

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

PRELIMINARY REMARKETING MEMORANDUM
Dated January 9, 2023

REMARKETING - NOT A NEW ISSUE
BOOK-ENTRY-ONLY

Ratings: (See "OTHER PERTINENT INFORMATION - Municipal Bond Rating")
PSF Guaranteed
(See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "OTHER PERTINENT INFORMATION - Municipal Bond Rating" herein)

In the Original Opinion (hereinafter defined), Bond Counsel (hereinafter defined) rendered an opinion, assuming continuing compliance by the District (hereinafter defined) after the date of initial delivery of the Bonds (hereinafter defined) with certain covenants contained in the Order (hereinafter defined) and subject to the matters set forth under "TAX MATTERS" herein, that interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) would 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) would not be included in computing the alternative minimum taxable income of the owners thereof. The delivery of the Bonds upon their remarketing is subject to the delivery by Bond Counsel of an opinion to the effect that the conversion of the Bonds to the New Term Rate Period (hereinafter defined), during which time such Bonds will bear interest at a new Term Rate (hereinafter defined), as described herein, will not, in and of itself, adversely affect the excludability of interest on the Bonds for federal income tax purposes. See "TAX MATTERS" herein. Additionally, see "THE BONDS - Determination of Interest Rate; Rate Mode Changes" identifying circumstances when an opinion of nationally recognized bond counsel is required as a condition for an interest rate mode conversion. Bond Counsel expresses no opinion as to the effect on the excludability from gross income for federal income tax purposes of any action requiring such an opinion.

\$12,240,000*

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Bexar County, Texas)
VARIABLE RATE UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2020B
CONVERSION TO TERM RATE PERIOD OF ___ YEARS AT A PER ANNUM TERM RATE OF ___%
(PRICED TO YIELD ___% TO MANDATORY TENDER DATE)

Original Date: November 1, 2020
Interest Accrual Date: February 1, 2023 (the "Conversion Date")
CUSIP No.⁽¹⁾: 011338

Mandatory Tender Date: February 1, 20__
Stated Maturity: February 1, 2043

The Alamo Heights Independent School District Variable Rate Unlimited Tax School Building Bonds, Series 2020B (the "Bonds") were initially issued pursuant to an order adopted on October 22, 2020 (the "Order") by the Board of Trustees (the "Board") of the Alamo Heights Independent School District (the "District"). The Bonds are currently outstanding in the aggregate principal amount of \$12,240,000. On February 1, 2023, \$12,240,000 in Bonds will be mandatorily tendered for purchase, and \$12,240,000* in Bonds will be remarketed to a new ___-year Term Rate to provide proceeds to pay the purchase price of the aforementioned mandatorily-tendered Bonds. Interest on the Bonds, while in the new ___-year Term Rate mode, is payable initially on August 1, 2023 and on each February 1 and August 1 thereafter through February 1, 20___. Capitalized terms used in this Remarketing Memorandum that are not otherwise defined shall have the meaning assigned to such terms in the Order and by the Remarketing Order (hereinafter defined). See "THE BONDS - Authority for Issuance" and "- Remarketing Order." The definitive Bonds have been registered and delivered to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or any integral multiple thereof while bearing interest at a Term Rate or a Fixed Rate. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the beneficial owners of the Bonds (see "THE BONDS - Book-Entry-Only-System" herein). The Paying Agent/Registrar and the Tender Agent is Zions Bancorporation, National Association, dba Amegy Bank, Houston, Texas (see "THE BONDS - General - Paying Agent/Registrar").

The Bonds were initially issued as a single Term Bond scheduled to mature as shown above and subject to optional and mandatory redemption prior to stated maturity, in whole or in part, as described herein (see "THE BONDS - Optional Redemption" and "- Mandatory Redemption").

The Bonds currently bear interest at the Initial Rate for the three-year Initial Rate Period which expires on January 31, 2023. Pursuant to an order of the Board adopted on December 15, 2022 (the "Remarketing Order"), the Board has authorized the remarketing of the Bonds to a new ___-year Term Rate Period (the "New Term Rate Period"), which will be effective commencing February 1, 2023. In the Remarketing Order, the Board delegated to certain authorized officials of the District the ability to execute a conversion certificate evidencing final terms relating to the remarketing of the Bonds. The New Term Rate Period for the Bonds shall commence on February 1, 2023 and end on January 31, 20___, and the per annum interest rate for the New Term Rate Period is ___%. Thereafter, the District expects that the Bonds will again be remarketed and bear interest at a Term Rate determined by a remarketing agent; provided, however, that the interest rate mode applicable to the Bonds may be (a) be remarketed in another Term Rate, or (b) be converted to a Fixed Rate until stated maturity or prior redemption; provided further, however, that the District's failure to remarket the Bonds at the end of the New Term Rate Period as currently contemplated shall not result in an event of default, but the Bonds shall, until redeemed or remarketed, then bear interest at the "Stepped Rate" as described below. Additionally, the payment of the principal of and interest on the Bonds (but not the purchase price of Bonds at mandatory tender), when due, is guaranteed by the Texas Permanent School Fund, and, as such, the Bonds are also guaranteed by the Guarantee Program. (See "THE BONDS - Security" and "- Permanent School Fund Guarantee." See also "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

The Bonds will be subject to mandatory tender without the right of retention on the Conversion Date immediately following the end of the New Term Rate Period, which occurs on February 1, 20___. During the New Term Rate Period, the Bonds are not subject to the benefit of a liquidity facility provided by a third party. Accordingly, a failure by the Remarketing Agent to remarket Bonds subject to mandatory tender on the Conversion Date at the end of the New Term Rate Period will result in the rescission of the notice of mandatory tender with respect thereto and the District not having any obligation to purchase such Bonds at that time. The occurrence of the foregoing will not result in an event of default under the Order or the Bonds. Until such time as the District redeems or remarkets Bonds that have been unsuccessfully remarketed as described above, such Bonds shall bear interest at the "Stepped Rate", which is defined herein to mean 7.00% per annum, calculated on the basis of twelve 30-day months and the number of days actually elapsed (see "THE BONDS - Tender Provisions" herein).

All tenders of Bonds must be made to the Tender Agent at its designated office in Houston, Texas. In the Order, the District has covenanted to identify and enter into a contract with a remarketing agent (the "Remarketing Agent") for the Bonds prior to the commencement of the remarketing period applicable to the Bonds. Bonds tendered for purchase on the initial Conversion Date will be bought from the proceeds derived from the remarketing of the Bonds, if any; provided, however, that should the date for tender of the Bonds occur on an Interest Payment Date, the accrued interest portion of the Purchase Price is to be paid by the District.

The Bonds were originally delivered to the initial purchasers, together with the approving opinion of the Attorney General of the State of Texas and the initial opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel (see "Appendix D - Bond Counsel's Original Opinion"), through the services of DTC. The remarketing of the Bonds will, through the services of DTC, be available for delivery on February 1, 2023, which is the Conversion Date applicable to the Bonds in their current interest period. In connection with the remarketing of the Bonds, certain legal matters will be passed upon for the Remarketing Agent by its counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas.

Piper Sandler & Co.

* Preliminary, subject to change.

⁽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 FactSet Research Systems, Inc., on behalf of American Bankers Association. CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for convenience of the owners of the Bonds. 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 Remarketing Agent, the District or the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
7101 Broadway
San Antonio, Texas 78209

BOARD OF TRUSTEES

<u>Name</u>	<u>Position</u>	<u>Years Served</u>	<u>Term Expires May</u>	<u>Occupation</u>
Brian Hamilton	President	4	2025	Attorney
Stacy Sharp	Vice President	3	2023	Attorney
Lisa Krenger	Secretary	7	2024	College Admissions Consulting
Clay Page	Assistant Secretary	1	2024	Construction
David Hornberger	Trustee	6	2025	Attorney
Ryan Anderson	Trustee	5	2023	Attorney
Carey Hildebrand	Trustee	1	2024	Volunteer

ADMINISTRATION - FINANCE CONNECTED

<u>Name</u>	<u>Title</u>	<u>Total Years Experience</u>	<u>Total Years With District</u>
Dr. Dana Bashara	Superintendent of Schools	24	24
Michael Howard Hagar	Assistant Superintendent of Business/Finance	33	26

CONSULTANTS AND ADVISORS

Armstrong Vaughn & Assoc. San Antonio, Texas	Certified Public Accountants
Norton Rose Fulbright US LLP San Antonio, Texas	Bond Counsel
SAMCO Capital Markets, Inc. San Antonio, Texas	Financial Advisor

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or

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of Business/Finance
Alamo Heights Independent School District
7101 Broadway
San Antonio, Texas 78209
Phone: (210) 822-3374
Fax: (210) 822-2221
Email: mikeh@ahisd.net

USE OF INFORMATION IN REMARKETING MEMORANDUM

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

No dealer, broker, salesman, or other person has been authorized by the District to give any information or to make any representation with respect to the Bonds, other than as contained in this Remarketing Memorandum, and if given or made, such other information or representations must not be relied upon as having been authorized by the District, the Financial Advisor or the Remarketing Agent.

This Remarketing Memorandum does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale. The information set forth herein has been obtained from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Remarketing Agent.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Remarketing Memorandum nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Remarketing Memorandum. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM - PSF Continuing Disclosure Undertaking" and "CONTINUING DISCLOSURE" for a description of the undertakings of the Texas Education Agency ("TEA") and the District, respectively, to provide certain information on a continuing basis.

The Remarketing Agent has provided the following sentence for inclusion in this Remarketing Memorandum. The Remarketing Agent has reviewed the information in this Remarketing Memorandum in accordance with, and as part of their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agent does not guarantee the accuracy or completeness of such information.

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 THESE BONDS HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION FOR THE PURCHASE THEREOF.

IN CONNECTION WITH THIS OFFERING, THE REMARKETING AGENT MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE THE MARKET PRICE OF THIS ISSUE 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, the Financial Advisor, or the Remarketing Agent make any representation or warranty with respect to the information contained in this Remarketing Memorandum regarding (i) DTC or its book-entry-only system described under the caption "BOOK-ENTRY-ONLY SYSTEM" as such information has been provided by DTC, and (ii) the Texas Permanent School Fund Guarantee Program described in the caption "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" as such information has been provided by the Texas Education Agency.

The agreements of the District and others related to the Bonds are contained solely in the contracts described herein. Neither this Remarketing Memorandum, nor any other statement made in connection with the offer or sale of the Bonds, is to be construed as constituting an agreement with the purchasers of the Bonds. INVESTORS SHOULD READ THE ENTIRE REMARKETING MEMORANDUM, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION WITH RESPECT TO THE BONDS.

THE COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY AND IS NOT INTENDED AS A SUMMARY OF THIS OFFERING. INVESTORS SHOULD READ THE ENTIRE REMARKETING MEMORANDUM, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

THIS REMARKETING MEMORANDUM 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 (see "OTHER PERTINENT INFORMATION - Forward Looking Statements" herein).

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The cover page hereof, the appendices hereto, and any addenda, supplement or amendment hereto are part of this Remarketing Memorandum.

REMARKETING MEMORANDUM SUMMARY INFORMATION

The following information is qualified in its entirety by more detailed information and financial statements appearing elsewhere in this Remarketing Memorandum:

THE DISTRICT	The Alamo Heights Independent School District (the "District") is located in Bexar County, Texas. The District is approximately 9.4 square miles in area and serves a population of approximately 31,163. The District was created under State statute and is governed by a seven-member Board of Trustees (the "Board"). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors.
RATE PERIODS	The Bonds currently bear interest at the Initial Rate for a three-year Initial Rate Period that expires on January 31, 2023. Pursuant to an order of the District's Board of Trustees (the "Board") adopted on December 15, 2022 (the "Remarketing Order"), the Board has authorized the remarketing of the Bonds to a Term Rate Period (the "New Term Rate Period"), which will be effective on February 1, 2023. The New Term Rate Period for the Bonds shall commence on February 1, 2023 and end on January 31, 20__, and the per annum interest rate for the New Term Rate Period is __%. Thereafter, the District expects that the Bonds will again be remarketed and bear interest at a Term Rate determined by a remarketing agent; provided, however, that the interest rate mode for the Bonds may be from time to time on a Conversion Date (a) remarketed in another Term Rate, or (b) converted to a Fixed Rate until stated maturity or prior redemption (as such terms are defined and described herein); provided further, however, that the District's failure to remarket the Bonds at the end of the New Term Rate Period as currently contemplated shall not result in an event of default, but the Bonds shall, until redeemed or remarketed, then bear interest at the "Stepped Rate" as described herein (see "THE BONDS - Determination of Interest Rates; Rate Mode Changes" herein).
REDEMPTION	After the Initial Rate Period and prior to conversion to a Fixed Rate, the Bonds are subject to optional and mandatory redemption at par, on the dates and in the manner, as described herein. (See "THE BONDS - Redemption.") During the Initial Rate Period the Bonds are not subject to optional redemption.
SECURITY FOR THE BONDS	The Bonds constitute direct obligations of the District payable from an annual ad valorem tax levied against all taxable property located therein, without legal limitation as to rate or amount. Additionally, the payment of the principal of and interest on the Bonds (but not the purchase price of Bonds at mandatory tender) is guaranteed by the Permanent School Fund of the State of Texas (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein).
TAX MATTERS	In the Original Opinion (hereinafter defined) Bond Counsel rendered an opinion, assuming continuing compliance by the District after the date of initial delivery of the Bonds described herein with certain covenants contained in the Order and subject to the matters set forth under "TAX MATTERS" herein, that interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) would 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) would not be included in computing the alternative minimum taxable income of the owners thereof. Upon the conversion of the Bonds to the New Term Rate Period described herein, Bond Counsel will render its opinion that the conversion of the Bonds will not, in and of itself, adversely affect the excludability of interest on the Bonds from gross income for federal income tax purposes. (See "TAX MATTERS" herein; additionally, see "THE BONDS - Determination of Interest Rate; Rate Mode Changes" identifying circumstances when an opinion of nationally recognized bond counsel is required as a condition for an interest rate mode conversion.)
PERMANENT SCHOOL FUND GUARANTEE	The payment of the principal and interest on the Bonds (but not the purchase price of Bonds at mandatory tender) is guaranteed by the Permanent School Fund Guarantee Program, (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein).
MUNICIPAL BOND RATING	At the time of their initial issuance, the Bonds were rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") by virtue of the guarantee of the Texas Permanent School Fund. In addition, Moody's assigned its underlying unenhanced rating of "Aa1" to the District's ad valorem tax-supported indebtedness, including the Bonds. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "OTHER PERTINENT INFORMATION - Municipal Bond Rating" herein.
PAYING AGENT/REGISTRAR AND TENDER AGENT	The Paying Agent/Registrar and Tender Agent for the Bonds is Zions Bancorporation, National Association, dba Amegy Bank, Houston, Texas.
PAYMENT RECORD	The District has never defaulted on the payment of its bonded indebtedness.
DELIVERY	When issued, anticipated to occur on or about February 1, 2023.
LEGALITY	The Bonds were originally delivered to the initial purchasers, along with the approving opinion of the Attorney General of the State of Texas and subject to the Original Opinion of Bond Counsel, on December 3, 2020. See "APPENDIX D - Bond Counsel's Original Opinion" herein.

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PRELIMINARY REMARKETING MEMORANDUM

relating to

\$12,240,000*

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Bexar County, Texas)
VARIABLE RATE UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2020B

INTRODUCTION

This Remarketing Memorandum of Alamo Heights Independent School District (the "District") is provided to furnish certain information in connection with the remarketing of the District's \$12,240,000* Variable Rate Unlimited Tax School Building Bonds, Series 2020B (the "Bonds"). Except as otherwise indicated herein, capitalized terms used in this Remarketing Memorandum have the same meanings assigned to such terms in the order authorizing the Bonds adopted by the Board (defined herein) on October 22, 2020 (the "Order") and the order authorizing the remarketing of the Bonds adopted by the Board on December 15, 2022 (the "Remarketing Order").

This Remarketing Memorandum, which includes the cover page and the appendices hereto, provides certain information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained upon request from the District and, during the offering period, from the District's Financial Advisor, SAMCO Capital Markets, Inc., 1020 N.E. Loop 410, Suite 640, San Antonio, Texas 78209, by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

This Remarketing Memorandum speaks only as of its date, and the information contained herein is subject to change. A copy of the final Remarketing Memorandum pertaining to the Bonds will be filed by the Remarketing Agent with the Municipal Securities Rulemaking Board through its Electronic Municipal Markets Access ("EMMA") system. See "CONTINUING DISCLOSURE" herein for a description of the District's undertaking to provide certain information on a continuing basis.

INFECTIOUS DISEASE OUTBREAK - COVID-19

In March 2020, the World Health Organization and the President of the United States separately declared the outbreak of a respiratory disease caused by a novel coronavirus ("COVID-19") to be a public health emergency. There are currently no COVID-19 related operating limits imposed by executive order of the Governor for any business or other establishment in the State. The Governor retains the right to impose additional restrictions on activities if needed in order to mitigate the effects of COVID-19. The District has not experienced any decrease in property values or unusual tax delinquencies as a result of COVID-19, however, the District cannot predict the long-term economic effect of COVID-19 or a similar virus should there be a reversal of economic activity and re-imposition of restrictions. For a discussion of the impact of COVID-19 on the District's financial condition and budget, see "APPENDIX A - SELECTED FINANCIAL INFORMATION OF THE DISTRICT."

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").

For a discussion of the impact of the Pandemic on the PSF (defined herein) see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM - Infectious Disease Outbreak".

THE BONDS

Authority for Issuance

The Bonds were initially issued in the principal amount of \$12,240,000 and an annual ad valorem tax, without legal limit as to rate or amount, has been levied for their payment pursuant to authority conferred by the Constitution and the laws of the State of Texas, including Chapter 45, as amended, Texas Education Code and Chapter 1371, as amended, Texas Government Code ("Chapter 1371"), an election held in the District on May 6, 2017, and the Order. On December 15, 2022, the Board adopted the Remarketing Order which authorized the conversion and remarketing of the Bonds from a three-year Initial Rate Period expiring January 31, 2023 to a new __-year Term Rate Period (the "New Term Rate Period") which will be effective February 1, 2023 through January 31, 20___. During the New Term Rate Period, the Bonds will bear interest at a per annum Term Rate of _% (the "New Term Rate"). In the Remarketing Order, the Board delegated to certain authorized officials of the District the ability to execute a conversion certificate evidencing final terms relating to the remarketing of the Bonds.

* Preliminary, subject to change.

Security for Payment

The Bonds constitute direct obligations of the District payable from an annual ad valorem tax levied against all taxable property located therein, without any legal limitation as to rate or amount.

General Description

New Term Rate Period. The Bonds are variable rate bonds (convertible upon mandatory tender and remarketing into a Term Rate interest mode of different duration or a Fixed Rate interest mode), initially issued in a Term Mode effective upon initial delivery of the Bonds (on December 3, 2020) and continuing through January 31, 2023 (such period referred to herein and in the Order as the "Initial Rate Period"). Upon expiration of the Initial Rate Period, the Bonds will be remarketed into a successive Term Mode interest period of the like duration, unless changed as described herein, and will bear interest at the New Term Rate for a New Term Rate Period, beginning on February 1, 2023 (which is the first day of the New Term Rate Period) through and including January 31, 20__ (which is the last day of the New Term Rate Period). The Interest Payment Dates during the New Term Rate Period will be on February 1 and August 1, commencing on August 1, 2023. Following the New Term Rate Period, the Bonds will bear interest at the rate or rates, as determined by the Remarketing Agent, dependent upon the interest rate mode in which the Bonds are remarketed and which mode may thereafter be changed from time to time, prior to conversion to a Fixed Rate, in the manner described below.

THE BONDS ARE SUBJECT TO CONVERSION AND REMARKETING INTO A SUBSEQUENT TERM RATE OR FIXED RATE INTEREST PERIOD AT THE TIMES AND UPON THE CONDITIONS DESCRIBED IN THE ORDER FOLLOWING A MANDATORY TENDER FOR PURCHASE OF SUCH BONDS. THIS REMARKETING MEMORANDUM DESCRIBES THE BONDS ONLY IN THE NEW TERM RATE PERIOD AND IS, THEREFORE, NOT INTENDED TO PROVIDE INFORMATION WITH RESPECT TO THE BONDS AFTER CONVERSION TO ANY NEW INTEREST RATE MODE OR INTEREST RATE PERIOD (INCLUDING ANY SUBSEQUENT TERM RATE PERIOD). PURCHASERS OF THE BONDS SHOULD NOT RELY ON THIS REMARKETING MEMORANDUM FOR INFORMATION CONCERNING ANY INTEREST RATE MODE OR INTEREST RATE PERIOD FOR THE BONDS OTHER THAN IN THE NEW TERM RATE PERIOD.

Authorized Denominations. The Bonds were initially issued and, with respect to the New Term Rate Period, will be issued in denominations of \$5,000 and any integral multiple thereof.

Calculation of Interest; Interest Payment Dates. Interest on the Bonds is calculated on the basis of a 360-day year of twelve 30-day months. Interest accruing on the Bonds during the New Term Rate Period will be paid on each February 1 and August 1, commencing August 1, 2023.

Interest Payment Methods. While the Bonds bear interest at the New Term Rate, interest will be paid by check, sent by first class mail, to the owner of record on the Record Date or by such other customary banking arrangement acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the owner.

Book-Entry System of Registration and Payment. The Bonds will be issued as Book-Entry-Only securities through The Depository Trust Company ("DTC"). Use of the DTC Book-Entry-Only System will effect the timing and receipt of payment of interest on and principal of the Bonds (see "THE BONDS – Book-Entry-Only System").

Paying Agent/Registrar. The Paying Agent/Registrar is Zions Bancorporation, National Association, dba Amegy Bank, Houston, Texas. In the Order, the District retains the right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Tender Agent. Zions Bancorporation, National Association, dba Amegy Bank, Houston, Texas, serves as the tender agent (the "Tender Agent"), for the Bonds. All notices and Bonds required to be delivered to the Tender Agent shall be delivered to Zions Bancorporation, National Association, dba Amegy Bank, Houston, Texas, Attn: Andrea Abbott, 1801 Main Street, Suite 1190, Houston, Texas 77002. In the event that the Book-Entry-Only System herein is discontinued and registered bonds are issued, all notices and Bonds are required to be delivered to Zions Bancorporation, National Association, dba Amegy Bank, 1801 Main Street, Suite 1190, Houston, Texas 77002.

Remarketing Agent and Remarketing Agreement. In the Order, the District has covenanted to identify and enter into a contract with a qualified financial institution to serve as remarketing agent for the Bonds (the "Remarketing Agent") prior to the commencement of the remarketing of the Bonds into a new interest rate period prior to expiration of the Initial Rate Period, and to retain such Remarketing Agent for so long, as required by the provisions of the Order. Piper Sandler & Co. has been appointed to serve as the Remarketing Agent for the remarketing of the Bonds into the New Term Rate Period. The office of Piper Sandler & Co. for purposes of its duties as Remarketing Agent is 750 East Mulberry Avenue, Suite 301, San Antonio, Texas 78212. After remarketing the Bonds into the New Term Rate Period, the District is not required to engage or maintain a Remarketing Agent until the commencement of the remarketing period in advance of the Term Rate Conversion Date

occurring immediately after the expiration of the New Term Rate Period. The District anticipates at that time identifying and contracting with such Remarketing Agent for this subsequent remarketing of Bonds. Pursuant to, and subject to the terms and conditions of, the Remarketing Agreement, dated as of December 15, 2022, between the District and Piper Sandler & Co., in its capacity as Remarketing Agent for the Bonds in connection with the remarketing of the Bonds into the New Term Rate Period, has agreed to provide firm financial arrangements for such remarketing of Bonds. For this service, Piper Sandler & Co. will be compensated as described herein under the sub-caption "OTHER PERTINENT INFORMATION - Remarketing of Bonds". The Remarketing Agreement between the District and Piper Sandler & Co. will terminate upon the successful settlement of the Bonds in the New Term Rate Period.

Legality. The Bonds were originally delivered to the initial purchasers, along with the approving opinion of the Attorney General of the State of Texas and subject to the Original Opinion of Bond Counsel, on December 3, 2020 (see "LEGAL MATTERS" and "APPENDIX D - Bond Counsel's Original Opinion").

Upon the conversion of the Bonds to the New Term Rate Period described herein, Bond Counsel will render its opinion that the conversion of the Bonds will not, in and of itself, adversely affect the excludability of interest on the Bonds from gross income for federal income tax purposes.

Payment Record. The District has never defaulted with respect to the payment of its bonded indebtedness.

Interest Rate Modes

The Bonds may be remarketed into a new Term Rate interest period or converted and remarketed into a new Term Rate interest period of different duration or to a Fixed Rate interest period. While the Bonds bear interest at a Term Rate, the interest rate will be determined in effect for a term of one year or any integral multiple of one year selected by the District commencing on the first calendar day of the Term Rate Period.

The interest rate mode selected by the District will remain in effect until changed by the District by notice to the Paying Agent/Registrar, the Tender Agent and the Remarketing Agent, in accordance with the Order. Notice of changes in interest rate modes will be given as described below (see "Determination of Interest Rates; Rate Mode Changes").

Determination of Interest Rates; Rate Mode Changes

New Term Rate Period. The Bonds will bear interest at the New Term Rate for a New Term Rate Period, beginning on February 1, 2023 (which is the first day of the New Term Rate Period) through and including January 31, __ (which is the last day of the New Term Rate Period). The Interest Payment Dates during the New Term Rate Period will be on February 1 and August 1, commencing on August 1, 2023. Following the New Term Rate Period, the Bonds will bear interest at the rate or rates, as determined by a remarketing agent, dependent upon the interest rate mode in which the Bonds are remarketed and which mode may thereafter be changed from time to time, prior to conversion to a Fixed Rate, in the manner described below.

Rate Mode Changes after New Term Rate Period. While the Bonds bear interest at a Term Rate, the Paying Agent/Registrar is required to give notice to the owners of all Bonds of the conversion from one interest rate mode to another at least 30 days prior to the Conversion Date. Each notice of a change between interest rate modes will be sent by first class mail to each owner's address as it appears in the registration books of the Paying Agent/Registrar and will state: (a) the effective date and the type of interest rate mode to which the change will be made; (b) the dates by which the Remarketing Agent will determine the Term Rate and the dates by which the owners will be notified thereof; (c) if the Bonds will be subject to optional or mandatory tender on the effective date of the change in the interest rate mode, the procedure for such tender, including the date and time that any notices must be received; and (d) the procedure (including form of notice) to be followed if the owner desires to retain his Bonds and such option to retain has been granted by the District.

Any conversion (a) from a Term Rate Period of one duration to a Term Rate period of a different duration; or (b) to a Fixed Rate will be conditioned on delivery of an opinion of nationally recognized bond counsel to the effect that the conversion will not adversely affect the excludability of interest on the Bonds from gross income of the owners thereof for federal income tax purposes if such conversion results in a reissuance of the remarketed Bonds under applicable federal tax law. The opinion of Bond Counsel expresses no opinion as to the effect on excludability from gross income for federal income tax purposes of any action taken which requires the receipt of an opinion of a nationally recognized bond counsel. No opinion of Bond Counsel is required for a conversion of the interest rate mode applicable to the Bonds from the Initial Rate mode to a Term Rate mode. Conversion of interest rate modes must take place only on an interest payment date for the interest rate mode then in effect. While in a Term Rate mode, Bonds may be converted to a different interest rate mode only at the expiration of a Term Rate period.

Any owner of Bonds who may be unable to take timely action on any notice should consider whether to make arrangements for another person to act in his or her stead.

Determination of Interest Rates. During each Rate Period, the rate of interest on the Bonds will be the rate that the Remarketing Agent determines, in conjunction with the District and under prevailing market conditions on the date of such determination,

would result in the market value of the Bonds being not less than 100% of the principal amount thereof. The date of such determination is defined herein as the "Rate Determination Date".

The determination by the Remarketing Agent of the rate or rates of interest to be borne by the Bonds will be conclusive and binding on the holders of the Bonds, the District, the Paying Agent/Registrar and the Tender Agent. Failure by the Paying Agent/Registrar to give notice to the Bondholders, or any defect therein, will not affect the interest rate borne by the Bonds or the rights of the owners thereof. In the event that the Remarketing Agent fails to determine the new interest rate or rates for any reason, the then-effective Term Rate will continue to be such rate or rates in effect for any subsequent Interest Rate Period. In no event will the interest rate borne by the Bonds exceed the "Highest Rate", which (as provided in the Order) is the lesser of 7.00% and the maximum net effective interest rate permitted under Chapter 1204, Texas Government Code, as amended.

Notice of Rates. Owners will be notified by the Paying Agent/Registrar first-class mail of the Term Rate applicable to the Bonds promptly after the applicable Rate Determination Date.

Tender Provisions

No Optional Tender. The Bonds are not subject to optional tender.

Mandatory Tender. The Bonds are required to be tendered for purchase to the Tender Agent, without the right of retention, at the end of the New Term Rate Period on February 1, 20__.

Payment of the Purchase Price (defined in the Order to mean, with respect to each Bond (or any portion thereof) tendered for purchase, the par amount thereof, plus accrued but unpaid interest thereon to the date of purchase) of Bonds to be purchased upon mandatory tender as described herein will be made by the Tender Agent at its Corporate Trust Office or by wire transfer in immediately available funds.

If the Bonds are not converted and remarketed to new purchasers on the scheduled date of mandatory tender, the District shall have no obligation to purchase the Bonds tendered on such date, the failed conversion and remarketing shall not constitute an event of default under the Order or the Bonds, the mandatory tender will be deemed to have been rescinded for that date with respect to the Bonds subject to such failed remarketing only, and such Bonds (i) will continue to be Outstanding, (ii) will be purchased upon the availability of funds to be received from the subsequent remarketing of such Bonds, (iii) will bear interest at the Stepped Rate during the Stepped Rate Period, (iv) will be subject to redemption and mandatory tender for purchase on any date during the Stepped Rate Period upon which a conversion occurs (which shall occur at the District's discretion upon delivery of at least one day's notice to the holders of Bonds bearing interest at the Stepped Rate), and (v) will be deemed to continue in the Term Rate period for all other purposes of the Order, though bearing interest during such time at the Stepped Rate until remarketed or redeemed in accordance with the terms of the Order. In the event of a failed conversion and remarketing as described above, the District has covenanted in the Order to cause the Bonds to be converted and remarketed on the earliest reasonably practicable date on which they can be sold at par, in such interest rate mode or modes as the District directs, at a rate not exceeding the Highest Rate. The Order provides that the Stepped Rate means a rate per annum equal to 7.00%, calculated on the basis of twelve 30 day months and the number of days actually elapsed.

Interest on any Bond that the owner has not elected to continue to own after a mandatory purchase date and that is not tendered on the mandatory purchase date, but for which there has been irrevocably deposited with the Tender Agent an amount sufficient to pay the Purchase Price thereof, will cease to accrue on the mandatory Purchase Date. Thereafter, the owner of such Bond will not be entitled to any payment other than the Purchase Price for such Bond from money held by the Tender Agent for such payment, and such Bond will not otherwise be outstanding or entitled to the benefits of the Order. On the mandatory Purchase Date, the Tender Agent will authenticate and deliver substitute Bonds in lieu of such untendered Bonds.

Remarketing and Purchase. The Remarketing Agent is required, at a minimum, to use its best efforts to sell such Bonds at a price equal to not less than 100% of the principal amount thereof plus accrued interest, if any, on the forthcoming optional or mandatory purchase date or as quickly as possible thereafter.

The Purchase Price of Bonds tendered for purchase is required to be paid by the Tender Agent from money derived from the remarketing of such Bonds by the Remarketing Agent. If sufficient funds are not available for the purchase of all tendered Bonds, no purchase will be consummated.

Conversion to Fixed Rate

The Order provides that at the option of the District the Bonds bearing interest at a Term Rate may be converted in whole or in part to a Fixed Rate or Rates on the first Interest Payment Date that occurs after conclusion of such interest period during which the Bonds bear interest at the Term Rate. In the event of a partial conversion, the Paying Agent/Registrar shall select by lot or other customary random method the Bonds to be converted to a Fixed Rate. Solely and exclusively with respect to the Remarketing Agent's setting of Fixed Rates on the Bonds to be converted on the Fixed Rate Conversion Date, the Remarketing Agent shall determine the rates for such converted Bonds that will cause such Bonds to have a market value, net of costs of issuance and remarketing fees, at least equal to the principal amount of Bonds. In addition, the District may reserve the right, exercisable at its sole option, to seek competitive bids on the Fixed Rate Conversion Date.

To exercise its option, the District must deliver to the Paying Agent/ Registrar, the Remarketing Agent (if any), and the Tender Agent written notice at least 45 calendar days prior to the interest payment date on which the Fixed Rate mode is to become

effective (the "Fixed Rate Conversion Date"). The Bonds converted to a Fixed Rate on a Fixed Rate Conversion Date shall mature, be subject to redemption and have the same terms and features (other than the right of owners to tender their Bonds for purchase) as set forth in the Order with respect to Bonds bearing interest at a Term Rate. Notwithstanding the previous sentence, in connection with a conversion to a Fixed Rate, the District may elect, at its sole option, to provide for serial maturities, revised redemption provisions and other terms applicable to the pricing of the Bonds on and after the Fixed Rate Conversion Date. If the District so elects, the serial maturities for the Bonds converted to a Fixed Rate shall be determined on the basis of providing similar relative principal payments on such Bonds (after giving pro rata effect for any prior sinking fund redemptions of the Bonds, if any, not then converted) in order to effectuate a pro rata allocation of the mandatory redemption schedule as set forth in "THE BONDS - Mandatory Redemption" below between the Bonds to be converted to a Fixed Rate and the Bonds remaining in a Term Rate. In addition, the District must deliver to the Paying Agent/Registrar prior to the Fixed Rate Mode Conversion Date an opinion of nationally recognized bond counsel to the effect that the conversion to the Fixed Rate Mode is authorized under the provisions of the Order and will not adversely affect the exclusion of interest on the Bonds from gross income of the owners thereof for federal income tax purposes.

The Paying Agent/Registrar is required to give notice by mail to all owners of the conversion to a Fixed Rate Mode not less than 30 calendar days prior to the Fixed Rate Conversion Date. Such notice is required to (a) specify the Fixed Rate Conversion Date and the dates by which the District will determine and the Paying Agent/Registrar will notify the owners of the Fixed Rate Bonds; (b) state that the Bonds will be subject to mandatory tender for purchase on the Fixed Rate Conversion Date without the right of the owners to retain their Bonds, and (c) specify the redemption provisions and other terms applicable to the Bonds after the Fixed Rate Conversion Date.

In advance of the Fixed Rate Conversion Date in accordance with the Order, the Remarketing Agent will, in consultation with and subject to the approval of the District, determine the Fixed Rate or Rates and give notice thereof to the Paying Agent/Registrar. The Paying Agent/Registrar will then give notice of such Fixed Rate or Rates by first class mail to the Tender Agent and the owners of the Bonds.

After the Fixed Rate Conversion Date, the owners of converted Bonds will have no right to tender their Bonds for purchase.

Redemption

Optional Redemption. The Bonds are not subject to optional redemption during the Initial Rate Period, but are subject to redemption, at the District's option, on the first Interest Payment Date immediately succeeding the conclusion of the Initial Rate Period.

The Paying Agent/Registrar is required to cause notice of any redemption of Bonds to be mailed to each owner of Bonds to be redeemed at the respective addresses appearing in the registration books for the Bonds. Notice of redemption is required to be mailed at least 30 days prior to the redemption date when Bonds bear interest at a Term Rate; (ii) identify the Bonds to be redeemed; (iii) specify the redemption date and the redemption price; and (iv) state that (a) on the redemption date the Bonds called for redemption will be payable at the corporate trust office of the Paying Agent/Registrar and (b) from the redemption date interest will cease to accrue. If notice of redemption is given as described above and if due provision for the payment of the redemption price is made, then the Bonds that are to be redeemed thereby will automatically be deemed to have been redeemed prior to their scheduled maturities and will not bear interest after the redemption date, nor will they be regarded as being outstanding except for the right of the owner thereof to receive the redemption price from the Paying Agent/Registrar.

Scheduled Mandatory Redemption. The Bonds are subject to mandatory redemption prior to stated maturity as follows:

Mandatory Redemption	
<u>Date</u>	<u>Amount(\$)</u>
2/1/2032	645,000
2/1/2033	690,000
2/1/2034	740,000
2/1/2035	795,000
2/1/2036	855,000
2/1/2037	915,000
2/1/2038	980,000
2/1/2039	1,050,000
2/1/2040	1,130,000
2/1/2041	1,210,000
2/1/2042	1,560,000
2/1/2043	1,670,000

The principal amount of Bonds required to be redeemed pursuant to the operation of such mandatory redemption provisions shall be reduced, at the option of the District, by the principal amount of any Bonds which, at least 50 days prior to the mandatory redemption date (1) shall have been defeased or acquired by the District and delivered to the Paying

Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the District with money in the Bond Fund, or (3) shall have been redeemed pursuant to the optional redemption provisions set forth above and not theretofor credited against a mandatory redemption requirement.

Special Mandatory Redemption. While the Bonds are Outstanding and accruing interest at a Term Rate which includes a period longer than the period for which taxes are then being assessed, the District may, at its discretion and in accordance with and as permitted by the Order, budget for such fiscal year and levy taxes for the payment of interest on the Bonds based on an interest rate on the Bonds equal to the actual rate borne thereby or up to the Highest Rate per annum. At the end of the fiscal year in which the District levies a tax based on the interest rate on the Bonds being equal to a rate of interest other than the actual rate borne by the Bonds up to the Highest Rate, the District shall determine whether the interest paid on the Bonds in such fiscal year is less than the amount of revenue collected. If in such circumstance the amount of interest paid on the Bonds is less than the amount collected, the District shall cause the difference between the amount budgeted at the assumed interest rate and the amount paid on the Bonds ("Excess Interest Funds") to be allocated and appropriated for the payment of the mandatory redemption of Bonds on the first February 1 next following the end of such fiscal year; provided the amount of such Excess Interest Funds is equal to or greater than \$100,000. In each fiscal year when the amount of Excess Interest Funds is equal to or greater than \$100,000, the District shall cause Bonds in a principal amount equivalent to the Excess Interest Funds to be redeemed on the February 1 next following the end of such fiscal year at the redemption price of par plus accrued interest to the date of redemption. The mandatory redemption of Bonds in accordance with the provisions of this paragraph shall be in addition to the amount of Bonds to be mandatorily redeemed as set forth in the schedule above in the years shown.

On or before December 15 of each year preceding each mandatory redemption date the Bonds are to be mandatorily redeemed, the District will notify the Paying Agent/Registrar in writing of the principal amount of Bonds to be mandatorily redeemed with Excess Interest Funds on the following February 1, and instruct the Paying Agent/Registrar to select by lot or other customary random selection method the Bonds or portions thereof to be redeemed.

Notice of Redemption. As discussed under "THE BONDS - Redemption- Optional Redemption", all notices of redemption shall (i) specify the date of redemption for the Bonds, (ii) identify the Bonds to be redeemed and, in the case of a portion of the principal amount to be redeemed, the principal amount thereof to be redeemed, (iii) state the redemption price, (iv) state the Bonds, or the portion of the principal amount thereof, to be redeemed, shall become due and payable on the redemption date specified, and the interest thereof, or on the portion of the principal amount thereof to be redeemed, shall cease to accrue from and after the redemption date, and (v) specify the payment of the redemption price for the Bonds, or the principal amount thereof to be redeemed, shall be made at the designated corporate trust office of the Paying Agent/Registrar only upon presentation and surrender thereof by the registered owner. If a Bond is subject by its terms to redemption and has been called for redemption and notice of redemption thereof has been duly given or waived, as provided in the Order, such Bonds (or the principal amount thereof to be redeemed) so called for redemption shall become due and payable, and on the redemption date designated in such notice, interest on such Bonds (or the principal amount thereof to be redeemed) called for redemption shall cease to accrue and such Bonds shall not be deemed to be outstanding.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN AND THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

DTC Redemption Provision. The Paying Agent/Registrar, so long as a book-entry system is used for the Bonds, will send any notice of redemption, or other notices with respect to the Bonds only to DTC (or any successor securities depository for the Bonds). Any failure by DTC to advise any Direct Participant (defined herein), or of any Direct Participant or Indirect Participant (defined herein) to notify the Beneficial Owner (defined herein), will not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of Direct Participants in accordance with its rules or other agreements with Direct Participants and then Direct Participants and Indirect Participants may implement a redemption of such Bonds from the Beneficial Owners. Any such selection of Bonds to be redeemed will not be governed by the Order and will not be conducted by the District or Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to Direct Participants, Indirect Participants, or the persons for whom Direct Participants act as nominees, with respect to the payments on the Bonds or the providing of notice to Direct Participants, Indirect Participants, or Beneficial Owners of the selection of portions of the Bonds for redemption. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Security

The Bonds are direct obligations of the District and are payable as to principal and interest from a direct and continuing ad valorem tax levied annually on all taxable property within the District, without legal limitation as to rate or amount, as provided in the Order. See "TAX RATE LIMITATIONS". Additionally, the payment of the principal of and interest on the Bonds (but not the purchase price of Bonds at mandatory tender), when due, is guaranteed by the corpus of the Texas Permanent School Fund. (See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

Permanent School Fund Guarantee

In connection with their initial issuance, the Bonds were guaranteed under the Guarantee Program for School District Bonds (Chapter 45, Subchapter C, of the Texas Education Code). The Bonds remain guaranteed under such Program subsequent to their remarketing into the New Term Rate Period. In the event of default, registered owners will receive covered payments from the corpus of the Texas Permanent School Fund (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

Defeasance

Any Bond will be deemed paid and shall no longer be considered to be outstanding within the meaning of the Order when payment of the principal of and interest on such Bond to its stated maturity or redemption date will have been made or will have been provided by depositing with the Paying Agent/Registrar or an authorized escrow agent, (1) cash in an amount sufficient to make such payment, (2) Government Obligations (defined below) of such maturities and interest payment dates and bearing such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to make such payment, or (3) a combination of cash and Government Obligations. The foregoing deposits shall be certified as to sufficiency by an independent accounting firm, the District's Financial Advisor, the Paying Agent/Registrar, or such other qualified financial institution (as provided in the Order).

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, or (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. There is no assurance that the ratings for U.S. Treasury securities acquired to defease any Bonds, or those for any other Government Obligations, will be maintained at any particular rating category.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. 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, the District has 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 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, (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.

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, amend, add to, or rescind any of the provisions of the Order; except that, without the consent of all of the registered owners of the Bonds then outstanding, no such amendment, addition, or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any Bond is due and payable, reduce the principal amount, the redemption price therefor, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the percentage of the aggregate principal amount of Bonds required to be held for consent to any amendment, addition, waiver, or rescission.

Default and Remedies

If the District defaults in the payment of principal, 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 the 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 registered owners upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and, accordingly, all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court 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. Chapter 1371, as amended, Texas Government Code ("Chapter 1371"), which pertains to the issuance of public securities by issuers such as the District, permits the District to waive sovereign immunity in the

proceedings authorizing the issuance of the Bonds. Notwithstanding its reliance upon the provisions of Chapter 1371 in connection with the issuance of the Bonds (as further described under the caption "THE BONDS - Authority for Issuance"), the District has not waived the defense of sovereign immunity with respect thereto. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages beyond Chapter 1371, 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 original opinion of Bond Counsel noted that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity which permit the exercise of judicial discretion.

Future Issues

Other than the Bonds, the District does not anticipate issuing any additional ad valorem tax obligations within the next twelve months except for potentially refunding bonds for debt service savings.

Original Use of Bond Proceeds; Use of Remarketing Proceeds

Proceeds from the sale of the Bonds were originally used to (i) design, construct, renovate, improve, acquire, and equip school facilities, the purchase of the necessary sites for school facilities, and the purchase of new school buses and (ii) pay the costs of issuance of the Bonds. The proceeds to be derived from this remarketing of the Bonds will be used to repay existing holders of Bonds upon such holders' mandatory tender of the remarketed Bonds.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The Paying Agent/Registrar is Zions Bancorporation, National Association, dba Amegy Bank, Houston, Texas. The Bonds will be issued in fully registered form in multiples of \$5,000 or integral multiple thereof for any one stated maturity, and principal and interest will be paid by the Paying Agent/Registrar. If the date for the payment of the principal of or interest on, or redemption price of, the Bonds shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the Paying Agent/ Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

Successor Paying Agent/Registrar

The District covenants that until the Bonds are paid it will at all times maintain and provide a paying agent/registrar. In the Order, the District retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new Paying Agent/Registrar must accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District must be a bank, trust company, financial institution or other entity duly qualified and legally authorized to serve and perform the duties of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District will promptly cause a notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall give the address of the new Paying Agent/Registrar.

Record Date

The record date ("Record Date") for determining the registered owner entitled to receive a payment of interest on a Bond is the fifteenth day of the month next preceding each interest payment date.

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. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be 15 days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each registered owner

of a Bond appearing on the Bond Register at the close of business on the last business day next preceding the date of mailing of such notice.

Registration, Transferability and Exchange

In the event the Book-Entry-Only System shall be discontinued, printed certificates will be issued to the registered owners of the Bonds and thereafter the Bonds may be transferred, registered, and assigned on the Bond Register only upon presentation and surrender of such printed certificates to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bond or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bonds being transferred or exchanged at the designated 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. New Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or 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 kind and aggregate principal amount and having the same maturity or maturities as the Bond or Bonds surrendered for exchange or transfer. See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

Limitation on Transfer of Bonds

Neither the District nor the Paying Agent/Registrar are required (1) to make any transfer or exchange during a period beginning at the opening of business 45 days before the day of the first mailing of a notice of redemption of Bonds and ending at the close of business on the day of such mailing, or (2) to transfer or exchange any Bonds so selected for redemption when such redemption is scheduled to occur within 45 calendar days; provided however, that such limitation of transfer is not applicable to an exchange by the registered owner of the uncalled balance of a Bond.

Replacement Bonds

In the event the Book-Entry-Only System has been discontinued, and any Bond is mutilated, destroyed, stolen or lost, a new Bond of like kind and in the same maturity and amount 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 in 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 evidence satisfactory to establish to the District and the Paying Agent/Registrar 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 bond or indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond must comply with such other reasonable regulations as the Paying Agent/Registrar may prescribe and pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

BOOK-ENTRY-ONLY SYSTEM

The following 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 DTC (defined below) 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 Remarketing Memorandum. The District, the Financial Advisor and the Remarketing Agent 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 Remarketing Memorandum. 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.

The Depository Trust Company ("DTC"), New York, New York, 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 security certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest 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 issues, 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 an 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-only 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, tenders, 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 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 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 the 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) are 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 the District or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, physical bond certificates are required to be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but none of the District, the Financial Advisor, or the Remarketing Agent takes any responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of This Remarketing Memorandum

In reading this Remarketing Memorandum it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Remarketing Memorandum 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, notices that are to be given to registered owners under the Order will be given only to DTC.

Effect of Termination of Book-Entry-Only System

In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the District, printed physical Bond certificates will be issued to the respective holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Order and summarized under the caption "REGISTRATION, TRANSFER AND EXCHANGE" above.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

The information below concerning the Texas Permanent School Fund and the Guarantee Program for school district bonds has been provided by TEA (defined below) and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the District, the Financial Advisor, or the Remarketing Agent.

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 is governed 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.

During the 87th Regular Session of the Texas Legislature (the "87th Regular Session"), which concluded on May 31, 2021, Senate Bill 1232 ("SB 1232" or "the bill") was enacted, and the bill became effective on September 1, 2021. SB 1232 provides for a variety of changes to the operations and management of the Fund, including the creation of the Permanent School Fund Corporation (the "PSF Corporation"), and the delegation of responsibility to manage the portion of the Fund previously under the management supervision of the State Board of Education (the "SBOE") to the PSF Corporation. SB 1232 also requires changes with respect to the management of certain investments previously made at the discretion of the Texas School Land Board ("the "SLB"), including limiting the types of investments that may be made by the SLB and mandating the transfer of cash and certain other investment properties from the SLB to the PSF Corporation once the PSF Corporation is created. Certain of the authorizations of SB 1232, including the creation of the PSF Corporation have occurred, but other authorized changes are expected to be implemented in phases, generally from the first quarter of calendar year 2022 through the end of calendar year 2023. See "Management Transition to the PSF Corporation" for a summary of SB 1232 and its expected impact on the management and operations of the Fund.

History and Purpose

The PSF supports the State's public school system in two major ways: distributions to the constitutionally established Available School Fund (the "ASF"), as described below, and the guarantee of school district and charter district issued bonds through the Guarantee Program. 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, with the sole purpose of assisting in the funding of public education for present and future generations. The Constitution of 1876 described that the PSF would be "permanent," and 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, only the income produced by the PSF could be used to complement taxes in financing public education,

which primarily consisted of income from securities, 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.

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 "Education Commissioner"), bonds properly issued by a school district are fully guaranteed by 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 Education Commissioner. On approval by the Education Commissioner, bonds properly issued by a charter district participating in the Guarantee Program are fully guaranteed by the PSF. The Charter District Bond Guarantee Program 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 (the "Attorney General") been requested to issue an opinion, with respect to its constitutional validity.

Audited financial information for the SBOE financial portfolios of 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 SLB's land and real assets investment operations, which are part of the PSF as described below, are included in the annual financial report of the Texas General Land Office (the "GLO") that is included in the comprehensive annual report of the State of Texas. 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, 2021, when filed with the MSRB in accordance with the PSF undertaking and agreement made in accordance with Rule 15c2-12 ("Rule 15c2-12") of the federal Securities and Exchange Commission (the "SEC"), as described below, is hereby incorporated by reference into this disclosure. Information included herein for the year ended August 31, 2021 is derived from the audited financial statements of the PSF, which are included in the Annual Report when and 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, 2021 and for a description of the financial results of the PSF for the year ended August 31, 2021, the most recent year for which audited financial information regarding the Fund is available. The 2021 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2021 Annual Report or any other Annual Report. The TEA posts (i) each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, (ii) the most recent disclosure for the Guarantee Program, (iii) 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"), and (iv) 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. See "Management Transition to the PSF Corporation" for ongoing changes in the management structure of the Fund that may result in changes to the annual audit prepared with respect to the Fund.

Management and Administration of the Fund Prior to the Implementation of SB 1232

The following discussion describes the legal and management structure of the Fund prior to full implementation of SB 1232, which has begun and is expected to continue in phases over an approximately two-year period. See "Management Transition to the PSF Corporation" for summaries of certain laws applicable to the Fund pursuant to the Texas Constitution and SB 1232 and the ongoing changes in the management structure 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. The SBOE consists of 15 members who are elected by territorial districts in the State to four-year terms of office.

The Texas Constitution provides that the Fund shall be managed through the exercise of 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 "Prudent Person Standard"). 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.

In accordance with the Texas Constitution, the SBOE views the PSF as a perpetual endowment, 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 below, the Total Return Constitutional Amendment restricts the annual pay-out from the Fund to both (i) 6% of the average of the market value of the Fund, excluding real property, 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, and (ii) the total-return on all investment assets of the Fund over a rolling ten-year period.

By law, the Education Commissioner is appointed by the Governor, with Senate confirmation, and assists the SBOE, but the Education Commissioner can neither be hired nor dismissed by the SBOE. The Executive Administrator of the Fund is hired by and reports to the Education Commissioner. Moreover, although the Fund's Executive Administrator and the PSF staff at TEA implement the decisions of and provide information to the School Finance/PSF Committee of the SBOE (the "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.

The Total Return Constitutional Amendment shifted administrative costs of the Fund from the ASF to the PSF, providing that expenses of managing the PSF are to be paid "by appropriation" from the PSF. In January 2005, the Attorney General issued a legal opinion, Op. Tex. Att'y Gen. No. GA-0293 (2005), stating 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.

The SBOE/PSF investment staff and the SBOE's investment consultant for the Fund 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.

The SBOE contracts with a financial institution for custodial and securities lending services in addition to the performance measurement of the total return of the Fund's financial assets managed by the SBOE. 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. Like other State agencies and instrumentalities that manage large investment portfolios, the PSF has an incentive compensation plan that may provide additional compensation for investment personnel, depending upon the criteria relating to the investment performance of the Fund.

The Act requires that the Education Commissioner prepare, and the SBOE approve, an annual status report on the Guarantee Program (which is included in the Annual Report). The State Auditor audits the financial statements of the PSF, which are separate from other financial statements of the State.

Texas law assigns to the SLB the ability to control of the Fund's land and mineral rights and make investments in real assets. Administrative duties related to the land and mineral rights reside with the GLO, which is under the guidance of the elected commissioner of the GLO (the "Land Commissioner). The SLB manages the proceeds of the land and mineral rights that are administered by the GLO on behalf of the Fund. The SLB is governed by a five-member board, the membership of which consists of the Land Commissioner, who sits as the chairman of the board, and four citizen members appointed by the Governor. The SLB and is generally authorized to invest in the following asset classes:

- Discretionary real assets investments consisting of externally managed real estate, infrastructure, and energy/minerals investment funds, separate accounts, and co-investment vehicles; internally managed direct real estate investments, and associated cash;
- Sovereign and other lands, being the lands set aside for the Fund when it was created, and other various lands not considered discretionary real asset investments; and,
- Mineral interests associated with Fund lands.

At August 31, 2021, the SLB managed approximately 15% of the PSF, as reflected in the fund balance of the PSF at that date. See "Management Transition to the PSF Corporation" for a summary of SB 1232 and its expected impact on the management and operations of the Fund.

In 2019, the Texas Legislature enacted legislation that required 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 legislation enacted in 2019 included a bill that created a "permanent school fund liquid account" (the "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. That legislation also provided for the SBOE to administer and invest the Liquid Account and required the TEA, in consultation with the GLO, to conduct a study regarding distributions to the ASF from the PSF. That study (the "PSF Distribution Study"), dated August 31, 2020, is available at <https://tea.texas.gov/sites/default/files/TEA-Distribution-Study.pdf>.

Management Transition to the PSF Corporation

In accordance with SB 1232, at its November 2021 board meeting, the SBOE approved the articles of formation of the PSF Corporation. The articles were filed on December 1, 2021, thus effecting the creation of the PSF Corporation. SB 1232 authorizes the SBOE to delegate investment authority over the PSF and the Charter District Reserve Fund to the PSF Corporation. The bill also provides that the PSF Corporation, the SBOE and TEA must coordinate to determine the PSF Corporation's role in the operation and management of the Guarantee Program to ensure the proper and efficient operation of the program.

The description of SB 1232 that follows summarizes some key provisions of the bill. The full text of the bill can be found at <https://capitol.texas.gov/BillLookup/Text.aspx?LegSess=87R&Bill=SB1232>. SB 1232 provides for various transition dates relating to implementation of the bill, with the latest dates generally occurring in calendar year 2023. As a result, the full implementation of SB 1232 will necessarily evolve over time with the timing of certain aspects of its implementation yet to be determined.

As allowed by SB 1232, the PSF Corporation has been created as a special-purpose governmental corporation and instrumentality of the State which is entitled to sovereign immunity. The PSF Corporation is to be governed by nine-member board of directors (the "Board"), consisting of five members of the SBOE, the Land Commissioner, and three appointed members who have substantial background and expertise in investments and asset management; with one of the appointees being appointed by the Land Commissioner and the other two appointed by the Governor with confirmation by the Senate.

At the inaugural meeting of the Board in January 2022, the Board appointed the Executive Administrator of the Fund as the interim chief executive officer of the PSF Corporation and in April 2022 the Executive Administrator of the Fund was confirmed as the chief executive officer of the PSF Corporation. The chief executive officer will report to the Board. Any amendments to the PSF Corporation's articles of formation and bylaws will be adopted by the Board but are subject to approval by the SBOE.

Notwithstanding the management transition for the Fund from the SBOE to the PSF Corporation, the provisions of the Texas Constitution that formerly applied to the SBOE's management will continue to provide a framework for the management of the Fund. In particular, the Prudent Person Standard is applicable to the PSF Corporation, and the Total Return Constitutional Amendment will govern distributions from the PSF to the ASF by the SBOE. A separate constitutional provision allowing distributions from the PSF to the ASF that is currently used by the SLB was also granted to the PSF Corporation. When determining any amount to distribute, the PSF Corporation may consider distributions made by the SBOE. In addition, the Fund will continue to be managed as a perpetual endowment for the benefit of citizens of the State.

The SLB's investments in real estate investment funds and real asset investment funds will transfer to the PSF Corporation. Beginning December 31, 2022, the SLB will no longer be authorized to make investments into funds; however, the SLB will still be able to invest in land, mineral and royalty interests, and direct real estate holdings; the SLB will also be required to send PSF mineral revenue to the PSF Corporation for investment, subject to designation via the appropriations process to cover GLO expenses of managing the minerals. Tentatively, the transfer of SLB assets to the management of the PSF Corporation is expected to occur in late 2022 or early 2023, but exceptions could be made for specific investments.

In connection with the transfer of SLB's investment funds to the PSF Corporation, the PSF Corporation will also determine when the Liquid Account can be abolished, and any remaining balance transferred to the PSF managed by the PSF Corporation.

Not less than once each year, the Board must submit an audit report to the Legislative Budget Board ("LBB") regarding the operations of the PSF Corporation. The PSF Corporation may contract with a certified public accountant or the State Auditor to conduct an independent audit of the operations of the PSF Corporation, but such authorization does not affect the State Auditor's authority to conduct an audit of the PSF Corporation in accordance with other State laws.

As required by State law, during the 87th Regular Session the LBB issued a fiscal note on SB 1232. The fiscal note stated that uncertainty exists regarding the nature of future returns and the effect of the bill on distributions from all components of the PSF to the ASF, such that the financial impact of the bill could not be determined during the legislative session.

However, the fiscal note stated that TEA and the GLO projected that the changes effected by the bill will have a positive fiscal impact in terms of growth of the Fund and future Fund distributions. No assurances can be given as to future investment results for the Fund.

The State general appropriations act for fiscal years 2022-23 required TEA (and GLO) to submit a plan to the LBB describing the steps required to implement SB 1232, and the plan was submitted on September 1, 2021. The plan included a description of appropriated funds and full time equivalent employees ("FTEs") to be transferred to PSF Corporation and identified costs to accrue to TEA as a result of such transfers. The plan identified a cost range of approximately \$8,000,000 to \$11,000,000 required in connection with the establishment of the PSF Corporation. During the Summer or Fall of 2022, an appropriation request is expected to be made by the chief executive officer of the PSF Corporation acting in cooperation with the Board to LBB in preparation for the 2024-2025 State biennium.

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. Prior to the adoption of the Total Return Constitutional Amendment, all interest and dividend income produced by Fund investments flowed into the ASF, where they were distributed to local school districts and open-enrollment charter schools based on average daily attendance, any net gains from investments of the Fund were reflected in the value of the PSF, and costs of administering the PSF were allocated to the ASF. The Total Return Constitutional Amendment requires that PSF distributions to the ASF be determined using a 'total-return-based' formula instead of the 'current-income-based' formula, which was used from 1964 to the end of the 2003 fiscal year. The Total Return Constitutional Amendment provides that the total amount distributed from the Fund to the ASF: (1) in each year of a State fiscal biennium must be an amount that is not more than 6% of the average of the market value of the Fund, excluding real property (the "Distribution Rate"), on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium, in accordance with the rate adopted by: (a) a vote of two-thirds of the total membership of the SBOE, taken before the Regular Session of the Legislature convenes or (b) the Legislature by general law or appropriation, if the SBOE does not adopt a rate as provided by clause (a); and (2) over the ten-year period consisting of the current State fiscal year and the nine preceding state fiscal years may not exceed the total return on all investment assets of the Fund over the same ten-year period (the "Ten Year Total Return"). In April 2009, the Attorney General issued a legal opinion, Op. Tex. Att'y Gen. No. GA-0707 (2009) ("GA-0707"), 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 exceeded the Ten Year Total Return, is not prohibited by State law, provided that such contingency plan applies only within a fiscal year time basis, not on a biennium basis, and (iii) that the amount distributed from the Fund in a fiscal year may not exceed 6% of the average of the market value of the Fund or the Ten Year Total Return. In accordance with GA-0707, in the event that the Ten Year Total Return is exceeded during a fiscal year, transfers to the ASF will be halted. However, if the Ten Year Total Return subsequently increases during that biennium, transfers may be resumed, if the SBOE has provided for that contingency, and made in full during the remaining period of the biennium, subject to the limit of 6% in any one fiscal year. Any shortfall in the transfer that results from such events from one biennium may not be paid over to the ASF in a subsequent biennium as the SBOE would make a separate payout determination for that subsequent biennium.

In determining the Distribution Rate, the SBOE has adopted the goal of maximizing the amount distributed from the Fund in a manner designed to preserve "intergenerational equity." The definition of intergenerational equity that the SBOE has generally followed 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 consultants, 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 student enrollment State-wide, the projected contributions and expenses of the Fund, projected returns in the capital markets and a projected inflation rate.

On November 8, 2011, a referendum was held in the State at which voters of the State 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 November 8, 2011 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 was 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.

The constitutional amendments approved on November 8, 2011, also provided authority to the GLO or another entity (described in statute as the SLB) that has responsibility for the management of revenues derived from 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 or SLB 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 the GLO, the SBOE or another entity to the extent such entity has the responsibility for the management of revenues derived from such land or other properties. Any amount transferred to the ASF pursuant to this constitutional provision is excluded from the 6% Distribution Rate limitation applicable to SBOE transfers.

The following table shows amounts distributed to the ASF from the portions of the Fund administered by the SBOE (the "PSF(SBOE)") and the SLB (the "PSF(SLB)").

Annual Distributions to the Available School Fund¹

<u>Fiscal Year Ending</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
PSF(SBOE) Distribution	\$1,021	\$1,021	\$839	\$839	\$1,056	\$1,056	\$1,236	\$1,236	\$1,102	\$1,102
PSF(SLB) Distribution	\$0	\$300	\$0	\$0	\$0	\$0	\$0	\$300	\$600	\$600 ²
Per Student Distribution	\$221	\$281	\$175	\$173	\$215	\$212	\$247	\$306	\$347	\$341

¹ In millions of dollars. Source: PSF Annual Report for year ended August 31, 2021.

² In September 2020, the SBOE approved a special, one-time transfer of \$300 million from the portion of the PSF managed by the SBOE to the portion of the PSF managed by the SLB, which amount is to be transferred to the ASF by the SLB in fiscal year 2021. In approving the special transfer, the SBOE determined that the transfer was in the best interest of the PSF due to the historic nature of the public health and economic circumstances resulting from the COVID-19 pandemic and its impact on the school children of Texas.

In November 2020, the SBOE approved a projected \$3.4 billion distribution to the ASF for State fiscal biennium 2022-2023. In making its determination of the 2022-2023 Distribution Rate, the SBOE took into account the announced planned distribution to the ASF by the SLB of \$875 million for the biennium.

Efforts to achieve the intergenerational equity objective, as described above, result in changes in the Distribution Rate for each biennial period. The following table sets forth the Distribution Rates announced by the SBOE in the fall of each even numbered year to be applicable for the following biennium.

<u>State Fiscal Biennium</u>	<u>2008-09</u>	<u>2010-11</u>	<u>2012-13</u>	<u>2014-15</u>	<u>2016-17</u>	<u>2018-19</u>	<u>2020-21</u>	<u>2022-23</u>
<u>SBOE Distribution Rate¹</u>	3.5%	2.5%	4.2%	3.3%	3.5%	3.7%	2.974%	4.18%

¹ Includes only distributions made to the ASF by the SBOE; see the immediately preceding table for amounts of direct SLB distributions to the ASF.

See "Management Transition to the PSF Corporation" for a discussion of planned changes in the management of the Fund that may impact distributions to the ASF.

Asset Allocation of Fund Portfolios

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 June 2022. The Fund's Investment Policy provides for minimum and maximum ranges among the components of each of the asset classifications: equities, fixed income and alternative asset investments. The 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. 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 most recent asset allocation of the PSF(SBOE), approved by the SBOE in June 2022, is set forth below, along with the current asset allocations of the PSF(SLB) and the asset allocation of the Liquid Account (the Liquid Account asset allocation was most recently revised in June 2022). The next scheduled review of the PSF(SBOE) asset allocation is June 2024. See "Management Transition to the PSF Corporation" for a discussion of planned changes in the management of the Fund that could affect the responsibility for review of the asset allocation and the timing of asset allocation review, as well as elimination of the Liquid Account.

PSF Strategic Asset Allocations

	<u>PSF(SBOE)</u>	<u>PSF(SLB)</u>	<u>Liquid Account</u>
Equity Total	55%	0%	77%
Public Equity Total	37%	0%	77%
Large Cap US Equity	14%	0%	38%
Small/Mid Cap US Equity	6%	0%	10%
International Equities	14%	0%	29%
Emerging Markets Equity	3%	0%	0%
Private Equity	18%	0%	0%
Fixed Income Total	22%	0%	21%
Core Bonds	12%	0%	16%
Non-Core Bonds (High Yield & Bank Loans)	4%	0%	0%
Emerging Markets Debt	3%	0%	0%
Treasuries	3%	0%	0%
TIPS	0%	0%	5%
Short Duration	0%	0%	0%
Alternative Investments Total	22%	100%	0%
Absolute Return	7%	0%	0%
Real Estate	11%	33%	0%
Real Return	4%	0%	0%
Energy	0%	31%	0%
Infrastructure	0%	36%	0%
Emerging Manager Program	1%	0%	0%
Cash	0%	0%	2%

For a variety of reasons, each change in asset allocation for the Fund has been implemented in phases, and that approach is likely to be carried forward when and if the asset allocation policy is again modified.

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The table below sets forth the comparative investments of the PSF(SBOE) for the years ending August 31, 2020 and 2021.

Comparative Investment Schedule - PSF(SBOE)¹

Fair Value (in millions) August 31, 2021 and 2020				
ASSET CLASS	August 31, 2021	August 31, 2020	Amount of Increase (Decrease)	Percent Change
EQUITY				
Domestic Small Cap	\$ 2,597.3	\$ 2,005.8	\$ 591.5	29.5%
Domestic Large Cap	<u>6,218.7</u>	<u>5,106.3</u>	<u>1,112.4</u>	<u>21.8%</u>
Total Domestic Equity	8,816.0	7,112.1	1,703.9	24.0%
International Equity	<u>8,062.1</u>	<u>6,380.9</u>	<u>1,681.2</u>	<u>26.3%</u>
TOTAL EQUITY	16,878.1	13,493.0	3,385.1	25.1%
FIXED INCOME				
Domestic Fixed Income	4,853.1	4,232.6	620.5	14.7%
U.S. Treasuries	1,243.3	918.7	324.6	35.3%
Emerging Market Debt	<u>2,683.7</u>	<u>2,450.7</u>	<u>233.0</u>	<u>9.5%</u>
TOTAL FIXED INCOME	8,780.1	7,602.0	1,178.1	15.5%
ALTERNATIVE INVESTMENTS				
Absolute Return	3,546.0	3,517.2	28.8	0.8%
Real Estate	3,706.0	3,102.1	603.9	19.5%
Private Equity	7,724.6	4,761.5	2,963.1	62.2%
Risk Parity	-	1,164.9	(1,164.9)	-100.0%
Real Return	<u>1,675.5</u>	<u>2,047.4</u>	<u>(371.9)</u>	<u>-18.2%</u>
TOTAL ALT INVESTMENTS	16,652.1	14,593.1	2,059.0	14.1%
UNALLOCATED CASH	<u>262.9</u>	<u>122.9</u>	<u>140.0</u>	<u>113.9%</u>
TOTAL PSF(SBOE) INVESTMENTS	\$ 42,573.2	\$ 35,811.0	\$ 6,762.2	18.9%

Source: PSF Annual Report for year ended August 31, 2021.

¹ The investments shown in the table above at August 31, 2021 do not fully reflect the changes made to the PSF Strategic Asset Allocation in 2020, as those changes were still being phased in at the end of the fiscal year.

In accordance with legislation enacted during 2019, the PSF has established the Liquid Account for purposes of investing cash received from the SLB to be invested in liquid assets and managed by the SBOE in the same manner it manages the PSF. That cash was previously included in the PSF valuation but was held and invested by the State Comptroller. See "Management Transition to the PSF Corporation" for a discussion of planned changes in the management of the Fund that could result in the dissolution of the Liquid Account and a blending of assets held in the Liquidity Account into the general investment portfolio of the Fund.

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The table below sets forth the investments of the Liquid Account for the year ended August 31, 2021.

Liquid Account Fair Value at August 31, 2021¹

Fair Value (in millions) August 31, 2021 and 2020

<u>ASSET CLASS</u>	<u>August 31, 2021</u>	<u>August 31, 2020</u>	<u>Amount of Increase (Decrease)</u>	<u>Percent Change</u>
Equity				
Domestic Small/Mid Cap	\$228.3	-	\$228.3	N/A
Domestic Large Cap	<u>578.6</u>	-	<u>578.6</u>	N/A
Total Domestic Equity	806.9	-	806.9	N/A
International Equity	<u>392.6</u>	-	<u>392.6</u>	N/A
TOTAL EQUITY	1,199.5	-	1,199.5	N/A
Fixed Income				
Short-Term Fixed Income	1,074.8	\$1,597.3	(522.5)	-32.7%
Core Bonds	413.1	-	413.1	N/A
TIPS	<u>213.9</u>	-	<u>213.9</u>	N/A
TOTAL FIXED INCOME	1,701.8	1,597.3	104.5	6.5%
Unallocated Cash	<u>1,420.5</u>	<u>2,453.3</u>	<u>(1,032.8)</u>	-42.1%
Total Liquid Account Investments	\$4,321.8	\$4,050.6	\$271.2	6.7%

¹ In millions of dollars.

Source: PSF Annual Report for year ended August 31, 2021.

The table below sets forth the comparative investments of the PSF(SLB) for the years ending August 31, 2020 and 2021.

Comparative Investment Schedule - PSF(SLB)

Asset Class	<u>Fair Value (in millions) August 31, 2021 and 2020</u>			<u>Percent Change</u>
	<u>As of 8-31-21</u>	<u>As of 8-31-20</u>	<u>Increase (Decrease)</u>	
Discretionary Real Assets Investments				
Externally Managed				
Real Assets Investment Funds ¹				
Energy/Minerals	\$1,707.5	\$1,164.0	\$543.5	46.7%
Infrastructure	1,652.3	1,485.4	166.9	11.2%
Real Estate	<u>1,276.8</u>	<u>1,174.8</u>	<u>102.0</u>	8.7%
Internally Managed Direct				
Real Estate	223.9	219.5	4.4	2.0%
Investments				
Total Discretionary				
Real Assets Investments	4,860.5	4,043.7	816.8	20.2%
Dom. Equity Rec'd as In-Kind Distribution	1.7	0.9	0.8	88.9%
Sovereign and Other Lands	405.4	408.6	(3.2)	-0.8%
Mineral Interests	2,720.4	2,115.4	605	28.6%
Cash at State Treasury ²	<u>699.2</u>	<u>333.8</u>	<u>365.4</u>	109.5%
Total PSF(SLB) Investments	\$8,687.2	\$6,902.4	\$1,784.8	25.9%

¹ The fair values of externally managed real assets investment funds, separate accounts, and co-investment vehicles are estimated using the most recent valuations available, adjusted for subsequent contributions and withdrawals.

² Cash at State Treasury represents amounts that have been deposited in the State Treasury and temporarily invested in short-term investments until called for investment by the external real assets investment funds, separate accounts, and co-investment vehicles to which PSF(SLB) has made capital commitments. Prior to September 1, 2019, PSF(SLB) was required by statute to deposit cash designated by the SLB for investment in real assets in the State Treasury until it is drawn for investment. After September 1, 2019, that cash was moved to the Liquid Account to be invested by the SBOE.

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. Fund performance may also be affected by factors other than asset allocation, including, without limitation, the general performance of the securities markets and other capital markets in the United States and abroad, which may be affected by different levels of economic activity; decisions of political officeholders; significant adverse weather events and the market impact of domestic and international climate change; development of hostilities in and among nations; cybersecurity threats and events; changes in international trade policies or practices; application of the Prudent Person 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, PSF operational limitations impacted by Texas law or legislative appropriation. See "Management Transition to the PSF Corporation" for a discussion of planned changes in the management of the Fund that may affect these factors. The Guarantee Program could also be impacted by changes in State or federal law or regulations or the implementation of new accounting standards.

The School District Bond Guarantee Program

The School District Bond Guarantee Program requires an application be made by a school district to the Education 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 Education 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 Education 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 Education 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 Education 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 Education Commissioner, including the appointment of a board of managers or annexation of a defaulting school district to another school district.

If a school district fails to pay principal or interest on a bond as it is stated to mature, other amounts not due and payable are not accelerated and do not become due and payable by virtue of the district's default. The School District Bond Guarantee Program does not apply to the payment of principal and interest upon redemption of bonds, except upon mandatory sinking fund redemption, and does not apply to the obligation, if any, of a school district to pay a redemption premium on its guaranteed bonds. The guarantee applies to all matured interest on guaranteed school district bonds, whether the bonds were issued with a fixed or variable interest rate and whether the interest rate changes as a result of an interest reset provision or other bond order provision requiring an interest rate change. The guarantee does not extend to any obligation of a school district under any agreement with a third party relating to guaranteed bonds that is defined or described in State law as a "bond enhancement agreement" or a "credit agreement," unless the right to payment of such third party is directly as a result of such third party being a bondholder.

In the event that two or more payments are made from the PSF on behalf of a district, the Education 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 regulations that govern the School District Bond Guarantee Program (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 <https://tea.texas.gov/sites/default/files/ch033a.pdf>.

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 <https://tea.texas.gov/sites/default/files/ch033a.pdf>.

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 Education 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 2022 (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 6.98%. At August 2, 2022, there were 192 active open-enrollment charter schools in the State and there were 910 charter school campuses active under such charters (though as of such date, 28 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 Education 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 Education 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 Education 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 Education 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 Education 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 Education Commissioner determines that the charter district is acting in bad faith under the program, the Education 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 Education Commissioner to instruct the Comptroller to withhold the amount paid with respect to the Charter District Bond Guarantee Program, plus interest, from the first State money payable to a charter district that fails to make a guaranteed payment on its bonds. The amount withheld will be deposited, first, to the credit of the PSF, and then to restore any amount drawn from the Charter District Reserve Fund as a result of the non-payment.

The 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 open-enrollment charter holder; (iii) have had completed for the past three years an audit for each such year that included unqualified or unmodified audit opinions; and (iv) have received an investment grade credit rating within the last year. Upon receipt of an application for guarantee under the Charter District Bond Guarantee Program, the Education 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 open-enrollment charter holder to comply with the Act or the applicable regulations, including by making any material misrepresentations in the charter holder’s application for charter district designation or guarantee under the Charter District Bond Guarantee Program, constitutes a material violation of the open-enrollment charter holder’s charter.

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 makes available to the Charter District Bond Guarantee Program a greater share of capacity in the Guarantee Program. The CDBGP Capacity is made available from the capacity of the Guarantee Program but is not reserved exclusively for 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, changes in State or federal law or regulations related to the Guarantee Program limit, 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 Guarantee Program, or a combination of such circumstances.

Capacity Limits for the Guarantee Program

The capacity of the Fund to guarantee bonds under the Guarantee Program is limited to the lesser of that imposed by State law (the “State Capacity Limit”) and that imposed by regulations and a notice issued by the IRS (the “IRS Limit”, with the limit in effect at any given time being the “Capacity Limit”). 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.

Prior to 2007, various legislation was enacted modifying the calculation of the State Capacity limit; however, in 2007, Senate Bill 389 (“SB 389”) was enacted, providing for 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 provided that the SBOE shall at least annually consider whether to change the capacity of the Guarantee Program. Additionally, on May 21, 2010, the SBOE modified the SDBGP Rules, and increased the State Capacity Limit 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 Education Commissioner may reduce the multiplier to maintain the AAA credit rating of the Guarantee Program but also provide that any changes to the multiplier made by the Education 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.

Since September 2015, the SBOE has periodically voted to change the capacity multiplier as shown in the following table.

<u>Changes in SBOE-determined multiplier for State Capacity Limit</u>	
<u>Date</u>	<u>Multiplier</u>
Prior to May 2010	2.50
May 2010	3.00
September 2015	3.25
February 2017	3.50
September 2017	3.75
February 2018 (current)	3.50

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. On December 16, 2009, the IRS published Notice 2010-5 (the “IRS Notice”) stating

that the IRS would 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 provided 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 became 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.

In September 2015, the SBOE also approved a new 5% capacity reserve for the Charter District Bond Guarantee Program. The State Capacity Limit increased from \$128,247,002,583 on August 31, 2020 to \$135,449,634,408 on August 31, 2021 (but at such date the IRS Limit (\$117,318,653,038) remained the lower of the two, so it is the current 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 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 Education 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 Education 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 Fund investment performance, 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 significant changes in distributions to the ASF. The issuance of the IRS Notice and the Final IRS Regulations resulted in a substantial increase in the amount of bonds guaranteed under the Guarantee Program. As the amount of guaranteed bonds approaches the IRS Limit, the SBOE is seeking changes to the existing federal tax law requirements regarding the Guarantee Program with the objective of obtaining an increase in the IRS Limit, but no assurances can be given that the SBOE will be successful in that undertaking. The implementation of the Charter School Bond Guarantee Program has also increased the total amount of guaranteed bonds.

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. SB 1480 amended the Act to modify how the CDBGP Capacity is established effective as of September 1, 2017 and made other substantive changes to the Charter District Bond Guarantee Program. Prior to the enactment of SB 1480, the CDBGP Capacity was calculated as the 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. SB 1480 amended the CDBGP Capacity calculation so that the 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 increasing the CDBGP Capacity. SB 1480 provided for the implementation of the new method of calculating the CDBGP Capacity to begin with the State fiscal year that commences September 1, 2021 (the State's fiscal year 2022) but authorized the SBOE discretion to increase the CDBGP Capacity incrementally in the intervening four fiscal years, beginning with fiscal year 2018 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, which it has done.

The percentage of the charter district scholastic population to the overall public school scholastic population has grown from 3.53% in September 2012 to 6.83% in March 2021. TEA is unable to predict how the ratio of charter district students to the total State scholastic population will change over time.

In addition to modifying the manner of determining the CDBGP Capacity, SB 1480 provided that the Education 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 Education Commissioner may decline to approve the application if the Education Commissioner determines that sufficient security is not provided. The Act and the CDBGP Rules previously required the Education 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 Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10% 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 Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20% 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 3.00% of the total amount of outstanding guaranteed bonds issued by charter districts. At June 30, 2022, the Charter District Reserve Fund contained \$80,001,668, which represented approximately 2.13% of the guaranteed charter district bonds. The Reserve Fund is 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. Additionally, the amount of State payments a charter district receives is based on a variety of factors, including the enrollment at the schools operated by a charter district, and may be affected by the State's economic performance and other budgetary considerations and various political considerations.

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 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.

As a general rule, the operation of a charter school involves fewer State requirements and regulations for charter holders as compared to other public schools, but the maintenance of a State-granted charter is dependent upon on-going compliance with State law and regulations, which are monitored by TEA. 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. Charter holders are governed by a private board of directors, as compared to the elected boards of trustees that govern school districts.

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 established the Charter District Reserve Fund, which could in the future be a significant reimbursement resource for the PSF.

Infectious Disease Outbreak

Since the onset of the COVID-19 pandemic in March 2020, TEA and TEA investment management for the PSF have continued to operate and function pursuant to the TEA continuity of operations plan developed as mandated in accordance with Texas Labor Code Section 412.054. That plan was designed to ensure performance of the Agency’s essential missions and functions under such threats and conditions in the event of, among other emergencies, a pandemic event.

Results of the PSF operations through the fiscal year ended August 31, 2021 and at other periodic points in time are set forth herein or incorporated herein by reference. Fund management is of the view that since the onset of the pandemic the Fund has performed generally in accordance with its portfolio benchmarks and with returns generally seen in the national and international investment markets in which the Fund is invested (see “Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2021”).

Circumstances regarding the COVID-19 pandemic continue to evolve; 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>.

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. However, through the end of December 2021, no school district or charter district had failed to perform with respect to making required payments on their guaranteed bonds. Information regarding the respective financial operations of the issuer of bonds guaranteed, or to be guaranteed, by the PSF is provided by such issuers in their respective bond offering documents and the TEA takes no responsibility for the respective information, as it is provided by the respective issuers.

For information on the September 2020 special, one-time transfer of \$300 million from the portion of the PSF managed by the SBOE to the portion of the PSF managed by the SLB, that was made in light of the public health and economic circumstances resulting from the COVID-19 pandemic and its impact on the school children of Texas, see “The Total Return Constitutional Amendment.”

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 - Municipal Bond Rating” herein.

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations		
Fiscal Year Ended 8/31	Book Value ⁽¹⁾	Market Value ⁽¹⁾
2017	\$31,870,581,428	\$41,438,672,573
2018	33,860,358,647	44,074,197,940
2019	35,288,344,219	46,464,447,981
2020	36,642,000,738	46,764,059,745
2021 ⁽²⁾	38,699,045,012	55,581,401,632

⁽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, 2021, 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, \$183.7 million, \$4,655.9 million, \$4.7 million, and \$699.2 million, respectively, and market values of approximately \$2,720.4 million, \$629.3 million, \$4,636.6 million, \$1.8 million, and \$699.2 million, respectively. At June 30, 2022, the PSF had a book value of \$42,172,303,083 and a market value of \$52,315,129,702. June 20, 2022 values are based on unaudited date, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds

At 8/31	Principal Amount ⁽¹⁾
2017	\$74,266,090,023
2018	79,080,901,069
2019	84,397,900,203
2020	90,336,680,245
2021	95,259,161,922 ⁽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⁾ At August 31, 2021 (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 \$144,196,223,433, of which \$48,937,061,511 represents interest to be paid. As shown in the table above, at August 31, 2021, there were \$95,259,161,922 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 Capacity Limit), net of the Capacity Reserve, as of June 30, 2022, 6.98% of the Guarantee Program's capacity was available to the Charter District Bond Guarantee Program. As of June 30, 2022, the amount of outstanding bond guarantees represented 85.37% of the Capacity Limit (which is currently the IRS Limit). June 30, 2022 values are based on unaudited data, which is subject to adjustment.

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
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	3,297	82,537,755,203	49	1,860,145,000	3,346	84,397,900,203
2020	3,296	87,800,478,245	64	2,536,202,000	3,360	90,336,680,245
2021 ⁽²⁾	3,346	91,951,175,922	83	3,307,986,000	3,429	95,259,161,922

⁽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 June 30, 2022 (based on unaudited data, which is subject to adjustment), there were \$100,155,117,640 of bonds guaranteed under the Guarantee Program, representing 3,366 school district issues, aggregating \$96,400,426,640 in principal amount and 96 charter district issues, aggregating \$3,754,691,000 in principal amount. At June 30, 2022, the CDBG Capacity was \$7,779,399,883 (based on unaudited data, which is subject to adjustment).

Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2021

The following discussion is derived from the Annual Report for the year ended August 31, 2021, 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) and, with respect to the Liquid Account, Liquid(SBOE) assets. As of August 31, 2021, the Fund's land, mineral rights and certain real assets are managed by the five-member SLB and these assets are referred to throughout as the PSF(SLB) assets. The current PSF(SBOE) asset allocation policy includes an allocation for real estate investments, and as such investments are made, and become a part of the PSF(SBOE) investment portfolio, those investments will be managed by the SBOE and not the SLB.

At the end of fiscal 2021, the Fund balance was \$55.6 billion, an increase of \$8.9 billion from the prior year. This increase is primarily due to overall net increases in value of the asset classes in which the Fund is invested. During the year, the SBOE continued implementing the long-term strategic asset allocation, diversifying the PSF(SBOE) to strengthen the Fund. The asset allocation is projected to increase returns over the long run while reducing risk and portfolio return volatility. The PSF(SBOE) annual rates of return for the one-year, five-year, and ten-year periods ending August 31, 2021, net of fees, were 22.97%, 10.49% and 9.05%, respectively, and the Liquid(SBOE) annual rate of return for the one-year period ending August 31, 2021, net of fees, was 4.90% (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 12.81%, 1.56%, and 4.18%, 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. See "Comparative Investment Schedule - PSF(SBOE)" for the PSF(SBOE) holdings as of August 31, 2021.

As of August 31, 2021, the SBOE has approved, and the Fund made capital commitments to, externally managed real estate investment funds in a total amount of \$5.7 billion and capital commitments to private equity limited partnerships for a total of \$7.5 billion. Unfunded commitments at August 31, 2021, totaled \$2.0 billion in real estate investments and \$2.4 billion in private equity investments.

PSF Returns Fiscal Year Ended 8-31-2021¹

Portfolio	Return	Benchmark Return ²
Total PSF(SBOE) Portfolio	22.97%	20.73%
Domestic Large Cap Equities(SBOE)	31.26	31.17
Domestic Small/Mid Cap Equities(SBOE)	47.88	47.40
International Equities(SBOE)	25.27	24.87
Emerging Market Equity(SBOE)	19.33	21.12
Fixed Income(SBOE)	1.64	-0.08
Treasuries	-7.02	-7.27
Absolute Return(SBOE)	13.84	13.05
Real Estate(SBOE)	12.06	9.34
Private Equity(SBOE)	53.88	43.38
Real Return(SBOE)	16.06	18.08
Emerging Market Debt(SBOE)	5.92	4.14
Liquid Large Cap Equity(SBOE)	43.24	38.19
Liquid Small Cap Equity(SBOE)	61.97	52.07
Liquid International Equity(SBOE)	12.20	12.18
Liquid Short-Term Fixed Income(SBOE)	0.91	0.37
Liquid Core Bonds(SBOE)	-0.07	-0.18
Liquid TIPS(SBOE)	6.09	6.20
Liquid Transition Cash Reserves(SBOE)	0.44	0.08
Liquid Combined(SBOE)	4.90	4.27
PSF(SLB)	12.81	N/A

¹ Time weighted rates of return adjusted for cash flows for the PSF(SBOE) investment assets. Does not include GLO managed real estate or real assets. Returns are net of fees. Source: PSF Annual Report for year ended August 31, 2021.

² Benchmarks are as set forth in the PSF Annual Report for year ended August 31, 2021.

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, 2021, the remaining commitments totaled approximately \$2.24 billion.

For fiscal year 2021, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled \$10.8 billion, an increase of \$8.8 billion from fiscal year 2020 earnings of \$2.0 billion. This increase reflects the performance of the securities markets in which the Fund was invested in fiscal year 2021. In fiscal year 2021, revenues earned by the Fund included lease payments, bonuses and royalty income received from oil, gas and mineral leases; lease payments from commercial real estate; surface lease and easement revenues; revenues from the resale of natural and liquid gas supplies; dividends, interest, and securities lending revenues; the net change in the fair value of the investment portfolio; and, other miscellaneous fees and income.

Expenditures are paid from the Fund before distributions are made under the total return formula. Such expenditures include the costs incurred by the SLB to manage the land endowment, as well as operational costs of the Fund, including external management fees paid from appropriated funds. Total operating expenditures, net of security lending rebates and fees, increased 42.5% for the fiscal year ending August 31, 2021. This increase is primarily attributable to an increase 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 directly supports the public school system in the State by distributing a predetermined percentage of its asset value to the ASF. For fiscal years 2020 and 2021, the distribution from the SBOE to the ASF totaled \$1.1 billion and \$1.1 billion, respectively. Distributions from the SLB to the ASF for fiscal years 2020 and 2021 totaled \$600 and \$600 million, respectively.

At the end of the 2021 fiscal year, PSF assets guaranteed \$95.3 billion in bonds issued by 880 local school districts and charter districts, the latter of which entered into the Guarantee Program during the 2014 fiscal year. Since its inception in 1983, the Fund has guaranteed 8,203 school district and charter district bond issues totaling \$220.2 billion in principal

amount. During the 2021 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program totaled 3,429. The dollar amount of guaranteed school and charter bond issues outstanding increased by \$4.9 billion or 5.4%. The State Capacity Limit increased by \$7.2 billion, or 5.6%, during fiscal year 2021 due to continued growth in the cost basis of the Fund used to calculate that Program capacity limit. The effective capacity of the Guarantee Program did not increase during fiscal year 2021 as the IRS Limit was reached in a prior fiscal year, and it is the lower of the two State and federal capacity limits for the Guarantee Program.

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 <https://tea.texas.gov/sites/default/files/ch033a.pdf>.

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.

The TEA received an appropriation of \$30.4 million for each of the fiscal years 2020, and 2021.

As of August 31, 2021, 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 Remarketing Memorandum 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 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 of the Guarantee Program; (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 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 such event is material within the meaning of the federal securities laws; (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 Guarantee 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 information and operating data concerning such entity and events notices relating to such guaranteed bonds. A description of such undertaking, if any, is included elsewhere in the Remarketing Memorandum.

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 Rule 15c2-12 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

Except as stated below, 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. On April 28, 2022 TEA became aware that it had not timely filed its 2021 Annual Report with EMMA due to an administrative oversight. TEA took corrective action and filed the 2021 Annual Report with EMMA on April 28, 2022, followed by a notice of late filing made with EMMA on April 29, 2022. TEA notes that the 2021 Annual Report was timely filed on the TEA website by the required filing date and that website posting has been incorporated by reference into TEA's Bond Guarantee Program disclosures that are included in school district and charter district offering documents.

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.

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 Bexar 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 \$40,000 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. On November 2, 2021, the Texas Constitution was amended to provide that the surviving spouse of an individual who received a limitation on the school district property taxes on the person’s residence homestead on the basis of disability continued to receive that limitation while the property remained the spouse’s residence homestead if the spouse was at least 55 years old. Senate Joint Resolution 2, passed during the Third Special Session of the 87th Texas Legislature (“SJR2”), proposed a constitutional amendment increasing the mandatory homestead exemption for school districts from \$25,000 to \$40,000. This constitutional amendment was approved by the voters at an election held on May 7, 2022 and became effective for the tax year beginning January 1, 2022. Senate Bill 1, which also passed during the Third Special Session of the 87th Texas Legislature (“Senate Bill 1”) makes provisions for additional state aid to hold school districts harmless for tax revenue losses resulting from the increased homestead exemption.

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. Additionally, SJR2 requires a recalculation of the school district tax limitations (i.e. the “tax ceiling”) on residence homesteads for persons sixty-five (65) years of age or older or disabled persons to reflect the reductions in MCR (as defined herein) for 2019 and subsequent tax years. Senate Bill 1 makes provisions for additional state aid to hold school districts harmless for tax revenue losses resulting from these recalculations. See “AD VALOREM PROPERTY TAXATION - Table 1” for the reduction in taxable valuation attributable to the freeze on taxes for the elderly and 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.

Temporary Exemption for Qualified Property Damaged by a Disaster

The Property Tax Code entitles the owner of certain qualified (i) tangible personal property used for the production of income, (ii) improvements to real property, and (iii) manufactured homes located in an area declared by the governor to be a disaster area following a disaster and is at least 15 percent physically damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. Except in situations where the territory is declared a disaster on or after the date the taxing unit adopts a tax rate for the year in which the disaster declaration is issued, the governing body of the taxing unit is not required to take any action in order for the taxpayer to be eligible for the exemption. If a taxpayer qualifies for the exemption after the beginning of the tax year, the amount of the exemption is prorated based on the number of days left in the tax year following the day on which the governor declares the area to be a disaster area. For more information on the exemption, reference is made to Section 11.35 of the Tax Code.

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), allowed 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 could 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"). The 87th Texas Legislature did not vote to extend this program, which has now expired by its terms, effective December 31, 2022 (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 "AD VALOREM PROPERTY TAXATION - District Application of Tax Code" 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. For the 2022 tax year, the minimum eligibility amount was set at \$52,978,200, 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. The Property Tax Code permits taxpayers owning homes or certain businesses located in a disaster area and damaged as a direct result of the declared disaster to pay taxes imposed in the year following the disaster in four (4) equal installments without penalty or interest, commencing on February 1, and continuing as set forth in Section 31.032 of the Texas Tax Code. See "AD VALOREM PROPERTY TAXATION - Temporary Exemption for Qualified Property Damaged by a Disaster" for further information related to a discussion of the applicability of this section of the Property Tax Code.

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.

District Application of Tax Code

The District grants an exemption to the market value of residence homesteads of \$40,000; the District has not granted an additional exemption of 20% of the market value of residence homesteads.

The District grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$10,000; the disabled are also granted an exemption of \$10,000.

Ad valorem taxes are not levied by the District against the deferred value of residence homesteads for the payment of debt.

The District does not tax non-business personal property, and Bexar County collects the District's taxes.
The District does permit split payments.

The District does not tax freeport property.

The District has adopted a resolution authorizing its continued taxation of goods-in-transit for the 2012 tax year and beyond.

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

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 86th Texas 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

A school district's M&O tax rate is composed of 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 formulas for the State Compression Percentage and Maximum Compressed Tax Rate (each as described below) are designed 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 that is used to determine a school district's Maximum Compressed Tax Rate ("MCR"). 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%. The MCR for the State fiscal year ending in 2022 is set at 91.34%.

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 State Compression Percentage (as discussed above) multiplied by 100; or (2) a percentage determined by formula if the school district experienced a year-over-year increase in property value of at least 2.5% (if the increase in property value is less than 2.5%, then the MCR is equal to the prior year MCR). 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 MCR multiplied by 90% so 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. During the 2021 Texas Legislative Session, a provision of the general appropriations act established \$0.9134 as the maximum rate and \$0.8220 as the floor.

Tier One Tax Rate. 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 Rate equal to the school district's MCR in such year. 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 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 2022-2023 State fiscal biennium, the State Legislature appropriated funds in the amount of \$1,007,300,000 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 programmatic 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, the demographics of students in ADA, and the education programs the students are served in, to make up most of a school district's Tier One entitlement under the Foundation School Program.

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), (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 less the allotments that are not derived by a weighted formula, 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. The fast growth allotment weight is 0.48 for districts in the top 40% of school districts for growth, 0.33 for districts in the middle 30% of school districts for growth and 0.18 for districts in the bottom 30% of school districts for growth. The fast growth allotment is limited to \$310 million for the 2022-2023 school year and \$315 million for the 2023- 2024 school year.

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 2022-2023 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 2022-2023 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.

Existing Debt Allotment, Instruction 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 2022-2023 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 2022-2023 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 2022-2023 State fiscal biennium on new bonds issued by school districts in the 2022-2023 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 2021 Legislative Session, the State Legislature appropriated funds in the amount of \$70,000,000 for each fiscal year of the 2022-2023 State fiscal biennium for NIFA allotments.

Tax Rate and Funding Equity. 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 certain legislation passed during the 87th Texas Legislature 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. Additionally, school districts (through the fiscal year ending in 2025) and open-enrollment charter schools (through the fiscal year ending in 2024) are entitled to receive an allotment in the form of a formula transition grant meant to ensure a smooth transition into the funding formulas enacted by the 86th Texas Legislature. Furthermore, beginning with the 2021-2022 school year, if the total amount of allotments to which school districts and open-enrollment charter schools are entitled for a school year exceeds \$400 million, the Commissioner shall proportionately reduce each district's or school's allotment. The reduction in the amount to which a district or school is entitled may not result in an amount that is less than zero.

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 (except for their Golden Pennies, if applicable), although they may continue to receive State funds for certain competitive grants and certain programs that remain outside the Foundation School Program.

Recapture is 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.

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.

The Texas Legislature meets in regular session in odd-numbered years, for 140 days. The 87th Texas Legislature convened on January 12, 2021 and concluded on May 31, 2021 ("87th Regular Session"). During the 87th Regular Session, the Legislature did not make significant changes to the school finance system, State funding of school districts, nor ad valorem taxation procedures affecting school districts.

When the regular Legislature is not in session, the Governor of Texas may call one or more special sessions, at the Governor's direction, each lasting no more than 30 days, and for which the Governor sets the agenda. Following the conclusion of the 87th Regular Session, the Texas Governor has called three special sessions of the Legislature. No significant changes were made to the Texas school finance system or property tax systems during the First and Second Special Sessions. Senate Joint Resolution 2, passed during the Third Special Session, proposed a constitutional amendment increasing the mandatory homestead exemption for school districts from \$25,000 to \$40,000. The constitutional amendment proposed by SJR 2 was approved by the voters at an election held on May 7, 2022 and is applicable for the 2022 tax year. Senate Bill 1 makes provisions for additional state aid to hold school districts harmless for tax revenue losses resulting from the increased homestead exemption.

The 88th Texas Legislature will convene on January 10, 2023 and will conclude on May 29, 2023 ("88th Regular Session"). When the regular Legislature is not in session, the Governor of Texas may call one or more special sessions, at the Governor's direction, each lasting no more than 30 days, and for which the Governor sets the agenda. During the legislative session, the Legislature will consider a general appropriations act and may consider legislation affecting the Finance System and ad valorem taxation procedures affecting school districts, among other legislation affecting school districts and the administrative agencies that oversee school districts. Reductions in state revenues due to the pandemic and declines in oil and gas prices may impact the Finance System. At this time, the District cannot predict the level of State funding that will be provided by the Legislature for the upcoming biennium.

The District can make no representations or predictions regarding any actions the Legislature has taken or may take during any special session concerning the substance or the effect of any legislation that previously passed, or may be passed.

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

For the 2022-2023 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.

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 7, 1963 in accordance with the provisions of Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended (“Article 2784e-1”).

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 were originally issued for school building purposes pursuant to Chapter 45, Texas Education Code as new debt and were therefore subject to the 50-cent Test at initial issuance. The District has not used projected property values or State assistance (other than EDA or IFA allotment funding or projected property values) to satisfy this threshold test.

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. 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.

EMPLOYEE BENEFITS, RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFITS

The District contributes to the Teacher Retirement System of Texas (the "System"), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception: all risks and costs are not share by the District, but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to pan members and beneficiaries. The System operates primarily under the provisions of the Texas Constitution and Texas Government Code, Title 8, Subtitle C. See "Notes to the Financial Statements - Note F - Pension Plan" as set out in the audited financial statements of the District for the year ended August 31, 2022 as set forth in APPENDIX C hereto.

The District contributes to the Texas Public School Retired Employees Group Insurance Program ("TRS-Care"), a cost-sharing multiple-employer defined benefit post-employment health care plan administered by the TRS. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under TRS. See "Notes to the Financial Statements, Note G - Other Post-Employment Benefits" in the audited financial statements of the District for the year ended August 31, 2022 as set forth in APPENDIX C hereto.

Formal collective bargaining agreements relating directly to wages and other conditions of employment are prohibited by State law, as are strikes by teachers. There are various local, state and national organized employee groups who engage in efforts to better terms and conditions of employment of school employees. Some districts have adopted a policy to consult with employer groups with respect to certain terms and conditions of employment. Some examples of these groups are the Texas State Teachers Association, the Texas Classroom Teachers Association, the Association of Texas Professional Educators and the National Education Association.

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. 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, the District may also invest up to 15% of its monthly average fund balance (excluding bond proceeds and debt service funds and reserves) in "AA-" or better rated corporate bonds with a remaining term of three years or less. Not more than 25% of its funds invested in corporate bonds may be invested in any single issuer and its affiliates. Corporate bonds must be sold if downgraded below the required rating or 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*

As of December 1, 2022, the following percentages of the District's investable funds were invested as indicated below:

<u>Category of Investments</u>	<u>Amount</u>	<u>Percentage</u>	<u>Term of Investments</u>
U.S. Government Agencies	\$ 9,361,000	34.00%	6 mos. to 2 years
Investment Pools	<u>17,953,597</u>	<u>66.00%</u>	Daily Liquidity
Total		100.00%	

* Unaudited.

As of such date, the market value of such investments (as determined by the District by reference to published quotations, dealer bids, and comparable information) was approximately 100% of their book value. No funds of the District are invested in derivative securities, *i.e.*, securities whose rate of return is determined by reference to some other instrument, index, or commodity.

LEGAL MATTERS

Legal Opinions and No-Litigation Certificate

At the time of the initial issuance of the Bonds, the District furnished a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approving Original Opinion of Bond Counsel with respect to the Bonds issued in compliance with the provisions of the Order, which Original Opinion is attached to this Remarketing Memorandum as Appendix D. Upon the conversion of the Bonds to the New Term Rate Period described herein, Bond Counsel will render its opinion that the conversion of the Bonds will not, in and of itself, adversely affect the excludability of interest on the Bonds from gross income for federal income tax purposes.

Though it represents the Financial Advisor and the Remarketing Agent from time to time in connection with matters unrelated to the Bonds, Bond Counsel was engaged by and only represents the District with respect to the remarketing of the Bonds. Bond Counsel did not take part in the preparation of the Remarketing Memorandum and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds in the Remarketing Memorandum to verify that such description conforms to the provision of the Order. The legal fee to be paid Bond Counsel for services rendered in connection with this remarketing of the Bonds is contingent upon the remarketing of the Bonds. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provisions made for their payment or security, or in any manner questioning the validity of Bonds was also furnished. In connection with the remarketing of the Bonds, certain legal matters will be passed upon for the Remarketing Agent by its counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas. McCall, Parkhurst & Horton L.L.P. also advises the TEA in connection with its disclosure obligations under the federal securities laws, but such firm has not passed upon any TEA disclosures contained in this Remarketing Memorandum.

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

Litigation

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

At the time of the initial delivery of the Bonds, the District will provide the Remarketing Agents with a certificate to the effect that no litigation of any nature has been filed or is then pending challenging the issuance of the Bonds or that affects the payment and security of the Bonds or in any other manner questioning the issuance, sale, or delivery of the Bonds.

TAX MATTERS

Tax Exemption

Bond Counsel stated in an opinion (the "Original Opinion") dated December 3, 2020, that, as of such date, interest on the Bonds for federal income tax purposes (1) is 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 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. Bond Counsel's original opinion is reproduced in APPENDIX D hereto. The statutes, regulations, rulings, and court decisions on which such opinion was based are subject to change. Bond Counsel's Original Opinion does not cover the effect on excludability of interest of subsequent action under the terms of the Order may be taken only upon receipt of an opinion of counsel of nationally recognized standing in the field of municipal bond law.

Bond Counsel's Original Opinion assumed continued compliance with covenants contained in the Order related to exclusion from gross income interest on the Bonds for federal income tax purposes and relied upon representations and certifications of the District made in the certificate dated the date of initial delivery of the Bonds pertaining to the use, expenditure, investment of the proceeds of the Bonds. If the District failed or fails to comply with the covenants in the Order or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Bonds may become taxable from the date of initial delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

Under the Order, the conversion of the Bonds that is described herein requires that an "Opinion of Bond Counsel" be delivered to the Paying Agent/Registrar and Remarketing Agent in connection with such conversion (on which the Remarketing Agent will be allowed to rely) that the conversion will not adversely affect the excludability of interest on the Bonds for federal income tax purposes (the "No Adverse Effect Opinion") (see "THE BONDS – General Description - *Legality*"). Bond Counsel has not been asked to and has not rendered any opinion as to the current and continuing treatment on the Bonds as excludable from gross income for federal income tax purposes, except in regard to the No Adverse Effect Opinion described above.

In the Original Opinion, Bond Counsel expressed 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, corporations subject to the alternative minimum tax on adjusted financial statement income, 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, 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.

For taxable years beginning after 2022, the Code imposes a minimum tax of 15 percent of the adjusted financial statement income of certain large corporations, generally consisting of corporations (other than S corporations, regulated investment companies and real estate investment trusts) with more than \$1 billion in average annual adjusted financial statement income, determined over a three-year period. For this purpose, adjusted financial statement income generally consists of the net income or loss of the taxpayer set forth on the taxpayer's applicable financial statement for the taxable year, subject to various adjustments, but is not reduced for interest earned on tax-exempt obligations, such as the Bonds. Prospective purchasers that could be subject to this minimum tax should consult with their own tax advisors regarding the potential impact of owning the Bonds.

In the Original Opinion, Bond Counsel did not expressed any opinion as to the treatment for federal income tax purposes of the interest paid by any liquidity provider on the Bonds or the effect on the excludability from gross income for federal income tax purposes of any action taken under the Order which requires that the District shall have received an opinion of counsel nationally recognized in the field of municipal finance to the effect that such action will not adversely affect the excludability of the interest on the Bonds from the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes. The Order provides that prior to taking certain actions, including converting the interest rate on the Bonds from one rate mode to another rate mode, the District must have received such an opinion.

Bond Counsel's Original Opinion and the No Adverse Effect Opinion being delivered in connection with the conversion are not guarantees of a result, but represent its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the District described above. No ruling was sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the Original Opinion or the No Adverse Effect Opinion and Bond Counsel's opinions are not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the Service 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 District may have different or conflicting interests from the owners of the Bonds. Public awareness of any 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.

Tax Changes

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 reoffering 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 reoffering 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 Bonds. 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 Bond 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 amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, corporations subject to the alternative minimum tax on adjusted financial statement income, S corporations with subchapter C earnings and profits, corporations subject to the alternative minimum tax on adjusted financial statement income, 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 have been deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt bonds. 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 purchase price of certain Bonds (the "Premium Bonds") paid by an owner may be greater than the amount payable on such Bonds at maturity. An amount equal to the excess of a purchaser's tax basis in a Premium Bond over the amount payable at maturity constitutes premium to such purchaser. The basis for federal income tax purposes of a Premium Bond in the hands of such 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 that is amortizable each year by a purchaser is determined by using such purchaser's yield to maturity (or, in some cases with respect to a callable Bond, the yield based on a call date that results in the lowest yield on the Bond).

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.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201, as amended), the Bonds (i) are negotiable instruments, (ii) are investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies, and (iii) are legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256, as amended), the Bonds may have to be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. See "OTHER PERTINENT INFORMATION - Municipal Bond Rating" 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 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.

CONTINUING DISCLOSURE

The District in the Order 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 Municipal Securities Rulemaking Board ("MSRB"). This information will be available to the public free of charge from the MSRB via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org, as further described below under "Availability of Information from MSRB".

Annual Reports

The District will file certain updated financial information and operating data with the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Remarketing Memorandum in APPENDIX A, attached hereto, exclusive of the tables reflecting "Direct and Estimated Gross Overlapping Funded Debt Payable from Ad Valorem Taxes," "Estimated Interest & Sinking Fund Management Index 2022/23" and "2022/2023 Pro Forma Interest & Sinking Fund Management Index," respectively, and in APPENDIX C attached hereto. Additionally, the tables which provide neither quantitative financial information nor operating data for the District, including, but not limited to "Authorized But Unissued General Obligation Bonds" and "Anticipated Issuance of Additional Bonds," have not been and will not be included in the District's annual filings. The District will update and provide this information to the MSRB within 6 months after the end of each fiscal year ending in or after 2022.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the United States Securities and Exchange Commission (the "SEC") Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial statements by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX C 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 of February in each year, unless it changes its fiscal year. If the District changes its fiscal year, it will file notice of such change with the MSRB.

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 (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 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/Registrar or the change of name of a Paying Agent/Registrar, if material; (15) incurrence of a Financial Obligation of the District, 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 (with the exception of the Texas 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) in 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 from MSRB

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 specified 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 or 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 (1) the agreement, as amended, would have permitted an underwriter 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 (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent or (b) 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 an underwriter 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 Agreements

During the last five (5) years, the District has complied in all material respects with all previous continuing disclosure agreements made by it in accordance with the Rule.

OTHER PERTINENT INFORMATION

Authenticity of Financial Information

The financial data and other information contained herein have been obtained from the District's records, audited financial statements and other sources, which are believed to be reliable. All of the summaries of the statutes, documents and orders contained in this Remarketing Memorandum are made subject to all of the provisions of such statutes, documents and orders. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

Registration and Qualification of Bonds for Sale

Neither the initial sale of the Bonds nor the remarketing that is the subject of this Remarketing Memorandum has been filed with the SEC under the Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2). The Bonds have not been approved or disapproved by the SEC, nor has the SEC passed upon the accuracy or adequacy of the Remarketing Memorandum. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein, nor have the Bonds been registered or qualified under the securities act of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

It is the obligation of the Remarketing Agent 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 Remarketing Agent'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.

Municipal Bond Rating

At the time of their initial issuance, the Bonds were rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") by virtue of the guarantee of the Texas Permanent School Fund. In addition, Moody's assigned its underlying unenhanced rating of "Aa1" to the District's ad valorem tax-supported indebtedness, including the Bonds.

An explanation of the significance of any rating may be obtained from the company furnishing the rating. The rating reflects only the view of such organization and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

Financial Advisor

SAMCO Capital Markets, Inc. (the "Financial Advisor") is employed as the Financial Advisor to the District in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. SAMCO Capital Markets, Inc., in its capacity as Financial Advisor, has relied on the opinions of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants, and representations contained in any of the bond documentation with respect to the federal income tax status of the Bonds. In the normal course of business, the Financial Advisor may also from time to time sell investment securities to the District for the investment of bond proceeds or other funds of the District upon the request of the District.

The Financial Advisor has provided the following sentence for inclusion in this Remarketing Memorandum. The Financial Advisor has reviewed the information in this Remarketing Memorandum in accordance with 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.

Remarketing

Piper Sandler & Co., as the Remarketing Agent for the Bonds from the Initial Rate Period to the New Term Rate Period, has agreed, subject to certain conditions, to remarket the Bonds, at the yield and interest rate indicated on the cover page hereof, in exchange for compensation in the amount of \$. The Remarketing Agent will be obligated to remarket all of the Bonds if any Bonds are remarketed. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Remarketing Agent and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Remarketing Agent.

Piper Sandler & Co. has entered into a distribution agreement ("Distribution Agreement") with Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings including the Bonds, at the original issue prices. Pursuant to the Distribution Agreement, CS&Co. will purchase Bonds from Piper at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that CS&Co. sells.

The Remarketing Agent has provided the following sentence for inclusion in this Remarketing Memorandum. The Remarketing Agent has reviewed the information in this Remarketing Memorandum in accordance with, and as part of, its responsibility to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agent does not guarantee the accuracy or completeness of such information.

Certification of the Remarketing Memorandum

At the time of the remarketing of the Bonds, the Remarketing Agent will be furnished a certificate, executed by proper officials of the District, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements pertaining to the District contained in its Remarketing Memorandum, and any addenda, supplement, or amendment thereto, for the Bonds, on the date of such Remarketing Memorandum, and on the date of the initial delivery of the Bonds, were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs, are concerned, such Remarketing Memorandum did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the District, and their activities contained in such Remarketing Memorandum are concerned, such statements and data have been obtained from sources which the District believes to be reliable and the District has no reason to believe that they are untrue in any material respect; and (d) except as otherwise set forth in this Remarketing Memorandum there has been no material adverse change in the financial condition of the District, since August 31, 2022, the date of the last financial statements of the District appearing in the Remarketing Memorandum.

Forward Looking Statements

The statements contained in this Remarketing Memorandum, and in any other information provided by the District, that are not purely historical, are forward-looking statements, including statements regarding the District'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 Remarketing Memorandum are based on information available to the District on the date hereof, and the District assumes no obligation to update any such forward-looking statements. It is important to note that the District'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 District. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Remarketing Memorandum would prove to be accurate.

Information from External Sources

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 Remarketing Memorandum for purposes of, and as that term is defined in, SEC Rule 15c2-12.

Authorization of the Remarketing Memorandum

No person has been authorized to give any information or to make any representations other than those contained in this Remarketing Memorandum, and if given or made, such other information or representations must not be relied upon as having been authorized by the District.

This Remarketing Memorandum has been approved by the Board of the District for distribution in accordance with provisions of the SEC's Rule codified at 17 C.F.R. Section 240.15c2-12, as amended.

The Order approved the form and content of this Remarketing Memorandum and any addenda, supplement or amendment thereto and authorized its further use in the reoffering of the Bonds by the Remarketing Agent.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT

/s/

Authorized Official

APPENDIX A
Selected Financial Information
of the District

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VALUATION AND DEBT DATA

Valuation Information

Total 2022 Appraised Valuation of District	\$9,328,473,363
Less: Exemptions and Exclusions	<u>630,718,889</u>
Total Taxable Assessed Valuation ⁽¹⁾	\$8,697,754,474 ⁽²⁾

Source: *Bexar Appraisal District.*

⁽¹⁾ Includes valuations against which a freeze of tax levy has been granted for persons 65 years or older in 2022.

⁽²⁾ Includes \$801,345,027 of values under review.

Direct Debt Information

Total All Bonded Indebtedness Payable from Ad Valorem Taxes (at 2-1-2023)	\$171,075,000*
Less: Interest & Sinking Fund Cash Balance (at 12-01-2022)	<u>3,993,392</u>
Net Bonded Indebtedness Payable from Ad Valorem Taxes	\$167,081,608

Direct Debt Ratios

Ratio of Total Bonded Debt (\$171,075,000) to Taxable Assessed Valuation (\$8,697,754,474)	1.97%
Ratio of Total Bonded Debt (\$171,075,000) to Total Appraised Valuation (\$9,328,473,363)	1.83%
Ratio of Net Bonded Debt (\$167,081,608*) to Taxable Assessed Valuation (\$8,697,754,474)	1.92%
Ratio of Net Bonded Debt (\$167,081,608*) to Total Appraised Valuation (\$9,328,473,363)	1.79%

Non-Funded Debt

The District has no non-funded debt.

Source: *District's 2022 Annual Financial Report.*

Authorized But Unissued General Obligation Bonds

The District has no authorized but unissued bonds.

Anticipated Issuance of Additional Bonds

The District does not anticipate issuing any additional ad valorem tax obligations within the next twelve months, except for potentially refunding bonds for debt service savings.

Population and Per Capita Indebtedness

2022/23 District Population Estimate	33,393
2022/23 Per Capita Taxable Assessed Valuation (\$8,697,754,474)	\$260,466.40
Per Capita Direct Debt (\$171,075,000)	\$5,123.08

Enrollment and Average Daily Attendance Data

2022/23 Enrollment (at 12/1/2022)	4,749
2022/23 Estimated Average Daily Attendance (at 12/1/2022)	4,560
2022 Taxable Assessed Valuation (\$8,697,754,474) Per Enrollment	\$1,831,491.78

Valuation and Bonded Debt Data

Area of District in Square Miles	9.4
Area of District in Acres	6,016
Total Direct Bonded Debt (\$171,075,000) Per Acre	\$28,436.67
2022 Taxable Assessed Valuation (\$8,697,754,474) Per Acre	\$1,445,770.36

Outstanding Debt By Issues

Unlimited Tax Bonds	Original Amount	Outstanding at 2-1-2023 ⁽¹⁾
Refunding Bonds, Series 2016	26,280,000	\$ 19,515,000
School Building Bonds, Series 2017	15,000,000	11,410,000
School Building Bonds, Series 2018A	82,750,000	80,900,000
Refunding Bonds, Series 2018C	1,670,000	960,000
Refunding Bonds, Series 2019	5,615,000	5,445,000
School Building and Refunding Bonds, Series 2020A	16,370,000	14,190,000
Variable Rate School Building Bonds, Series 2020B	12,240,000	12,240,000
Refunding Bonds, Series 2021	26,415,000	<u>26,415,000</u>
 Total Debt		 \$171,075,000

⁽¹⁾ *Unaudited.*

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**Consolidated Schedule of Bonded Issue Principal Requirements
(Year Ending August 31 In Each Of The Years 2023 - 2043 Inclusive)***

2023	\$ 9,735,000	
2024	10,180,000	
2025	10,685,000	
2026	8,720,000	
2027	9,010,000	28.25%
	-	
2028	7,895,000	
2029	8,215,000	
2030	8,095,000	
2031	6,980,000	
2032	6,690,000	50.39%
	-	
2033	6,830,000	
2034	7,055,000	
2035	7,315,000	
2036	7,435,000	
2037	7,660,000	71.61%
	-	
2038	7,840,000	
2039	8,055,000	
2040	8,140,000	
2041	8,180,000	
2042	8,535,000	95.43%
	-	
2043	<u>7,825,000</u>	100.00%
	\$171,075,000	

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Direct and Estimated Gross Overlapping Funded Debt Payable from Ad Valorem Taxes

Expenditures of the various taxing bodies overlapping the territory of the District are paid out of ad valorem taxes levied by these taxing bodies on properties overlapping the District. These political taxing bodies are independent of the District and may incur borrowings to finance their expenditures. The following statements of direct and estimated overlapping ad valorem tax bonds was developed from information contained in the "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have authorized or issued additional bonds since the date stated below, and such entities may have programs requiring the authorization and/or issuance of substantial amounts of additional bonds, the amount of which cannot be determined. The following table reflects the estimated share of direct and overlapping extended debt of these various taxing bodies:

Political Subdivision	Gross Debt		Percent Overlapping	Amount Overlapping
	Amount	As Of		
Alamo CCD	\$ 827,235,000	12-1-22	3.94%	\$ 32,593,059
Alamo Heights, City of	17,010,000	12-1-22	100.00%	17,010,000
Bexar County	2,197,680,000	12-1-22	3.94%	86,588,592
Bexar County Hospital District	1,168,200,000	12-1-22	3.94%	46,027,080
Olmos Park, City of	5,635,000	12-1-22	95.93%	5,405,656
San Antonio River Authority	9,545,000	12-1-22	3.94%	376,073
San Antonio, City of	2,371,095,000	12-1-22	2.85%	67,576,208
Terrell Hills, City of	6,250,000	12-1-22	86.41%	5,400,625
Estimated Overlapping Funded Debt				171,075,000
Alamo Heights ISD	260,977,293	12-1-22	100.00%	260,977,293
Total Direct and Estimated Overlapping Funded Debt				\$432,052,293
Ratio to 2022 Assessed Valuation (\$8,697,754,474)				4.97%

TAXATION DATA

Historical Valuations, Tax Rates, and Collection Data

Tax Year	Assessed Valuation*	Tax Rate	% Collections		Year Ending
			Current	Total	
2012	\$4,928,176,847	\$1.2180	99.18%	99.18%	8-31-13
2013	5,171,790,394	1.2180	99.34%	99.34%	8-31-14
2014	5,467,719,336	1.2050	99.29%	99.29%	8-31-15
2015	5,986,522,343	1.1950	99.28%	99.28%	8-31-16
2016	6,441,421,674	1.1950	99.45%	99.45%	8-31-17
2017	6,689,511,167	1.2000	99.39%	99.39%	8-31-18
2018	6,934,173,307	1.2550	99.38%	99.38%	8-31-19
2019	7,075,010,209	1.1950	99.16%	99.16%	8-31-20
2020	7,222,512,621	1.1964	99.22%	99.22%	8-31-21
2021	7,321,535,696	1.1934	99.32%	99.32%	8-31-22
2022	8,697,754,474 **	1.1355	(In Process of Collection)		8-31-23

* District's 2022 Annual Financial Report (2012-2021). These values do not include values against which a freeze of tax levy has been granted.

** Bexar Appraisal District. These values do include values against which a freeze of tax levy has been granted.

Tax Rate Distribution

Tax Year	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Local Maintenance	\$0.936	\$0.993 ⁽²⁾	\$0.976	\$0.990 ⁽¹⁾	\$1.060
Interest & Sinking Fund	<u>.200</u>	<u>.200</u>	<u>.220</u>	<u>.205</u>	<u>.195</u>
Total	\$1.136	\$1.193	\$1.196	\$1.195	\$1.255

⁽¹⁾ The decline in the District's Maintenance and Operations Tax 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.

⁽²⁾ On November 2, 2021, the District successfully conducted a tax ratification election at which the voters of the District authorized the District to levy a maintenance and operations tax in the amount of \$0.993.

Schedule of Delinquent Taxes Receivable Fiscal Year Ended August 31, 2022

<u>Last Ten Years Ended August 31</u>	<u>Ending Balance</u>
2012 and prior	\$ 142,013
2013	49,814
2014	62,826
2015	71,483
2016	76,533
2017	101,876
2018	107,760
2019	116,067
2020	220,788
2021	364,616
2022 (school year under audit)	<u>586,563</u>
Total	\$1,900,339

Source: District's 2022 Annual Financial Report

Ten Largest Taxpayers

<u>Name</u>	<u>Type of Property</u>	<u>2022 Net Taxable Assessed</u>	<u>% of Total 2022 Assessed Valuation</u>
AAT Alamo Quarry LLC	Retail	\$104,920,222	1.21%
US Reif Artessa San Antonio Texas LLC	Real Estate Investment	99,000,000	1.14%
EAN Holdings LLC	Car Rental	77,592,892	0.89%
Alamo Multifamily San Antonio LP	Real Estate	58,000,000	0.67%
JMCR Lincoln Heights	Retail Estate	54,000,000	0.62%
REIF III-5500 Broadway LLC	Retail Estate	51,000,000	0.59%
340 Treeline Park LLC	Apartment Complex	48,800,000	0.57%
1111 Austin Highway LLC	Real Estate	47,000,000	0.54%
7600 Broadway MXD LP	Real Estate	46,061,220	0.53%
Morningside Sunset Ridge LLC	Real Estate	<u>43,998,990</u>	<u>0.51%</u>
Total		\$631,373,324	7.26%

Source: Bexar Appraisal District.

2022 Tax Exemptions/Deductions Allowed

The District has granted exemptions to property owners and for persons over 65 years of age and has granted those exemptions under the law for disabled property owners and veterans, and agricultural exclusions as provided. The exemptions in each of the categories listed are shown below:

Homestead - State-mandated General \$40,000	\$280,774,759
State-mandated Over-65 or Disabled \$10,000	31,615,965
100% Disabled or Unemployable Veterans	2,663,000
Homestead - Disabled or Deceased Veterans	75,533,755
Disabled Persons	470,000
Homestead - 10% Appraisal Cap Loss	230,895,880
Freeport	<u>8,765,530</u>
 Total Deductions Allowed	 \$630,718,889

Source: Bexar Appraisal District

Taxpayers by Classification

Classification	2022 Assessed Valuation	Percent Of Total	2021 Assessed Valuation	Percent Of Total	2020 Assessed Valuation	Percent Of Total
Single Family Residential	6,457,068,402	69.22%	\$5,644,133,840	68.61%	\$5,443,280,138	67.07%
Multi-Family Residential	698,437,840	7.49%	612,766,030	7.45%	611,423,259	7.53%
Vacant-Platted Lots	76,882,293	0.82%	72,869,933	0.87%	70,166,365	0.86%
Acreage	-0-	0.00%	-0-	0.00%	-0-	0.00%
Real Commercial	1,705,842,292	18.29%	1,551,278,895	18.86%	1,587,572,812	19.56%
Real Industrial	1,771,720	0.02%	1,537,000	0.02%	1,520,000	0.01%
Oil, Gas, Minerals	-0-	0.00%	-0-	0.00%	-0-	0.00%
Utilities	13,254,501	0.14%	13,641,012	0.17%	13,817,232	0.17%
Personal Commercial	334,106,444	3.58%	293,286,673	3.57%	353,271,266	4.34%
Personal Industrial	26,578,871	0.28%	24,671,201	0.30%	22,698,245	0.27%
Mobile Homes	-0-	0.00%	-0-	0.00%	-0-	0.00%
Residential Inventory	9,188,460	0.10%	7,849,120	0.10%	5,930,780	0.06%
Special Inventory	<u>5,342,540</u>	<u>0.06%</u>	<u>4,222,830</u>		<u>5,447,240</u>	<u>0.06%</u>
 Total Valuation	 \$9,328,473,363	 100.00%	 \$8,226,256,534	 100.00%	 11,378,020	 100.00%
 Less Exemptions & Exclusions	 <u>630,718,889</u>		 <u>301,222,743</u>		 <u>279,175,821</u>	
 Net Taxable Assessed Valuation	 <u>\$8,697,754,474</u>		 <u>\$7,925,033,791</u>		 <u>\$7,835,951,516</u>	

Source: Bexar Appraisal District.

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ESTIMATED INTEREST & SINKING FUND MANAGEMENT INDEX 2022/23

Interest & Sinking Fund Balance at 8-31-2022.....	\$ 796,491
Estimated Income from \$0.20 I&S Tax Rate @ 97% Collected Using 2022 Taxable Assessed Valuation of \$8,697,754,474	16,873,644
Estimated Other Income	<u>151,000</u>
Estimated Total Funds Available	17,821,135
2022/23 Debt Service Requirement	<u>16,310,284</u>
Estimated Interest & Sinking Fund Balance at 8-31-23	\$ 1,510,851

CONSOLIDATED DEBT SERVICE REQUIREMENTS

FISCAL YEAR 8-31	CURRENTLY OUTSTANDING DEBT SERVICE*	LESS REFUNDED DEBT SERVICE	SERIES 2020B				TOTAL NEW OUTSTANDING DEBT
			PRINCIPAL	INTEREST DUE 2/1	INTEREST DUE 8/1	TOTAL	
2023	\$ 16,310,284.25	\$ 550,800.00			\$ 297,750.00	\$ 297,750.00	\$ 16,310,284.25
2024	16,697,945.75	856,800.00		\$ 297,750.00	297,750.00	595,500.00	16,436,645.75
2025	16,766,283.25	856,800.00		297,750.00	297,750.00	595,500.00	16,504,983.25
2026	14,383,986.25	856,800.00		297,750.00	428,400.00	726,150.00	14,253,336.25
2027	14,316,116.25	856,800.00		428,400.00	428,400.00	856,800.00	14,316,116.25
2028	12,917,481.25	856,800.00		428,400.00	428,400.00	856,800.00	12,917,481.25
2029	13,024,946.88	856,800.00		428,400.00	428,400.00	856,800.00	13,024,946.88
2039	12,653,556.25	856,800.00		428,400.00	428,400.00	856,800.00	12,653,556.25
2031	11,262,750.00	856,800.00		428,400.00	428,400.00	856,800.00	11,262,750.00
2032	10,713,637.50	1,479,225.00	\$ 645,000	428,400.00	405,825.00	1,479,225.00	10,713,637.50
2033	10,592,912.50	1,477,500.00	690,000	405,825.00	381,675.00	1,477,500.00	10,592,912.50
2034	10,537,037.50	1,477,450.00	740,000	381,675.00	355,775.00	1,477,450.00	10,537,037.50
2035	10,495,387.50	1,478,725.00	795,000	355,775.00	327,950.00	1,478,725.00	10,495,387.50
2036	10,304,712.50	1,480,975.00	855,000	327,950.00	298,025.00	1,480,975.00	10,304,712.50
2037	10,225,937.50	1,479,025.00	915,000	298,025.00	266,000.00	1,479,025.00	10,225,937.50
2038	10,108,050.00	1,477,700.00	980,000	266,000.00	231,700.00	1,477,700.00	10,108,050.00
2039	9,966,525.00	1,476,650.00	1,050,000	231,700.00	194,950.00	1,476,650.00	9,966,525.00
2040	9,637,481.25	1,480,350.00	1,130,000	194,950.00	155,400.00	1,480,350.00	9,637,481.25
2041	9,258,900.00	1,478,450.00	1,210,000	155,400.00	113,050.00	1,478,450.00	9,258,900.00
2042	9,181,756.25	1,731,500.00	1,560,000	113,050.00	58,450.00	1,731,500.00	9,181,756.25
2043	8,037,325.00	1,728,450.00	1,670,000	58,450.00		1,728,450.00	8,037,325.00
	<u>\$247,393,012.63</u>	<u>\$2,651,000.00</u>	<u>\$12,240,000</u>	<u>\$6,252,450.00</u>	<u>\$6,252,450.00</u>	<u>\$24,744,900.00</u>	<u>\$246,739,762.63</u>

* For purposes of illustration, interest calculated at an assumed Term Rate and at a 7.000% Stepped Rate thereafter through stated maturity. Preliminary, subject to change.

2023/2024 PRO FORMA INTEREST & SINKING FUND MANAGEMENT INDEX

Estimated Interest & Sinking Fund Balance at 8-31-2023.....	\$ 1,510,851
Estimated Income from \$0.20 I&S Tax Rate @ 95% Collected Using 2023 Estimated Taxable Assessed Valuation of \$8,871,709,563	17,211,116
Estimated Other Income	<u>160,000</u>
Total Estimated Funds Available	18,881,967
2021/22 Debt Service Requirement	<u>16,436,646</u>
Estimated Interest & Sinking Fund Balance at 8-31-2024	\$ 2,335,321

FIVE-YEAR RECORD OF FINANCIAL OPERATIONS

The following summary of the District's results of operation reflects the District's historical performance under prior systems of school finance in Texas. For a description of the prior systems, the revised current system, and how the District's future financial performance may be affected by the revised system and ongoing litigation see "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS."

	Year Ended 8/31				
	2022	2021	2020	2019	2018
REVENUES					
Local Sources	\$93,613,408	\$ 93,149,273	\$89,123,745	\$95,749,706	\$ 85,649,529
State Sources	5,406,387	5,015,028	5,170,484	5,234,910	4,169,128
Federal Sources	<u>5,537,558</u>	<u>5,391,042</u>	<u>3,637,741</u>	<u>3,396,126</u>	<u>2,856,154</u>
Total all Revenue	<u>104,557,333</u>	<u>103,555,343</u>	<u>97,931,970</u>	<u>104,380,742</u>	<u>92,674,811</u>
EXPENDITURES					
Instruction & Instruction Related	33,237,291	31,424,468	31,620,292	29,814,872	30,445,633
Instructional & School Leadership	3,670,170	3,792,968	3,514,196	3,332,011	3,375,479
Intergovernmental Charges	33,985,335	33,258,428	30,506,122	38,733,178	37,440,975
Pupil Services	9,201,467	7,425,703	7,898,090	7,895,428	7,293,402
General Administration	2,042,197	1,967,165	2,227,660	1,887,151	1,947,172
Debt Service	15,910,894	15,047,502	14,523,406	14,025,240	11,004,442
Plant Maintenance & Operation	7,507,512	6,657,015	6,137,984	5,392,899	5,145,446
Ancillary Services	-0-	-0-	-0-	-0-	-0-
Capital Outlay	5,334,820	28,148,891	40,292,926	38,303,498	23,605,977
Community Services	<u>13,761</u>	<u>13,221</u>	<u>17,133</u>	<u>21,946</u>	<u>21,068</u>
Total all Expenditures	<u>110,904,447</u>	<u>127,735,361</u>	<u>136,737,809</u>	<u>139,406,223</u>	<u>120,279,594</u>
Total Other Sources and (Uses)	<u>(36,395)</u>	<u>20,223,718</u>	<u>(992,056)</u>	<u>3,000</u>	<u>102,032,401</u>
Excess (Deficiency) of Revenues and Other Resources Over Expenditures and Other Uses	(6,383,509)	(3,951,300)	(39,797,895)	(35,022,481)	74,427,618
Fund Balance Beginning of Year	30,748,202	34,644,502	74,497,397	109,519,878	35,092,260
Fund Balance End of Year	<u>\$24,364,693</u>	<u>\$ 30,748,202</u>	<u>\$34,699,502</u>	<u>\$74,497,397</u>	<u>\$109,519,878</u>
Fund Balance - General Fund	\$19,186,929	\$21,178,673	\$16,734,986	\$18,097,531	\$16,816,037
Year Ended 8/31					
	2022	2021	2020	2019	2018
Assessed Valuation	\$7,321,535,696	\$7,222,512,621	\$7,075,010,209	\$6,934,173,307	\$6,689,511,167
Total Tax Rate	\$1.19	\$1.20	\$1.20	\$1.26	\$1.20
Percent of Debt Service to Total	14.34%	11.78%	10.62%	10.06%	9.14%

Source: District's audited financial statements.

APPENDIX B

**General Information Regarding the District
And Its Economy**

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THE DISTRICT

This Appendix contains a brief discussion of certain economic and demographic characteristics of the area in which the District is located. Information in this Appendix has been obtained from sources that are believed to be reliable, although no investigation has been made to verify the accuracy of such information.

General

Alamo Heights Independent School District (the "District") is located entirely in Bexar County, Texas (the "County") and is bordered on the north, east and west by North East Independent School District, on the west and south by the San Antonio Independent School District, and on the southeast by the Fort Sam Houston Independent School District. The District is just northeast of downtown San Antonio.

The boundaries of the District extend to Loop 410 south access road, to include the North Frost Bank Center at 1250 NE Loop 410, continuing westward along the south access road to Jones-Maltsberger, crossing Loop 410 to include a portion of the San Antonio International Airport. Several office buildings along Loop 410 are within the District.

The District originally operated as a common school district and constructed its first building in 1909. The District converted to an independent school district in 1923 and took over administrative operations from the County Superintendent's office. The area of the District is defined as approximately 9.25 square miles. The first graduation, consisting of 16 members, occurred in 1925.

The District operates 5 campuses, originally built from 1928 to 1961. Additions and renovations have been made to all campuses.

The present high school construction was completed in 1950. Additions have been made as required, including the construction of an indoor swimming pool. The District now consists of five operating campuses as shown elsewhere herein.

Located within the boundaries of the District are all of the City of Alamo Heights, part of the City of Terrell Hills, part of the City of Olmos Park and part of the City of San Antonio.

District residents support approximately 100 individual businesses offering automotive, electrical, general retail food and other items found in most communities.

Administration

Policy making and supervisory functions are the responsibility of and are vested in a seven-member Board of Trustees (the "Board"). Members of the Board serve three-year staggered terms with elections being held each year on the first Saturday in May. The Board delegates administrative responsibilities to the Superintendent of Schools.

Present Facilities

<u>School Facility</u>	<u>Grade Span</u>	<u>Capacity</u>	<u>Enrollment 2022-2023 (At 12/1/22)</u>
Alamo Heights High School	9-12	1,500	1,610
Alamo Heights Junior School	6-8	950	1,087
Cambridge Elementary School	1-5	950	777
Woodridge Elementary School	1-5	950	881
Howard Early Childhood Center	Pre K-K	575	<u>394</u>
Total			4,749

Source: The District

Student Performance

The overall performance of students in the District on their achievement tests is consistently very high. The District uses the Iowa Test of Basic Skills to measure the achievement of students Grades 2-8. The national pupil norms rank in the upper 50% nationally and the national school norms rank the District's schools consistently in the upper 25% of schools in the national norming group. The third and fifth grade language scores place the District elementary schools in the top 9% on the national school norms.

The 2021 scores on the Texas statewide testing program, STAAR, in the District are higher than the state average in every grade level tested and in every subject area tested.

Accreditation

Every campus is fully accredited by the Texas Education Agency and the high school is also accredited by the Southern Association of Colleges and Schools.

Curriculum

The District provides pre-kindergarten classes for disadvantaged four-year old students. The all-day kindergarten program and the elementary curriculum consist of instruction in reading, English, spelling, handwriting, composition, mathematics, science, health, physical education, art, choral music, string music, theatre arts, social studies, and computer literacy.

The secondary curriculum is designed to meet the range of needs of remedial to enriched level students. Honors level courses in social studies and mathematics at the junior school level, and English and mathematics, foreign language, science, and social studies at the high school level are provided for students who demonstrate the capability and desire to do more intensive work in a subject. The specific Advanced Placement courses offered are biology, chemistry, computer science, English literature and composition, French, government and politics, economics, calculus, physics, Spanish language, and Spanish Literature.

Food Service

All campuses have their own cafeteria facilities.

Budget and Personnel

The budget for the 2022-2023 year is \$85,258,040. The District employs approximately 650 people, including professional and other, and will have a payroll of \$42,691,402.

Employee Retirement, Teacher Retirement System of Texas

The District has no financial responsibility for the Teacher Retirement System of Texas, with employees contributing 6.65% of their annual compensation and the State of Texas contributing 7.31%.

Average Daily Attendance and Percentage Change

<u>School Year</u>	<u>Average Daily Attendance</u>	<u>% ADA Change</u>
2010-11	4,483	0.61%
2011-12	4,529	1.03%
2012-13	4,577	0.60%
2013-14	4,557	(0.04%)
2014-15	4,529	(0.06%)
2015-16	4,590	1.33%
2016-17	4,590	0.00%
2017-18	4,595	0.10%
2018-19	4,622	0.06%
2019-20	4,592	(0.30%)
2020-21	4,608	(0.03%)
2021-22	4,485	0.35%
2022-23*	4,560	(2.67%)

* As of December 2022.

THE AREA

City of Alamo Heights

The City of Alamo Heights was incorporated in 1922. Some of the earliest history of the City goes back to 1854.

Alamo Heights is a primarily residential city, modern in every respect. The City owns and operates its water distribution system and its sewer collection system. The City’s source of water is from wells in the Edwards Aquifer. The City contracts with San Antonio for sewer treatment.

Broadway Street bisects the City north and south. Primary commercial development is along Broadway and the Austin Highway for that part located in the Alamo Heights city limits. Austin Highway development continues in that portion of the District lying in the City of San Antonio.

The City has churches of practically every major denomination. In addition to the public schools, there are church schools with kindergarten and pre-kindergarten programs.

The City is completely encircled with no room for expansion.

City of Terrell Hills

The City of Terrell Hills was incorporated in 1957. Terrell Hills is a primarily residential city. Some of the metropolitan area's most expensive residences are located in Terrell Hills. The City receives water, sewer, gas and electric service from the City of San Antonio. San Antonio City Public Service provides electric and gas utilities. It is estimated that 75% of the area in Terrell Hills is in the Alamo Heights Independent School District.

City of Olmos Park

The City of Olmos Park was incorporated in 1939. Like Alamo Heights and Terrell Hills, Olmos Park is a primarily residential city. Some of the metropolitan area's most expensive houses are located in Olmos Park. The City does not own or operate a waterworks and sewer system. The City of San Antonio provides water service as well as sewer transportation and treatment. San Antonio City Public Service provides electric and gas utility service. An estimated 95% of Olmos Park is located in the Alamo Heights Independent School District.

City of San Antonio

The City of San Antonio ("San Antonio") is the county seat of Bexar County and covers approximately 467 square miles. The United States Census Bureau ranks it as the second largest city in the State of Texas and the seventh largest in the United States. San Antonio is located on the I-35 corridor, the fastest growing region of the state, and approximately 80 miles south of Austin, the State capital. A small portion of San Antonio is in the Alamo Heights Independent School District in the area northeast of downtown. San Antonio completely surrounds the District and the cities mentioned above. Three of the District's campuses - Woodridge, Howard and Alamo Heights Junior High School - are located in San Antonio.

The dynamic and diverse economy is a healthy mix of business services, a rapidly growing medical and health delivery sector, a diversified manufacturing sector which produces everything from aircraft and semiconductors to rolled aluminum sheet and cement, and a well-established convention and visitor industry.

COUNTY CHARACTERISTICS

The County was created in 1836 and organized in 1837 as one of the original counties of the Republic of Texas and is now the third most populous of the 254 counties in the State of Texas. The County has an area of approximately 1,248 square miles, and contains 21 other incorporated cities within its boundaries.

The County is located in south central Texas and is a component of the San Antonio Metropolitan Statistical Area. The San Antonio MSA is one of the nation's largest Metropolitan Statistical Areas and the third largest MSA in Texas. The principal city within the County is San Antonio.

Minerals produced in the County include cement, stone, oil, gas, sand and gravel.

The military represents a significant component of the County's economy providing an annual economic impact over \$13 billion for the County and providing over 72,500 defense-related jobs. The active military installations in the County include Fort Sam Houston and Lackland and Randolph Air Force Bases, as well as the "privatized" installation of Brooks City-Base.

Economic Factors

The County has a diversified economic base which is composed of financial services, healthcare, agriculture, manufacturing, construction, military, and tourism. Support for these economic activities is demonstrated by the County's ongoing commitment to economic development projects along with ongoing infrastructure improvements to support the County's growing population. Despite the economic implications induced by the COVID-19 shutdowns, Bexar County has fared slightly better than the nation with the current unemployment issues. Bexar County's unemployment rate in May 2020 was 13.1%¹, compared to the national unemployment rate in May 2020 of 13.3%². A continuing economic factor attracting companies and families to the San Antonio area is the low cost of living. For metropolitan areas San Antonio is ranked among the lowest in cost of living with a composite score of 89.9, 11.1% below the national average.³ With one of the lowest cost workforces of any major cities in the United States, Bexar County is continually positioned to increase employment across various industries.

¹ U.S Bureau of Labor Statistics - <http://data.bls.gov/map/MapToolServlet>

² U.S Bureau of Labor Statistics - <http://data.bls.gov/pdq/SurveyOutputServlet>

³ San Antonio EDF - <http://www.sanantonioedf.com/living/cost-living/>

Higher Educational Facilities

San Antonio has 20 institutions of higher learning offering degrees in all major fields of study, many at the graduate level. Among universities, the University of Texas at San Antonio (UTSA) has over 30,000 students enrolled and has represented many first-time college students within their family. In May of 2009, the Texas A&M University San Antonio became the newest four-year college in San Antonio. Among junior colleges, Alamo Colleges includes five colleges, San Antonio, Palo Alto, St. Philips, Northeast Lakeview, and Northwest Vista, totaling over 62,377 students enrolled.

Population Trends (U.S. Census Bureau)

Census Year	Bexar County	City of Alamo Heights	City of Olmos Park	City of San Antonio	City of Terrell Hills
1970	830,460	7,029	2,345	773,248	4,825
1980	988,971	6,252	2,069	786,023	4,644
1990	1,185,394	6,502	2,161	935,933	4,592
2000	1,392,931	7,180	2,297	1,144,646	5,017
2010	2,009,324	7,031	2,241	1,326,539	4,894
2022 est.	2,068,234	7,423	2,168	1,456,069	5,079

Source: U.S. Census Bureau

2021 Ten Largest Employers

Firm Name	Total	Category	Percent of County Employment
Joint Base San Antonio ⁽¹⁾	74,289	Government	8.65%
H.E.B. Grocery Company	27,487	Retail	3.20%
USAA	18,690	Finance/Insurance	2.18%
Northside Independent School District	14,567	Services	1.70%
City of San Antonio	12,259	Government	1.43%
Methodist Healthcare System	9,761	Medical	1.14%
University Health System	9,542	Medical	1.11%
Northeast Independent School District	8,386	Services	0.98%
Skanska	7,600	Construction	0.88%
San Antonio Independent School District	<u>7,504</u>	Services	<u>0.87%</u>
Total	190,085		22.13%

Source: San Antonio Business Journal Book of Lists 2021-2022, Greater San Antonio Chamber of Commerce and confirmation from individual corporate human resource offices.

⁽¹⁾ Under the BRAC Joint Basing Recommendation for San Antonio, installation support functions at the Army's Fort Sam Houston were combined with those at Randolph and Lackland Air Force Bases under a single organization (Joint Base San Antonio). Includes military personnel and civilian personnel.

APPENDIX C

Audited Financial Statements

The information contained in this appendix consists of the Alamo Heights Independent School District Audited Financial Statements (the "Report") for the fiscal year ended August 31, 2022.

The information presented represents only a part of the Report and does not purport to be a complete statement of the District's financial condition. Reference is made to the complete Annual Audit Report for additional information.

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**ALAMO HEIGHTS INDEPENDENT
SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2022**

INTRODUCTORY SECTION

CERTIFICATE OF BOARD

Alamo Heights Independent School District
Name of School District


Bexar
County

015-901
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) approved ___ disapproved for the year ended August 31, 2022, at a meeting of the board of trustees of such school district on the 28TH day of NOVEMBER, 2022.



Signature of Board Secretary



Signature of Board President

FINANCIAL SECTION



Armstrong, Vaughan & Associates, P. C.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Trustees:
Alamo Heights Independent School District
San Antonio, TX

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, business-type activities, discretely presented component unit, each major fund, and the aggregate remaining fund information of Alamo Heights Independent School District, as of and for the year ended August 31, 2022, and the related notes to the financial statements, which collectively comprise Alamo Heights Independent School District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, discretely presented component unit, each major fund, and the aggregate remaining fund information of Alamo Heights Independent School District, as of August 31, 2022, 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.

We did not audit the financial statements of the Alamo Heights School Foundation which is the only discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Alamo Heights School Foundation, is based solely on the report of the other auditors.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. The financial statements of the Alamo Heights School Foundation were not audited in accordance with *Government Auditing Standards*. We are required to be independent of Alamo Heights Independent School District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Alamo Heights Independent School District's 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Alamo Heights Independent School District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Alamo Heights Independent School District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Alamo Heights Independent School District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Alamo Heights Independent School District's basic financial statements. The supplementary information (as listed in the table of contents) and schedule of expenditures of federal awards (SEFA) as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information, including the SEFA, is 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 SEFA are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information (as listed in the table of contents) does not include the financial statements and our auditor's report thereon. Our opinions on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated August 31, 2022 on our consideration of Alamo Heights Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 Alamo Heights Independent School District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Armstrong, Vaughan & Associates, P.C.".

Armstrong, Vaughan & Associates, P.C.

November 4, 2022



MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Alamo Heights Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2022. Please read it in conjunction with the independent auditors' report, and the District's Basic Financial Statements.

FINANCIAL HIGHLIGHTS

- The District's net position increased by \$3.2 million as a result of this year's operations.
- In the District's business-type activities, revenues increased to \$452 thousand as the natatorium was open for the full year.
- Total cost of all of the District's programs decreased \$821 thousand. Recapture of excess property taxes to the State increased \$727 thousand. However, investment returns and other savings in pension and other post-employment benefit plans reduced expenses.
- The General Fund ended the year with a fund balance of \$19.2 million in fund balance, a decrease of \$1.99 million. The decrease was better than budgeted and was mostly attributable to a real property purchase of \$1.84 million.
- The expenditures for the 2021-2022 school year were \$874 thousand less than budgeted in the General Fund. The net change in fund balance was \$290 thousand better than budgeted.
- The District issued \$26.4 million in refunding bonds for a gross savings of \$1.94 million and net present value savings of \$1.83 million.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net position and the Statement of Activities. These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the district.

The notes to the financial statements provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations can be found in the government-wide Statements of Net Position and Activities. Their primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies. These statements also include the financials of the Alamo Heights School Foundation, a legally separate entity that exists solely to benefit the District and its constituents.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The District's revenues are divided into those provided by outside parties who share the costs of some programs, such as tuition received from students from outside the district and grants provided by the U.S. Department of Education to assist children with disabilities or from disadvantaged backgrounds (program revenues), and revenues provided by the taxpayers or by TEA in equalization funding processes (general revenues). All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the District's net position and changes in them. The District's net position (the difference between assets and liabilities) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider non-financial factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

In the Statement of Net Position and the Statement of Activities, we divide the District into two kinds of activities:

- **Governmental activities**—Most of the District's basic services are reported here, including the instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services, and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.
- **Business-type activities**—The District charges a fee to “customers” to help it cover all or most of the cost of services it provides.

In addition, these statements present financial information for the District's component unit (the Alamo Heights School Foundation) in a separate column. The Foundation is a legally separate entity that exists to raise money in the interest of the District.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District's three kinds of funds – governmental, fiduciary and proprietary – use different accounting approaches:

- **Governmental funds**—Most of the District's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

- Proprietary funds—The District reports the activities for which it charges users (whether outside customers or other units of the District) in proprietary funds using the same accounting methods employed in the Statement of Net Position and the Statement of Activities. In fact, the District's enterprise funds (one category of proprietary funds) are the business-type activities reported in the government-wide statements but containing more detail and additional information, such as cash flows.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities and for certain donations controlled by outside parties. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position of the District's governmental activities increased \$3.2 million. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - was a deficit of (\$18.6) million at August 31, 2022 (roughly the same August 31, 2021). Adding back the net pension and net other post-employment benefits (and related deferred inflows/outflows) leaves a positive \$13.9 million.

A summarized statement of net position follows:

	August 31, 2022			August 31, 2021
	Governmental Activities	Business-type Activities	Total	Total
Current and Other Assets	\$ 31,739,450	\$ 86,856	\$ 31,826,306	\$ 40,705,480
Capital Assets	181,003,484	-	181,003,484	184,232,658
<i>Total Assets</i>	<u>212,742,934</u>	<u>86,856</u>	<u>212,829,790</u>	<u>224,938,138</u>
<i>Deferred Outflows</i>	<u>6,119,698</u>	<u>-</u>	<u>6,119,698</u>	<u>7,438,265</u>
Current Liabilities	6,107,228	13,222	6,120,450	8,441,282
Long-Term Liabilities	200,904,004	-	200,904,004	220,482,349
<i>Total Liabilities</i>	<u>207,011,232</u>	<u>13,222</u>	<u>207,024,454</u>	<u>228,923,631</u>
<i>Deferred Inflows</i>	<u>20,108,853</u>	<u>-</u>	<u>20,108,853</u>	<u>14,872,068</u>
Net Investment in Capital Assets	7,509,342	-	7,509,342	3,101,591
Restricted	2,879,649	-	2,879,649	4,055,676
Unrestricted	(18,646,444)	73,634	(18,572,810)	(18,576,563)
<i>Total Net Position</i>	<u>\$ (8,257,453)</u>	<u>\$ 73,634</u>	<u>\$ (8,183,819)</u>	<u>\$ (11,419,296)</u>

The District's total revenues decreased \$2.3 million. The decrease was a mixture of significant pandemic relief grants and insurance recoveries in the prior year. In addition, state support for pension and other post-employment benefits was decreased as the annual costs were reduced.

The cost of all governmental activities this year was \$98.2 million compared to \$99.2 million in the prior year. The largest change in total expenses related to positive changes in pension and other post-employment benefit liabilities, reducing expenses \$2.0 million in various functions.

A summarized statement of activities follows:

	2022		2021	
	Governmental Activities	Business-type Activities	Total	Total
<i>Program Revenues:</i>				
Charges for Services	\$ 3,802,612	\$ 452,312	\$ 4,254,924	\$ 2,646,194
Operating Grants & Contributions	6,122,999	-	6,122,999	6,046,955
Capital Grants & Contributions	-	-	-	-
<i>General Revenues:</i>				
Property Taxes	87,246,059	-	87,246,059	85,932,617
General Grants	3,143,682	-	3,143,682	6,271,541
Investment Earnings	392,468	-	392,468	176,939
Miscellaneous	682,335	-	682,335	3,090,549
<i>Total Revenues</i>	<u>101,390,155</u>	<u>452,312</u>	<u>101,842,467</u>	<u>104,164,795</u>
<i>Expenses</i>				
Instruction	35,270,877	-	35,270,877	37,307,803
Instructional Resources and Media	411,593	-	411,593	494,600
Curriculum and Staff Development	616,316	-	616,316	676,308
Instructional Leadership	817,215	-	817,215	1,229,995
School Leadership	2,521,550	-	2,521,550	2,624,782
Guidance, Counseling, & Evaluation	1,357,705	-	1,357,705	1,479,301
Social Work Services	150,633	-	150,633	205,350
Health Services	488,387	-	488,387	541,352
Student transportation	1,721,098	-	1,721,098	1,475,946
Food Services	1,475,481	-	1,475,481	1,181,674
Cocurricular/Extracurricular Activities	3,702,664	-	3,702,664	2,812,312
General Administration	1,879,202	-	1,879,202	2,500,341
Plant Maintenance and Operations	5,928,575	-	5,928,575	5,682,991
Security and Monitoring	16,008	-	16,008	12,490
Data Processing Services	1,845,930	-	1,845,930	1,654,230
Community Services	13,309	-	13,309	13,221
Interest on Long-Term Debt	4,886,711	-	4,886,711	5,169,770
Bond Issuance Costs and Fees	207,738	-	207,738	352,222
Facilities Acquisition and Construction	792,253	-	792,253	486,193
Contracted Instructional Services	33,985,335	-	33,985,335	33,258,428
Enterprising Activities	-	518,410	518,410	268,333
Transfers	63,623	(63,623)	-	-
<i>Total Expenses</i>	<u>98,152,203</u>	<u>454,787</u>	<u>98,606,990</u>	<u>99,427,642</u>
<i>Increase (Decrease) in Net Position</i>	3,237,952	(2,475)	3,235,477	4,737,153
<i>Beginning Net Position</i>	<u>(11,495,405)</u>	<u>76,109</u>	<u>(11,419,296)</u>	<u>(16,156,449)</u>
<i>Ending Net Position</i>	<u>\$ (8,257,453)</u>	<u>\$ 73,634</u>	<u>\$ (8,183,819)</u>	<u>\$ (11,419,296)</u>

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds reported a combined fund balance of \$24.4 million, which was a decrease of \$6.4 million. The decrease is attributable to the spending on bonds authorized in 2017 and a strategic drawn down on the debt service fund balance to pay off debt early.

Over the course of the year, the Board of Trustees revised the District's budget. Revenues fell short of projections by \$531 thousand. The General Fund expenditures were \$874 thousand less than the final budgeted appropriations, and the fund balance decreased \$290 thousand less than anticipated. Otherwise, most functions experienced savings.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2022, the District had \$181 million (net) invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. Significant additions in 2022 included several vehicles, new roofs and the purchase of additional real estate across from the high school to aid in future development. More information about capital assets can be found in the notes to the financial statements.

Debt

At year-end, the District had \$171 million in bonds outstanding versus \$183 million from the prior year. A refunding bond was issued during the year. More detailed information about the district's debt is presented in the notes to the financial statements.

ECONOMIC & AREA FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's 2022-2023 budget projects general fund expenditures will increase less than 1% to \$85.3 million. The budget anticipates adding \$75 thousand to fund balance. The overall tax rate for the district decreased from 1.1934 to 1.1355. Despite the decrease in rates, increasing property values are expected to increase local revenues \$3.0 million. The District is not planning any significant changes to programs and services.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at Alamo Heights Independent School District, 7101 Broadway, Alamo Heights, Texas 78209.

BASIC FINANCIAL STATEMENTS

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2022

Data Control Codes	Primary Government			4 Component Unit	
	1	2	3	AH School Foundation	
	Governmental Activities	Business-type Activities	Total		
ASSETS:					
1110	Cash and Cash Equivalents	\$ 19,019,877	\$ 86,856	\$ 19,106,733	\$ 226,715
1120	Current Investments	8,762,848	-	8,762,848	7,962,350
1225	Property Taxes Receivable (Net)	1,824,326	-	1,824,326	-
1240	Due from Other Governments	1,529,353	-	1,529,353	-
1290	Other Receivables (Net)	-	-	-	654,146
1300	Inventory	227,600	-	227,600	-
1410	Prepaid Expenses	375,446	-	375,446	47,366
<i>Capital Assets:</i>					
1510	Land	6,621,568	-	6,621,568	-
1520	Buildings and Improvements, Net	170,061,503	-	170,061,503	-
1531	Vehicles, Net	649,715	-	649,715	-
1539	Furniture and Equipment, Net	3,670,698	-	3,670,698	-
1000	<i>Total Assets</i>	<u>212,742,934</u>	<u>86,856</u>	<u>212,829,790</u>	<u>8,890,577</u>
DEFERRED OUTFLOWS:					
	Deferred Pension Related Outflows	3,793,108	-	3,793,108	-
	Deferred OPEB Related Outflows	2,326,590	-	2,326,590	-
1700	<i>Total Deferred Outflows</i>	<u>6,119,698</u>	<u>-</u>	<u>6,119,698</u>	<u>-</u>
LIABILITIES:					
2110	Accounts Payable	1,472,780	13,222	1,486,002	84,855
2140	Interest Payable	556,797	-	556,797	-
2160	Accrued Wages	2,367,620	-	2,367,620	-
2180	Due to Other Governments	1,007,455	-	1,007,455	-
2300	Unearned Revenue	702,576	-	702,576	107,254
<i>Noncurrent Liabilities:</i>					
2501	Due Within One Year	11,514,441	-	11,514,441	-
2502	Due in More Than One Year	170,138,422	-	170,138,422	-
2540	Net Pension Liability	6,014,810	-	6,014,810	-
2545	Net OPEB Liability	13,236,331	-	13,236,331	-
2000	<i>Total Liabilities</i>	<u>207,011,232</u>	<u>13,222</u>	<u>207,024,454</u>	<u>192,109</u>
DEFERRED INFLOWS:					
	Deferred Gain on Debt Refunding	738,851	-	738,851	-
	Deferred Pension Related Inflows	8,535,748	-	8,535,748	-
	Deferred OPEB Related Inflows	10,834,254	-	10,834,254	-
2600	<i>Total Deferred Inflows</i>	<u>20,108,853</u>	<u>-</u>	<u>20,108,853</u>	<u>-</u>
NET POSITION:					
3200	Net Investment in Capital Assets	7,509,342	-	7,509,342	-
Restricted For:					
3820	State and Federal Programs	430,745	-	430,745	-
3850	Debt Service	450,221	-	450,221	-
3890	Campus Activities and Donations	1,998,683	-	1,998,683	7,711,137
3900	Unrestricted	(18,646,444)	73,634	(18,572,810)	987,331
3000	<i>Total Net Position</i>	<u>\$ (8,257,453)</u>	<u>\$ 73,634</u>	<u>\$ (8,183,819)</u>	<u>\$ 8,698,468</u>

The accompanying notes are an integral part of this statement.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2022

Data Control Codes	1	3	4	5	
Functions/Programs	Expenses	Program Revenues		Program Revenues	
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
PRIMARY GOVERNMENT:					
Governmental Activities:					
11	Instruction	\$ 35,270,877	\$ 878,803	\$ 1,776,080	\$ -
12	Instructional Resources and Media Services	411,593	-	-	-
13	Curriculum and Staff Development	616,316	-	111,960	-
21	Instructional Leadership	817,215	-	5,965	-
23	School Leadership	2,521,550	-	39,094	-
31	Guidance, Counseling, & Evaluation Services	1,357,705	-	9,881	-
32	Social Work Services	150,633	-	89,483	-
33	Health Services	488,387	-	916,739	-
34	Student Transportation	1,721,098	-	-	-
35	Food Services	1,475,481	677,389	1,747,353	-
36	Cocurricular/Extracurricular Activities	3,702,664	2,246,420	1,214,583	-
41	General Administration	1,879,202	-	-	-
51	Plant Maintenance and Operations	5,928,575	-	70,190	-
52	Security and Monitoring	16,008	-	-	-
53	Data Processing Services	1,845,930	-	59,570	-
61	Community Services	13,309	-	6,727	-
72	Interest on Long-Term Debt	4,886,711	-	75,374	-
73	Bond Issuance Costs and Fees	207,738	-	-	-
81	Facilities Acquisition and Construction	792,253	-	-	-
91	Contracted Instructional Services	33,985,335	-	-	-
TG	Total Governmental Activities	<u>98,088,580</u>	<u>3,802,612</u>	<u>6,122,999</u>	<u>-</u>
Business-Type Activities:					
01	Excel After School Program	15,691	12,839	-	-
02	Aquatic Center	412,407	388,428	-	-
03	Tennis Center	90,312	51,045	-	-
TB	Total Business-type Activities	<u>518,410</u>	<u>452,312</u>	<u>-</u>	<u>-</u>
TP	Total Primary Government	<u>\$ 98,606,990</u>	<u>\$ 4,254,924</u>	<u>\$ 6,122,999</u>	<u>\$ -</u>
COMPONENT UNIT:					
1C	Alamo Heights School Foundation	<u>\$ 1,718,261</u>	<u>\$ 76,086</u>	<u>\$ 2,364,105</u>	<u>\$ -</u>
General Revenues:					
MT	Property Taxes, Levied for General Purposes				
DT	Property Taxes, Levied for Debt Service				
IE	Investment Earnings				
GC	Unrestricted Grants and Contributions				
MI	Miscellaneous				
TR	Total General Revenues				
Transfers					
CN	Change in Net Position				
NB	Net Position - Beginning				
NE	Net Position - Ending				

The accompanying notes are an integral part of this statement.

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Net (Expense) Revenue and Changes in Net Position

Governmental Activities	Business-Type Activities	Total	Component Unit
\$ (32,615,994)		\$ (32,615,994)	
(411,593)		(411,593)	
(504,356)		(504,356)	
(811,250)		(811,250)	
(2,482,456)		(2,482,456)	
(1,347,824)		(1,347,824)	
(61,150)		(61,150)	
428,352		428,352	
(1,721,098)		(1,721,098)	
949,261		949,261	
(241,661)		(241,661)	
(1,879,202)		(1,879,202)	
(5,858,385)		(5,858,385)	
(16,008)		(16,008)	
(1,786,360)		(1,786,360)	
(6,582)		(6,582)	
(4,811,337)		(4,811,337)	
(207,738)		(207,738)	
(792,253)		(792,253)	
<u>(33,985,335)</u>		<u>(33,985,335)</u>	
<u>(88,162,969)</u>		<u>(88,162,969)</u>	
	\$ (2,852)	(2,852)	
	(23,979)	(23,979)	
	<u>(39,267)</u>	<u>(39,267)</u>	
	<u>(66,098)</u>	<u>(66,098)</u>	
		<u>(88,229,067)</u>	
			<u>\$ 721,930</u>
72,630,748	-	72,630,748	-
14,615,311	-	14,615,311	-
392,468	-	392,468	(1,633,229)
3,143,682	-	3,143,682	-
682,335	-	682,335	-
<u>91,464,544</u>	<u>-</u>	<u>91,464,544</u>	<u>(1,633,229)</u>
(63,623)	63,623	-	-
3,237,952	(2,475)	3,235,477	(911,299)
(11,495,405)	76,109	(11,419,296)	9,609,767
<u>\$ (8,257,453)</u>	<u>\$ 73,634</u>	<u>\$ (8,183,819)</u>	<u>\$ 8,698,468</u>

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
AUGUST 31, 2022

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects Fund	Other Nonmajor Governmental Funds	98 Total Governmental Funds	
ASSETS:						
1110	Cash and Cash Equivalents	\$ 13,747,849	\$ 726,491	\$ 2,872,593	\$ 1,672,944	\$ 19,019,877
1120	Current Investments	8,762,848	-	-	-	8,762,848
1225	Taxes Receivable, Net	1,543,799	280,526	-	-	1,824,325
1240	Due from Other Governments	841,888	-	-	786,267	1,628,155
1300	Inventory	204,704	-	-	22,895	227,599
1410	Prepaid Items	304,435	-	-	71,011	375,446
1000	<i>Total Assets</i>	<u>\$ 25,405,523</u>	<u>\$ 1,007,017</u>	<u>\$ 2,872,593</u>	<u>\$ 2,553,117</u>	<u>\$ 31,838,250</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:						
<i>Liabilities:</i>						
2110	Accounts Payable	\$ 500,609	\$ -	\$ 850,748	\$ 121,422	\$ 1,472,779
2160	Accrued Wages Payable	2,367,620	-	-	-	2,367,620
2180	Due to Other Governments	1,103,990	-	-	2,267	1,106,257
2300	Unearned Revenue	702,576	-	-	-	702,576
2000	<i>Total Liabilities</i>	<u>4,674,795</u>	<u>-</u>	<u>850,748</u>	<u>123,689</u>	<u>5,649,232</u>
<i>Deferred Inflows of Resources:</i>						
2600	Unavailable Property Tax Revenue	1,543,799	280,526	-	-	1,824,325
<i>Fund Balance:</i>						
<i>Nonspendable:</i>						
3410	Inventory	204,704	-	-	22,895	227,599
3430	Prepaid Items	304,435	-	-	71,011	375,446
<i>Restricted Fund Balances:</i>						
3450	Federal and State Grants	-	-	-	336,839	336,839
3470	Capital Acquisitions	-	-	2,021,845	-	2,021,845
3480	Retirement of Long-Term Debt	-	726,491	-	-	726,491
3490	Other Restrictions of Fund Balance	-	-	-	1,998,683	1,998,683
3600	<i>Unassigned</i>	18,677,790	-	-	-	18,677,790
3000	<i>Total Fund Balances</i>	<u>19,186,929</u>	<u>726,491</u>	<u>2,021,845</u>	<u>2,429,428</u>	<u>24,364,693</u>
4000	Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 25,405,523</u>	<u>\$ 1,007,017</u>	<u>\$ 2,872,593</u>	<u>\$ 2,553,117</u>	<u>\$ 31,838,250</u>

The accompanying notes are an integral part of this statement.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
AUGUST 31, 2022

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$ 24,364,693
Amounts reported for governmental activities in the Statement of Net Position ("SNA") are different because:	
Capital Assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	181,003,484
Long-term liabilities, including bonds payable and unamortized premiums, are not due and payable in the current period and therefore, not reported in the funds.	(181,652,863)
Fund statements report the inflows and outflows of debt refundings while the government-wide statements amortize the gain or loss on refunding. The unamortized gains or losses are not current financial resources and not reported on the fund statements.	(738,851)
Net pension liabilities (and related deferred inflows and outflows of resources) do not consume current financial resources and are not reported in the funds.	
Net Pension Liability	(6,014,810)
Pension Related Deferred Inflows	(8,535,748)
Pension Related Deferred Outflows	<u>3,793,108</u>
	(10,757,450)
Net OPEB liabilities (and related deferred inflows and outflows of resources) do not consume current financial resources and are not reported in the funds.	
Net OPEB Liability	(13,236,331)
OPEB Related Deferred Inflows	(10,834,254)
OPEB Related Deferred Outflows	<u>2,326,590</u>
	(21,743,995)
Deferred inflows of resources are not available to pay for current-period expenditures and therefore, are deferred in the funds.	1,824,326
Accrued interest payable on long-term bonds is not due and payable in the current period, and therefore, not reported in the funds.	<u>(556,797)</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	<u><u>\$ (8,257,453)</u></u>

The accompanying notes are an integral part of this statement.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2022

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects Fund	Other Nonmajor Governmental Funds	98 Total Governmental Funds
REVENUES:					
5700 Local and Intermediate Sources	\$ 76,652,347	\$ 14,622,572	\$ 25,521	\$ 2,312,968	\$ 93,613,408
5800 State Program Revenues	4,993,581	75,374	-	337,432	5,406,387
5900 Federal Program Revenues	1,277,599	-	-	4,259,939	5,537,538
5020 <i>Total Revenues</i>	<u>82,923,527</u>	<u>14,697,946</u>	<u>25,521</u>	<u>6,910,339</u>	<u>104,557,333</u>
EXPENDITURES:					
0011 Instruction	29,078,509	-	-	3,046,789	32,125,298
0012 Instructional Resources and Media Services	449,549	-	-	-	449,549
0013 Curriculum and Staff Development	470,381	-	-	192,063	662,444
0021 Instructional Leadership	908,247	-	-	10,232	918,479
0023 School Leadership	2,684,627	-	-	67,064	2,751,691
0031 Guidance, Counseling, & Evaluation Services	1,504,048	-	-	16,950	1,520,998
0032 Social Work Services	19,763	-	-	153,505	173,268
0033 Health Services	538,692	-	-	-	538,692
0034 Student Transportation	1,765,118	-	-	-	1,765,118
0035 Food Service	515,904	-	-	959,577	1,475,481
0036 Cocurricular/Extracurricular Activities	1,775,421	-	-	1,952,489	3,727,910
0041 General Administration	2,043,197	-	-	-	2,043,197
0051 Plant Maintenance and Operations	5,983,309	-	-	120,408	6,103,717
0052 Security and Monitoring	16,008	-	-	-	16,008
0053 Data Processing Services	1,285,598	-	-	102,189	1,387,787
0061 Community Services	2,221	-	-	11,540	13,761
0071 Principal on Long-Term Debt	-	9,405,000	-	-	9,405,000
0072 Interest on Long-Term Debt	-	6,298,156	-	-	6,298,156
0073 Bond Issuance Costs and Fees	-	207,738	-	-	207,738
0081 Facilities Acquisition and Construction	1,835,721	-	3,469,544	29,555	5,334,820
0091 Contracted Instructional Services					
Between Public Schools	33,985,335	-	-	-	33,985,335
6030 <i>Total Expenditures</i>	<u>84,861,648</u>	<u>15,910,894</u>	<u>3,469,544</u>	<u>6,662,361</u>	<u>110,904,447</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,938,121)</u>	<u>(1,212,948)</u>	<u>(3,444,023)</u>	<u>247,978</u>	<u>(6,347,114)</u>
Other Financing Sources and (Uses)					
7911 Issuance of Refunding Bonds	-	26,415,000	-	-	26,415,000
7912 Sales of Capital Assets	10,000	-	-	-	10,000
7916 Premium from Bonds	-	2,696,072	-	-	2,696,072
8911 Transfer Out	(63,623)	-	-	-	(63,623)
8940 Payment to Refunding Escrow Agent	-	(29,093,844)	-	-	(29,093,844)
7080 Total Other Financing Sources and (Uses)	<u>(53,623)</u>	<u>17,228</u>	<u>-</u>	<u>-</u>	<u>(36,395)</u>
1200 Net Change in Fund Balances	(1,991,744)	(1,195,720)	(3,444,023)	247,978	(6,383,509)
0100 Fund Balances - Beginning	21,178,673	1,922,211	5,465,868	2,181,450	30,748,202
3000 Fund Balances - Ending	<u>\$ 19,186,929</u>	<u>\$ 726,491</u>	<u>\$ 2,021,845</u>	<u>\$ 2,429,428</u>	<u>\$ 24,364,693</u>

The accompanying notes are an integral part of this statement.

ALAMO HEIGHTS 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 YEAR ENDED AUGUST 31, 2022

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (6,383,509)

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

Governmental funds report capital outlay as expenditures. However in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	4,542,567	
Depreciation	<u>(7,771,741)</u>	(3,229,174)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds. This is the net change in those revenues over the year.

59,689

Governmental funds report required contributions to employee pensions and other post-employment benefits as expenditures. However in the Statement of Activities, the cost of benefits are recorded based on the actuarially determined cost of the plan. This is the amount that the actuarially determined expenses exceeded the contributions.

Pension	1,018,982	
Retiree Insurance	<u>972,448</u>	1,991,430

The issuance of long-term debt (e.g. bonds & notes payable) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on Net Position.

Issuance of Bonds	(26,415,000)	
Premium on Bonds Issued	(2,696,072)	
Principal Payments	9,405,000	
Payment to Refunding Escrow Agent	<u>29,093,844</u>	9,387,772

Some expenses reported in the Statement of Activities (including accreted and accrued interest expense) do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. Governmental funds report the net effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Accrued Interest	(232,045)	
Amortization of Book Gains on Debt Refundings	(189,422)	
Amortization of Bond Premiums	<u>1,833,211</u>	<u>1,411,744</u>

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES \$ 3,237,952

The accompanying notes are an integral part of this statement.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
ENTERPRISE FUNDS
AUGUST 31, 2022

	Nonmajor Enterprise Funds
ASSETS:	
<i>Current Assets:</i>	
Cash and Cash Equivalents	\$ 86,856
<i>Total Assets</i>	86,856
 LIABILITIES:	
<i>Current Liabilities</i>	
Accounts Payable	13,222
<i>Total Liabilities</i>	13,222
 NET POSITION:	
Unrestricted	73,634
<i>Total Net Position</i>	\$ 73,634

The accompanying notes are an integral part of this statement.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
ENTERPRISE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2022

	Nonmajor Enterprise Funds
<i>OPERATING REVENUES:</i>	
Local and Intermediate Sources	\$ 452,312
<i>Total Revenues</i>	452,312
 <i>OPERATING EXPENSES:</i>	
Payroll and Benefits	391,468
Services	22,029
Supplies	92,945
Other Operating Costs	11,968
<i>Total Expenses</i>	518,410
 <i>NET OPERATING INCOME</i>	 (66,098)
 <i>TRANSFERS</i>	
Transfers In	63,623
 Change in Net Position	 (2,475)
 Total Net Position - Beginning	 76,109
Total Net Position - Ending	\$ 73,634

The accompanying notes are an integral part of this statement.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2022

	Nonmajor Enterprise Funds
Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 452,312
Cash Payments to Employees for Services	(391,468)
Cash Payments to Other Suppliers for Goods and Services	(115,883)
Net Cash Provided (Used) by Operating Activities	(55,039)
 Cash Flows from Noncapital Financing Activities:	
Transfers From Governmental Funds	63,623
 Net Increase (Decrease) in Cash and Cash Equivalents	8,584
 Cash and Cash Equivalents at Beginning of Year	78,272
Cash and Cash Equivalents at End of Year	\$ 86,856
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ (66,098)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Change in Assets and Liabilities:	
Increase (Decrease) in Accounts Payable	11,059
<i>Total Adjustments</i>	11,059
Net Cash Provided (Used) by Operating Activities	\$ (55,039)

The accompanying notes are an integral part of this statement.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET POSITION
 AUGUST 31, 2022

	Custodial Funds
ASSETS:	
Cash and Cash Equivalents	\$ 289,311
<i>Total Assets</i>	<u>289,311</u>
LIABILITIES:	
<i>Current Liabilities</i>	
Accounts Payable	<u>5,707</u>
<i>Total Liabilities</i>	<u>5,707</u>
NET POSITION	
<i>Total Net Position</i>	<u>\$ 283,604</u>

The accompanying notes are an integral part of this statement.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED AUGUST 31, 2022

	Custodial Funds
Additions:	
Investment Income	\$ 592
Contributions	36,588
Enterprising Revenues	148,028
Total Additions	185,208
 Deductions:	
Services	11,527
Supplies	122,921
Other Operating Costs	65,697
Total Deductions	200,145
 Change in Net Position	 (14,937)
Net Position - Beginning of Year	298,541
Net Position - End of Year	\$ 283,604

The accompanying notes are an integral part of this statement.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2022

A. Summary of Significant Accounting Policies

The basic financial statements of Alamo Heights Independent School District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide ("Resource Guide"). The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The Board of School Trustees ("Board"), a seven-member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency ("TEA") or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District receives funding from local, state and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental "reporting entity."

The Alamo Heights School Foundation ("Foundation") is a 501(c)3 nonprofit organization whose purpose is to receive and administer gifts for the Alamo Heights Independent School District. The Foundation is legally separate from the District but solely benefits the District and its constituents. The Foundation is included in the District's financial statements as a discretely presented component unit. Separate financial statements are issued by the Foundation and can be obtained from Alamo Heights School Foundation, P.O Box 171393, San Antonio, TX 78217.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Financial Statements: The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2022

A. Summary of Significant Accounting Policies (Continued)

2. Basis of Presentation, Basis of Accounting (Continued)

a. Basis of Presentation (Continued)

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The District reports the following major governmental funds:

General Fund: This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

Debt Service Fund: Is used to account for all funds collected and disbursed in the retirement of governmental debt.

Capital Projects Fund: The District reports proceeds from bond issuances related to capital acquisition in this fund. The related capital acquisitions are also reported in this fund.

The District reports no major enterprise funds.

In addition, the District reports the following fund types:

Private-Purpose Trust Funds: These funds are used to report trust arrangements under which principal and income benefit individuals, private organizations, or other governments not reported in other fiduciary fund types.

Fiduciary Funds: These funds are used to report student activity funds and other resources held in a purely custodial capacity (controlled by entities outside the District). Fiduciary funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2022

A. Summary of Significant Accounting Policies (Continued)

2. Basis of Presentation, Basis of Accounting (Continued)

b. Measurement Focus, Basis of Accounting

Government-wide, Proprietary, and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

3. Financial Statement Amounts

a. Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased. Equivalents include checking accounts and local government investment pools.

b. Investments

The District reports investments at fair value based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2022

A. Summary of Significant Accounting Policies (Continued)

3. Financial Statement Amounts (Continued)

b. Investments (Continued)

The District's investments in Pools are reported at an amount determined by the net asset value per share of the pool's underlying portfolio, unless the pool maintains a consistent net asset value per share that approximates the fair value of the underlying securities. These investments are reported at net asset value.

c. Inventories and Prepaid Items

The District records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory in accordance with the Resource Guide.

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

d. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. Allowance for uncollectible taxes in the amounts of \$64,325 and \$11,689 for the General and Debt Service Funds, respectively, reduce the outstanding receivables.

e. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances. There are no significant receivables which are not scheduled for collection within one year of year end.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 AUGUST 31, 2022

A. Summary of Significant Accounting Policies (Continued)

3. Financial Statement Amounts (Continued)

f. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 for individual items or \$100,000 for group technology and furniture purchases is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Buildings and Improvements	40
Vehicles	10
Equipment	3-25

g. Deferred inflows and outflows

A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period while a deferred inflow of resources is an acquisition of net position. These items are presented in separate sections following assets (deferred outflows) or liabilities (deferred inflows) on the statement of net position.

h. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line on the government-wide statement of net position.

i. Net position - Proprietary Funds and Government-wide Statement of Net position

Net position is classified as follows:

Restricted - Represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2022

A. Summary of Significant Accounting Policies (Continued)

3. Financial Statement Amounts (Continued)

i. Net position - Proprietary Funds and Government-wide Statement of Net position (Cont.)

Net Investment in Capital Assets - Represents the balances of capital assets less the outstanding balances of debt related to the acquisition of the capital assets. This amount is separated from unrestricted net position so that the unrestricted classification represents net position more readily available to fund operations.

Unrestricted - Represents the residual net position that is not restricted or capital in nature.

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily or permanently restricted net position are reclassified to unrestricted net position.

j. Pensions

The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teacher Retirement System of Texas (TRS) and additions to/ deductions from TRS's fiduciary net position have been determined on the same basis as they are reported by TRS. For this purpose, 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.

k. Other Post-Employment Benefits

The fiduciary net position of the Teacher Retirement System of Texas (TRS) 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 post-employment benefits, OPEB expense, and information about assets, liabilities and additions to/deductions from TRS'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.

l. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2022

A. Summary of Significant Accounting Policies (Continued)

3. Financial Statement Amounts (Continued)

l. Fund Balances - Governmental Funds (Continued)

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the District's Board of Trustees. Committed amounts cannot be used for any other purpose unless the Board of Trustees removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the Board of Trustees. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the Board of Trustees or by an official or body to which the Board of Trustees delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund, conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

m. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

n. Data Control Codes

Data Control Codes appear in the rows and above the columns of certain financial statements. The TEA requires the display of these codes in the financial statements filed with TEA in order to ensure accuracy in building a statewide database for policy development and funding plans.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 AUGUST 31, 2022

B. Deposits and Investments

1. Cash Deposits

The District's funds are deposited and invested under the terms of a depository contract which requires the District's agent bank to pledge securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The District's cash deposits at August 31, 2022 and during the year ended August 31, 2022, were entirely covered by FDIC insurance and pledged collateral. At year end, the District also had certificates of deposit at various institutions that were fully insured by FDIC.

2. Investments

The District is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

The Act determines the types of investments which are allowable for the District. These include, with certain restrictions, 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) securities lending program, 5) repurchase agreements, 6) bankers acceptances, 7) mutual funds, 8) investment pools, 9) guaranteed investment contracts, and 10) commercial paper.

The District's investments at August 31, 2022 are shown below.

<u>Investment or Investment Type</u>	<u>Weighted Average Maturity (Days)</u>	<u>Reported Value</u>
Local Government Debt Securities	150	\$ 3,957,262
Federal Debt Securities	386	3,789,331
Cash	0	300,000
Corporate Bonds	388	238,890
Certificates of Deposit	415	477,365
Total Investments	268	<u>\$ 8,762,848</u>

The certificates of deposit are reported at amortized cost. The debt securities are reported at fair value based on Level 2 inputs.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 AUGUST 31, 2022

B. Deposits and Investments (Continued)

2. Investments (Continued)

The Foundation's investments at August 31, 2022 are shown below.

<u>Investment or Investment Type</u>	<u>Fair Value</u>
Cash Equivalents	\$ 37,801
Equity Securities	<u>7,924,549</u>
Total Investments	<u><u>\$ 7,962,350</u></u>

The Foundation invests in equity securities, which are reported at fair value based on Level 1 inputs.

3. Analysis of Specific Deposit and Investment Risks:

The District has evaluated the following specific investment risks at year end:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not significantly exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name. At year end, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 AUGUST 31, 2022

B. Deposits and Investments (Continued)

3. Analysis of Specific Deposit and Investment Risks (Continued):

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

Investment Accounting Policy

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares. The District's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. The District reports its investments in Pools as cash and cash equivalents. As of August 31, 2022, the District was invested in the following Pools:

<u>Local Government Investment Pool</u>	<u>Rating</u>	<u>Net Asset Value</u>
Texpool	AAAm	\$ 854
Texas TERM - TexasDAILY	AAAm	73
Lone Star	AAAm	256,761
Texas Class	AAAm	18,301,929
Total Investment Pools		<u>\$ 18,559,617</u>

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2022

C. Capital Assets

Capital asset activity for the year ended August 31, 2022, was as follows:

	Beginning Balances	Increases	Transfers/ Decreases	Ending Balances
Governmental Activities:				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 5,042,362	\$ 1,579,206	\$ -	\$ 6,621,568
<i>Total Capital Assets Not Being Depreciated</i>	<u>5,042,362</u>	<u>1,579,206</u>	<u>-</u>	<u>6,621,568</u>
<i>Capital Assets Being Depreciated:</i>				
Buildings and Improvements	252,771,096	2,541,084	-	255,312,180
Equipment	14,547,281	31,700	-	14,578,981
Vehicles	2,314,352	390,577	-	2,704,929
<i>Total Capital Assets Being Depreciated</i>	<u>269,632,729</u>	<u>2,963,361</u>	<u>-</u>	<u>272,596,090</u>
<i>Less Accumulated Depreciation For:</i>				
Buildings and Improvements	(79,403,838)	(5,846,839)	-	(85,250,677)
Equipment	(9,084,162)	(1,824,121)	-	(10,908,283)
Vehicles	(1,954,433)	(100,781)	-	(2,055,214)
<i>Total Accumulated Depreciation</i>	<u>(90,442,433)</u>	<u>(7,771,741)</u>	<u>-</u>	<u>(98,214,174)</u>
Total Capital Assets Being Depreciated, Net	179,190,296	(4,808,380)	-	174,381,916
<i>Governmental Activities Capital Assets, Net</i>	<u>\$ 184,232,658</u>	<u>\$ (3,229,174)</u>	<u>\$ -</u>	<u>\$ 181,003,484</u>

Depreciation was charged to functions as follows:

11 Instruction	\$ 6,922,924
23 School Leadership	28,460
34 Student Transportation	70,519
41 General Administration	11,149
36 Cocurricular/Extracurricular Activities	169,374
51 Plant Maintenance and Operations	73,698
53 Data Processing Services	495,617
	<u>\$ 7,771,741</u>

D. Interfund Transactions

During the year ended August 31, 2022, the general fund transferred \$63,623 to nonmajor enterprise funds to supplement other funding sources.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2022

E. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include building and refunding bonds. Changes in long-term obligations for the year ended August 31, 2022, are as follows:

	Beginning Balances	Increases	Decreases	Ending Balances	Amounts Due Within One Year
<i>Governmental Bonds:</i>					
Private Placement Bonds	\$ 1,140,000	\$ -	\$ (180,000)	\$ 960,000	\$ 185,000
Bonds Offered to Public	181,640,000	26,415,000	(37,940,000)	170,115,000	9,550,000
Unamortized Premiums	11,124,689	2,696,072	(3,242,898)	10,577,863	1,779,441
<i>Total Bonds</i>	<u>193,904,689</u>	<u>29,111,072</u>	<u>(41,362,898)</u>	<u>181,652,863</u>	<u>11,514,441</u>
<i>Other Long-term Obligations:</i>					
Net Pension Liability	13,158,569	155,899	(7,299,658)	6,014,810	-
Net OPEB Liability	13,419,091	682,088	(864,848)	13,236,331	-
<i>Grand Total</i>	<u>\$ 26,577,660</u>	<u>\$ 837,987</u>	<u>\$ (8,164,506)</u>	<u>\$ 19,251,141</u>	<u>\$ -</u>

Bonds Sold to the Public have interest rates ranging from 2.0-7.0%.
Private Placement Bonds have interest rates of 2.96%.

2. Debt Service requirements on bonded debt at August 31, 2022, are as follows:

Year Ending August 31,	Private Placements		Public Offerings		Total
	Principal	Interest	Principal	Interest	
2023	\$ 185,000	\$ 25,678	\$ 9,550,000	\$ 6,549,606	\$ 16,099,606
2024	185,000	20,202	9,995,000	6,497,744	16,492,744
2025	190,000	14,652	10,495,000	6,066,631	16,561,631
2026	200,000	8,880	8,520,000	5,655,106	14,175,106
2027	200,000	2,960	8,810,000	5,303,156	14,113,156
2028-2032	-	-	37,875,000	22,697,372	60,572,372
2033-2037	-	-	36,295,000	15,860,988	52,155,988
2038-2042	-	-	40,750,000	7,402,713	48,152,713
2043	-	-	7,825,000	212,325	8,037,325
Totals	<u>\$ 960,000</u>	<u>\$ 72,372</u>	<u>\$ 170,115,000</u>	<u>\$ 76,245,641</u>	<u>\$ 246,360,641</u>

3. New Issuances

In November 2021, the District issued \$26.4 million in refunding bonds. The proceeds were combined with cash on hand in the debt service fund to defease \$28.7 million in bonds. The refunding resulted in gross savings of \$1.94 million and net present value savings of \$1.83 million.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2022

E. Long-Term Obligations (Continued)

4. Other Long-term Debt Disclosures

In accordance with Securities and Exchange Act of 1934 Rule 15c2-12, the District has entered into a continuing disclosure agreement with the Municipal Securities Rulemaking Board. The District has complied with these continuing disclosures.

The District has two bond series that were directly placed at local banking institutions. The bond documents do not contain subjective acceleration clauses, events of default with finance-related consequences or termination events with finance-related consequences.

Advance refundings of debt result in differences between the carrying amount of refunded obligations and the payment to defease the debt. These differences are recorded on the Statement of Net Position and amortized over the life of the shorter of the new or refunded obligations. As of August 31, 2022, the District reported \$738,851 in deferred refunding gains that will be amortized in future periods.

F. Pension Plan

1. Plan Description

The District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). It is a defined benefit pension plan established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms. All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

2. Pension Plan Fiduciary Net Position

Detail information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at https://www.trs.texas.gov/Pages/about_publications.aspx or by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2022

F. Pension Plan (Continued)

3. Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature.

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. Actuarial implications of the funding provided in the manner are determined by the System's actuary.

4. 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. Employee contribution rates are set in state statute, Texas Government Code 825.402. The TRS Pension Reform Bill (Senate Bill 12) of the 86th Texas Legislature amended Texas Government Code 825.402 for member contributions and increased employee and employer contribution rates for fiscal years 2020 thru 2025.

	Contribution Rates		Contributions Made
	Plan fiscal year		
	2021	2022	
Member (Employee)	7.70%	8.00%	\$ 2,822,915
Non-employer Contributing Entity (State)	7.50%	7.75%	2,003,332
Employer	7.50%	7.75%	1,127,086
			\$ 5,953,333

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2022

F. Pension Plan (Continued)

4. Contributions (Continued)

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

In addition to the employer contributions listed above, there are two additional surcharges an employer is subject to.

- All public schools, charter schools, and regional educational service centers must contribute 1.7 percent of the member's salary in fiscal year 2022, gradually increasing to 2 percent in fiscal year 2025.
- 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.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 AUGUST 31, 2022

F. Pension Plan (Continued)

5. Actuarial Assumptions

The total pension liability in the August 31, 2021 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2020, Rolled forward
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Fair Value
Single Discount Rate	7.25%
Long-term Expected Rate	7.25%
Municipal Bond Rate	1.95% Fidelity 20-Year AA
Last Year in Projection Period	2120
Inflation	2.30%
Salary Increases	3.05-9.05% including inflation
Ad-hoc post-employment benefit changes	none

The actuarial methods and assumptions are used in the determination of the total pension liability are the same assumptions used in the actuarial valuation as of August 31, 2020. For a full description of these assumptions please see the actuarial valuation report dated November 9, 2020.

6. Discount Rate

The discount rate of 7.25% was used to measure the total pension liability. The single discount rate was based on the expected rate of return on pension plan investments of 7.25%. The projection of cash flows used to determine this single discount rate assumed that contributions from active members, employers and the non-employer contributing entity will be made at the rates set by the legislature during the 2019 session. It is assumed that future employer and state contributions will be 8.50 percent of payroll in fiscal year 2020 gradually increasing to 9.55 percent of payroll over the next several years. This includes all employer and state contributions for active and rehired retirees.

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term rate of return on pension plan investments is 7.25%. 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.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2022

F. Pension Plan (Continued)

6. Discount Rate (Continued)

Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2021 are summarized below:

Asset Class	Target Allocation	Long-Term Expected Arithmetic Real Rate of Return	Expected Contribution to Portfolio Return
Global Equity			
U.S.	18%	3.6%	0.94%
Non-U.S. Developed	13%	4.4%	0.83%
Emerging Markets	9%	4.6%	0.74%
Private Equity	14%	6.3%	1.36%
Stable Value			
Government Bonds	16%	-0.2%	0.01%
Absolute Return	0%	1.1%	0.00%
Stable Value Hedge Funds	5%	2.2%	0.12%
Real Return			
Real Assets	15%	4.6%	1.00%
Energy & Natural Resources	6%	6.0%	0.35%
Commodities	0%	1.7%	0.00%
Risk Parity			
Risk Parity	8%	2.8%	0.28%
Leverage			
Cash	2%	-0.7%	-0.01%
Asset Allocation Leverage	-6%	-0.5%	0.03%
Inflation Expectation			2.20%
Volatility Drag			-0.95%
Total	100%		6.90%

7. Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used in measuring the Net Pension Liability.

	1% Decrease 6.250%	Current 7.250%	1% Increase 8.250%
District's proportionate share of the net position liability	\$ 13,143,314	\$ 6,014,810	\$ 231,429

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 AUGUST 31, 2022

F. Pension Plan (Continued)

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

At August 31, 2022, the District reported a liability of \$6,014,810 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 were as follows:

District's proportionate share	\$ 6,014,810
State's proportionate share	<u>11,955,023</u>
Total	<u><u>\$ 17,969,833</u></u>

The net pension liability was measured as of August 31, 2021 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2020 thru August 31, 2021.

At August 31, 2021 the employer's proportion of the collective net pension liability was 0.0236185533% which was a decrease of 0.0009502855% from its proportion measured as of August 31, 2020.

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

For the year ended August 31, 2022, the District recognized pension expense of \$171 thousand, including \$48 thousand for support provided by the State.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2022

F. Pension Plan (Continued)

At August 31, 2022, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows	Deferred Inflows
Differences between expected and actual experience	\$ 10,066	\$ 423,447
Changes of assumptions	2,499,714	1,300,401
Net difference between projected and actual earnings on pension plan investments	-	5,043,340
Changes in proportion and differences between District contributions and proportionate share of contributions	156,242	1,768,560
District contributions subsequent to the measurement date	1,127,086	-
Total	\$ 3,793,108	\$ 8,535,748

The \$1,127,086 in deferred outflows of resources related to pensions from District contributions after the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2023. The net amounts of the District's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending August 31,	Pension Expense
2023	\$ (1,097,159)
2024	(1,108,368)
2025	(1,588,126)
2026	(1,857,430)
2027	(185,390)
Thereafter	(33,253)
	\$ (5,869,726)

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 AUGUST 31, 2022

G. Other Post-Employment Benefits

1. 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 Post-Employment Benefit (OPEB) plan with a special funding situation. The TRS-Care program was established in 1986 by the Texas Legislature. The TRS Board of Trustees administers the TRS-Care program and the related fund in accordance with Texas Insurance Code Chapter 1575. 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. The Board may adopt rules, plans, procedures, and orders reasonably necessary to administer the program, including minimum benefits and financing standards.

2. OPEB Plan Fiduciary Net Position

Detailed information about the TRS-Care's fiduciary net position is available in a separately-issued 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_publications.aspx; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

3. Benefits Provided

TRS-Care provides health insurance coverage to retirees from public and 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 non-Medicare retirees and their dependents may enroll in TRS-Care Standard, a high-deductible health plan. Eligible Medicare retirees and their dependents may enroll in the TRS-Care Medicare Advantage medical plan and the TRS-Care Medicare Rx prescription drug plan. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. There are no automatic post-employment benefit changes; including automatic COLAs.

The premium rates for retirees are reflected in the following table:

TRS-Care Plan Premium Rates		
	Medicare	Non-medicare
Retiree (or Surviving Spouse)	\$ 135	\$ 200
Retiree and Spouse	529	689
Retiree and Children	468	408
Retiree and Family	1,020	999

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 AUGUST 31, 2022

G. Other Post-Employment Benefits (Continued)

4. 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 made 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 percent or not more than 0.75 percent 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.

	Contribution Rates		Contributions Required and
	Years Ending August 31,		
	2021	2022	Made
Member (Employee)	0.65%	0.65%	\$ 229,653
Non-employer Contributing Entity (State)	1.25%	1.25%	359,151
Employer	0.75%-1.25%	0.75%-1.25%	276,044
			\$ 864,848

In addition to 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 employers hire a TRS retiree, they are required to pay to TRS-Care a monthly surcharge of \$535 per retiree.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 AUGUST 31, 2022

G. Other Post-Employment Benefits (Continued)

5. Actuarial Assumptions

The total OPEB liability in the August 31, 2020 actuarial valuation was rolled forward to August 31, 2021. The actuarial valuation was determined using the following actuarial assumptions:

Rates of Mortality	General Inflation
Rates of Retirement	Wage Inflation
Rates of Termination	Expected Payroll Growth
Rates of Disability Incidence	
Valuation Date	August 31, 2020, Rolled forward
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Single Discount Rate	1.95%
Aging Factors	Based on plan specific experience
Election Rates	65% participation prior to age 65 50% participation after age 65 25% of pre-65 assumed to discontinue at age 65
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims cost.
Projected Salary Increases	3.05% to 9.05%, including inflation
Ad hoc post-employment benefit changes	None

The actuarial valuation of the OPEB plan offered through TRS-Care is similar to the actuarial valuation performed for the pension plan, except that the OPEB valuation is more complex. All the demographic assumptions, including rates of retirement, termination, and disability, and most of the economic assumptions, including general inflation and salary increases, used in the OPEB valuation were identical to those used in the respective TRS pension valuation. The demographic assumptions were developed in the experience study performed for TRS for the period ending August 31, 2017.

The following assumptions and other inputs used for members of TRS-Care are based on an established pattern of practice and are identical to the assumptions used in the August 31, 2020 TRS pension actuarial valuation that was rolled forward to August 31, 2021:

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

The active mortality rates were based on 90 percent of the RP-2014 Employee Mortality Tables for males and females. The post-retirement mortality rates for healthy lives were based on the 2018 TRS of Texas Healthy Pensioner Mortality Tables, with full generational projection using the ultimate improvement rates from the mortality projection scale MP-2018.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 AUGUST 31, 2022

G. Other Post-Employment Benefits (Continued)

6. Discount Rate

A single discount rate of 1.95% was used to measure the total OPEB liability. There was a decrease of 0.38 percent 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.

The source of the municipal bond rate is the Fidelity “20-year Municipal GO AA Index” as of August 31, 2021 using the fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds.

7. Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net OPEB Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used in measuring the Net OPEB Liability.

	1% Decrease in 0.95%	Discount Rate 1.95%	1% Increase in 2.95%
District's Proportionate Share of Net OPEB Liability	\$ 16,102,878	\$ 13,236,331	\$ 11,299,284

8. Healthcare Cost Trend Rates Sensitivity Analysis

The following presents the net OPEB liability of the plan 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% point lower or 1% point higher than the assumed healthcare cost trend rate.

	1% Decrease	Trend Rate	1% Increase
Proportionate share of Net OPEB Liability	\$ 10,720,989	\$ 13,236,331	\$ 16,611,294

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

At August 31, 2022, the District reported a liability of \$13,236,331 for its proportionate share of the TRS’s net OPEB liability. This liability reflects a reduction for State OPEB support provided to the District.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 AUGUST 31, 2022

G. Other Post-Employment Benefits (Continued)

9. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs (Continued)

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 Proportionate Share	\$ 13,236,331
State's Proportionate Share	<u>17,733,734</u>
	<u>\$ 30,970,065</u>

The net OPEB liability was measured as of August 31, 2020 and rolled forward to August 31, 2021 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, 2020 thru August 31, 2021.

At August 31, 2021, the employer's proportion of the collective net OPEB liability was 0.0343137092% which was a decrease of 0.0009862034% from its proportion measured as of August 31, 2020.

Changes Since the Prior Actuarial Valuation – The following were changes to the actuarial assumptions or other inputs that affected the measurement of the total OPEB liability since the prior measurement period:

- The discount rate changed from 2.33 percent as of August 31, 2020 to 1.95 percent as of August 31, 2021. This change increased the TOL.
- The participation rate for post-65 retirees was lowered from 50 percent to 40 percent. This change lowered the TOL.
- The ultimate health care trend rate assumption was lowered from 4.50 percent to 4.25 percent as a result of Congress' repeal of the excise (Cadillac) tax on high-cost employer health plans in December 2019. This change lowered the TOL.
- There were no changes in benefit terms since the prior measurement date.

For the year ended August 31, 2022, the District recognized OPEB expense of (\$1.35 million) , including (\$655 thousand) in cost savings recognized by the State.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 AUGUST 31, 2022

G. Other Post-Employment Benefits (Continued)

9. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs (Continued)

At August 31, 2022, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 569,887	\$ 6,407,310
Changes in actuarial assumptions	1,466,256	2,799,416
Difference between projected and actual investment earnings	14,371	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	32	1,627,528
Contributions paid to TRS subsequent to the measurement date	276,044	-
	\$ 2,326,590	\$ 10,834,254

The \$276,044 in deferred outflows of resources related to OPEB from District contributions after the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ended August 31, 2023. The net amounts of the employer's balances of deferred outflows and inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

Year ending August, 31	OPEB Expense Amount
2023	\$ (1,651,517)
2024	(1,651,841)
2025	(1,651,754)
2026	(1,303,344)
2027	(831,646)
Thereafter	(1,693,606)
	\$ (8,783,708)

H. Medicare Part D Coverage

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2022, 2021 and 2020, the subsidy payments received by TRS-Care on behalf of the District were \$108,185, \$158,485, and \$124,006, respectively.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2022

I. Employee Health Care Coverage

During the year ended August 31, 2022, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$343-375 per month per employee to the Plan depending on plan options and dependents covered. Employees, at their option, authorized payroll withholdings to pay the remaining premiums for themselves and dependents. All premiums were paid to a third party administrator, acting on behalf of the licensed insurer. The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement. The contract between the District and the third party administrator is renewable September 1, and terms of coverage and premium costs are included in the contractual provisions. Latest financial statements for the Plan are available for the year ended August 31, 2021, have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

J. Risk Management

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District purchased commercial insurance to insure property and liability.

The District met its statutory workers' compensation obligations through a modified self-funded program. The District (through a third-party administrator) pays all workers' compensation claims up to a maximum stop-loss amount. The stop loss amount for the year ending August 31, 2022 was \$130,716. Actual paid claims for the fiscal years ending August 31, 2022, 2021, and 2020 were \$144,227, \$72,124, and \$99,547, respectively.

K. Commitments and Contingencies

1. Contingencies

The District participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired.

2. Litigation

The District is subject to various claims through its normal course of business and employment practices. Management and legal counsel are not aware of any pending or threatened litigation against the District that would have a material financial impact on the District.

L. Adoption of GASB 87

The District implemented Government Accounting Standard Board's Statement 84 as of September 1, 2021. The statement changed the accounting for contracts that provide consideration in exchange for the right to use assets (typically referred to as leases). The District reviewed the agreements in place that could be considered leases and determined that none of the agreements constituted leases at this time for which new accounting procedures were needed.

APPENDIX D

Bond Counsel's Original Opinion

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December 3, 2020

FINAL

IN REGARD to the authorization and issuance of the “Alamo Heights Independent School District Variable Rate Unlimited Tax School Building Bonds, Series 2020B” (the *Bonds*), dated November 1, 2020, in the aggregate original principal amount of \$12,240,000, we have reviewed the legality and validity of the issuance thereof by the Board of Trustees of the Alamo Heights Independent School District (the *Issuer*). The Bonds are issuable in fully registered form only and have a Stated Maturity of February 1, 2043, unless optionally or mandatorily redeemed prior to Stated Maturity in accordance with the applicable redemption provisions. The Bonds bear interest on the unpaid principal amount from the date of their delivery to the initial purchaser through the end of the Initial Rate Period (as defined in the order authorizing the issuance of the Bonds (the *Order*)), at the rate per annum stated in the Order, and such interest is payable on the dates described in the Order to the registered owners shown on the registration books of the Paying Agent/Registrar on the Record Date (stated on the face of the Bonds). Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Order.

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

WE HAVE EXAMINED the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the Issuer in connection with the issuance of the Bonds, including the Order; (2) customary certifications and opinions of officials of the Issuer; (3) certificates executed by officers of the Issuer relating to the expected use and investment of proceeds of the Bonds and certain other funds of the Issuer, and to certain other facts solely within the knowledge and control of the Issuer; and (4) such other documentation, including an examination of the 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 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.

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Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of “ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT VARIABLE RATE UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2020B”

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

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

WE EXPRESS NO OPINION herein on the excludability from gross income for federal income tax purposes of any action taken under the Order which requires that the Issuer shall have received an opinion of counsel nationally recognized in the field of municipal finance to the effect that such action will not adversely affect the excludability of the interest on the Bonds from the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes. The Order provides that prior to taking certain actions, including converting the interest rate on the Bonds from one rate mode to another rate mode, the Issuer must have received such an opinion.

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

OUR OPINIONS ARE BASED on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. 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

Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of “ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT VARIABLE RATE UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2020B”

existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

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