 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 will automatically become effective when the Attorney General of Texas approves the Bonds. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein; see also "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" for a discussion of recent developments in Texas law affecting the financing of school districts in Texas.

Interest on the Bonds will accrue from the Dated Date shown above and will be payable on February 15, 2019 and semiannually thereafter on each August 15 and February 15 until the earlier of stated maturity or prior redemption. The Bonds will be issued in fully registered form in principal denominations of \$5,000 or any integral multiple thereof within a stated maturity. The definitive Bonds will be registered and delivered to Cede & Co. (the "Securities Depository") the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described herein.

Purchasers of the Bonds ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, the principal of and interest on the Bonds will be payable by UMB Bank, N.A., Austin, Texas, as Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Proceeds from the sale of the Bonds will be used for (i) acquiring, designing, renovating, constructing, and equipping school facilities, the purchase of necessary sites for school facilities, and the purchase of new school buses, and (ii) paying the costs of issuance of the Bonds, as authorized at the Election. (See "THE BONDS – Use of Bond Proceeds" herein.)

SEE FOLLOWING PAGE FOR STATED MATURITIES, PRINCIPAL AMOUNTS
INTEREST RATES, INITIAL YIELDS, AND REDEMPTION PROVISIONS FOR THE BONDS

The Bonds are offered for delivery, when, as and if issued and received by the initial purchaser (the "Purchaser") at a competitive sale, and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas ("Bond Counsel"). It is expected that the Bonds will be available for delivery through DTC on or about July 25, 2018.

BIDS DUE TUESDAY, JUNE 26, 2018 BY 11:00 A.M. CENTRAL TIME

**Preliminary, subject to change.*

\$70,000,000*
TEXAS CITY INDEPENDENT SCHOOL DISTRICT
Unlimited Tax School Building Bonds, Series 2018

MATURITY SCHEDULE*

CUSIP ⁽¹⁾ No. Prefix: 882270

Stated				CUSIP	Stated				CUSIP
Maturity	Principal	Interest	Intital	No.	Maturity	Principal	Interest	Intital	No.
<u>8/15</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>Suffix ⁽¹⁾</u>	<u>8/15</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>Suffix ⁽¹⁾</u>
2019	\$2,520,000				2034	\$1,440,000			
2020	2,730,000				2035	2,170,000			
2021	2,840,000				2036	2,250,000			
2022	2,950,000				2037	2,340,000			
2023	3,070,000				2038	2,430,000			
2024	3,180,000				2039	2,530,000			
2025	3,240,000				2040	2,630,000			
2026	750,000				2041	2,740,000			
2027	860,000				2042	2,850,000			
2028	940,000				2043	2,960,000			
2029	1,020,000				2044	3,080,000			
2030	1,110,000				2045	3,200,000			
2031	1,160,000				2046	3,330,000			
2032	1,260,000				2047	3,470,000			
2033	1,350,000				2048	3,600,000			

(Accrued interest to be added from the Dated Date)

The Bonds maturing on or after August 15, 2029 are subject to optional redemption in whole or in part on August 15, 2028 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. Additionally, certain of the Bonds may be subject to mandatory sinking fund redemption in the event the Purchaser elects to aggregate two or more maturities as Term Bonds (defined herein). (See "THE BONDS – Redemption").

**Preliminary, subject to change.*

⁽¹⁾ CUSIP numbers are included solely for the convenience of the owner of the Bonds. CUSIP is a registered trademark of The American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence 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. None of the District, the Financial Advisor, or the Purchaser is responsible for the selection or correctness of the CUSIP numbers set forth herein.

TEXAS CITY INDEPENDENT SCHOOL DISTRICT

1700 Ninth Avenue North
Texas City, Texas 77590
Telephone: (409) 916-0103
Facsimile: (409) 942-2655

ELECTED OFFICIALS

Name	Years Served	Term Expires (May)	Occupation
Dickey Campbell, President	3	2020	Regional Loan President
Hal Biery, Vice President	9	2021	Retired
Melba Anderson, Member	16	2019	Accountant/Customer Service
Nakisha Paul	1	2020	Nursing Information Tech Coordinator
Bryan Thompson, Member	7	2019	Sr. HES Safety Specialist/Fire Chief
Nelson Juarez, Member	Newly Elected	2021	Optometrist
Mable Pratt, Member (appointment)	1	2019	Retired Educator

ADMINISTRATION

Name	Position	Length of Service With the District
Dr. Rodney Cavness	Superintendent	1 year
Margaret Lee	Assistant Superintendent of Business and Operations	5 years
Adriana Lyle	Secretary to the Board	30 years

CONSULTANTS AND ADVISORS

Bond Counsel Norton Rose Fulbright US LLP
San Antonio, Texas

Certified Public Accountants Weaver and Tidwell, L.L.P.
Conroe, Texas

Financial Advisor SAMCO Capital Markets, Inc.
San Antonio, Texas

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afriedman@samcocapital.com

USE OF INFORMATION IN THE OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended ("Rule 15c2-12"), this Preliminary Official Statement constitutes an "official statement" of the District with respect to the Bonds that has been "deemed final" by the District as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

This Official Statement, which includes the cover page and the Appendices hereto, 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 representations 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 Financial Advisor. 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 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. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the District's undertaking to provide certain information on a continuing basis.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THE BONDS HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

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

The Purchaser has provided the following sentence for inclusion in this Official Statement. The Purchaser has 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 Purchaser does not guarantee the accuracy or completeness of such information.

NONE OF THE DISTRICT, ITS FINANCIAL ADVISOR, OR THE PURCHASER MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY ("DTC") OR ITS BOOK-ENTRY-ONLY SYSTEM, OR THE AFFAIRS OF THE TEXAS EDUCATION AGENCY ("TEA") DESCRIBED UNDER "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM", AS SUCH INFORMATION IS PROVIDED BY DTC AND THE TEA, RESPECTIVELY.

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. INVESTORS SHOULD READ THIS ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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The cover page, subsequent pages hereof, and the appendices attached hereto, are part of this Official Statement.

SELECTED DATA FROM THE OFFICIAL STATEMENT

The selected data 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 page from this Official Statement or to otherwise use it without the entire Official Statement.

The Issuer	Texas City Independent School District (the "Issuer" or the "District") is a political subdivision of the State of Texas located in Galveston County, Texas. See "APPENDIX B – General Information Regarding the Texas City Independent School District, the City of Texas City, and Galveston County."
The Bonds	The Bonds are being issued as pursuant to the Constitution and general laws of the State of Texas (the "State"), including Sections 45.001 and 45.003(b)(1), as amended, Texas Education Code, an election held on May 5, 2018 (the "Election"), and an order (the "Order") to be adopted by the Board on June 26, 2018. (See "THE BONDS - Authority for Issuance" herein.)
Paying Agent/Registrar	The initial Paying Agent/Registrar is UMB Bank, N.A., Austin, Texas.
Security	The Bonds are direct obligations of the Issuer and are payable from an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District. (See "THE BONDS - Security for Payment" herein; see also "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" for a discussion of recent developments in Texas law affecting the financing of school districts in Texas.) Additionally, the Issuer has applied for and received 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" herein.)
Redemption Provision of the Bonds	The Issuer reserves the right to redeem Bonds, at its option, maturing on or after August 15, 2029 in whole or in part on August 15, 2028, or any date thereafter at the redemption price of par plus accrued interest to the date fixed for redemption. Additionally, certain of the Bonds may be subject to mandatory sinking fund redemption in the event the Purchaser elects to aggregate two or more maturities as Term Bonds (defined herein). (See "THE BONDS – Redemption").
Tax Matters	In the opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, as Bond Counsel to the District, interest on the Bonds for federal income tax purposes, under and pursuant to statutes, regulations, published rulings, and court decisions existing on the date hereof, (1) will be excludable from the gross income of the owners thereof, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof, who are individuals or, except as hereinafter described, corporations. (See "TAX MATTERS" and "APPENDIX C - Form of Legal Opinion of Bond Counsel" herein.)
Use of Bond Proceeds	Proceeds from the sale of the Bonds will be used for (i) acquiring, designing, renovating, constructing, and equipping school facilities, the purchase of necessary sites for school facilities, and the purchase of new school buses, and (ii) paying the costs of issuance of the Bonds, as authorized at the Election. (See "THE BONDS – Use of Bond Proceeds" herein.)
Ratings	The District has made application to S&P Global Ratings ("S&P") and Moody's Investors Service, Inc. ("Moody's"), for a contract rating on the Bonds based on the payment of the Bonds being guaranteed by the State of Texas Permanent School Fund. S&P and Moody's generally rate all bonds guaranteed by the Texas Permanent School Fund of the State of Texas "AAA" and "Aaa" respectively. (See "OTHER PERTINENT INFORMATION - Ratings" and the "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.)

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 principal amount or integral multiples thereof. No physical delivery of the Bonds will be made to the owners thereof. The 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 "BOOK-ENTRY-ONLY SYSTEM" herein).

Payment Record

The District has never defaulted on the payment of its bonded indebtedness.

Future Bond Issues

The Issuer does not anticipate the issuance of additional debt in the next twelve months except potentially issuing refunding bonds for debt service savings.

Delivery

When issued, anticipated on or about July 25, 2018.

Legality

Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the rendering of opinions as to certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas.

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PRELIMINARY OFFICIAL STATEMENT
relating to
\$70,000,000*
TEXAS CITY INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Galveston County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018

INTRODUCTORY STATEMENT

This Official Statement provides certain information in connection with the issuance by the Texas City Independent School District (the "District" or "Issuer") of its \$70,000,000* Unlimited Tax School Building Bonds, Series 2018 (the "Bonds") identified on page 2 hereof.

The Issuer is a body corporate and a political subdivision of the State of Texas (the "State") duly organized and existing under the laws of the State. The Bonds are issued pursuant to the Constitution and general laws of the State, Sections 45.001 and 45.003(b)(1), as amended, Texas Education Code, an election held in the District on May 5, 2018 (the "Election"), and an order (the "Order") to be adopted by the District's Board of Trustees (the "Board") on June 26, 2018. (See "THE BONDS - Authority for Issuance" herein.)

Unless otherwise indicated, capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Order. Included in this Official Statement are descriptions of the Bonds and certain information about the Issuer and its finances. ***ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT.*** Copies of such documents may be obtained from the Issuer or the Financial Advisor, upon request by electronic mail or upon payment of reasonable copying, mailing, 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, (the "MSRB") 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.

Effective July 1, 2016, the Texas Education Agency's Commissioner of Education ordered the closure of La Marque Independent School District ("La Marque ISD") and total annexation of La Marque ISD property by the District. Pursuant to this order, the District has assumed La Marque ISD's assets as well as its ad valorem tax-backed indebtedness. The District's Tier One allocation will be adjusted annually for the first five years after annexation to account for the increase in student population from the annexed territory. Furthermore, the District is entitled to additional State aid equal to the amount by which the annual debt service required to meet the indebtedness incurred by the District due to annexation exceeds the additional amount of State aid that results from the increased student population in the District. In accordance, with GASB Statement No. 69 (Government Combinations and Disposals of Government Operations), La Marque ISD's assets, deferred outflows, liabilities and deferred inflows and result of operations are reflected on the District's comprehensive Annual Financial Report as though the entities had been combined at the beginning of the District's fiscal year (i.e. September 1, 2015).

Impact of Hurricane Harvey... On August 26, 2017, Hurricane Harvey a Category 4 hurricane with high winds, historic rain and flooding struck the region in and around the District. This resulted in significant property damage throughout the Texas Gulf Coast and within the boundaries of the District. On August 27, 2017, the President of the United States amended his August 25, 2017 a major disaster declaration to include Galveston County (where the District is located). The major disaster declaration made federal assistance available for debris removal and emergency protective measures, including direct federal assistance under the Public Assistance Program.

Damages to District properties, which are estimated at \$15,000,000, forced the closure of three schools (La Marque Primary School, La Marque Elementary School, and La Marque Middle School). These three campuses were already scheduled for necessary maintenance and renovation after the recent annexation of La Marque ISD into the District, but the inclusion of the \$15,000,000 in damages from Hurricane Harvey triggers national and local code upgrades. After considering the required code upgrades, architects estimate that two of the damaged campuses, La Marque Primary School and La Marque Elementary School, will be less expensive to build new than to renovate and incorporate the required code upgrades. This discovery led to the community support of a bond to rebuild the three damaged schools.

During the 2017-18 school year, approximately 1,600 students were displaced and transferred to other campuses within the District or housed in temporary buildings located at other District campuses. The District utilized a total of 40 portable classrooms during the 2017-18 school year: 20 temporary classrooms at Guajardo Elementary housed students from La Marque Elementary, 10 temporary classrooms at Heights Elementary housed students from La Marque Primary, and 10 temporary classrooms at La Marque High School housed students from La Marque Middles School.

Beginning in the 2018-19 school year and until construction is complete on the new facilities, students attending the three damaged campuses will report to temporary facilities. La Marque Middle School will continue to be housed on the second floor of La Marque High School and in temporary classrooms in close proximity to La Marque High School. The District is currently building two portable building campuses on vacant property owned by the District in La Marque where La Marque Primary and La Marque Elementary students will attend until construction is completed for the new campuses.

*Preliminary, subject to change.

The District continues to work closely with both insurance carriers and FEMA. In addition, the District has completed several grant applications and requested Disaster Aide Assistance from the Texas Education Agency. Decisions on the grants and Disaster Aide Assistance will dependent on whether or not qualified expenditures are funded by either insurance or FEMA. However, considering proceeds from insurance, FEMA, and available grants, the District anticipates that the District will eventually receive reimbursement for damages and expenditures incurred as a result of Hurricane Harvey.

2018 preliminary taxable values received from Galveston County Appraisal District show a slight increase in property values overall. The District does not expect Hurricane Harvey to have a materially adverse effect on its ability to pay debt service on the Bonds.

THE BONDS

General Description

The Bonds will be dated July 1, 2018 (the "Dated Date"). Interest on the Bonds will accrue from the Dated Date, with such interest payable initially on February 15, 2019 and semiannually thereafter on each August 15 and February 15 until the earlier of stated maturity or prior redemption. The Bonds will mature on the dates, in the principal amounts, and will bear interest at the rates set forth on page 2 of this Official Statement.

The Bonds will be issued only as fully registered bonds. The Bonds will be issued in denominations of \$5,000 principal or any integral multiple thereof within a stated maturity. Interest on the Bonds is payable by check mailed on or before each interest payment date by the Paying Agent/Registrar, initially UMB Bank, N.A., Austin, Texas, to the registered owner at the last known address as it appears on the Bond registration books maintained by the Paying Agent/Registrar (the "Register") on the Record Date (defined herein) or by such other customary banking arrangement acceptable to the Paying Agent/Registrar and the registered owner to whom interest is to be paid; provided, however, that such person shall bear all risk and expense of such other arrangements. Principal of the Bonds will be payable only upon presentation of such Bonds at the corporate trust office of the Paying Agent/Registrar at stated maturity or prior redemption. So long as the Bonds are registered in the name of CEDE & CO. or other nominee for The Depository Trust Company ("DTC"), payments of principal of and interest on the Bonds will be made as described in "BOOK-ENTRY-ONLY SYSTEM" herein.

If the date for the payment of the principal of or interest on the Bonds is a Saturday, Sunday, a legal holiday or a day when banking institutions in the District where 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 a Saturday, Sunday, legal holiday or a day on which banking institutions are authorized to close; and payment on such date will have the same force and effect as if made on the original date payment was due.

Authority for Issuance

The Bonds are being issued pursuant to the Constitution and general laws of the State, Sections 45.001 and 45.003(b)(1), as amended, Texas Education Code, the Election, and the Order.

Security for Payment

The Bonds are payable from an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District. The Issuer has applied for and received conditional approval from the Texas Education Agency (the "TEA") for the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program, which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein; see also "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" for a discussion of recent developments in Texas law affecting the financing of school districts in Texas.

Permanent School Fund Guarantee

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

Redemption

The District reserves the right to redeem Bonds, at its option, maturing on or after August 15, 2029 in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2028, or any date thereafter at the redemption price of par plus accrued interest to the date fixed for redemption.

In addition, any consecutive serial maturities of Bonds grouped by the Purchaser into one or more "term" bonds (the "Term Bonds") will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order.

Notice of Redemption and DTC Notices

If less than all of the Bonds are to be redeemed, the District shall determine the amounts and maturities thereof to be redeemed and shall direct the Paying Agent/Registrar to select by lot the Bonds, or portions thereof, to be redeemed. Not less than 30 days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first-class, postage prepaid, 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 registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE OF REDEMPTION SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER RECEIVED BY THE BONDHOLDER, AND INTEREST ON THE REDEEMED BONDS SHALL CEASE TO ACCRUE FROM AND AFTER SUCH REDEMPTION DATE NOTWITHSTANDING THAT A BOND HAS NOT BEEN PRESENTED FOR PAYMENT.

All notices of redemption shall (i) specify the date of redemption for the Bonds, (ii) identify the Bonds to be redeemed and, in the case of a portion of the principal amount to be redeemed, the principal amount thereof to be redeemed, (iii) state the redemption price, (iv) state that the Bonds, or the portion of the principal amount thereof to be redeemed, shall become due and payable on the redemption date specified, and the interest thereon, or on the portion of the principal amount thereof to be redeemed, shall cease to accrue from and after the redemption date, and (v) specify that payment of the redemption price for the Bonds, or the principal amount thereof to be redeemed, shall be made at the designated corporate trust office of the Paying Agent/Registrar only upon presentation and surrender thereof by the registered owner.

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, 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 Direct Participant (defined herein) or Indirect Participant (defined herein) to notify the Beneficial Owner (defined herein), shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised on 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 Direct participants and then Direct 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. Neither the District nor the Paying Agent will have any responsibility to Direct 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 Direct Participants, Indirect Participants, or Beneficial Owners of the selection of portions of the Bonds for redemption. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Legality

The Bonds are offered when, as and if issued, subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas. (See "LEGAL MATTERS" herein and "APPENDIX C – Form of Legal Opinion of Bond Counsel").

Use of Bond Proceeds

Proceeds from the sale of the Bonds will be used for providing funds for (i) acquiring, designing, renovating, constructing, and equipping school facilities, the purchase of necessary sites for school facilities, and the purchase of new school buses, and (ii) paying the costs of issuance of the Bonds, as authorized at the Election.

Sources and Uses of Funds

Sources	
Par Amount of the Bonds	\$ _____
Accrued Interest on the Bonds	_____
[Net] Original Issue Reoffering Premium	_____
Total Sources of Funds	\$ _____
Uses	
Construction Fund Deposit	\$ _____
Purchaser's Discount	_____
Bond Fund Deposit	_____
Costs of Issuance	_____
Total Uses	\$ _____

Payment Record

The Issuer has not defaulted on the payment of its bonded indebtedness.

Amendments

The Issuer 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 Issuer may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding and affected thereby, 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 Bonds affected, no such amendment, addition or rescission may (1) extend the time or times of payment of the principal of, premium, if any, and interest on the Bonds, 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, redemption premium, if any, 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 to be held by holders for consent to any such amendment, addition, or rescission.

REGISTERED OWNERS' REMEDIES

If the District defaults in the payment, when due, of principal, interest, redemption price of the Bonds or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, and the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospective ability to be repaid in accordance with the Order, the Order provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought 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 and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of stated 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 owners 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 has 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. Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants in the absence of District action. 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 U.S. 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 Order and 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.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is UMB Bank N.A., Austin, Texas (the "Paying Agent/Registrar"). The Bonds are being issued in fully registered form in integral multiples of \$5,000 of principal amount, as applicable. If the Bonds are no longer held in the Book-Entry-Only System, interest on the Bonds will be payable semiannually by the Paying Agent/Registrar by check mailed on each interest payment date by the Paying Agent/Registrar to the registered owner at the last known address as it appears on the Register on the Record Date.

If the Bonds are no longer held in the Book-Entry-Only System, principal of the Bonds will be payable at stated maturity upon presentation and surrender thereof at the corporate trust office of the Paying Agent/Registrar. So long as Cede & Co. is the registered owner of the Bonds, payments of principal of and interest on the Bonds will be made as described in "BOOK-ENTRY-ONLY SYSTEM."

Successor Paying Agent/Registrar

Provision is made in the Order for replacing the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall 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 organized under the laws of the State; or other entity duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds.

Future Registration

In the event the Book-Entry Only System is discontinued, the Bonds may be transferred, registered and assigned on the Register only upon presentation and surrender of the Bonds to the Paying Agent/Registrar, and such registration and transfer shall 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 and transfer. A Bond may be assigned by the execution of an assignment form on such Bond or by such other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bond being transferred or exchanged at the principal corporate office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk and expense. 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 Owner in not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer 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 shall be in authorized denominations and for a like aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer.

Record Date for Interest Payment

The record date ("Record Date") for determining the person to whom the interest on any Bond is payable on any interest payment date means the close of business on the last business 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 (the "Special Payment Date" which shall be 15 days after the Special Record Date) shall 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 Owner of a Bond appearing on the Register at the close of business on the last business day next preceding the date of mailing of such notice.

Limitation on Transfer of Bonds

Neither the District nor the Paying Agent/Registrar shall be required to make any such transfer, conversion or exchange (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date or (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date; provided, however, that such limitation shall not apply to uncalled portions of a Bond redeemed in part.

Replacement Bonds

If any Bond is mutilated, destroyed, stolen or lost, a new Bond in the same principal amount, as the case may be, as the Bond so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Bond, such new Bond will be delivered only upon surrender and cancellation of such mutilated Bond. In the case of any Bond issued in lieu of and substitution for a Bond which has been destroyed, stolen or lost, such new Bond will be delivered only (a) upon filing with the District and the Paying Agent/Registrar a certificate to the effect that such Bond has been destroyed, stolen or lost and proof of the ownership thereof, and (b) upon furnishing the District and the Paying Agent/Registrar with indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond must pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

Defeasance of Bonds

The Order provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, in trust (1) money sufficient to make such payment, (2) Government Obligations (defined below) that mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, or (3) a combination of money and Government Obligations. The District has additionally reserved the right in the Order, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Obligations for the Government Obligations originally deposited, to reinvest the uninvested money on deposit for such defeasance and to withdraw for the benefit of the District money in excess of the amount required for such defeasance. The Order provides that "Government Obligations" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that on the date the governing body of the District adopts or approves the proceedings authorizing the financial arrangements have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, or (d) any additional securities and obligations hereafter authorized by Texas law as eligible for use to accomplish the discharge of obligations such as the Bonds. District officials may restrict such eligible securities as deemed appropriate. There is no assurance that the ratings for United States Treasury securities acquired to defease any Bonds, or those for any other Government Obligations, will be maintained at any particular rating category. Further, there is no assurance that current State law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of those securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Bonds ("Defeasance Proceeds"), though the District has reserved the right to utilize any additional securities for such purpose in the

event the aforementioned list is expanded. Because the Order does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the District to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, registered owners of Bonds are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under State law as permissible defeasance securities.

Upon such deposit as described above, such Bonds will no longer be regarded to be outstanding obligations for purposes of applying any limitation on indebtedness or for purposes of taxation. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that, the District's right to redeem Bonds defeased to stated maturity is not extinguished if the District has reserved the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption, at an earlier date, those Bonds which have been defeased to their stated maturity date, if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the 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.

Defeasance will cancel the Permanent School Fund Guarantee with respect to those defeased Bonds.

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 The Depository Trust Company ("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 Financial Advisor, and the Purchaser 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 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 bond certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest securities 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 a S&P Global Ratings 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, 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 Paying Agent/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 MMI 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).

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 payment 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. 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 Issuer or Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, certificates representing each Bond stated maturity are required to be printed and delivered. The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, physical certificates representing each Bond stated maturity will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District, the Financial Advisor, and the Purchaser believe to be reliable, but none of the District, the Financial Advisor, nor the Purchaser take responsibility for the accuracy thereof.

So long as Cede & Co. is the registered owner of the Bonds, the Issuer will have no obligation or responsibility to the DTC. Participants or Indirect Participants, or the persons for which they act as nominees, with respect to payment to or providing of notice to such Participants, or the persons for which they act as nominees.

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.

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 authorized to manage the investments of the capital gains, royalties and other investment income relating to the land endowment. The SLB is a three member board, the membership of which consists of the Commissioner of the Texas General Land Office (the “Land Commissioner”) and two citizen members, one appointed by the Governor and one by the Texas Attorney General (the “Attorney General”). As of August 31, 2017, the General Land Office (the “GLO”) managed approximately 21% 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 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 2017 distributions to the ASF amounted to an estimated \$212.49 per student and the total amount distributed to the ASF was \$1,056.4 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, 2017, when 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, 2017 is derived from the audited financial statements of the PSF, which are included in the Annual Report when 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, 2017 and for a description of the financial results of the PSF for the year ended August 31, 2017, the most recent year for which audited financial information regarding the Fund is available. The 2017 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2017 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.

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 Constitutional Amendment" 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 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 2006, 2008, 2010, 2012, 2014 and 2016. 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, is as follows: (i) an equity allocation of 35% (consisting of U.S. large cap equities targeted at 13%, emerging and international equities at 17% 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.

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, 2017, the Fund's financial assets portfolio was invested as follows: 43.16% in public market equity investments; 12.86% in fixed income investments; 9.99% in absolute return assets; 7.02% in private equity assets; 7.40% in real estate assets; 6.83% in risk parity assets; 5.44% in real return assets; 6.99% in emerging market debt; and 0.31% 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, 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 three-member SLB, which consists of the elected Commissioner of the GLO, an appointee of the Governor, and an appointee of the Attorney General. 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 Constitutional Amendment" 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 "SDBGP 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 SDBGP 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 SDBGP Rules and the CDBGP 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 SDBGP and CDBGP 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 and increased again to 3.75 times effective September 1, 2017; however, as described under "2017 Legislative Changes to the Charter District Bond Guarantee Program," the SBOE took action at its Winter 2018 meeting to rollback a portion of the multiplier increase. The regulatory change effecting the rollback will be effective 20 days after filing as adopted with the *Texas Register*, which is expected to make the change effective in late-March 2018. Based upon the cost basis of the Fund at August 31, 2017, the State Law Capacity increased from \$97,933,360,905 on August 31, 2016 to \$111,568,711,072 on August 31, 2017.

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 SDBGP 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 CDBGP Rules provide for an additional 5% reserve of CDBGP 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, 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, 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, among other factors, could adversely affect the ratio of Fund assets to guaranteed bonds and the growth of the Fund in general. 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 SDBGP 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 SDBGP 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 "CDBGP Rules"). The CDBGP 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 February 21, 2018 (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 5.5%. As of February 28, 2018, there were 181 active open-enrollment charter schools in the State and there were 719 charter school campuses operating under such charters (though as of such date, five of such campuses' operations have not begun 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 purposes 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.

Beginning in July 2015, TEA began limiting new guarantees under the Charter District Bond Guarantee Program to conform to the Act and, subsequently, with CDBG Rules that require the maintenance of a capacity reserve for the Charter District Bond Guarantee Program. Following the increase in the Program multiplier in February 2016 and the update of the percentage of students enrolled in open-enrollment charter schools to the total State scholastic census in March 2016, some new capacity became available under the Charter District Bond Guarantee Program, but that capacity was quickly exhausted. In accordance with the action of the SBOE on February 3, 2017, additional capacity for the Charter District Bond Guarantee Program became effective in two increments, implemented on March 1, 2017 and on September 1, 2017 (as described under "2017 Legislative Changes to the Charter District Bond Guarantee Program," an item to reverse the September 1, 2017 increase in the Program multiplier was approved by the SBOE at its Winter 2018 meeting). In addition, legislation enacted during the Legislature's 2017 regular session modifies the manner of calculating the capacity of the Charter District Bond Guarantee Program (the "CDBG Capacity"), which further increases 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 CDBGP Capacity include Fund investment performance, future increases in the Guarantee Program multiplier, changes in State law that govern the calculation of the CDBGP 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 CDBGP 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 CDBGP 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 CDBGP 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, 2017, the amount of outstanding bond guarantees represented 66.57% of the State Capacity Limit for the Guarantee Program. SB 1480 amended the CDBGP 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 CDBGP 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 CDBGP 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 CDBGP Capacity, as that percentage has grown from 3.53% in September, 2012 to 5.5% in February 2018, representing a cumulative growth during that period of 56%. 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 CDBGP 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 CDBGP 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 CDBGP 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 CDBGP 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 CDBGP Capacity for any year may not exceed the limit provided in the schedule set forth in SB 1480. In September 2017, the SBOE voted to authorize the full 20% increase in the amount of charter district bonds that may be guaranteed for fiscal year 2018, which increases the relative capacity of the Charter District Bond Guarantee Program to the School District Bond Guarantee Program for that fiscal year.

Taking into account the enactment of SB 1480 and the increase in the CDBGP Capacity effected thereby, at Winter 2018 meeting the SBOE approved the second of two required readings amending the SDBGP Rules to rollback the multiplier from 3.75 times market value to 3.50 times (to ensure compliance with State administrative law requirements, the rollback is expected to be effective in late March 2018).

In addition to modifying the manner of determining the CDBGP 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 CDBGP 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 August 31, 2017, the Charter District Reserve Fund represented approximately 0.23% 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 in September 2017, the SBOE authorized the PSF staff to begin the process of transferring the management of the Reserve Fund to the PSF, where it is expected to be held and invested as a non-commingled fund under the administration of the PSF staff. A target date in Spring 2018 has been established for that change in management of the Reserve Fund to become effective.

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, under current law, open-enrollment charter schools generally do not receive a dedicated funding allocation from the State to assist with the construction and acquisition of new facilities. However, during the 85th Regular Session of the Legislature in 2017, legislation was enacted that, for the first time, provided a limited appropriation in the amount of \$60 million for the 2018-2019 biennium for charter districts having an acceptable performance rating. A charter district that receives funding under this program may use the funds to lease or pay property taxes imposed on an instructional facility; to pay debt service on bonds that financed an instructional facility; or for any other purpose related to the purchase, lease, sale, acquisition, or maintenance of an instructional facility. 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. At January 31, 2018, the Charter District Reserve Fund contained \$4,729,390.

Potential Impact of Hurricane Harvey on the PSF

Hurricane Harvey struck coastal Texas on August 26, 2017, resulting in historic levels of rainfall. The TEA believes that the storm impacted more than 1.3 million students enrolled in some 157 school districts, and approximately 58,000 students in 27 charter

schools along the Texas Gulf Coast. Many of the impacted school districts and two charter districts have bonds guaranteed by the PSF. It is possible that the affected districts will need to borrow to repair or replace damaged facilities, which could require increased bond issuance and applications to the TEA for PSF bond guarantees. In addition, the storm damage and any lingering economic damage in the area could adversely affect the tax base (for school districts) and credit quality of school districts and charter districts with bonds that are or will be guaranteed by the PSF.

The TEA, members of the Legislature and the Governor, among others, have stated that they are developing programs to provide financial assistance to affected school districts and charter districts, particularly with regard to funding assistance for facility repairs and construction and to offset tax base and/or revenue loss to affected districts. The composition of any final programs that may be implemented cannot be predicted, and are likely to be subject to future State legislative and administrative actions, available amounts of federal and private disaster relief for affected schools, and other factors. In early October, the TEA initiated programs designed to hold school districts and charter districts harmless for the loss of State funding associated with declines in average daily attendance for the remainder of fiscal year 2018. In the past, storm damage has caused multiple year impacts to affected schools with respect to both attendance figures and tax base (for school districts), and the damage caused by Harvey could be well in excess of previous storm damage. TEA conducted a survey of districts affected by the hurricane with respect to the collection of fiscal year 2017 taxes. In general, tax revenues of affected districts appear to have increased for fiscal 2017, but at a somewhat lower rate than had been anticipated. It should be noted that most of the fiscal year 2017 taxes had been collected when the hurricane hit the Texas coast in late August. TEA has not conducted any surveys with respect to fiscal year 2018 taxes, but notes that as of late February 2018 the negative effect of the hurricane on the average daily attendance of districts in the affected area appears to have been less than TEA had initially anticipated.

Most school district and charter district bonds that are guaranteed by the PSF are fixed rate bonds that pay principal on an annual basis and interest on a semiannual basis, in February and August of each year. The hurricane hit the Texas coast after the August 2017 payment dates, so the first payment cycle that could have been affected by the storm was the February 2018 payment date. TEA notes that no district has applied for financial exigency or failed to timely pay bond payments as a result of the hurricane or otherwise. The PSF is managed to maintain liquidity for any draws on the program. Moreover, as described under "The School District Bond Guarantee Program" and "The Charter District Bond Guarantee Program," both parts of the Bond Guarantee Program operate in accordance with the Act as "intercept" programs, providing liquidity for guaranteed bonds, and draws on the PSF are required to be restored from the first State money payable to a school district or a charter district that fails to make a guaranteed payment on its bonds.

Ratings of Bonds Guaranteed Under the Guarantee Program

Moody's Investors Service, Inc., S&P Global Ratings and Fitch Ratings, Inc., rate bonds guaranteed by the PSF "Aaa," "AAA" and "AAA," respectively. Not all districts apply for multiple ratings on their bonds, however. See "OTHER PERTINENT INFORMATION - Ratings" herein.

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations

<u>Fiscal Year Ended 8/31</u>	<u>Book Value⁽¹⁾</u>	<u>Market Value⁽¹⁾</u>
2013	\$25,599,296,902	\$33,163,242,374
2014	27,596,692,541	38,445,519,225
2015	29,081,052,900	36,196,265,273
2016	30,128,037,903	37,279,799,335
2017 ⁽²⁾	31,870,581,428	41,438,672,573

⁽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, 2017, 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 \$13.43 million, \$247.64 million, \$2,797.05 million, \$4.71 million, and \$3,399.05 million, respectively, and market values of approximately \$1,870.22 million, \$651.40 million, \$2,788.02 million, \$2.09 million, and \$3,399.05 million, respectively. At January 31, 2018, the PSF had a book value of \$32,415,438,326 and a market value of \$43,741,388,620. January 31, 2018 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds

<u>At 8/31</u>	<u>Principal Amount⁽¹⁾</u>
2013	\$55,218,889,156
2014	58,364,350,783
2015	63,955,449,047
2016	68,303,328,445
2017	74,266,090,023 ⁽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, 2017 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts over the remaining life of the bonds guaranteed by the Guarantee Program was \$117,195,729,512, of which \$42,929,639,489 represents interest to be paid. As shown in the table above, at August 31, 2017, there were \$74,266,090,023 in principal amount of bonds guaranteed under the Guarantee Program and based on the cost value of the Fund at August 31, 2017 the capacity of the Guarantee Program at that date was \$111,568,711,072. The Program capacity at August 31, 2017 takes into account the increases in the cost value multiplier effective February 1, 2016 and March 1, 2017, which cumulatively increased the multiplier from 3 times to 3.50 times, but does not take into account the September 1, 2017 increase in the multiplier to 3.75. Using the IRS Limit, which is the lower of the two federal and State capacity limits of Program capacity, of \$117,318,653,038, at August 31, 2017 98.28% of Program capacity was available to the School District Bond Guarantee Program and 1.72% was available to the Charter District Bond Guarantee Program.

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

<u>School District Bonds</u>			<u>Charter District Bonds</u>		<u>Totals</u>	
<u>Fiscal Year Ended 8/31</u>	<u>No. of Issues</u>	<u>Principal Amount</u>	<u>No. of Issues</u>	<u>Principal Amount</u>	<u>No. of Issues</u>	<u>Principal Amount</u>
2014 ⁽²⁾	2,869	\$58,061,805,783	10	\$302,545,000	2,879	\$58,364,350,783
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⁾	3,253	72,884,480,023	40	1,381,610,000	3,293	74,266,090,023

⁽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⁾ Fiscal 2014 was the first year of operation of the Charter District Bond Guarantee Program.

⁽³⁾ At January 31, 2018 (based on unaudited data, which is subject to adjustment), there were \$76,112,811,568 of bonds guaranteed under the Guarantee Program, representing 3,354 school district issues, aggregating \$74,700,936,568 in principal amount and 43 charter district issues, aggregating \$1,411,875,000 in principal amount. At January 31, 2018, the capacity allocation of the Charter District Bond Guarantee Program was \$2,013,789,828 (based on the then effective capacity multiplier of 3.75 times and on unaudited data, which is subject to adjustment).

Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2017

The following discussion is derived from the Annual Report for the year ended August 31, 2017, 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, when filed, 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, 2017, 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 2017, the Fund balance was \$41.4 billion, an increase of \$4.2 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. 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, 2017, were 11.96%, 8.26% and 5.49%, 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, three-year, and five-year annualized total returns for the PSF(SLB) real assets, including cash, were 10.35%, 7.19%, and 7.77%, 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, 2017, 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, 2017, the SBOE has approved and the Fund made capital commitments to externally managed real estate investment funds in a total amount of \$3.31 billion and capital commitments to private equity limited partnerships for a total of \$3.83 billion. Unfunded commitments at August 31, 2017, totaled \$1.35 billion in real estate investments and \$1.54 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, 2017, the remaining commitments totaled approximately \$2.042 billion.

The PSF(SBOE)'s investment in domestic large cap, domestic small/mid cap, international large cap, and emerging market equity securities experienced returns of 16.30%, 12.80%, 19.04%, and 26.28%, respectively, during the fiscal year ended August 31, 2017. The PSF(SBOE)'s investment in domestic fixed income securities produced a return of 1.61% during the fiscal year and absolute return investments yielded a return of 7.32%. The PSF(SBOE) real estate and private equity investments returned 10.52% and 16.35%, respectively. Risk parity assets produced a return of 8.77%, while real return assets yielded 2.38%. Emerging market debt produced a return of 11.84%. Combined, all PSF(SBOE) asset classes produced an investment return of 11.96% for the fiscal year ended August 31, 2017, out-performing the benchmark index of 10.66% by approximately 130 basis points. All PSF(SLB) real assets (including cash) returned 10.35% for the fiscal year ending August 31, 2017.

For fiscal year 2017, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled \$5.4 billion, an increase of \$2.7 billion from fiscal year 2016 earnings of \$2.7 billion. This increase reflects the performance of the securities markets in which the Fund was invested in fiscal year 2017. In fiscal year 2017, 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, increased 30.6% for the fiscal year ending August 31, 2017. This increase is primarily attributable to an increase in PSF(SLB) operational costs and generally larger 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 2016 and 2017, the distribution from the SBOE to the ASF totaled \$1.06 billion and \$1.06 billion, respectively. There was no contribution to the ASF by the SLB in fiscal year 2017.

At the end of the 2017 fiscal year, PSF assets guaranteed \$74.27 billion in bonds issued by 858 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 6,980 school district and charter district bond issues totaling \$166.3 billion in principal amount. During the 2017 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program increased by 14, or 0.4%. The dollar amount of guaranteed school and charter bond issues outstanding increased by \$6.0 billion or 8.7%. The guarantee capacity of the Fund increased by \$13.9 billion, or 13.9%, during fiscal year 2017 due to continued growth in the cost basis of the Fund and the increase in the cost multiplier (from 3.25 to 3.50, as discussed above) used to calculate Program capacity.

2011 Constitutional Amendment

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% and 3.5% for each of two year periods 2008-2009, 2010-2011, 2012-2013, 2014-2015 and 2016-2017, respectively. In September 2017, the SBOE approved a \$2.5 billion distribution to the ASF for State fiscal biennium 2018-2019, to be made in equal monthly increments of \$102.99 million, which represents a 3.7% Distribution Rate for the biennium and a per student distribution of \$248.58, based on 2017 preliminary student average daily attendance of 4,971,656.277.

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 provide 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 Fund to determine whether to transfer an amount each year from Fund assets to the ASF revenue derived from such land or properties, with the amount transferred limited to \$300 million. Any amount transferred to the ASF by an entity other than the SBOE is excluded from the 6% Distribution Rate limitation applicable to SBOE transfers.

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 July 2016. 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. A report of the State Auditor released in March 2016 noted that based on an audit of certain real estate transactions managed by the GLO, during the period from September 2009 to May 2015, the GLO failed to comply with certain of such legal requirements relating to conflict of interest reporting, complying with written procedures and maintenance of documentation and other statutory and procedural requirements. That report, which includes the response of GLO management agreeing to the recommendations of the report, is available at <http://www.sao.texas.gov/reports/main/16-018.pdf>.

Since 2007, TEA has made supplemental appropriation requests to the Legislature for the purpose of funding the implementation of the 2008 Asset Allocation Policy, but those requests have been denied or partly funded. 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 \$30.0 million and \$30.2 million for the administration of the PSF for fiscal years 2014 and 2015, respectively, and \$30.2 million for each of the fiscal years 2016 and 2017.

As of August 31, 2017, 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/](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 November 19, 2010, 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 15c-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 <http://emma.msrb.org/IssueView/NonCUSIP9IssueDetails.aspx?id=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.

Material 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; and (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. (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, et.al v. The Texas Taxpayer and Student Fairness Coalition, et al.*, 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, specifically, the District’s obligation to levy an unlimited debt service tax and any Permanent School Fund guarantee of the Bonds would be adversely affected by any such legislation. See “CURRENT PUBLIC SCHOOL FINANCE SYSTEM.”

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

Overview

The following language constitutes only a summary of the 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 41 through 46 of the Texas Education Code, as amended.

Funding for school districts in the State is provided primarily from State and local sources. State funding for all school districts is provided through a set of funding formulas comprising the “Foundation School Program”, as well as two facilities funding programs. Generally, the Finance System is designed to promote wealth equalization among school districts by balancing State and local sources of funds available to school districts. In particular, because districts with relatively high levels of property wealth per student can raise more local funding, such districts receive less State aid, and in some cases, are required to disburse local funds to equalize their overall funding relative to other school districts. Conversely, because districts with relatively low levels of property wealth per student have limited access to local funding, the Finance System is designed to provide more State funding to such districts. Thus, as a school district’s property wealth per student increases, State funding to the school district is reduced. As a school district’s property wealth per student declines, the Finance System is designed to increase that district’s State funding. The Finance System provides a similar equalization system for facilities funding wherein districts with the same tax rate for debt service raise the same amount of combined State and local funding. Facilities funding for debt incurred in prior years is expected to continue in future years; however, State funding for new school facilities has not been consistently appropriated by the Texas Legislature, as further described below.

Local funding is derived from collections of ad valorem taxes levied on property located within each district's boundaries. School districts are authorized to levy two types of property taxes: a limited M&O tax to pay current expenses and an unlimited interest and sinking fund ("I&S") tax to pay debt service on bonds. Generally, under current law, M&O tax rates are subject to a statutory maximum rate of \$1.17 per \$100 of taxable value for most school districts (although a few districts can exceed the \$1.17 limit as a result of authorization approved in the 1960s). Current law also requires school districts to demonstrate their ability to pay debt service on outstanding indebtedness through the levy of an ad valorem tax at a rate of not to exceed \$0.50 per \$100 of taxable property at the time bonds are issued. Once bonds are issued, however, districts may levy a tax to pay debt service on such bonds unlimited as to rate or amount (see "TAX RATE LIMITATIONS" herein). As noted above, because property values vary widely among school districts, the amount of local funding generated by the same tax rate is also subject to wide variation among school districts.

Local Funding for School Districts

The primary source of local funding for school districts is collections from ad valorem taxes levied against taxable property located in each school district. Prior to reform legislation that became effective during the 2006-2007 fiscal year (the "Reform Legislation"), the maximum M&O tax rate for most school districts was generally limited to \$1.50 per \$100 of taxable value. At the time the Reform Legislation was enacted, the majority of school districts were levying an M&O tax rate of \$1.50 per \$100 of taxable value. The Reform Legislation required each school district to "compress" its tax rate by an amount equal to the "State Compression Percentage". The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. For the 2018-19 State fiscal biennium, the State Compression Percentage has been 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. School districts are permitted, however, to generate additional local funds by raising their M&O tax rate by up to \$0.04 above the compressed tax rate without voter approval (for most districts, up to \$1.04 per \$100 of taxable value). In addition, if the voters approve a tax rate increase through a local referendum, districts may, in general, increase their M&O tax rate up to a maximum M&O tax rate of \$1.17 per \$100 of taxable value and receive State equalization funds for such taxing effort (see "TAX RATE LIMITATIONS – Public Hearing and Rollback Tax Rate" herein). Elections authorizing the levy of M&O taxes held in certain school districts under older laws, however, may subject M&O tax rates in such districts to other limitations (See "TAX RATE LIMITATIONS" herein).

State Funding for School Districts

State funding for school districts is provided through the Foundation School Program, which provides each school district with a minimum level of funding (a "Basic Allotment") for each student in average daily attendance ("ADA"). The Basic Allotment is calculated for each school district using various weights and adjustments based on the number of students in average daily attendance and also varies depending on each district's compressed tax rate. This Basic Allotment formula determines most of the allotments making up a district's basic level of funding, referred to as "Tier One" of the Foundation School Program. The basic level of funding is then "enriched" with additional funds known as "Tier Two" of the Foundation School Program. Tier Two provides a guaranteed level of funding for each cent of local tax effort that exceeds the compressed tax rate (for most districts, M&O tax rates above \$1.00 per \$100 of taxable value). The 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. In 2017, the 85th Texas Legislature appropriated funds in the amount of \$1,378,500,000 for the 2018-19 State fiscal biennium 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 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. Tier One and Tier Two allotments and existing EDA and IFA allotments are generally required to be funded each year by the Texas Legislature. Since future-year IFA awards were not funded by the Texas Legislature for the 2018-19 State fiscal biennium and debt service assistance on school district bonds that are not yet eligible for EDA is not available, debt service on new bonds issued by districts to construct, acquire and improve facilities must be funded solely from local I&S taxes.

Tier One allotments are intended to provide all districts a basic level of education necessary to meet applicable legal standards. Tier Two allotments are intended to guarantee each school district that is not subject to the wealth transfer provisions described below an opportunity to supplement that basic program at a level of its own choice; however, Tier Two allotments may not be used for the payment of debt service or capital outlay.

As described above, the cost of the basic program is based on an allotment per student known as the "Basic Allotment". For the 2018-19 State fiscal biennium, the Basic Allotment is \$5,140 for each student in average daily attendance. The Basic Allotment is then adjusted for all districts by several different weights to account for inherent differences between school districts. These weights consist of (i) a cost adjustment factor intended to address varying economic conditions that affect teacher hiring known as the "cost of education index", (ii) district-size adjustments for small and mid-size districts, and (iii) an adjustment for the sparsity of the district's student population. The cost of education index, district-size and population sparsity adjustments, as applied to the Basic Allotment, create what is referred to as the "Adjusted Allotment". The Adjusted Allotment is used to compute a "regular program allotment", as well as various other allotments associated with educating students with other specified educational needs.

Tier Two supplements the basic funding of Tier One and provides two levels of enrichment with different guaranteed yields (i.e., guaranteed levels of funding by the State) depending on the district's local tax effort. The first six cents of tax effort that exceeds the compressed tax rate (for most districts, M&O tax rates ranging from \$1.00 to \$1.06 per \$100 of taxable value) will, for most districts, generate the a guaranteed yield of \$99.41 and \$106.28 per cent per weighted student in average daily attendance ("WADA") in the 2017-18 and 2018-19 State fiscal years, respectively. The second level of Tier Two is generated by tax effort that exceeds the district's compressed tax rate plus six cents (for most districts eligible for this level of funding, M&O tax rates ranging from \$1.06 to \$1.17 per \$100 of taxable value) and has a guaranteed yield per cent per WADA of \$31.95 for the 2018-19 State fiscal biennium. Property-wealthy school districts that have an M&O tax rate that exceeds the district's compressed tax rate plus six cents are subject to recapture above this tax rate level at the equivalent wealth per student of \$319,500 (see "Wealth Transfer Provisions" below).

Previously, a district with a compressed tax rate below \$1.00 per \$100 of taxable value (known as a "fractionally funded district") received a Basic Allotment which was reduced proportionately to the degree that the district's compressed tax rate fell short of \$1.00. Beginning in the 2017-2018 fiscal year, the compressed tax rate of a fractionally funded district now includes the portion of such district's current M&O tax rate in excess of the first six cents above the district's compressed tax rate until the district's compressed tax rate is equal to the state maximum compressed tax rate of \$1.00. Thus, for fractionally funded districts, each eligible one cent of M&O tax levy above the district's compressed tax rate plus six cents will have a guaranteed yield based on Tier One funding instead of the Tier Two yield, thereby reducing the penalty against the Basic Allotment.

In addition to the operations funding components of the Foundation School Program discussed above, the Foundation School Program provides a facilities funding component consisting of the Instructional Facilities Allotment (IFA) program and the Existing Debt Allotment (EDA) program. These programs assist school districts in funding facilities by, generally, equalizing a district's I&S tax effort. The IFA guarantees each awarded school district a specified amount per student (the "IFA Guaranteed Yield") in State and local funds for each cent of tax effort to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The guaranteed yield per cent of local tax effort per student in ADA 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 the State Legislature allocates appropriated funds for new IFA awards, a school district must apply to the Commissioner in accordance with rules adopted by the Commissioner before issuing the bonds to be paid with IFA state assistance. The total amount of debt service assistance over a biennium for which a district may be awarded is limited to the lesser of (1) the actual debt service payments made by the 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 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. The 85th State Legislature did not appropriate any funds for new IFA awards for the 2018-2019 State fiscal biennium; 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") was the same as the IFA Guaranteed Yield (\$35 per cent of local tax effort per student in ADA). The 85th Texas Legislature changed the EDA Yield to the lesser of (i) \$40 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 districts would have been entitled to if the EDA Yield were \$35. The yield for the 2017-2018 fiscal year is approximately \$37. The portion of a district's local debt service rate that qualifies for EDA assistance is limited to the first 29 cents of debt service tax (or a greater amount for any year provided by appropriation by the Texas Legislature). In general, a district's bonds are eligible for EDA assistance if (i) the district made payments on the bonds during the final fiscal year of the preceding State fiscal biennium, or (ii) the 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 district may not receive EDA funding for the principal and interest on a series of otherwise eligible bonds for which the district receives IFA funding.

A district may also qualify for a NIFA allotment, which provides assistance to districts for operational expenses associated with opening new instructional facilities. The 85th Texas Legislature appropriated funds in the amount of \$23,750,000 for each of the 2017-18 and 2018-19 State fiscal years for NIFA allotments.

2006 Legislation

Since the enactment of the Reform Legislation in 2006, most school districts in the State have operated with a "target" funding level per student ("Target Revenue") that is based upon the "hold harmless" principles embodied in the Reform Legislation. This system of Target Revenue was superimposed on the Foundation School Program and made existing funding formulas substantially less important for most school districts. The Reform Legislation was intended to lower M&O tax rates in order to give school districts "meaningful discretion" in setting their M&O tax rates, while holding school districts harmless by providing them with the same level of overall funding they received prior to the enactment of the Reform Legislation. To make up for this shortfall, the Reform Legislation authorized Additional State Aid for Tax Reduction ("ASATR") for each school district in an amount equal to the difference between the amount that each district would receive under the Foundation School Program and the amount of each district's Target Revenue funding level. However, in subsequent legislative sessions, the Texas Legislature has gradually reduced the reliance on ASATR by increasing the funding formulas, and beginning with the 2017-18 school year, the statutes authorizing ASATR are repealed (eliminating revenue targets and ASATR funding).

2017 Legislation

The 85th Texas Legislature, including the regular session which concluded on May 29, 2017 and the special session which concluded on August 15, 2017, did not enact substantive changes to the Finance System. However, certain bills during the regular session and House Bill 21, which was passed during the special session and signed by the Governor on August 16, 2017, revised certain aspects of the formulas used to determine school district entitlements under the Finance System. In addition to amounts previously discussed, the 85th Texas Legislature additionally appropriated funds to (i) establish a Financial Hardship Transition Program, which provides grants ("Hardship Grants") to those districts which were heavily reliant on ASATR funding, and (ii) provide an Adjustment for Rapid Decline in Taxable Value of Property ("DPV Decline Adjustment") for districts which experienced a decline in their tax base of more than four percent for tax years 2015 and 2016. A district may receive either a Hardship Grant or a DPV Decline Adjustment, but cannot receive both. In a case where a district would have been eligible to receive funding under both programs, the district will receive the greater of the two amounts.

Wealth Transfer Provisions

Some districts have sufficient property wealth per student in WADA ("wealth per student") to generate their statutory level of funding through collections of local property taxes alone. Districts whose wealth per student generates local property tax collections in excess of their statutory level of funding are referred to as "Chapter 41" districts because they are subject to the wealth equalization provisions contained in Chapter 41 of the Texas Education Code. Chapter 41 districts may receive State funds for certain competitive grants and a few programs that remain outside the Foundation School Program. Otherwise, Chapter 41 districts are not eligible to receive State funding. Furthermore, Chapter 41 districts must exercise certain options in order to reduce their wealth level to equalized wealth levels of funding, as determined by formulas set forth in the Reform Legislation. For most Chapter 41 districts, this equalization process entails paying the portion of the district's local taxes collected in excess of the equalized wealth levels of funding to the State (for redistribution to other school districts) or directly to other school districts with a wealth per student that does not generate local funds sufficient to meet the statutory level of funding, a process known as "recapture".

The equalized wealth levels that subject Chapter 41 districts to recapture for the 2018-2019 State fiscal biennium are set at (i) \$514,000 per student in WADA with respect to that portion of a district's M&O tax effort that does not exceed its compressed tax rate (for most districts, the first \$1.00 per \$100 of taxable value) and (ii) \$319,500 per WADA with respect to that portion of a district's M&O tax effort that is beyond its compressed rate plus \$.06 (for most districts, M&O taxes levied above \$1.06 per \$100 in taxable value). So long as the State's equalization program under Chapter 42 of the Texas Education Code is funded to provide tax revenue equivalent to that raised by the Austin Independent School District on the first six pennies of tax effort that exceed the compressed tax rate, then M&O taxes levied above \$1.00 but at or below \$1.06 per \$100 of taxable value ("Golden Pennies") are not subject to the wealth equalization provisions of Chapter 41. Because funding at the Austin Independent School District level is currently being provided to school districts under Chapter 42 of the Texas Education Code, no recapture is currently associated with the Golden Pennies. Chapter 41 districts with a wealth per student above the lower equalized wealth level but below the higher equalized wealth level must equalize their wealth only with respect to the portion of their M&O tax rate, if any, in excess of \$1.06 per \$100 of taxable value. Under Chapter 41, a district has five options to reduce its wealth per student so that it does not exceed the equalized wealth levels: (1) a district may consolidate by agreement with one or more districts to form a consolidated district; all property and debt of the consolidating districts vest in the consolidated district; (2) a district may detach property from its territory for annexation by a property-poor district; (3) a district may purchase attendance credits from the State; (4) a district may contract to educate nonresident students from a property-poor district by sending money directly to one or more property-poor districts; or (5) a district may consolidate by agreement with one or more districts to form a consolidated taxing district solely to levy and distribute either M&O taxes or both M&O taxes and I&S taxes. A Chapter 41 district may also exercise any combination of these remedies. Options (3), (4) and (5) require prior approval by the Chapter 41 district's voters.

A district may not adopt a tax rate until its effective wealth per student is at or below the equalized wealth level. If a district fails to exercise a permitted option, the Commissioner must reduce the district's property wealth per student to the equalized wealth level by detaching certain types of property from the district and annexing the property to a property-poor district or, if necessary, consolidate the district with a property-poor district. Provisions governing detachment and annexation of taxable property by the Commissioner do not provide for assumption of any of the transferring district's existing debt. The Commissioner has not been required to detach property in the absence of a district failing to select another wealth-equalization option.

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

The District's wealth per student for the 2017-18 school year is more than the equalized wealth value. Accordingly, the District has been required to exercise one of the permitted wealth equalization options. As a district with wealth per student in excess of the equalized wealth value, the District has reduced its wealth per student by exercising Option 3, an agreement for the purchase of attendance credits (netting Chapter 42 funding) pursuant to Chapter 41, Texas Education Code, as amended. The arrangement has been approved by the Texas Education Agency pursuant to a letter dated August 11, 2017.

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. Accordingly, if the District's wealth per student should exceed the maximum permitted level in future school years, it will be required each year to exercise one or more of the 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 ratio 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.

INVESTMENT POLICIES

Investments

The District invests its investable funds in investments authorized by Texas law in accordance with investment policies approved by the Board. Both State law and the District's investment policies are subject to change.

Investment Authority and Investment Practices of the District

Under Texas law, including Chapter 2256, as amended, Texas Government Code (the "Texas Public Funds Investment Act") the Issuer is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas 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 of Texas or the United States or their respective agencies and instrumentalities; (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 successors, or otherwise meeting the requirements of the Texas Public Funds Investment Act; (8) certificates of deposit and share certificates (i) that are issued by or through an institution that has its main office or a branch office in Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (7) or in any other manner and amount provided by law for Issuer deposits, or (ii) where (a) the funds are invested by the Issuer through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the Issuer as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the Issuer; (b) the broker or the depository institution selected by the Issuer 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 Issuer, (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 Issuer 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 United States Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the Issuer with respect to the certificates of deposit; (9) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1) and require the security being purchased by the Issuer to be pledged to the Issuer, held in the Issuer's name and deposited at the time the investment is made with the Issuer or with a third party selected and approved by the Issuer, and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (10) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (7) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (7) above and clauses (12) through (15) below, (ii) securities held as collateral under a loan are pledged to the Issuer, held in the Issuer's name and deposited at the time the investment is made with the Issuer or a third party designated by the Issuer, (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas, and (iv) the agreement to lend securities has a term of one year or less; (11) certain bankers' acceptances if the bankers' acceptance (i) has a stated maturity of 270 days or fewer from the date of issuance, (ii) will be, in accordance with its terms, liquidated in full at maturity, (iii) is eligible for collateral for borrowing from a Federal Reserve Bank, and (iv) is accepted by a State or Federal bank, 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 the remaining term of 270 days or less from the date of issuance 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 U.S. or state bank; (13) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange Commission that comply with Federal Securities and Exchange Commission Rule 2a-7; (14) no-load mutual fund registered with the United States Securities and Exchange Commission that: have an average weighted maturity of less than two years and have a duration of one year or more and are invested exclusively in obligations described in this paragraph or have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities; (15) investment pools if the Issuer has authorized investment in the particular pool and the pool invests solely in investments permitted by the Texas Public Funds Investment Act, and is continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service; and (16) guaranteed investment contracts that (i) have a defined termination date, (ii) are secured by obligations which meet the requirements of the Texas Public Funds Investment Act in an amount at least equal to the amount of bond proceeds invested under the contract, and (iii) are pledged to the Issuer and deposited with the Issuer or with a third party selected and approved by the Issuer.

As a school district that qualifies as an "issuer" under Chapter 1371, as amended, Texas Government Code, the Issuer is also authorized to purchase, sell, and invest its funds in corporate bonds. Texas law defines "corporate bonds" as senior secured debt obligations issued by a domestic business entity and rated not lower than "AA-" or the equivalent by a nationally recognized investment rating firm. The term does not include a bond that is convertible into stocks or shares in the entity issuing the bond (or an affiliate or subsidiary thereof) or any unsecured debt. Corporate bonds must finally mature not later than 3 years from their date of

purchase by the school district. A school district may not (i) invest more than 15% of its monthly average fund balance (excluding bond proceeds, reserves, and other funds held for the payment of debt service) in corporate bonds; or (ii) invest more than 25% of the funds invested in corporate bonds in any one domestic business entity (including subsidiaries and affiliates thereof). Corporate bonds held by a school district must be sold if they are at any time downgraded below "AA-" (or the equivalent thereof) or, with respect to a corporate bond rated "AA-" (or the equivalent thereof), such corporate bond is placed on negative credit watch. Corporate bonds are not an eligible investment for a public funds investment pool. To invest in corporate bonds, an eligible school district must first (i) amend its investment policy to authorize corporate bonds as an eligible investment, (ii) adopt procedures for monitoring rating changes in corporate bonds and liquidating an investment in corporate bonds, and (iii) identify funds eligible to be invested in corporate bonds. As of the date of this Official Statement, the Issuer has taken no such steps with respect to investment in corporate bonds, nor does it currently intend to do so.

The Issuer 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 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 the changes in a market index.

Under State 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 include a list of authorized investments for District funds, the 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 State law, the District's 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 District's investment officers must submit an investment report to the Board detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and 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 strategies and (b) Texas law. No person may invest District funds without express written authority from the Board.

Under Texas law, the Issuer is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt an order or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in said order or resolution, (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the District; (4) require the qualified representative of firms offering to engage in an investment transaction with the Issuer to: (a) receive and review the Issuer's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the Issuer and the business organization that are not authorized by the Issuer's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the Issuer's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the Issuer and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the Issuer's investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer, or other investment officers; (7) 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; (8) restrict the investment in mutual funds in the aggregate to no more than 80% of the Issuer's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in non money market mutual funds of any portion of bond proceeds, reserves and funds held for debt service and to no more than 15% of the Issuer's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in no-load money market mutual funds of any portion of bond proceeds reserves and funds held for debt service to no more than 15% of the entity's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to confirm to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the Issuer.

Current Investments ⁽¹⁾

TABLE 1

As of March 31, 2018 the District had the following investments:

<u>Investment Type</u>	<u>Amount</u>	<u>Percentage</u>
Cash and Deposits	\$ 9,515,847.95	10.85%
TexPool	57,155,188.88	65.18%
Money Market Mutual Funds	4,801,858.38	5.48%
Amegy Bank CDARS	1,000,000.00	1.14%
CD's	15,210,109.19	17.35%
	<u>\$87,683,004.40</u>	<u>100.00%</u>

(1) Unaudited.

AD VALOREM TAX PROCEDURES

Property Tax Code and County Wide Appraisal District

The Texas Property Tax Code (the "Tax Code") provides for county-wide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal review board and an appraisal district responsible for appraising property for all taxable units within the county. The Galveston County Central Appraisal District (the "Appraisal District") is responsible for appraising property within the District as of January 1 of each year. The appraisal values set by the Appraisal District is subject to review and change by the Appraisal Review Board (the "Appraisal Review Board") which are appointed by the Appraisal District's Board of Directors. Such appraisal rolls, as approved by the Appraisal Review Board, are used by the District in establishing its tax roll and tax rate.

Property Subject to Taxation by the District

Except for certain exemptions provided by State law, all real and certain tangible personal property with a tax situs in the District is subject to taxation by the District. Principal categories of exempt property (including certain exemptions which are subject to local option by the District) include property owned by the State or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain improvements to real property and certain tangible personal property located in designated reinvestment zones on which the District has agreed to abate ad valorem taxes, certain household goods, family supplies and personal effects; farm products owned by the producers; certain property of a nonprofit corporation used in scientific research and educational activities benefiting a college or university; and designated historic sites. Other principal categories of exempt property include tangible personal property not held or used for production of income; solar and windpowered energy devices; most individually owned automobiles; \$10,000 State mandated exemption to residential homesteads of persons ages 65 or over or disabled; a State mandated exemption up to a maximum of \$12,000 for real or personal property of disabled veterans or the surviving spouse or children of an individual who died while on active duty in the armed forces; a State mandated \$25,000 in market value exemption for all residential homesteads (see "Residential Homestead Exemptions" below); and certain classes of intangible property. The Tax Code provides that a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. Furthermore, the surviving spouse of a deceased veteran who had received a disability rating of 100% is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries. In addition, except for increases attributable to certain improvements, the District is prohibited by State law from increasing the total ad valorem tax on the residence homestead of persons 65 years of age or older or of disabled persons above the amount of tax imposed in the year such residence qualified for an exemption based on the age or disability of the owner. The freeze on ad valorem taxes on the homesteads of persons 65 years of age or older and the disabled is also transferable to a different residence homestead. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was 55 or older when the deceased spouse died and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse. Pursuant to a constitutional amendment approved by the voters on May 12, 2007, legislation was enacted to reduce the school property tax limitation imposed by the freeze on taxes paid on residence homesteads of persons 65 years of age or over or of disabled persons to correspond to reductions in local school district tax rates from the 2005 tax year to the 2006 tax year and from the 2006 tax year to the 2007 tax year (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Overview" herein). The school property tax limitation provided by the constitutional amendment and enabling legislation apply to the 2007 and subsequent tax years. Owners of agricultural and open space land, under certain circumstances, may request valuation of such land on the basis of productive capacity rather than market value. Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for "freeport property," which is defined as goods detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took action prior to April 1, 1990 may continue to tax freeport property and decisions to continue to tax freeport property may be reversed in the future. However, decisions to exempt freeport property are not subject to reversal. Article VIII, Section 1-l, provides for the exemption from ad valorem taxation of certain property used to control the pollution of air, water, or land. A person is entitled to an exemption from taxation of all or part of real and personal property that the person owns and that is used wholly or partly as a facility, device or method for the control of air, water or land pollution. Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit", defined by the Tax Code as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. The Tax Code provision permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods-in-transit during the following tax year. A taxpayer may receive only one of the freeport or goods-in-transit exemptions for tangible personal property. Senate Bill 1, passed by the 82nd Texas Legislature, 1st Called Session, requires again that the governmental entities take affirmative action after October 1 of the prior year but before January 1 of the first tax year in which the governing body proposes to tax goods-in-transit to continue its taxation of goods-in-transit in the 2012 tax year and beyond. See "THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT" and "APPENDIX A – Financial Information for the Texas City Independent School District – Table 1 – Assessed Valuation" for a schedule of the amount of exemptions granted by the District.

A city or county may create a tax increment financing zone ("TIF") within the city or county with defined boundaries and establish a base value of taxable property in the TIF at the time of its creation. Overlapping taxing units, including school districts, may agree with the city or county to contribute all or part of future ad valorem taxes levied and collected against the "incremental value" (taxable value in excess of the base value) of taxable real property in the TIF to pay or finance the costs of certain public improvements in the TIF, and such taxes levied and collected for and on behalf of the TIF are not available for general use by such contributing taxing units. Prior to September 1, 2001, school districts were allowed to enter into tax abatement agreements to encourage economic development. Under such agreements, a property owner agrees to construct certain improvements on its property. The school district in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years. Effective September 1, 2001, school districts may not enter into tax abatement agreements under the general statute that permits cities and counties to initiate tax abatement agreements. In addition, credit will not be given by the Commissioner of Education in determining a district's property value wealth per student for (1) the appraisal value, in excess of the "frozen" value, of property that is located in a TIF created after May 31, 1999 (except in certain limited circumstances where the city creating the TIF gave notice prior to May 31, 1999 to all other taxing units that levy ad valorem taxes in the TIF of its intention to create the TIF and the TIF was created and had its final project and financing plan approved by the municipality prior to August 31, 1999) or (2) for the loss of value of abated property under any abatement agreement entered into after May 31, 1993.

Notwithstanding the foregoing, in 2001 the Legislature enacted legislation known as the Texas Economic Development Act, which provides incentives for certain school districts to grant limitations on appraised property values and provide ad valorem tax credits to certain corporations and limited liability companies to encourage economic development within the district. Generally, during the last eight years of the ten-year term of a tax limitation agreement, the school district may only levy and collect ad valorem taxes for maintenance and operation purposes on the agreed-to limited appraised property value. The taxpayer is entitled to a tax credit from the school district for the amount of taxes imposed during the first two years of the tax limitation agreement on the appraised value of the property above the agreed-to limited value. Additional State funding is provided to a school district for each year of such tax limitation in the amount of the tax credit provided to the taxpayer. During the first two years of a tax limitation agreement, the school district may not adopt a tax rate that exceeds the district's rollback tax rate (see "AD VALOREM TAX PROCEDURES – Public Hearing and Rollback Tax Rate").

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. In determining the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of pricing information in either the standard edition of the Annual Energy Outlook or, if the most recently published edition of the Annual Energy Outlook was published before December 1 of the preceding calendar year, the Short-Term Energy Outlook report published in January of the current calendar year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Tax Code are based on one hundred percent (100%) of market value, except as described below, and no assessment ratio can be applied.

State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence 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 residence homestead for a tax year to an amount that would not exceed the lesser of (1) the property's market value in the most recent tax year in which the market value was determined by the Appraisal District or (2) the sum of (a) 10% of the property's appraised value in the preceding tax year, plus (b) the property's appraised value the preceding tax year, plus (c) the market value of all new improvements to the property.

Article VII of the Texas Constitution and the Tax Code permit land designated for agricultural use (Section 1-d), open space or timberland (Section 1-d-1) to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. Landowners wishing to avail themselves of the agricultural use designation must apply for the designation, and the appraiser is required by the Tax Code to act on each claimant's right to the designation individually. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes for previous years based on the new value, including three years for agricultural use and five years for agricultural open-space land and timberland prior to the loss of the designation. The same land may not be qualified under both Section 1-d and Section 1-d-1.

The Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three years. The District, at its expense, has the right to obtain from the Appraisal District current estimates of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimates of appraisal values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the Appraisal District chooses to formally include such values on its appraisal rolls.

Residential Homestead Exemptions

Under Section 1-b, Article VIII of the Texas Constitution and State law, the governing body of a political subdivision, at its option, may grant an exemption of not less than \$3,000 of the market value of the residence homestead of persons 65 years of age or older or the disabled from all ad valorem taxes thereafter levied by the political subdivision.

Once authorized, such exemption may be repealed or decreased or increased in amount (i) by the governing body of the political subdivision or (ii) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political

subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than \$3,000 of the market value.

The surviving spouse of an individual who qualifies for the foregoing exemption for the residence homestead of a person 65 or older (but not the disabled) is entitled to an exemption for the same property in an amount equal to that of the exemption for which the deceased spouse qualified if (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse.

Section 11.131 of the Tax Code states that a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. Furthermore, following the approval by the voters at a November 8, 2011 statewide election, effective January 1, 2012, the surviving spouse of a deceased veteran who had received a disability rating of 100% is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until the surviving spouse remarries.

A partially disabled veteran or the surviving spouse of a partially disabled veteran is entitled to an exemption equal to the percentage of the veteran's disability, if the residence was donated at less than fair market value to the veteran by a charitable organization.

Also the surviving spouse of a member of the armed forces who is killed in action is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residence homestead, if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

The surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residence homestead, if the surviving spouse has not remarried since the first responder's death and said property was the first responder's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

In addition to any other exemptions provided by the Tax Code, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of \$5,000.

In the case of residence homestead exemptions granted under Section 1-b, Article VIII, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created. Voters in the State approved a constitutional amendment on November 3, 2015 increasing the mandatory homestead exemption for school districts from \$15,000 to \$25,000, and requiring that the tax limitation for taxpayers who are age 65 and older or disabled be reduced to reflect the additional exemption.

The governing body of a political subdivision is prohibited from repealing or reducing the amount of an optional homestead exemption that was in place for the 2014 tax year (fiscal year 2015) during the period ending December 31, 2019.

Remedies

Under certain circumstances, taxpayers and taxing units, including the District, may appeal orders of the Appraisal Review Board by filing a petition for review in district court within 45 days after notice is received that a final order has been entered. In such event, the property value in question may be determined by the court, or by a jury, if requested by any party, or through binding arbitration, if requested by the taxpayer. Additionally, taxing units may bring suit against the Appraisal District to compel compliance with the Tax Code.

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. By the later of September 30th or 60 days after the certified appraisal roll is delivered to the District, the rate of taxation must be set by the Board based upon the valuation of property within the District as of the preceding January 1 and the amount required to be raised for debt service and maintenance and operations purposes. 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 from six percent (6%) to twelve percent (12%) of the amount of the tax, depending on the time of payment, and accrues interest at the rate of one percent (1%) per month. If the tax is not paid by the following July 1, an additional penalty of up to twenty percent (20%) may under certain circumstances be imposed by the District. The Tax Code also makes provision, at the option of the District, for the split payment of taxes, discounts for early payment and the postponement of the delinquency date 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 taxes, penalties and interest ultimately imposed for the year on the property. The lien exists in

favor of the State and each taxing unit, including the District, having the power to tax the property. The District's tax lien is on a parity with tax liens of all other such taxing units. A tax lien on real property has 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. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty and interest.

Except with respect to taxpayers who are 65 years of age or older, 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, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights, or by bankruptcy proceedings which restrict the collection of taxpayer debts.

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

The Appraisal District has the responsibility for appraising property in the District as well as other taxing units in Galveston County. The Appraisal District is governed by a board of directors elected by the governing bodies of the county, all school districts and all cities within Galveston County.

The District allows neither split payment of taxes nor discounts for early payment of taxes.

Property within the District is assessed as of January 1 of each year, taxes become due October 1 of the same year and become delinquent on July 1 of the following year.

The District does collect an additional 20% penalty to defray attorney costs in the collection of delinquent taxes per the Tax Code in addition to the penalty and interest automatically assessed under the Tax Code.

The District does collect its own taxes.

The District does allow ¼ installment payments of taxes for persons over 65 years of age and disabled persons and disabled veterans.

The District does not grant a Freeport Property exemption; further, on September 11, 2007, the District adopted a resolution electing not to grant a Goods-in-Transit exemption for the 2008 tax year and beyond.

The District does not participate in a tax increment financing zone. The District does not grant tax abatements.

The District grants a local optional exemption of 20% or \$5,000 whichever is greater of the market value of residential homesteads.

The District grants a local option homestead exemption of \$10,900 for taxpayers who are at least 65 years of age. This is in addition to the State mandate of \$25,000 for homestead and \$10,000 for over 65.

Charges for penalties and interest on the unpaid balance of delinquent taxes are as follows:

Date	Cumulative Penalty	Cumulative Interest ^(b)	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	12	6	41.6 ^(a)

^(a) Includes additional penalty of 20% assessed after July 1 in order to defray attorney collection expenses.

^(b) Interest continues to accrue after July 1 at the rate of 1% per month until paid.

TAX RATE LIMITATIONS

School District Taxes

A school district is authorized to levy maintenance and operation ("M&O") taxes subject to approval of a proposition submitted to district voters. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the succeeding paragraphs. The maximum voted M&O tax rate for the District is \$1.50 per \$100 of assessed valuation as approved by the voters at an election held on December 15, 1956 pursuant to Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended ("Article 2784e-1").

Article 2784e-1 limits the District's annual M&O tax rate based upon a comparison between the District's outstanding bonded indebtedness and the District's taxable assessed value per \$100 of assessed valuation. Article 2784e-1 provides for a reduction of \$0.10 for each one percent (1%) or major fraction thereof increase in bonded indebtedness beyond seven percent (7%) of assessed valuation of property in the District. This limitation is capped when the District's bonded indebtedness is ten percent (10%) (or greater) of the District's assessed valuation which would result in an annual M&O tax rate not to exceed \$1.20. Lastly, the Texas Attorney General in reviewing the District's transcript of proceedings will allow the District to reduce the amount of its outstanding bonded indebtedness by the amount of funds (on a percentage basis) that the District receives in State assistance for the repayment of this bonded indebtedness (for example, if the District anticipates that it will pay 75% of its bonded indebtedness from State assistance, for the purposes of Article 2784e-1, the Texas Attorney General will assume that only 25% of the District's

bonded indebtedness is outstanding and payable from local ad valorem taxes). The bonded indebtedness of the District after the issuance of the Bonds will be approximately 3.77% of the District's current taxable assessed valuation of property. See "APPENDIX A – Financial Information for the Texas City Independent School District" herein.

The maximum tax rate per \$100 of assessed valuation that may be adopted by the District may not exceed the lesser of (A) \$1.50 and (B) the sum of (1) the rate of \$0.17, and (2) the product of the "State Compression Percentage" multiplied by \$1.50. The State Compression Percentage has been set, and will remain, at 66.67% for the 2018-19 State fiscal biennium. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. For a more detailed description of the State Compression Percentage, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Local Funding for School Districts." Furthermore, a school district cannot annually increase its tax rate in excess of the district's "rollback tax rate" without submitting such tax rate to a referendum election and a majority of the voters voting at such election approving the adopted rate. See "TAX RATE LIMITATIONS - Public Hearing and Rollback Tax Rate." 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 for Payment").

Section 45.0031, Texas Education Code, as amended ("Section 45.0031"), requires a 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 district voters 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. In demonstrating the ability to pay debt service at a rate of \$0.50, a district may take into account EDA and IFA allotments to the district, which effectively reduces the district's local share of debt service, and may also take into account Tier One funds allotted to the district. The District is required to deposit any State allotments provided solely for payment of debt service into the District's interest and sinking fund upon receipt of such amounts. In addition, the District must, prior to levying an interest and sinking fund tax rate that exceeds \$0.50 per \$100 of assessed valuation, credit to the interest and sinking fund other State assistance, including Tier One funds that may be used for either operating purposes or for payment of debt service, in an amount equal to the amount needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Once the prospective ability to pay such tax has been shown and the bonds are issued, a district may levy an unlimited tax to pay debt service. Taxes levied to pay refunding bonds issued pursuant to Chapter 1207 are not subject to the \$0.50 tax rate 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 \$0.50 threshold tax rate test when applied to subsequent bond issues. The Bonds are issued for school building purposes pursuant to Chapter 45, as amended, Texas Education Code as new debt and are subject to the threshold tax rate test. Under current law, a district may demonstrate its ability to comply with the \$0.50 threshold tax rate test by applying the \$0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a district uses projected future taxable values to meet the \$0.50 threshold tax rate 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 Attorney General must find that the district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the \$0.50 threshold tax rate test from a tax rate of \$0.45 per \$100 of valuation. The District has not used State assistance other than EDA or IFA allotment funding or projected property values to satisfy this threshold test.

Public Hearing and Rollback Tax Rate

In setting its annual tax rate, the governing body of a school district generally cannot adopt a tax rate exceeding the district's "rollback tax rate" without approval by a majority of the voters voting at an election approving the higher rate. The tax rate consists of two components: (1) a rate for funding of M&O expenditures and (2) a rate for debt service. The rollback tax rate for a school district is the lesser of (A) the sum of (1) the product of the district's "State compression percentage" for that year multiplied by \$1.50, (2) the rate of \$0.04, (3) any rate increase above the rollback tax rate in prior years that were approved by voters, and (4) the district's current debt rate, or (B) the sum of (1) the district's effective M&O tax rate, (2) the product of the district's State Compression Percentage for that year multiplied by \$0.06; and (3) the district's current debt rate (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Finding for School Districts" for a description of the "state compression percentage"). If for the preceding tax year a district adopted an M&O Tax rate that was less than its effective M&O Tax rate for that preceding tax year, the district's rollback tax for the current year is calculated as if the district had adopted an M&O Tax rate for the preceding tax year equal to its effective M&O Tax rate for that preceding tax year.

The "effective M&O tax rate" for a school district is the tax rate that, applied to the current tax values, would provide local M&O funds, when added to State funds to be distributed to the district pursuant to Chapter 42 of the Texas Education Code for the school year beginning in the current tax year, in the same amount as would have been available to the district in the preceding year if the funding elements of wealth equalization and State funding for the current year had been in effect for the preceding year.

Section 26.05 of the Property Tax Code provides that the governing body of a taxing unit is required to adopt the annual tax rate for the unit before the later of September 30 or the 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 for the tax year to be 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. 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 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 district if the 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) and (d) 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 district delivers substantially all of its tax bills.

A district may adopt its budget after adopting a tax rate for the tax year in which the fiscal year covered by the budget begins if the district elects to adopt its tax rate before receiving the certified appraisal roll. A 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.

DEBT LIMITATIONS

Under State law, there is no explicit bonded indebtedness limitation, although the tax rate limits described above under "TAX RATE LIMITATIONS" effectively impose a limit on the incurrence of debt. Such tax rate limits require school districts to demonstrate the ability to pay new debt secured by the district's debt service tax from a tax rate of \$0.50. The Bonds are issued as school building bonds under Chapter 45, as amended, Texas Education Code and are, therefore, subject to this limitation. In demonstrating compliance with these requirements, a district may take into account State equalization payments. The State Attorney General reviews a district's calculations showing the compliance with these tests as a condition to the legal approval of the debt.

EMPLOYEES' BENEFITS, PENSION PLAN, AND OTHER POST-EMPLOYMENT BENEFITS

The District's employees participate in a retirement plan (the "Plan") with the State. The Plan is administered by the Teacher Retirement System of Texas ("TRS"). State contributions are made to cover costs of the Plan up to certain statutory limits. The District is obligated for a portion of TRS costs relating to employee salaries that exceed the statutory limit. Aside from the District's contribution to TRS, the District has no pension fund expenditures or liabilities. For fiscal year ended August 31, 2017, the District made a contribution of \$331,412 to TRS on a portion of its employees' salaries that exceeded the statutory minimum. The District 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. For a discussion of the TRS retirement plan, see "Note C-Defined Benefit Retirement Plan" and "Note D- School District Retiree Health Plan" to the audited financial statements of the District that are attached hereto as APPENDIX D (the "Financial Statements").

TAX MATTERS

Tax Exemption

The delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Bonds for federal income tax purposes (1) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the "Code"), pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. A form of Bond Counsel's opinion is reproduced as APPENDIX C. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change.

For taxable years that began before January 1, 2018, interest on the Bonds owned by a corporation will be included in such corporation's adjusted current earnings for purposes of computing the alternative minimum tax on such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust ("FASIT"). The alternative minimum tax on corporations has been repealed for taxable years beginning on or after January 1, 2018.

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the Issuer pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the Issuer with the provisions of the Or subsequent to the issuance of the Bonds. The Order contains covenants by the Issuer with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage "profits" from the investment of proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the Issuer described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the Issuer as the "taxpayer," and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the Issuer may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Except as described above, Bond Counsel expresses no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Existing law may change to reduce or eliminate the benefit to bondholders of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

Tax Accounting Treatment of Discount and Premium on Certain Bonds

The initial public offering price of certain Bonds (the "Discount Bonds") may be less than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bond. A portion of such original issue discount allocable to the holding period of such Discount Bond by the initial purchaser will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Bonds described above under "Tax Exemption." Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during the tax year.

However, such interest may be required to be taken into account in determining the alternative minimum tax on corporations for taxable years that began before January 1, 2018 and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination of accrued original issue discount on Discount Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial public offering price of certain Bonds (the "Premium Bonds") may be greater than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

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. The information provided to the MSRB will be available to the public free of charge via the EMMA

system through an internet website accessible at www.emma.msrb.org.

Annual Reports

The District will file with the MSRB through EMMA annually certain updated financial information and operating data. The information to be updated includes the quantitative financial information and operating data with respect to the District of the general type included in this Official Statement as Table 1, in "APPENDIX A—Financial Information for the Texas City Independent School District" (Tables 1-14) and in APPENDIX D.

The District will update and provide this information within six months after the end of each fiscal year ending in or after 2018. The District will provide the updated information to the MSRB in a designated electronic format, which will be available through EMMA to the general public without charge.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements for the District, if the District commissions an audit and it is completed by the required time. If audited financial statements are not provided by that time, the District will provide unaudited financial statements for the applicable fiscal year to the MSRB through EMMA with the financial information and operating data and will file the annual audit report when and if the same becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the District's annual financial statements or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

The District's current fiscal year end is August 31. Accordingly, it must provide updated information by the last day in February in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will file notice of the change with EMMA.

Notice of Certain Events

The District will file with the MSRB notice of any of the following events with respect to the Bonds in a timely manner (and not more than 10 business days after occurrence of the event): (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 federal income 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; and (14) appointment of a successor or additional paying agent/registrars or the change of name of a paying agent/registrars, if material. Neither the Bonds nor the Order makes any provision for debt service reserves, credit enhancement (except for the guarantee of the Texas Permanent School Fund), or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The District will provide each notice described in this paragraph to the MSRB.

For these purposes, any event described in clause (12) of the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District 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 District, 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 District.

Availability of Information

Effective July 1, 2009 (the "EMMA Effective Date"), the SEC implemented amendments to the Rule which approved the establishment by the MSRB of EMMA, which is now the sole successor to the national municipal securities information repositories with respect to filings made in connection with undertakings made under the Rule after the EMMA Effective Date. Commencing with the EMMA Effective Date, all information and documentation filing required to be made by the District in accordance with its undertaking made for the Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB.

With respect to debt of the District issued prior to the EMMA Effective Date, the District remains obligated to make annual required filings, as well as notices of material events, under its continuing disclosure obligations relating to those debt obligations (which includes a continuing obligation to make such filings with the Texas state information depository (the "SID"). Prior to the EMMA Effective Date, the Municipal Advisory Council of Texas (the "MAC") had been designated by the State and approved by the SEC staff as a qualified SID. Subsequent to the EMMA Effective Date, the MAC entered into a Subscription Agreement with the MSRB pursuant to which the MSRB makes available to the MAC, in electronic format, all Texas-issuer continuing disclosure documents and related

information posted to EMMA's website simultaneously with such posting. Until the District receives notice of a change in this contractual agreement between the MAC and EMMA or of a failure of either party to perform as specified thereunder, the District has determined, in reliance on guidance from the MAC, that making its continuing disclosure filings solely with the MSRB will satisfy its obligations to make filings with the SID pursuant to its continuing disclosure agreements entered into prior to the EMMA Effective Date.

Limitations and Amendments

The District has agreed to update information and to provide notices of certain 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 and Beneficial Owners 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 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 the agreement, as amended, would have permitted underwriters 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 either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the Beneficial Owners of the Bonds. The District may also repeal or amend these provisions if the SEC amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but in either case only if and to the extent that the provisions of this sentence would not prevent underwriters from lawfully purchasing or selling Bonds in the primary offering of the Bonds giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. If the District amends its agreement, it must 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 information and data provided.

Compliance with Prior Undertakings

Since EMMA's effective date in 2009, the District has complied in all material respects with its continuing disclosure agreements in accordance with the Rule.

However, prior to 2009, the District failed to file the annual financial information for its fiscal year ended 2005 by the due date of February 28, 2006. The information was filed on March 10, 2006, and a notice of the event was filed with the MSRB through EMMA on December 1, 2014. In addition, the Fiscal Year ended 2007 and 2008 filings were only filed with Bloomberg. It is the District's understanding that an investment banking firm, based upon these failures, self-reported the District pursuant to the SEC's MCDC initiative. The District believes, based upon its independent evaluation of the facts, that none of these failures to report information were "material" under applicable federal securities laws and judicial interpretations thereof.

LEGAL MATTERS

Legal Opinions

The delivery of the Bonds is subject to the approval of the State Attorney General 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 the approving legal opinion of Bond Counsel, to the effect that the Bonds are valid and legally binding obligations of the District. In addition, Bond Counsel will furnish the Purchaser with its opinion that, subject to the qualifications set forth herein under "TAX MATTERS," the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. The form of Bond Counsel opinion is attached hereto as APPENDIX C. The legal fees to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds.

Though it represents the Financial Advisor from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the District in connection with the issuance of the Bonds. Bond Counsel has reviewed the information in this Official Statement appearing under the captions and subcaptions "THE BONDS" (except for the information under the subcaptions "Permanent School Fund Guarantee," the third paragraph under "Notices of Redemption and DTC Notices," "Payment Record," "Use of Bond Proceeds," and "Sources and Uses of Funds", as to which no opinion is expressed), and "CONTINUING DISCLOSURE OF INFORMATION" (except for the information under the sub-caption "Compliance With Prior Undertakings," as to which no opinion is expressed), and Bond Counsel is of the opinion that the statements and information contained therein fairly and accurately reflect the provisions of the Order; further, Bond Counsel has reviewed the statements and information contained in this Official Statement under the captions and sub-captions "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM," "TAX RATE LIMITATIONS" (first paragraph only), "LEGAL MATTERS" (except for the last sentence of the first paragraph under the subcaption "Legal Opinions" and information under the subcaption "Litigation," as to which no opinion is expressed), "TAX MATTERS," and "OTHER PERTINENT INFORMATION – Registration and Qualification of Bonds for Sale," and Bond Counsel is of the opinion that the statements and information contained therein are correct as to matters of law.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Litigation

On the date of delivery of the Bonds to the Purchaser, the District will execute and deliver to the Purchaser a certificate to the effect that, except as disclosed in this Official Statement, 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.

Valero Refining – Texas LP (“Valero”) filed suit against the Galveston Central Appraisal District (the “Appraisal District”) in the 56th District Court of Galveston County (the “Court”), contesting and protesting the appraised value for tax years 2012, 2013, 2014, 2015, and 2016 of certain property owned by Valero. The lawsuit is grounded on claims that the appraised value of Valero's property exceeds the median appraised value of a reasonable number of comparable properties within the Appraisal District. The Court found in favor of Valero and ordered the District, pursuant to Sections 42.24 through 42.26, as amended, Texas Tax Code, to refund Valero's overpaid taxes in the total amount of \$8,087,602 (the “Refunded Amount”). Of this amount, \$6,603,956 will be paid from the District's General Fund balance, and \$1,483,646 will be paid from the District's Interest and Sinking Fund. After discussions with the TEA, the District believes it is entitled to recover from the State approximately \$5,900,000 of the Refunded Amount paid from the District's General Fund. The District's auditors will allow the District to record the \$5,900,000 as a Receivable from the State. The District cannot recover from the State any portion of the Refunded Amount paid from the District's Interest and Sinking Fund. Valero has not filed a suit against the Appraisal District on similar grounds for tax year 2017.

On September 19, 2017, United Rentals Inc. (“United Rentals”), filed suit against the Appraisal District contesting and protesting that the appraised value for Tax Year 2017 is over valued by \$13,820,158. If United Rentals is successful the District could be forced to refund up to approximately \$198,305 to United Rentals. District officials do not anticipate that an adverse ruling will affect the District's ability to operate or pay debt service. As of the date of this Official Statement's publication the suit with United Rental is ongoing and they are protesting their values for Tax Year 2018.

Except as disclosed above, in the opinion of various officials of the Issuer, there is no litigation or other proceeding pending against or, to their knowledge, threatened against the Issuer in any court, agency, or administrative body (either state or federal) wherein an adverse decision would materially adversely affect the financial condition of the Issuer.

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 are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of at least “A” or its equivalent as to investment quality by a national rating agency. See “OTHER PERTINENT 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 serve as 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 Bonds 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.

OTHER PERTINENT INFORMATION

Registration and Qualification of Bonds for Sale

The sale of the Bonds has not been registered under the Securities Act of 1933, as amended, in reliance upon exemptions provided in such Act; the Bonds have not been qualified under the Securities Act of Texas in reliance upon exemptions contained therein; nor have the Bonds been qualified under the securities acts of any other jurisdiction. The Issuer assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which they 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 or qualification provisions.

Ratings

The Issuer has made an application to S&P Global Ratings (“S&P”) and Moody's Investors Service, Inc. (“Moody's”) for a contract rating on the Bonds. S&P generally rates all bonds guaranteed by the Permanent School Fund of Texas “AAA” and Moody's generally rates all bond issues guaranteed by the Permanent School Fund of the State of Texas “Aaa”. (see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” and “CONTINUING DISCLOSURE OF INFORMATION – Compliance with Prior Undertakings”). The rating of the Bonds by S&P reflects only the view of such company at the time the ratings are given, and the

Issuer makes no representation as to the appropriateness of the ratings. There is no assurance that the ratings will continue for any given period of time, or that the ratings will not be revised downward or withdrawn entirely by S&P if, in the judgment of said company, circumstances so warrant. Any such downward revisions or withdrawals of the ratings may have an adverse effect on the market price of the Bonds.

Authenticity of Financial Information

The financial data and other information contained herein have been obtained from the Issuer's records, audited financial statements and other sources which are believed to be reliable. All of the summaries of the statutes, documents and Order contained in this Official Statement are made subject to all of the provisions of such statutes, documents and Order. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. All information contained in this Official Statement is subject, in all respects, to the complete body of information contained in the original sources thereof and no guaranty, warranty or other representation is made concerning the accuracy or completeness of the information herein. In particular, no opinion or representation is rendered as to whether any projection will approximate actual results, and all opinions, estimates and assumptions, whether or not expressly identified as such, should not be considered statements of fact.

Financial Advisor

SAMCO Capital Markets, Inc. is employed as a Financial Advisor to the Issuer in connection with the issuance of the Bonds. In this capacity, the Financial Advisor has compiled certain data relating to the Bonds and has drafted this Official Statement. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the Issuer to determine the accuracy or completeness of this Official Statement. Because of its limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The fees for the Financial Advisor are contingent upon the issuance, sale and delivery of the Bonds.

The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the District, and as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

Forward Looking Statements

The statements contained in this Official Statement, and in any other information provided by the Issuer, that are not purely historical, are forward-looking statements, including statements regarding the Issuer'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 Issuer on the date hereof, and the Issuer assumes no obligation to update any such forward-looking statements. It is important to note that the Issuer's actual results could differ materially from those in such forward-looking statements.

The forward-looking statements 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 Issuer. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

Winning Bidder

After requesting competitive bids for the Bonds, the District accepted the bid of _____ (the "Purchaser" or the "Initial Purchaser") to purchase the Bonds at the interest rates shown on the page 2 of this Official Statement at a price of par, plus a premium of \$ _____ (representing the par amount of the Bonds, plus a net original issue reoffering premium of \$ _____, less Purchaser's discount of \$ _____), plus accrued interest on the Bonds from their Dated Date to their date of initial delivery. The District can give no assurance that any trading market will be developed for the District after their sale by the District to the Purchaser. The District has no control over the price at which the Bonds are subsequently sold and the initial yield at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Purchaser.

Certification of the Official Statement

At the time of payment for and delivery of the Bonds, the Purchaser will be furnished a certificate, executed by proper officers of the District, acting in their official capacity, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the District contained in its Official Statement on the date of sale of the Bonds, and the acceptance of the best bid therefor, and on the date of the initial delivery of the Bonds, were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the

statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the District, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the District believes to be reliable and the District has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the District, since the date of the last financial statements of the District appearing in the Official Statement.

Concluding Statement

No person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the District. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer of solicitation.

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

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, SEC Rule 15c2-12.

The Order authorizing the issuance of the Bonds will approve the form and content of this Official Statement and any addenda, supplement or amendment thereto and will authorize its further use in the re-offering of the Bonds by the Purchaser.

This Official Statement will be approved by the Board for distribution in accordance with the provisions of the SEC's rule codified at 17 C.F.R. Section 240.15c2-12, as amended.

TEXAS CITY INDEPENDENT SCHOOL DISTRICT

/s/ _____
President, Board of Trustees
Texas City Independent School District

/s/ _____
Secretary, Board of Trustees
Texas City Independent School District

APPENDIX A

FINANCIAL INFORMATION FOR THE TEXAS CITY INDEPENDENT SCHOOL DISTRICT

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FINANCIAL INFORMATION OF THE ISSUER

ASSESSED VALUATION

TABLE 1

2017 Actual Certified Market Value of Taxable Property (100% of Market Value).....	\$ 5,907,071,967
Less Exemptions:	
\$25,000 Homestead Exemption.....	\$ 554,718,335
\$10,000 Over-65/Disabled Homestead.....	117,844,175
Pollution Control.....	245,536,817
Productive Valuation of Open Space Land.....	21,982,627
Foreign Trade Zone.....	137,278,972
10% Per Year Residential Cap.....	108,399,109
TOTAL EXEMPTIONS	<u>1,185,760,035</u>
2017 Assessed Value of Taxable Property.....	<u>\$ 4,721,311,932</u>
2018 Preliminary Assessed Value of Taxable Property.....	\$ 4,990,055,300

Source: Galveston Central Appraisal District.

GENERAL OBLIGATION BONDED DEBT

TABLE 2

(as of June 1, 2018)

General Obligation Debt Outstanding

Unlimited Tax Schoolhouse & Refunding Bonds, Series 2003.....	\$ 220,000
Unlimited Tax School Building Bonds, Series 2009.....	14,120,000
Unlimited Tax School Building Bonds, Series 2010A.....	19,920,000
Unlimited Tax School Building Bonds, Series 2011.....	6,360,000
Unlimited Tax School Refunding Bonds, Series 2011.....	14,785,000
Unlimited Tax Refunding Bonds, Series 2015.....	43,680,000
Unlimited Tax Refunding Bonds, Series 2017.....	8,900,000
Total Unlimited Tax Debt Outstanding	<u>\$ 107,985,000</u>

Current Issue General Obligation Debt Principal

Unlimited Tax School Building Bonds, Series 2018 (the "Bonds").....	\$ 70,000,000 *
Total General Obligation Debt Outstanding	<u>\$ 177,985,000 *</u>

Maintenance and Operations Debt Outstanding

Maintenance Tax Notes, Series 2016.....	\$ 2,450,000
	<u>\$ 2,450,000</u>

2017 Net Assessed Valuation	\$ 4,721,311,932
Ratio of Total Gross General Obligation Debt Principal to Certified Net Taxable Assessed Valuation	3.77%

District Population: Estimated 2018 - 55,040
Per Capita Certified Net Taxable Assessed Valuation - \$85,779.65
Per Capita Gross General Obligation Debt Principal - \$3,233.74

* Preliminary, subject to change.

TAXABLE ASSESSED VALUATION FOR TAX YEARS 2008-2017

TABLE 3

Year	Valuation	Change From Preceding Year	
		Amount	Percent
2008-09	\$4,368,445,589	\$ 297,779,269	7.32%
2009-10	4,118,093,421	(250,352,168)	-5.73%
2010-11	3,636,651,795	(481,441,626)	-11.69%
2011-12	3,771,541,817	134,890,022	3.71%
2012-13	4,066,423,890	294,882,073	7.82%
2013-14	3,775,483,994	(290,939,896)	-7.15%
2014-15	4,129,716,010	354,232,016	9.38%
2015-16	3,686,735,553	(442,980,457)	-10.73%
2016-17*	4,569,437,442	882,701,889	23.94%
2017-18	4,721,311,932	151,874,490	3.32%

Source: Galveston Central Appraisal District.

*Includes the values of the previously absorbed La Marque ISD.

GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS
TABLE 4
(As of January 31, 2017)

Fiscal Year	Current Total	The Bonds			Combined Debt
		Principal*	Interest*	Total*	
Ending 8-31	Outstanding Debt ⁽¹⁾				Service*
2018	\$ 11,954,536				\$ 11,954,536
2019	11,954,792	\$ 2,520,000	\$ 3,142,222	\$ 5,662,222	17,617,014
2020	11,960,289	2,730,000	2,699,200	5,429,200	17,389,489
2021	11,959,653	2,840,000	2,590,000	5,430,000	17,389,653
2022	11,948,878	2,950,000	2,476,400	5,426,400	17,375,278
2023	11,956,815	3,070,000	2,358,400	5,428,400	17,385,215
2024	11,937,615	3,180,000	2,235,600	5,415,600	17,353,215
2025	11,954,640	3,240,000	2,108,400	5,348,400	17,303,040
2026	9,379,690	750,000	1,978,800	2,728,800	12,108,490
2027	9,379,150	860,000	1,948,800	2,808,800	12,187,950
2028	9,376,950	940,000	1,914,400	2,854,400	12,231,350
2029	9,379,800	1,020,000	1,876,800	2,896,800	12,276,600
2030	9,378,050	1,110,000	1,836,000	2,946,000	12,324,050
2031	-	1,160,000	1,791,600	2,951,600	2,951,600
2032	-	1,260,000	1,745,200	3,005,200	3,005,200
2033	-	1,350,000	1,694,800	3,044,800	3,044,800
2034	-	1,440,000	1,640,800	3,080,800	3,080,800
2035	-	2,170,000	1,583,200	3,753,200	3,753,200
2036	-	2,250,000	1,496,400	3,746,400	3,746,400
2037	-	2,340,000	1,406,400	3,746,400	3,746,400
2038	-	2,430,000	1,312,800	3,742,800	3,742,800
2039	-	2,530,000	1,215,600	3,745,600	3,745,600
2040	-	2,630,000	1,114,400	3,744,400	3,744,400
2041	-	2,740,000	1,009,200	3,749,200	3,749,200
2042	-	2,850,000	899,600	3,749,600	3,749,600
2043	-	2,960,000	785,600	3,745,600	3,745,600
2044	-	3,080,000	667,200	3,747,200	3,747,200
2045	-	3,200,000	544,000	3,744,000	3,744,000
2046	-	3,330,000	416,000	3,746,000	3,746,000
2047	-	3,470,000	282,800	3,752,800	3,752,800
2048	-	3,600,000	144,000	3,744,000	3,744,000
Total	\$ 142,520,856	\$ 70,000,000	\$ 46,914,622	\$ 116,914,622	\$ 259,435,478

⁽¹⁾ Excludes the District's Maintenance Tax Debt.

* Preliminary, subject to change. Interest calculated at an assumed rate for illustrative purposes only.

TAX ADEQUACY
TABLE 5

2017 Certified Freeze Adjusted Net Taxable Assessed Valuations	\$ 4,513,552,655
Maximum Annual Debt Service Requirements (Fiscal Year Ending 8-31-2020)	17,617,014
Indicated required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service requirements	\$ 0.398279

* Includes the Bonds, preliminary and subject to change.

INTEREST AND SINKING FUND MANAGEMENT INDEX

Audited Interest and Sinking Fund Balance, Fiscal Year Ended August 31, 2017	\$ 2,793,780
2017 Interest and Sinking Fund Tax Levy at 98% Collections produce	11,717,273
Total Available for General Obligation Debt	\$ 14,511,053
Less: General Obligation Debt Service Requirements, Fiscal Year Ending 8/31/2018	\$ 11,954,536
Estimated Surplus at Fiscal Year Ending 8/31/2017	\$ 2,556,517

CLASSIFICATION OF ASSESSED VALUATION
TABLE 6

	2017	% of Total	2016*	% of Total	2015	% of Total
Real, Residential, Single-Family	\$2,133,948,760	36.13%	\$1,828,243,106	30.95%	\$ 717,629,575	12.15%
Real, Residential, Multi-Family	127,547,511	2.16%	81,293,970	1.38%	32,760,770	0.55%
Real, Vacant Lots/Tracts	55,655,830	0.94%	53,966,713	0.91%	13,008,568	0.22%
Real, Acreage (Land Only)	22,085,268	0.37%	21,133,051	0.36%	20,101,009	0.34%
Improvements	23,904,914	0.40%	22,993,116	0.39%	181,221	0.00%
Real, Commercial and Industrial	2,278,244,576	38.57%	2,666,631,671	45.14%	2,570,398,053	43.51%
Real & Tangible, Oil and Gas	340,778	0.01%	1,218,767	0.02%	8,575	0.00%
Real & Tangible, Personal Utilities	208,743,931	3.53%	165,511,378	2.80%	78,637,572	1.33%
Tangible Personal, Commercial	194,267,420	3.29%	852,202,682	14.43%	1,023,821,320	17.33%
Tangible Personal, Industrial	848,821,169	14.37%	2,454,352	0.04%	576,178	0.01%
Inventory	7,584,180	0.13%	6,206,380	0.11%	5,950,500	0.10%
Special Inventory	5,927,630	0.10%	5,173,230	0.09%	2,676,940	0.05%
Total Appraised Value	\$5,907,071,967	100.00%	\$5,707,028,416	96.61%	\$4,465,750,281	75.60%
Less:						
\$25,000 Homestead Exemption	\$ 554,718,335		\$ 523,772,467		\$ 241,328,273	
Homestead	117,844,175		89,362,452		38,959,915	
Exemptions			15,678,817		8,773,028	
Pollution Control	245,536,817		303,806,664		315,505,852	
Land	21,982,627		18,215,888		925,288	
Foreign Trade Zone	137,278,972		118,907,212		154,262,787	
10% Per Year Residential Cap	108,399,109		67,847,474		19,259,585	
Net Taxable Assessed Valuation	\$4,721,311,932		\$4,569,437,442		\$3,686,735,553	

Source: Galveston Central Appraisal District.

*The Texas Education Agency's Commissioner of Education ordered the closure of La Marque ISD effective July 1, 2016. As of this date, the La Marque ISD was annexed by Texas City ISD.

TAX DATA
TABLE 7

Tax Year	Net Taxable Assessed Valuation	Tax Rate	Tax Levy	% of Collections		Year Ended
				Current	Total	
2007	\$ 4,070,666,320	\$ 1.112890	\$44,917,848	95.56%	96.56%	8/31/2008
2008	4,368,445,589	1.849000	51,763,066	93.79%	100.16%	8/31/2009
2009	4,118,093,421	1.216000	49,984,995	98.34%	98.41%	8/31/2010
2010	3,636,651,795	1.288600	46,861,895	99.20%	100.02%	8/31/2011
2011	3,771,541,817	1.295300	48,852,781	99.24%	99.84%	8/31/2012
2012	4,066,423,890	1.269200	51,611,052	99.26%	100.61%	8/31/2013
2013	3,775,483,994	1.261600	48,737,723	99.33%	99.98%	8/31/2014
2014	4,129,716,010	1.429800	49,964,248	81.93% ⁽¹⁾	99.39%	8/31/2015
2015	3,686,735,553	1.429800	68,800,946	81.72% ⁽¹⁾	98.73%	8/31/2016
2016	4,569,437,442	1.440500	65,822,746	97.90%	89.51% ⁽²⁾	8/31/2017
2017	4,721,311,932	1.434900	65,822,746	(In Process of Collections)		8/31/2018

⁽¹⁾ Decrease in current collections was a result of Valero Energy Corporation paying their taxes based upon a valuation of their own determining which was substantially lower than the value assessed by Galveston CAD and levied against by the District (see "LEGAL MATTERS - Litigation" in the Official Statement).

⁽²⁾ Decrease in total collections represents a refund of a portion of taxes paid to the District by Valero Energy Corporation for taxes levied and collected in fiscal years 2014, 2015 and 2016 and successfully litigated by the Corporation against Galveston CAD (see "LEGAL MATTERS - Litigation" in the Official Statement).

TAX RATE DISTRIBUTION
TABLE 8

	2017	2016	2015	2014	2013
General Fund	\$ 1.1700	\$ 1.1700	\$ 1.1700	\$ 1.0400	\$ 1.0400
I & S Fund	0.2649	0.2705	0.2598	0.2216	0.2509
Total Tax Rate	\$ 1.4349	\$ 1.4405	\$ 1.4298	\$ 1.2616	\$ 1.2909

Source: Texas Municipal Report published by the Municipal Advisory Council of Texas, the Galveston Central Appraisal District, the Issuer's Comprehensive Annual Financial Report for the Fiscal Year Ended August 31, 2017, and information supplied by the Issuer.

ESTIMATED OERLAPPING DEBT INFORMATION

TABLE 9

(As of January 31, 2017)

Taxing Body	Gross Debt (As of 6/1/2018)	% Overlapping	Amount Overlapping
Bayou Vista, City of	\$ 89,000	100.00%	\$ 89,000
College of the Mainland	15,130,000	45.10%	
Galveston Co	235,674,208	16.48%	38,839,109
Galveston FWSD #6	5,900,000	60.23%	3,553,570
Galveston Co MUD #12	365,000	100.00%	365,000
Galveston Co MUD #32	4,330,000	100.00%	4,330,000
Galveston Co MUD #66	3,980,000	35.43%	1,410,114
La Marque, City of	18,205,000	55.55%	10,112,878
Texas City, City of	3,041,000	82.58%	2,511,258
Tiki Island, Village of	2,190,000	60.19%	1,318,161
Total Gross Overlapping Debt			<u>\$ 62,529,090</u>
Texas City ISD			<u>\$ 177,985,000 *</u>
Total Gross Direct and Overlapping Debt			<u><u>\$ 240,514,090</u></u>
Ratio of Direct and Overlapping Debt to Net Assessed Valuation			5.26%
Per Capita Direct and Overlapping Debt			\$ 4,369.81

Source; Texas Municipal Reports published by the Municipal Advisory Council of Texas

*Preliminary, subject to change. Includes the Bonds.

Effective July 1, 2016, the Texas Education Agency's Commissioner of Education ordered the closure of La Marque Independent School District ("La Marque ISD") and total annexation of La Marque ISD property by the District. Pursuant to this order, the District has assumed La Marque ISD's assets as well as its ad valorem tax-backed indebtedness. The District's Tier One allocation will be adjusted annually for the first five years after annexation to account for the increase in student population from the annexed territory. Furthermore, the District is entitled to additional State aid equal to the amount by which the annual debt service required to meet the indebtedness incurred by the District due to annexation exceeds the additional amount of State aid that results from the increased student population in the District.

In accordance with GASB Statement No. 69 (Government Combinations and Disposals of Government Operations, La Marque ISD's assets, deferred outflows, liabilities and deferred inflows and result of operations are reflected on the District's Comprehensive Annual Financial Report as though the entities had been combined at the beginning of the District's fiscal year (i.e. September 1, 2015).

**AUTHORIZED BUT UNISSUED BONDS OF DIRECT
AND OVERLAPPING GOVERNMENTAL ENTITIES**

TABLE 10

<u>Issuer</u>	<u>Date of Authorization</u>	<u>Amount Authorized</u>	<u>Amount Issued to Date</u>	<u>Amount Unissued</u>
Bayou Vista, City of	None	\$ -	\$ -	\$ -
College of the Mainland	None			
Galveston Co	11/7/2017	80,000,000	47,000,000	33,000,000
Galveston FWSD #6	11/5/2013	8,500,000	2,590,000	5,910,000
Galveston Co MUD #12	5/5/2018	4,400,000	-	4,400,000
Galveston Co MUD #52	11/8/2005	65,725,000	4,330,000	61,395,000
Galveston Co MUD #66	11/7/2006	16,295,000	4,185,000	12,110,000
La Marque, City of	None	-	-	-
Texas City, City of	None	-	-	-
Tiki Island, Village of	None	-	-	-
Texas City ISD	5/6/2018	136,100,000	70,000,000 *	66,100,000 *
		<u>\$ 311,020,000</u>	<u>\$ 128,105,000</u>	<u>\$ 182,915,000</u>

* Includes the Bonds. Preliminary, subject to change.

PRINCIPAL TAXPAYERS 2017-18

TABLE 11

<u>Name</u>	<u>Business/Property</u>	<u>2017 Net Taxable Assessed Valuation</u>	<u>% of Total 2017 Assessed Valuation</u>
Blanchard Refining Co LLC	Oil and Gas	\$ 889,742,993	18.85%
Valero Refining-Texas LP	Oil and Gas	445,688,757	9.44%
Marathon Petroleum CO LP	Oil and Gas	186,626,926	3.95%
Union Carbide Corp	Chemical	150,102,550	3.18%
Praxair Inc.	Chemical	187,026,834	3.96%
BP Amoco Chemical Co	Chemical	128,809,732	2.73%
Texas New Mexico Power Co	Utility	112,678,029	2.39%
South Houston Green Power LP	Utility	64,134,770	1.36%
Eastman Chemical Texas City Inc.	Chemical	55,365,666	1.17%
Dow Chemical Company	Chemical	36,364,589	0.77%
		<u>\$ 2,256,540,846</u>	<u>47.79%</u>

As shown in the table above, the top ten taxpayers in the District account for in excess of 47% of the District's tax base. Adverse developments in economic conditions, especially in a particular industry in which any one of these large taxpayers participates, could adversely impact these businesses and, consequently, the tax values in the District, resulting in less local tax revenue. If any major taxpayer, or a combination of top taxpayers, were to default in the payment of taxes, the ability of the District to make timely payment of debt service on the Bonds may be dependent on its ability to enforce and liquidate its tax lien, which is a time consuming process that may only occur annually. See "REGISTERED OWNERS' REMEDIES"; "LEGAL MATTERS - Litigation", and "AD VALOREM TAX PROCEDURES – District's Rights in the Event of Tax Delinquencies" in this Official Statement.

GENERAL FUND COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES

TABLE 12

The following statements set forth in condensed form reflect the historical operations of the Issuer. Such summary has been prepared for inclusion herein based upon information obtained from the Issuer's audited financial statements and records. Reference is made to such statements for further and complete information.

	Fiscal Year Ended				
	8/31/2017	8/31/2016	8/31/2015	8/31/2014	8/31/2013
Fund Balance - Beginning of Year	\$ 31,526,554	\$ 38,614,758 ⁽²⁾	\$ 34,945,814	\$ 33,380,769	\$ 34,533,658
Revenues:					
Local and Intermediate Sources	\$ 55,449,530	\$ 60,360,845	\$ 44,690,963	\$ 44,125,244	\$ 46,336,104
State Sources	50,834,671	16,632,065	7,708,795	10,451,484	7,370,897
Federal Sources & Other	1,783,364	1,124,720	617,647	345,616	434,025
Total Revenues	<u>\$108,067,565</u>	<u>\$ 78,117,630</u>	<u>\$ 53,017,405</u>	<u>\$ 54,922,344</u>	<u>\$ 54,141,026</u>
Expenditures:					
Instruction	\$ 45,703,140	\$ 39,732,756	\$ 29,083,295	\$ 27,103,344	\$ 25,755,844
Instructional Resources & Media Services	1,050,469	771,102	707,124	671,449	649,039
Curriculum & Instructional Staff Development	886,384	1,052,678	680,739	497,881	407,168
Instructional Leadership	643,323	790,972	442,565	404,039	423,768
School Leadership	5,068,227	4,662,194	3,093,859	2,904,635	2,753,157
Guidance, Counseling & Evaluation Services	2,468,495	1,920,257	1,508,228	1,540,576	1,497,233
Social Work Services	84,171	100,645	73,376	64,699	61,589
Health Services	781,220	747,192	471,311	451,815	446,674
Food Services	-	35,887	-	-	-
Student (Pupil) Transportation	1,775,426	2,212,646	1,068,877	1,103,514	1,083,461
Cocurricular/Extracurricular Activities	3,273,243	3,004,722	1,668,478	1,797,688	1,544,743
General Administration	3,140,052	4,380,147	2,388,541	2,298,060	2,178,776
Plant Maintenance and Operations	13,890,924	13,204,563	8,290,752	8,554,695	8,472,033
Security and Monitoring Services	1,396,702	1,671,416	676,372	694,109	633,208
Data Processing Services	5,009,008	5,358,070	1,354,650	1,197,310	1,196,863
Community Services	42,226	29,606	15,276	33,528	23,658
Debt Service – Principal on long-term debt	1,072,550	234,490	-	100,914	-
Capital Outlay	6,857,626	4,216,398	3,276,275	4,193,179	13,644
Intergovernmental Charges	2,628,007	2,273,686	642,708	575,553	3,615,161
Total Expenditures	<u>\$ 95,771,193</u>	<u>\$ 86,399,427</u>	<u>\$ 55,442,426</u>	<u>\$ 54,186,988</u>	<u>\$ 50,756,019</u>
Other Financing Sources	\$ (4,751,027)	\$ 1,193,593	\$ 326,331	\$ 829,689	\$ (4,537,896)
Prior Period Adjustment	\$ -	\$ -	\$ (1,180,869) ⁽¹⁾	\$ -	\$ -
Fund Balance - End of Year	<u>\$ 39,071,899</u> ⁽³⁾	<u>\$ 31,526,554</u>	<u>\$ 31,666,255</u>	<u>\$ 34,945,814</u>	<u>\$ 33,380,769</u>

Source: The Issuer's Annual Financial Reports.

⁽¹⁾ The District recorded a prior period adjustment for the correction of an error for capital assets, eliminating assets and accumulated depreciation for items previously reported that were no longer with the District. To assess the value of capital assets the District conducted an outside inventory count in order to tag assets and identify those asset that were previously disposed.

⁽²⁾ The Texas Education Agency's Commissioner of Education ordered the closure of La Marque ISD effective July 1, 2016. As of this date, The District was annexed by Texas City ISD. In accordance with GASB No. 69, La Marque ISD's assets, deferred outflows, liabilities and deferred inflows and result of operations will be reflected on the financial statement of Texas City ISD. Fund balance at beginning of year includes La Marque ISD.

⁽³⁾ The District anticipates the General Fund balance to be \$45,401,956 on August 31, 2018.

COMPARATIVE STATEMENT OF DEBT SERVICE FUND REVENUES AND EXPENDITURES

TABLE 13

	Fiscal Year Ended August 31,				
	2017	2016 ⁽¹⁾	2015	2014	2013
Revenues:					
Local	\$ 12,282,082	\$ 11,926,671	\$ 8,826,082	\$ 9,408,496	\$ 9,249,736
State	259,611	228,090	-	-	-
Total Revenues	<u>\$ 12,541,693</u>	<u>\$ 12,154,761</u>	<u>\$ 8,826,082</u>	<u>\$ 9,408,496</u>	<u>\$ 9,249,736</u>
Expenditures:					
Total Debt Service	\$ 12,109,444	\$ 12,082,531	\$ 10,055,796	\$ 9,748,448	\$ 9,748,600
Excess (Deficiency) Revenues Over Expenditures	432,249	72,230	(1,229,714)	(339,952)	(498,864)
Fund Balance					
Beginning Balance - September 1	3,435,853	3,363,623	2,426,378	2,766,330	3,748,692
Other Sources (Uses)	<u>(1,074,322)</u>	<u>518,689</u>	<u>518,689</u>	<u>-</u>	<u>(483,498)</u>
Fund Balance - End of Year	<u>\$ 2,793,780</u>	<u>\$ 3,954,542</u>	<u>\$ 1,715,353</u>	<u>\$ 2,426,378</u>	<u>\$ 2,766,330</u>

Source: The Issuer's Annual Financial Reports.

⁽¹⁾ The Texas Education Agency's Commissioner of Education ordered the closure of La Marque ISD effective July 1, 2016. As of this date, The District was annexed by Texas City ISD. In accordance with GASB No. 69, La Marque ISD's assets, deferred outflows, liabilities and deferred inflows and result of operations will be reflected on the financial statements of Texas City ISD.

ANALYSIS OF DELINQUENT TAXES

TABLE 14

Tax Year	Outstanding Delinquent Taxes	Adjusted Tax Levy	Percentage of Tax
	August 31, 2017		Levy
2017	\$ 1,375,371	\$ 65,822,746	2.09%
2016	551,162	65,822,746	0.84%
2015	319,972	68,800,946	0.47%
2014	237,185	49,964,248	0.47%
2013	202,718	48,737,723	0.42%
2012	184,736	51,611,052	0.36%
2011	179,808	48,852,781	0.37%
2010	169,528	46,861,895	0.36%
2009	166,510	49,984,995	0.33%
2008 and Prior	1,352,879		

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APPENDIX B

**GENERAL INFORMATION REGARDING THE TEXAS CITY INDEPENDENT SCHOOL DISTRICT
AND GALVESTON COUNTY, TEXAS**

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GENERAL INFORMATION REGARDING THE DISTRICT

TEXAS CITY INDEPENDENT SCHOOL DISTRICT

Texas City Independent School District (the "District") is an industrial area that includes a major portion of the City of Texas City, Texas (the "City"), a Gulf port which had a 2018 population of 47,618.

District Employment

Teachers	607
Administrators	62
Teachers' Aides	157
Non-Teaching Certified Professional Staff (nurses, counselors, diagnosticians)	115
Support Staff (secretaries, clerks)	96
Auxiliary Staff (food service & maintenance)	<u>372</u>
Total Number of Personnel	1,409

School Facilities

Currently, The District is operating the following school facilities:

<u>School Name</u>	<u>Grades Provided</u>	<u>Planned Capacity</u>	<u>Current Enrollment*</u>	<u>Year Built</u>
Calvin Vincent -ECC	PK	300	254	1976
Guajardo Elementary	K-4	600	558	1957
Heights Elementary	K-4	600	526	1993
Kohfeldt Elementary	K-4	600	594	2009
La Marque Elementary	2-4	450	560	1956
La Marque Primary	PK-1	450	467	1956
Roosevelt Wilson Elementary	K-4	600	663	1993
Blocker Middle School	7-8	1,100	890	2013
La Marque Middle School	5-8	1,100	713	1956
Levi Fry Intermediate	5-6	900	948	2009
La Marque High School	9-12	2,400	637	1970
Texas City High School	9-12	1,800	1,838	2011
Woodrow Wilson Alternative	6-12	200	118	1995
Industrial Trades Center	N/A		N/A	2017
Totals		11,100	8,766	

HISTORICAL ENROLLMENT

<u>YEAR</u>	<u>STUDENT ENROLLMENT</u>
2005-06	5,965
2006-07	5,839
2007-08	5,899
2008-09	6,051
2009-10	5,984
2010-11	5,922
2011-12	5,936
2012-13	5,944
2013-14	6,163
2014-15	6,347
2015-16	6,397
2016-17*	8,945

*Current year enrollment as of May 8, 2018.

CITY OF TEXAS CITY

Texas City is a city in Galveston County, Texas. Located on the southwest shoreline of Galveston Bay, Texas City is a busy deep water port on Texas' Gulf Coast, as well as a petroleum refining and petrochemical manufacturing center. The City is home to the Texas City Dike, a man-made breakwater built of tumbled granite blocks in the 1930s, that was originally designed to protect the lower Houston Ship Channel from silting. The dike, famous among locals as being "the world's longest man-made fishing pier", extends approximately 5 miles to the southeast into the mouth of Galveston Bay.

Labor Force Statistics*

	<u>2018⁽¹⁾</u>	<u>2017*</u>	<u>2016*</u>	<u>2015*</u>	<u>2014*</u>
Civilian Labor Force	21,769	21,484	21,239	21,039	21,185
Total Employed	20,477	20,001	19,742	19,737	19,672
Total Unemployed	1,292	1,483	1,497	1,302	1,513
% Unemployed	5.9%	6.9%	7.0%	6.2%	7.1%

*Average annual statistics.

(1) March 2018, average annual not available at this time.

Source: Texas Workforce Commission.

GALVESTON COUNTY, TEXAS

Galveston County, Texas (the "County") has a total area of 874 square miles, of which 379 square miles is land and 495 square miles is water. The County is located on the plains of the Texas Gulf Coast in the southeastern part of the state. The county is bounded on the northeast by Galveston Bay and on the northwest by Clear Creek and Lear Lake. Much of the county covers Galveston Bay, and is bounded to the south by Galveston Seawall and beaches on the Gulf of Mexico.

The oil boom and NASA's Johnson Space Center, established in 1963, has created growth opportunities in the counties municipalities. Tourism has gradually redeveloped in the county, both on the island and on the mainland, and today has become a major industry in the County.

Labor Force Statistics* ⁽¹⁾

	<u>2018⁽¹⁾</u>	<u>2017*</u>	<u>2016*</u>	<u>2015*</u>	<u>2014*</u>
Civilian Labor Force	164,883	161,703	159,820	157,808	157,629
Total Employed	156,942	153,291	151,306	149,954	148,793
Total Unemployed	7,941	8,412	8,514	7,854	8,836
% Unemployed	4.8%	5.2%	5.3%	5.0%	5.6%
%Unemployed (U.S.)	4.1%	4.4%	4.9%	5.3%	6.2%
%Unemployed (Texas)	4.1%	4.3%	4.6%	4.4%	5.1%

*Average annual statistics.

(1) As of March 2018, average annual is not available at this time.

Source: Texas Workforce Commission.

APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

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DRAFT 6/5/18

IN REGARD to the authorization and issuance of the “Texas City Independent School District Unlimited Tax School Building Bonds, Series 2018” (the *Bonds*), dated July 1, 2018, in the aggregate original principal amount of \$_____ we have reviewed the legality and validity of the issuance thereof by the Texas City Independent School District (the *Issuer*). The Bonds are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The Bonds have Stated Maturities of August 15 in each of the years 2019 through 2048, unless redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Bonds. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the order (the *Order*) authorizing the issuance of the Bonds. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Order.

WE HAVE SERVED AS BOND COUNSEL for the Issuer solely to pass upon the legality and validity of the issuance of the Bonds under the laws of the State of Texas and with respect to the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes and for no other purpose. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Bonds. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Bonds. Our role in connection with the Issuer’s Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

WE HAVE EXAMINED the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the Issuer in connection with the issuance of the Bonds, including the Order; (2) customary certifications and opinions of officials of the Issuer; (3) certificates executed by officers of the Issuer relating to the expected use and investment of proceeds of the Bonds and certain other funds of the Issuer, and to certain other facts solely within the knowledge and control of the Issuer; and (4) such other documentation, including an examination of the Bond executed and delivered initially by the Issuer, and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates.

Norton Rose Fulbright US LLP is a limited liability partnership registered under the laws of Texas.

Norton Rose Fulbright US LLP, Norton Rose Fulbright LLP, Norton Rose Fulbright Australia, Norton Rose Fulbright Canada LLP and Norton Rose Fulbright South Africa Inc are separate legal entities and all of them are members of Norton Rose Fulbright Verein, a Swiss verein. Norton Rose Fulbright Verein helps coordinate the activities of the members but does not itself provide legal services to clients. Details of each entity, with certain regulatory information, are available at nortonrosefulbright.com.

Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of "TEXAS CITY INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018"

We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the Bonds are valid and legally binding obligations of the Issuer enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. The Bonds are payable from the proceeds of an ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the Issuer.

BASED ON OUR EXAMINATION, IT IS FURTHER OUR OPINION that, assuming continuing compliance after the date hereof by the Issuer with the provisions of the Order and in reliance upon the representations and certifications of the Issuer made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds, under existing statutes, regulations, published rulings, and court decisions (1) interest on the Bonds will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the *Code*), of the owners thereof for federal income tax purposes, pursuant to section 103 of the Code, and (2) interest on the Bonds will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations.

FOR TAXABLE YEARS THAT BEGAN BEFORE JANUARY 1, 2018, interest on the Bonds owned by a corporation will be included in such corporation's adjusted current earnings for purposes of computing the alternative minimum tax on such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust. The alternative minimum tax on corporations has been repealed for taxable years beginning on or after January 1, 2018.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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.

Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of “TEXAS CITY INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2018”

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.

Norton Rose Fulbright US LLP

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APPENDIX D

**EXCERPTS FROM THE DISTRICT'S AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2017**

**(Not intended to be a complete statement of the Issuer's financial condition.
Reference is made to the complete Annual Financial Report for further information.)**

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Independent Auditor's Report

The Board of Trustees of
Texas City Independent School District
1700 Ninth Avenue North
Texas City, Texas 77590

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 Texas City Independent School District (the District), as of and for the year ended August 31, 2017, 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 entity'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 entity'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 Texas City Independent School District, as of August 31, 2017, 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 and the Required Supplementary Information, 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Texas City Independent School District's basic financial statements. The Supplementary Information and Schedule of Required Responses to Selected School FIRST Indicators 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. The Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The 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 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.

The Board of Trustees of
Texas City Independent School District

The Schedule of Required Responses to Selected School FIRST Indicators 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 any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2018 on our consideration of Texas City Independent School 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 Texas City Independent School 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 Texas City Independent School District's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas
January 16, 2018

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Management's Discussion and Analysis

As management of the Texas City Independent School District (the District), we offer readers of the accompanying report this narrative overview and analysis of the financial activities of the District for the fiscal year ended August 31, 2017. In reviewing this report, readers should be mindful that it is often necessary for management to make and use estimates in the preparation of financial statements. Examples of the use of such estimates may be found in amounts reported for depreciation, net taxes receivable, net pension liability, and claims payable of the District's self-insured workers' compensation program.

Financial Highlights

- Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at year-end by \$95,011,400 (net position). Of this amount, \$32,035,403 (unrestricted net position) is available to meet the District's ongoing obligations to students and creditors in subsequent years.
- The District's total net position increased by \$16,809,592 from current operations.
- As of the close of the year, the District's governmental funds had combined ending fund balances of \$44,190,384, an increase of \$6,279,586 as compared to the preceding year.
- At the end of the year, unassigned fund balance of the general fund was \$21,314,248, or 22 percent of the year's total general fund expenditures.
- The District's total net bonded debt decreased by \$7,512,305 (6 percent) during the year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report contains required supplementary information and supplementary information in addition to the basic financial statements.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector enterprise.

The *Statement of Net Position* (Exhibit A-1) presents information on all of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as an indicator of how the financial position of the District is changing.

The *Statement of Activities* (Exhibit B-1) presents information showing how the District's net position changed during the year. Changes in net position are reported upon occurrence of the underlying event giving rise to the change, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some transactions that will not result in cash flows until future fiscal periods (e.g., uncollected taxes and incurred but unpaid workers' compensation benefits).

The government-wide financial operations (*governmental activities*) of the District are principally supported by taxes and intergovernmental revenues. The governmental activities of the District include *Instruction, Instructional Resources and Media Services, Curriculum and Instructional Staff Development, Instructional Leadership, School Leadership, Guidance, Counseling, and Evaluation Services, Social Work Services, Health Services, Student Transportation, Food Services, Extracurricular Activities, General Administration, Plant Maintenance and Operations, Security and Monitoring Services, Data Processing Services, Community Services, Interest on Long-term Debt, Issuance Costs and Fees, Facilities Repair and Maintenance, Contracted Instructional Services Between Schools, Payments Related to Shared Service Arrangements, Payments to Juvenile Justice Alternative Education Programs, and Other Intergovernmental Charges*, as applicable.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, as do other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of cash resources*, as well as on *balances of cash resources* available at the end of the fiscal year. Such information may be useful in evaluating near-term financing requirements.

Because the focus of governmental funds financial statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term effect of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintained twenty-four individual governmental funds during the year. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and capital projects funds, which are considered to be major funds. Data from the other twenty-one governmental funds are combined into a single, aggregated presentation titled *other governmental funds*.

The District adopts an annual revenue and appropriations budget for its general fund. Subsequent to adoption, amendments approved by the governing body are reflected in a revised budget. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements are noted in the table of contents of this report.

Proprietary Fund. The District maintains one type of proprietary fund. An internal service fund is a type of proprietary fund that uses an accounting process which accumulates and allocates costs internally among the District's various funds and functions. The District uses the internal service fund to account for its self-funded workers' compensation program. Because this service predominantly benefits governmental operations, their financial activities have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide essentially the same type of information as the government-wide financial statements, only in more detail. The internal service fund financial statements are provided with the basic financial statements and provide information for the self-funded workers' compensation program.

The basic proprietary fund financial statements are noted in the table of contents of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of employees, students, and student organizations. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs and activities. A statement of fiduciary net position and statement of changes in fiduciary net position are presented for fiduciary funds, as noted in the table of contents of this report.

Notes to the Basic Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements are noted in the table of contents of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report presents required supplementary information and supplementary information, including schedules required by the Texas Education Agency. Such information is noted in the table of contents of this report.

Government-wide Financial Analysis

As mentioned earlier, net position may, over time, serve as an indicator of a District's changing financial position. At the close of the District's most recent fiscal year, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$95,011,400, an increase of \$16,809,592 over the preceding year.

Texas City Independent School District's Net Position

	Governmental Activities					
	2017		2016		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Current and other assets	\$ 56,559,813	24	\$ 55,259,048	24	\$ 1,300,765	2
Capital assets, net of depreciation	177,323,807	76	175,068,856	76	2,254,951	1
Total assets	233,883,620	100	230,327,904	100	3,555,716	
Total deferred outflows of resources	12,883,822	100	13,032,991	100	(149,169)	(1)
Long-term liabilities outstanding	144,613,073	96	152,161,624	93	(7,548,551)	(5)
Other liabilities	5,720,104	4	11,550,491	7	(5,830,387)	(50)
Total liabilities	150,333,177	100	163,712,115	100	(13,378,938)	
Total deferred inflows of resources	1,422,865	100	1,446,972	100	(24,107)	(2)
Net position:						
Net investment in capital assets	58,631,773	62	49,106,180	63	9,525,593	19
Restricted	4,344,224	4	4,206,406	5	137,818	3
Unrestricted	32,035,403	34	24,889,222	32	7,146,181	29
Total net position	\$ 95,011,400	100	\$ 78,201,808	100	\$ 16,809,592	

The excess of assets/deferred outflows of resources over liabilities/deferred inflows of resources reported on the government-wide *Statement of Net Position* of \$95,011,400 at August 31, 2017 results from several factors. The increase in net position results primarily from the increase in state aid, resulting from the effects of property tax refunds and student growth on state funding, exceeded the increased costs for instruction that resulted from the annexation with La Marque Independent School District in the prior fiscal year, per Texas Education Code Section 13.054 and increase in students.

The largest portion of the District's net position is net investment in capital assets. Investment in capital assets (e.g., land and improvements, buildings and improvements, furniture and equipment, and construction in progress), less any related debt used to acquire those assets that are still outstanding represent 62 percent of the District's net position. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net position of \$4,344,224, which represents 4 percent of total net position, is restricted for future debt service and grant expenditures.

Unrestricted net position of \$32,035,403 may be used to meet future obligations to students and creditors. At the end of the current fiscal year, the District is able to report positive balances in all categories of net position for governmental type activities.

Governmental Activities. Governmental activities increased the District's net position by \$16,809,592 from current operations. Key elements of this change are as follows:

Texas City Independent School District's Change in Net Position

	Governmental Activities					
	2017		2016		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Revenues:						
Program revenues:						
Charges for services	\$ 2,648,374	2	\$ 5,669,627	5	\$ (3,021,253)	(53)
Operating grants and contributions	18,866,592	14	17,910,264	17	956,328	5
Capital grants and contributions	-	-	114,313	-		
General revenues:						
Property taxes, levied for general purposes	48,622,375	37	57,382,291	54	(8,759,916)	(15)
Property taxes, levied for debt service	11,223,828	9	11,973,611	11	(749,783)	(6)
Grants and contributions not restricted to specific programs	49,188,234	37	13,896,853	13	35,291,381	254
Investment earnings	359,370	-	159,880	-	199,490	125
Miscellaneous	1,991,609	1	78,408	-	1,913,201	2,440
Total revenues	<u>132,900,382</u>	<u>100</u>	<u>107,185,247</u>	<u>100</u>	<u>25,829,448</u>	
Expenses:						
Instruction	59,398,348	51	51,265,619	49	8,132,729	16
Instructional resources and media services	1,198,268	1	877,756	1	320,512	37
Curriculum and instructional staff development	1,374,383	1	1,446,896	1	(72,513)	(5)
Instructional leadership	1,331,008	1	1,155,688	1	175,320	15
School leadership	6,435,345	6	5,605,747	5	829,598	15
Guidance, counseling, and evaluation services	2,973,568	3	2,360,425	2	613,143	26
Social work services	203,084	-	190,989	-	12,095	6
Health services	875,213	1	833,550	1	41,663	5
Student transportation	1,993,792	2	2,491,345	2	(497,553)	(20)
Food services	5,324,713	5	6,158,301	6	(833,588)	(14)
Extracurricular activities	3,805,010	3	3,276,875	3	528,135	16
General administration	3,346,360	3	4,745,879	4	(1,399,519)	(29)
Plant maintenance and operations	14,284,071	12	14,273,355	13	10,716	-
Security and monitoring services	1,442,927	1	1,505,726	1	(62,799)	(4)
Data processing services	5,067,240	5	4,182,098	4	885,142	21
Community services	215,335	-	305,885	-	(90,550)	(30)
Interest on long-term debt	4,044,753	3	5,036,359	5	(991,606)	(20)
Issuance costs and fees	149,365	-	85,019	-	64,346	76
Facilities repair and maintenance	-	-	60,515	-	(60,515)	(100)
Contracted instructional services between schools	1,651,986	1	1,382,460	1	269,526	19
Payments related to shared service arrangements	367,278	-	299,151	-	68,127	23
Payments to juvenile justice alternative education programs	-	-	638	-	(638)	(100)
Other intergovernmental charges	608,743	1	591,437	1	17,306	3
Total expenses	<u>116,090,790</u>	<u>100</u>	<u>108,131,713</u>	<u>100</u>	<u>7,959,077</u>	
Excess (deficiency) before special items and transfers	16,809,592		(946,466)		17,756,058	
Special items - capital assets impairment loss	-		(314,496)		314,496	
Change in net position	<u>16,809,592</u>		<u>(1,260,962)</u>		<u>18,070,554</u>	
Net position - beginning	<u>78,201,808</u>		<u>79,462,770</u>		<u>(1,260,962)</u>	
Net position - ending	<u>\$ 95,011,400</u>		<u>\$ 78,201,808</u>		<u>\$ 16,809,592</u>	

Revenues, aggregating \$132,900,382, were generated primarily from two sources. Property taxes \$59,846,203 represent 46 percent of total revenues while grants and contributions, (including those not restricted for program-specific use as well as for general operations, totaling \$68,054,826), represent 51 percent of total revenues. The remaining 3 percent is generated from investment earnings, charges for services, and miscellaneous revenues.

The primary functional expenses of the District are *Instruction* \$59,398,348, which represents 51 percent of total expenses and *Plant maintenance and operations* \$14,284,071, which represents 12 percent of total expenses, while all remaining expense categories are individually 6 percent or less of total expenses.

Financial Analysis of the Government's Funds

As mentioned earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. At the end of the fiscal year, the District's governmental funds had combined ending fund balances of \$44,190,384, an increase of \$6,279,586 from the preceding year. Comments as to each individual major fund's change in fund balance follows.

The general fund is the primary operating fund of the District. At year-end, unassigned fund balance of the general fund was \$21,314,248, while total fund balance was \$39,071,869. To evaluate the general fund's liquidity, it may be helpful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 22 percent of total general fund expenditures, while total fund balance represents 41 percent of that same total. The fund balance of the general fund increased \$7,545,345 during the year, primarily due to the increase in state aid, resulting from the effects of property tax refunds and student growth on state funding, exceeded the instruction costs from student growth and the growth from the annexation with La Marque Independent School District in the prior fiscal year, per Texas Education Code Section 13.054.

The debt service fund ended the year with a total fund balance of \$2,793,780, all of which is restricted for the payment of principal and interest on debt. The debt service fund balance decreased \$642,073 during the year, primarily due to the increase in tax refunds initiated by disputed value adjustments.

The capital projects fund has a total fund balance of \$268,772. The net decrease in fund balance during the current year in the capital projects fund was \$966,595 due to the spending of prior year loan proceeds on capital expenditures as planned.

Governmental funds financial statements may be found by referring to the table of contents.

Proprietary Funds. The District's proprietary fund financial statements, reflect the District's internal service fund created for its self-funded workers' compensation program and provides information as to the profitability of that program. The net change in assets of the fund is eliminated and allocated to the governmental expenses in the government-wide financial statements.

General Fund Budgetary Highlights

The District amends the budget as needed throughout the year. The final budgeted expenditures increased by \$19,286,044 primarily from revised estimates for expenditures in instruction, plant maintenance and operations, data processing services, and facilities acquisition and construction.

The most significant variation between the final budget and actual results were related to increase state funding projection due to the effects of the tax refunds and student growth on state aid.

Capital Assets and Long-term Liabilities

Capital Assets. The District's investment in capital assets for its governmental activities as of August 31, 2017 was \$177,323,807 (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings and improvements, furniture and equipment, and construction in progress. The increase in net investment in capital assets for the current fiscal year was \$2,254,951.

Texas City Independent School District's Capital Assets (net of depreciation)

	Governmental Activities					
	2017		2016		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Land and improvements	\$ 5,072,706	3	\$ 5,072,706	3	\$ -	-
Buildings and improvements	164,203,561	93	157,821,198	91	6,382,363	4
Furniture and equipment	8,047,540	4	7,802,354	4	245,186	3
Construction in progress	-	-	4,372,598	2	(4,372,598)	(100)
Totals	\$ 177,323,807	100	\$ 175,068,856	100	\$ 2,254,951	

Major capital asset activity during the year included the following:

- Vehicles and buses additions \$1,173,586
- Construction in progress and buildings additions \$6,097,195

Additional information on the District's capital assets can be found in Note 3.D in the notes to the financial statements as per the table of contents.

Long-term Liabilities. At year-end, the District had the following long-term liabilities:

Texas City Independent School District's Long-term Liabilities Outstanding

	Governmental Activities					
	2017		2016		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
General obligation bonds (net)	\$ 119,557,119	83	\$ 127,069,424	84	\$ (7,512,305)	(6)
Notes Payable	3,512,227	2	4,536,986	3	(1,024,759)	(23)
Workers' compensation	414,792	-	717,541	-	(302,749)	(42)
Compensated absences	860,004	1	341,256	-	518,748	152
Net pension liability	20,268,931	14	19,496,417	13	772,514	4
Totals	\$ 144,613,073	100	\$ 152,161,624	100	\$ (7,548,551)	

The District's total bonded debt decreased by \$7,512,305 (6 percent) during the current fiscal year, which resulted primarily from payment of scheduled bond payments.

State statutes do not limit the tax rate or amount of local tax support of school districts' bonded indebtedness. However, approval of the Attorney General of the State of Texas is required prior to the sale of bonds.

Additional information on the District's long-term debt can be found in Note 3.E. in the notes to the financial statements as indicated in the table of contents.

Additional information on the District's net pension liability can be found in Note 4.C. in the notes to the financial statements as indicated in the table of contents.

Economic Factors and Next Year's Budgets and Tax Rates

- School year (2017-18) student enrollment is 8,853, an increase from the preceding year.
- District staff totals 1,356 employees in 2017-18, excluding substitutes and other part-time employees, of which 583 are teachers and 205 are teacher aides and secretaries.
- The District maintains thirteen regular education campuses.
- Property values of the District are projected to remain comparable for the 2017-18 year.
- A maintenance and operations tax rate of \$1.17 and a debt service tax rate of \$0.2649, a total rate of \$1.4349 were adopted for 2017-18. Preceding year rates were \$1.17, \$0.2705 and \$1.4405, respectively.

All of these factors and others were considered in preparing the District's budget for the 2017-18 fiscal year.

During 2016-17, fund balance in the general fund increased \$7,545,345. The District plans to utilize unassigned fund balance to fund current period expenditures prior to collecting the current year tax levy.

Requests for Information

This financial report is intended to provide a general overview of the District's finances for those with an interest in this information. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District's Business Office at Texas City Independent School District, 1700 Ninth Avenue North, Texas City, Texas 77590.

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Basic Financial Statements

Texas City Independent School District
Statement of Net Position
August 31, 2017

Exhibit A-1

1

Data Control Codes		Primary Government Governmental Activities
ASSETS		
1110	Cash and cash equivalents	\$ 3,523,484
1120	Current investments	32,964,129
1220	Property taxes receivables	4,739,869
1230	Allowance for uncollectible taxes	(47,000)
1240	Due from other governments	14,219,578
1290	Other receivables	32,954
1300	Inventories	258,440
1410	Prepaid items	868,359
	Capital assets:	
1510	Land and improvements	5,072,706
1520	Buildings and improvements (net)	164,203,561
1530	Furniture and equipment (net)	8,047,540
1000	Total assets	<u>233,883,620</u>
DEFERRED OUTFLOWS OF RESOURCES		
1705	Deferred outflows - pension	8,775,282
1710	Deferred charge on refunding	4,108,540
1700	Total deferred outflows of resources	<u>12,883,822</u>
LIABILITIES		
2110	Accounts payable	1,980,722
2140	Interest payable	220,770
2150	Payroll deductions and withholdings	44,201
2160	Accrued wages payable	3,465,601
2180	Due to other governments	410
2300	Unearned revenue	8,400
	Noncurrent liabilities:	
2501	Due within one year	8,743,273
2502	Due in more than one year	115,600,869
2540	Net pension liabilities	20,268,931
2000	Total liabilities	<u>150,333,177</u>
DEFERRED INFLOWS OF RESOURCES		
2605	Deferred inflows - pension	1,422,865
2600	Total deferred inflows of resources	<u>1,422,865</u>
NET POSITION		
3200	Net investment in capital assets	58,631,773
3820	Restricted for grants	1,061,403
3850	Restricted for debt service	3,282,821
3900	Unrestricted	32,035,403
3000	TOTAL NET POSITION	<u>\$ 95,011,400</u>

The Notes to the Financial Statements are an integral part of this statement.

Texas City Independent School District
Statement of Activities
For the Fiscal Year Ended August 31, 2017

Exhibit B-1

		1	3	4	Net (Expense) Revenue and Changes in Net Position
Data Control Codes	Functions/Programs	Expenses	Program Revenues		Governmental Activities
			Charges for Services	Operating Grants and Contributions	
	PRIMARY GOVERNMENT				
	Governmental activities				
0011	Instruction	\$ 59,398,348	\$ 794,105	\$ 10,492,317	\$ (48,111,926)
0012	Instructional resources and media services	1,198,268	84,563	38,202	(1,075,503)
0013	Curriculum and instructional staff development	1,374,383	-	447,509	(926,874)
0021	Instructional leadership	1,331,008	-	597,397	(733,611)
0023	School leadership	6,435,345	247,810	853,143	(5,334,392)
0031	Guidance, counseling, and evaluation services	2,973,568	24,731	350,531	(2,598,306)
0032	Social work services	203,084	-	108,388	(94,696)
0033	Health services	875,213	-	61,538	(813,675)
0034	Student transportation	1,993,792	-	407,337	(1,586,455)
0035	Food services	5,324,713	859,564	4,602,671	137,522
0036	Extracurricular activities	3,805,010	596,474	100,961	(3,107,575)
0041	General administration	3,346,360	8,445	96,699	(3,241,216)
0051	Plant maintenance and operations	14,284,071	10,854	236,653	(14,036,564)
0052	Security and monitoring services	1,442,927	-	14,734	(1,428,193)
0053	Data processing services	5,067,240	-	60,321	(5,006,919)
0061	Community services	215,335	21,828	138,580	(54,927)
0072	Interest on long-term debt	4,044,753	-	-	(4,044,753)
0073	Issuance costs and fees	149,365	-	259,611	110,246
0091	Contracted instructional services between schools	1,651,986	-	-	(1,651,986)
0093	Payments related to shared services arrangements	367,278	-	-	(367,278)
0099	Other intergovernmental charges	608,743	-	-	(608,743)
TG	Total governmental activities	<u>116,090,790</u>	<u>2,648,374</u>	<u>18,866,592</u>	<u>(94,575,824)</u>
TP	TOTAL PRIMARY GOVERNMENT	<u>\$ 116,090,790</u>	<u>\$ 2,648,374</u>	<u>\$ 18,866,592</u>	<u>(94,575,824)</u>
	General revenues				
MT	Property taxes, levied for general purposes				48,622,375
DT	Property taxes, levied for debt service				11,223,828
GC	Grants and contributions not restricted to specific programs				49,188,234
IE	Investment earnings				359,370
MI	Miscellaneous				1,991,609
TR	Total general revenues				<u>111,385,416</u>
CN	Change in net position				16,809,592
NB	Net position - beginning				<u>78,201,808</u>
NE	NET POSITION - ENDING				<u>\$ 95,011,400</u>

The Notes to the Financial Statements are an integral part of this statement.

Texas City Independent School District

Balance Sheet – Governmental Funds

August 31, 2017

		199	599
Data Control Codes		General Fund	Debt Service Fund
ASSETS			
1110	Cash and cash equivalents	\$ 2,100,977	\$ 90,778
1120	Current investments	27,012,758	2,645,985
1220	Property taxes receivables	4,040,963	698,906
1230	Allowance for uncollectible taxes	(40,000)	(7,000)
1240	Due from other governments	13,079,898	57,017
1260	Due from other funds	930,607	-
1290	Other receivables	5,073	-
1300	Inventories	202,886	-
1410	Prepaid items	868,359	-
1000	Total assets	48,201,521	3,485,686
1000a	TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 48,201,521	\$ 3,485,686
LIABILITIES			
2110	Accounts payable	\$ 1,529,093	\$ -
2150	Payroll and withholdings	44,201	-
2160	Accrued wages payable	3,465,203	-
2170	Due to other funds	90,024	-
2180	Due to other governments	168	-
2300	Unearned revenue	-	-
2000	Total liabilities	5,128,689	-
DEFERRED INFLOWS OF RESOURCES			
2600	Unavailable revenue - property taxes	4,000,963	691,906
	Total deferred inflows of resources	4,000,963	691,906
FUND BALANCES			
3410	Nonspendable - inventories	202,886	-
3430	Nonspendable - prepaid items	868,359	-
3450	Restricted - grants	-	-
3470	Restricted - capital acquisitions and contractual obligations	-	-
3480	Restricted - debt service	-	2,793,780
3545	Committed - other	-	-
3550	Assigned - construction	4,189,731	-
3565	Assigned - retirement of loans/notes payable	4,289,420	-
3590	Assigned - other	8,207,225	-
3600	Unassigned	21,314,248	-
3000	Total fund balances	39,071,869	2,793,780
4000	TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 48,201,521	\$ 3,485,686

The Notes to the Financial Statements are an integral part of this statement.

699		98
Capital	Total	Total
Projects Fund	Nonmajor	Governmental
Funds	Funds	Funds
\$ 428,293	\$ 490,286	\$ 3,110,334
-	1,618,146	31,276,889
-	-	4,739,869
-	-	(47,000)
-	1,082,663	14,219,578
-	-	930,607
-	20,263	25,336
-	55,554	258,440
-	-	868,359
428,293	3,266,912	55,382,412
<u>\$ 428,293</u>	<u>\$ 3,266,912</u>	<u>\$ 55,382,412</u>
\$ 159,521	\$ 271,302	\$ 1,959,916
-	-	44,201
-	398	3,465,601
-	930,607	1,020,631
-	242	410
-	8,400	8,400
159,521	1,210,949	6,499,159
<u>159,521</u>	<u>1,210,949</u>	<u>6,499,159</u>
-	-	4,692,869
-	-	4,692,869
-	-	202,886
-	-	868,359
-	1,061,403	1,061,403
268,772	-	268,772
-	-	2,793,780
-	994,560	994,560
-	-	4,189,731
-	-	4,289,420
-	-	8,207,225
-	-	21,314,248
268,772	2,055,963	44,190,384
<u>268,772</u>	<u>2,055,963</u>	<u>44,190,384</u>
<u>\$ 428,293</u>	<u>\$ 3,266,912</u>	<u>\$ 55,382,412</u>

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Texas City Independent School District
Reconciliation of the Governmental Funds Balance
Sheet to the Statement of Net Position
August 31, 2017

Exhibit C-1R

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS (EXHIBIT C-1) **\$ 44,190,384**

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The governmental capital assets at year-end consist of:

Governmental capital assets costs	\$ 262,037,241	
Accumulated depreciation of governmental capital assets	<u>(84,713,434)</u>	177,323,807

Property taxes receivable, which will be collected subsequent to year-end, but are not available soon enough to pay expenditures and, therefore, are deferred in the funds.	4,692,869
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Long-term liabilities, including bonds payable, notes payable, compensated absences and net pension liability, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Liabilities at year-end related to such items consist of:

Bonds payable, at original par	\$ (109,740,000)	
Premium on bonds payable	(9,817,119)	
Accrued interest on the bonds	(202,865)	
Notes payable	(3,512,227)	
Accrued interest on the notes	(17,905)	
Compensated absences	(860,004)	
Net pension liability	<u>(20,268,931)</u>	(144,419,051)

An internal service fund is used by the District to charge the costs of workers' compensation benefits to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	1,762,434
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Deferred charge on refunding is reported as deferred outflow in the statement of net position and is not reported in the funds due to it is not a current financial resource available to pay for current expenditures.	4,108,540
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Deferred outflows of resources for pension represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenses/expenditures) until then.	8,775,282
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Deferred inflows for pension represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.	<u>(1,422,865)</u>
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TOTAL NET POSITON - GOVERNMENTAL ACTIVITIES (EXHIBIT A-1) **\$ 95,011,400**

Texas City Independent School District
Statement of Revenues, Expenditures, and Changes
in Fund Balances – Governmental Funds
For the Fiscal Year Ended August 31, 2017

		199	599
Data			
Control			
Codes		General Fund	Debt Service Fund
REVENUES			
5700	Local and intermediate sources	\$ 55,449,530	\$ 12,282,082
5800	State program revenues	50,834,671	259,611
5900	Federal program revenues	1,783,364	-
5020	Total revenues	108,067,565	12,541,693
EXPENDITURES			
Current:			
0011	Instruction	45,703,140	-
0012	Instructional resources and media services	1,050,469	-
0013	Curriculum and instructional staff development	886,384	-
0021	Instructional leadership	643,323	-
0023	School leadership	5,068,227	-
0031	Guidance, counseling, and evaluation services	2,468,495	-
0032	Social work services	84,171	-
0033	Health services	781,220	-
0034	Student transportation	1,775,426	-
0035	Food services	-	-
0036	Extracurricular activities	3,273,243	-
0041	General administration	3,140,052	-
0051	Plant maintenance and operations	13,890,924	-
0052	Security and monitoring services	1,396,702	-
0053	Data processing services	5,009,008	-
0061	Community services	42,226	-
Debt Service:			
0071	Principal on long-term debt	1,024,759	7,105,000
0072	Interest on long-term debt	47,591	4,855,279
0073	Issuance costs and fees	200	149,165
Capital Outlay:			
0081	Facilities acquisition and construction	6,857,626	-
Intergovernmental:			
0091	Contracted instructional services between schools	1,651,986	-
0093	Payments related shares services arrangements	367,278	-
0099	Other intergovernmental charges	608,743	-
6030	Total expenditures	95,771,193	12,109,444
1100	Excess (deficiency) of revenues over expenditures	12,296,372	432,249
OTHER FINANCING SOURCES (USES)			
7901	Refunding bonds issued	-	8,900,000
7915	Transfers in	204,929	-
7916	Premium or discount on issuance of bonds	-	977,790
8911	Transfers out	(6,098)	-
8940	Payment to bond refunding escrow agent	-	(9,850,939)
8949	Tax refunds	(4,949,858)	(1,101,173)
7080	Total other financing sources (uses)	(4,751,027)	(1,074,322)
1200	Net change in fund balances	7,545,345	(642,073)
0100	Fund balances - beginning	31,526,524	3,435,853
3000	FUND BALANCES - ENDING	\$ 39,071,869	\$ 2,793,780

The Notes to the Financial Statements are an integral part of this statement.

699		98
Capital Projects Fund	Total Nonmajor Funds	Total Governmental Funds
\$ 266,252	\$ 2,483,250	\$ 70,481,114
-	881,546	51,975,828
-	13,850,623	15,633,987
266,252	17,215,419	138,090,929
-	8,657,943	54,361,083
-	74,398	1,124,867
-	409,611	1,295,995
-	523,138	1,166,461
-	790,858	5,859,085
-	250,030	2,718,525
-	96,383	180,554
-	29,642	810,862
894,184	311,922	2,981,532
-	4,957,110	4,957,110
-	403,149	3,676,392
-	7,430	3,147,482
344,570	7,264	14,242,758
-	2,441	1,399,143
-	-	5,009,008
-	146,453	188,679
-	-	8,129,759
-	-	4,902,870
-	-	149,365
-	-	6,857,626
-	-	1,651,986
-	-	367,278
-	-	608,743
1,238,754	16,667,772	125,787,163
(972,502)	547,647	12,303,766
-	-	8,900,000
5,907	191	211,027
-	-	977,790
-	(204,929)	(211,027)
-	-	(9,850,939)
-	-	(6,051,031)
5,907	(204,738)	(6,024,180)
(966,595)	342,909	6,279,586
1,235,367	1,713,054	37,910,798
\$ 268,772	\$ 2,055,963	\$ 44,190,384

Texas City Independent School District
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Fiscal Year Ended August 31, 2017

Exhibit C-3

TOTAL NET CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS (EXHIBIT C-2) **\$ 6,279,586**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital assets <i>increased</i>	\$ 8,236,998	
Depreciation expense	<u>(6,008,075)</u>	2,228,923

The net effect of miscellaneous transactions involving capital assets (transfers, adjustments and dispositions) is an increase (decrease) to net position.		26,028
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Because some property taxes will not be collected for several months after the District's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues increased (decreased) by this amount this year.		769,150
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Issuance of bonds provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.

Par value	\$ (8,900,000)	
(Premium) discount	<u>(977,790)</u>	(9,877,790)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		7,105,000
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Payment to escrow agent to refund bonds from refunding proceeds.		9,850,939
--	--	-----------

Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		1,024,759
--	--	-----------

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The increase (decrease) in interest reported in the statement of activities consist of the following:

Accrued interest on current interest bonds payable (<i>increased</i>) decreased	\$ 345,552	
Accrued interest on notes payable (<i>increased</i>) decreased	(17,905)	
Amortization of bond premium and discount	867,170	
Amortization of defeasance costs	<u>(336,700)</u>	858,117

The (increase) decrease in compensated absences is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds.		<u>(518,748)</u>
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An internal service fund is used by the District to charge the costs of workers' compensation benefits to the individual funds. The net activity of the internal service fund was reported in the government-wide statements.		57,518
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The net change in net pension liability, deferred outflows, and deferred inflows is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. The net change consists of the following:

Deferred outflows increased (decreased)	\$ (245,483)	
Deferred inflows (increased) decreased	24,107	
Net pension liability (increased) decreased	<u>(772,514)</u>	(993,890)

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES (EXHIBIT B-1) **\$ 16,809,592**

The Notes to the Financial Statements are an integral part of this statement.

Texas City Independent School District
Statement of Net Position
Proprietary Fund
August 31, 2017

Exhibit D-1

Data Control Codes		Governmental Activities
		Internal Service Fund
	ASSETS	
	Current assets:	
1110	Cash and cash equivalents	\$ 413,150
1120	Current investments	1,687,240
1260	Due from other funds	90,024
1290	Other receivables	7,618
	Total current assets	<u>2,198,032</u>
1000	Total assets	<u>2,198,032</u>
	LIABILITIES	
	Current liabilities:	
2110	Accounts payable	20,806
2123	Claims payable - due within one year	150,000
	Total current liabilities	<u>170,806</u>
	Noncurrent liabilities:	
2590	Claims payable - due in more than one year	264,792
	Total noncurrent liabilities	<u>264,792</u>
2000	Total liabilities	<u>435,598</u>
	NET POSITION	
3900	Unrestricted	<u>1,762,434</u>
3000	TOTAL NET POSITION	<u>\$ 1,762,434</u>

The Notes to the Financial Statements are an integral part of this statement.

Texas City Independent School District
Statement of Revenues, Expenses, and Changes
in Net Position – Proprietary Fund
For the Fiscal Year Ended August 31, 2017

Exhibit D-2

Data Control Codes		Governmental Activities Internal Service Fund
OPERATING REVENUES		
5754	Interfund service provided	\$ 388,132
5020	Total operating revenues	<u>388,132</u>
OPERATING EXPENSES		
6100	Payroll costs	77,972
6200	Professional and contracted services	40,388
6400	Other operating costs	224,046
6030	Total operating expenses	<u>342,406</u>
	Operating income	<u>45,726</u>
NONOPERATING REVENUES		
7955	Investment Earnings	11,792
8030	Total nonoperating revenues	<u>11,792</u>
1300	Change in net position	57,518
0100	Total net position - beginning	<u>1,704,916</u>
3300	TOTAL NET POSITION - ENDING	<u>\$ 1,762,434</u>

The Notes to the Financial Statements are an integral part of this statement.

Texas City Independent School District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended August 31, 2017

Exhibit D-3

	Governmental Activities Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from District	\$ 598,752
Cash payments for claims, net of stop loss reimbursements	(521,416)
Cash payments for contracted services and supplies and materials	(118,360)
Net cash used by operating activities	<u>(41,024)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends received on investments	11,792
Purchase of investments	(1,687,240)
Net cash used by investing activities	<u>(1,675,448)</u>
Net increase (decrease) in cash and cash equivalents	(1,716,472)
Cash and cash equivalents at beginning of year	<u>2,129,622</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u><u>\$ 413,150</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES	
Operating income	\$ 45,726
Change in assets and liabilities:	
(Increase) decrease in due from other funds	210,620
Increase (decrease) in claims payable	(7,618)
Increase (decrease) in accounts payable	12,997
Increase (decrease) in claims payable	(302,749)
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (41,024)</u></u>

The Notes to the Financial Statements are an integral part of this statement.

Texas City Independent School District
Statement of Net Position
Fiduciary Funds
August 31, 2017

Exhibit E-1

865

<u>Data Control Codes</u>		<u>Private Purpose Trust Funds</u>	<u>Agency Fund</u>
	ASSETS		
	Current assets:		
1110	Cash and cash equivalents	\$ 154,802	\$ 38,784
1120	Current investments	-	72,793
1000	TOTAL ASSETS	<u>154,802</u>	<u>\$ 111,577</u>
	LIABILITIES		
	Current liabilities:		
2110	Accounts payable	2,500	\$ 2,620
2190	Due to student groups	-	108,957
2000	TOTAL LIABILITIES	<u>2,500</u>	<u>\$ 111,577</u>
	NET POSITION		
3900	Unrestricted	<u>152,302</u>	
3000	TOTAL NET POSITION	<u>\$ 152,302</u>	

The Notes to the Financial Statements are an integral part of this statement.

Texas City Independent School District
Statement of Changes in Net Position
Fiduciary Funds
August 31, 2017

Exhibit E-2

<u>Data Control Codes</u>		<u>Private Purpose Trust Funds</u>
ADDITIONS		
5700	Local and intermediate sources	\$ 43,616
	Total additions	<u>43,616</u>
DEDUCTIONS		
6200	Professional and contracted services	22,500
6300	Supplies and materials	<u>3,201</u>
	Total deductions	<u>25,701</u>
	Change in net position	17,915
	Net position beginning	<u>134,387</u>
	NET POSITION - ENDING	<u>\$ 152,302</u>

The Notes to the Financial Statements are an integral part of this statement.

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Texas City Independent School District

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government (the District). All fiduciary activities are reported only in the fund financial statements. *Governmental activities* normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions.

B. Reporting Entity

The Texas City Independent School District (the District) is governed by a seven-member board of trustees (the Board), which has governance responsibilities over all activities related to public, elementary and secondary, education within the District. Members of the Board are elected by the public; have authority to make decisions; appoint management and significantly influence operations; and have primary accountability for fiscal matters; the District is not included in any other governmental reporting entity. The accompanying financial statements present the District.

C. Basis of Presentation – Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and an internal service fund. 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.

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

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category—governmental, proprietary, and fiduciary—are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those accounted for in another fund.

The *debt service fund* is used to account for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations of governmental funds.

The *capital projects fund* accounts for the acquisition, construction, and equipping the District's major capital facilities, other than those financed by proprietary funds.

Texas City Independent School District

Notes to the Financial Statements

Additionally, the District reports the following fund types:

The internal service fund accounts for workers' compensation claims and administrative expenses provided for other funds of the District on a cost reimbursement basis.

Private purpose trust funds are used to account for resources legally held in trust under which principal and income benefit individuals, private organizations or other governments. The District's private-purpose trust funds represent scholarship funds being held in trust for students and a project garden grant.

The agency fund accounts for assets held by the District for student organizations. The fund is custodial in nature (assets equal liabilities) and does not involve measurement or results of operations.

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources or economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources *measurement focus* and 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 similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental 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 District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as required under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and capital leases are reported as other financing sources.

Interest associated with the current fiscal period is considered to be susceptible to accrual and has been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end).

Texas City Independent School District

Notes to the Financial Statements

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items, including property taxes, are considered to be measurable and available only when cash is received by the District.

The proprietary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand and bank demand deposits with original maturities of three months or less from the date of acquisition.

2. Investments

Investments for the District, except for certificates of deposits and certain investment pools, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost or fair value. Certificates of deposit that are non-negotiable are reported at cost; whereas, brokered certificates of deposit are reported at fair value.

3. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items 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.

4. Capital Assets

Capital assets, which include land and improvements, construction in progress, buildings and improvements, and furniture and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. The District's infrastructure includes parking lots and sidewalks associated with various buildings. The cost of the infrastructure was initially capitalized with the building cost and is being depreciated over the same useful life as the building. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000, and an estimated useful life in excess of two years.

As the District constructs or acquires additional capital assets each period, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

Land and improvements and construction in progress are not depreciated. The buildings and improvements and furniture and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

<u>Capital Asset Classes</u>	<u>Lives</u>
Buildings and Improvements	8-60
Furniture and Equipment	5-20

Texas City Independent School District

Notes to the Financial Statements

5. *Deferred Outflows/Inflows of Resources*

Deferred outflows of resources represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditures) until then. Deferred inflows of resources represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

The components of the deferred outflows of resources and deferred inflows of resources in the government-wide and fund level financial statements are as follows:

	Statement of Net Position	Balance Sheet - Governmental Funds	
	Governmental Activities	General Fund	Debt Service Fund
Deferred outflows of resources:			
Deferred outflows from pension activities	\$ 6,576,750	\$ -	\$ -
Deferred contributions after the measurement date	2,198,532	-	-
Deferred charge on refunding	4,108,540	-	-
Total deferred outflows of resources	\$ 12,883,822	\$ -	\$ -
Deferred inflows of resources:			
Deferred inflows from pension activities	\$ 1,422,865	\$ -	\$ -
Unavailable property taxes	-	4,000,963	691,906
Total deferred inflows of resources	\$ 1,422,865	\$ 4,000,963	\$ 691,906

Deferred outflows/inflows of resources are amortized as follows:

- Deferred outflows/inflows from pension activities are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan, except for projected and actual earnings differences on investments which are amortized on a closed basis over a 5-year period.
- District contributions after the measurement date are recognized in the subsequent year.
- Deferred charge/gain on refunding is amortized over the shorter of the life of the refunded or refunding debt.
- Property taxes are recognized in the period the amount becomes available.

6. *Net Position Flow Assumption*

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Texas City Independent School District

Notes to the Financial Statements

7. Fund Balance Flow Assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last. The general fund is the only fund that reports a positive unassigned fund balance.

8. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The board of trustees (the Board) is the highest level of decision-making authority for the District that can, by board action or adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the board action or resolution remains in place until a similar action is taken (the board action or adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board has, by policy, authorized the superintendent or designee to assign fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

9. Pension

In government-wide financial statements, pensions are required to be recognized and disclosed using the accrual basis of accounting (see Note 4.C. and the Required Supplementary Information section immediately following the Notes to the Financial Statements), regardless of the amount recognized as pension expenditures on the modified accrual basis of accounting. The District recognizes a net pension liability for the qualified pension plan in which it participates, which represents the excess of the total pension liability over the fiduciary net position of the qualified pension plan, or the District's proportionate share thereof in the case of a cost-sharing multiple-employer plan, measured as of the respective pensions' fiscal year-end. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

Texas City Independent School District

Notes to the Financial Statements

G. Revenues and Expenditures/Expenses

1. *Program Revenues*

Amounts reported as 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. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. *Property Taxes*

Property values are determined by the County Central Appraisal District as of January 1 of each year. Prior to September 1 of each year, the District must adopt its annual budget and as soon thereafter as practicable, shall adopt a tax rate thus creating the tax levy. Property taxes for the current calendar year are levied on approximately October 1 of each year and are payable by January 31 of the following year. Property tax receivables are recorded as of the date levied. Unpaid taxes become delinquent on February 1 and a tax lien on real property is created as of July 1 of each year.

3. *Compensated Absences*

The District's policy permits employees to accumulate earned but unused local leave benefits. Payment for unused local leave days accumulated locally will be made upon separation from the District for employees employed fifteen or more years by the District. All local leave is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have met the District's retirement and State's retirement eligibility requirements.

4. *Proprietary Funds Operating and Nonoperating Revenues and Expenses*

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are interfund services provided. Operating expenses for the internal service fund include payroll costs, professional and contracted services and other operating costs. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

5. *Use of Estimates*

The presentation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

6. *Data Control Codes*

The Data Control Codes refer to the account code structure prescribed by Texas Education Agency (TEA) in the *Financial Accountability System Resource Guide*. TEA requires school districts to display these codes in the financial statements filed with the TEA in order to ensure accuracy in building a statewide data base for policy development and funding plans.

Texas City Independent School District

Notes to the Financial Statements

Note 2. Stewardship, Compliance, and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, *National School Breakfast/Lunch Program* special revenue fund, and debt service fund. All annual appropriations lapse at fiscal year end. The following procedures are followed in establishing the budgetary data reflected in the financial statements.

1. Prior to August 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board.

The appropriated budget is prepared by fund, function, and campus/department. The District's campus/department heads may make transfers of appropriations within a department. Transfers of appropriations between campus/departments require the approval of the District's management. Transfers of appropriations between functions require the approval of the Board. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the function level within a fund.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as restricted, committed, or assigned fund balances as appropriate. The encumbrances do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

As of August 31, 2017, significant encumbrances included in governmental fund balances are as follows:

	Assigned Fund Balance
General Fund	\$ 514,414
Total encumbrances	\$ 514,414

Note 3. Detailed Notes on All Funds

A. Deposits and Investments

Cash Deposits

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas School Depository Act. The depository bank pledges securities which comply with state law and these securities are held for safekeeping and trust with the District's and the depository banks' agent bank. The pledged securities shall be in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

Texas City Independent School District

Notes to the Financial Statements

Investments

The District's investment policy is in accordance with the Public Funds Investment Act, the Public Funds Collateral Act, and federal and state laws. State law and District policy limits credit risk by allowing investing in 1) Obligations of the United States or its agencies which are backed by the full faith and credit of the United States, obligations of the State of Texas or its agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized statistical rating organization (NRSRO) not less than A or its equivalent; 2) Certificates of deposit issued by a broker or depository located in Texas which is insured by the FDIC; 3) Repurchase agreements secured by obligations of the United States or its agencies not to exceed 90 days to maturity from the date of purchase; 4) Bankers acceptances with a stated maturity of 270 days or fewer which are eligible for collateral for borrowing from a Federal Reserve Bank; 5) No-load money market mutual funds which shall be registered with the Securities and Exchange Commission which have an average weighted maturity of less than two years, investments comply with the Public Funds Investment Act and are continuously rated not less than AAA by at least one NRSRO; 6) A guaranteed investment contract (for bond proceeds only) which meets the criteria and eligibility requirements established by the Public Funds Investment Act; 7) Public funds investment pools which meets the requirements of the Public Funds Investment Act; 8) Commercial paper is an authorized investment if it has a stated maturity of 270 days or fewer from the date of its issuance; and is rated not less than A-1 or P-1 or an equivalent rating by at least: two nationally recognized credit rating agencies; or one nationally recognized agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state; 9) Securities lending program as permitted by Government Code 2256.0015.

The District's investment balances and weighted average maturity of such investments are as follows:

	Governmental & Proprietary Funds	Fiduciary Funds	Percent of Total Investments	Weighted Average Maturity (Days)	Credit Risk
Investment measured at amortized cost:					
Investment pool:					
Texpool	\$ 11,132,251	\$ 72,793	34%	30	AAAm*
Investment measured at cost:					
Certificates of deposit	17,061,467	-	52%	498	Not rated**
Investments measured at fair value, not subject to level reporting:					
Money market mutual fund	4,770,411	-	14%	1	Not rated
Total	\$ 32,964,129	\$ 72,793	100%		
Portfolio Weighted Average Maturity				268	

*Standard & Poor's Rating

**Certificates of deposit is collateralized and/or insured.

Certificates of deposit that are non-negotiable are reported at cost and are not subject to the fair value hierarchy reporting.

Investment pool is measured at amortized cost. Such investment is not subject to the fair value hierarchy reporting.

Money Market mutual fund is measured at fair value, i.e. the net asset value. Such investment is not subject to the fair value hierarchy reporting.

Texas City Independent School District

Notes to the Financial Statements

The Texpool investment pool is an external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, the investment pool must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity and diversification requirements within the investment pool. The investment pool transacts at a net asset value of \$1.00 per share, has weighted average maturity of 60 days or less and weighted average life of 120 days or less, investments held that are highly rated by nationally recognized statistical rating organization, has no more than 5% of portfolio with one issuer (excluding US government securities), and can meet reasonably foreseeable redemptions. Texpool has a redemption notice period of one day and no maximum transaction amounts. The investment pool's authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities market, general banking moratorium or national or state emergency that affects the pool's liquidity.

The *Deutsche Government and Agency Securities Portfolio*, a money market mutual fund, is measured at fair value. The portfolio pursues its objective by investing in U.S. Treasury bills, notes, bonds and other obligations issued or guaranteed by the U.S. government, its agencies or instrumentalities and repurchase agreements backed by these securities. The fund has same day liquidity.

Credit Risk

At year end, the District's investments were rated as noted in the table above. Texpool is duly chartered and administered by the State Comptroller's Office. The District also invests in certificates of deposits which are insured or collateralized. The District invests in a mutual fund which investments consist primarily of cash and government agencies.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates may adversely affect the value of the investments. The District monitors interest rate risk utilizing weighted average maturity analysis and specific identification. In accordance with its investment policy, the District reduces its exposure to declines in fair values by limiting the weighted average maturity of any internally created pool to no more than 180 days, and any other individual investment not to exceed three years from the time of purchase, unless specifically authorized by the Board of Trustees.

Concentration of Credit Risk

The District's investment policy does not limit an investment in any one issuer. The investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from over-concentration of assets in a specific class of investments, specific maturity, or specific issuer.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of August 31, 2017, District's banks' balances of \$21,623,234 were not exposed to custodial credit risk because such balances were insured and collateralized with securities held by the District's agent in the District's name.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. District policy requires investments to be in the District's name or held by the District's agent in the District's name. The District is not exposed to custodial risk due to the investments are in the District's name or held by the District's agent in the District's name.

Texas City Independent School District

Notes to the Financial Statements

B. Receivables

Tax revenues of the general and debt service fund are reported net of estimated uncollectible amounts. Total change in uncollectible amounts related to revenues of the current period increased (decreased) revenues as follows:

Change in uncollectibles related to General Fund property taxes	\$ 3,247,229
Change in uncollectibles related to Debt Service property taxes	439,478
Total change in uncollectibles of the current fiscal year	<u>\$ 3,686,707</u>

Approximately 84% of the outstanding balance of property taxes receivable is not anticipated to be collected within the next year.

A concentration of risk exists for local revenue sources since approximately 34% of the District's taxable property value is attributed to two taxpayers. Similarly, the District's ten largest taxpayers approximate 53% of the total taxable value of the District.

C. Interfund Receivables, Payables, and Transfers

1. Receivables/Payables

The composition of interfund balances as of August 31, 2017, is as follows:

<u>Funds</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental funds:		
General Fund	\$ 930,607	\$ 90,024
Debt Service Fund	-	-
Capital Project Funds	-	-
Other governmental funds - nonmajor	-	930,607
Proprietary Fund:		
Internal Service Fund	90,024	-
Totals	<u>\$ 1,020,631</u>	<u>\$ 1,020,631</u>

Interfund balances consist of short-term lending/borrowing arrangements that result primarily from payroll and other regularly occurring charges that are primarily paid by one fund and then charged back to the appropriate other fund. Additionally, some lending/borrowing may occur between two or more nonmajor governmental funds.

Texas City Independent School District

Notes to the Financial Statements

2. Transfers

Interfund transfers are defined as "flows of assets without equivalent flow of assets in return and without a requirement for repayment." Transfers are the use of funds collected in one fund and are transferred to finance various programs accounting for in other funds. The following is a summary of the District's transfers for the fiscal year ended August 31, 2017.

Transfer Out	Transfers In	Amount
General Fund	Capital Projects Fund	\$ 5,907
General Fund	Nonmajor governmental funds	191
Nonmajor governmental funds	General Fund	204,929
Totals		\$ 211,027

The transfers from the general fund to capital projects fund and nonmajor governmental funds were made to supplement projects or operations. The transfers from the nonmajor governmental funds to the general fund were made to distribute remaining fund balance of a local fund.

D. Capital Assets

Capital asset activity for the fiscal year ended August 31, 2017 was as follows:

	Beginning Balance	Additions	Retirements, Transfers, and Adjustments	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land and improvements	\$ 5,072,706	\$ -	\$ -	\$ 5,072,706
Construction in progress	4,372,598	6,097,195	(10,469,793)	-
Total capital assets, not being depreciated	9,445,304	6,097,195	(10,469,793)	5,072,706
Capital assets, being depreciated:				
Buildings and improvements	248,861,713	-	(9,344,370)	239,517,343
Furniture and equipment	17,863,769	2,139,803	(2,556,380)	17,447,192
Total capital assets, being depreciated	266,725,482	2,139,803	(11,900,750)	256,964,535
Less accumulated depreciation for:				
Buildings and improvements	(91,040,515)	(4,758,063)	20,484,796	(75,313,782)
Furniture and equipment	(10,061,415)	(1,250,012)	1,911,775	(9,399,652)
Total accumulated depreciation	(101,101,930)	(6,008,075)	22,396,571	(84,713,434)
Total capital assets, being depreciated, net	165,623,552	(3,868,272)	10,495,821	172,251,101
Governmental activities capital assets, net	\$ 175,068,856	\$ 2,228,923	\$ 26,028	\$ 177,323,807

Texas City Independent School District

Notes to the Financial Statements

Depreciation expense was charged to functions/programs of the District as follows:

Governmental activities:	
11 Instruction	\$ 3,767,505
12 Instructional resources and media services	77,455
13 Curriculum and instructional staff development	59,090
21 Instructional leadership	87,790
23 School leadership	446,047
31 Guidance, counseling, and evaluation services	217,918
32 Social work services	13,244
33 Health services	59,408
34 Student transportation	186,684
35 Food services	154,733
36 Extracurricular activities	138,247
41 General administration	174,888
51 Plant maintenance and operations	487,612
52 Security and monitoring services	44,444
53 Data processing services	82,304
61 Community services	10,706
Total depreciation expense-governmental activities	\$ 6,008,075

E. Long-term Liabilities

The District's long-term liabilities consist of bond indebtedness, note payable, workers' compensation, compensated absences, and net pension liability. The current requirements for general obligation bonds principal and interest expenditures are accounted for in the debt service fund. The current requirements for workers' compensation claims are accounted for in the internal service fund. Other long-term liabilities are generally liquidated with resources of the general fund.

Changes in Long-term Liabilities

Long-term liability activity for the fiscal year ended August 31, 2017, was as follows:

	Beginning Balance	Additions (Adjustments)	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 117,100,000	\$ 8,900,000	\$ (16,260,000)	\$ 109,740,000	\$ 7,400,000
Deferred amounts:					
For issuance premiums (CIB's)	9,969,424	977,790	(1,130,095)	9,817,119	-
Total bonds payable, net	127,069,424	9,877,790	(17,390,095)	119,557,119	7,400,000
Notes payable	4,536,986	-	(1,024,759)	3,512,227	1,029,288
Workers' compensation	717,541	(232,985)	(69,764)	414,792	150,000
Compensated absences	341,256	780,473	(261,725)	860,004	163,985
Net pension liability	19,496,417	2,925,883	(2,153,369)	20,268,931	-
Governmental activities					
Long-term liabilities	\$ 152,161,624	\$ 13,351,161	\$ (20,899,712)	\$ 144,613,073	\$ 8,743,273

The internal service fund predominantly serves the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities.

Texas City Independent School District

Notes to the Financial Statements

General Obligation Bonds

The District issues general obligation bonds to provide funds for the construction and equipment of school buildings (BLDG) and to refund general obligation bonds (REF). General obligation bonds are direct obligations and pledge the full faith and credit of the District. These bonds are issued as 9-22 year current interest (CIB) with various amounts of principal maturing each year. Rates may be fixed or variable.

The following is a summary of changes in the general obligation bonds for the fiscal year:

Series	Interest Rate	Original Issue	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance
2003 BLDG & REF	4.38-5.38%	\$ 20,720,000	2025	\$ 270,000	\$ -	\$ (25,000)	\$ 245,000
2008 BLDG	3.50-5.00%	54,565,000	2017	2,540,000	-	(2,540,000)	-
2009 BLDG	3.50-5.00%	28,910,000	2030	24,570,000	-	(10,450,000)	14,120,000
2010A BLDG	2.00-5.00%	25,810,000	2030	21,045,000	-	(1,125,000)	19,920,000
2011 BLDG	2.00-4.00%	8,845,000	2030	6,745,000	-	(385,000)	6,360,000
2011 REF	2.00-5.00%	19,410,000	2025	18,175,000	-	(1,660,000)	16,515,000
2015 REF	2.00-5.00%	44,050,000	2030	43,755,000	-	(75,000)	43,680,000
2017 REF	3.00-4.00%	8,900,000	2030	-	8,900,000	-	8,900,000
Totals				<u>\$ 117,100,000</u>	<u>\$ 8,900,000</u>	<u>\$ (16,260,000)</u>	<u>\$ 109,740,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending August 31,	Principal	Interest	Total Requirements
2018	\$ 7,400,000	\$ 4,554,535	\$ 11,954,535
2019	7,645,000	4,309,792	11,954,792
2020	7,930,000	4,030,289	11,960,289
2021	8,230,000	3,729,653	11,959,653
2022	8,605,000	3,343,877	11,948,877
2023	8,950,000	3,006,815	11,956,815
2024	9,345,000	2,592,615	11,937,615
2025	9,810,000	2,144,640	11,954,640
2026	7,640,000	1,739,690	9,379,690
2027	8,000,000	1,379,150	9,379,150
2028	8,370,000	1,006,950	9,376,950
2029	8,755,000	624,800	9,379,800
2030	9,060,000	318,050	9,378,050
Totals	<u>\$ 109,740,000</u>	<u>\$ 32,780,856</u>	<u>\$ 142,520,856</u>

As of August 31, 2017, the District did not have any authorized but unissued bonds.

Texas City Independent School District

Notes to the Financial Statements

The District defeased certain bonds through the issuance of new bonds and placed the proceeds in an irrevocable trust to provide for all future debt service payments of the old bonds. Securities being utilized to repay the refinanced debt as it becomes due consist solely of U.S. government obligations. Accordingly, the trust account securities and the liability for the defeased bonds are not included in the District's basic financial statements. At August 31, 2017, the following outstanding bonds are considered defeased:

2009 General obligation bonds (maturing 2026-2030, callable August 15, 2019)	\$ 9,155,000
Total	<u><u>\$ 9,155,000</u></u>

In April 2017, the District issued \$8,900,000 of refunding bonds. The proceeds of the refunding bonds were used to legally defease \$9,155,000 of previously issued District bonds in order to lower its overall debt services requirements. The reacquisition price exceeded the net carrying value of the old debt by \$433,014. The amount is netted against the new debt and amortized over the life of the new debt. The refunding resulted in a debt service savings of \$1,400,160 and an economic gain of \$1,258,619.

Note Payable

In 2016, the District issued a maintenance tax note to provide funds for (i) acquiring school buses, (ii) purchasing personal property, (iii) making various capital improvements and renovations to existing District facilities, and (iv) payment of professional services including attorneys, financial advisors, other professionals and fiscal agents relating to the aforementioned projects. The maintenance tax note is secured by the proceeds of a continuing, direct annual ad valorem tax levied for maintenance purposes by the District.

The District also makes payments for a note with the State Energy Conservation Office which funded energy efficiency programs in the prior years.

The following is a summary of changes in the maintenance tax note and loan payable during the fiscal year:

Description	Interest Rate	Original Issue	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance
2016 Maintenance Tax Note	0.75%-1.35%	4,050,000	2021	\$4,050,000	\$ -	\$ (800,000)	\$3,250,000
2012 SECO Note	2.00%	1,450,752	2019	486,986	-	(224,759)	262,227
Totals				<u><u>\$4,536,986</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (1,024,759)</u></u>	<u><u>\$3,512,227</u></u>

Requirements for notes payable are as follows:

Year Ending August 31	Principal	Interest	Total Requirements
2018	\$ 1,029,288	\$ 41,011	\$ 1,070,299
2019	842,939	29,484	872,423
2020	815,000	20,510	835,510
2021	825,000	11,138	836,138
Totals	<u><u>\$ 3,512,227</u></u>	<u><u>\$ 102,143</u></u>	<u><u>\$ 3,614,370</u></u>

Texas City Independent School District
Notes to the Financial Statements

F. Fund Balance

Other committed fund balance includes the following commitments of funds:

Nonmajor fund - campus activity	\$ 994,560
Total other committed fund balance	\$ 994,560

Other assigned fund balance includes the following assignments of funds:

General fund - catastrophic events	\$ 7,000,000
General fund - campus activity	692,811
General fund - purchases on order	514,414
Total other assigned fund balance	\$ 8,207,225

G. Revenues from Local and Intermediate Sources

During the current year, revenues from local and intermediate sources of the governmental funds consisted of the following:

	General	Debt Service	Capital Projects	Nonmajor Funds	Totals
Property taxes	\$ 52,930,609	\$ 12,197,475	\$ -	\$ -	\$ 65,128,084
Extracurricular student activities	157,639	-	-	1,618,700	1,776,339
Foreign trade zone tax equivalency payment	1,712,858	-	-	-	1,712,858
Food service	-	-	-	859,564	859,564
Investment earnings	257,985	84,607	-	4,986	347,578
Other	390,439	-	266,252	-	656,691
Totals	\$ 55,449,530	\$ 12,282,082	\$ 266,252	\$ 2,483,250	\$ 70,481,114

Texas City Independent School District

Notes to the Financial Statements

Note 4. Other Information

A. Risk Management

Property/Liability

The District is exposed to various risks of loss related to property/liability losses and tax-assessor bond for which the District carries commercial insurance. In addition, the District participates in the Texas Association of School Boards Risk Management Fund (Fund) for liability, vehicle coverage, and privacy and information security insurance. The Fund was created to formulate, develop and administer a program of modified self-funding for the Fund's membership, obtain competitive costs for coverages and develop a comprehensive loss control program. The District pays an annual premium to the Fund for its liability coverage and transfers the risk of loss to the Fund. The District's agreement with the Fund provides that the Fund will be self-sustaining through member premiums and may provide, through commercial companies, reinsurance contracts. In the event that the Fund was to discontinue operations, the member districts would be responsible for any eligible claims not funded by the Fund. In addition, 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.

Health Care Coverage

During the year ended August 31, 2017, employees of the District were covered by TRS-Active Care (the Plan) a statewide health coverage program for Texas public education employees, implemented by the Teacher Retirement System of Texas (TRS). The District paid premiums of \$177 per month, per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to the TRS. The legislature created the Plan for public school employee group health coverage in 2002-03, requiring all Districts with fewer than 500 employees to participate in the Plan.

Workers' Compensation

During the year ended August 31, 2017, employees of the Texas City Independent School District were provided workers' compensation benefits which were self-funded from accumulated assets provided directly by the District, the plan sponsor. The District is solely responsible for the cost of all claims, both reported and unreported. All claims were submitted, processed, and approved by a third party administrator acting as an agent for the District. The plan was documented by contractual agreement. The District was protected against unanticipated, catastrophic individual or aggregate loss by stop-loss coverage carried through Midwest Employers Casualty Company, which limited annual claims paid from the Plan for the year ended August 31, 2017, to \$350,000 per occurrence with a maximum level of indemnity of \$5,000,000.

Premiums are paid into the internal service fund by the other funds and are available to pay claims, claim reserves, and administrative costs of the program.

Texas City Independent School District

Notes to the Financial Statements

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities also include an estimated amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from stop-loss or subrogation, are another component of the claims liability estimate. An excess coverage insurance policy covers individual claims in excess of \$350,000 up to the statutory limits for any given claim. There were no significant reductions in insurance coverage from the prior year. Settlements have not exceeded coverages for each of the past two fiscal years. Changes in the balances of claims liabilities during the past two years are as follows:

	Year Ended 8/31/2017	Year Ended 8/31/2016
Unpaid claims, beginning of fiscal year	\$ 717,541	\$ 660,929
Incurred claims, including provision (adjustment) for IBNR	(232,985)	142,670
Claim payments	(69,764)	(86,058)
Unpaid claims, end of fiscal year	\$ 414,792	\$ 717,541

B. Litigation and Contingencies

The District is a defendant in various lawsuits arising principally in the normal course of operations. In the opinion of the District's management, the potential losses, after insurance coverage, on all allegations, claims, and lawsuits will not have a material effect on the District's financial position, results of operations or liquidity.

The District participates in a number of federal and state financial assistance programs. Although the District's grant programs have been audited in accordance with the provisions of the Single Audit Act through August 31, 2017, these programs are subject to financial and compliance audits by the grantor agencies. The District is also subject to audit by the TEA of the attendance data upon which payments from the agency are based. These audits could result in questioned costs or refunds to be paid back to the granting agencies.

C. Defined Benefit Pension Plan

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 the Teacher Retirement System of Texas (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.

Texas City Independent School District

Notes to the Financial Statements

Pension Plan Fiduciary Net Position

Detailed information about the TRS'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, TX, 78701-2698; or by calling (512) 542-6592.

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 percent (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 above.

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 2015 thru 2017. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for Plan fiscal year 2015. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017. Rates for such plan fiscal years are as follows:

	2017	2016	2015
Member	7.7%	7.2%	6.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%	6.8%
Employers/District	6.8%	6.8%	6.8%

The contribution amounts for the District's fiscal year 2017 are as follows:

District contributions	\$ 2,198,532
Member contributions	4,639,768
NECE on-behalf contributions (state)	2,667,755

Texas City Independent School District

Notes to the Financial Statements

Contributors to the plan include members, employers and the State of Texas as the only non-employer 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 General Appropriations Act (GAA).

As the non-employer 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 Teacher Retirement System 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 (OASDI) 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.

Actuarial Assumptions

The total pension liability in the August 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Valuation date	August 31, 2016
Actuarial cost method	Individual entry age normal
Asset valuation method	Market value
Single discount rate	8.00%
Long-term expected Investment rate of return	8.00%
Municipal bond rate*	N/A*
Last year ending August 31 in the 2016 to 2115 projection period (100 years)	2115
Inflation	2.50%
Salary increases including inflation	3.50% to 9.50%
Benefit changes during the year	None
Ad hoc post-employment benefit changes	None

*If a municipal bond rate was to be used, the rate would be 2.84% as of August 2016 (i.e. the weekly rate closest to but not later than the Measurement Date). The source for the rate is the Federal Reserve Statistical Release H.15, citing the Bond Buyer Index of general obligation bonds with 20 years to maturity and an average AA credit rating.

Texas City Independent School District

Notes to the Financial Statements

The actuarial methods and assumptions are primarily based on a study of actual experience for the four year period ending August 31, 2014 and adopted on September 24, 2015.

Discount Rate

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. 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 non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8.0%. 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 geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2016 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.	18.0%	4.6%	1.0%
Non-U.S. developed	13.0%	5.1%	0.8%
Emerging markets	9.0%	5.9%	0.7%
Directional hedge funds	4.0%	3.2%	0.1%
Private equity	13.0%	7.0%	1.1%
Stable value:			
U.S. treasuries	11.0%	0.7%	0.1%
Absolute return	0.0%	1.8%	0.0%
Stable value hedge funds	4.0%	3.0%	0.1%
Cash	1.0%	-0.2%	0.0%
Real return:			
Global inflation linked bonds	3.0%	0.9%	0.0%
Real assets	16.0%	5.1%	1.1%
Energy and natural resources	3.0%	6.6%	0.2%
Commodities	0.0%	1.2%	0.0%
Risk parity:			
Risk parity	5.0%	6.7%	0.3%
Inflation expectation			2.2%
Alpha			1.0%
Totals	100.0%		8.7%

* The expected contribution to returns incorporates the volatility drag resulting from the conversion between arithmetic and geometric mean returns.

Texas City Independent School District

Notes to the Financial Statements

Discount Rate Sensitivity Analysis

The following table presents the District's proportionate share of net pension liability for TRS calculated using the discount rate of 8.0%, as well as the District's proportionate share of the respective net pension liability if it was calculated using a discount rate that is 1-percentage-point lower (7%) or 1-percentage-point higher (9%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
TRS	\$ 31,369,471	\$ 20,268,931	\$ 10,853,422

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At August 31, 2017, the District reported a liability of \$20,268,931 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 are as follows:

District's proportionate share of the net pension liability	\$ 20,268,931
State's proportionate share of the net pension liability associated with the district	28,937,450
Total	<u>\$ 49,206,381</u>

The net pension liability was measured as of August 31, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2015 through August 31, 2016.

At August 31, 2016, the employer's proportion of the collective net pension liability was .0536378% which was an decrease of 0.0015168% from its proportion measured as of August 31, 2015.

Changes Since the Prior Actuarial Valuation

There were no changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

For the fiscal year ended August 31, 2017, the District recognized pension expense of \$3,996,908 and revenue of \$3,003,018 for support provided by the State.

Texas City Independent School District

Notes to the Financial Statements

At August 31, 2017, 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 Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 317,812	\$ 605,219
Changes of assumptions	617,760	561,828
Net difference between projected and actual earnings on pension plan investments	1,716,331	-
Changes in proportion and differences between district contributions and proportionate share of contributions (cost-sharing plan)	3,924,847	255,818
District contribution after measurement date	2,198,532	-
Totals	\$ 8,775,282	\$ 1,422,865

\$2,198,532 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2018. Other amounts reported as deferred outflows of resources (deferred inflows of resources) related to pensions will be recognized in pension expense as follows:

Year Ending August 31:

2018	\$ 899,920
2019	899,920
2020	1,994,680
2021	815,805
2022	487,999
Thereafter	55,561
Totals	\$ 5,153,885

D. School District Retiree Health Plan

Plan Description. The Texas City Independent School District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The Teacher Retirement System of Texas issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS website at www.trs.state.tx.us under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701.

Texas City Independent School District

Notes to the Financial Statements

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates and amounts are shown in the table below for fiscal years 2017-2015.

Contribution Rates

Year	Active Member		State		School District	
	Rate	Amount	Rate	Amount	Rate	Amount
2017	0.65%	\$ 391,669	1.00%	\$ 537,219	0.55%	\$ 331,412
2016	0.65%	\$ 331,441	1.00%	\$ 460,309	0.55%	\$ 355,406
2015	0.65%	\$ 326,457	1.00%	\$ 447,612	0.55%	\$ 337,950

In addition, the State of Texas contributed \$179,749, \$110,786, and \$155,031 in 2017, 2016, and 2015, respectively, for on-behalf payments for Medicare Part D and Early Retiree Reinsurance Program.

For the current fiscal year and each of the past two years, the District's actual contributions were equal to 100 percent of the required contributions. The contributions made by the State are on behalf of the District and have been recorded in the governmental funds' financial statements of the District as both state revenues and expenditures. These contributions are the legal responsibility of the State.

E. Nonmonetary Transactions

During 2017, the District received textbooks purchased by the State of Texas for the benefit of the District for a purchase price of \$352,371. The District receives the textbooks as part of state funding for textbook allotment. The textbooks have been recorded in the amount of \$352,371 in a special revenue fund as both state revenues and expenditures, which represents the amount of consideration given by the State of Texas.

F. Joint Venture-Shared Service Arrangement

Shared Service Arrangements:

Galveston County Transforming Lives Cooperative Program

The District participates in a shared service arrangement for the Galveston County Transforming Lives Cooperative with other school districts. The District does not account for revenues or expenditures in these programs and does not disclose them in these financial statements. The revenues and expenditures are disclosed in the financial statements of the fiscal agent, Dickinson I.S.D. The District neither has a joint ownership interest in capital assets purchased by the fiscal agent, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for all financial activities of the shared service arrangement.

Interlocal Agreement:

The District participates in an interlocal agreement with Harris County Department of Education for the purpose of providing educational and related services for eligible students with disabilities of the District. The expenditures attributable to the District's participation totaled \$211,500 for the fiscal year.

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Financial Advisory Services

Provided By:

SAMCO CAPITAL MARKETS, INC.