

OFFICIAL STATEMENT

November 10, 2020

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 the owners thereof. See "TAX MATTERS" herein.

\$8,535,000

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Galveston County, Texas)
UNLIMITED TAX REFUNDING BONDS, SERIES 2020A

Dated Date: November 15, 2020

Due: February 15, as shown on following page

The Texas City Independent School District Unlimited Tax Refunding Bonds, Series 2020A (the "Bonds") are being issued pursuant to the Texas Constitution and general laws of the State of Texas, particularly Chapter 1207, Texas Government Code, as amended ("Chapter 1207"), and the order ("Order") adopted on October 13, 2020 by the Board of Trustees (the "Board") of the Texas City Independent School District (the "District"). As permitted by Chapter 1207, the Board, in the Order, delegated the authority to certain District officials (each an "Authorized Official") to execute an approval certificate (the "Approval Certificate") establishing the final sale terms for the Bonds. The Approval Certificate was executed by an Authorized Official on November 10, 2020. (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 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 August 15, 2021 and semiannually thereafter on each February 15 and August 15 until stated maturity. 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) refunding a portion of the District's outstanding indebtedness identified in Schedule I hereto (the "Refunded Bonds") for debt service savings, and (ii) paying the costs of issuing the Bonds. (See "THE BONDS – Authorization and Purpose".)

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"), 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, Austin, Texas ("Bond Counsel"). The legal opinion of Bond Counsel will be printed on, or attached to, the Bonds. (See "APPENDIX C – Form of Legal Opinion of Bond Counsel".) It is expected that the Bonds will be available for delivery through DTC on or about December 16, 2020 (the "Delivery Date").

\$8,535,000
TEXAS CITY INDEPENDENT SCHOOL DISTRICT
Unlimited Tax Refunding Bonds, Series 2020A

MATURITY SCHEDULE

CUSIP ⁽¹⁾ No. Prefix: 882270

Stated				CUSIP
Maturity	Principal	Interest	Initial	No.
<u>2/15</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>Suffix ⁽¹⁾</u>
2022	\$ 2,055,000	2.000%	0.300%	WH0
2023	2,100,000	2.000%	0.360%	WJ6
2024	2,150,000	3.000%	0.390%	WK3
2025	2,230,000	4.000%	0.460%	WL1

(Interest to accrue from the Dated Date)

The Bonds are not subject to redemption prior to stated maturity. (See "THE BONDS – Redemption".)

⁽¹⁾ CUSIP numbers are included solely for the convenience of owners 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 Markets 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 are 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
Nakisha Paul President, District 3	3	2023	Nursing Information Tech Coordinator
Dr. Nelson Juarez Trustee, At-Large	2	2021	Optometrist
Melba Anderson Trustee, District 1	19	2022	Accountant/Customer Service
Maple Pratt Trustee, District 2	3	2022	Retired Educator
Bryan Thompson Trustee, District 4	9	2022	Sr. HES Safety Specialist/Fire Chief
Dickey Campbell Trustee, District 5	6	2023	Regional Loan President
Hal Biery Trustee, District 6	12	2021	Retired

ADMINISTRATION

Name	Position	Length of Service With the District
Dr. Melissa Duarte	Superintendent	2 months
Ms. Margaret Lee	Assistant Superintendent of Business and Operations	6 years
Ms. Adriana Lyle	Secretary to the Board	29 years

CONSULTANTS AND ADVISORS

Bond Counsel Norton Rose Fulbright US LLP
Austin, 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

This Official Statement, which includes the cover page, Schedule I 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 Purchaser has provided the following sentence for inclusion in this Official Statement. The Purchaser has reviewed the information in the Official Statement pursuant to their responsibilities to investors under the federal securities laws, but the Purchaser does not guarantee the accuracy or completeness of such information.

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 or the Purchaser. 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 "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – PSF Continuing Disclosure Undertaking" and "CONTINUING DISCLOSURE OF INFORMATION" for a description of the Texas Education Agency's ("TEA") and the District's respective undertakings 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 THIS OFFERING, THE PURCHASER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM THE FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS.

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 purchaser of the Bonds. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING SCHEDULE I AND ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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The cover page, subsequent pages hereof, Schedule I, 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 and Galveston County."
The Bonds	The District's Unlimited Tax Refunding Bonds, Series 2020A (the "Bonds") are being issued in the principal amount of \$8,535,000 pursuant to the Texas Constitution and general laws of the State of Texas, Chapter 1207, Texas Government Code, as amended ("Chapter 1207"), and the order (the "Order") adopted on October 13, 2020 by the Board. Proceeds from the sale of the Bonds will be used for (i) refunding a portion of the District's outstanding indebtedness identified in Schedule I hereto (the "Refunded Bonds") for debt service savings and (ii) paying the costs of issuing the Bonds. (See "THE BONDS – Authorization and Purpose".) As permitted by Chapter 1207, the Board, in the Order, delegated the authority to certain District officials (each, an "Authorized Official") to execute an approval certificate (the "Approval Certificate") establishing the final sales terms for the Bonds. The Approval Certificate was executed by an Authorized Official on November 10, 2020. (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 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.)
No Redemption	The Bonds are not subject to redemption prior to stated maturity.
Tax Matters	In the opinion of Norton Rose Fulbright US LLP, Austin, 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. (See "TAX MATTERS" and "APPENDIX C - Form of Legal Opinion of Bond Counsel" herein.)
Ratings	S&P Global Ratings ("S&P") has assigned municipal bond ratings of "AAA" to the Bonds based upon the Permanent School Fund Guarantee. (See "OTHER PERTINENT INFORMATION - Ratings" and the "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.) The presently outstanding unenhanced tax-supported debt of the District is rated "AA" by S&P.
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 refunding bonds for debt service savings.
Delivery	When issued, anticipated on or about December 16, 2020.
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, Austin, Texas.

OFFICIAL STATEMENT

relating to

\$8,535,000

TEXAS CITY INDEPENDENT SCHOOL DISTRICT

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

UNLIMITED TAX REFUNDING BONDS, SERIES 2020A

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 \$8,535,000 Unlimited Tax Refunding Bonds, Series 2020A (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, particularly Chapter 1207, as amended, Texas Government Code ("Chapter 1207"), and an order (the "Order") adopted by the District's Board of Trustees (the "Board") on October 13, 2020. (See "THE BONDS - Authority for Issuance" herein.) As permitted by Chapter 1207, the Board, in the Order, delegated the authority to certain District officials (each an "Authorized Official") to execute an approval certificate (the "Approval Certificate") establishing the final sales terms for the Bonds. The Approval Certificate was executed by an Authorized Official on November 10, 2020. (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. The adjustments to the District's Tier One allocation are recorded in the District's general fund and amounted to approximately \$18 million per year thus far. Such adjustments are scheduled to end following the fiscal year ending August 31, 2021. Furthermore, for the same five-year period 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. The District receives approximately \$3.5 million per year for this purpose, which the District has used to date for making early bond payments. In accordance, with GASB Statement No. 69 (Government Combinations and Disposals of Government Operations), beginning with the fiscal year ending August 31, 2016, La Marque ISD's assets, deferred outflows, liabilities and deferred inflows and result of operations have been 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).

Weather Events and Impact of Hurricane Harvey... The District is located near the Texas Gulf Coast. Land located in this area is susceptible to high winds, heavy rain and flooding caused by rain events, hurricanes, tropical storms, and other tropical disturbances. If a weather-related event were to significantly damage all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase the District's tax rate. Further, there can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or property owners will choose to carry flood insurance), any insurance company will fulfill its obligations to provide insurance proceeds or that insurance proceeds will be used to rebuild or repair damaged improvements within the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a period of time in which assessed values within the District would be adversely affected.

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 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, 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 improvements and renovation after the annexation of La Marque ISD into the District, but the inclusion of the damages from Hurricane Harvey resulted in the requirement of national and local code upgrades to these facilities. After considering the required code upgrades, architects estimated that two of the damaged campuses, La Marque Primary School and La Marque Elementary School, would be less expensive to build new than to renovate and incorporate the required code upgrades.

Beginning in the 2018-19 school year and until construction is completed 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 constructed two portable building campuses on vacant property owned by the District in the City of La Marque where La Marque Primary and La Marque Elementary students will attend until construction is completed for the new campuses.

The District continues to house displaced students in temporary classrooms. Construction began on the two elementary schools with plans to move into the new buildings in January 2021. The District entered an option contract for the purchase of land and is currently in the due diligence phase to determine if construction of the middle school is feasible for the selected site.

The District has received \$15.9 million from insurance, \$4.7 million from FEMA, \$0.5 million in State grants, and \$2.8 million from the Foundation School Program towards Hurricane Harvey recovery. The District has not reached a final settlement with either insurance or FEMA and continues to work towards final settlement with both.

The 2018 and 2019 actual taxable values received from Galveston County Appraisal District show increases in property values overall. Hurricane Harvey did not have a materially adverse effect on the District's ability to pay debt service on its then-outstanding obligations secured by an unlimited ad valorem tax.

INFECTIOUS DISEASE OUTBREAK – COVID-19

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been characterized as a pandemic (the "Pandemic") by the World Health Organization and is currently affecting many parts of the world, including the United States and the State of Texas (the "State"). On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States and on March 13, 2020, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency. Subsequently, the President's Coronavirus Guidelines for America and the United States Centers for Disease Control and Prevention called upon Americans to take actions to slow the spread of COVID-19 in the United States.

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the Pandemic which has been subsequently extended and is still in effect. In addition certain local officials have also declared a local state of disaster. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency (including TEA) that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has issued a number of executive orders relating to COVID-19 preparedness and mitigation. Due to a previous spike in COVID-19 cases, prior executive orders modified the phased reopening of businesses in Texas, subject to further restrictions in the Governor's discretion. These include, for example, the issuance on September 17, 2020 of Executive Order GA-30, which, among other things, provided further guidelines for the reopening of businesses and the maximum threshold level of occupancy related to such establishments. Certain businesses, such as cybersecurity services, child care services, local government operations, youth camps, recreational programs, schools, and religious services, do not have the foregoing limitations. The Governor's order also states, in providing or obtaining services, every person (including individuals, businesses, and other legal entities) should use good-faith efforts and available resources to follow the minimum standard health protocols. Executive Order GA-30 remains in place until amended, rescinded, or superseded by the Governor. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <https://gov.texas.gov/coronavirus>. Neither the information on nor accessed through such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement.

On September 2, 2020, TEA issued updated public planning health guidance related to instructional and operational flexibilities in planning for the 2020-2021 school year to address on campus and virtual instruction and non-UIL extracurricular sports and activities. Previous guidance addressed administrative and extracurricular activities and school visits. Within the guidance, TEA instructed schools to provide parental and public notices of the school district's mitigation plan to reduce COVID-19 within their facilities and confirmed the attendance requirements for promotion (which may be completed by virtual education). The guidance further detailed screening mechanisms, identification of symptoms, use of non-classroom spaces, and procedures for confirmed, suspected, and exposed cases. Certain actions, such as notification to health department officials and closure of hightraffic areas, will be required in the instance of confirmed cases. Schools are highly encouraged to engage in mitigation practices promoting health and hygiene consistent with CDC guidelines (including social distancing, facial coverings, frequent disinfecting of all areas, limiting visitations, etc.) to avoid unnecessary exposure to others to prevent the spread of COVID-19.

The TEA recently advised districts that for the 2020-2021 school year district funding will return to being based on ADA calculations requiring attendance to be taken. However, the TEA is crafting an approach for determining ADA that provides districts with several options for determining daily attendance. These include, remote synchronous instruction, remote asynchronous instruction, on campus instruction, and the Texas Virtual Schools Network. To stabilize funding expectations, districts will be provided an ADA grace period for the first two six weeks of Foundation School Program reporting. Specifically, if ADA counts during those three six weeks are more than 1% less than the first three six weeks of the 2019- 2020 school year, the first two six weeks will be excluded from 2020-21 ADA calculations, subject to some restrictions. In addition to this grace period, districts will also have an attendance grace period for remote asynchronous instruction plan approval, which continues through the end of the third six weeks. Additional information regarding the plans for the 2020-2021 school year may be obtained from the TEA. Following the initial grace period, the return to funding based on ADA calculations requiring attendance to be taken during the Pandemic may have a negative impact on revenues available to the District for operations and maintenance if students do not take part in the instruction options made available by the District.

The full extent of the ongoing impact of COVID-19 on the District's longer-term operational and financial performance will depend on future developments, many of which are outside of its control, including the effectiveness of the mitigation strategies discussed above, the duration and spread of COVID-19, and future governmental actions, all of which are highly uncertain and cannot be predicted. The District continues to monitor the spread of COVID-19 and is working with local, state, and national agencies to address the potential impact of the Pandemic upon the District. While the potential impact of the Pandemic on District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District's operations and financial condition.

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide. These negative impacts may reduce or negatively affect property values within the District. The financial and operating data contained herein are the latest available but are for the dates and the periods stated herein, which are for periods prior to the economic impact of the Pandemic and efforts to slow it. It is unclear at this time what effect, if any, COVID-19 and resulting economic disruption may have on future assessed values or the collection of taxes, either because of delinquencies or collection and valuation relief resulting from the declared emergency. The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District's share of operations and maintenance expenses payable from ad valorem taxes.

Additionally, state funding of District operations and maintenance in future fiscal years could be adversely impacted by the negative effects on economic growth and financial markets resulting from the Pandemic as well as ongoing disruptions in the global oil markets. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM".

The value of the PSF guarantee could also be adversely impacted by ongoing volatility in the diversified global markets in which the PSF is invested. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – Infectious Disease Outbreak."

THE BONDS

Authorization and Purpose

The Bonds are being issued in the principal amount of \$8,535,000 pursuant to the Texas Constitution and general laws of the State of Texas (the "State"), particularly Chapter 1207, and the Order. Proceeds from the sale of the Bonds will be used for (i) refunding a portion of the District's outstanding indebtedness identified in Schedule I hereto (the "Refunded Bonds") for debt service savings and (ii) paying the costs of issuing the Bonds.

Refunded Bonds

The Refunded Bonds, and interest due thereon, are to be paid on their scheduled redemption date from funds to be deposited with UMB Bank, N.A., Austin, Texas, a national banking association (the "Escrow Agent"), pursuant to an Escrow Deposit Letter dated as of October 13, 2020 (the "Escrow Agreement") between the District and the Escrow Agent.

The Order provides that the District will deposit certain proceeds of the sale of the Bonds, along with other lawfully available funds of the District, with the Escrow Agent in the amount necessary and sufficient to accomplish the discharge and final payment of the Refunded Bonds at their scheduled date of early redemption. Such funds shall be held by the Escrow Agent in an escrow fund (the "Escrow Fund") irrevocably pledged to the payment of principal of and interest on the Refunded Bonds. SAMCO Capital Markets, Inc., in its capacity as Financial Advisor to the District, will certify as to the sufficiency of the amount initially deposited to the Escrow Fund, without regard to investment (if any), to pay the principal of and interest on the Refunded Bonds, when due, on their Redemption Date (the "Sufficiency Certificate"). Amounts on deposit in the Escrow Fund shall, until such time as needed for their intended purpose, be (i) held uninvested in cash and/or (ii) invested in certain direct, noncallable obligations of the United States of America (including obligations unconditionally guaranteed by the United States of America) that were, on the date the Order was adopted, rated as to investment quality by a nationally recognized rating firm of not less than "AAA" (the "Federal Securities"). Cash and investments (if any) held in the Escrow Fund shall not be available to pay debt service requirements on the Bonds.

Prior to, or simultaneously with, the issuance of the Bonds, the District will give irrevocable instructions to provide notice to the owners of the Refunded Bonds that the Refunded Bonds will be redeemed prior to stated maturity on which date money will be made available to redeem the Refunded Bonds from money held under the Escrow Agreement.

By the deposit of the cash and Federal Securities, if any, with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of all of the Refunded Bonds in accordance with the law. It is the opinion of Bond Counsel, in reliance upon the Sufficiency Certificate provided by SAMCO Capital Markets, Inc., that as a result of such defeasance the Refunded Bonds will be outstanding only for the purpose of receiving payments from the Escrow Fund held for such purpose by the Escrow Agent and such Refunded Bonds will not be deemed as being outstanding obligations of the District payable from taxes nor for the purpose of applying any limitation on the issuance of debt. The District has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund, from lawfully available funds, of any additional amounts required to pay the principal of and interest on the Refunded Bonds, if for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund are insufficient to make such payment.

General Description

The Bonds are dated November 15, 2020 (the "Dated Date"). Interest on the Bonds will accrue from the Dated Date, with such interest payable initially on August 15, 2021 and semiannually thereafter on each February 15 and August 15 until stated maturity. 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. 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.

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 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 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.

No Redemption

The Bonds are not subject to redemption prior to stated maturity.

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, Austin, Texas. (See "LEGAL MATTERS" herein and "APPENDIX C – Form of Legal Opinion of Bond Counsel").

Sources and Uses of Funds

Sources	
Par Amount of the Bonds	\$ 8,535,000.00
Accrued Interest on the Bonds	20,391.11
Reoffering Premium	616,131.75
District's Cash Contribution	275,650.00
Total Sources of Funds	<u>\$ 9,447,172.86</u>
Uses	
Deposit to Escrow Fund	\$ 9,291,625.00
Costs of Issuance ⁽¹⁾	122,003.82
Purchaser's Discount	13,152.93
Deposit to Interest and Sinking Fund	20,391.11
Total Uses of Funds	<u>\$ 9,447,172.86</u>

⁽¹⁾ Includes legal fees of the District, financial advisory fees, rating agency fees, fees of the Paying Agent/Registrar, fees of the Escrow Agent, a rounding amount and other costs of issuance.

Payment Record

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

Amendments

The District 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 District 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 of principal or interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Order, 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 registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or Order and the District's obligations are not uncertain or disputed. 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 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 Bondholders 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. On June 30, 2006, the Texas Supreme Court 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. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. 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 United States 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 Bonds are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity that 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 together so certified sufficient to make such payment. 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. 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 automatically 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 generally authorized to manage the investments of the capital gains, royalties and other investment income relating to the 1 land endowment. The SLB is a five member board, the membership of which consists of the Commissioner of the Texas General Land Office (the "Land Commissioner") and four citizen members appointed by the Governor. (See "2019 Texas Legislative Session" for a description of legislation that changed the composition of the SLB). As of August 31, 2019, the General Land Office (the "GLO") managed approximately 26% 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 Texas voters of the 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 2019, distributions to the ASF amounted to an estimated \$306 per student and the total amount distributed to the ASF was \$1,535.8 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, 2019, as 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, 2019 is derived from the audited financial statements of the PSF, which are included in the Annual Report as 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, 2019 and for a description of the financial results of the PSF for the year ended August 31, 2019, the most recent year for which audited financial information regarding the Fund is available. The 2019 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2019 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.

2019 Texas Legislative Session

During the 86th Regular Session of the Texas Legislature, which concluded on May 27, 2019 (the "86th Session"), various bills were enacted that relate to the PSF. Among such enacted legislation are bills that relate to the composition of the SLB and its relationship to the SBOE with respect to the management of the PSF. Legislation was approved that changed the composition of the SLB to a five member board from a three member board. Under that bill, the Land Commissioner will continue to head the SLB, but the remaining four members are appointed by the Governor, and of those four members, two are required to be selected from a list of nominees to be submitted to the Governor by the SBOE. That legislation also requires an annual joint meeting of the SLB and the SBOE for the purpose of discussing the allocation of the assets of the PSF and the investment of money in the PSF. Other enacted legislation requires the SLB and the SBOE to provide quarterly financial reports to each other and creates a "permanent school fund liquid account" in the PSF for the purpose of receiving funds transferred from the SLB on a quarterly basis that are not then invested by the SLB or needed within the forthcoming quarter for investment by the SBOE. Such funds shall be invested in liquid assets in the same manner that the PSF is managed until such time as the funds are required for investment by the SLB. That legislation also requires the Texas Education Agency, in consultation with the GLO, to conduct a study regarding distributions to the ASF from the PSF. In addition, a joint resolution was approved that proposed a constitutional amendment to the Texas Constitution to increase the permissible amount of distributions to the ASF from revenue derived during a year from PSF land or other properties from \$300 million to \$600 million annually by one or more entities. That constitutional change was approved by State voters at a referendum on November 5, 2019. See "2011 and 2019 Constitutional Amendments."

Other legislation enacted during the 86th Session provides for the winding up of the affairs of an open-enrollment charter school that ceases operations, including as a result of the revocation or other termination of its charter. In particular, among other provisions, the legislation addresses the disposition of real and personal property of a discontinued charter school and provides under certain circumstances for reimbursement to be made to the State, if the disposed property was acquired with State funds; authorizes the Commissioner to adopt a rule to govern related party transactions by charter schools; and creates a "charter school liquidation fund" for the management of any reclaimed State funds, including, in addition to other potential uses, for the use of deposit of such reclaimed funds to the Charter District Reserve Fund. No assessment has been made by the TEA or PSF staff as to the potential financial impact of any legislation enacted during the 86th Session, including the increase in the permissible amount that may be transferred from the PSF to the ASF, as approved by State voters at the November 5, 2019 referendum.

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 4 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) ("GA0707"), 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 GA0707, 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 and 2019 Constitutional Amendments” 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 and November 5, 2019 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 each even numbered year, most recently in July 2020. 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. Periodic changes in the asset allocation policies have been made with the objective of providing diversity to Fund assets, and have included an alternative asset allocation in addition 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, approved in July 2020, is as follows: (i) an equity allocation of 37% (consisting of U.S. large cap equities targeted at 14%, international large cap equities at 14%, emerging market equities at 3%, and U.S. small/mid cap equities at 6%), (ii) a fixed income allocation of 25% (consisting of a 12% allocation for core bonds, a 7% allocation for emerging market debt in local currency, a 3% allocation for high yield bonds, and a 3% allocation for U.S. Treasury bonds), and (iii) an alternative asset allocation of 38% (consisting of a private equity allocation of 15%, a real estate allocation of 11%, an absolute return allocation of 7%, a 1% allocation for private equity and real estate for emerging managers, and a real return allocation of 4%). As compared to the 2016 asset allocation, the 2020 asset allocation increased U.S. large cap equities and small/mid-cap U.S. equities by a combined 2%, added high yield bonds and U.S Treasury bonds to the fixed income allocation in the amounts noted above, increased combined private equity and real estate from 23% to 27%, eliminated the risk parity allocation, which was previously a 7% allocation within the global risk control strategy category of alternative assets, and reduced the absolute return allocation within the global risk control strategy category of alternative assets to 7% from 10%.

In accordance with legislation enacted during the 86th Session and effective September 1, 2019, the PSF has established an investment account for purposes of investing cash received from the GLO to be invested in liquid assets and managed by the SBOE in the same manner it manages the PSF. That cash has previously been included in the PSF valuation, but was held and invested by the State Comptroller. In July 2020, the SBOE adopted an asset allocation policy for the liquidity account consisting of 20% cash, 40% equities and 40% fixed income. The liquidity account equity allocation consists of U.S. large cap, U.S. small/mid cap and international large cap equities of 20%, 5% and 15%, respectively. The liquidity account fixed income allocation consists of core bonds, Treasury Inflation Protection Securities and short duration fixed income categories of 5%, 10% and 25%, respectively.

For a variety of reasons, each change in asset allocation for the Fund, including the 2020 modifications, have been or will be 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, 2019, the Fund’s financial assets portfolio was invested as follows: 34.91% in public market equity investments; 13.35% in fixed income investments; 10.58% in absolute return assets; 11.31% in private equity assets; 8.71% in real estate assets; 7.46% in risk parity assets; 6.16% in real return assets; 7.03% in emerging market debt; and 0.49% 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 within 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, changes in international trade policies, 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 SLB. 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 and 2019 Constitutional Amendments" 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. The State Law Capacity increased from \$118,511,255,268 on August 31, 2018 to \$123,509,204,770 on August 31, 2019 (but at such date the IRS Limit was lower, \$117,318,653,038, so it is the currently effective capacity limit for the Fund).

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, the ratio of Fund assets to guaranteed bonds and the growth of the Fund in general could be adversely affected by a number of factors, including 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, changes in State laws that implement funding decisions for school districts and charter districts, which could adversely affect the credit quality of those districts, 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. It is anticipated that the issuance of the IRS Notice and the Final IRS Regulations will result in a substantial increase in the amount of bonds guaranteed under the Guarantee Program, and as the amount of guaranteed bonds approaches the IRS Limit, it is expected that the SBOE will seek changes to the existing IRS guidance regarding the Guarantee Program with the objective of obtaining an increase in the IRS 11 Limit. 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 12 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 March 20, 2020 (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 6.15%. At September 10, 2020, there were 182 active open-enrollment charter schools in the State and there were 840 charter school campuses active under such charters (though as of such date, 19 of such campuses are not currently 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 14 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 CDBGP 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 purpose 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 CDBGP 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 openenrollment 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 CDBGP 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 openenrollment 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.

From time to time, TEA has limited new guarantees under the Charter District Bond Guarantee Program to conform to capacity limits specified by the Act. Legislation enacted during the Legislature's 2017 regular session modified the manner of calculating the capacity of the Charter District Bond Guarantee Program (the "CDBGP Capacity"), which further increased the amount of the CDBGP 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, 2019, the amount of outstanding bond guarantees represented 71.94% of the IRS Limit (which is currently the applicable capacity limit) for the Guarantee Program (based on unaudited data). 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 6.15% in March 2020. 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. As a result of SB 1480, the amount of charter district bonds eligible for guarantee in fiscal years 2018, 2019 and 2020 increased by the full 20% increase permitted by SB 1480, which increased the relative capacity of the Charter District Bond Guarantee Program to the School District Bond Guarantee Program for those fiscal years.

Taking into account the enactment of SB 1480 and the increase in the CDBGP Capacity effected thereby, at the Winter 2018 meeting the SBOE determined not to implement a previously approved multiplier increase to 3.75 times market value, opting to increase the multiplier to 3.50 times 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 July 31, 2020, the Charter District Reserve Fund contained \$39,357,006, which represented approximately 1.56% 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 effective April 1, 2018, the management of the Reserve Fund was transferred to the PSF division of TEA, where it will be held and invested as a non-commingled fund under the administration of the PSF staff.

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, State funding for charter district facilities construction is limited to a program established by the Legislature in 2017, which provides \$60 million per year for eligible charter districts with an acceptable performance rating for a variety of funding purposes, including for lease or purchase payments for instructional facilities. Since State funding for charter facilities is so limited, 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.

Infectious Disease Outbreak

A respiratory disease named “2019 novel coronavirus” (“COVID-19”) has recently spread to many parts of the world, including Texas and elsewhere in the U.S. On March 13, 2020, the U.S. president declared a national emergency and the Governor of Texas (the “Governor”) declared COVID-19 as a statewide public health disaster (the “COVID-19 Declarations”). Subsequent actions by the Governor imposed temporary restrictions on certain businesses and ordered all schools in the State to temporarily close. This situation is rapidly developing; for additional information on these events in the State, reference is made to the website of the Governor, <https://gov.texas.gov/>, and, with respect to public school events, the website of TEA, <https://tea.texas.gov/texas-schools/safe-and-healthy-schools/coronavirus-covid-19-support-and-guidance>.

Potential Impact of COVID-19 in the State and Investment Markets

The anticipated continued spread of COVID-19, and measures taken to prevent or reduce its spread, have adversely impacted State, national and global economic activities and, accordingly, materially adversely impacted the financial condition and performance of the State. The continued spread of COVID-19, and measures taken to prevent or reduce its spread, may also adversely affect the tax bases of school districts in the State, including districts that have bonds that are guaranteed under the Guarantee Program.

As noted herein, the PSF investments are in diversified investment portfolios and it is expected that the Fund will reflect the general performance returns of the markets in which it is invested. Stock values, crude oil prices and other investment categories in the U.S. and globally in which the Fund is invested or which provide income to the Fund, have seen significant volatility attributed to COVID-19 concerns, which could adversely affect the Fund’s values.

TEA Continuity of Operations

Since 2007, Texas Labor Code Section 412.054 has required each State agency to develop and submit to the State Office of Risk Management an agency-level continuity of operations plan to keep the agency operational in case of disruptions to production, finance, administration or other essential operations. Such plans may be implemented during the occurrence or imminent threat of events such as extreme weather, natural disasters and infectious disease outbreaks. TEA has adopted a continuity of operations plan, which provides for, among other measures and conditions, steps to be taken to ensure performance of its essential missions and functions under such threats and conditions in the event of a pandemic event. TEA annually conducts risk assessments and risk impact analysis that include stress testing and availability analysis of system resources, including systems that enable TEA employees to work remotely, as is occurring as a result of the COVID-19 declarations. As noted above, under “The School District Bond Guarantee Program,” the Guarantee Program is in significant part an intercept program whereby State funding for school districts and charter districts reimburse the Fund for any guarantee payment from the Fund for a non-performing district. In addition to the continuity of operations plan provisions noted above, the Fund maintains cash positions in its portfolios that are intended to provide liquidity to the Fund for payments under the Guarantee Program pending reimbursement of the Fund by the Comptroller. Fund management is of the view that its liquidity position, which changes from time to time in light of then current circumstances, is sufficient for payment of claims made on the Guarantee Program.

Impact of COVID-19 on School Districts and Charter Districts

TEA cannot predict whether any school or charter district may experience short- or longer-term cash flow emergencies as a direct or indirect effect of COVID-19 that would require a payment from the PSF to be made to a paying agent for a guaranteed bond. Most school district bonds in the State are issued as fixed rate debt, with semiannual payments in February and August. Taxes levied by school districts for payment of bonds are generally collected by the end of January in each year. Consequently, scheduled bond payments for school districts for the 2020 calendar year have generally not been affected by COVID-19. TEA has issued guidance to school districts and charter districts regarding a variety of matters pertaining to school operations in light of the ongoing COVID-19 pandemic. Certain aspects of TEA’s guidance include waivers pertaining to State funding provisions, local financial matters and general operations. TEA has implemented “hold harmless” funding for school districts and charter districts for the last 12 weeks of school year 2019–2020 and during the first 12 weeks of the 2020–21 school year. Additional information in this regard is available at the TEA website at <https://tea.texas.gov/texas-schools/health-safetydiscipline/covid/coronavirus-covid-19-support-and-guidance>.

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

Fiscal year Ended 8/31	Book Value ⁽¹⁾	Market Value
2015	\$ 29,081,052,900	\$ 36,196,265,273
2016	30,128,037,903	37,279,799,335
2017	31,870,581,428	41,438,672,573
2018	33,860,358,647	44,074,197,940
2019 ⁽²⁾	35,288,344,219	46,464,447,981

⁽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, 2019, 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 \$13.4 million, \$216.7 million, \$3,640.2 million, \$7.5 million, and \$4,457.3 million, respectively, and market values of approximately \$3,198.2 million, \$619.7 million, \$3,927.6 million, \$1.3 million, and \$4,457.3 million, respectively. At July 31, 2020, the PSF had a book value of \$36,431,148,233 and a market value of \$47,621,722,583. July 31, 2020 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds

At 8/31	Principal Amount ⁽¹⁾
2015	\$ 63,955,449,047
2016	68,303,328,445
2017	74,266,090,023
2018	79,080,901,069
2019	84,397,900,203 ⁽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, 2019 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts and charter districts over the remaining life of the bonds guaranteed by the Guarantee Program was \$133,188,149,265, of which \$48,790,249,062 represents interest to be paid. As shown in the table above, at August 31, 2019, there were \$84,397,900,203 in principal amount of bonds guaranteed under the Guarantee Program. Using the IRS Limit of \$117,318,653,038 (the IRS Limit is currently the lower of the two federal and State capacity limits of Program capacity), net of the Program’s 5% reserve, as of July 31, 2020, 95.92% of Program capacity was available to the School District Bond Guarantee Program and 4.08% was available to the Charter District Bond Guarantee Program.

Permanent School Fund Guaranteed Bonds by Category ⁽¹⁾

Fiscal Year Ended 8/31	School District Bonds		Charter District Bonds		Totals	
	No. Of Issues	Principal Amount	No. Of Issues	Principal Amount	No. Of Issues	Principal Amount
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	3,253	72,884,480,023	40	1,381,610,000	3,293	74,266,090,023
2018	3,249	77,647,966,069	44	1,432,935,000	3,293	79,080,901,069
2019 ⁽²⁾	3,297	82,537,755,203	49	1,860,145,000	3,346	84,397,900,203

⁽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⁾ At July 31, 2020 (based on unaudited data, which is subject to adjustment), there were \$90,353,133,727 of bonds guaranteed under the Guarantee Program, representing 3,388 school district issues, aggregating \$87,833,583,727 in principal amount and 61 charter district issues, aggregating \$2,519,550,000 in principal amount. At July 31, 2020, the capacity allocation of the Charter District Bond Guarantee Program was \$4,551,091,422 (based on unaudited data, which is subject to adjustment).

Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2019

The following discussion is derived from the Annual Report for the year ended August 31, 2019, 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, as filed with the MSRB, 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, 2019, 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 2019, the Fund balance was \$46.5 billion, an increase of \$2.4 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 and restatements of fund balance. 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, 2019, net of fees, were 4.17%, 5.25% and 8.18%, 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, five-year, and ten-year annualized total returns for the PSF(SLB) externally managed real assets, net of fees and including cash, were 5.84%, 6.13%, and 6.41%, 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, 2019, 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, 2019, the SBOE has approved and the Fund made capital commitments to externally managed real estate investment funds in a total amount of \$5.1 billion and capital commitments to private equity limited partnerships for a total of \$6.3 billion. Unfunded commitments at August 31, 2019, totaled \$1.9 billion in real estate investments and \$2.3 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, 2019, the remaining commitments totaled approximately \$2.5 billion.

The PSF(SBOE)'s investment in domestic large cap, domestic small/mid cap, international large cap, and emerging market equity securities experienced returns, net of fees, of 3.14%, -8.99%, -2.93%, and -4.15%, respectively, during the fiscal year ended August 31, 2019. The PSF(SBOE)'s investment in domestic fixed income securities produced a return of 10.54% during the fiscal year and absolute return investments yielded a return of 2.28%. The PSF(SBOE) real estate and private equity investments returned 7.22% and 11.93%, respectively. Risk parity assets produced a return of 10.89%, while real return assets yielded 0.71%. Emerging market debt produced a return of 10.40%. Combined, all PSF(SBOE) asset classes produced an investment return, net of fees, of 4.17% for the fiscal year ended August 31, 2019, out-performing the benchmark index of 3.76% by approximately 41 basis points. All PSF(SLB) externally managed investments (including cash) returned 6.41% net of fees for the fiscal year ending August 31, 2019.

For fiscal year 2019, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled \$3.7 billion, a decrease of \$0.3 billion from fiscal year 2018 earnings of \$4.0 billion. This decrease reflects the performance of the securities markets in which the Fund was invested in fiscal year 2019. In fiscal year 2019, 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, decreased 10.0% for the fiscal year ending August 31, 2019. This decrease is primarily attributable to a decrease in PSF(SLB) 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 2018 and 2019, the distribution from the SBOE to the ASF totaled \$1.2 billion and \$1.2 billion, respectively. Distributions from the SLB to the

ASF for fiscal years 2018 and 2019 totaled \$0 and \$300 million, respectively. At the end of the 2019 fiscal year, PSF assets guaranteed \$84.4 billion in bonds issued by 863 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 7,443 school district and charter district bond issues totaling \$186.2 billion in principal amount. During the 2019 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program totaled 3,346. The dollar amount of guaranteed school and charter bond issues outstanding increased by \$5.3 billion or 6.7%. The State Capacity Limit increased by \$5.0 billion, or 4.2%, during fiscal year 2019 due to continued growth in the cost basis of the Fund used to calculate that Program capacity limit. The effective capacity of the Program did not increase during fiscal year 2019 as the IRS Limit was reached during the prior fiscal year, and it is the lower of the two State and federal capacity limits for the program.

2011 and 2019 Constitutional Amendments

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%, 3.5% and 3.7% for each of two year periods 2008-2009, 2010-2011, 2012-2013, 2014-2015, 2016-2017 and 2018-2019, respectively. In November 2018, the SBOE approved a \$2.2 billion distribution to the ASF for State fiscal biennium 2020-2021, to be made in equal monthly increments of \$92.2 million, which represents a 2.981% Distribution Rate for the biennium and a per student distribution of \$220.97, based on 2018 preliminary student average daily attendance of 5,004,998. In making the 2020- 2021 biennium distribution decision, the SBOE took into account a commitment of the SLB to transfer \$10 million to the PSF in fiscal year 2020 and \$45 million in fiscal year 2021. Changes in the Distribution Rate for each biennial period have 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 provided 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 PSF to determine whether to transfer an amount each year to the ASF from the revenue derived during the current year from such land or properties. Prior to November 2019, the amount authorized to be transferred to the ASF from the GLO was limited to \$300 million per year. On November 5, 2019, a constitutional amendment was approved by State voters that increased the maximum transfer to the ASF to \$600 million each year from the revenue derived during that year from the PSF from each of the GLO, the SBOE or any other entity that may have the responsibility to manage such properties (at present there are no such other entities). Any amount transferred to the ASF pursuant to this constitutional provision is excluded from the 6% Distribution Rate limitation applicable to SBOE transfers. The exercise of the increased authorization for such transfers is subject to the discretion of the GLO and the SBOE, and such transfers could be taken into account by the SBOE for purposes of its distributions to the ASF that are made pursuant to the Total Return Constitutional Amendment. However, future legal and/or financial analysis may be needed before the impact on the Fund of the constitutional change effected in November 2019 can be determined.

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 April 2018. 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.

In the 2011 legislative session, the Legislature approved an increase of 31 positions in the fulltime 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 \$30.2 million for the administration of the PSF for fiscal years 2016 and 2017, respectively, and \$30.4 million for each of the fiscal years 2018 and 2019.

As of August 31, 2019, 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/. The most recent amendment to the TEA Rule was adopted by the SBOE on February 1, 2019, 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 15c2-12 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 <https://emma.msrb.org/IssueView/Details/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.

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; (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; (15) the incurrence of a financial obligation of the Guarantee Program, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Program, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Guarantee Program, any of which reflect financial difficulties. (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 “State Legislature”) from time to time (i) met the requirements of article VII, section 1 of the Texas Constitution, which requires the State 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 State 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 v. The Texas Taxpayer & Student Fairness Coal.*, 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 State 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 State Legislature could enact future changes to the Finance System. Any such changes could benefit or be a detriment to the District. If the State 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 State 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” herein).

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

During the 2019 Legislative Session, the State Legislature made numerous changes to the current public school finance system, the levy and collection of ad valorem taxes, and the calculation of defined tax rates, including particularly those contained in House Bill 3 (“HB 3”) and Senate Bill 2 (“SB 2”). In some instances, the provisions of HB 3 and SB 2 will require further interpretation in connection with their implementation in order to resolve ambiguities contained in the bills. The District is still in the process of (a) analyzing the provisions of HB 3 and SB 2, and (b) monitoring the on-going guidance provided by TEA. The information contained herein under the captions “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” and “TAX RATE LIMITATIONS” is subject to change, and only reflects the District’s understanding of HB 3 and SB 2 based on information available to the District as of the date of this Official Statement. Prospective investors are encouraged to review HB 3, SB 2, and the Property Tax Code (as defined herein) for definitive requirements for the levy and collection of ad valorem taxes, the calculation of the defined tax rates, and the administration of the current public school finance system.

Overview

The following language constitutes only a summary of the public school 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 43 through 49 of the Texas Education Code, as amended.

Local funding is derived from collections of ad valorem taxes levied on property located within each school district’s boundaries. School districts are authorized to levy two types of property taxes: a maintenance and operations (“M&O”) tax to pay current expenses and an interest and sinking fund (“I&S”) tax to pay debt service on bonds. School districts may not increase their M&O tax rate for the purpose of creating a surplus to pay debt service on bonds. Prior to 2006, school districts were authorized to levy their M&O tax at a voter-approved rate, generally up to \$1.50 per \$100 of taxable value. Since 2006, the State Legislature has enacted various legislation that has compressed the voter-approved M&O tax rate, as described below. Current law also requires school districts to demonstrate their ability to pay debt service on outstanding bonded indebtedness through the levy of an I&S tax at a rate not to exceed \$0.50 per \$100 of taxable value at the time bonds are issued. Once bonds are issued, however, school districts generally may levy an I&S tax sufficient to pay debt service on such bonds unlimited as to rate or amount (see “TAX RATE LIMITATIONS – I&S Tax Rate Limitations” herein). Because property values vary widely among school districts, the amount of local funding generated by school districts with the same I&S tax rate and M&O tax rate is also subject to wide variation; however, the public school finance funding formulas are designed to generally equalize local funding generated by a school district’s M&O tax rate.

Prior to the 2019 Legislative Session, a school district’s maximum M&O tax rate for a given tax year was determined by multiplying that school district’s 2005 M&O tax rate levy by an amount equal a compression percentage set by legislative appropriation or, in the absence of legislative appropriation, by the Commissioner of Education (the “Commissioner”). This compression percentage was historically 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, since most school districts in the State had a voted maximum M&O tax rate of \$1.50 per \$100 of taxable value (though certain school districts located in Harris County had special M&O tax rate authorizations allowing a higher M&O tax rate). School districts were permitted, however, to generate additional local funds by raising their M&O tax rate up to \$0.04 above the compressed tax rate or, with voter-approval at a valid election in the school district, up to \$0.17 above the compressed tax rate (for most school districts, this equated to an M&O tax rate between \$1.04 and \$1.17 per \$100 of taxable value). School districts received additional State funds in proportion to such taxing effort.

Local Funding for School Districts

During the 2019 Legislative Session, the State Legislature made several significant changes to the funding methodology for school districts (the “2019 Legislation”). The 2019 Legislation orders a school district’s M&O tax rate into two distinct parts: the “Tier One Tax Rate”, which is the local M&O tax rate required for a school district to receive any part of the basic level of State funding (referred to herein as “Tier One”) under the Foundation School Program, as further described below, and the “Enrichment Tax Rate”, which is any local M&O tax effort in excess of its Tier One Tax Rate. The 2019 Legislation amended formulas for the State Compression Percentage and Maximum Compressed Tax Rate (each as described below) to compress M&O tax rates in response to year-over-year increases in property values across the State and within a school district, respectively. The discussion in this subcaption “Local Funding For School Districts” is generally intended to describe funding provisions applicable to all school districts; however, there are distinctions in the funding formulas for school districts that generate local M&O tax revenues in excess of the school districts’ funding entitlements, as further discussed under the subcaption “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Revenue Level In Excess of Entitlement” herein.

State Compression Percentage. The “State Compression Percentage” is a statutorily-defined percentage of the rate of \$1.00 per \$100 at which a school district must levy its Tier One Tax Rate to receive the full amount of the Tier One funding to which a school district is entitled. Beginning in the State fiscal year ending in 2021, the State Compression Percentage is the lesser of three alternative calculations: (1) 93% or a lower percentage set by appropriation for a school year; (2) a percentage determined by formula if the estimated total taxable property value of the State (as submitted annually to the State Legislature by the State Comptroller) has increased by at least 2.5% over the prior year; and (3) the prior year State Compression Percentage. For any year, the maximum State Compression Percentage is 93%.

Maximum Compressed Tax Rate. Pursuant to the 2019 Legislation, beginning with the State fiscal year ending in 2021 (the 2020-2021 school year) the Maximum Compressed Tax Rate (the “MCR”) is the tax rate per \$100 of valuation of taxable property at which a school district must levy its Tier One Tax Rate to receive the full amount of the Tier One funding to which the school district is entitled. The MCR is equal to the lesser of three alternative calculations: (1) the school district’s prior year MCR; (2) a percentage determined by formula if the school district experienced a year-over-year increase in property value of at least 2.5%; or (3) the product of the State Compression Percentage for the current year multiplied by \$1.00. However, each year the TEA shall evaluate the MCR for each school district in the State, and for any given year, if a school district’s MCR is calculated to be less than 90% of any other school district’s MCR for the current year, then the school district’s MCR is instead equal to the school district’s prior year MCR, until TEA determines that the difference between the school district’s MCR and any other school district’s MCR is not more than 10%. These compression formulas are intended to more closely equalize local generation of Tier One funding among districts with disparate tax bases and generally reduce the Tier One Tax Rates of school districts as property values increase.

Tier One Tax Rate. Beginning in the 2020-2021 school year, a school district’s Tier One Tax Rate is defined as a school district’s M&O tax rate levied that does not exceed the school district’s MCR.

Enrichment Tax Rate. The Enrichment Tax Rate is the number of cents a school district levies for M&O in excess of the Tier One Tax Rate, up to an additional \$0.17. The Enrichment Tax Rate is divided into two components: (i) “Golden Pennies” which are the first \$0.08 of tax effort in excess of a school district’s Tier One Tax Rate; and (ii) “Copper Pennies” which are the next \$0.09 in excess of a school district’s Tier One Tax Rate plus Golden Pennies.

School districts may levy an Enrichment Tax Rate at a level of their choice, subject to the limitations described under “TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate”; however to levy any of the Enrichment Tax Rate in a given year, a school district must levy a Tier One Tax Rate equal to the school district’s MCR for the 2020-2021 and subsequent years. Additionally, a school district’s levy of Copper Pennies is subject to compression if the guaranteed yield (i.e., the guaranteed level of local tax revenue and State aid generated for each cent of tax effort) of Copper Pennies is increased from one year to the next (see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts – Tier Two”).

State Funding for School Districts

State funding for school districts is provided through the two-tiered Foundation School Program, which guarantees certain levels of funding for school districts in the State. School districts are entitled to a legislatively appropriated guaranteed yield on their Tier One Tax Rate and Enrichment Tax Rate. When a school district’s Tier One Tax Rate and Enrichment Tax Rate generate tax revenues at a level below the respective entitlement, the State will provide “Tier One” funding or “Tier Two” funding, respectively, to fund the difference between the school district’s entitlements and the calculated M&O revenues generated by the school district’s respective M&O tax rates.

The first level of funding, Tier One, is the basic level of funding guaranteed to all school districts based on a school district’s Tier One Tax Rate. Tier One funding may then be “enriched” with Tier Two funding. Tier Two provides a guaranteed entitlement for each cent of a school district’s Enrichment Tax Rate, allowing a school district to increase or decrease its Enrichment Tax Rate to supplement Tier One funding at a level of the school district’s own choice. While Tier One funding may be used for the payment of debt service (except for school districts subject to the recapture provisions of Chapter 49 of the Texas Education Code, as discussed herein), and in some instances is required to be used for that purpose (see “TAX RATE LIMITATIONS – I&S Tax Rate Limitations”), Tier Two funding may not be used for the payment of debt service or capital outlay.

The current public school 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. For the 2020-2021 State fiscal biennium, the State Legislature appropriated funds in the amount of \$1,323,444,300 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 school 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, provided that a school district qualifies for such funding and that the State Legislature makes sufficient appropriations to fund the allotments for a State fiscal biennium. Tier One and Tier Two allotments and existing EDA and IFA allotments are generally required to be funded each year by the State Legislature.

Tier One. Tier One funding is the basic level of funding guaranteed to a school district, consisting of a State-appropriated baseline level of funding (the “Basic Allotment”) for each student in “Average Daily Attendance” (being generally calculated as the sum of student attendance for each State-mandated day of instruction divided by the number of State-mandated days of instruction, defined herein as “ADA”). The Basic Allotment is revised downward if a school district’s Tier One Tax Rate is less than the State-determined threshold. The Basic Allotment is supplemented by additional State funds, allotted based upon the unique school district characteristics and demographics of students in ADA, to make up most of a school district’s Tier One entitlement under the Foundation School Program.

For the State fiscal year ending in 2021 and subsequent State fiscal years, the Basic Allotment for a school district with a Tier One Tax Rate equal to the school district's MCR, is \$6,160 (or a greater amount as may be provided by appropriation) for each student in ADA and is revised downward for a school district with a Tier One Tax Rate lower than the school district's MCR. The Basic Allotment is then supplemented for all school districts by various weights to account for differences among school districts and their student populations. Such additional allotments include, but are not limited to, increased funds for students in ADA who: (i) attend a qualified special education program, (ii) are diagnosed with dyslexia or a related disorder, (iii) are economically disadvantaged, or (iv) have limited English language proficiency. Additional allotments to mitigate differences among school districts include, but are not limited to: (i) a transportation allotment for mileage associated with transporting students who reside two miles or more from their home campus, (ii) a fast growth allotment (for school districts in the top 25% of enrollment growth relative to other school districts), and (iii) a college, career and military readiness allotment to further Texas' goal of increasing the number of students who attain a post-secondary education or workforce credential, and (iv) a teacher incentive allotment to increase teacher compensation retention in disadvantaged or rural school districts. A school district's total Tier One funding, divided by \$6,160, is a school district's measure of students in "Weighted Average Daily Attendance" ("WADA"), which serves to calculate Tier Two funding.

Tier Two. Tier Two supplements Tier One funding and provides two levels of enrichment with different guaranteed yields (i.e., Golden Pennies and Copper Pennies) depending on the school district's Enrichment Tax Rate. Golden Pennies generate a guaranteed yield equal to the greater of (i) the local revenue per student in WADA per cent of tax effort available to a school district at the ninety-sixth (96th) percentile of wealth per student in WADA, or (ii) the Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.016. For the 2020-2021 State fiscal biennium, school districts are guaranteed a yield of \$98.56 per student in WADA for each Golden Penny levied. Copper Pennies generate a guaranteed yield per student in WADA equal to the school district's Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.008. For the 2020-2021 State fiscal biennium, school districts are guaranteed a yield of \$49.28 per student in WADA for each Copper Penny levied. For any school year in which the guaranteed yield of Copper Pennies per student in WADA exceeds the guaranteed yield of Copper Pennies per student in WADA for the preceding school year, a school district is required to reduce its Copper Pennies levied so as to generate no more revenue per student in WADA than was available to the school district for the preceding year. Accordingly, the increase in the guaranteed yield from \$31.95 per Copper Penny per student in WADA for the 2018-2019 school year to \$49.28 per Copper Penny per student in WADA for the 2019-2020 school year requires school districts to compress their levy of Copper Pennies by a factor of 0.64834. As such, school districts that levied an Enrichment Tax Rate of \$0.17 in school year 2018-2019 were required reduce their Enrichment Tax Rate to approximately \$0.138 per \$100 taxable value for the 2019-2020 school year.

Existing Debt Allotment, Instructional Facilities Allotment, and New Instructional Facilities Allotment. The Foundation School Program also includes facilities funding components consisting of the IFA and the EDA, subject to legislative appropriation each State fiscal biennium. To the extent funded for a biennium, these programs assist school districts in funding facilities by, generally, equalizing a school district's I&S tax effort. The IFA guarantees each awarded school district a specified amount per student (the "IFA Yield") in State and local funds for each cent of I&S tax levied to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The IFA Yield 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 new IFA awards are available, a school district must apply to the Commissioner in accordance with rules adopted by the TEA before issuing the bonds to be paid with IFA State assistance. The total amount of debt service assistance over a biennium for which a school district may be awarded is limited to the lesser of (1) the actual debt service payments made by the school 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 school 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. For the 2020-2021 State fiscal biennium, the State Legislature did not appropriate any funds for new IFA awards; 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") is the lesser of (i) \$40 per student in ADA 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 school districts would have been entitled to if the EDA Yield were \$35. The portion of a school district's local debt service rate that qualifies for EDA assistance is limited to the first \$0.29 of its I&S tax rate (or a greater amount for any year provided by appropriation by the State Legislature). In general, a school district's bonds are eligible for EDA assistance if (i) the school district made payments on the bonds during the final fiscal year of the preceding State fiscal biennium, or (ii) the school 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 school district may not receive EDA funding for the principal and interest on a series of otherwise eligible bonds for which the school district receives IFA funding.

Since future-year IFA awards were not funded by the State Legislature for the 2020-2021 State fiscal biennium and debt service assistance on school district bonds that are not yet eligible for EDA is not available, debt service payments during the 2020-2021 State fiscal biennium on new bonds issued by school districts in the 2020-2021 State fiscal biennium to construct, acquire and improve facilities must be funded solely from local I&S taxes.

A school district may also qualify for a NIFA allotment, which provides assistance to school districts for operational expenses associated with opening new instructional facilities. In the 2019 Legislative Session, the State Legislature appropriated funds in the amount of \$100,000,000 for each fiscal year of the 2020-2021 State fiscal biennium for NIFA allotments.

Tax Rate and Funding Equity. The Commissioner may adjust a school district’s funding entitlement if the funding formulas used to determine the school district’s entitlement result in an unanticipated loss or gain for a school district. Any such adjustment requires preliminary approval from the Legislative Budget Board and the office of the Governor, and such adjustments may only be made through the 2020-2021 school year.

Additionally, the Commissioner may proportionally reduce the amount of funding a school district receives under the Foundation School Program and the ADA calculation if the school district operates on a calendar that provides less than the State-mandated minimum instruction time in a school year. The Commissioner may also adjust a school district’s ADA as it relates to State funding where disaster, flood, extreme weather or other calamity has a significant effect on a school district’s attendance.

Furthermore, “property-wealthy” school districts that received additional State funds under the public school finance system prior to the enactment of the 2019 Legislation are entitled to an equalized wealth transition grant on an annual basis through the 2023-2024 school year in an amount equal to the amount of additional revenue such school district would have received under former Texas Education Code Sections 41.002(e) through (g), as those sections existed on January 1, 2019. This grant is phased out through the 2023-2024 school year as follows: (1) 20% reduction for the 2020-2021 school year, (2) 40% reduction for the 2021-2022 school year, (3) 60% reduction for the 2022-2023 school year, and (4) 80% reduction for the 2023-2024 school year.

Local Revenue Level in Excess of Entitlement

A school district that has sufficient property wealth per student in ADA to generate local revenues on the school district’s Tier One Tax Rate and Copper Pennies in excess of the school district’s respective funding entitlements (a “Chapter 49 school district”), is subject to the local revenue reduction provisions contained in Chapter 49 of Texas Education Code, as amended (“Chapter 49”). Additionally, in years in which the amount of State funds appropriated specifically excludes the amount necessary to provide the guaranteed yield for Golden Pennies, local revenues generated on a school district’s Golden Pennies in excess of the school district’s respective funding entitlement are subject to the local revenue reduction provisions of Chapter 49. To reduce local revenue, Chapter 49 school districts are generally subject to a process known as “recapture”, which requires a Chapter 49 school district to exercise certain options to remit local M&O tax revenues collected in excess of the Chapter 49 school district’s funding entitlements to the State (for redistribution to other school districts) or otherwise expending the respective M&O tax revenues for the benefit of students in school districts that are not Chapter 49 school districts, as described in the subcaption “*Options for Local Revenue Levels in Excess of Entitlement*”. Chapter 49 school districts receive their allocable share of funds distributed from the constitutionally-prescribed Available School Fund, but are generally not eligible to receive State aid under the Foundation School Program, although they may continue to receive State funds for certain competitive grants and certain programs that remain outside the Foundation School Program.

Whereas prior to the 2019 Legislation, the recapture process had been based on the proportion of a school district’s assessed property value per student in ADA, recapture is now measured by the “local revenue level” (being the M&O tax revenues generated in a school district) in excess of the entitlements appropriated by the State Legislature each fiscal biennium. Therefore, school districts are now guaranteed that recapture will not reduce revenue below their statutory entitlement. The changes to the wealth transfer provisions are expected to reduce the cumulative amount of recapture payments paid by school districts by approximately \$3.6 billion during the 2020-2021 State fiscal biennium.

Options for Local Revenue Levels in Excess of Entitlement. Under Chapter 49, a school district has six options to reduce local revenues to a level that does not exceed the school district’s respective entitlements: (1) a school district may consolidate by agreement with one or more school districts to form a consolidated school district; all property and debt of the consolidating school districts vest in the consolidated school district; (2) a school district may detach property from its territory for annexation by a property-poor school district; (3) a school district may purchase attendance credits from the State; (4) a school district may contract to educate nonresident students from a property-poor school district by sending money directly to one or more property-poor school districts; (5) a school district may execute an agreement to provide students of one or more other school districts with career and technology education through a program designated as an area program for career and technology education; or (6) a school district may consolidate by agreement with one or more school districts to form a consolidated taxing school district solely to levy and distribute either M&O taxes or both M&O taxes and I&S taxes. A Chapter 49 school district may also exercise any combination of these remedies. Options (3), (4) and (6) require prior approval by the Chapter 49 school district’s voters.

Furthermore, a school district may not adopt a tax rate until its effective local revenue level is at or below the level that would produce its guaranteed entitlement under the Foundation School Program. If a school district fails to exercise a permitted option, the Commissioner must reduce the school district’s local revenue level to the level that would produce the school district’s guaranteed entitlement, by detaching certain types of property from the school district and annexing the property to a property-poor school district or, if necessary, consolidate the school district with a property-poor school district. Provisions governing detachment and annexation of taxable property by the Commissioner do not provide for assumption of any of the transferring school district’s existing debt.

CURRENT PUBLIC SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

For the 2019-2020 fiscal year, the District was designated as an “excess local revenue” district by the TEA. According to currently available information from TEA, the District is subject to recapture and, therefore, the District is required to exercise one of the wealth equalization options permitted under applicable State law. The District has notified the TEA that it intends to reduce its wealth per student pursuant to Option 3, an agreement to purchase attendance credits pursuant to Chapter 49, Texas Education Code, as amended (see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Revenue in Excess of Entitlement” herein).

A district's "excess local revenue" must be tested for each future school year and, if it exceeds the maximum permitted level, the District must reduce its wealth per student by the exercise of one of the permitted wealth equalization options. Accordingly, if the District's wealth per student should exceed the maximum permitted value in future school years, it may 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.

For a detailed discussion of State funding for school districts, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts" herein.

AD VALOREM PROPERTY TAXATION

The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. Prospective investors are encouraged to review Title I of the Texas Tax Code, as amended (the "Property Tax Code"), for identification of property subject to ad valorem taxation, property exempt or which may be exempted from ad valorem taxation if claimed, the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Valuation of Taxable Property

The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the "Appraisal Review Board") responsible for appraising property for all taxing units within the county. The appraisal of property within the District is the responsibility of the Galveston Central Appraisal District (the "Appraisal District"). Except as generally described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three (3) years. A taxing unit may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

State law requires the appraised value of an owner's principal residence ("homestead" or "homesteads") to be based solely on the property's value as a 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 homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property.

State law provides that eligible owners of both agricultural land and open-space land, including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified as both agricultural and open-space land.

The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board. The appraisal rolls, as approved by the Appraisal Review Board, are used by taxing units, such as the District, in establishing their tax rolls and tax rates (see "AD VALOREM PROPERTY TAXATION – District and Taxpayer Remedies").

State Mandated Homestead Exemptions

State law grants, with respect to each school district in the State, (1) a \$25,000 exemption of the appraised value of all homesteads, (2) a \$10,000 exemption of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled, and (3) various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty.

Local Option Homestead Exemptions

The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the appraised value of all homesteads (but not less than \$5,000) and (2) an additional exemption of at least \$3,000 of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. The exemption described in (2), above, may also be created, increased, decreased or repealed at an election called by the governing body of a taxing unit upon presentment of a petition for such creation, increase, decrease, or repeal of at least 20% of the number of qualified voters who voted in the preceding election of the taxing unit.

State Mandated Freeze on School District Taxes

Except for increases attributable to certain improvements, a school district is prohibited from increasing the total ad valorem tax on the homestead of persons sixty-five (65) years of age or older or of disabled persons above the amount of tax imposed in the year such homestead qualified for such exemption. This freeze is transferable to a different homestead if a qualifying taxpayer moves and, under certain circumstances, is also transferable to the surviving spouse of persons sixty-five (65) years of age or older, but not the disabled.

Personal Property

Tangible personal property (furniture, machinery, supplies, inventories, etc.) used in the “production of income” is taxed based on the property’s market value. Taxable personal property includes income-producing equipment and inventory. Intangibles such as goodwill, accounts receivable, and proprietary processes are not taxable. Tangible personal property not held or used for production of income, such as household goods, automobiles or light trucks, and boats, is exempt from ad valorem taxation unless the governing body of a taxing unit elects to tax such property.

Freeport and Goods-In-Transit Exemptions

Certain goods that are acquired in or imported into the State to be forwarded outside the State, and are detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication (“Freeport Property”) are exempt from ad valorem taxation unless a taxing unit took official action to tax Freeport Property before April 1, 1990 and has not subsequently taken official action to exempt Freeport Property. Decisions to continue taxing Freeport Property may be reversed in the future; decisions to exempt Freeport Property are not subject to reversal.

Certain goods, that are acquired in or imported into the State to be forwarded to another location within or without the State, stored in a location that is not owned by the owner of the goods and are transported to another location within or without the State within 175 days (“Goods-in-Transit”), are generally exempt from ad valorem taxation; however, the Property Tax Code permits a taxing unit, on a local option basis, to tax Goods-in-Transit if the taxing unit takes official action, after conducting a public hearing, before January 1 of the first tax year in which the taxing unit proposes to tax Goods-in-Transit. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include aircraft or special inventories such as manufactured housing inventory, or a dealer’s motor vehicle, boat, or heavy equipment inventory.

A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property.

Other Exempt Property

Other major categories of exempt property include property owned by the State or its political subdivisions if used for public purposes, property exempt by federal law, property used for pollution control, farm products owned by producers, property of nonprofit corporations used for scientific research or educational activities benefitting a college or university, designated historic sites, solar and wind-powered energy devices, and certain classes of intangible personal property.

Tax Increment Reinvestment Zones

A city or county, by petition of the landowners or by action of its governing body, may create one or more tax increment reinvestment zones (“TIRZ”) within its boundaries. At the time of the creation of the TIRZ, a “base value” for the real property in the TIRZ is established and the difference between any increase in the assessed valuation of taxable real property in the TIRZ in excess of the base value is known as the “tax increment”. During the existence of the TIRZ, all or a portion of the taxes levied against the tax increment by a city or county, and all other overlapping taxing units that elected to participate, are restricted to paying only planned project and financing costs within the TIRZ and are not available for the payment of other obligations of such taxing units.

Until September 1, 1999, school districts were able to reduce the value of taxable property reported to the State to reflect any taxable value lost due to TIRZ participation by the school district. The ability of the school district to deduct the taxable value of the tax increment that it contributed prevented the school district from being negatively affected in terms of state school funding. However, due to a change in law, local M&O tax rate revenue contributed to a TIRZ created on or after May 31, 1999 will count toward a school district’s Tier One entitlement (reducing Tier One State funds for eligible school districts) and will not be considered in calculating any school district’s Tier Two entitlement (see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts”).

Tax Limitation Agreements

The Texas Economic Development Act (Chapter 313, Texas Tax Code, as amended), allows school districts to grant limitations on appraised property values to certain corporations and limited liability companies to encourage economic development within the school district. Generally, during the last eight (8) years of the ten-year term of a tax limitation agreement, a school district may only levy and collect M&O taxes on the agreed-to limited appraised property value. For the purposes of calculating its Tier One and Tier Two entitlements, the portion of a school district’s property that is not fully taxable is excluded from the school district’s taxable property values. Therefore, a school district will not be

subject to a reduction in Tier One or Tier Two State funds as a result of lost M&O tax revenues due to entering into a tax limitation agreement (see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts”).

For a discussion of how the various exemptions described above are applied by the District, see “THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT” herein.

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units, including the District, may appeal the determinations of the Appraisal District by timely initiating a protest with the Appraisal Review Board. Additionally, taxing units such as the District may bring suit against the Appraisal District to compel compliance with the Property Tax Code.

Owners of certain property with a taxable value in excess of the current year “minimum eligibility amount”, as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at \$50 million for the 2020 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the District and provides for taxpayer referenda that could result in the repeal of certain tax increases (see “TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate”). The Property Tax Code also establishes a procedure for providing notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

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. 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 of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the District. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers. Furthermore, the District may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment 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 state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the District, having power to tax the property. The District’s tax lien is on a parity with tax liens of such other taxing units. A tax lien on real property takes 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; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

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, adverse market conditions, taxpayer redemption rights, or bankruptcy proceedings which restrain the collection of a taxpayer’s debt.

Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases, post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

TAX RATE LIMITATIONS

M&O Tax Rate Limitations

The District is authorized to levy an M&O tax rate pursuant to the approval of the voters of the District at an election held on December 15, 1956 in accordance with the provisions of Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended.

The 2019 Legislation established the following maximum M&O tax rate per \$100 of taxable value that may be adopted by school districts, such as the District, for the 2019 and subsequent tax years:

For the 2019 tax year, the maximum M&O tax rate per \$100 of taxable value that may be adopted by a school district is the sum of \$0.17 and the product of the State Compression Percentage multiplied by \$1.00. For the 2019 tax year, the state compression percentage has been set at 93%.

For the 2020 and subsequent tax years, the maximum M&O tax rate per \$100 of taxable value that may be adopted by a school district is the sum of \$0.17 and the school district's MCR. A school district's MCR is, generally, inversely proportional to the change in taxable property values both within the school district and the State, and is subject to recalculation annually. For any year, the highest possible MCR for a school district is \$0.93 (see "TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Funding for School Districts" herein).

Furthermore, a school district cannot annually increase its tax rate in excess of the school district's Voter-Approval Tax Rate without submitting such tax rate to an election and a majority of the voters voting at such election approving the adopted rate (see "TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate" herein).

I&S Tax Rate Limitations

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 of the Texas Education Code, as amended, requires a school 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 voters of a school district 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 (the "50-cent Test"). In demonstrating the ability to pay debt service at a rate of \$0.50, a school district may take into account EDA and IFA allotments to the school district, which effectively reduces the school district's local share of debt service, and may also take into account Tier One funds allotted to the school district. If a school district exercises this option, it may not adopt an I&S tax until it has credited to the school district's I&S fund an amount equal to all State allotments provided solely for payment of debt service and any Tier One funds needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Additionally, a school district may demonstrate its ability to comply with the 50-cent Test by applying the \$0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the school district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five (5) years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a school district uses projected future taxable values to meet the 50-cent 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 Texas Attorney General must find that the school district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the 50-cent Test from a tax rate of \$0.45 per \$100 of valuation. Once the prospective ability to pay such tax has been shown and the bonds are issued, a school district may levy an unlimited tax to pay debt service. Refunding bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the 50-cent 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 50-cent Test when applied to subsequent bond issues that are subject to the 50-cent Test. The Bonds are issued as refunding bonds pursuant to Chapter 1207 and are, therefore, not subject to the 50-cent Test; however, taxes levied to pay debt service on the Bonds are included in the calculation of the 50-cent Test as applied to subsequent issues of "new debt".

Public Hearing and Voter-Approval Tax Rate

A school district's total tax rate is the combination of the M&O tax rate and the I&S tax rate. Generally, the highest rate at which a school district may levy taxes for any given year without holding an election to approve the tax rate is the "Voter-Approval Tax Rate", as described below.

A school district is required to adopt its annual tax rate before the later of September 30 or the sixtieth (60th) day after the date the certified appraisal roll is received by the taxing unit, except that a tax rate that exceeds the Voter-Approval Tax Rate must be adopted not later than the seventy-first (71st) day before the next occurring November uniform election date. A school district's failure to adopt a tax rate equal to or less than the Voter-Approval Tax Rate by September 30 or the sixtieth (60th) day after receipt of the certified appraisal roll, will result in the tax rate for such school district for the tax year to be the lower of the "no-new-revenue tax rate" calculated for that tax year or the tax rate adopted by

the school district for the preceding tax year. A school district's failure to adopt a tax rate in excess of the Voter-Approval Tax Rate on or prior to the seventy-first (71st) day before the next occurring November uniform election date, will result in the school district adopting a tax rate equal to or less than its Voter-Approval Tax Rate by the later of September 30 or the sixtieth (60th) day after receipt of the certified appraisal roll. "No-new-revenue tax rate" means the rate that will produce the prior year's total tax levy from the current year's total taxable values, adjusted such that lost values are not included in the calculation of the prior year's taxable values and new values are not included in the current year's taxable values.

The Voter-Approval Tax Rate for a school district is the sum of (i) the school district's MCR; (ii) the greater of (a) the school district's Enrichment Tax Rate for the preceding year, less any amount by which the school district is required to reduce its current year Enrichment Tax Rate pursuant to Section 48.202(f), Education Code, as amended, or (b) the rate of \$0.05 per \$100 of taxable value; and (iii) the school district's current I&S tax rate. However, for only the 2020 tax year, if the governing body of the school district does not adopt by unanimous vote an M&O tax rate at least equal to the sum of the school district's MCR plus \$0.05, then \$0.04 is substituted for \$0.05 in the calculation for such school district's Voter-Approval Tax Rate for the 2020 tax year. For the 2020 tax year, and subsequent years, a school district's M&O tax rate may not exceed the rate equal to the sum of (i) \$0.17 and (ii) the school district's MCR (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" herein for more information regarding the State Compression Percentage, MCR, and the Enrichment Tax Rate).

The governing body of a school district generally cannot adopt a tax rate exceeding the school district's Voter-Approval Tax Rate without approval by a majority of the voters approving the higher rate at an election to be held on the next uniform election date. Further, subject to certain exceptions for areas declared disaster areas, State law requires the board of trustees of a school district to conduct an efficiency audit before seeking voter approval to adopt a tax rate exceeding the Voter-Approval Tax Rate and sets certain parameters for conducting and disclosing the results of such efficiency audit. An election is not required for a tax increase to address increased expenditures resulting from certain natural disasters in the year following the year in which such disaster occurs; however, the amount by which the increased tax rate exceeds the school district's Voter-Approval Tax Rate for such year may not be considered by the school district in the calculation of its subsequent Voter-Approval Tax Rate.

The calculation of the Voter-Approval Tax Rate does not limit or impact the District's ability to set an I&S tax rate in each year sufficient to pay debt service on all of the District's tax-supported debt obligations, including the Bonds.

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 the school district's 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 school district if the school 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), (c-1), (c-2), and (d), and, if applicable, subsection (i), 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 school district delivers substantially all of its tax bills. A school district that elects to adopt a tax rate before the adoption of a budget for the fiscal year that begins in the current tax year may adopt a tax rate for the current tax year before receipt of the certified appraisal roll, so long as the chief appraiser of the appraisal district in which the school district participates has certified to the assessor for the school district an estimate of the taxable value of property in the school district. If a school district adopts its tax rate prior to the adoption of its budget, both the no-new-revenue tax rate and the Voter-Approval Tax Rate of the school district shall be calculated based on the school district's certified estimate of taxable value. A school 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.

A school district must annually calculate and prominently post on its internet website, and submit to the county tax assessor-collector for each county in which all or part of the school district is located its Voter-Approval Tax Rate in accordance with forms prescribed by the State Comptroller.

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 February 1 of the following year.

The District does collect an additional 20% penalty on delinquent taxes remaining on July 1 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.

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.

The District entered into a tax value limitation agreement pursuant to the provisions of Chapter 313, as amended, Texas Tax Code, known as the Texas Economic Development Act, with Gulf Coast Ammonia LLC, effective December 12, 2017. A summary of this agreement is provided below. Additional information pertaining to this agreement may be found on the Texas Comptroller’s website.

<u>Company</u>	<u>Application #</u>	First Year of Taxable Value for I&S Taxation ¹	Total Investment ²	Capped Value for M&O Taxation	First Year of Capped Value and Payments <u>to</u> <u>the District</u> ³
Gulf Coast Ammonia LLC	1147	2018/19	\$450,000,000	\$80,000,000	2020/21

¹ First year that a portion of the value was or will be placed on the tax rolls as set forth in the company’s application.

² Investment amount as set forth in the company’s application to the District for tax abatement.

³ First year that payments in lieu of taxes was or will be remitted to the District as set forth in the company’s application.

INVESTMENTS

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

Legal Investments

Under State law and subject to certain limitations, the District is authorized to invest in (1) obligations 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 issued and secured by a federal agency or instrumentality of the United States; (4) other obligations unconditionally guaranteed or insured by the State of Texas or the United States or their respective agencies and instrumentalities; (5) “A” or better rated obligations of states, agencies, counties, cities, and other political subdivisions of any state; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) federally insured interest-bearing bank deposits, brokered pools of such deposits, and collateralized certificates of deposit and share certificates; (8) fully collateralized United States government securities repurchase agreements; (9) one-year or shorter securities lending agreements secured by obligations described in clauses (1) through (7) above or (11) through (14) below or an irrevocable letter of credit issued by an “A” or better rated state or national bank; (10) 270-day or shorter bankers’ acceptances, if the short-term obligations of the accepting bank or its holding company are rated at least “A-1” or “P-1”; (11) commercial paper rated at least “A-1” or “P-1”; (12) SEC-registered no-load money market mutual funds that are subject to SEC Rule 2a-7; (13) SEC-registered no-load mutual funds that have an average weighted maturity of less than two years; (14) “AAA” or “AAAm”-rated investment pools that invest solely in investments described above; and (15) in the case of bond proceeds, guaranteed investment contracts that are secured by obligations described in clauses (1) through (7) above and, except for debt service funds and reserves, have a term of 5 years or less.

The District may not, however, invest in (1) interest only obligations, or non-interest bearing principal obligations, stripped from mortgage-backed securities; (2) collateralized mortgage obligations that have a remaining term that exceeds 10 years; and (3) collateralized mortgage obligations that bear interest at an index rate that adjusts opposite to the changes in a market index. In addition, the District may not invest more than 15% of its monthly average fund balance (excluding bond proceeds and debt service funds and reserves) in mutual funds described in clause (13) above or make an investment in any mutual fund that exceeds 10% of the fund’s total assets.

Except as stated above or inconsistent with its investment policy, the District may invest in obligations of any duration without regard to their credit rating, if any. If an obligation ceases to qualify as an eligible investment after it has been purchased, the District is not required to liquidate the investment unless it no longer carries a required rating, in which case the District is required to take prudent measures to liquidate the investment that are consistent with its investment policy.

As a school district that qualifies as an “issuer” under Chapter 1371, as amended, Texas Government Code, the District is also authorized to purchase, sell, and invest its funds in corporate bonds, but only if the District has formally amended its investment policy to authorize such

investments. 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 (1) 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 (2) 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.

Investment Policies

Under State law, the District is required to adopt and annually review written investment policies and must invest its funds in accordance with its policies. The policies must identify eligible investments and address investment diversification, yield, maturity, and the quality and capability of investment management. For investments whose eligibility is rating dependent, the policies must adopt procedures to monitor ratings and liquidate investments if and when required. The policies must require that all investment transactions settle on a delivery versus payment basis. The District is required to adopt a written investment strategy for each fund group to achieve investment objectives in the following order of priority: (1) suitability, (2) preservation and safety of principal, (3) liquidity, (4) marketability, (5) diversification, and (6) yield.

State law requires the District’s investments 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.” The District is required to perform an annual audit of the management controls on investments and compliance with its investment policies and provide regular training for its investment officers.

Current Investments ⁽¹⁾

TABLE 1

As of August 31, 2020, the District had the following investments:

<u>Investment Type</u>	<u>Amount</u>	<u>Percentage</u>
Investment Pools	\$ 146,171,240	70.60%
Checking Accounts	26,165,013	12.64%
Certificates of Deposit	27,914,205	13.48%
Money Market	<u>6,793,949</u>	<u>3.28%</u>
Total	<u>\$ 207,044,407</u>	<u>100.00%</u>

⁽¹⁾ Unaudited.

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 refunding bonds pursuant to Chapter 1207 and are, therefore, not subject to the 50-cent test. 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. See “TAX RATE LIMITATIONS.”

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, 2019, the District made a contribution of \$2,117,225 to TRS on a portion of its employees’ salaries that exceeded the statutory minimum. 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”).

The Government Accounting Standards Board (GASB) has issued GASB Statements No. 68, No. 73, and No. 82 regarding pension issues. The implementation of these statements is reflected in the financial statements and the notes to the financial statements. The District implemented the Governmental Accounting Standards Board Statement 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* at the beginning of the 2018 fiscal year. Changes for revenues and expenses prior to the implementation have not been calculated and are not available for comparison.

In addition to its participation in the TRS, the District contributes to the Texas Public School Retired Employees Group Insurance Program (the “TRS-Care Plan”), a cost-sharing multiple-employer defined post-employment benefits other than pensions (“OPEB”) health care plan. The TRS-Care Plan provides health care coverage for certain persons (and their dependents) who retired under the TRS. The TRS-Care Plan is administered

through a trust by the TRS Board of Trustees. Contribution rates are legally established in state statute by the Legislature, and there is no continuing obligation to provide benefits beyond each fiscal year. The TRS-Care Plan is currently funded on a pay-as-you-go basis and is subject to change based on available funding. For more detailed information concerning the District's funding policy and contributions in connection with the TRS-Care Plan, see "Note 4.D. – Defined Other Postemployment Benefit Plan" to the Financial Statements.

In June 2015, Government Accounting Standards Board (GASB) Statement No. 75 (Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions – which supersedes GASB Statement No. 45) was issued to improve accounting and financial reporting by state and local governments for OPEB. GASB Statement No. 75 requires reporting entities, such as the District, to recognize their proportionate share of the net OPEB liability in the TRS-Care Plan and a deferred outflow for the contributions made by the District subsequent to the measurement date in the Statement of Net Position, a government-wide financial statement. The changes related to OPEB in the Statement of Net Position to implement GASB 75 are reflected in the Statement of Activities, a government-wide financial statement. The changes related to the OPEB affect only the government-wide financial statements and do not affect the General Fund balance. The calculation of OPEB contributions is unaffected by the change. Such reporting began with the District's fiscal year ended August 31, 2018. To date, the District has met all funding requirements of the TRS-Care Plan.

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. 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.

In rendering the foregoing opinions, Bond Counsel will rely upon the Sufficiency Certificate of the Financial Advisor regarding the sufficiency of the deposit to the Escrow Fund on the date of closing and 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 Order 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 financial asset securitization investment trust ("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 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 Tables 1 through 8 and 11 through 14 of "APPENDIX A - Financial Information for the Texas City Independent School District" attached hereto, and in APPENDIX D attached hereto. The District will update and provide this information to the MSRB within six (6) months after the end of each fiscal year ending in or after 2020.

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 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 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; (14) appointment of a successor or additional paying agent/registrars or the change of name of a paying agent/registrars, if material; (15) incurrence of a Financial Obligation of the District (as defined by the Rule, which includes certain debt, debt-like, and debt-related obligations), if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such financial obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such financial obligation of the District, any of which reflect financial difficulties. Neither the Bonds nor the Order make any provision for debt service reserves, credit enhancement (except with respect to the Permanent School Fund guarantee), or liquidity enhancement. In the Order, the District has adopted policies and procedures to ensure timely compliance of its continuing disclosure undertakings. 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, (a) 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, and (b) the District intends the words used in the immediately preceding clauses (15) and (16) and in the definition of Financial Obligation above to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018.

Availability of Information

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.

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 Purchaser 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 Purchaser 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

Other than as described below, during the past 5 years, the District has complied in all material respects with its continuing disclosure agreements in accordance with the Rule.

S&P (defined herein) upgraded the two series of La Marque ISD obligations to "AA" to match the underlying rating of the District's then-outstanding debt obligations after the annexation of La Marque ISD by the District (see "INTRODUCTORY STATEMENT" herein). Both such series of obligations are rated "AAA" by virtue of the guarantee by the Permanent School Fund of Texas (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein). The District timely filed notice of the annexation and consolidation of La Marque ISD by the District, and such notice indicated that following the annexation, "the respective obligations of Texas City ISD and La Marque ISD will be secured by and payable from an annual ad valorem tax levied, without limit as to rates or amount, upon all property within the new Texas City ISD (as it exists after the

annexation of La Marque ISD).” However, such notice did not include notice of the increase in the underlying rating of La Marque ISD’s obligations. Information about this rating action was widely and publicly reported, particularly throughout the municipal bond industry. Subsequent to the annexation of La Marque ISD, the District provides continuing disclosure information for the combined District for all of its outstanding obligations.

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,” 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 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.

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.

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 sure 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.

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 sole expense, in registering or qualifying the Bonds or in obtaining an exemption from registration or qualification in any state where such action is necessary; provided, however, that the District shall not be required to qualify as a foreign corporation or to execute a general or special consent to service of process in any jurisdiction.

Ratings

S&P Global Ratings ("S&P") has assigned a municipal bond rating of "AAA", to the Bonds based upon the Permanent School Fund Guarantee. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "CONTINUING DISCLOSURE OF INFORMATION – Compliance with Prior Undertakings".) The presently outstanding unenhanced tax-supported debt of the District are rated "AA" by S&P. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time. The rating of the Bonds by S&P reflects only the view of such company at the time the rating is given, and the Issuer makes no representation as to the appropriateness of the rating. There is no assurance that the rating will continue for any given period of time, or that the rating will not be revised downward or withdrawn entirely by S&P if, in the judgment of said companies, circumstances so warrant. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time. Any such downward revisions or withdrawals of the rating 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 Frost Bank (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 reoffering premium of \$616,131.75, 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.

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 approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Bonds by the Purchaser. This Official Statement has been approved by the Board of the District for distribution in accordance with the provisions of the United States Securities and Exchange Commission Rule codified at 17 C.F.R. Section 240.15c2-12.

TEXAS CITY INDEPENDENT SCHOOL DISTRICT

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

ATTEST:

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

SCHEDULE I

SCHEDULE OF REFUNDED BONDS

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**SCHEDULE I
SCHEDULE OF REFUNDED BONDS**

TEXAS CITY INDEPENDENT SCHOOL DISTRICT

**Unlimited Tax Refunding Bonds, Series 2011
(Redemption Date February 15, 2021 @ par)**

Current Interest Bonds

<u>Original Dated Date</u>	<u>Original Maturity (February 15)</u>	<u>Outstanding Principal Amount</u>	<u>Principal Being Refunded</u>	<u>Interest Rate</u>
12/1/11	2022	\$ 2,100,000.00	\$ 2,100,000.00	5.000%
	2023	2,210,000.00	2,210,000.00	5.000%
	2024	2,310,000.00	2,310,000.00	5.000%
	2025	2,445,000.00	2,445,000.00	5.000%
		<u>\$ 9,065,000.00</u>	<u>\$ 9,065,000.00</u>	

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APPENDIX A

FINANCIAL INFORMATION FOR THE TEXAS CITY INDEPENDENT SCHOOL DISTRICT

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FINANCIAL INFORMATION OF THE ISSUER

ASSESSED VALUATION **TABLE 1**

2020 Actual Certified Market Value of Taxable Property (100% of Market Value).....	\$ 7,003,403,600
Less Exemptions:	
\$15,000 State Mandated Homestead Exemption.....	\$ 612,653,927
\$10,000 Over-65/Disabled Homestead Exemption.....	109,160,584
Disabled and Deceased Veterans' Exemptions.....	26,280,051
Pollution Control.....	248,467,119
Productive Valuation of Open Space Land.....	22,365,357
10% Per Year Residential Cap.....	<u>179,660,843</u>
TOTAL EXEMPTIONS	1,198,587,881
2020 Net Taxable Assessed Value of Taxable Property.....	<u>\$ 5,804,815,719</u>
Less: Freeze Taxable Valuation.....	<u>321,629,637</u>
2020 Freeze Adjusted Net Taxable Assessed Value of Taxable Property.....	<u>\$ 5,483,186,082</u>

Source: Galveston Central Appraisal District.

GENERAL OBLIGATION BONDED DEBT **TABLE 2**

(as of October 1, 2020)

General Obligation Debt Outstanding

Unlimited Tax School Building Bonds, Series 2011.....	\$ 5,130,000
Unlimited Tax School Refunding Bonds, Series 2011.....	2,005,000 ⁽¹⁾
Unlimited Tax Refunding Bonds, Series 2015.....	35,370,000
Unlimited Tax Refunding Bonds, Series 2017.....	8,900,000
Unlimited Tax School Building Bonds, Series 2018.....	63,750,000
Unlimited Tax School Building and Refunding Bonds, Series 2019.....	61,915,000
Unlimited Tax Refunding Bonds, Series 2020	13,365,000
The Bonds	<u>8,535,000</u>
<i>Total Unlimited Tax Debt Outstanding</i>	<u>\$ 198,970,000</u>
Maintenance and Operations Debt Outstanding	
Maintenance Tax Notes, Series 2016.....	\$ 825,000

2020 Net Assessed Valuation	\$ 5,804,815,719
Ratio of Total Gross General Obligation Debt Principal to Certified Net Taxable Assessed Valuation	3.43%

District Population: Estimated 2019 - 57,000
Per Capita Certified Net Taxable Assessed Valuation - \$152,297.41
Per Capita Gross General Obligation Debt Principal - \$5,220.25

⁽¹⁾ Excludes the Refunded Bonds.

TAXABLE ASSESSED VALUATION FOR TAX YEARS 2011-2020 **TABLE 3**

Year	Valuation	Change From Preceding Year	
		Amount (\$)	Percent
2011-12	\$ 3,771,541,817	---	---
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*	4,568,437,442	881,701,889	23.92%
2017-18*	4,721,311,932	152,874,490	3.35%
2018-19*	5,045,878,221	324,566,289	6.87%
2019-20*	5,343,413,656	297,535,435	5.90%
2020-21*	5,804,815,719	461,402,063	8.63%

Source: Galveston Central Appraisal District.

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

GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

TABLE 4

(As of October 1, 2020)

FYE (8/31)	Current Total		The Bonds			Combined Debt Service
	Outstanding Debt ⁽¹⁾	Less: Refunded Debt Service*	Principal	Interest	Total	
2021	\$20,173,744	\$ 453,250		\$ 177,600	\$ 177,600	\$ 19,898,094
2022	20,126,456	2,500,750	\$ 2,055,000	216,250	2,271,250	19,896,956
2023	20,771,056	2,503,000	2,100,000	174,700	2,274,700	20,542,756
2024	20,718,106	2,490,000	2,150,000	121,450	2,271,450	20,499,556
2025	20,189,781	2,506,125	2,230,000	44,600	2,274,600	19,958,256
2026	17,623,406	-	-	-	-	17,623,406
2027	17,388,806	-	-	-	-	17,388,806
2028	17,143,606	-	-	-	-	17,143,606
2029	15,204,956	-	-	-	-	15,204,956
2030	15,153,206	-	-	-	-	15,153,206
2031	8,531,406	-	-	-	-	8,531,406
2032	7,658,406	-	-	-	-	7,658,406
2033	7,705,406	-	-	-	-	7,705,406
2034	7,675,906	-	-	-	-	7,675,906
2035	5,117,906	-	-	-	-	5,117,906
2036	5,112,506	-	-	-	-	5,112,506
2037	5,112,506	-	-	-	-	5,112,506
2038	5,107,506	-	-	-	-	5,107,506
2039	5,112,506	-	-	-	-	5,112,506
2040	5,124,556	-	-	-	-	5,124,556
2041	5,140,475	-	-	-	-	5,140,475
2042	5,153,181	-	-	-	-	5,153,181
2043	4,995,806	-	-	-	-	4,995,806
2044	5,003,850	-	-	-	-	5,003,850
2045	5,006,000	-	-	-	-	5,006,000
2046	5,011,800	-	-	-	-	5,011,800
2047	5,025,600	-	-	-	-	5,025,600
2048	5,016,800	-	-	-	-	5,016,800
2049	1,456,000	-	-	-	-	1,456,000
Total	\$ 288,561,250	\$ 10,453,125	\$ 8,535,000	\$ 734,600	\$ 9,269,600	\$ 287,377,725

⁽¹⁾ Excludes the District's Maintenance Tax Notes, Series 2016, outstanding in the principal amount of \$825,000 and finally maturing on March 1, 2021.

TAX ADEQUACY

TABLE 5

2020 Certified Freeze Adjusted Net Taxable Assessed Valuations	\$ 5,483,186,082
Maximum Annual Debt Service Requirements (Fiscal Year Ending 8-31-2023)	20,542,756
Indicated required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service	\$ 0.382296

INTEREST AND SINKING FUND MANAGEMENT INDEX

Interest and Sinking Fund Balance, Fiscal Year Ended August 31, 2020*	\$ 13,973,750
2020 Interest and Sinking Fund Tax Levy at 98% Collections produce	18,533,279
Plus State Allocated Funds for Annexation/SB 1353	1,397,478
Total Available for General Obligation Debt	\$ 33,904,507
Less: General Obligation Debt Service Requirements, Fiscal Year Ending 8/31/2020	19,898,094
Estimated Surplus at Fiscal Year Ending 8/31/2021	\$ 14,006,413

* Represents the anticipated and unaudited interest and sinking fund balance for the fiscal year ending August 31, 2020.

CLASSIFICATION OF ASSESSED VALUATION

TABLE 6

	2020	% of Total	2019	% of Total	2018	% of Total
Real, Residential, Single-	\$ 2,715,095,387	38.77%	\$ 2,364,045,559	33.76%	\$ 2,153,522,909	13.65%
Real, Residential, Multi-	191,404,096	2.73%	133,364,781	1.90%	128,815,574	0.64%
Real, Vacant Lots/Tracts	61,424,528	0.88%	55,756,752	0.80%	55,785,004	0.23%
Real, Acreage (Land Only)	22,447,878	0.32%	23,051,098	0.33%	22,842,388	0.41%
Real, Farm and Ranch	24,552,443	0.35%	22,984,182	0.33%	23,091,385	0.00%
Real, Commercial and Industrial	2,736,404,408	39.07%	2,657,610,270	37.95%	2,404,481,231	56.35%
Real & Tangible, Oil and Gas	31,502	0.00%	269,304	0.00%	102,993	0.00%
Real & Tangible, Personal						
Utilities	210,399,920	3.00%	200,099,840	2.86%	181,707,636	1.46%
Tangible Personal, Industrial	824,203,388	11.77%	781,246,410	11.16%	874,582,864	27.06%
Tangible Personal,	200,497,750	2.86%	181,534,630	2.59%	201,989,480	0.01%
Real Property, Mobile Homes	2,138,250	0.03%	2,472,450	0.04%	2,468,430	
Real Inventory	3,081,960	0.04%	4,252,370	0.06%	4,548,365	0.13%
Special Inventory	11,722,090	0.17%	9,248,580	0.13%	8,346,790	0.05%
Total Appraised Value	\$ 7,003,403,600	100.00%	\$ 6,435,936,226	91.90%	\$ 6,062,285,049	100.00%
Less:						
\$15,000 State Mandated	\$ 612,653,927		\$ 585,991,396		\$ 569,664,826	
\$10,000 Over-65/Disabled	109,160,584		106,464,662		105,523,524	
Disabled and Deceased						
Veterans' Exemptions	26,280,051		22,258,280		19,145,682	
Pollution Control	248,467,119		271,844,926		245,566,609	
Productive Valuation of Open	22,365,357		22,943,167		22,735,337	
10% Per Year Residential Cap	179,660,843		83,020,139		53,770,850	
Net Taxable Assessed Valuation	\$ 5,804,815,719		\$ 5,343,413,656		\$ 5,045,878,221	

Source: Galveston Central Appraisal District.

TAX DATA

TABLE 7

Tax Year	Net Taxable Valuation	Tax Rate	Tax Levy	% of Collections		Year Ended
				Current	Total	
2011	\$ 3,771,541,817	\$ 1.295300	\$ 48,852,781	99.20%	100.02%	8/31/2012
2012	4,066,423,890	1.269200	51,611,052	99.24%	99.84%	8/31/2013
2013	3,775,483,994	1.290900	48,737,723	99.26%	100.61%	8/31/2014
2014	4,129,716,010	1.261600	52,100,497	99.33%	99.98%	8/31/2015
2015	3,686,735,553	1.429800	52,712,945	99.39%	100.00%	8/31/2016
2016	4,568,437,442	1.440500	65,808,341	99.35%	100.00%	8/31/2017
2017	4,721,311,932	1.434900	67,746,105	97.90%	98.77%	8/31/2018
2018	5,045,878,221	1.514900	76,440,009	98.19%	99.68%	8/31/2019
2019	5,343,413,656	1.413250	75,515,793	98.25%	99.02%	8/31/2020
2020	5,804,815,719	1.360700	78,986,127	(In Process of Collection)		8/31/2021

TAX RATE DISTRIBUTION

TABLE 8

	2020	2019	2018	2017	2016
General Fund	\$ 1.0158 ⁽¹⁾	\$ 1.0684 ⁽¹⁾	\$ 1.1700	\$ 1.1700	\$ 1.1700
I & S Fund	0.3449	0.3449	0.3449	0.2649	0.2705
Total Tax Rate	\$ 1.3607	\$ 1.4133	\$ 1.5149	\$ 1.4349	\$ 1.4405

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, 2019, and information supplied by the Issuer.

⁽¹⁾ The decline in the District's Maintenance and Operations Tax Rate from the 2018/19 Fiscal year to the 2019/20 Fiscal year is a function of House Bill 3 adopted by the Texas Legislature in June 2019.

ESTIMATED OVERLAPPING DEBT INFORMATION

TABLE 9

(As of October 1, 2020)

Taxing Body	Gross Debt (As of 10/1/20)	% Overlapping	Amount Overlapping
Bayou Vista, City of	\$ 37,000	100.00%	\$ 37,000
College of the Mainland	170,055,000	45.33%	77,085,932
Galveston Co	229,269,447	16.91%	38,769,463
Galveston FWSD # 6	5,160,000	61.27%	3,161,532
Galveston Co MUD # 12	2,550,000	100.00%	2,550,000
Galveston Co MUD # 52	3,980,000	100.00%	3,980,000
Galveston Co MUD # 66	6,145,000	28.23%	1,734,734
La Marque, City of	31,084,500	52.85%	16,428,158
Texas City, City of	31,460,000	81.10%	25,514,060
Tiki Island, Village of	1,365,000	61.16%	834,834
Total Gross Overlapping Debt			<u>\$ 170,095,713</u>
Texas City ISD			\$ 198,970,000
Total Gross Direct and Overlapping Debt			<u>\$ 369,065,713</u>
Ratio of Direct and Overlapping Debt to Net Assessed Valuation			6.43%
Per Capita Direct and Overlapping Debt			\$ 6,475

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas.

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

TABLE 10

Issuer	Date of Authorization	Amount Authorized	Amount Issued to Date	Amount Unissued
Bayou Vista, City of	None			
College of the Mainland	None			
Galveston Co	None	\$ -	\$ -	\$ -
Galveston FWSD # 6	11/05/2013	8,500,000	2,590,000	5,910,000
	1/20/2001	5,800,000	5,795,942	4,058
				<u>\$ 5,914,058</u>
Galveston Co MUD # 12	5/5/2018	\$ 4,400,000	\$ 2,550,000	\$ 1,850,000
Galveston Co MUD # 52	11/08/2005	65,725,000	4,330,000	61,395,000
Galveston Co MUD # 66	11/07/2006	16,295,000	6,675,000	9,620,000
La Marque, City of	None			
Texas City, City of	None			
Tiki Island, Village of	None			
Texas City ISD	None			

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas.

<u>Name</u>	<u>Business/Property</u>	<u>2020</u>	
		<u>Net Taxable Assessed Valuation</u>	<u>% of Total 2020 Assessed Valuation</u>
Blanchard Refining Co LLC ⁽¹⁾	Oil and Gas	\$ 1,432,887,310	24.68%
Valero Refining-Texas LP	Oil and Gas	413,622,729	7.13%
Union Carbide Corp	Chemical	211,043,530	3.64%
Praxair Inc	Chemical	165,358,810	2.85%
BP Amoco Chemical Co	Chemical	128,275,560	2.21%
Texas-New Mexico Power Co	Utility	98,314,320	1.69%
South Houston Green Power LP ⁽¹⁾	Utility	66,952,220	1.15%
Eastman Chemical Texas City Inc	Chemical	59,137,050	1.02%
Valero Marketing & Supply Co.	Oil and Gas	50,988,890	0.88%
Praxair Inc	Chemical	44,572,533	0.77%
		<u>\$ 2,671,152,952</u>	<u>46.02%</u>

As shown in the table above, the top ten taxpayers in the District account for in excess of 46% of the District’s tax base, with the largest taxpayer representing more than 24% of the tax base alone. 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. Current events, including the Pandemic (See "INFECTIOUS DISEASE OUTBREAK - COVID-19" herein), have caused extreme volatility in the oil industry, depressing the price for that commodity. 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” and “AD VALOREM TAX PROCEDURES – District’s Rights in the Event of Tax Delinquencies” in this Official Statement.

⁽¹⁾ Each respective principal taxpayer filed suit against the appraisal District contesting and protesting that the appraised value for 2019 is overvalued. If either principal taxpayer is successful, the net taxable assessed valuation of such taxpayer’s property could be reduced and the District could be forced to refund a portion of the taxes previously paid by such taxpayer. On February 24, 2020 South Houston Green Power LP agreed to a final judgement that refunded \$83,954.98 to the Company. As of October 7, 2020 there have not been any petitioned filed by the Top 10 Taxpayers for the tax year 2020.

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				
	8/31/2019	8/31/2018	8/31/2017	8/31/2016*	8/31/2015
Fund Balance - Beginning of Year	\$ 51,845,170	\$ 39,071,869	\$ 31,526,524	\$ 38,614,758	\$ 34,945,814
Revenues:					
Local and Intermediate Sources	\$ 64,271,622	\$ 71,264,438	\$ 55,449,530	\$ 60,360,845	\$ 44,690,963
State Sources	38,914,868	38,795,272	50,834,671	16,632,035	7,708,795
Federal Sources & Other	7,185,381	2,027,443	1,783,364	1,124,720	617,647
Total Revenues	<u>\$ 110,371,871</u>	<u>\$ 112,087,153</u>	<u>\$ 108,067,565</u>	<u>\$ 78,117,600</u>	<u>\$ 53,017,405</u>
Expenditures:					
Instruction	\$ 41,250,006	\$ 42,810,649	\$ 45,703,140	\$ 39,732,756	\$ 29,083,295
Instructional Resources & Media Services	894,708	1,064,598	1,050,469	771,102	707,124
Curriculum & Instructional Staff Development	827,696	722,426	886,384	1,052,678	680,739
Instructional Leadership	760,669	708,474	643,323	790,972	442,565
School Leadership	5,015,176	5,060,923	5,068,227	4,662,194	3,093,859
Guidance, Counseling & Evaluation Services	2,322,566	2,272,172	2,468,495	1,920,257	1,508,228
Social Work Services	155,069	121,431	84,171	100,645	73,376
Health Services	819,059	904,762	781,220	747,192	471,311
Student (Pupil) Transportation	2,121,512	2,330,608	1,775,426	2,212,646	1,068,877
Food Services	-	1,233	-	35,887	-
Cocurricular/Extracurricular Activities	3,374,695	3,129,746	3,273,243	3,004,722	1,668,478
General Administration	3,144,979	3,179,911	3,140,052	4,380,147	2,388,541
Plant Maintenance and Operations **	17,605,818	30,073,891	13,890,924	13,204,563	8,290,752
Security and Monitoring Services	3,332,434	1,809,030	1,396,702	1,671,416	676,372
Data Processing Services	2,359,917	2,527,402	5,009,008	5,358,070	1,354,650
Community Services	29,493	25,322	42,226	29,606	15,276
Debt Service – Principal on long-term debt	842,939	1,029,288	1,072,550	234,490	-
Interest on long-term debt	22,776	41,011	-	-	-
Issuance costs and fees	400	400	-	-	-
Capital Outlay	70,705	174,327	6,857,626	4,216,398	3,276,275
Contracted instructional services between schools	518,451	420,617	-	-	-
Payments related shares services arrangements	292,075	324,958	-	-	-
Payments to juvenile justice alternative education programs	24,145	5,141	-	-	-
Intergovernmental Charges	488,798	575,532	2,628,007	2,273,686	642,708
Total Expenditures	<u>\$ 86,274,086</u>	<u>\$ 99,313,852</u>	<u>\$ 95,771,193</u>	<u>\$ 86,399,427</u>	<u>\$ 55,442,426</u>
Other Financing Sources	\$ -	\$ -	\$ (4,751,027)	\$ 1,193,593	\$ 326,331
Prior Period Adjustment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,180,869)⁽¹⁾</u>
Fund Balance - End of Year ⁽²⁾	<u>\$ 75,942,955</u>	<u>\$ 51,845,170</u>	<u>\$ 39,071,869</u>	<u>\$ 31,526,524</u>	<u>\$ 31,666,255</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 District expects that the unaudited General Fund Balance at the end of fiscal year ending August 31, 2020 will equal approximately \$73,864,121 after transferring \$25,000,000 to the District's Construction Fund. If not for the transfer the the ending fund balance would have been \$98,864,121.

* The Texas Education Agency's Commissioner of Education ordered the closure of La Marque ISD effective July 1, 2016. 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 as though the entities had been combined at the beginning of Texas City ISD's fiscal year (i.e. September 1, 2015).

** Plant Maintenance and Operation Expenses in Fiscal Year 2018 and 2019 are escalated due to repairs and expenses related to Hurricane Harvey which hit the Texas Gulf Coast on August 26, 2018 (See: Weather Events and Impact of Hurricane Harvey herein). The losses included three of the four La Marque campuses, \$15,000,000 spent on remediation efforts and additional expenses to rent temporary facilities to house students and teachers from the closed campuses.

COMPARATIVE STATEMENT OF DEBT SERVICE FUND REVENUES AND EXPENDITURES

TABLE 13

	Fiscal Year Ended August 31,				
	2019	2018	2017	2016 ⁽¹⁾	2015
Revenues:					
Local	\$ 17,302,769	\$ 12,624,502	\$ 12,282,082	\$ 11,926,671	\$ 8,826,082
State	3,789,799	7,375,492	259,611	228,090	-
Total Revenues	\$ 21,092,568	\$ 19,999,994	\$ 12,541,693	\$ 12,154,761	\$ 8,826,082
Expenditures:					
Total Debt Service	\$ 19,368,624	\$ 11,958,086	\$ 12,109,444	\$ 12,082,531	\$ 10,055,796
Excess (Deficiency) Revenues Over Expenditures	2,154,306	8,041,908	432,249	72,230	(1,229,714)
Fund Balance					
Beginning Balance - September 1	10,835,688	2,793,780	3,435,853	3,363,623	2,426,378
Other Sources (Uses)	-	-	(1,074,322)	-	518,689
Fund Balance - End of Year	\$ 12,989,994	\$ 10,835,688	\$ 2,793,780	\$ 3,435,853	\$ 1,715,353⁽¹⁾

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, La Marque ISD 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 as though the entities had been combined at the beginning of Texas City ISD's fiscal year (i.e. September 1, 2015).

ANALYSIS OF DELINQUENT TAXES

TABLE 14

Tax Year	Outstanding Delinquent Taxes	Adjusted Tax Levy	Percentage of Tax Levy
2019	\$ 1,282,442	\$ 75,515,793	1.70%
2018	735,983	76,440,009	0.96%
2017	522,685	67,746,105	0.77%
2016	285,921	65,808,341	0.43%
2015	217,012	52,712,945	0.41%
2014	166,226	52,100,497	0.32%
2013	145,829	48,737,723	0.30%
2012	138,264	51,611,052	0.27%
2011	140,745	48,852,781	0.29%
2010 and prior ^(a)	1,385,045		

^(a) Various levies and percentages

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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"), and Gulfport.

District Employment

Teachers	567
Administrators	66
Teachers' Aides	144
Non-Teaching Certified Professional Staff (nurses, counselors, diagnosticians)	108
Support Staff (secretaries, clerks)	93
Auxiliary Staff (food service & maintenance)	400
Total Number of Personnel	<u>1,378</u>

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	351	1976
Guajardo Elementary	K-4	600	520	1957
Heights Elementary	K-4	600	417	1993
Kohfeldt Elementary	K-4	600	493	2009
La Marque Elementary	2-4	450	549	1956
La Marque Primary	PK-1	450	520	1956
Roosevelt Wilson Elementary	K-4	600	628	1993
Blocker Middle School	7-8	1,100	949	2013
La Marque Middle School	5-8	1,100	538	1956
Levi Fry Intermediate	5-6	900	921	2009
La Marque High School	9-12	2,400	690	1970
Texas City High School	9-12	1,800	1791	2011
Woodrow Wilson Alternative	6-12	200	74	1995
Industrial Trades Center	N/A			2017
Totals		11,100	8,441	

HISTORICAL ENROLLMENT

<u>YEAR</u>	<u>STUDENT ENROLLMENT</u>
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
2017-18	8,945
2018-19	8,616
2019-20*	8,451

*Current year enrollment as of October 25, 2020.

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>2020⁽²⁾</u>	<u>2019⁽¹⁾</u>	<u>2018⁽¹⁾</u>	<u>2017⁽¹⁾</u>	<u>2016⁽¹⁾</u>
Civilian Labor Force	22,460	21,789	21,410	21,442	21,267
Total Employed	19,621	20,457	20,032	19,747	19,770
Total Unemployed	2,839	1,332	1,378	1,695	1,497
% Unemployed	12.6%	6.1%	6.4%	7.9%	7.0%

(1) Average annual statistics.

(2) As of September 2020.

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, have 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*

	<u>2020⁽²⁾</u>	<u>2019⁽¹⁾</u>	<u>2018⁽¹⁾</u>	<u>2017⁽¹⁾</u>	<u>2016⁽¹⁾</u>
Civilian Labor Force	167,219	165,479	163,247	161,977	160,038
Total Employed	151,437	158,807	155,732	153,462	151,521
Total Unemployed	15,782	6,672	7,515	8,515	8,517
% Unemployed	9.4%	4.0	4.6%	5.3%	5.3%
%Unemployed (U.S.)	7.7%	3.7%	3.9%	4.4%	4.9%
%Unemployed (Texas)	8.3%	3.5%	3.8%	4.3%	4.6%

(1) Average annual statistics.

(2) As of September 2020.

Source: Texas Workforce Commission.

APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

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FINAL

IN REGARD to the authorization and issuance of the “Texas City Independent School District Unlimited Tax Refunding Bonds, Series 2020A” (the *Bonds*), dated November 15, 2020, in the aggregate principal amount of \$8,535,000, we have reviewed the legality and validity of the issuance thereof by the Board of Trustees of 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 February 15 in each of the years 2022 through 2025. The Bonds are not subject to redemption prior to Stated Maturity. 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, the defeasance and discharge of the Issuer’s obligations being refunded by the Bonds 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 Board of Trustees of the Issuer in connection with the issuance of the Bonds, including the Order and the Escrow Deposit Letter (the *Escrow Agreement*) between the Issuer and UMB Bank, N.A., Austin, Texas (the *Escrow Agent*), (2) the certification (the *Sufficiency Certificate*) by SAMCO Capital Markets, Inc., as Financial Advisor to the Issuer, concerning the sufficiency of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement; (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 Bonds 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

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Legal Opinion of Norton Rose Fulbright US LLP, Austin, Texas, in connection with the authorization and issuance of TEXAS CITY INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX REFUNDING BONDS, SERIES 2020A

original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates. 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 Escrow Agreement has been duly authorized, executed, and delivered by the Issuer and, assuming due authorization, execution, and delivery thereof by the Escrow Agent, is a valid and binding obligation, enforceable in accordance with its terms (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), and that the outstanding obligations refunded, discharged, paid, and retired with certain proceeds of the Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment from the funds held in trust with the Escrow Agent, pursuant to the Escrow Agreement and the order authorizing their issuance, and in accordance with the provisions of Chapter 1207, as amended, Texas Government Code. In rendering this opinion, we have relied upon the Sufficiency Certificate concerning the sufficiency of cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement for the purposes of paying the outstanding obligations refunded and to be retired with the proceeds of the Bonds and the interest thereon.

BASED ON OUR EXAMINATION, IT IS FURTHER 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 Sufficiency Certificate concerning the sufficiency of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement and 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.

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

Legal Opinion of Norton Rose Fulbright US LLP, Austin, Texas, in connection with the authorization and issuance of TEXAS CITY INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX REFUNDING BONDS, SERIES 2020A

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. 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, 2019**

**(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

To the Board of Trustees of
Texas City Independent School District
Texas City, Texas

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, 2019, 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 the District, as of August 31, 2019, 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 the 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 Title 2 U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 was derived from and relates 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 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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.

The Board of Trustees of
Texas City Independent School District

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2019 on our consideration of the 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 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 the District's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas
December 10, 2019

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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, 2019. 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, other post-employment benefit (OPEB) 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 \$96,574,914 (net position).
- The District's total net position increased by \$32,971,539 from current operations.
- As of the close of the year, the District's governmental funds had combined ending fund balances of \$214,391,601, an increase of \$75,809,782 as compared to the preceding year and is primarily due to issuance of bonds.
- At the end of the year, unassigned fund balance of the general fund was \$40,301,493, or 47 percent of the year's total general fund expenditures.
- The District's total bonded debt increased by \$49,623,302 (27 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 and other 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 Acquisition and Construction, Contracted Instructional Services Between Schools, Payments Related to Shared Service Arrangements, Payments to Juvenile Justice Alternative Education Programs, and Other Intergovernmental Charges*, as applicable.

The government-wide financial statements can be found as noted in the table of contents of this report.

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 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 seventeen 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, debt service fund and national school breakfast and lunch program special revenue fund. All other governmental funds adopt project length budgets. Subsequent to adoption, amendments approved by the governing body are reflected in a revised budget column. A budgetary comparison statement has been provided for the general fund, debt service fund and national school breakfast and lunch program special revenue fund to demonstrate compliance with its 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 and other 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 \$96,574,914, an increase of \$32,971,539 over the preceding year.

Texas City Independent School District's Net Position

	Governmental Activities					
	2019		2018		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Current and other assets	\$ 231,231,252	56	\$ 148,525,243	46	\$ 82,706,009	56
Capital assets, net of depreciation	182,412,773	44	172,770,611	54	9,642,162	6
Total assets	413,644,025	100	321,295,854	100	92,348,171	
Total deferred outflows of resources	30,450,953	100	18,826,560	100	11,624,393	62
Long-term liabilities outstanding	314,642,370	97	249,352,627	98	65,289,743	26
Other liabilities	10,820,956	3	4,011,200	2	6,809,756	170
Total liabilities	325,463,326	100	253,363,827	100	72,099,499	
Total deferred inflows of resources	22,056,738	100	23,155,212	100	(1,098,474)	(5)
Net position:						
Net investment in capital assets	71,688,976	74	61,569,135	97	10,119,841	16
Restricted	13,857,492	15	11,844,117	18	2,013,375	17
Unrestricted	11,028,446	11	(9,809,877)	(15)	20,838,323	(212)
Total net position	\$ 96,574,914	100	\$ 63,603,375	100	\$ 32,971,539	

The largest portion of the District's net position is net investment in capital assets. Investment in capital assets (e.g., land, buildings and improvements, furniture and equipment, and construction in progress), less any related debt used to acquire those assets that are still outstanding represent 74 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 \$13,857,492, which represents 15 percent of total net position, is restricted for future debt service and grant expenditures.

Unrestricted net position of \$11,028,446 will provide funds to meet future obligations to students and creditors.

Governmental Activities. Governmental activities increased the District's net position by \$32,971,539 from current operations. Key elements of this change are as follows:

Texas City Independent School District's Change in Net Position

	Governmental Activities					
	2019		2018		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Revenues:						
Program revenues:						
Charges for services	\$ 1,793,354	1	\$ 1,954,788	1	\$ (161,434)	(8)
Operating grants and contributions	30,773,503	20	9,786,588	7	20,986,915	214
General revenues:						
Property taxes, levied for general purposes	56,856,071	37	54,530,148	41	2,325,923	4
Property taxes, levied for debt service	16,849,910	11	12,301,767	10	4,548,143	37
Grants and contributions not restricted to specific programs	37,729,200	25	36,975,626	28	753,574	2
Insurance proceeds	2,425,716	1	13,463,505	10	(11,037,789)	(82)
Investment earnings	4,599,911	3	1,204,261	1	3,395,650	282
Miscellaneous	2,798,851	2	2,111,190	2	687,661	33
Total revenues	153,826,516	100	132,327,873	100	21,498,643	
Expenses:						
Instruction	58,179,986	48	36,913,817	38	21,266,169	58
Instructional resources and media services	1,059,670	1	926,865	1	132,805	14
Curriculum and instructional staff development	1,339,276	1	762,153	1	577,123	76
Instructional leadership	2,136,747	2	699,778	1	1,436,969	205
School leadership	6,250,878	5	4,151,418	4	2,099,460	51
Guidance, counseling, and evaluation services	3,279,718	3	1,847,454	2	1,432,264	78
Social work services	318,655	-	133,384	-	185,271	139
Health services	975,255	1	768,230	1	207,025	27
Student transportation	2,379,778	2	2,162,503	2	217,275	10
Food services	5,957,279	5	4,288,526	4	1,668,753	39
Extracurricular activities	3,921,361	3	2,947,404	3	973,957	33
General administration	3,531,976	3	2,534,952	3	997,024	39
Plant maintenance and operations	16,244,796	13	29,434,173	30	(13,189,377)	(45)
Security and monitoring services	3,177,439	3	1,665,576	2	1,511,863	91
Data processing services	2,567,492	2	1,452,630	1	1,114,862	77
Community services	350,142	-	79,566	-	270,576	340
Interest on long-term debt	7,094,068	6	4,575,676	4	2,518,392	55
Issuance costs and fees	696,371	1	572,797	1.0	123,574	22
Facilities repair and maintenance	70,621	-	739,269	1	(668,648)	(90)
Contracted instructional services between schools	518,451	1	420,617	-	97,834	23
Payments related to shared service arrangements	292,075	-	324,958	-	(32,883)	(10)
Payments to juvenile justice alternative education programs	24,145	-	5,141	-	19,004	370
Other intergovernmental charges	488,798	-	575,532	1	(86,734)	(15)
Total expenses	120,854,977	100	97,982,419	100	22,872,558	
Change in net position	32,971,539		34,345,454		(1,373,915)	
Net position - beginning, as originally reported	63,603,375		95,011,400		(31,408,025)	
Prior period adjustment	-		(65,753,479)		65,753,479	
Net position - beginning, as restated	63,603,375		29,257,921		34,345,454	
Net position - ending	\$ 96,574,914		\$ 63,603,375		\$ 32,971,539	

Revenues, aggregating \$153,826,516, were generated primarily from two sources. Property taxes \$73,705,981 represent 48 percent of total revenues while grants and contributions, (including those not restricted for program-specific use as well as for general operations, totaling \$68,502,703), represent 45 percent of total revenues. The remaining 7 percent is generated from investment earnings, charges for services, insurance proceeds, and miscellaneous revenues.

The most significant changes were:

- Insurance proceeds which were offset by expenditures in plant maintenance and operation
- Effect of negative on-behalf pension expense in prior year resulted in an increase in operating grant revenue offset by increases in expenditures

The primary functional expenses of the District are Instruction \$58,179,986, which represents 48 percent of total expenses and Plant maintenance and operations \$16,244,796, which represents 13 percent of total expenses, while all remaining expense categories are individually 6 percent or less of total expenses. The major change in the current year is there was no reduction in expenses affected by a negative on-behalf contribution as reported in prior year related to GASB Statement No. 75.

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 \$214,391,601, an increase of \$75,809,782 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 \$40,301,493, while total fund balance was \$75,942,955. 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 47 percent of total general fund expenditures, while total fund balance represents 88 percent of that same total. The fund balance of the general fund increased \$24,097,785 during the year, primarily due to receipt of federal revenues for hurricane recovery and a decrease in plant maintenance and operations expenditures.

The debt service fund ended the year with a total fund balance of \$12,989,994, all of which is restricted for the payment of principal and interest on debt. The debt service fund balance increased \$2,154,306 during the year, primarily due to the increase in rates for property tax interest and sinking.

The capital projects fund has a total fund balance of \$123,515,144, which is an increase of \$49,613,926. The net increase in fund balance during the current year in the capital projects fund was due to the sale of \$61,575,000 of building bonds.

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 \$9,106,306 primarily due to increases in plant maintenance and operations and instruction.

Capital Assets and Long-term Liabilities

Capital Assets. The District's investment in capital assets for its governmental activities as of August 31, 2019 was \$182,412,773 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, furniture and equipment, and construction in progress. The increase in capital assets, net of depreciation, for the current fiscal year was \$9,642,162.

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

	Governmental Activities					
	2019		2018		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Land and improvements	\$ 5,120,256	3	\$ 5,120,256	3	\$ -	-
Buildings and improvements	153,922,863	84	158,014,584	91	(4,091,721)	(3)
Furniture and equipment	16,408,279	9	9,116,336	5	7,291,943	80
Construction in progress	6,961,375	4	519,435	1	6,441,940	1,240
Totals	\$ 182,412,773	100	\$ 172,770,611	100	\$ 9,642,162	

Major additions consisted of:

- Purchase and installation of security equipment
- Purchase of technology equipment
- Various construction and improvement projects

Commitments. At the end of the current fiscal year, the District's commitments with construction contractors totaled \$3,107,095.

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					
	2019		2018		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
General obligation bonds	\$ 235,995,713	75	\$ 186,372,411	75	\$ 49,623,302	27
Notes payable	1,640,000	1	2,482,939	1	(842,939)	(34)
Workers' compensation	498,359	-	387,984	-	110,375	28
Compensated absences	1,202,841	-	1,161,773	-	41,068	4
Net pension liability	34,122,953	11	21,448,971	9	12,673,982	59
Net OPEB liability	41,182,504	13	37,498,549	15	3,683,955	10
Totals	\$ 314,642,370	100	\$ 249,352,627	100	\$ 65,289,743	

The District's total bonded debt increased by \$49,623,302 (27 percent) during the current fiscal year, which resulted primarily from the issuance of \$63,875,000 of bonds.

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.

Additional information on the District's OPEB liability can be found in Note 4.D. to the financial statements as indicated in the table of contents of this report.

Economic Factors and Next Year's Budgets and Tax Rates

- School year (2019-20) student enrollment is 8,781, an increase from the preceding year.
- District staff totals 1,310 employees in 2019-20, excluding substitutes and other part-time employees, of which 575 are teachers and 142 are teacher aides and secretaries.
- The District maintains thirteen regular education campuses.
- Property values of the District are projected to remain comparable for the 2019-20 year.
- A maintenance and operations tax rate of \$1.0684 and a debt service tax rate of \$0.3449, a total rate of \$1.4133 were adopted for 2019-20. Preceding year rates were \$1.17, \$0.3449 and \$1.5149, respectively.

All of these factors and others were considered in preparing the District's budget for the 2019-20 fiscal year.

During 2018-19, fund balance in the general fund increased to \$75,942,955. 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.

Basic Financial Statements

Texas City Independent School District
Statement of Net Position
August 31, 2019

Exhibit A-1

1

<u>Data Control Codes</u>		<u>Primary Government Governmental Activities</u>
	ASSETS	
1110	Cash and cash equivalents	\$ 9,186,275
1120	Investments	207,071,835
1220	Property taxes receivables	5,020,152
1230	Allowance for uncollectible taxes	(50,000)
1240	Due from other governments	6,838,351
1290	Other receivables	1,651,032
1300	Inventories	289,369
1410	Prepaid items	1,224,238
	Capital assets:	
1510	Land	5,120,256
1520	Buildings and improvements (net)	153,922,863
1530	Furniture and equipment (net)	16,408,279
1580	Construction in progress	6,961,375
1000	Total assets	413,644,025
	DEFERRED OUTFLOWS OF RESOURCES	
1705	Deferred outflows - pension	23,579,965
1706	Deferred outflows - OPEB	3,474,216
1710	Deferred charge on refunding	3,396,772
1700	Total deferred outflows of resources	30,450,953
	LIABILITIES	
2110	Accounts payable	2,033,331
2140	Interest payable	1,016,666
2150	Payroll deductions and withholdings	233,335
2160	Accrued wages payable	506,770
2180	Due to other governments	7,023,864
2300	Unearned revenue	6,990
	Noncurrent liabilities:	
2501	Due within one year	12,192,000
2502	Due in more than one year	227,144,913
2540	Net pension liabilities	34,122,953
2545	Net OPEB liability	41,182,504
2000	Total liabilities	325,463,326
	DEFERRED INFLOWS OF RESOURCES	
2605	Deferred inflows - pension	6,842,994
2606	Deferred inflows - OPEB	15,082,025
2610	Deferred gain on refunding	131,719
2600	Total deferred inflows of resources	22,056,738
	NET POSITION	
3200	Net investment in capital assets	71,688,976
3820	Restricted for grants	996,950
3850	Restricted for debt service	12,860,542
3900	Unrestricted	11,028,446
3000	TOTAL NET POSITION	<u>\$ 96,574,914</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, 2019

Exhibit B-1

Data Control Codes	Functions/Programs	1	3	4	Net (Expense) Revenue and Changes in Net Position
		Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
	PRIMARY GOVERNMENT				
	Governmental activities				
0011	Instruction	\$ 58,179,986	\$ 473,473	\$ 12,714,279	\$ (44,992,234)
0012	Instructional resources and media services	1,059,670	60,053	51,423	(948,194)
0013	Curriculum and instructional staff development	1,339,276	-	419,807	(919,469)
0021	Instructional leadership	2,136,747	-	1,137,181	(999,566)
0023	School leadership	6,250,878	159,604	645,514	(5,445,760)
0031	Guidance, counseling, and evaluation services	3,279,718	18,576	707,863	(2,553,279)
0032	Social work services	318,655	-	134,489	(184,166)
0033	Health services	975,255	2,908	92,402	(879,945)
0034	Student transportation	2,379,778	163	225,461	(2,154,154)
0035	Food services	5,957,279	607,094	4,913,764	(436,421)
0036	Extracurricular activities	3,921,361	424,059	174,315	(3,322,987)
0041	General administration	3,531,976	13,403	305,419	(3,213,154)
0051	Plant maintenance and operations	16,244,796	19,122	5,019,731	(11,205,943)
0052	Security and monitoring services	3,177,439	-	63,681	(3,113,758)
0053	Data processing services	2,567,492	2,357	107,621	(2,457,514)
0061	Community services	350,142	12,542	267,391	(70,209)
0072	Interest on long-term debt	7,094,068	-	3,789,799	(3,304,269)
0073	Issuance costs and fees	696,371	-	-	(696,371)
0081	Facilities repair and maintenance	70,621	-	3,363	(67,258)
0091	Contracted instructional services between schools	518,451	-	-	(518,451)
0093	Payments related to shared services arrangements	292,075	-	-	(292,075)
0095	Payments to juvenile justice alternative education programs	24,145	-	-	(24,145)
0099	Other intergovernmental charges	488,798	-	-	(488,798)
TG	Total governmental activities	<u>120,854,977</u>	<u>1,793,354</u>	<u>30,773,503</u>	<u>(88,288,120)</u>
TP	TOTAL PRIMARY GOVERNMENT	<u>\$ 120,854,977</u>	<u>\$ 1,793,354</u>	<u>\$ 30,773,503</u>	<u>(88,288,120)</u>
	General revenues				
MT	Property taxes, levied for general purposes				56,856,071
DT	Property taxes, levied for debt service				16,849,910
GC	Grants and contributions not restricted to specific programs				37,729,200
IN	Insurance proceeds				2,425,716
IE	Investment earnings				4,599,911
MI	Miscellaneous				2,798,851
TR	Total general revenues				<u>121,259,659</u>
CN	Change in net position				32,971,539
NB	Net position - beginning				<u>63,603,375</u>
NE	NET POSITION - ENDING				<u>\$ 96,574,914</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, 2019

Data Control Codes		199	599
		General Fund	Debt Service Fund
ASSETS			
1110	Cash and cash equivalents	\$ 8,478,846	\$ 37,248
1120	Investments	66,836,227	12,958,653
1220	Property taxes receivables	4,134,193	885,959
1230	Allowance for uncollectible taxes	(41,000)	(9,000)
1240	Due from other governments	5,359,731	-
1260	Due from other funds	1,414,464	-
1290	Other receivables	1,625,760	-
1300	Inventories	229,614	-
1410	Prepaid items	1,208,688	-
1000	Total assets	89,246,523	13,872,860
1000a	TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 89,246,523	\$ 13,872,860
LIABILITIES			
2110	Accounts payable	\$ 1,067,945	\$ -
2150	Payroll and withholdings	233,335	-
2160	Accrued wages payable	506,770	-
2170	Due to other funds	384,368	-
2180	Due to other governments	7,017,957	5,907
2300	Unearned revenue	-	-
2000	Total liabilities	9,210,375	5,907
DEFERRED INFLOWS OF RESOURCES			
2600	Unavailable revenue - property taxes	4,093,193	876,959
	Total deferred inflows of resources	4,093,193	876,959
FUND BALANCES			
3410	Nonspendable - inventories	229,614	-
3430	Nonspendable - prepaid items	1,208,688	-
3450	Restricted - grants	-	-
3470	Restricted - capital acquisitions and contractual obligations	-	-
3480	Restricted - debt service	-	12,989,994
3545	Committed - campus activity	-	-
3550	Assigned - construction	15,000,000	-
3565	Assigned - retirement of loans/notes payable	1,671,648	-
3590	Assigned - other	17,531,512	-
3600	Unassigned	40,301,493	-
3000	Total fund balances	75,942,955	12,989,994
4000	TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 89,246,523	\$ 13,872,860

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

699	Total	98
Capital Projects Fund	Nonmajor Funds	Total Governmental Funds
\$ 460,787	\$ 177,068	\$ 9,153,949
123,955,688	1,730,003	205,480,571
-	-	5,020,152
-	-	(50,000)
-	1,478,620	6,838,351
-	-	1,414,464
4,500	20,772	1,651,032
-	59,755	289,369
-	5,000	1,213,688
<hr/>	<hr/>	<hr/>
124,420,975	3,471,218	231,011,576
<hr/>	<hr/>	<hr/>
<u>\$ 124,420,975</u>	<u>\$ 3,471,218</u>	<u>\$ 231,011,576</u>
\$ 905,831	\$ 59,225	\$ 2,033,001
-	-	233,335
-	-	506,770
-	1,461,495	1,845,863
-	-	7,023,864
-	6,990	6,990
<hr/>	<hr/>	<hr/>
905,831	1,527,710	11,649,823
-	-	4,970,152
<hr/>	<hr/>	<hr/>
-	-	4,970,152
-	-	229,614
-	-	1,208,688
-	996,950	996,950
123,515,144	-	123,515,144
-	-	12,989,994
-	946,558	946,558
-	-	15,000,000
-	-	1,671,648
-	-	17,531,512
-	-	40,301,493
<hr/>	<hr/>	<hr/>
123,515,144	1,943,508	214,391,601
<hr/>	<hr/>	<hr/>
<u>\$ 124,420,975</u>	<u>\$ 3,471,218</u>	<u>\$ 231,011,576</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, 2019

Exhibit C-1R

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS (EXHIBIT C-1)		\$ 214,391,601
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	\$ 280,081,715	
Accumulated depreciation of governmental capital assets	<u>(97,668,942)</u>	182,412,773
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.		4,970,152
Long-term liabilities, including bonds payable, notes payable, compensated absences, net pension liability, and net OPEB 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	\$(213,525,000)	
Premium on bonds payable	(22,470,713)	
Accrued interest on the bonds	(1,006,411)	
Notes payable	(1,640,000)	
Accrued interest on the notes	(10,255)	
Compensated absences	(1,202,841)	
Net pension liability	(34,122,953)	
Net OPEB liability	<u>(41,182,504)</u>	(315,160,677)
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.		1,566,850
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.		3,396,772
Deferred gain on refunding 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.		(131,719)
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.		23,579,965
Deferred inflows of resources 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.		(6,842,994)
Deferred outflows of resources for OPEB 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.		3,474,216
Deferred inflows of resources for OPEB 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>(15,082,025)</u>
TOTAL NET POSITON - GOVERNMENTAL ACTIVITIES (EXHIBIT A-1)		<u>\$ 96,574,914</u>

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

Texas City Independent School District
Statement of Revenues, Expenditures, and Changes
in Fund Balances
Governmental Funds
For the Fiscal Year Ended August 31, 2019

Data Control Codes		199	599
		General Fund	Debt Service Fund
REVENUES			
5700	Local and intermediate sources	\$ 64,271,622	\$ 17,302,769
5800	State program revenues	38,914,868	3,789,799
5900	Federal program revenues	7,185,381	-
5020	Total revenues	110,371,871	21,092,568
EXPENDITURES			
Current:			
0011	Instruction	41,250,006	-
0012	Instructional resources and media services	894,708	-
0013	Curriculum and instructional staff development	827,696	-
0021	Instructional leadership	760,669	-
0023	School leadership	5,015,176	-
0031	Guidance, counseling, and evaluation services	2,322,566	-
0032	Social work services	155,069	-
0033	Health services	819,059	-
0034	Student transportation	2,121,512	-
0035	Food services	-	-
0036	Extracurricular activities	3,374,695	-
0041	General administration	3,144,979	-
0051	Plant maintenance and operations	17,605,818	-
0052	Security and monitoring services	3,332,434	-
0053	Data processing services	2,359,917	-
0061	Community services	29,493	-
Debt service:			
0071	Principal on long-term debt	842,939	11,165,000
0072	Interest on long-term debt	22,776	7,507,653
0073	Issuance costs and fees	400	695,971
Capital outlay:			
0081	Facilities acquisition and construction	70,705	-
Intergovernmental:			
0091	Contracted instructional services between schools	518,451	-
0093	Payments related shares services arrangements	292,075	-
0095	Payments to juvenile justice alternative education programs	24,145	-
0099	Other intergovernmental charges	488,798	-
6030	Total expenditures	86,274,086	19,368,624
1100	Excess (deficiency) of revenues over expenditures	24,097,785	1,723,944
OTHER FINANCING SOURCES (USES)			
7901	Refunding bonds issued	-	2,300,000
7911	Capital-related debt issued (regular bonds)	-	-
7916	Premium or discount on issuance of bonds	-	9,867,817
8940	Payment to bond refunding escrow agent	-	(11,737,455)
7080	Total other financing sources (uses)	-	430,362
1200	Net change in fund balances	24,097,785	2,154,306
0100	Fund balances - beginning	51,845,170	10,835,688
3000	FUND BALANCES - ENDING	\$ 75,942,955	\$ 12,989,994

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

699	Total	98
Capital Projects Fund	Nonmajor Funds	Total Governmental Funds
\$ 2,038,078	\$ 1,668,597	\$ 85,281,066
-	1,546,323	44,250,990
-	14,101,455	21,286,836
2,038,078	17,316,375	150,818,892
-	9,116,390	50,366,396
-	61,672	956,380
-	329,627	1,157,323
-	901,477	1,662,146
-	383,078	5,398,254
-	498,920	2,821,486
-	105,891	260,960
-	36,946	856,005
-	94,816	2,216,328
-	5,257,694	5,257,694
-	310,852	3,685,547
-	13,764	3,158,743
1,563,447	16,014	19,185,279
5,350,216	2,900	8,685,550
2,200,426	2,421	4,562,764
-	240,148	269,641
-	-	12,007,939
-	-	7,530,429
-	-	696,371
4,885,063	-	4,955,768
-	-	518,451
-	-	292,075
-	-	24,145
-	-	488,798
13,999,152	17,372,610	137,014,472
(11,961,074)	(56,235)	13,804,420
-	-	2,300,000
61,575,000	-	61,575,000
-	-	9,867,817
-	-	(11,737,455)
61,575,000	-	62,005,362
49,613,926	(56,235)	75,809,782
73,901,218	1,999,743	138,581,819
\$ 123,515,144	\$ 1,943,508	\$ 214,391,601

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, 2019

Exhibit C-3

TOTAL NET CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS (EXHIBIT C-2) \$ 75,809,782

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 increased	\$ 16,629,149	
Depreciation expense	(6,986,987)	9,642,162

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. 222,127

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	\$ (63,875,000)	
(Premium) discount	(9,867,817)	(73,742,817)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 11,165,000

Payment to escrow agent to refund bonds from refunding proceeds. 11,737,455

Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 842,939

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) decreased</i>	\$ (297,146)	
Accrued interest on notes payable <i>(increased) decreased</i>	4,050	
Amortization of bond premium and discount	1,080,580	
Amortization of defeasance costs	(351,123)	436,361

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. (41,068)

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. 47,065

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, funds. The net change consists of the following:

Deferred outflows increased (decreased)	\$ 9,081,453	
Deferred inflows (increased) decreased	626,504	
Net pension liability (increased) decreased	(12,673,982)	(2,966,025)

The net change in net OPEB 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)	\$ 2,898,824	
Deferred inflows (increased) decreased	603,689	
Net OPEB liability (increased) decreased	(3,683,955)	(181,442)

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES (EXHIBIT B-1) \$ 32,971,539

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, 2019

Exhibit D-1

<u>Data Control Codes</u>		<u>Governmental Activities Internal Service Fund</u>
	ASSETS	
	Current assets:	
1110	Cash and cash equivalents	\$ 32,326
1120	Investments	1,591,264
1260	Due from other funds	431,399
1410	Prepaid items	10,550
	Total current assets	<u>2,065,539</u>
1000	Total assets	2,065,539
	LIABILITIES	
	Current liabilities:	
2110	Accounts payable	330
2123	Claims payable - due within one year	140,000
	Total current liabilities	<u>140,330</u>
	Noncurrent liabilities:	
2590	Claims payable - due in more than one year	358,359
	Total noncurrent liabilities	<u>358,359</u>
2000	Total liabilities	498,689
	NET POSITION	
3900	Unrestricted	<u>1,566,850</u>
3000	TOTAL NET POSITION	<u><u>\$ 1,566,850</u></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, 2019

Exhibit D-2

<u>Data Control Codes</u>		<u>Governmental Activities Internal Service Fund</u>
	OPERATING REVENUES	
5754	Interfund service provided	\$ 431,398
5020	Total operating revenues	431,398
	OPERATING EXPENSES	
6200	Professional and contracted services	33,449
6400	Other operating costs	392,044
6030	Total operating expenses	425,493
1100	Operating income (loss)	5,905
	NONOPERATING REVENUES	
7955	Investment earnings	41,160
8030	Total nonoperating revenues	41,160
1300	Change in net position	47,065
0100	Net position - beginning	1,519,785
3300	NET POSITION - ENDING	<u>\$ 1,566,850</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, 2019

Exhibit D-3

	Governmental Activities
	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from District	\$ 88,601
Cash payments for claims, net of stop loss reimbursements	(290,723)
Cash payments for contracted services and supplies and materials	19,128
	<hr/>
Net cash used by operating activities	(182,994)
	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends received on investments	41,160
Purchase of investments	150,316
	<hr/>
Net cash provided by investing activities	191,476
	<hr/>
Net increase (decrease) in cash and cash equivalents	8,482
Cash and cash equivalents at beginning of year	23,844
	<hr/>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 32,326</u>
	<hr/>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES	
Operating income (loss)	\$ 5,905
Change in assets and liabilities:	
(Increase) decrease in due from other funds	(341,375)
(Increase) decrease in prepaid items	52,577
Increase (decrease) in due to other funds	(1,422)
Increase (decrease) in accounts payable	(9,054)
Increase (decrease) in claims payable	110,375
	<hr/>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (182,994)</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, 2019

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	\$ 142,659	\$ 89,622
1120	Investments	-	72,793
		<hr/>	<hr/>
1000	TOTAL ASSETS	142,659	<u>\$ 162,415</u>
	LIABILITIES		
	Current liabilities:		
2110	Accounts payable	-	\$ 4,070
2190	Due to student groups	-	158,345
		<hr/>	<hr/>
2000	TOTAL LIABILITIES	-	<u>\$ 162,415</u>
	NET POSITION		
3900	Unrestricted	<hr/> 142,659	
3000	TOTAL NET POSITION	<u>\$ 142,659</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
For the Fiscal Year Ended August 31, 2019

Exhibit E-2

<u>Data Control Codes</u>		<u>Private Purpose Trust Funds</u>
	ADDITIONS	
5700	Local and intermediate sources	\$ 10,785
	Total additions	10,785
	DEDUCTIONS	
6200	Professional and contracted services	16,000
	Total deductions	16,000
	Change in net position	(5,215)
	Net position beginning	147,874
	NET POSITION - ENDING	\$ 142,659

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.

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.

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.

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 property tax revenues to be available when collected and all other revenues within 120 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to pension liability, OPEB liability, compensated absences, and claims and judgments, are recorded only when payment is due.

Texas City Independent School District

Notes to the Financial Statements

Grant and similar revenues, revenues received from the State of Texas, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items 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, 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.

Texas City Independent School District

Notes to the Financial Statements

Land 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

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.

Deferred outflows/inflows of resources are amortized as follows:

- Deferred outflows/inflows from pension and OPEB activities are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and OPEB plan, except for projected and actual earnings differences on investments which are amortized on a closed basis over a 5-year period.
- District contributions to the pension and OPEB plans after the measurement date of each plan are recognized in the subsequent fiscal 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. *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 or State's eligibility requirements.

7. *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

8. 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.

9. 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.

10. Pension

The fiduciary net position of the Teacher Retirement System of Texas (TRS) Pension Plan has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS's Pension Plan fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Texas City Independent School District

Notes to the Financial Statements

11. Other Postemployment Benefits

The fiduciary net position of the Teacher Retirement System of Texas (TRS) TRS Care Plan has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to other postemployment benefits, OPEB expense, and information about assets, liabilities and additions to/deductions from TRS Care's fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as-you-go plan and all cash is held in a cash account.

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. 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.

H. 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.

I. 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 database 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, 2019, significant encumbrances included in governmental fund balances are as follows:

	<u>Restricted Fund Balance</u>	<u>Assigned Fund Balance</u>
General fund	\$ -	\$ 231,512
Capital projects fund	<u>12,247,228</u>	<u>-</u>
Total encumbrances	<u>\$ 12,247,228</u>	<u>\$ 231,512</u>

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 or purchased through a broker who has an office located in Texas; 3) Fully collateralized 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) Securities lending program as permitted by Government Code 2256.0015; 5) Bankers acceptances with a stated maturity of 270 days or fewer which are eligible for collateral for borrowing from a Federal Reserve Bank; 6) Commercial paper 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; 7) No-load money market mutual funds which shall be registered with the Securities and Exchange Commission and have a dollar-weighted average stated maturity of 90 days or fewer; 8) No-load mutual funds which shall be registered with the Securities and Exchange Commission, have an average weighted maturity of less than two years, include investments that comply with the Public Funds Investment Act and are continuously rated not less than AAA by at least one NRSRO; 9) A guaranteed investment contract (for bond proceeds only) which meets the criteria and eligibility requirements established by the Public Funds Investment Act; 10) Public funds investment pools which meet the requirements of the Public Funds Investment Act.

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

	Governmental and Proprietary Funds	Fiduciary Funds	Fair Value Measurements Using Significant Other Observable Inputs (Level 2)	Percent of Total Investments	Weighted Average Maturity (Days)	Credit Risk
Investment measured at cost, not subject to level reporting:						
Certificates of deposit	\$ 32,716,858	\$ -	\$ -	16%	469	Not rated**
Investment measured at amortized cost, not subject to level reporting:						
Investment pool:						
TexPool Prime	132,128,033	-	-	64%	31	AAAm*
TexPool	20,594,191	72,793	-	10%	38	AAAm*
Investments measured at fair value, not subject to level reporting:						
Money market mutual fund	4,944,611	-	-	2%	16	AAAm
Investment measured at fair value, subject to level report:						
U.S. government agencies	15,197,468	-	15,197,468	7%	146	Aaa*
Certificates of deposit	1,490,674	-	1,490,674	1%	354	Not rated**
Total value	\$ 207,071,835	\$ 72,793	\$ 16,688,142	99%		
Portfolio weighted average maturity					111	

* Standard & Poor's or Moody's Rating

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

Texas City Independent School District

Notes to the Financial Statements

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.

U.S. Government Agency Securities and brokered certificates of deposit are classified in Level 2 of the fair value hierarchy are valued using maturity pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

The TexPool investment pools are external investment pools measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, the investment pools 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 pools transacts at a net asset value of \$1.00 per share, have 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, have 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 pools 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 TexPool investment pools are duly chartered and overseen by the State Comptroller's Office, administered and managed by Federated Investors, Inc. State Street Bank serves as the custodial bank. The portfolio consists of U.S. Government securities; collateralized repurchase and reverse repurchase agreements; AAA rated money market mutual funds; commercial paper and certificates of deposit.

Credit Risk

At year end, the District's investments were rated as noted in the table above. 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.

Texas City Independent School District

Notes to the Financial Statements

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, 2019, District's banks' balances of \$11,430,944 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.

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	\$ -
Change in uncollectibles related to debt service property taxes	<u>(2,000)</u>
Total change in uncollectibles of the current fiscal year	<u><u>\$ (2,000)</u></u>

Approximately 78% 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 22% of the District's taxable property value is attributed to one taxpayer. Similarly, the District's ten largest taxpayers approximate 50% of the total taxable value of the District.

C. Interfund Receivables, Payables, and Transfers

Receivables/Payables

The composition of interfund balances as of August 31, 2019, is as follows:

Funds	Interfund Receivables	Interfund Payables
Governmental funds:		
General fund	\$ 1,414,464	\$ (384,368)
Other governmental funds - nonmajor	-	(1,461,495)
Proprietary fund:		
Internal service fund	<u>431,399</u>	<u>-</u>
Totals	<u><u>\$ 1,845,863</u></u>	<u><u>\$ (1,845,863)</u></u>

Interfund balances consist of short-term lending/borrowing arrangements that generally result 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

D. Capital Assets

Capital asset activity for the fiscal year ended August 31, 2019 was as follows:

	Beginning Balance	Additions	Retirements, Transfers, and Adjustments	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 5,120,256	\$ -	\$ -	\$ 5,120,256
Construction in progress	519,435	6,441,940	-	6,961,375
Total capital assets, not being depreciated	5,639,691	6,441,940	-	12,081,631
Capital assets, being depreciated:				
Buildings and improvements	238,042,814	690,430	-	238,733,244
Furniture and equipment	19,770,061	9,496,779	-	29,266,840
Total capital assets, being depreciated	257,812,875	10,187,209	-	268,000,084
Less accumulated depreciation for:				
Buildings and improvements	(80,028,230)	(4,782,151)	-	(84,810,381)
Furniture and equipment	(10,653,725)	(2,204,836)	-	(12,858,561)
Total accumulated depreciation	(90,681,955)	(6,986,987)	-	(97,668,942)
Total capital assets, being depreciated, net	167,130,920	3,200,222	-	170,331,142
Governmental activities capital assets, net	\$ 172,770,611	\$ 9,642,162	\$ -	\$ 182,412,773

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

Governmental activities:	
11 Instruction	\$ 4,249,873
12 Instructional resources and media services	76,906
13 Curriculum and instructional staff development	79,097
21 Instructional leadership	155,973
23 School leadership	494,133
31 Guidance, counseling, and evaluation services	232,892
32 Social work services	22,684
33 Health services	76,596
34 Student transportation	231,318
35 Food services	211,936
36 Extracurricular activities	179,440
41 General administration	226,407
51 Plant maintenance and operations	528,689
52 Security and monitoring services	101,525
53 Data processing services	98,560
61 Community services	20,958
Total depreciation expense-governmental activities	\$ 6,986,987

Texas City Independent School District

Notes to the Financial Statements

Construction Commitments

The District has active construction projects as of August 31, 2019. The projects include the construction and equipment of school facilities. At year end, the District's commitments with contractors are as follows:

Project	Remaining Commitment
Parking Lot Projects - Districtwide	\$ 3,107,095
Total	\$ 3,107,095

The commitment for construction and equipment of school facilities is being financed by general obligation bonds secured by tax revenues and local funds.

E. Long-term Liabilities

The District's long-term liabilities consist of bond indebtedness, note payable, workers' compensation, compensated absences, and net pension and net OPEB 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, 2019, was as follows:

	Beginning Balance	Additions (Adjustments)	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 172,340,000	\$ 63,875,000	\$ (22,690,000)	\$ 213,525,000	\$ 11,085,000
Issuance premiums (CIB's)	14,032,411	9,867,817	(1,429,515)	22,470,713	-
Total bonds payable	186,372,411	73,742,817	(24,119,515)	235,995,713	11,085,000
Notes payable	2,482,939	-	(842,939)	1,640,000	815,000
Workers' compensation	387,984	345,407	(235,032)	498,359	140,000
Compensated absences	1,161,773	113,626	(72,558)	1,202,841	152,000
Net pension liability	21,448,971	16,154,284	(3,480,302)	34,122,953	-
Net OPEB liability	37,498,549	5,629,838	(1,945,883)	41,182,504	-
Governmental activities long-term liabilities	\$ 249,352,627	\$ 95,985,972	\$ (30,696,229)	\$ 314,642,370	\$ 12,192,000

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 current interest (CIB) with various amounts of principal maturing each year or term bonds. 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	8/31/2015	\$ 220,000	\$ -	\$ (220,000)	\$ -
2009 BLDG	3.50-5.00%	28,910,000	8/15/2030	12,760,000	-	(12,760,000)	-
2010A BLDG	2.00-5.00%	25,810,000	8/15/2030	18,750,000	-	(1,200,000)	17,550,000
2011 BLDG	2.00-4.00%	8,845,000	8/15/2030	5,960,000	-	(410,000)	5,550,000
2011 REF	2.00-5.00%	19,410,000	2/15/2025	14,785,000	-	(1,810,000)	12,975,000
2015 REF	2.00-5.00%	44,050,000	8/15/2030	40,965,000	-	(2,770,000)	38,195,000
2017 REF	3.00-4.00%	8,900,000	8/15/2030	8,900,000	-	-	8,900,000
2018 BLDG	3.50-5.00%	70,000,000	8/15/2048	70,000,000	-	(3,520,000)	66,480,000
2019 BLDG & REF	3.125-5.00%	63,875,000	8/15/2049	-	63,875,000	-	63,875,000
Totals				<u>\$ 172,340,000</u>	<u>\$ 63,875,000</u>	<u>\$ (22,690,000)</u>	<u>\$ 213,525,000</u>

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

Year Ending August 31,	Principal	Interest	Total Requirements
2020	\$ 11,085,000	\$ 9,934,760	\$ 21,019,760
2021	11,650,000	8,858,381	20,508,381
2022	12,210,000	8,282,206	20,492,206
2023	13,375,000	7,765,056	21,140,056
2024	13,955,000	7,129,606	21,084,606
2025	14,125,000	6,433,281	20,558,281
2026	12,200,000	5,793,156	17,993,156
2027	12,560,000	5,194,056	17,754,056
2028	12,920,000	4,593,855	17,513,855
2029	11,590,000	3,984,206	15,574,206
2030	11,985,000	3,535,707	15,520,707
2031	5,460,000	3,071,406	8,531,406
2032	4,860,000	2,798,406	7,658,406
2033	5,150,000	2,555,406	7,705,406
2034	5,340,000	2,335,906	7,675,906
2035	3,010,000	2,107,907	5,117,907
2036	3,125,000	1,987,506	5,112,506
2037	3,250,000	1,862,507	5,112,507
2038	3,375,000	1,732,505	5,107,505
2039	3,515,000	1,597,507	5,112,507
2040	3,655,000	1,469,557	5,124,557
2041	3,795,000	1,345,476	5,140,476
2042	3,940,000	1,213,182	5,153,182
2043	3,920,000	1,075,806	4,995,806
2044	4,075,000	928,850	5,003,850
2045	4,230,000	776,000	5,006,000
2046	4,405,000	606,800	5,011,800
2047	4,595,000	430,600	5,025,600
2048	4,770,000	246,800	5,016,800
2049	1,400,000	56,000	1,456,000
Totals	<u>\$ 213,525,000</u>	<u>\$ 99,702,397</u>	<u>\$ 313,227,397</u>

Texas City Independent School District

Notes to the Financial Statements

As of August 31, 2019, the District had authorized but unissued bonds in the amount \$2,225,000.

In prior and current fiscal years, 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 Districts basic financial statements. At August 31, 2019, the District had no outstanding defeased bonds.

In June 2019, the District issued \$63,875,000 of unlimited tax school building and refunding bonds. The proceeds of the refunding bonds were used to legally defease \$11,525,000 of previously issued District bonds in order to lower its overall debt services requirements. The net carrying value of the old debt exceeded the reacquisition price by \$136,480. 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 \$1,176,730, a present value savings of \$1,336,050.

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	3/1/2021	\$ 2,450,000	\$ -	\$ (810,000)	\$ 1,640,000
2012 SECO Note	2.00%	1,450,752	2/28/2019	32,939	-	(32,939)	-
Totals				\$ 2,482,939	\$ -	\$ (842,939)	\$ 1,640,000

Requirements for notes payable are as follows:

Year Ending August 31,	Principal	Interest	Total Requirements
2020	\$ 815,000	\$ 20,510	\$ 835,510
2021	825,000	11,138	836,138
Totals	\$ 1,640,000	\$ 31,648	\$ 1,671,648

Texas City Independent School District
Notes to the Financial Statements

F. Fund Balance

Other assigned fund balance includes the following assignments of funds:

General fund - catastrophic events	\$ 14,000,000
General fund - campus activity	1,300,000
General fund - property value lawsuits/settlements	2,000,000
General fund - purchases on order	<u>231,512</u>
Total other assigned fund balance	<u><u>\$ 17,531,512</u></u>

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	\$ 56,818,475	\$ 16,665,379	\$ -	\$ -	\$ 73,483,854
Investment earnings	1,956,422	637,390	1,944,086	20,853	4,558,751
Food service	-	-	-	607,094	607,094
Extracurricular student activities	130,612	-	-	1,040,650	1,171,262
Foreign trade zone tax equivalency payment	2,705,321	-	-	-	2,705,321
Other	<u>2,660,792</u>	<u>-</u>	<u>93,992</u>	<u>-</u>	<u>2,754,784</u>
Totals	<u><u>\$ 64,271,622</u></u>	<u><u>\$ 17,302,769</u></u>	<u><u>\$ 2,038,078</u></u>	<u><u>\$ 1,668,597</u></u>	<u><u>\$ 85,281,066</u></u>

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 employees and officials legal liability and vehicle coverage. 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.

Texas City Independent School District

Notes to the Financial Statements

Health Care Coverage

During the year ended August 31, 2019, 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, 2019, 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 fiscal year ended August 31, 2019, 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.

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 8/31/2019	Year Ended 8/31/2018
Unpaid claims, beginning of fiscal year	\$ 387,984	\$ 414,792
Incurred claims, including provision (adjustment) for IBNR	345,407	85,867
Claim payments	(235,032)	(112,675)
Unpaid claims, end of fiscal year	\$ 498,359	\$ 387,984

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.

Texas City Independent School District

Notes to the Financial Statements

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, 2019, 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) and is 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.

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.texas.gov/Pages/about_archive_cafr.aspx; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6597.

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 postemployment benefit changes; including automatic cost of living adjustments. Ad hoc postemployment benefit changes, including ad hoc cost of living adjustments 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.

Texas City Independent School District

Notes to the Financial Statements

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 2014 through 2017. The 85th Texas Legislature, General Appropriations Act (GAA) affirmed that the employer contribution rates for plan fiscal years 2018 and 2019 would remain the same. Rates for such plan fiscal years are as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Member	7.7%	7.7%	7.7%
Non-employer contributing entity (state)	6.8%	6.8%	6.8%
Employers/district	6.8%	6.8%	6.8%
Employers/district OASDI	1.5%	1.5%	1.5%

The contribution amounts for the District's fiscal year 2019 are as follows:

District contributions	\$ 2,117,225
Member contributions	4,671,490
NECE on-behalf contributions (state)	2,761,024

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 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.

Texas City Independent School District

Notes to the Financial Statements

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, 2017 actuarial valuation rolled forward to August 31, 2018 was determined using the following actuarial assumptions:

Valuation date	August 31, 2017 rolled forward to August 31, 2018
Actuarial cost method	Individual Entry Age Normal
Asset valuation method	Market Value
Single discount rate	6.907%
Long-term expected rate	7.25%
Municipal bond rate as of August 2018	3.69%. Source for the rate is the Fixed Income Market Data/Yield Curve/Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index."
Last year ending August 31 in projection period (100 years)	2116
Inflation	2.30%
Salary increases	3.05% to 9.05% including inflation
Ad hoc postemployment benefit changes	None

The actuarial methods and assumptions are based primarily on a study of actual experience for the three year period ending August 31, 2017 and adopted in July 2018.

Texas City Independent School District

Notes to the Financial Statements

Discount Rate

The single discount rate used to measure the total pension liability was 6.907%. The single discount rate was based on the expected rate of return on pension plan investments of 7.25% and a municipal bond rate of 3.69%. 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 sufficient to finance the benefit payments until the year 2069. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2069, and the municipal bond rate was applied to all benefit payments after that date. 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 arithmetic real rates of return for each major asset class included in TRS's target asset allocation as of August 31, 2018 are summarized below:

Asset Class	Target Allocation*	Long-term Expected Arithmetic Real Rate of Return	Expected Contribution to Long-term Portfolio Returns
Global equity:			
U.S.	18.00%	5.70%	1.04%
Non-U.S. developed	13.00%	6.90%	0.90%
Emerging markets	9.00%	8.95%	0.80%
Directional hedge funds	4.00%	3.53%	0.14%
Private equity	13.00%	10.18%	1.32%
Stable value:			
U.S. treasuries	11.00%	1.11%	0.12%
Absolute return	0.00%	0.00%	0.00%
Stable value hedge funds	4.00%	3.09%	0.12%
Cash	1.00%	(0.30%)	0.00%
Real return:			
Global inflation linked bonds	3.00%	0.70%	0.02%
Real assets	14.00%	5.21%	0.73%
Energy and natural resources	5.00%	7.48%	0.37%
Commodities	0.00%	0.00%	0.00%
Risk parity:			
Risk parity	5.00%	3.70%	0.18%
Inflation expectation			2.30%
Volatility drag**			(0.79%)
Totals	100.00%		7.25%

* Target allocations are based on the FY2016 policy model

** The Expected Contribution to Long-term Portfolio 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 6.907%, 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% lower or 1% higher than the current rate:

1% Decrease (5.907%)	Current Discount Rate (6.907%)	1% Increase (7.907%)
\$ 51,499,718	\$ 34,122,953	\$ 20,055,431

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

At August 31, 2019, the District reported a liability of \$34,122,953 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	\$ 34,122,953
State's proportionate share of the net pension liability associated with the district	45,031,447
Total	<u>\$ 79,154,400</u>

The net pension liability was measured as of August 31, 2017 and rolled forward to August 31, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as August 31, 2017 rolled forward to August 31, 2018. 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, 2017 through August 31, 2018.

At August 31, 2018, the employer's proportion of the collective net pension liability was 0.0619939% which was a decrease of 0.0050873% from its proportion measured as of August 31, 2017.

Changes Since the Prior Actuarial Valuation

The following were changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

- The total pension liability as of August 31, 2018 was developed using a roll-forward method from the August 31, 2017 valuation.
- Demographic assumptions including post-retirement mortality, termination rates, and rates of retirement were updated based on the experience study performed for TRS for the period ending August 31, 2017.
- Economic assumptions including rates of salary increase for individual participants was updated based on the same experience study.
- The discount rate changed from 8.0% as of August 31, 2017 to 6.907% as of August 31, 2018.
- The long-term assumed rate of return changed from 8.0% to 7.25%.
- The change in the long-term assumed rate of return combined with the change in the single discount rate was the primary reason for the increase in the net pension liability.

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

Texas City Independent School District

Notes to the Financial Statements

For the fiscal year ended August 31, 2019, the District recognized pension expense of \$9,540,163 and revenue of \$4,456,913 for support provided by the State.

At August 31, 2019, the District reported deferred outflows of resources for contributions made after the measurement date and 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	\$ 212,694	\$ 837,243
Changes of assumptions	12,302,968	384,468
Net difference between projected and actual earnings on pension plan investments	-	647,458
Changes in proportion and differences between District contributions and proportionate share of contributions (cost-sharing plan)	8,947,078	4,973,825
District contributions paid after measurement date	2,117,225	-
Totals	\$ 23,579,965	\$ 6,842,994

\$2,117,225 reported as deferred outflows of resources related to pensions resulting from District contributions paid subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2020. 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,	
2020	\$ 3,892,516
2021	2,529,984
2022	2,161,617
2023	2,568,549
2024	2,293,632
Thereafter	1,173,448
Totals	\$ 14,619,746

D. Defined Other Postemployment Benefit Plan

Plan Description

The District participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care). It is a multiple-employer, cost-sharing defined Other Postemployment Benefit (OPEB) plan that has a special funding situation. The plan is administered through a trust by the Teacher Retirement System of Texas (TRS) Board of Trustees. It is established and administered in accordance with the Texas Insurance Code, Chapter 1575.

Texas City Independent School District

Notes to the Financial Statements

OPEB Plan Fiduciary Net Position

Detailed information about the TRS-Care's fiduciary net position is available in the separately-issued TRS Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at http://www.trs.texas.gov/Pages/about_archive_cafr.aspx; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6597.

Benefits Provided

TRS-Care provides a basic health insurance coverage (TRS-Care 1), at no cost to all retirees from public schools, charter schools, regional education service centers and other educational districts who are members of the TRS pension plan. Optional dependent coverage is available for an additional fee.

Eligible retirees and their dependents not enrolled in Medicare may pay premiums to participate in one of two optional insurance plans with more comprehensive benefits (TRS-Care 2 and TRS-Care 3). Eligible retirees and dependents enrolled in Medicare may elect to participate in one of the two Medicare health plans for an additional fee. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. The Board of Trustees is granted the authority to establish basic and optional group insurance coverage for participants as well as to amend benefit terms as needed under Chapter 1575.052. There are no automatic postemployment benefit changes; including automatic cost of living adjustments.

The premium rates for the optional health insurance are based on years of service of the member. The schedule below shows the monthly rates for a retiree with and without Medicare coverage.

TRS-Care Monthly Plan Premium Rates
Effective January 1, 2018-December 31, 2018

	<u>Medicare</u>	<u>Non-medicare</u>
Retiree*	\$ 135	\$ 200
Retiree and spouse	529	689
Retiree* and children	468	408
Retiree and family	1,020	999

* or surviving spouse

Change of Benefit Terms since the Prior Measurement Date

The 85th Legislature, Regular Session, passed several statutory changes effective September 1, 2017 that affected TRS plans. These changes include:

- Created a high-deductible health plan that provides a zero cost for generic prescriptions for certain preventive drugs and a zero premium for disability retirees who retired as a disability retiree on or before January 1, 2017 and are not eligible to enroll in Medicare.
- Created a single Medicare Advantage plan and Medicare prescription drug plan for all Medicare-eligible participants.
- Allowed the System to provide other, appropriate health benefit plans to address the needs of enrollees eligible for Medicare.
- Allowed eligible retirees and their eligible dependents to enroll in TRS-Care when the retirees reach 65 years of age, rather than waiting for the next enrollment period.
- Eliminated free coverage under TRS-Care, except for certain disability retirees enrolled during Plan Years 2018 through 2021, requiring members to contribute \$200 per month towards their health insurance premiums.

Texas City Independent School District

Notes to the Financial Statements

Contributions

Contribution rates for the TRS-Care plan are established in state statute by the Texas Legislature, and there is no continuing obligation to provide benefits beyond each fiscal year. The TRS-Care plan is currently funded on a pay-as-you-go basis and is subject to change based on available funding. Funding for TRS-Care is provided by retiree premium contributions and contributions from the state, active employees, and school districts based upon public school district payroll. The TRS Board of trustees does not have the authority to set or amend contribution rates.

Texas Insurance Code, section 1575.202 establishes the State's contribution rate which is 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate which is 0.65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

	2019	2018	2017
Active employee	0.65%	0.65%	0.65%
Non-employer contribution entity (state)	1.25%	1.25%	1.00%
Employers/District	0.75%	0.75%	0.55%
Federal/private funding remitted by employers	1.25%	1.25%	1.00%

The contribution amounts for the District's fiscal year 2019 are as follows:

District contributions	\$ 594,237
Member contributions	394,347
NECE on-behalf contributions (state)	638,234

In addition, the State of Texas contributed \$234,071, \$187,514, and \$179,749 in 2019, 2018 and 2017, respectively, for on-behalf payments for Medicare Part D.

Included in the employer contributions listed above, there is an additional surcharge all TRS employers are subject to (*regardless of whether or not they participate in the TRS Care OPEB program*). When hiring a TRS retiree, employers are required to pay to TRS-Care, a monthly surcharge of \$535 per retiree.

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$182.6 million in fiscal year 2018. The 85th Texas Legislature, House Bill 30 provided an additional \$212 million in one-time, supplemental funding for the fiscal year 2018-19 biennium to continue to support the program. This was also received in fiscal year 2018 bringing the total appropriations received in fiscal year 2018 to \$394.6 million.

Actuarial Assumptions

A change was made in the measurement date of the total OPEB liability for this fiscal year. The actuarial valuation was performed as of August 31, 2017. Update procedures were used to roll forward the total OPEB liability to August 31, 2018. This is the first year using the roll forward procedures.

The actuarial valuation of TRS-Care is similar to the actuarial valuations performed for the pension plan, except that the OPEB valuation is more complex. All of the demographic assumptions, including mortality and most of the economic assumptions used in this OPEB valuation were identical to those used in the respective TRS pension valuation.

Texas City Independent School District

Notes to the Financial Statements

The active mortality rates were based on 90% of the RP-2014 Employee Mortality Tables for males and females, with full generational mortality using Scale BB. The Post-retirement mortality rates were based on the 2018 TRS of Texas Healthy Pensioner Mortality Tables, with full generational projection using the ultimate improvement rates from the most recently published scale (U-MP).

The following assumptions used for members of TRS-Care are identical to the assumptions employed in the August 31, 2017 TRS annual pension actuarial valuation that was rolled forward to August 31, 2018:

Rates of Mortality	General Inflation
Rates of Retirement	Wage Inflation
Rates of Termination	Expected Payroll Growth
Rates of Disability	

Additional Actuarial Methods and Assumptions:

Valuation date	August 31, 2017, rolled forward to August 31, 2018
Actuarial cost method	Individual Entry Age Normal
Inflation	2.30%
Single Discount rate	3.69%. Sourced from fixed Income municipal bonds with 20 years to maturity that include only federal tax-exempt municipal bonds as reported in Fidelity Index's "20- Year Municipal GO AA Index" as of August 31, 2018.
Aging factors	Based on plan specific experience
Election rates	Normal Retirement: 70% participation prior to age 65 and 75% after age 65.
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Projected annual salary increases**	3.05% to 9.05%, including inflation
Healthcare trend rates	Initial medical trend rates of 107.74 percent and 9.00 percent for Medicare retirees and an initial medical trend rate of 6.75 percent for non-Medicare retirees. Initial prescription drug trend rate of 11.00 percent for all retirees. The first year trend increase for the Medicare Advantage (medical) premiums reflects the anticipated return of the Health Insurer Fee (HIF) in 2020.
Ad hoc postemployment benefit changes	None

In this valuation, the impact of the Cadillac Tax has been calculated as a portion of the trend assumption. Assumptions and methods used to determine the impact of the Cadillac Tax include:

- 2018 thresholds of \$850/\$2,292 were indexed annually by 2.50%.
- Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
- There were no special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55.

Results indicate that the value of the excise tax would be reasonably represented by a 25 basis point addition to the long-term trend rate assumption.

Texas City Independent School District

Notes to the Financial Statements

Discount Rate

A single discount rate of 3.69% was used to measure the total OPEB liability. There was an increase of 0.27% in the discount rate since the previous year. Because the plan is essentially a “pay-as-you-go” plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active 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 OPEB plan’s fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability

Discount Rate

The following table presents the District’s proportionate share of net OPEB liability for TRS-Care if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.69%)

Sensitivity of the Net OPEB Liability to the Single Discount Rate Assumptions		
1% Decrease (2.69%)	Current Discount Rate (3.69%)	1% Increase (4.69%)
\$49,021,330	\$41,182,504	\$34,981,488

Healthcare Cost Trend Rates

The following table presents the District’s proportionate share of net OPEB liability using the assumed healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is 1% lower or 1% higher than the assumed health-care cost trend rate:

Sensitivity of the Net OPEB Liability to the Healthcare Cost Trend Rate Assumptions		
1% Decrease (7.5%)	Current Healthcare Cost Trend Rate (8.5%)	1% Increase (9.5%)
\$ 34,202,741	\$ 41,182,504	\$ 50,375,004

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At August 31, 2019, the District reported a liability of \$41,182,504 for its proportionate share of the TRS’s net OPEB liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District’s proportionate share of the net OPEB liability	\$ 41,182,504
State’s proportionate share of the net OPEB liability associated with the District	48,954,608
	\$ 90,137,112
Total	\$ 90,137,112

Texas City Independent School District

Notes to the Financial Statements

The net OPEB liability was measured as of August 31, 2017 and rolled forward to August 31, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The employer's proportion of the net OPEB liability was based on the employer's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2017 through August 31, 2018.

At August 31, 2018 the employer's proportion of the collective net OPEB liability was 0.0824790% which was an decrease of 0.0037519% from its proportion measured as of August 31, 2017.

Changes Since the Prior Actuarial Valuation

The following were changes to the actuarial assumptions or other inputs that affected measurement of the total OPEB liability since the prior measurement period:

- Adjustments were made for retirees that were known to have discontinued their health care coverage in fiscal year 2018. This change increased the total OPEB liability.
- The health care trend rate assumption was updated to reflect the anticipated return of the Health Insurer Fee (HIF) in 2020. This change increased the total OPEB liability.
- Demographic and economic assumptions were updated based on the experience study performed for TRS for the period ending August 31, 2017. This change increased the total OPEB liability.
- The discount rate was changed from 3.42% as of August 31, 2017 to 3.69% as of August 31, 2018. This change lowered the total OPEB liability \$2.3 billion.
- Change of benefit terms since the prior measurement date made effective September 1, 2017 by the 85th Texas Legislature.

For the fiscal year August 31, 2019, the District recognized OPEB expense of \$2,556,354 and revenue of \$1,780,675 for support provided by the State.

At August 31, 2019, the District reported the District's contribution after the measurement date and its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other postemployment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences between expected and actual economic experience	\$ 2,185,402	\$ 649,920
Changes of assumptions	687,224	12,372,980
Net difference between projected and actual earnings on OPEB investments	7,202	-
Changes in proportion and differences between District contributions and proportionate share of contributions (cost-sharing plan)	151	2,059,125
District contributions paid after measurement date	594,237	-
	<u> </u>	<u> </u>
Totals	<u>\$ 3,474,216</u>	<u>\$15,082,025</u>

Texas City Independent School District

Notes to the Financial Statements

\$594,237 reported as deferred outflows of resources related to OPEB resulting from District contributions paid subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the fiscal year ended August 31, 2020. Other amounts reported as deferred outflows of resources (deferred inflows of resources) related to OPEB will be recognized in OPEB expense as follows:

Year Ending August 31,	
2020	\$ (1,876,976)
2021	(1,876,976)
2022	(1,876,976)
2023	(1,878,338)
2024	(1,879,117)
Thereafter	<u>(2,813,663)</u>
Total	<u><u>\$ (12,202,046)</u></u>

E. Nonmonetary Transactions

During 2019, the District received textbooks purchased by the State of Texas for the benefit of the District for a purchase price of \$374,176. The District receives the textbooks as part of state funding for textbook allotment. The textbooks have been recorded in the amount of \$374,176 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.

Financial Advisory Services
Provided By:

