

**OFFICIAL NOTICE OF SALE AND BIDDING INSTRUCTIONS
BID FORM
AND
PRELIMINARY OFFICIAL STATEMENT**



\$45,000,000*

**ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
(A Political Subdivision located in Bexar County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS,
SERIES 2024**

**Bids Due
Tuesday, April 2, 2024
at 10:00 A.M., Central Time**

* Preliminary, subject to change. See "THE BONDS - Adjustment of Principal Amount and Maturity Schedule for the Bonds" herein.

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

**OFFICIAL NOTICE OF SALE
AND
BIDDING INSTRUCTIONS**

\$45,000,000*
ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Bexar County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2024

Sealed Bids Due on Tuesday, April 2, 2024 at 10:00 A.M. Central Time

THE SALE

BONDS OFFERED FOR SALE AT COMPETITIVE BIDDING. The Alamo Heights Independent School District (the "District") is offering for sale at competitive bid its \$45,000,000* Unlimited Tax School Building Bonds, Series 2024 (the "Bonds").

PLACE AND TIME OF BID OPENING. Bids for the purchase of the Bonds will be received until 10:00 A.M., Central Time, on Tuesday, April 2, 2024 at the District's Administration Office, 7101 Broadway, San Antonio, Texas 78209. All bids received will be publicly opened and read at such time and place, and the results will be considered by an Authorized Official (as defined in the Preliminary Official Statement) designated in the Order (defined herein), who shall evidence selection of the winning bidder by executing an Approval Certificate (as defined in the Preliminary Official Statement) on Tuesday, April 2, 2024.

BIDDING PROCEDURES. No later than 10:00 A.M., Central Time, on Tuesday, April 2, 2024, bidders who wish to submit their bids electronically or by facsimile must provide two signed copies of the "Official Bid Form," together with an envelope addressed to the President, Board of Trustees, Alamo Heights Independent School District, 7101 Broadway, San Antonio, Texas 78209, and plainly marked "Bid for Bonds," to Duane Westerman, SAMCO Capital Markets, Inc., 1020 N.E. Loop 410, Suite 640, San Antonio, Texas 78209.

Bidders must submit bids for the Bonds by one of the following methods:

- (1) Deliver bids directly to the District as described below in "Bids Delivered Directly to the District;"
- (2) Submit bids electronically as described below in "Electronic Bidding Procedure;" or
- (3) Submit bids by facsimile as described below in "Facsimile Bidding Procedure."

Bids Delivered Directly to the District . . . Bids delivered directly to the District, which must be submitted in duplicate on the Official Bid Form and plainly marked "Bid for Bonds," are to be addressed to "President, Board of Trustees," Alamo Heights Independent School District, 7101 Broadway, San Antonio, Texas 78209. All such bids must be delivered at the above address no later than 10:00 A.M., Central Time, on Tuesday, April 2, 2024.

Electronic Bidding Procedure . . . Interested bidders may, at their option, submit their bid by electronic media, as described below, by 10:00 A.M., Central Time, on Tuesday, April 2, 2024.

Any prospective bidder that intends to submit an electronic bid must submit its electronic bid through the facilities of the Bidcomp/PARITY System ("PARITY"). Subscription to the Ipreo's BIDCOMP Competitive Bidding System is required in order to submit an electronic bid. The District will neither confirm any subscription nor be responsible for the failure of any prospective bidder to subscribe. An electronic bid made through the facilities of PARITY shall be deemed an irrevocable offer to purchase the Bonds on the terms provided in the Official Notice of Sale, and shall be binding upon the bidder as if made by a signed, sealed bid delivered to the District. The District shall not be responsible for any malfunction or mistake made by, or as a result of the use of the facilities of, PARITY, the use of such facilities being the sole risk of the prospective bidder. In the event of a malfunction in the electronic bidding process, bidders may submit their bids by facsimile as described below. Any bid received after the scheduled time for their receipt will not be accepted. If any provisions of the Official Notice of Sale shall conflict with information provided by PARITY as the approved provider of electronic bidding services, this Official Notice of Sale shall control. Further information about PARITY, including any fee charged, may be obtained from PARITY, at (212) 849-5021.

* Preliminary, subject to change (see "THE BONDS - Adjustment of Principal Amount and Maturity Schedule for the Bonds" and "CONDITIONS OF THE SALE - Basis of Award").

For purposes of both the written sealed bid process and the electronic bidding process, the time as maintained by PARITY shall constitute the official time for the receipt of bids. For information purposes only, bidders are requested to state in their electronic bids the net interest cost to the District, as described under “CONDITIONS OF THE SALE - Basis of Award” below. All electronic bids shall be deemed to incorporate the provisions of this Official Notice of Sale, the Official Bid Form, and the Preliminary Official Statement.

Facsimile Bidding Procedure . . . Interested bidders may, at their option, submit their bid by facsimile as described below.

Mr. Westerman will accept bids by facsimile until 10:00 A.M., Central Time, on Tuesday, April 2, 2024 at (210) 832-9794. Each bid received by facsimile will be attached to the corresponding signed Official Bid Form as mentioned above, after which Mr. Westerman will, on behalf of the bidders, submit such bids on the bid forms to the District in the manner provided above. Mr. Westerman will not be responsible for submitting bids received after the Tuesday, April 2, 2024, 10:00 A.M., Central Time deadline.

Neither the District nor SAMCO Capital Markets, Inc. is responsible for any failure of their or the sender's facsimile machine, any failed delivery of a facsimile, any incomplete or ambiguous transmittals, or the disclosure of the bid to any persons prior to bid opening. If any portion of a facsimile bid is illegible, the District and SAMCO Capital Markets, Inc. may, at their option, either call any provided reference number for clarification or reject the bid. **Bidders who fax bids do so at their own risk. All such bids shall be binding on the bidder.**

AWARD AND SALE OF THE BONDS. The Board of Trustees of the District adopted an order on March 20, 2024 (the “Order”) authorizing the issuance of the Bonds and delegated to certain authorized District officials (each, an “Authorized Official”) to execute an approval certificate (the “Approval Certificate”) to establish the final terms and effectuate the sale of the Bonds, which terms will be evidenced in the Approval Certificate. Upon the opening of the bids as described above, an Authorized Official shall award the Bonds by executing the Official Bid Form and the Approval Certificate. The District intends to award the Bonds on the basis of the lowest net interest cost bid. The interest cost of each bid will be computed by determining, at the rate or rates specified, the total dollar value of all interest on the Bonds to their respective stated maturities. The District, acting through an Authorized Official, reserves the right to reject any and all bids and to waive any irregularities except time of submission.

THE BONDS

DESCRIPTION. The Bonds will be dated April 15, 2024 (the “Dated Date”) with interest to accrue from the Dated Date and to be payable initially on August 1, 2024 and semiannually on February 1 and August 1 thereafter until stated maturity or prior redemption. The definitive Bonds will be issued as fully registered obligations in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York. DTC will act as securities depository (the “Securities Depository”). Book-entry interests in the Bonds will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Bonds (“Beneficial Owners”) will not receive physical delivery of Bonds representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, the principal of and interest on the Bonds will be paid by Zions Bancorporation, National Association, Houston, Texas, as Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. (See “BOOK-ENTRY-ONLY SYSTEM” in the Preliminary Official Statement.) The Bonds will be stated to mature on February 1 in each of the following years in the following amounts:

Stated Maturity February 1	Principal* Amount (\$)	Stated Maturity February 1	Principal* Amount (\$)
2026	200,000	2038	930,000
2027	325,000	2039	1,020,000
2028	360,000	2040	1,395,000
2029	395,000	2041	1,845,000
2030	420,000	2042	2,065,000
2031	450,000	2043	2,675,000
2032	500,000	2044	4,700,000
2033	550,000	2045	4,700,000
2034	600,000	2046	4,700,000
2035	645,000	2047	4,900,000
2036	825,000	2048	5,000,000
2037	800,000	2049	5,000,000

* Preliminary, subject to change (see “THE BONDS - Adjustment of Principal Amount and Maturity Schedule for the Bonds” and “CONDITIONS OF THE SALE - Basis of Award”).

ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE BONDS. After final computation of the bids, the District reserves the right in its sole discretion either to decrease or increase the principal amount of any stated maturity of the Bonds. The aggregate principal amount of the Bonds may be adjusted by no more than 10% of the proposed par amount by an Authorized Official. Such adjustment(s), if any, shall be made within four (4) hours of the initial award of the Bonds. The price at which such adjusted principal amount of Bonds will be sold will be the same price per \$1,000 of Bonds as the price per \$1,000 for the original par amount of Bonds bid. In order to calculate the yield on the Bonds for federal tax law purposes and as a condition precedent to the award of the Bonds, bidders must disclose to the District in connection with their respective bids the price (or yield to stated maturity) at which each stated maturity of the Bonds will be reoffered and sold for (or expected to be sold) to the public.

In the event of any adjustment of the maturity schedule for the Bonds as described herein, no rebidding or recalculation of the proposals submitted will be required or permitted. Any such adjustment of the aggregate principal amount of the Bonds and/or the maturity schedule for the Bonds made by the District or its Financial Advisor shall be subsequent to the award of the Bonds to the winning bidder as determined pursuant to "CONDITIONS OF THE SALE - Basis of Award" herein and shall not affect such determination. The successful bidder may not withdraw its bid as a result of any changes made within the aforementioned limits.

There is no guarantee that adjustments and/or revisions will not be necessary in order to properly size the Bonds. Accordingly, the District reserves the right in its sole discretion to make adjustments as previously described above, even if the issue size of the Bonds does not change from the original par amount of Bonds. In the event of any such adjustment and or revision, no rebidding will be permitted, and the purchase price as may have been bid on the Bonds shall be adjusted accordingly.

PURPOSE. Proceeds from the sale of the Bonds will be used for the purposes of (i) designing, constructing, renovating, improving, upgrading, updating, acquiring and equipping school facilities (and any necessary or related removal of existing facilities), the purchase of the necessary sites for school facilities, and the purchase of new school buses, and (ii) paying for professional services associated with the costs of issuance of the Bonds. See "THE BONDS - Use of Proceeds" in the Preliminary Official Statement.

REDEMPTION. The District reserves the right to redeem the Bonds maturing on and after February 1, 2035 in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on February 1, 2034 or any date thereafter, at the redemption price of par plus accrued interest. If two or more serial Bonds of consecutive maturity are combined into one or more "term" Bonds (the "Term Bonds") by the Purchaser, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order. (See "THE BONDS - Redemption Provisions of the Bonds" in the Preliminary Official Statement.)

SERIAL BONDS AND/OR TERM BONDS. Bidders may provide that all the Bonds be issued as serial bonds maturing in accordance with the Maturity Schedule shown above or may provide that any two or more consecutive annual principal amounts be combined into one or more Term Bonds provided that such Term Bonds shall be subject to mandatory sinking fund redemption in the amounts and in the years described in the Maturity Schedule above as if such Term Bonds remained serial bonds.

BOOK-ENTRY-ONLY SYSTEM. The District intends to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York ("DTC") with respect to the issuance of the Bonds. (See "BOOK-ENTRY-ONLY SYSTEM" in the Preliminary Official Statement.)

PAYING AGENT/REGISTRAR. The initial Paying Agent/Registrar shall be Zions Bancorporation, National Association, Houston, Texas (see "REGISTRATION, TRANSFER AND EXCHANGE" in the Preliminary Official Statement). If the Paying Agent/Registrar becomes unable for any reason to act as Paying Agent/Registrar, the District has covenanted to appoint a successor Paying Agent/Registrar.

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 legal limit as to rate or amount.

PERMANENT SCHOOL FUND GUARANTEE. The District has received conditional approval from the Texas Education Agency for the payment of principal of and interest on the Bonds to be guaranteed under the Permanent School Fund Guarantee Program, which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" in the Preliminary Official Statement.

PRELIMINARY OFFICIAL STATEMENT AND OTHER TERMS AND COVENANTS IN THE ORDER. Further details regarding the Bonds and certain covenants of the District contained in the Order are set forth in the Preliminary Official Statement to which reference is made for all purposes.

CONDITIONS OF THE SALE

THE INITIAL BONDS AND DENOMINATIONS OF BONDS. The Bonds will be issued only as fully registered obligations in the denomination of \$5,000 or any integral multiple thereof within a maturity.

TYPES OF BIDS AND INTEREST RATES. The Bonds will be sold in one block on an "All or None" basis, and at a price of not less than 104.00% of their principal amount plus accrued interest from the Dated Date to the date of initial delivery of the Bonds to the Initial Purchaser (defined herein); provided, however, that any bid is subject to adjustment as described under the caption "THE BONDS - Adjustment of Principal Amount and Maturity Schedule for the Bonds," which adjustment could result in the price of the Bonds of the bidders premium to exceed the parameters provided above. Bidders are invited to name the rate or rates of interest the Bonds shall bear, provided that each rate bid must be stated in multiples of 1/8th of 1% or 1/20th of 1%, and the maximum rate bid must not exceed 5.00%. The highest rate bid may not exceed the lowest rate bid by more than 2.00% in rate. No limitation is imposed upon bidders as to the number of rates or changes that may be used, except that all Bonds of one maturity must bear one and the same rate.

No bids with supplemental interest rates will be considered. Each bidder shall state in its bid the total interest cost in dollars and the net effective interest rate determined thereby, which shall be considered informative only and not a part of the bid.

BASIS OF AWARD. For the purpose of awarding sale of the Bonds, the interest cost of each bid will be computed by determining the total cost of all interest on the Bonds from the Dated Date to their respective stated maturities, using the table of Bond Years herein. Subject to the District's right to reject any or all bids and to waive irregularities, except time of filing, the Bonds will be awarded to the bidder (the "Initial Purchaser" or "Purchaser") whose bid, based on the above computation, produces the lowest net interest cost to the District. In case of a tie, the District reserves the right to determine which bidder will be awarded the Bonds in accordance with applicable Texas law.

After selecting the winning bid, the principal authorization schedule may be adjusted as determined by the District's Board, acting through an Authorized Official, and the District's Financial Advisor in cooperation with the Purchaser in \$5,000 increments to reflect the actual interest rates and to create level debt service to the District. Such adjustments will not change the principal amounts due on the Bonds in any year by more than 10%. The District will, in good faith, attempt to communicate such adjustment to the Initial Purchaser within four (4) hours after the opening of the bids.

GOOD FAITH DEPOSIT. A Good Faith Deposit, in the form of a Cashier's Check payable to "Alamo Heights Independent School District," in the amount of \$900,000.00* is required. The Good Faith Deposit of the Purchaser will be retained uncashed by the District until the Bonds are delivered. At that time, it will be returned to the Purchaser uncashed; however, should the Purchaser fail or refuse to take up and pay for the Bonds, said check is to be cashed by the District and the proceeds accepted as full and complete liquidated damages, except as provided under the caption "ADDITIONAL CONDITIONS OF AWARD - STATUTORY REPRESENTATIONS AND COVENANTS". The above-mentioned Good Faith Deposit may accompany the bid or it may be submitted separately. However, if submitted separately, it shall be made available to the District prior to the opening of the bids. It shall be accompanied by instructions from the bank on which it is drawn which will authorize its use as a Good Faith Deposit by the Purchaser who shall be named in such instructions. No interest will be paid or allowed on any Good Faith Deposit. Checks accompanying the bids of unsuccessful bidders will be returned immediately after the bids are opened and the award of the sale of the Bonds has been made.

ADDITIONAL CONDITIONS OF AWARD

DISCLOSURE OF INTERESTED PARTY FORM

OBLIGATION OF THE DISTRICT TO RECEIVE INFORMATION FROM WINNING BIDDER IF BIDDER IS NOT A PUBLICLY TRADED BUSINESS ENTITY (A "PRIVATELY HELD BIDDER"). Pursuant to Texas Government Code Section 2252.908 (the "Interested Party Disclosure Act"), the District may not award the Bonds to a winning bidder which is a Privately Held Bidder unless such party submits a Certificate of Interested Parties Form 1295 (the "Disclosure Form") to the District as prescribed by the Texas Ethics Commission ("TEC"). In the event that a Privately Held Bidder's bid for the Bonds is the best bid received, the District, acting through its financial advisor, will promptly notify the winning Privately Held Bidder. That notification will serve as the District's conditional verbal acceptance of the bid and will obligate the winning Privately Held Bidder to establish (unless such winning Privately Held Bidder has previously so established) an account with the TEC, and promptly file a completed Disclosure Form, as described below, in order to allow the District to complete the award.

* Preliminary, subject to change (see "THE BONDS - Adjustment of Principal Amount and Maturity Schedule for the Bonds" and "CONDITIONS OF THE SALE - Basis of Award").

PROCESS FOR COMPLETING THE DISCLOSURE FORM. For purposes of illustration, the Disclosure Form is attached hereto, and reference should be made to such form for the following information needed to complete it: (a) item 2 - name of the governmental entity (Alamo Heights Independent School District) and (b) item 3 - the identification number assigned to this contract by the District (AHISD Ser2024-Bid Form) and description of the goods or services (Purchase of the Alamo Heights Independent School District Unlimited Tax School Building Bonds, Series 2024). The Interested Party Disclosure Act and the rules adopted by the TEC with respect thereto (the "Disclosure Rules") require a non-publicly traded business entity contracting with the District to complete the Disclosure Form electronically at <https://www.ethics.state.tx.us/main/file.htm>, print, sign, and deliver, in physical form, the certified Disclosure Form that is generated by the TEC's "electronic portal" to the District. The executed Disclosure Form must be sent by email, to the District's financial advisor at dwesternman@samcocapital.com, as soon as possible following the notification of conditional verbal acceptance and prior to the final written award. Upon receipt of the final written award, the Disclosure Form with original signatures must be submitted by mail to Stephanie Leibe, c/o Norton Rose Fulbright US LLP, 98 San Jacinto Boulevard, Suite 1100, Austin, Texas 78701.

PREPARATIONS FOR COMPLETION, AND THE SIGNIFICANCE OF THE REPORTED INFORMATION. In accordance with the Interested Party Disclosure Act, the information reported by the winning Privately Held Bidder MUST BE DECLARED BY AN AUTHORIZED AGENT OF THE WINNING PRIVATELY HELD BIDDER. No exceptions may be made to that requirement. The Interested Party Disclosure Act and the Disclosure Form provides that such acknowledgment is made "under penalty of perjury." Consequently, a winning Privately Held Bidder should take appropriate steps prior to completion of the Disclosure Form to familiarize itself with the Interested Party

DISCLOSURE ACT, THE DISCLOSURE RULES AND THE DISCLOSURE FORM. Time will be of the essence in submitting the form to the District, and no final award will be made by the District regarding the sale of the Bonds until a completed Disclosure Form is received. If applicable, the District reserves the right to reject any bid that does not satisfy the requirement of a completed Disclosure Form, as described herein. Neither the District nor its consultants have the ability to verify the information included in a Disclosure Form, and neither party has an obligation nor undertakes responsibility for advising any bidder with respect to (1) the bidder's obligation to submit the Disclosure Form or (2) the proper completion of the Disclosure Form. Consequently, an entity intending to bid on the Bonds should consult its own advisors to the extent it deems necessary and be prepared to submit the completed form, if required, promptly upon notification from the District that its bid is the conditional winning bid. Instructional videos on logging in and creating a certificate are provided on the TEC's website at https://www.ethics.state.tx.us/whatsnew/elf_info_form_1295.htm.

STATUTORY REPRESENTATIONS AND COVENANTS. By submitting a bid, each bidder makes the following representations and, if its bid is accepted, covenants pursuant to Chapters 2252, 2271, 2274, and 2276, Texas Government Code, as heretofore amended (the "Government Code"). As used in therein, "affiliate" means an entity that controls, is controlled by, or is under common control with the bidder within the meaning of SEC Rule 405, 17 C.F.R. § 230.405, and exists to make a profit. If a bidder's bid is accepted, then liability for breach of any such representation or covenant during the term of the contract for purchase and sale of the Bonds created thereby (the "Purchase Contract") shall survive until barred by the applicable statute of limitations, and shall not be liquidated or otherwise limited by any provision of the bid or this Official Notice of Sale, notwithstanding anything herein or therein to the contrary.

Not a Sanctioned Company. Each bidder represents that neither it nor any of its parent company, wholly- or majority-owned subsidiaries, and other affiliates is a company identified on a list prepared and maintained by the Texas Comptroller of Public Accounts under Section 2252.153 or Section 2270.0201, Government Code. The foregoing representation excludes each bidder and each of its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, that the United States government has affirmatively declared to be excluded from its federal sanctions regime relating to Sudan or Iran or any federal sanctions regime relating to a foreign terrorist organization.

No Boycott of Israel. Each bidder hereby verifies that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not boycott Israel and, if its bid is accepted, will not boycott Israel during the term of the Purchase Contract. As used in the foregoing verification, "boycott Israel" has the meaning provided in Section 2271.001, Government Code.

No Discrimination Against Firearm Entities. Each bidder hereby verifies that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not have a practice, policy, guidance, or directive that discriminates against a firearm entity or firearm trade association and, if its bid is accepted, will not discriminate against a firearm entity or firearm trade association during the term of the Purchase Contract. As used in the foregoing verification, "discriminate against a firearm entity or firearm trade association" has the meaning provided in Section 2274.001(3), Government Code.

No Boycott of Energy Companies. Each bidder hereby verifies that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not boycott energy companies and, if its bid is accepted, will not boycott energy companies during the term of the Purchase Contract. As used in the foregoing verification, "boycott energy companies" has the meaning provided in Section 2276.001(1), Government Code.

Texas Attorney General Standing Letter. The winning bidder represents that it has, as of the date bids are due on the Bonds and as of Closing, on file with the Texas Attorney General a standing letter addressing the representations and verifications hereinbefore described in this Notice of Sale in the form attached as Exhibit B to the Updated Recommendations for Compliance with the Texas BPA Verification and Representation Requirements (December 1, 2023) of the Municipal Advisory Council of Texas or any other form accepted by the Texas Attorney General (a "Standing Letter"). In addition, if subsequent to the filing of its Standing Letter, the winning bidder or the parent company, a wholly- or majority-owned subsidiary or another affiliate of such winning bidder receives or has received a letter from the Texas Comptroller of Public Accounts or the Texas Attorney General seeking (a) confirmation or verification of these representations and verifications or (b) written verification that such bidder is a member of the Net Zero Banking Alliance, Net Zero Insurance Alliance, Net Zero Asset Owner Alliance, or Net Zero Asset Managers or of the representations and certifications contained in the winning bidder's Standing Letter (each a "Request Letter"), the winning bidder shall promptly notify the District and Bond Counsel (if it has not already done so) and provide to the District or Bond Counsel, two business days prior to Closing and additionally upon request by the District or Bond Counsel, written verification to the effect that its Standing Letter described in the preceding sentence remains in effect and may be relied upon by the District and the Texas Attorney General (the "Bringdown Verification"). The Bringdown Verification shall also confirm that the winning bidder (or the parent company, a wholly- or majority-owned subsidiary or other affiliate of the winning bidder that received the Request Letter) intends to timely respond or has timely responded to the Request Letter. The Bringdown Verification may be in the form of an e-mail. The District reserves the right, in its sole discretion, to reject any bid from a bidder that does not satisfy the foregoing requirements as of the deadline for bids for the Bonds. Liability for breach of any such verification during the term of this contract for purchase shall survive until barred by the applicable statute of limitations, and shall not be liquidated or otherwise limited by any provision of this contract for purchase, notwithstanding anything in this contract for purchase to the contrary.

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

DELIVERY OF THE BONDS AND ACCOMPANYING DOCUMENTS

INITIAL DELIVERY OF INITIAL BOND. Initial delivery of the Bonds to the Purchaser (the "Initial Delivery") will be accomplished by the issuance of one Initial Bond (also called the "Bonds"), either in typed or printed form, in the in the aggregate principal amount of \$45,000,000* payable in stated installments to the Purchaser, signed by manual or facsimile signature by the President and Secretary of the Board of the Alamo Heights Independent School District, approved by the Texas Attorney General, and registered and manually signed by the Comptroller of Public Accounts. Initial Delivery of the Bonds will be at the designated office of the Paying Agent/Registrar.

Upon delivery of the Initial Bonds, they shall be immediately canceled and one definitive Bond for each maturity payable to Cede & Co. will be exchanged therefore and delivered to DTC in connection with DTC's Book-Entry-Only System. Payment for the Bonds must be made in immediately available funds for unconditional credit to the District, or as otherwise directed by the District. The Purchaser will be given seven (7) business days' notice of the time fixed for delivery of the Bonds. It is anticipated that delivery of the Initial Bond can be made on or about May 2, 2024. If for any reason the District is unable to make delivery by May 2, 2024, then the District shall immediately contact the Purchaser and offer to allow the Purchaser to extend for an additional up to ten (10) days its obligation to take up and pay for the Bonds. If the Purchaser does not so elect within six (6) days thereafter, then its Good Faith Deposit will be returned, and both the District and the Purchaser shall be relieved of further obligation. In no event shall the District be liable for any damages by reason of its failure to deliver the Bonds, provided such failure is due to circumstances beyond the District's reasonable control.

DTC DEFINITIVE BONDS. After delivery of the Initial Bond, the Bonds will be issued in Book-Entry-Only form. Cede & Co. is the nominee for DTC. All references herein to the registered owner of the Bonds shall mean Cede & Co. and not the Beneficial Owners of the Bonds. Purchasers of beneficial interests in the Bonds will be made in Book-Entry-Only form (without registered Bonds) in the denomination of \$5,000 principal amount or any integral multiple thereof. Under certain limited circumstances described herein, the District may determine to forego immobilization of the Bonds at DTC, or another securities depository, in which case such beneficial interests would become exchangeable for one or more fully registered obligations of like principal amount for the Bonds.

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

* Preliminary, subject to change (see "THE BONDS - Adjustment of Principal Amount and Maturity Schedule for the Bonds" and "CONDITIONS OF THE SALE - Basis of Award").

CONDITIONS OF DELIVERY. The Purchaser's obligation to take up and pay for the Bonds is subject to the issuance of an approving opinion of the Texas Attorney General, the Purchaser's acknowledgment of the receipt of the Initial Bond, the opinion and the Purchaser's receipt of the legal opinion of Bond Counsel (hereafter defined), the no-litigation certificate, and a certificate as to Official Statement, all as described in the Preliminary Official Statement.

In order to provide the District with information required to enable it to comply with certain conditions of the Internal Revenue Code of 1986, as amended (the "Code") relating to the exclusion of interest on the Bonds from the gross income of their owners, the Purchaser will be required to complete, execute, and deliver to the District (on or before the date of Initial Delivery of the Bonds) a certification as to their "issue price" (the "Issue Price Certificate") in the form and to the effect attached hereto or accompanying this Official Notice of Sale, subject to the conditions set forth in "ESTABLISHMENT OF ISSUE PRICE" below.

ESTABLISHMENT OF ISSUE PRICE:

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

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

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

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

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

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

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

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

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

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

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

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

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

LEGAL OPINIONS. The District will furnish to the representative of the Purchaser a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the approving legal opinion of the Attorney General of the State of Texas, that the Bonds are valid and legally binding obligations of the District and, based upon examination of such transcript of proceedings, the legal opinion of Norton Rose Fulbright US LLP, Austin and San Antonio, Texas ("Bond Counsel"). In addition, the District will receive an opinion from Bond Counsel to the effect that the interest on the Bonds, assuming continued compliance with the provisions of the Order, (1) is excludable from the gross income of the owners thereof for federal income tax purposes under the law existing on the date of Initial Delivery of the Bonds, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals. The opinion of Bond Counsel will be attached to the Bonds delivered to DTC. (See "TAX MATTERS" in the Preliminary Official Statement.)

NO-LITIGATION CERTIFICATE. The District will furnish an executed certificate to the Purchaser to the effect that no litigation of any nature has been filed or is then pending to restrain or enjoin the issuance or delivery of the Bonds, or which would affect the provisions for their payment or security, or in any manner questioning the validity of said Bonds.

CERTIFICATION OF OFFICIAL STATEMENT. At the time of payment for, and initial delivery of, the Initial Bond, the District will execute and deliver to the Purchaser a certificate in the form set forth in the Preliminary Official Statement. (See "OTHER PERTINENT INFORMATION - Authorization of the Official Statement" in the Preliminary Official Statement.)

CHANGES IN TAX-EXEMPT STATUS. At any time before the Bonds are tendered for delivery, the Purchaser may withdraw his bid if the interest received by private holders from obligations of the same type and character shall be declared to be taxable income under present federal income tax laws, either by ruling of the Internal Revenue Service or by a decision of any federal court, or shall be declared taxable or be required to be taken into account in computing any federal income taxes, by the terms of any federal income tax law (other than as described in the Preliminary Official Statement under "TAX MATTERS").

GENERAL CONSIDERATIONS

FINANCIAL ADVISOR. SAMCO Capital Markets, Inc. is employed as Financial Advisor to the District in connection with the issuance of the Bonds and will not submit a bid. SAMCO Capital Markets, Inc. has also been designated as the District's independent registered municipal advisor. 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, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

NOT AN OFFER TO SELL. The Official Notice of Sale does not alone constitute an offer to sell, but is merely a Notice of Sale of Bonds as directed by the Board of Trustees of the District. The offer by the Board of Trustees of the District to sell the Bonds to the successful bidder is being made by means of the Official Notice of Sale, the Preliminary Official Statement and the Official Bid Form. Prospective bidders are urged to examine the Preliminary Official Statement carefully to determine the investment quality of the Bonds.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE. The sale of the Bonds has not been registered under the federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

It is the obligation of the Purchaser to register or qualify the sale of the Bonds under the securities laws of any jurisdiction that so requires. The District agrees to cooperate, at the Purchaser's written request and 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 consent to a general consent to service of process in any jurisdiction.

MUNICIPAL BOND RATING. Moody's Investors Service, Inc. ("Moody's") has assigned its municipal bond rating of "Aaa" to the Bonds based on the guarantee thereof by the Texas Permanent School Fund. In addition, Moody's has assigned its underlying unenhanced rating of "Aa1" to the District's ad valorem tax-supported indebtedness, including the Bonds." See "APPENIX E - The Permanent School Fund Guarantee Program" in the Preliminary Official Statement.

OFFICIAL STATEMENT

By accepting the winning bid, the District agrees to the following representations and covenants to assist the Purchaser in complying with Rule 15c2-12, as amended (the "Rule"), of the United States Securities and Exchange Commission ("SEC").

THE PRELIMINARY OFFICIAL STATEMENT AND COMPLIANCE WITH THE RULE. The District will approve and authorize the accompanying Preliminary Official Statement and, for the limited purpose of complying with the Rule, will deem such Preliminary Official Statement to be "final" as of its date within the meaning of the Rule for the purpose of review prior to bidding. To the best knowledge and belief of the District, the Preliminary Official Statement contains information, including financial information and operating data, concerning every entity, enterprise, fund, account, or person that is material to an evaluation of the offering of the Bonds. Representations made and to be made by the District concerning the absence of material misstatements and omissions in the Preliminary Official Statement are addressed elsewhere in this Official Notice of Sale and Bidding Instructions and in the Preliminary Official Statement.

The District will furnish to the Purchaser, acting through a designated senior representative, in accordance with instructions received from the Purchaser, within seven (7) business days after the sale date, an aggregate maximum of fifty (50) copies of the final Official Statement, together with information regarding interest rates and other terms relating to the reoffering of the Bonds. The District agrees to provide, or cause to be provided, to the Purchaser the Preliminary Official Statement and the Official Statement and any amendments or supplements thereto in a designated electronic format (or printed format with respect to the final Official Statement) as may be required for the Purchaser to comply with the Rule or the rules of the Municipal Securities Rulemaking Board ("MSRB"). The District consents to the distribution of such documents in a designated electronic format. Upon receipt, the Purchaser shall promptly file the Official Statement with the MSRB in accordance with the MSRB Rule G-32. The Purchaser will be responsible for providing information concerning the District and the Bonds to subsequent purchasers of the Bonds, and the District will undertake no responsibility for providing such information other than to make the Official Statement available to the Purchaser as provided herein. The District's obligation to supplement the Official Statement to correct key representations determined to be omitted or materially misleading, after the date of the Official Statement, shall terminate 25 days after the sale date.

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

COMPLIANCE WITH PRIOR UNDERTAKINGS. During the past five years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

AUTHENTICITY OF FINANCIAL INFORMATION. The financial data and other information contained in the Preliminary Official Statement have been obtained from the District's records, audit reports and other sources which are believed to be reliable. Both the Official Notice of Sale and the Preliminary Official Statement, including the distribution thereof, will be approved by the Board of Trustees of the District pursuant to the Order.

The Board of Trustees has, in the Order authorizing the issuance of the Bonds, confirmed its approval of the form and content of the Official Statement, and any addenda, supplement or amendment thereto, and authorized its use in the reoffering of the Bonds by the Purchaser.

The Board of Trustees authorized certain District officials to approve the form and content of the Official Notice of Sale, the Official Bid Form, and the Preliminary Official Statement and also authorized the use thereof in its initial offering of the Bonds.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT

/s/ _____
President, Board of Trustees

ATTEST:

/s/ _____
Secretary, Board of Trustees

April 2, 2024

OFFICIAL BID FORM

April 2, 2024

The Honorable President and
 Members of the Board of Trustees
 Alamo Heights Independent School District
 7101 Broadway
 San Antonio, Texas 78209

Members of the Board of Trustees:

Reference is made to your "Official Notice of Sale" and "Preliminary Official Statement" dated March 27, 2024, concerning \$45,000,000 ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2024 (the "Bonds"), which are made a part hereof (the terms of which are hereto agreed as evidenced by our submission of this bid).

For your legally issued Bonds, as described in said "Official Notice of Sale" and "Preliminary Official Statement," we will pay a price of \$_____ (being a price not less than 104.00% of par value), plus accrued interest, for Bonds maturing on February 1 in the year and in the amount and interest rate shown below:

<u>Principal Amount(\$)</u>	<u>Stated Maturity</u>	<u>Interest Rate(%)</u>	<u>Yield(%)</u>
200,000	2026	_____	_____
325,000	2027	_____	_____
360,000	2028	_____	_____
395,000	2029	_____	_____
420,000	2030	_____	_____
450,000	2031	_____	_____
500,000	2032	_____	_____
550,000	2033	_____	_____
600,000	2034	_____	_____
645,000	2035	_____	_____
825,000	2036	_____	_____
800,000	2037	_____	_____
930,000	2038	_____	_____
1,020,000	2039	_____	_____
1,395,000	2040	_____	_____
1,845,000	2041	_____	_____
2,065,000	2042	_____	_____
2,675,000	2043	_____	_____
4,700,000	2044	_____	_____
4,700,000	2045	_____	_____
4,700,000	2046	_____	_____
4,900,000	2047	_____	_____
5,000,000	2048	_____	_____
5,000,000	2049	_____	_____

Our calculation of the interest cost in accordance with the above bid is:

GROSS INTEREST COST	\$ _____
LESS: DOLLAR AMOUNT OF PREMIUM	_____
NET INTEREST COST	\$ _____
EFFECTIVE INTEREST RATE	_____ %

A Cashier's Check of Frost Bank, in the amount \$900,000.00, which represents our Good Faith Deposit has been made available to you prior to the opening of this bid and is submitted in accordance with the terms as set forth in the Official Notice of Sale. Upon delivery of the Bonds, said check is to be applied to the purchase price of the Bonds, or is to be returned as directed by us.

We agree to accept delivery of and make payment for the Bonds utilizing the book-entry-only system through DTC and make payment for the Initial Bonds in immediately available funds in the Corporate Trust Division, Zions Bancorporation, National Association, Houston, Texas, not later than 10:00 A.M., Central Time, on May 2, 2024, or thereafter on the date the Bonds are tendered for delivery, pursuant to the terms set forth in the Official Notice of Sale.

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

The undersigned agrees to the provisions of the Official Notice of Sale under the heading "DELIVERY OF THE BONDS AND ACCOMPANYING DOCUMENTS - ESTABLISHMENT OF ISSUE PRICE" and, as evidence thereof, agrees to complete, execute and deliver to the District by the date of Initial Delivery of the Bonds, a certificate relating to the "issue price" of the Bonds in the form and to the effect attached to or accompanying the Official Notice of Sale, with such changes thereto as may be acceptable to the District (as provided under "DELIVERY OF THE BONDS AND ACCOMPANYING DOCUMENTS - ESTABLISHMENT OF ISSUE PRICE").

Through submittal of this executed Official Bid Form, the undersigned makes the representations and verifications provided in the Notice of Sale and Bidding Instructions under the heading "ADDITIONAL CONDITIONS OF AWARD - STATUTORY REPRESENTATIONS AND COVENANTS" and "-TEXAS ATTORNEY GENERAL STANDING LETTER."

It will be the obligation of the Purchaser of the Bonds to complete and file the DTC Eligibility Questionnaire.

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

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

Upon acceptance of this bid by the District, the accepted bid and Official Notice of Sale will together comprise a binding contract for purchase between the winning bidder and the District in accordance with their terms. The acceptance of the bid creates a binding contract with a term that extends until the Notes are taken up and paid for by the Bidder or any earlier termination of this contract in accordance with the terms of the Notice of Sale.

Respectfully submitted,

(Purchaser)

(Purchaser's Signature)

(Signature - Title)

(Telephone)

ACCEPTED this ___ day of April, 2024 by an Authorized Official of the Alamo Heights Independent School District subject to and in accordance with the Official Notice of Sale and the Official Statement.

Title: _____

PRELIMINARY OFFICIAL STATEMENT
Dated March 27, 2024

NEW ISSUE - BOOK-ENTRY-ONLY



ENHANCED/UNENHANCED RATINGS: Moody's - "Aaa"/"Aa1"
PSF Guaranteed

(See "APPENDIX E -The Permanent School Fund
Guarantee Program" and "OTHER PERTINENT
INFORMATION - Municipal Bond Rating" herein)

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

\$45,000,000*
ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Bexar County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2024

Dated Date: April 15, 2024

Due: February 1, as shown on page -ii- herein

The "Alamo Heights Independent School District Unlimited Tax School Building Bonds, Series 2024" (the "Bonds"), as shown on page -ii- herein, are direct obligations of the Alamo Heights Independent School District (the "District") and are payable from an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District. The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Sections 45.001 and 45.003(b)(1), as amended, Texas Education Code, Chapter 1371, as amended, Texas Government Code ("Chapter 1371"), an election held in the District on May 6, 2023 (the "Election"), and an order authorizing the issuance of the Bonds (the "Order") adopted by the Board of Trustees (the "Board") of the District on March 20, 2024. As permitted by the provisions of Chapter 1371, the Board, in the Order, delegated the authority to certain District officials (each an "Authorized Official") to execute an approval certificate (the "Approval Certificate") establishing the final pricing terms for the Bonds. See "THE BONDS - Authority for Issuance" herein.

Interest on the Bonds will accrue from the Dated Date as shown above, will be payable until stated maturity or prior redemption on February 1 and August 1 of each year, commencing August 1, 2024, and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will be issued as fully registered obligations in principal denominations of \$5,000, or integral multiples thereof within a stated maturity. The Bonds will be issued in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository (the "Securities Depository"). Book-entry interests in the Bonds will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Bonds ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, principal and interest on the Bonds will be payable by the Paying Agent/Registrar, initially Zions Bancorporation, National Association, Houston, Texas, to the Securities Depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Proceeds from the sale of the Bonds will be used for (i) the purposes authorized under the Election, and (ii) paying for professional services associated with the costs of issuance of the Bonds. See "THE BONDS - Use of Proceeds" herein.

The District has applied for and received conditional approval from the Texas Education Agency for the payment of principal of and interest on the Bonds to be guaranteed under the Permanent School Fund Guarantee Program which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. See "APPENDIX E - The Permanent School Fund Guarantee Program" herein.

**For Maturity Schedule, Principal Amounts, Interest Rates, Initial Yields,
CUSIP Numbers, and Redemption Provisions for the Bonds, see page -ii- herei**

The Bonds are offered for delivery when, as and if issued and received by the initial purchasers (the "Purchasers") and are subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, Austin, Texas, Bond Counsel. See "LEGAL MATTERS" herein for a discussion of Bond Counsel's opinion. It is expected that the Bonds will be available for delivery through the services of DTC, New York, New York, on or about May 2, 2024.

BIDS DUE TUESDAY, APRIL 2, 2024 AT 10:00 A.M. CENTRAL TIME

* Preliminary, subject to change.

This Preliminary Official Statement 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 Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement 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.

**STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES,
INITIAL YIELDS, CUSIP NUMBERS, AND REDEMPTION PROVISIONS**

\$45,000,000*

**ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Bexar County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2024**

CUSIP No. Prefix 011338 ⁽¹⁾

Stated Maturity February 1	Principal Amount (\$)	Interest Rate (%)	Initial Yield (%)	CUSIP No. Suffix ⁽¹⁾
2026	200,000			
2027	325,000			
2028	360,000			
2029	395,000			
2030	420,000			
2031	450,000			
2032	500,000			
2033	550,000			
2034	600,000			
2035	645,000			
2036	825,000			
2037	800,000			
2038	930,000			
2039	1,020,000			
2040	1,395,000			
2041	1,845,000			
2042	2,065,000			
2043	2,675,000			
2044	4,700,000			
2045	4,700,000			
2046	4,700,000			
2047	4,900,000			
2048	5,000,000			
2049	5,000,000			

(Interest to accrue from the Dated Date)

Redemption

The District reserves the right to redeem the Bonds maturing on and after February 1, 2035, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof (and, if less than all Bonds within a stated maturity are redeemed, selected by lot by the Paying Agent/Registrar), on February 1, 2034, or any date thereafter, at the redemption price of par plus accrued interest to the date fixed for redemption. If two or more serial Bonds of consecutive maturity are combined into one or more "term" Bonds (each, a "Term Bond") by the Purchaser, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order. See "THE BONDS - Redemption Provisions of the Bonds" herein.

* 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 will be 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 Purchasers, 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>
David Hornberger	President	7	2025	Attorney
Stacy Sharp	Vice-President	3	2026	Attorney
Clay Page	Secretary	2	2024	General Contractor
Lisa Krenger	Trustee	7	2024	Homemaker
Brian Hamilton	Trustee	4	2025	Attorney
Carey Hildebrand	Trustee	2	2024	Homemaker
Morgan T. Edwards	Trustee	1st	2026	Financial Advisor

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	25	25
Matthew Streger	Chief Financial Officer	28	1
Michael Howard Hagar	Project Manager	34	28

CONSULTANTS AND ADVISORS

Armstrong Vaughn & Assoc.
San Antonio, Texas

Certified Public Accountants

Norton Rose Fulbright US LLP
Austin and San Antonio, Texas

Bond Counsel

SAMCO Capital Markets, Inc.
San Antonio, Texas

Financial Advisor

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or

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Fax: (210) 822-2221
Email: mstreger@ahisd.net

USE OF INFORMATION IN OFFICIAL STATEMENT

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 Preliminary Official Statement, 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 Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by either of the foregoing.

This Official Statement 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 Purchasers.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Official Statement.

The Purchasers have provided the following sentence for inclusion in this Official Statement. The Purchasers have reviewed the information in this Official Statement 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 Purchasers do 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 PURCHASERS 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 Purchasers make any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company ("DTC") or its book-entry-only system described under the caption "BOOK-ENTRY-ONLY SYSTEM" as such information has been provided by DTC or the affairs of the Texas Education Agency described in "APPENDIX E - 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 Official Statement, nor any other statement made in connection with the offer or sale of the Bonds, is to be construed as constituting an agreement with the purchasers of the Bonds. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING THE SCHEDULES AND ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION WITH RESPECT TO THE BONDS.

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

OFFICIAL STATEMENT SUMMARY INFORMATION

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

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.
THE BONDS	The Bonds mature on February 1 in each of the years 2026 through 2049, inclusive. Interest on the Bonds shall accrue from the Dated Date (identified below) and will be payable until stated maturity or prior redemption on February 1 and August 1 of each year, commencing August 1, 2024.
DATED DATE	April 15, 2024.
REDEMPTION	The District reserves the right to redeem the Bonds maturing on and after February 1, 2035, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof (and, if less than all Bonds within a stated maturity are redeemed, selected by lot by the Paying Agent/Registrar), on February 1, 2034, or any date thereafter, at the redemption price of par plus accrued interest to the date fixed for redemption. If two or more serial Bonds of consecutive maturity are combined into one or more "term" Bonds (each, a "Term Bond") by the Purchaser, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order. See "THE BONDS - Redemption Provisions of the Bonds" herein.
SECURITY FOR THE BONDS	The Bonds constitute direct obligations of the District payable from an annual ad valorem tax levied on all taxable property located therein, without legal limitation as to rate or amount.
TAX MATTERS	In the opinion of Norton Rose Fulbright US LLP, Austin, Texas, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein. See "TAX MATTERS" and "APPENDIX D - Form of Opinion of Bond Counsel."
PERMANENT SCHOOL FUND GUARANTEE	The District has applied for and received conditional approval from the Texas Education Agency for the payment of principal of and interest on the Bonds to be guaranteed under the Permanent School Fund Guarantee Program, which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. See "APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.
PAYING AGENT/REGISTRAR	The initial Paying Agent/Registrar is Zions Bancorporation, National Association, Houston, Texas.
MUNICIPAL BOND RATING	Moody's Investors Service, Inc. ("Moody's") has assigned its municipal bond rating of "Aaa" to the Bonds based on the guarantee thereof by the Texas Permanent School Fund. In addition, Moody's has assigned its underlying unenhanced rating of "Aa1" to the District's ad valorem tax-supported indebtedness, including the Bonds. See "APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "OTHER PERTINENT INFORMATION - Municipal Bond Rating" herein.
FUTURE BOND ISSUES	The District anticipates issuing a subsequent installment of the voter authorized debt in the next 12 to 18 months. The District may also potentially issue refunding obligations for debt service savings.
PAYMENT RECORD	The District has never defaulted on the payment of its bonded indebtedness.
DELIVERY	When issued, anticipated to occur on or about May 2, 2024.
LEGALITY	The Bonds are subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, Austin, Texas, Bond Counsel. See "APPENDIX D - Form of Opinion of Bond Counsel" herein.

* Preliminary, subject to change.

PRELIMINARY OFFICIAL STATEMENT

relating to

\$45,000,000*

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Bexar County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2024

INTRODUCTION

This Official Statement of Alamo Heights Independent School District (the "District") is provided to furnish certain information in connection with the sale of the District's \$45,000,000* Unlimited Tax School Building Bonds, Series 2024 (the "Bonds").

All financial and other information presented in this Official Statement has been provided by the District from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historical information, and is not intended to indicate future or continuing trends in the financial position or other affairs of the District. No representation is made that past experience, as is shown by such financial and other information, will necessarily continue or be repeated in the future.

This Official Statement, 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 Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the Official Statement pertaining to the Bonds will be filed by the initial purchasers of the Bonds (the "Purchasers") with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access ("EMMA") system. See "CONTINUING DISCLOSURE" herein for a description of the District's undertaking to provide certain information on a continuing basis. Capitalized terms used, but not defined herein, shall have the meanings ascribed thereto in the Order (defined below).

THE BONDS

General Description

The Bonds will be dated April 15, 2024 (the "Dated Date") and will accrue interest from the Dated Date, and such interest shall be payable on February 1 and August 1 in each year, commencing August 1, 2024, until stated maturity **or prior** redemption. The Bonds will mature on the dates and in the principal amounts and will bear interest at the rates set forth on page -ii- of this Official Statement.

Interest on the Bonds is payable to the registered owners appearing on the bond registration books kept by the Paying Agent/Registrar relating to the Bonds (the "Bond Register") on the Record Date (identified below) and such interest shall be paid by the Paying Agent/Registrar (i) by check sent by United States mail, first class, postage prepaid, to the address of the registered owner recorded in the Bond Register or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. The principal of the Bonds is payable at maturity, or upon prior redemption, or upon their presentation and surrender to the Paying Agent/Registrar. The Bonds will be issued only in fully registered form in any integral multiple of \$5,000 principal for any one maturity.

Initially the Bonds will be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Notwithstanding the foregoing, as long as the Bonds are held in the Book-Entry-Only System, principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners (defined herein) of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Authority for Issuance

The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Sections 45.001 and 45.003(b)(1), as amended, Texas Education Code, Chapter 1371, as amended, Texas Government Code ("Chapter 1371"), and an order authorizing the issuance of the Bonds (the "Order") adopted by the Board of Trustees (the "Board") of the District on March 20, 2024. As permitted by the provisions of Chapter 1371, the Board, in the Order, delegated the authority to certain District officials (each an "Authorized Official") to execute an approval certificate (the "Approval Certificate") establishing the final pricing terms for the Bonds.

* Preliminary, subject to change.

Security for Payment

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

Use of Proceeds

The proceeds of the Bonds (which include certain premium allocations) are anticipated to represent the second installment of voted bonds (described below) approved at the Election. Following the issuance of the Bonds, the District anticipates that it will have \$318,000,000* voted but unissued bonds as further described below. See "VALUATION AND DEBT DATA - Authorized but Unissued General Obligation Bonds" attached hereto as APPENDIX A.

A summary of the bonds authorized at said Election is as follows:

<u>Purpose</u>	<u>Amount Authorized\$</u>	<u>Amount Previously Issued\$</u>	<u>Amount This Issue\$</u>	<u>Amount Remaining\$</u>
Proposition A: designing, constructing, renovating, improving, upgrading, acquiring, and equipping school facilities	344,000,000	8,000,000	35,000,000*	301,000,000*
Proposition B: athletic facilities	17,300,000	-0-	9,000,000*	8,300,000*
Proposition C: technology	9,700,000	-0-	1,000,000*	8,700,000*
	<u>371,000,000</u>	<u>8,000,000</u>	<u>45,000,000*</u>	<u>318,000,000*</u>

* Preliminary, subject to change.

Future Issues

The District anticipates issuing a subsequent installment of the voter authorized debt in the next 12 to 18 months. The District may also potentially issue refunding obligations for debt service savings.

Permanent School Fund Guarantee

The District has received conditional approval from the Texas Education Agency for the payment of principal of and interest on the Bonds to be guaranteed under the Permanent School Fund Guarantee Program which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds.

Subject to satisfying certain conditions, the payment of the Bonds will be guaranteed by the corpus of the Permanent School Fund of the State of Texas. In the event of default, registered owners will receive all payments due on the Bonds from the Permanent School Fund, and the Charter District Bond Guarantee Reserve would be the first source to pay debt service if a charter school was unable to make such payment. See "Appendix E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" for pertinent information regarding the Permanent School Fund Guarantee Program. The disclosure regarding the Permanent School Fund Guarantee Program in Appendix E is incorporated herein and made a part hereof for all purposes.

Payment Record

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

Legality

The Bonds are subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, Austin, Texas, as Bond Counsel. The legal opinion of Bond Counsel will accompany the bond certificates deposited with DTC or be printed on the Bonds. The form of the legal opinion of Bond Counsel appears in APPENDIX D attached hereto.

Delivery

When issued; anticipated to occur on or about May 2, 2024.

Redemption Provisions of the Bonds

The District reserves the right to redeem the Bonds maturing on and after February 1, 2035, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof (and, if less than all Bonds within a stated maturity are redeemed, selected by lot by the Paying Agent/Registrar), on February 1, 2034, or any date thereafter, at the redemption price of par plus accrued

interest to the date fixed for redemption. If two or more serial Bonds of consecutive maturity are combined into one or more "term" Bonds (each, a "Term Bond") by the Purchaser, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order.

Selection of Bonds for Redemption

If less than all of the Bonds are to be redeemed, the District shall determine the amounts and maturities thereof to be redeemed and shall direct the Paying Agent/Registrar to select by lot the Bonds, or portions thereof, to be redeemed.

Notice of Redemption

Not less than 30 days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to each registered owner of a Bond to be redeemed, in whole or in part, at the address of the holder appearing on the Bond Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE OF REDEMPTION SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER ONE OR MORE BONDHOLDERS FAILED TO RECEIVE SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, 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.

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

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, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that on the date the governing body of the District adopts or approves the proceedings authorizing the financial arrangements have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, or (d) any additional securities and obligations hereafter authorized by Texas law as eligible for use to accomplish the discharge of obligations such as the Bonds. District officials may restrict such eligible securities as deemed necessary in connection with the sale of the Bonds. 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. Further, there is no assurance that current Texas law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of those securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Bonds ("Defeasance Proceeds"), though the District has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Order does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the District to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, registered owners of Bonds are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities,

notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under Texas law as permissible defeasance securities.

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, and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

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

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, 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 outside of 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 "APPENDIX E - The Permanent School Fund Guarantee Program" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due). The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity which permit the exercise of judicial discretion.

SOURCES AND USES OF FUNDS

The proceeds from the sale of the Bonds, will be applied approximately as follows:

Sources of Funds:

Par Amount of Bonds	\$ _____
[Net] Reoffering Premium on the Bonds	
Accrued Interest	
Total Sources	\$ _____

Uses of Funds:

Deposit to Construction Fund	\$ _____
Deposit to Bond Fund (including accrued interest)	
Purchaser's Discount	
Costs of Issuance	
Contingency	
Total Uses	\$ _____

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is Zions Bancorporation, National Association, 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.

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 (except with respect to the August 15, 2023 irregular interest payment date, for which the Record Date shall be the Bonds' initial delivery date). 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.

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.

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 shall be required to make any such transfer, conversion or exchange (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date or (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date; provided, however, that such limitation shall not apply to uncalled portions of a Bond redeemed in part.

Replacement Bonds

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 Official Statement. The District, the Financial Advisor and the Purchasers believe the source of such information to be reliable but take no responsibility for the accuracy or completeness thereof.

The District cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption, or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption, or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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 Purchasers takes any responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of This Official Statement

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Order will be given only to DTC.

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.

Effective January 1, 2024, an appraisal district is prohibited from increasing the appraised value of real property during the 2024 tax year on certain non-homestead properties (the "Subjected Property") whose appraised values are not more than \$5 million dollars (the "maximum property value") to an amount not to exceed the lesser of: (1) the market value of the Subjected Property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of: (a) 20 percent of the appraised value of the Subjected Property for the preceding tax year; (b) the appraised value of the Subjected Property for the preceding tax year; and (c) the market value of all new improvements to the Subjected Property. After the 2024 tax year, through December 31, 2026 unless extended by the State legislature, the maximum property value may be increased or decreased by the product of the preceding state fiscal year's increase or decrease in the consumer price index, as applicable, to the maximum property value.

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 \$100,000 exemption of the appraised value of all homesteads, (2) a \$10,000 exemption of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled, and (3) various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty.

Local Option Homestead Exemptions

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

Cities, counties and school districts are prohibited from repealing or reducing an optional homestead exemption that was granted in tax year 2022 through December 31, 2027.

State Mandated Freeze on School District Taxes

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

Personal Property

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

Freeport and Goods-In-Transit Exemptions

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

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

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

Other Exempt Property

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

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 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. The Texas Legislature recently amended Section 11.35, Tax Code to clarify that “damage” for purposes of such statute is limited to “physical damage.” 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), allows school districts to grant limitations on appraised property values to certain corporations and limited liability companies to encourage economic development within the school district. Generally, during the last eight (8) years of the ten-year term of a tax limitation agreement, a school district may only levy and collect M&O taxes on the agreed-to limited appraised property value. For the purposes of calculating its Tier One and Tier Two entitlements, the portion of a school district's property that is not fully taxable is excluded from the school district's taxable property values. Therefore, a school district will not be subject to a reduction in Tier One or Tier Two State funds as a result of lost M&O tax revenues due to entering into a tax limitation agreement. The 87th Texas Legislature did not vote to extend this program, which expired by its terms, effective December 31, 2022 (See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - State Funding for School Districts".)

During the Regular Session of the 88th Texas Legislature, Chapter 403T was enacted into law. HB 5 is intended as a replacement of former Chapter 313, Texas Tax Code ("Chapter 313"), but it contains significantly different provisions than the prior program under Chapter 313. Under Chapter 403T, a school district may offer a 50% abatement on taxable value for maintenance and operations property taxes for certain eligible projects, except that projects in a federally designated economic opportunity zone receive a 75% abatement. HB 5 also provides a 100% abatement of maintenance and operations taxes for eligible property during a project's construction period. **Taxable valuation for purposes of the debt services taxes securing the Bonds cannot be abated under Chapter 403T.** Eligible projects must involve manufacturing, dispatchable power generation facilities, technology research/development facilities, or critical infrastructure projects and projects must create and maintain jobs, as well as meet certain minimum investment requirements. The effective date of Chapter 403T was January 1, 2024, and the District is still in the process of reviewing Chapter 403T and cannot make any representations as to what impact, if any, Chapter 403T will have on its finances or operations.

For a discussion of how the various exemptions described above are applied by the District, see "AD VALOREM PROPERTY TAXATION - The Tax Code as Applied to the District" herein.

Tax Abatement Agreements

Taxing units may also enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The taxing unit, in turn, agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years.

For a discussion of how the various exemptions described above are applied by the District, see " - District Application of the Property Tax Code" below.

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 2023 tax year, the minimum eligibility amount was set at \$57,216,456 and is adjusted annually by the State Comptroller to reflect the inflation rate.

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

Levy and Collection of Taxes

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the District. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid.

The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers. Furthermore, the District may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances.

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units. A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property.

Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, adverse market conditions, taxpayer redemption rights, or bankruptcy proceedings which restrain the collection of a taxpayer's debt.

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

The Property Tax Code as Applied to the District

The District grants an exemption to the market value of residence homesteads of \$100,000; 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 Legislature could enact future changes to the Finance System. Any such changes could benefit or be a detriment to the District. If the Legislature enacts future changes to, or fails adequately to fund the Finance System, or if changes in circumstances otherwise provide grounds for a challenge, the Finance System could be challenged again in the future. In its 1995 opinion in *Edgewood Independent School District v. Meno*, 917 S.W.2d 717 (Tex. 1995), the Court stated that any future determination of unconstitutionality “would not, however, affect the district’s authority to levy the taxes necessary to retire previously issued bonds, but would instead require the Legislature to cure the system’s unconstitutionality in a way that is consistent with the Contract Clauses of the U.S. and Texas Constitutions” (collectively, the “Contract Clauses”), which prohibit the enactment of laws that impair prior obligations of contracts.

Although, as a matter of law, the Bonds, upon issuance and delivery, will be entitled to the protections afforded previously existing contractual obligations under the Contract Clauses, the District can make no representations or predictions concerning the effect of future legislation or any litigation that may be associated with such legislation on the District’s financial condition, revenues or operations. While the enactment of future legislation to address school funding in Texas could adversely affect the financial condition, revenues or operations of the District, the District does not anticipate that the security for payment of the Bonds, specifically, the District’s obligation to levy an unlimited debt service tax and any Permanent School Fund guarantee of the Bonds would be adversely affected by any such legislation (see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” 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 for school districts 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: (i) a maintenance and operations (“M&O”) tax to pay current expenses and (ii) an interest and sinking fund (“I&S”) tax to pay debt service on bonds. School districts are prohibited from levying an M&O tax rate for the purpose of creating a surplus in M&O tax revenues to pay the district’s debt service. School districts are required 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 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.

2023 Legislative Sessions

The regular session of the 88th Texas Legislature (the “88th Regular Session”) began on January 10, 2023 and adjourned on May 29, 2023. The Texas Legislature (the “Legislature”) meets in regular session in odd numbered years for 140 days. When the Legislature is not in session, the Governor may call one or more special sessions, at the Governor’s discretion, each lasting no more than 30 days, and for which the Governor sets the agenda. The Governor has called and the Legislature has concluded four special sessions during the 88th Texas Legislature (such special sessions, together with the 88th Regular Session, the “2023 Legislative Sessions”).

During the 88th Regular Session, the Legislature considered a general appropriations act and legislation affecting the Finance System and ad valorem taxation procedures and exemptions, and investments, among other legislation affecting school districts and the administrative agencies that oversee school districts. Legislation enacted by the Legislature fully-funded the Foundation School Program for the 2024-2025 State fiscal biennium and increased the State guaranteed yield on the first \$0.08 cents of tax effort beyond a school district’s Maximum Compressed Tax Rate (as defined herein) to \$126.21 per penny of tax effort per student in WADA (as defined herein) in 2024 (from \$98.56 in 2023) and \$129.52

per penny of tax effort per student in WADA in 2025. See “- State Funding for School Districts - Tier Two.” The Legislature also provided for an increase in funding for the school safety allotment to \$10.00 (from \$9.72 in the prior year) per ADA (as defined herein) and \$15,000 per campus. The Legislature set aside approximately \$4,000,000,000 in additional funding for public education contingent on certain legislation passing in future special sessions. However, the Legislature did not take action on such funding during the first, second, third or fourth called special sessions of the 88th Texas Legislature.

During the second called special session, legislation was passed that (i) reduced the Maximum Compressed Tax Rate for school districts by approximately \$0.107 for the 2023-2024 school year; (ii) increased the amount of the mandatory school district general residential homestead exemption from ad valorem taxation from \$40,000 to \$100,000 and to hold districts harmless from certain M&O and I&S tax revenue losses associated with the increase in the mandatory homestead exemption; (iii) adjusted the amount of the limitation on school district ad valorem taxes imposed on the residence homesteads of the elderly or disabled to reflect increases in exemption amounts; (iv) prohibits school districts, cities and counties from repealing or reducing an optional homestead exemption that was granted in tax year 2022 (the prohibition expires on December 31, 2027); (v) established a three- year pilot program limiting growth in the taxable assessed value of non-residence homestead property valued at \$5,000,000 or less to 20 percent (school districts are not held harmless for any negative revenue impacts associated with such limits); (vi) excepted certain appropriations to pay for ad valorem tax relief from the constitutional limitation on the rate of growth of appropriations; and (vii) expanded the size of the governing body of an appraisal district in a county with a population of more than 75,000 by adding elected directors and authorizing the Legislature to provide for a four-year term of office for a member of the board of directors of certain appraisal districts. At an election held on November 7, 2023, voters approved a State constitutional amendment effectuating the legislative changes. The legislation adopted during the second called special session reduces the amount of property taxes paid by homeowners and businesses and increases the State’s share of the cost of funding public education.

During any additional called special session, the Legislature may enact laws that materially change current law as it relates to the funding of public schools, including the District. The District can make no representations or predictions regarding the scope of additional legislation that may be considered during any additional called special sessions or the potential impact of such legislation at this time.

Local Funding for School Districts

A school district’s M&O tax rate is comprised 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” or “SCP” is the lesser of three alternative calculations: (i) 93% or a lower percentage set by appropriation for a school year; (ii) a percentage determined by formula if the estimated total taxable property value of the State (as submitted annually to the Legislature by the State Comptroller) has increased by at least 2.5% over the prior year; and (iii) the prior year SCP. For any year, the maximum SCP is 93%. For the State fiscal year ending in 2024, the SCP is set at 68.80%.

Maximum Compressed Tax Rate. The “Maximum Compressed Tax Rate” or 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 (described below) 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 two alternative calculations: (1) the “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 MCR is equal to the prior year’s 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 school district’s prior year MCR, until TEA determines that the difference between the school district’s MCR and any other school district’s MCR is not more than 10%. These compression formulas are intended to more closely equalize local generation of Tier One funding among districts with disparate tax bases and generally reduce the Tier One Tax Rates of school districts as property values increase. For the 2023-2024 school year, the Legislature reduced the maximum MCR, establishing \$0.6880 as the maximum rate and \$0.6192 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 Tax 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 2024-2025 State fiscal biennium, the State Legislature appropriated funds in the amount of \$1,072,511,740 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 weights are 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 \$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 2024-2025 State fiscal biennium, school districts are guaranteed a yield of \$126.21 per student in WADA in 2024 and \$129.52 per student in WADA in 2025 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 2024-2025 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 2024-2025 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 Legislature for the 2024-2025 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 2024-2025 State fiscal biennium on new bonds issued by school districts in the 2024-2025 State fiscal biennium to construct, acquire and improve facilities must be funded solely from local I&S taxes, except to the extent that the bonds of a school district are eligible for hold-harmless funding from the State for local tax revenue lost as a result of an increase in the mandatory homestead exemption from \$40,000 to \$100,000. See "— 2023 Legislative Sessions." Hold-harmless applies only to bonds authorized by voters prior to September 1, 2023.

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. During the 2023 Legislative Sessions, the Legislature appropriated funds in the amount of \$ 100,000,000 for each fiscal year of the 2024-2025 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 Finance System prior to the enactment of certain legislation passed during the 86th Texas Legislature are entitled to an equalized wealth

transition grant on an annual basis, which will be phased out in 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. Additionally, school districts and open-enrollment charter schools may be entitled to receive an allotment in the form of a formula transition grant, but they will not be entitled to an allotment beginning with the 2024-2025 school year. This grant is meant to ensure a smooth transition into the funding formulas enacted by the 86th Texas Legislature. Furthermore, 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 Education 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.

For the 2023-2024 school year, school districts will be held harmless and entitled to additional State aid to the extent that State and local revenue used to service eligible debt is less than the State and local revenue that would have been available to the district under State law providing for State aid to districts to account for increases in the general residence homestead exemption and the elderly or disabled tax ceiling as such State law existed on September 1, 2022, if any increase in a residence homestead exemption under the Texas Constitution, and any additional limitation on tax increases under the elderly or disabled tax ceiling had not occurred. See "AD VALOREM PROPERTY TAXATION - Local Option Homestead Exemptions" and "- State Mandated Freeze on School District Taxes."

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 SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

For the 2023-2024 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 (now codified at Section 45.003, Texas Education Code, as amended).

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

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

I&S Tax Rate Limitations

A school district is also authorized to issue bonds and levy taxes for payment of bonds subject to voter approval of one or more propositions submitted to the voters under Section 45.003(b)(1), Texas Education Code, as amended, which provides a tax unlimited as to rate or amount for the support of school district bonded indebtedness (see "THE BONDS – Security for Payment").

Section 45.0031 of the Texas Education Code, as amended, requires a school district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by voters of a school district at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds, collectively, "exempt bonds"), from a tax levied at a rate of \$0.50 per \$100 of assessed valuation before bonds may be issued (the "50-cent Test"). In demonstrating the ability to pay debt service at a rate of \$0.50, a school district may take into account EDA and IFA allotments to the school district, which effectively reduces the school district's local share of debt service, and may also take into account Tier One funds allotted to the school district. If a school district exercises this option, it may not adopt an I&S tax until it has credited to the school district's I&S fund an amount equal to all State allotments provided solely for payment of debt service and any Tier One funds needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Additionally, a school district may demonstrate its ability to comply with the 50-cent Test by applying the \$0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the school district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five (5) years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a school district uses projected future taxable values to meet the 50-cent Test and subsequently imposes a tax at a rate greater than \$0.50 per \$100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Texas Attorney General must find that the school district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the 50-cent Test from a tax rate of \$0.45 per \$100 of valuation. Once the prospective ability to pay such tax has been shown and the bonds are issued, a school district may levy an unlimited tax to pay debt service. Refunding bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the 50-cent Test; however, taxes levied to pay debt service on such bonds (other than bonds issued to refund exempt bonds) are included in maximum annual debt service for calculation of the 50-cent Test when applied to subsequent bond issues that are subject to the 50-cent Test. The Bonds are issued for school building purposes pursuant to Chapter 45, Texas Education Code, as new debt and are therefore subject to the threshold tax rate test. The District has not used projected property values or State assistance (other than EDA or IFA allotment funding) 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. However, for only the 2020 tax year, if the governing body of the school district does not adopt by unanimous vote an M&O tax rate at least equal to the sum of the school district's MCR plus \$0.05, then \$0.04 is substituted for \$0.05 in the calculation for such school district's Voter-Approval Tax Rate for the 2020 tax year. For the 2020 tax year, and subsequent years, a school district's M&O tax rate may not exceed the rate equal to the sum of (i) \$0.17 and (ii) the school district's MCR (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" herein for more information regarding the State Compression Percentage, MCR, and the Enrichment Tax Rate).

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

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

Before adopting its annual tax rate, a public meeting must be held for the purpose of adopting a budget for the succeeding year. A notice of public meeting to discuss the school district's budget and proposed tax rate must be published in the time, format and manner prescribed in Section 44.004 of the Texas Education Code. Section 44.004(e) of the Texas Education Code provides that a person who owns taxable property in a school district is entitled to an injunction restraining the collection of taxes by the school district if the school district has not complied with such notice requirements or the language and format requirements of such notice as set forth in Section 44.004(b), (c), (c-1), (c-2), and (d), and, if applicable, subsection (i), and if such failure to comply was not in good faith. Section 44.004(e) further provides the action to enjoin the collection of taxes must be filed before the date the school district delivers substantially all of its tax bills. A school district that elects to adopt a tax rate before the adoption of a budget for the fiscal year that begins in the current tax year may adopt a tax rate for the current tax year before receipt of the certified appraisal roll, so long as the chief appraiser of the appraisal district in which the school district participates has certified to the assessor for the school district an estimate of the taxable value of property in the school district. If a school district adopts its tax rate prior to the adoption of its budget, both the no-new-revenue tax rate and the Voter-Approval Tax Rate of the school district shall be calculated based on the school district's certified estimate of taxable value. A school district that adopts a tax rate before adopting its budget must hold a public hearing on the proposed tax rate followed by another public hearing on the proposed budget rather than holding a single hearing on the two items.

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

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 shared 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 plan 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 E - Pension Plan" as set out in the audited financial statements of the District for the year ended August 31, 2023 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 F - Other Post-Employment Benefits" in the audited financial statements of the District for the year ended August 31, 2023 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.

INVESTMENT POLICIES

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; (15) aggregate repurchase agreement transactions entered into by an investing entity in conformity with the provisions of subsections (a-1), (f), and (g) of Section 2256.011 of the Public Funds Investment Act; and (16) in the case of bond proceeds, guaranteed investment contracts that are secured by obligations described in clauses (1) through (7) above and, except for debt service funds and reserves, have a term of 5 years or less.

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

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

As a school district that qualifies as an "issuer" under Chapter 1371, as amended, Texas Government Code, the District 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 January 1, 2024, 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	\$ 3,450,000	7.80%	14 months and less
Investment Pools	39,369,961	89.30%	Daily liquidity
Certificates of Deposit	<u>1,280,000</u>	<u>2.90%</u>	8 months and less
Total	\$44,099,961	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

The District will furnish the Purchasers a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State 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 approval of certain legal matters by Bond Counsel, to the effect that the Bonds are valid and legally binding obligations of the District and, subject to the qualifications set forth herein under "TAX MATTERS," the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions "THE BONDS" (exclusive of the subcaptions "Payment Record," "Permanent School Fund Guarantee," and "Default and Remedies," as to which no opinion is expressed), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM," "TAX RATE LIMITATIONS" (first paragraph only), "LEGAL MATTERS - Legal Opinions and No-litigation Certificate" (excluding the last sentence of the first paragraph thereof, as to which no opinion is expressed), "TAX MATTERS," "CONTINUING DISCLOSURE" (excluding the information under the subcaption "Compliance with Prior Agreements," as to which no opinion is expressed), "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," and "OTHER PERTINENT INFORMATION - Registration and Qualification of Bonds for Sale" in the Official Statement and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. Bond Counsel's legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry Only System.

Though it represents the Financial Advisor and the Purchasers from time to time in matters unrelated to the Bonds, Bond Counsel has been engaged by and only represents the District with respect to the issuance of the Bonds. The legal

opinion to be delivered concurrently with the delivery of the Bonds expresses the professional judgment of the attorneys rendering the opinion as to the legal issues expressly 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 from the transaction.

Litigation

In the opinion of various officials of the District, except as disclosed in this Official Statement, 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 Purchasers 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

The delivery of the Bonds is subject to the opinion of Norton Rose Fulbright US LLP, Austin, Texas, as Bond Counsel, to the effect that interest on the Bonds for federal income tax purposes (1) 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 pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals. The statute, regulations, rulings, and court decisions on which such opinion is based are subject to change. A form of Norton Rose Fulbright US LLP's opinion appears in APPENDIX D hereto.

In rendering the foregoing opinion, Norton Rose Fulbright US LLP, as Bond Counsel will rely upon the representations and certifications of the District made in a certificate of even date with the initial delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance with the provisions of the Order by the District subsequent to the issuance of the Bonds. The Order contains covenants by the District with respect to, among other matters, the use of the proceeds of the Bonds and the facilities and equipment financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, if required, the calculation and payment to the United States Treasury of any arbitrage "profits" and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

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

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.

Ancillary Tax Consequences

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, property and casualty insurance companies, life 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, owners of an interest in a financial asset securitization investment trust ("FASIT"), individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax 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. 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.

Tax Accounting Treatment of Discount Bonds

The initial public offering price to be paid for certain bonds may be less than the amount payable on such bonds at maturity (the "Discount Bonds"). An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bonds. A portion of such original issue discount, allocable to the holding period of a Discount Bond by the initial purchaser, will be treated as interest for federal income tax purposes, excludable from gross income on the same terms and conditions as those for other interest on the Bonds. 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 his taxable year.

However, such accrued interest may 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, property and casualty insurance companies, life insurance companies, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax 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.

In the event of the sale or other taxable disposition of a Discount Bond 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 for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax consequences of owning Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

Tax Accounting Treatment of Premium Bonds

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

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

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 Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital and savings and loan associations.

The 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 Official Statement 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 2023/24" and "2024/2025 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 2024.

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 December 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 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 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 Official Statement 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

No registration statement relating to the Bonds 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 Official Statement. 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 Purchasers to register or qualify the sale of the Bonds under the securities laws of any jurisdiction which so requires. The District agrees to cooperate, at the Purchaser's written request and sole expense, in registering or qualifying the Bonds or in obtaining an exemption from registration or qualification in any state where such action is necessary; provided, however, that the District shall not be required to qualify as a foreign corporation or to execute a general or special consent to service of process in any jurisdiction.

Municipal Bond Rating

Moody's Investors Service, Inc. ("Moody's") has assigned its municipal bond rating of "Aaa" to the Bonds based on the guarantee thereof by the Texas Permanent School Fund. In addition, Moody's has assigned its underlying unenhanced rating of "AA1" to the District's ad valorem tax-supported indebtedness, including the Bonds. See "APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.

The rating reflects only the view of such organization at the time such rating was given, 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 the rating company, if, in the judgment of such rating company, circumstances so warrant. Any such downward revision or withdrawal of the 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 Official Statement. The Financial Advisor has reviewed the information in this Official Statement 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.

Initial Purchaser

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

Certification of the Official Statement

At the time of payment for and delivery of the Initial Bond, the Purchasers 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 Official Statement, and any addenda, supplement, or amendment thereto, for the Bonds, on the date of such Official Statement, on the date of sale of the Bonds, and on the date of the initial delivery of the Bonds, were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the District, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the District believes to be reliable and the District has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the District, since August 31, 2023, the date of the last financial statements of the District appearing in the Official Statement.

Forward-Looking Statements

The statements contained in this Official Statement, 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 Official Statement 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 Official Statement 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 Official Statement for purposes of, and as that term is defined, in the Rule.

Authorization of the Official Statement

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

This Official Statement will be 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 Official Statement and any addenda, supplement or amendment thereto and authorized its further use in the reoffering of the Bonds by the Purchasers.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT

/s/ _____
President, Board of Trustees

ATTEST:

/s/ _____
Secretary, Board of Trustees

APPENDIX A
Selected Financial Information
of the District

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VALUATION AND DEBT DATA

Valuation Information

Total 2023 Appraised Valuation of District	\$10,166,949,747
Less: Exemptions and Exclusions	<u>1,024,348,565</u>
Total Taxable Assessed Valuation ⁽¹⁾	\$ 9,142,601,182 ⁽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 2023.

⁽²⁾ Includes \$945,272,037 of values under review.

Direct Debt Information

Total All Bonded Indebtedness Payable from Ad Valorem Taxes (at 4-1-2024)	\$202,775,000*
Less: Interest & Sinking Fund Cash Balance (at 3-1-2024)	<u>2,063,881</u>
Net Bonded Indebtedness Payable from Ad Valorem Taxes	\$200,711,119*

* Preliminary, subject to change. Includes the Bonds.

Direct Debt Ratios

Ratio of Total Bonded Debt (\$202,775,000*) to Taxable Assessed Valuation (\$9,142,601,182)	2.22%
Ratio of Total Bonded Debt (\$202,775,000*) to Total Appraised Valuation (\$10,166,949,747)	1.99%
Ratio of Net Bonded Debt (\$200,711,119*) to Taxable Assessed Valuation (\$8,697,754,474)	2.20%
Ratio of Net Bonded Debt (\$200,711,119*) to Total Appraised Valuation (\$10,166,949,747)	1.97%

* Preliminary, subject to change. Includes the Bonds.

Non-Funded Debt

The District has no non-funded debt.

Source: *District's 2023 Annual Financial Report.*

Authorized But Unissued General Obligation Bonds

After the issuance of the Bonds, the District will have \$318,000,000* voter authorized but unissued unlimited ad valorem tax-supported bonds. In addition, the District may incur other financial obligations payable from its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

* Preliminary, subject to change.

Anticipated Issuance of Additional Bonds

The District anticipates issuing a subsequent installment of the voter authorized debt in the next 12 to 18 months. The District may potentially issue refunding bonds for debt service savings.

Population and Per Capita Indebtedness

2023/24 District Population Estimate	33,418
2023/24 Per Capita Taxable Assessed Valuation (\$9,142,601,182)	\$273,583.13.40
Per Capita Direct Debt (\$202,775,000*)	\$6,067.84

* Preliminary, subject to change. Includes the Bonds.

Enrollment and Average Daily Attendance Data

2023/24 Enrollment (at 1/5/2024)	4,712
2023/24 Estimated Average Daily Attendance (at 1/5/2024)	4,479
2023 Taxable Assessed Valuation (\$9,142,601,182) Per Enrollment	\$1,940,280.39

Valuation and Bonded Debt Data

Area of District in Square Miles	9.4
Area of District in Acres	6,016
Total Direct Bonded Debt (\$202,775,000*) Per Acre	\$33,705.95
2023 Taxable Assessed Valuation (\$9,142,601,182) Per Acre	\$1,519,714.29

* Preliminary, subject to change. Includes the Bonds.

Outstanding Debt by Issues

Unlimited Tax Bonds	Original Amount	Outstanding at 4-1-2024 ⁽¹⁾
Refunding Bonds, Series 2016	\$ 26,280,000	\$ 16,810,000
School Building Bonds, Series 2017	15,000,000	9,675,000
School Building Bonds, Series 2018A	88,000,000	80,900,000
Refunding Bonds, Series 2018C	1,495,000	590,000
Refunding Bonds, Series 2019	5,615,000	5,235,000
School Building and Refunding Bonds, Series 2020A	16,370,000	9,310,000
Variable Rate School Building Bonds, Series 2020B	12,240,000	11,950,000
Refunding Bonds, Series 2021	26,415,000	16,400,000
School Building Bonds, Series 2023	7,730,000	6,905,000
School Building Bonds, Series 2024 (the "Bonds")	45,000,000	<u>45,000,000</u> ⁽²⁾
 Total Debt		 \$202,775,000 ⁽²⁾

⁽¹⁾ Unaudited

⁽²⁾ Preliminary, subject to change.

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**Consolidated Schedule of Bonded Issue Principal Requirements
(Year Ending August 31 In Each Of The Years 2024 - 2049 Inclusive)***

2024	\$ 10,840,000	
2025	11,085,000	
2026	10,210,000	
2027	10,635,000	
2028	9,570,000	24.50%
-	-	
2029	9,930,000	
2030	9,795,000	
2031	7,430,000	
2032	7,175,000	
2033	7,365,000	44.02%
-	-	
2034	7,635,000	
2035	7,940,000	
2036	8,240,000	
2037	8,435,000	
2038	8,745,000	63.21%
-	-	
2039	9,050,000	
2040	9,505,000	
2041	9,995,000	
2042	10,570,000	
2043	10,465,000	86.42%
-	-	
2044	4,700,000	
2045	4,700,000	
2046	4,700,000	
2047	4,900,000	
2048	5,000,000	97.66%
-	-	
2049	<u>5,000,000</u>	100.00%
	\$213,615,000	

* Preliminary, subject to change. Includes the Bonds.

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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 ⁽¹⁾	\$ 773,715,000	2-1-2024	3.74%	\$ 28,936,941
Alamo Heights, City of	15,960,000	2-1-2024	100.00%	15,960,000
Bexar County	2,287,355,000	2-1-2024	3.74%	85,547,077
Bexar County Hospital District	1,311,865,000	2-1-2024	3.74%	49,063,751
Olmos Park, City of	5,495,000	2-1-2024	95.97%	5,268,057
San Antonio River Authority	9,545,000	2-1-2024	5.02%	479,159
San Antonio, City of ⁽²⁾	2,685,210,000	2-1-2024	2.77%	74,380,317
Terrell Hills, City of	5,645,000	2-1-2024	86.07%	<u>4,858,652</u>
Estimated Overlapping Funded Debt				\$264,493,954
Alamo Heights ISD	202,775,000 *	4-1-2024	100.00%	<u>202,775,000</u> *
Total Direct and Estimated Overlapping Funded Debt				\$467,268,954 *
Ratio to 2023 Assessed Valuation (\$9,142,601,182)				5.11% *
Total Direct and Estimated Overlapping Debt Per Capita				\$13,982.55

* Preliminary, subject to change.

TAXATION DATA

Historical Valuations, Tax Rates, and Collection Data

Tax Year	Assessed Valuation*	Tax Rate	% Collections		Year Ending
			Current	Total	
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	8,030,340,203	1.1355	99.18%	99.33%	8-31-23
2023	9,142,601,182 **	0.967	(In Process of Collection)		8-31-24

* District's 2023 Annual Financial Report (2013-2022). These values do not include values against which a freeze of tax levy has been granted and \$945,272,037 under review.

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

Tax Rate Distribution

Tax Year	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Local Maintenance ⁽¹⁾	\$0.768	\$0.936	\$0.993 ⁽²⁾	\$0.976	\$0.990
Interest & Sinking Fund	<u>0.199</u>	<u>.200</u>	<u>.200</u>	<u>.220</u>	<u>.205</u>
Total	\$0.967	\$1.136	\$1.193	\$1.196	\$1.195

⁽¹⁾ The decline in the District's Maintenance and Operations Tax 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, 2023

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:

<u>Last Ten Years Ended August 31</u>	<u>Ending Balance</u>
2013 and prior years	\$ 176,263
2014	60,030
2015	65,145
2016	73,993
2017	99,424
2018	104,227
2019	108,609
2020	208,740
2021	315,568
2022	332,096
2023 (school year under audit)	<u>745,029</u>
Total	\$2,289,124

Source: District's 2023 Annual Financial Report

Top Ten Taxpayers

<u>Name</u>	<u>Type of Property</u>	<u>2023 Net Taxable Assessed</u>	<u>% of Total 2023 Assessed Valuation</u>
AAT Alamo Quarry LLC	Retail	\$109,251,881	1.19%
US Reif Artessa San Antonio Texas LLC	Real Estate Investment	107,500,000	1.18%
EAN Holdings LLC	Car Rental	83,627,520	0.91%
7600 Broadway MXD LP	Real Estate	82,812,490	0.91%
327 W Sunset Property LLC	Apartment Complex	67,900,000	0.74%
JMCR Lincoln Heights	Retail Estate	59,500,000	0.65%
340 Treeline Park LLC	Apartment Complex	53,000,000	0.58%
REIF III-5500 Broadway LLC	Apartment Complex	52,300,000	0.57%
1111 Austin Highway LLC	Apartment Complex	47,800,000	0.52%
Morningside Sunset Ridge LLC	Real Estate	<u>46,320,680</u>	<u>0.51%</u>
Total		\$710,012,571	7.77%

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 \$100,000	\$ 697,934,120
State-mandated Over-65 or Disabled \$10,000	31,872,389
100% Disabled or Unemployable Veterans	2,706,500
Homestead - Disabled or Deceased Veterans	85,011,067
Disabled Persons	400,000
Homestead - 10% Appraisal Cap Loss	206,395,099
Freeport	<u>29,390</u>
Total Deductions Allowed	\$1,024,348,565

Source: Bexar Appraisal District

Taxpayers by Classification

<u>Classification</u>	<u>2023 Assessed Valuation</u>	<u>Percent Of Total</u>	<u>2022 Assessed Valuation</u>	<u>Percent Of Total</u>	<u>2021 Assessed Valuation</u>	<u>Percent Of Total</u>
Single Family Residential	\$ 6,988,200,373	68.73%	\$6,457,068,402	69.22%	\$5,644,133,840	68.61%
Multi-Family Residential	795,293,400	7.82%	698,437,840	7.49%	612,766,030	7.45%
Vacant-Platted Lots	94,507,745	0.93%	76,882,293	0.82%	72,869,933	0.87%
Acreage	-0-	0.00%	-0-	0.00%	-0-	0.00%
Real Commercial	1,860,411,115	18.30%	1,705,842,292	18.29%	1,551,278,895	18.86%
Real Industrial	1,793,360	0.02%	1,771,720	0.02%	1,537,000	0.02%
Oil, Gas, Minerals	-0-	0.00%	-0-	0.00%	-0-	0.00%
Utilities	13,812,762	0.14%	13,254,501	0.14%	13,641,012	0.17%
Personal Commercial	375,491,606	3.69%	334,106,444	3.58%	293,286,673	3.57%
Personal Industrial	25,426,856	0.25%	26,578,871	0.28%	24,671,201	0.30%
Mobile Homes	-0-	0.00%	-0-	0.00%	-0-	0.00%
Residential Inventory	7,301,350	0.07%	9,188,460	0.10%	7,849,120	0.10%
Special Inventory	<u>4,711,180</u>	<u>0.05%</u>	<u>5,342,540</u>	<u>0.06%</u>	<u>4,222,830</u>	<u>0.05%</u>
Total Valuation	\$10,166,949,747	100.00%	\$9,328,473,363	100.00%	\$8,226,256,534	100.00%
Less Exemptions & Exclusions	<u>1,024,348,565</u>		<u>630,718,889</u>		<u>301,222,743</u>	
Net Taxable Assessed Valuation	<u>\$ 9,142,601,182</u>		<u>\$8,697,754,474</u>		<u>\$7,925,033,791</u>	

Source: Bexar Appraisal District.

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ESTIMATED INTEREST & SINKING FUND MANAGEMENT INDEX 2023/24

Interest & Sinking Fund Balance at 8-31-2023.....	\$ 821,899
Estimated Income from \$0.1986 I&S Tax Rate @ 97% Collected Using	
2023 Taxable Assessed Valuation of \$9,142,601,182	17,612,490
Estimated Other Income	<u>500,000</u>
Estimated Total Funds Available	18,934,389
2023/24 Debt Service Requirement	<u>17,836,061</u>
Estimated Interest & Sinking Fund Balance at 8-31-2024	\$ 1,098,328

**CONSOLIDATED DEBT SERVICE REQUIREMENTS
INCLUDING THE BONDS AT ASSUMED RATES***

FISCAL YEAR 8-31	CURRENTLY OUTSTANDING DEBT SERVICE ⁽¹⁾	PLUS: THE BONDS AT ASSUMED RATES				GRAND TOTAL ALL DEBT SERVICE
		PRINCIPAL DUE 2/1	INTEREST DUE 2/1	INTEREST DUE 8/1	TOTAL	
2024	\$ 17,206,686.03			\$ 629,375.00	\$ 629,375.00	\$ 17,836,061.03
2025	17,003,233.25		\$ 1,068,750.00	1,068,750.00	2,137,500.00	19,140,733.25
2026	15,707,686.25	\$ 200,000	1,068,750.00	1,064,000.00	2,332,750.00	18,040,436.25
2027	15,824,066.25	325,000	1,064,000.00	1,056,281.25	2,445,281.25	18,269,347.50
2028	14,375,056.25	360,000	1,056,281.25	1,047,731.25	2,464,012.50	16,839,068.75
2029	14,421,646.88	395,000	1,047,731.25	1,038,350.00	2,481,081.25	16,902,728.13
2030	13,945,256.25	420,000	1,038,350.00	1,028,375.00	2,486,725.00	16,431,981.25
2031	11,242,450.00	450,000	1,028,375.00	1,017,687.50	2,496,062.50	13,738,512.50
2032	10,678,862.50	500,000	1,017,687.50	1,005,812.50	2,523,500.00	13,202,362.50
2033	10,559,187.50	550,000	1,005,812.50	992,750.00	2,548,562.50	13,107,750.00
2034	10,499,537.50	600,000	992,750.00	978,500.00	2,571,250.00	13,070,787.50
2035	10,459,287.50	645,000	978,500.00	963,181.25	2,586,681.25	13,045,968.75
2036	10,270,012.50	825,000	963,181.25	943,587.50	2,731,768.75	13,001,781.25
2037	10,187,812.50	800,000	943,587.50	924,587.50	2,668,175.00	12,855,987.50
2038	10,071,675.00	930,000	924,587.50	902,500.00	2,757,087.50	12,828,762.50
2039	9,931,900.00	1,020,000	902,500.00	878,275.00	2,800,775.00	12,732,675.00
2040	9,599,781.25	1,395,000	878,275.00	845,143.75	3,118,418.75	12,718,200.00
2041	9,223,300.00	1,845,000	845,143.75	801,325.00	3,491,468.75	12,714,768.75
2042	9,148,256.25	2,065,000	801,325.00	752,281.25	3,618,606.25	12,766,862.50
2043	8,001,100.00	2,675,000	752,281.25	688,750.00	4,116,031.25	12,117,131.25
2044		4,700,000	688,750.00	577,125.00	5,965,875.00	5,965,875.00
2045		4,700,000	577,125.00	465,500.00	5,742,625.00	5,742,625.00
2046		4,700,000	465,500.00	353,875.00	5,519,375.00	5,519,375.00
2047		4,900,000	353,875.00	237,500.00	5,491,375.00	5,491,375.00
2048		5,000,000	237,500.00	118,750.00	5,356,250.00	5,356,250.00
2049		5,000,000	118,750.00	-	5,118,750.00	5,118,750.00
	<u>\$238,356,793.66</u>	<u>\$45,000,000</u>	<u>\$20,819,368.75</u>	<u>\$20,379,993.75</u>	<u>\$86,199,362.50</u>	<u>\$324,556,156.16</u>

* Preliminary, subject to change.
⁽¹⁾ Does not include maintenance tax debt.

2024/2025 PRO FORMA INTEREST & SINKING FUND MANAGEMENT INDEX

Estimated Interest & Sinking Fund Balance at 8-31-2024.....	\$ 1,098,328
Estimated Income from \$0.208 I&S Tax Rate @ 97% Collected Using	
2024 Estimated Taxable Assessed Valuation of \$9,325,453,206	18,815,034
Estimated Other Income	<u>900,000</u>
Total Estimated Funds Available	20,813,362
2024/25 Debt Service Requirement	<u>19,140,733*</u>
Estimated Interest & Sinking Fund Balance at 8-31-2025	\$ 1,672,629*

* Preliminary, subject to change.

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				
	2023	2022	2021	2020	2019
<u>REVENUES</u>					
Local Sources	\$100,844,325	\$93,613,408	\$ 93,149,273	\$89,123,745	\$95,749,706
State Sources	6,658,407	5,406,387	5,015,028	5,170,484	5,234,910
Federal Sources	<u>4,787,492</u>	<u>5,537,558</u>	<u>5,391,042</u>	<u>3,637,741</u>	<u>3,396,126</u>
Total all Revenue	<u>112,290,224</u>	<u>104,557,333</u>	<u>103,555,343</u>	<u>97,931,970</u>	<u>104,380,742</u>
<u>EXPENDITURES</u>					
Instruction & Instruction Related	35,022,056	33,237,291	31,424,468	31,620,292	29,814,872
Instructional & School Leadership	4,018,094	3,670,170	3,792,968	3,514,196	3,332,011
Intergovernmental Charges	37,334,080	33,985,335	33,258,428	30,506,122	38,733,178
Pupil Services	9,781,300	9,201,467	7,425,703	7,898,090	7,895,428
General Administration	2,201,986	2,042,197	1,967,165	2,227,660	1,887,151
Debt Service	28,569,313	15,910,894	15,047,502	14,523,406	14,025,240
Plant Maintenance & Operation	7,908,265	7,507,512	6,657,015	6,137,984	5,392,899
Ancillary Services	-0-	-0-	-0-	-0-	-0-
Capital Outlay	7,193,053	5,334,820	28,148,891	40,292,926	38,303,498
Community Services	<u>13,399</u>	<u>13,761</u>	<u>13,221</u>	<u>17,133</u>	<u>21,946</u>
Total all Expenditures	<u>132,041,546</u>	<u>110,904,447</u>	<u>127,735,361</u>	<u>136,737,809</u>	<u>139,406,223</u>
Total Other Sources and (Uses)	<u>20,264,334</u>	<u>(36,395)</u>	<u>20,223,718</u>	<u>(992,056)</u>	<u>3,000</u>
Excess (Deficiency) of Revenues and Other Resources Over Expenditures and Other Uses	513,012	(6,383,509)	(3,951,300)	(39,797,895)	(35,022,481)
Fund Balance Beginning of Year	24,364,693	30,748,202	34,644,502	74,497,397	109,519,878
Fund Balance End of Year	<u>\$24,877,705</u>	<u>\$24,364,693</u>	<u>\$ 30,748,202</u>	<u>\$34,699,502</u>	<u>\$74,497,397</u>
Fund Balance - General Fund	\$18,368,909	\$19,186,929	\$21,178,673	\$16,734,986	\$18,097,531

	Year Ended 8/31				
	2023	2022	2021	2020	2019
Assessed Valuation	\$8,030,340,203	\$7,321,535,696	\$7,222,512,621	\$7,075,010,209	\$6,934,173,307
Total Tax Rate	\$0.967	\$1.19	\$1.20	\$1.20	\$1.26
Percent of Debt Service to Total	21.64%	14.34%	11.78%	10.62%	10.06%

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. None of the District, the Financial Advisor, nor the Purchasers take responsibility for the accuracy or completeness thereof.

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 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 2023-2024 (At 3/1/24)</u>
Alamo Heights High School	9-12	1,500	1,514
Alamo Heights Junior School	6-8	950	1,099
Cambridge Elementary School	1-5	950	788
Woodridge Elementary School	1-5	950	864
Howard Early Childhood Center	Pre K-K	575	<u>469</u>
Total			4,734

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 2023-2024 year is \$79,563,424. The District employs approximately 594 people, including professional and other, and will have a payroll of \$45,625,223.

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>
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	(0.65%)
2020-21	4,608	0.35%
2021-22	4,485	(2.63%)
2022-23	4,344	(3.14%)
2023-24*	4,375	0.71%

* As of 3/15/2024.

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)

<u>Census Year</u>	<u>Bexar County</u>	<u>City of Alamo Heights</u>	<u>City of Olmos Park</u>	<u>City of San Antonio</u>	<u>City of Terrell Hills</u>
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	7,319	2,343	1,144,646	5,019
2010	1,714,773	7,031	2,237	1,327,407	4,878
2023 est.	2,062,280	7,530	2,165	1,466,387	5,048

Source: U.S. Census Bureau

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, 2023.

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, 2023**

FINANCIAL SECTION



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, 2023, 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, 2023, 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 and *Government Auditing Standards* 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 and *Government Auditing Standards*, 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 and the management's discussion and analysis section) 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 November 27, 2023 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 27, 2023



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, 2023. 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 \$5.1 million as a result of this year's operations.
- In the District's business-type activities, revenues increased to \$697 thousand as activity at the natatorium increases.
- Total cost of all of the District's programs increased \$7.8 million, of which \$3.3 million was an increase in recapture of excess property taxes to the State. However, revenues were up \$9.7 million over the prior year.
- The General Fund ended the year with a fund balance of \$18.4 million, a decrease of \$818 thousand. The decrease was better than budgeted and was mostly attributable to local revenues falling short of expectations.
- The expenditures for the 2022-2023 school year were \$7.0 million less than budgeted in the General Fund, largely because of a \$6.0 million real property purchase planned that was instead made from bond funds.
- The District issued \$7.57 million in bonds to start the voter approved bond projects and remarketed the 2021 bonds for \$11.95 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 **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 \$5.1 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 (\$15.8) million at August 31, 2023 (an improvement of \$2.8 million from August 31, 2022). Adding back the net pension and net other post-employment benefits (and related deferred inflows/outflows) leaves a positive balance of \$15.2 million.

A summarized statement of net position follows:

	August 31, 2023			August 31, 2022
	Governmental Activities	Business-type Activities	Total	Total
Current and Other Assets	\$ 32,024,885	\$ 60,744	\$ 32,085,629	\$ 31,826,306
Capital Assets	180,063,065	-	180,063,065	181,003,484
<i>Total Assets</i>	<u>212,087,950</u>	<u>60,744</u>	<u>212,148,694</u>	<u>212,829,790</u>
<i>Deferred Outflows</i>	<u>7,714,535</u>	<u>-</u>	<u>7,714,535</u>	<u>6,119,698</u>
Current Liabilities	5,514,309	3,250	5,517,559	6,120,450
Long-Term Liabilities	200,122,793	-	200,122,793	200,904,004
<i>Total Liabilities</i>	<u>205,637,102</u>	<u>3,250</u>	<u>205,640,352</u>	<u>207,024,454</u>
<i>Deferred Inflows</i>	<u>17,270,314</u>	<u>-</u>	<u>17,270,314</u>	<u>20,108,853</u>
Net Investment in Capital Assets	9,356,025	-	9,356,025	7,509,342
Restricted	3,368,420	-	3,368,420	2,879,649
Unrestricted	(15,829,376)	57,494	(15,771,882)	(18,572,810)
<i>Total Net Position</i>	<u>\$ (3,104,931)</u>	<u>\$ 57,494</u>	<u>\$ (3,047,437)</u>	<u>\$ (8,183,819)</u>

The District's total revenues increased \$9.7 million. The increase was a mixture of State formula grants and investment earnings.

The cost of all governmental activities this year was \$105.7 million compared to \$98.2 million in the prior year. The largest change in total expenses related to recapture of excess property taxes. Instruction related costs also increased \$2.7 million.

A summarized statement of activities follows:

	2023		2022	
	Governmental Activities	Business-type Activities	Total	Total
<i>Program Revenues:</i>				
Charges for Services	\$ 4,812,499	\$ 696,785	\$ 5,509,284	\$ 4,254,924
Operating Grants & Contributions	6,081,815	-	6,081,815	6,122,999
Capital Grants & Contributions	-	-	-	-
<i>General Revenues:</i>				
Property Taxes	91,283,936	-	91,283,936	87,246,059
General Grants	5,538,262	-	5,538,262	3,143,682
Investment Earnings	2,164,791	-	2,164,791	392,468
Miscellaneous	942,016	-	942,016	682,335
<i>Total Revenues</i>	<u>110,823,319</u>	<u>696,785</u>	<u>111,520,104</u>	<u>101,842,467</u>
<i>Expenses</i>				
Instruction	38,005,085	-	38,005,085	35,270,877
Instructional Resources and Media	349,235	-	349,235	411,593
Curriculum and Staff Development	833,380	-	833,380	616,316
Instructional Leadership	1,048,409	-	1,048,409	817,215
School Leadership	2,774,411	-	2,774,411	2,521,550
Guidance, Counseling, & Evaluation	1,450,009	-	1,450,009	1,357,705
Social Work Services	151,490	-	151,490	150,633
Health Services	518,085	-	518,085	488,387
Student transportation	1,730,789	-	1,730,789	1,721,098
Food Services	1,768,240	-	1,768,240	1,475,481
Cocurricular/Extracurricular Activities	4,028,064	-	4,028,064	3,702,664
General Administration	2,093,314	-	2,093,314	1,879,202
Plant Maintenance and Operations	6,479,678	-	6,479,678	5,928,575
Security and Monitoring	396,578	-	396,578	16,008
Data Processing Services	907,967	-	907,967	1,845,930
Community Services	13,400	-	13,400	13,309
Interest on Long-Term Debt	4,335,340	-	4,335,340	4,886,711
Bond Issuance Costs and Fees	255,570	-	255,570	207,738
Facilities Acquisition and Construction	1,197,673	-	1,197,673	792,253
Contracted Instructional Services	37,329,054	-	37,329,054	33,985,335
Juvenile Justice Alternative Education	5,026	-	5,026	-
Enterprising Activities	-	712,925	712,925	518,410
<i>Total Expenses</i>	<u>105,670,797</u>	<u>712,925</u>	<u>106,383,722</u>	<u>98,606,990</u>
<i>Increase (Decrease) in Net Position</i>	5,152,522	(16,140)	5,136,382	3,235,477
<i>Beginning Net Position</i>	<u>(8,257,453)</u>	<u>73,634</u>	<u>(8,183,819)</u>	<u>(11,419,296)</u>
<i>Ending Net Position</i>	<u>\$ (3,104,931)</u>	<u>\$ 57,494</u>	<u>\$ (3,047,437)</u>	<u>\$ (8,183,819)</u>

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds reported a combined fund balance of \$24.9 million, which was an increase of \$0.5 million. Most of the increase is attributable to bond proceeds in the capital projects fund.

Over the course of the year, the Board of Trustees revised the District's budget. Revenues fell short of projections by \$4.7 million. However, General Fund expenditures were \$7.0 million less than the final budgeted appropriations, and the fund balance decreased \$2.4 million less than anticipated.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2023, the District had \$180 million (net) invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. Significant additions in 2023 included a real property purchase for future development and completion of roofing projects. More information about capital assets can be found in the notes to the financial statements.

Debt

At year-end, the District had \$169 million in bonds outstanding versus \$171 million from the prior year. The 2021 bonds were remarketed to save interest costs and new bonds for \$7.57 million were issued to start the voter approved bond projects. 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 2023-2024 budget projects general fund expenditures will decrease from \$89.1 to \$79.3 million. All of the decrease is expected to come from recapture costs as the increase to homestead exemptions and property tax relief decreased property tax revenues. The budget anticipates utilizing \$1.8 million of fund balance. The overall tax rate for the district decreased from 1.1355 to 0.9666. Despite the decrease in rates, property tax revenues (after recapture) are expected to increase slightly. The District plans to continue architectural services for the new high school and to begin construction towards the end of the 23-24 school year. 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, 2023

Data Control Codes		1	2	3	4
		Primary Government			Component
		Governmental Activities	Business-type Activities	Total	Unit AH School Foundation
ASSETS:					
1110	Cash and Cash Equivalents	\$ 19,546,835	\$ 60,744	\$ 19,607,579	\$ 612,458
1120	Current Investments	7,823,072	-	7,823,072	9,326,542
1225	Property Taxes Receivable (Net)	2,174,667	-	2,174,667	-
1240	Due from Other Governments	1,672,643	-	1,672,643	-
1290	Other Receivables (Net)	302,671	-	302,671	1,630,987
1300	Inventory	161,818	-	161,818	-
1410	Prepaid Expenses	343,179	-	343,179	37,569
<i>Capital Assets:</i>					
1510	Land	10,730,818	-	10,730,818	-
1520	Buildings and Improvements, Net	166,206,024	-	166,206,024	-
1531	Vehicles, Net	542,929	-	542,929	-
1539	Furniture and Equipment, Net	2,567,794	-	2,567,794	-
1580	Construction in Progress	15,500	-	15,500	-
1000	<i>Total Assets</i>	<u>212,087,950</u>	<u>60,744</u>	<u>212,148,694</u>	<u>11,607,556</u>
DEFERRED OUTFLOWS:					
	Deferred Pension Related Outflows	5,731,136	-	5,731,136	-
	Deferred OPEB Related Outflows	1,983,399	-	1,983,399	-
1700	<i>Total Deferred Outflows</i>	<u>7,714,535</u>	<u>-</u>	<u>7,714,535</u>	<u>-</u>
LIABILITIES:					
2110	Accounts Payable	519,458	3,250	522,708	76,156
2140	Interest Payable	541,795	-	541,795	-
2150	Payroll Deductions & Withholdings	383,328	-	383,328	-
2160	Accrued Wages	2,576,007	-	2,576,007	-
2180	Due to Other Governments	752,987	-	752,987	-
2300	Unearned Revenue	740,734	-	740,734	151,073
<i>Noncurrent Liabilities:</i>					
2501	Due Within One Year	12,523,023	-	12,523,023	-
2502	Due in More Than One Year	165,222,475	-	165,222,475	-
2540	Net Pension Liability	14,333,320	-	14,333,320	-
2545	Net OPEB Liability	8,043,975	-	8,043,975	-
2000	<i>Total Liabilities</i>	<u>205,637,102</u>	<u>3,250</u>	<u>205,640,352</u>	<u>227,229</u>
DEFERRED INFLOWS:					
	Deferred Gain on Debt Refunding	928,528	-	928,528	-
	Deferred Pension Related Inflows	2,298,829	-	2,298,829	-
	Deferred OPEB Related Inflows	14,042,957	-	14,042,957	-
2600	<i>Total Deferred Inflows</i>	<u>17,270,314</u>	<u>-</u>	<u>17,270,314</u>	<u>-</u>
NET POSITION:					
3200	Net Investment in Capital Assets	9,356,025	-	9,356,025	-
Restricted For:					
3820	State and Federal Programs	548,888	-	548,888	-
3850	Debt Service	629,547	-	629,547	-
3890	Campus Activities and Donations	2,189,985	-	2,189,985	10,505,947
3900	Unrestricted	(15,829,376)	57,494	(15,771,882)	874,380
3000	<i>Total Net Position</i>	<u>\$ (3,104,931)</u>	<u>\$ 57,494</u>	<u>\$ (3,047,437)</u>	<u>\$ 11,380,327</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, 2023

Data Control Codes	1	3	4
Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
PRIMARY GOVERNMENT:			
Governmental Activities:			
11	Instruction	\$ 38,005,085	\$ 1,796,021
12	Instructional Resources and Media Services	349,235	614
13	Curriculum and Staff Development	833,380	157,795
21	Instructional Leadership	1,048,409	83,730
23	School Leadership	2,774,411	486
31	Guidance, Counseling, & Evaluation Services	1,450,009	13,067
32	Social Work Services	151,490	87,818
33	Health Services	518,085	1,025,836
34	Student Transportation	1,730,789	-
35	Food Services	1,768,240	1,263,177
36	Cocurricular/Extracurricular Activities	4,028,064	1,271,106
41	General Administration	2,093,314	-
51	Plant Maintenance and Operations	6,479,678	-
52	Security and Monitoring	396,578	105,863
53	Data Processing Services	907,967	-
61	Community Services	13,400	6,307
72	Interest on Long-Term Debt	4,335,340	269,995
73	Bond Issuance Costs and Fees	255,570	-
81	Facilities Acquisition and Construction	1,197,673	-
91	Contracted Instructional Services	37,329,054	-
95	Juvenile Justice Alternative Education	5,026	-
TG	Total Governmental Activities	<u>105,670,797</u>	<u>6,081,815</u>
Business-Type Activities:			
01	Excel After School Program	22,075	-
02	Aquatic Center	610,349	-
03	Tennis Center	80,501	-
TB	Total Business-type Activities	<u>712,925</u>	<u>-</u>
TP	Total Primary Government	<u>\$ 106,383,722</u>	<u>\$ 6,081,815</u>
COMPONENT UNIT:			
1C	Alamo Heights School Foundation	<u>\$ 2,132,573</u>	<u>\$ 4,303,501</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		
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
\$ (35,114,438)		\$ (35,114,438)	
(348,621)		(348,621)	
(675,585)		(675,585)	
(964,679)		(964,679)	
(2,773,925)		(2,773,925)	
(1,436,942)		(1,436,942)	
(63,672)		(63,672)	
507,751		507,751	
(1,730,789)		(1,730,789)	
769,614		769,614	
(313,762)		(313,762)	
(2,093,314)		(2,093,314)	
(6,479,678)		(6,479,678)	
(290,715)		(290,715)	
(907,967)		(907,967)	
(7,093)		(7,093)	
(4,065,345)		(4,065,345)	
(255,570)		(255,570)	
(1,197,673)		(1,197,673)	
(37,329,054)		(37,329,054)	
(5,026)		(5,026)	
<u>(94,776,483)</u>		<u>(94,776,483)</u>	
	\$ (1,447)	(1,447)	
	29,938	29,938	
	<u>(44,631)</u>	<u>(44,631)</u>	
	<u>(16,140)</u>	<u>(16,140)</u>	
		<u>(94,792,623)</u>	
			<u>\$ 2,270,673</u>
75,200,780	-	75,200,780	-
16,083,156	-	16,083,156	-
2,164,791	-	2,164,791	411,186
5,538,262	-	5,538,262	-
942,016	-	942,016	-
<u>99,929,005</u>	<u>-</u>	<u>99,929,005</u>	<u>411,186</u>
5,152,522	(16,140)	5,136,382	2,681,859
<u>(8,257,453)</u>	<u>73,634</u>	<u>(8,183,819)</u>	<u>8,698,468</u>
<u>\$ (3,104,931)</u>	<u>\$ 57,494</u>	<u>\$ (3,047,437)</u>	<u>\$ 11,380,327</u>

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
AUGUST 31, 2023

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	\$ 13,707,599	\$ 814,575	\$ 3,020,186	\$ 2,004,475	\$ 19,546,835
1120	Current Investments	7,823,072	-	-	-	7,823,072
1225	Taxes Receivable, Net	1,825,224	349,443	-	-	2,174,667
1240	Due from Other Governments	814,714	7,324	-	850,605	1,672,643
1290	Other Receivables	302,671	-	-	-	302,671
1300	Inventory	149,242	-	-	12,576	161,818
1410	Prepaid Items	294,297	-	-	48,882	343,179
1000	<i>Total Assets</i>	<u>\$ 24,916,819</u>	<u>\$ 1,171,342</u>	<u>\$ 3,020,186</u>	<u>\$ 2,916,538</u>	<u>\$ 32,024,885</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:						
<i>Liabilities:</i>						
2110	Accounts Payable	\$ 269,630	\$ -	\$ 72,162	\$ 177,665	\$ 519,457
2150	Payroll Deductions & Withholdings	383,328	-	-	-	383,328
2160	Accrued Wages Payable	2,576,007	-	-	-	2,576,007
2180	Due to Other Governments	752,987	-	-	-	752,987
2300	Unearned Revenue	740,734	-	-	-	740,734
2000	<i>Total Liabilities</i>	<u>4,722,686</u>	<u>-</u>	<u>72,162</u>	<u>177,665</u>	<u>4,972,513</u>
<i>Deferred Inflows of Resources:</i>						
2600	Unavailable Property Tax Revenue	1,825,224	349,443	-	-	2,174,667
<i>Fund Balance:</i>						
<i>Nonspendable:</i>						
3410	Inventory	149,242	-	-	12,576	161,818
3430	Prepaid Items	294,297	-	-	48,882	343,179
<i>Restricted Fund Balances:</i>						
3450	Federal and State Grants	-	-	-	466,857	466,857
3470	Capital Acquisitions	-	-	2,948,024	-	2,948,024
3480	Retirement of Long-Term Debt	-	821,899	-	-	821,899
3490	Other Restrictions of Fund Balance	-	-	-	2,210,558	2,210,558
3600	<i>Unassigned</i>	17,925,370	-	-	-	17,925,370
3000	<i>Total Fund Balances</i>	<u>18,368,909</u>	<u>821,899</u>	<u>2,948,024</u>	<u>2,738,873</u>	<u>24,877,705</u>
4000	Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 24,916,819</u>	<u>\$ 1,171,342</u>	<u>\$ 3,020,186</u>	<u>\$ 2,916,538</u>	<u>\$ 32,024,885</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, 2023

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$ 24,877,705
<p>Amounts reported for governmental activities in the Statement of Net Position ("SNA") are different because:</p>	
Capital Assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	180,063,065
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.	(177,745,498)
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.	(928,528)
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	(14,333,320)
Pension Related Deferred Inflows	(2,298,829)
Pension Related Deferred Outflows	<u>5,731,136</u>
	(10,901,013)
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	(8,043,975)
OPEB Related Deferred Inflows	(14,042,957)
OPEB Related Deferred Outflows	<u>1,983,399</u>
	(20,103,533)
Deferred inflows of resources are not available to pay for current-period expenditures and therefore, are deferred in the funds.	2,174,666
Accrued interest payable on long-term bonds is not due and payable in the current period, and therefore, not reported in the funds.	<u>(541,795)</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	<u><u>\$ (3,104,931)</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, 2023

Data Control Codes	Functions/Programs	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	\$ 81,151,671	\$ 16,148,712	\$ 119,232	\$ 3,424,710	\$ 100,844,325
5800	State Program Revenues	5,892,857	269,995	-	495,555	6,658,407
5900	Federal Program Revenues	1,223,847	-	-	3,563,645	4,787,492
5020	<i>Total Revenues</i>	<u>88,268,375</u>	<u>16,418,707</u>	<u>119,232</u>	<u>7,483,910</u>	<u>112,290,224</u>
EXPENDITURES:						
0011	Instruction	30,660,860	-	-	3,123,352	33,784,212
0012	Instructional Resources and Media Services	368,061	-	-	1,067	369,128
0013	Curriculum and Staff Development	594,305	-	-	274,411	868,716
0021	Instructional Leadership	972,577	-	-	145,610	1,118,187
0023	School Leadership	2,899,062	-	-	845	2,899,907
0031	Guidance, Counseling, & Evaluation Services	1,520,716	-	-	22,724	1,543,440
0032	Social Work Services	10,192	-	-	152,719	162,911
0033	Health Services	551,786	-	-	-	551,786
0034	Student Transportation	1,721,380	-	-	-	1,721,380
0035	Food Service	609,739	-	-	1,158,501	1,768,240
0036	Cocurricular/Extracurricular Activities	1,933,375	-	-	2,100,168	4,033,543
0041	General Administration	2,201,986	-	-	-	2,201,986
0051	Plant Maintenance and Operations	6,579,579	-	-	-	6,579,579
0052	Security and Monitoring	212,478	-	-	184,100	396,578
0053	Data Processing Services	932,108	-	-	-	932,108
0061	Community Services	2,431	-	-	10,968	13,399
0071	Principal on Long-Term Debt	-	21,975,000	-	-	21,975,000
0072	Interest on Long-Term Debt	-	6,338,743	-	-	6,338,743
0073	Bond Issuance Costs and Fees	-	96,623	158,947	-	255,570
0081	Facilities Acquisition and Construction	-	-	7,193,053	-	7,193,053
0091	Contracted Instructional Services					
	Between Public Schools	37,329,054	-	-	-	37,329,054
0095	Juvenile Justice Alternative Education	5,026	-	-	-	5,026
6030	<i>Total Expenditures</i>	<u>89,104,715</u>	<u>28,410,366</u>	<u>7,352,000</u>	<u>7,174,465</u>	<u>132,041,546</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(836,340)</u>	<u>(11,991,659)</u>	<u>(7,232,768)</u>	<u>309,445</u>	<u>(19,751,322)</u>
Other Financing Sources and (Uses)						
7911	Issuance of Bonds	-	11,950,000	7,565,000	-	19,515,000
7912	Sales of Capital Assets	18,320	-	-	-	18,320
7916	Premium from Bond Issuance	-	137,067	593,947	-	731,014
7080	Total Other Financing Sources and (Uses)	<u>18,320</u>	<u>12,087,067</u>	<u>8,158,947</u>	<u>-</u>	<u>20,264,334</u>
1200	Net Change in Fund Balances	(818,020)	95,408	926,179	309,445	513,012
0100	Fund Balances - Beginning	19,186,929	726,491	2,021,845	2,429,428	24,364,693
3000	Fund Balances - Ending	<u>\$ 18,368,909</u>	<u>\$ 821,899</u>	<u>\$ 2,948,024</u>	<u>\$ 2,738,873</u>	<u>\$ 24,877,705</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, 2023

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 513,012

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	5,995,384	
Depreciation	<u>(6,935,803)</u>	(940,419)

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. 350,342

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	(143,563)	
Retiree Insurance	<u>1,640,462</u>	1,496,899

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	(19,515,000)	
Premium on Bonds Issued	(731,014)	
Principal Payments	<u>21,975,000</u>	1,728,986

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	15,002	
Amortization of Book Gains on Debt Refundings	201,429	
Amortization of Bond Premiums	<u>1,787,271</u>	<u>2,003,702</u>

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES \$ 5,152,522

The accompanying notes are an integral part of this statement.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
ENTERPRISE FUNDS
AUGUST 31, 2023

	Nonmajor Enterprise Funds
ASSETS:	
<i>Current Assets:</i>	
Cash and Cash Equivalents	\$ 60,744
<i>Total Assets</i>	60,744
 LIABILITIES:	
<i>Current Liabilities</i>	
Accounts Payable	3,250
<i>Total Liabilities</i>	3,250
 NET POSITION:	
Unrestricted	57,494
<i>Total Net Position</i>	\$ 57,494

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, 2023

	Nonmajor Enterprise Funds
<i>OPERATING REVENUES:</i>	
Local and Intermediate Sources	\$ 696,785
<i>Total Revenues</i>	696,785
 <i>OPERATING EXPENSES:</i>	
Payroll and Benefits	591,717
Services	6,867
Supplies	105,205
Other Operating Costs	9,136
<i>Total Expenses</i>	712,925
 Change in Net Position	 (16,140)
 Total Net Position - Beginning	 73,634
Total Net Position - Ending	\$ 57,494

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, 2023

	Nonmajor Enterprise Funds
Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 696,785
Cash Payments to Employees for Services	(591,717)
Cash Payments to Other Suppliers for Goods and Services	(131,180)
Net Cash Provided (Used) by Operating Activities	(26,112)
 Cash Flows from Noncapital Financing Activities:	
Transfers From Governmental Funds	-
 Net Increase (Decrease) in Cash and Cash Equivalents	(26,112)
 Cash and Cash Equivalents at Beginning of Year	86,856
Cash and Cash Equivalents at End of Year	\$ 60,744
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ (16,140)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Change in Assets and Liabilities:	
Increase (Decrease) in Accounts Payable	(9,972)
<i>Total Adjustments</i>	(9,972)
Net Cash Provided (Used) by Operating Activities	\$ (26,112)

The accompanying notes are an integral part of this statement.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET POSITION
 AUGUST 31, 2023

	Custodial Funds
ASSETS:	
Cash and Cash Equivalents	\$ 267,692
<i>Total Assets</i>	<u>267,692</u>
LIABILITIES:	
<i>Current Liabilities</i>	
Accounts Payable	<u>3,982</u>
<i>Total Liabilities</i>	<u>3,982</u>
NET POSITION	
<i>Total Net Position</i>	<u>\$ 263,710</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, 2023

	Custodial Funds
Additions:	
Investment Income	\$ 4,631
Contributions	32,794
Enterprising Revenues	178,408
Total Additions	215,833
 Deductions:	
Services	8,666
Supplies	196,442
Other Operating Costs	30,619
Total Deductions	235,727
 Change in Net Position	 (19,894)
Net Position - Beginning of Year	283,604
Net Position - End of Year	\$ 263,710

The accompanying notes are an integral part of this statement.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2023

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, 2023

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 custodial 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, 2023

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, 2023

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 \$96,064 and \$18,392 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, 2023

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, 2023

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, 2023

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, 2023

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, 2023 and during the year ended August 31, 2023, 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, 2023 are shown below.

<u>Investment or Investment Type</u>	<u>Weighted Average Maturity (Days)</u>	<u>Reported Value</u>
Local Government Debt Securities	68	\$ 539,777
United States Agency Bonds	359	5,114,409
United States Bonds & Notes	15	465,061
Certificates of Deposit	251	1,703,825
Total Investments	295	<u>\$ 7,823,072</u>

The securities are reported at fair value based on Level 2 inputs.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 AUGUST 31, 2023

B. Deposits and Investments (Continued)

2. Investments (Continued)

The Foundation's investments at August 31, 2023 are shown below.

<u>Investment or Investment Type</u>	<u>Fair Value</u>
Cash Equivalents	\$ 547,422
Equity Securities	6,511,177
Corporate Bonds	<u>2,267,943</u>
Total Investments	<u>\$ 9,326,542</u>

The Foundation's cash and cash equivalents are reported at amortized cost. Investments in equities and corporate bonds 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, 2023

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, 2023, the District was invested in the following Pools:

<u>Local Government Investment Pool</u>	<u>Rating</u>	<u>Net Asset Value</u>
Texpool	AAAm	\$ 891
Texas TERM - TexasDAILY	AAAm	77
Lone Star	AAAm	268,697
Texas Class	AAAm	18,956,692
Total Investment Pools		<u>\$ 19,226,357</u>

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2023

C. Capital Assets

Capital asset activity for the year ended August 31, 2023, was as follows:

	Beginning Balances	Increases	Transfers/ Decreases	Ending Balances
Governmental Activities:				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 6,621,568	\$ 4,109,250	\$ -	\$ 10,730,818
Construction in Progress	-	15,500	-	15,500
<i>Total Capital Assets Not Being Depreciated</i>	<u>6,621,568</u>	<u>4,124,750</u>	<u>-</u>	<u>10,746,318</u>
<i>Capital Assets Being Depreciated:</i>				
Buildings and Improvements	255,312,180	1,870,634	-	257,182,814
Equipment	14,578,981	-	-	14,578,981
Vehicles	2,704,929	-	-	2,704,929
<i>Total Capital Assets Being Depreciated</i>	<u>272,596,090</u>	<u>1,870,634</u>	<u>-</u>	<u>274,466,724</u>
<i>Less Accumulated Depreciation For:</i>				
Buildings and Improvements	(85,250,677)	(5,726,113)	-	(90,976,790)
Equipment	(10,908,283)	(1,102,904)	-	(12,011,187)
Vehicles	(2,055,214)	(106,786)	-	(2,162,000)
<i>Total Accumulated Depreciation</i>	<u>(98,214,174)</u>	<u>(6,935,803)</u>	<u>-</u>	<u>(105,149,977)</u>
Total Capital Assets Being Depreciated, Net	174,381,916	(5,065,169)	-	169,316,747
<i>Governmental Activities Capital Assets, Net</i>	<u>\$ 181,003,484</u>	<u>\$ (940,419)</u>	<u>\$ -</u>	<u>\$ 180,063,065</u>

Depreciation was charged to functions as follows:

11 Instruction	\$ 6,576,069
23 School Leadership	28,460
34 Student Transportation	82,828
41 General Administration	11,149
36 Cocurricular/Extracurricular Activities	169,374
51 Plant Maintenance and Operations	67,923
	<u>\$ 6,935,803</u>

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2023

D. 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, 2023, are as follows:

	Beginning Balances	Increases	Decreases	Ending Balances	Amounts Due Within One Year
<i>Governmental Bonds:</i>					
Private Placement Bonds	\$ 960,000	\$ -	\$ (185,000)	\$ 775,000	\$ 185,000
Bonds Offered to Public	170,115,000	19,515,000	(21,790,000)	167,840,000	10,655,000
Unamortized Premiums	10,577,863	730,713	(2,178,078)	9,130,498	1,683,023
<i>Total Bonds</i>	<u>181,652,863</u>	<u>20,245,713</u>	<u>(24,153,078)</u>	<u>177,745,498</u>	<u>12,523,023</u>
<i>Other Long-term Obligations:</i>					
Net Pension Liability	6,014,810	9,445,113	(1,126,603)	14,333,320	-
Net OPEB Liability	13,236,331	-	(5,192,356)	8,043,975	-
<i>Grand Total</i>	<u>\$ 19,251,141</u>	<u>\$ 9,445,113</u>	<u>\$ (6,318,959)</u>	<u>\$ 22,377,295</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, 2023, are as follows:

Year Ending August 31,	Private Placements		Public Offerings		Total
	Principal	Interest	Principal	Interest	
2024	\$ 185,000	\$ 20,202	\$ 10,655,000	\$ 6,346,484	\$ 17,206,686
2025	190,000	14,652	10,895,000	5,903,581	17,003,233
2026	200,000	8,880	9,810,000	5,688,806	15,707,686
2027	200,000	2,960	10,110,000	5,511,106	15,824,066
2028	-	-	9,210,000	5,165,056	14,375,056
2029-2033	-	-	39,380,000	21,467,403	60,847,403
2034-2038	-	-	37,195,000	14,293,325	51,488,325
2039-2043	-	-	40,585,000	5,319,338	45,904,338
Totals	<u>\$ 775,000</u>	<u>\$ 46,694</u>	<u>\$ 167,840,000</u>	<u>\$ 69,695,099</u>	<u>\$ 238,356,793</u>

3. New Issuances

In July 2023, the District issued \$7.565 million in school building bonds as a part of the voter approved propositions totaling \$371 million. The bonds mature serially through February, 2030 and bear interest at 5%.

The District's 2020B bond series for \$12.24 million were tendered and remarketed as \$11.95 million on February 1, 2023. The remarketing resulted in gross savings of \$1.79 million and a net present value savings of \$1.37 million.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2023

D. Long-Term Obligations (Continued)

4. Demand Bonds

The District's 2020B remarketed bond series for \$11.95 million bears interest at 3% through February 1, 2026. The bonds are subject to mandatory tender on February 1, 2026 and may be remarketed. If not successfully remarketed, the bonds will remain outstanding and bear interest at 7% until remarketed or the serial maturities through February 1, 2043.

5. 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 one bond series that was directly placed at a local banking institution. The bond documents do not contain subjective acceleration clauses, events of default with finance-related consequences or termination events with finance-related consequences.

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, 2023, the District reported \$928,528 in deferred refunding gains that will be amortized in future periods.

E. 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 Annual Comprehensive 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, 2023

E. 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		
	2022	2023	
Member (Employee)	8.00%	8.00%	\$ 2,948,957
Non-employer Contributing Entity (State)	7.75%	8.00%	2,055,858
Employer	7.75%	8.00%	1,179,533
			\$ 6,184,348

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2023

E. 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 1.8 percent of the member's salary in fiscal year 2023, 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, 2023

E. Pension Plan (Continued)

5. Actuarial Assumptions

The total pension liability in the August 31, 2022 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2021, Rolled forward
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Fair Value
Single Discount Rate	7.00%
Long-term Expected Rate	7.00%
Municipal Bond Rate	3.91% Fidelity 20-Year AA
Last Year in Projection Period	2121
Inflation	2.30%
Salary Increases	2.95-8.95% 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, 2022. For a full description of these assumptions please see the actuarial valuation report dated November 12, 2021.

6. Discount Rate

The discount rate of 7.00% 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 7.00%. 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% of payroll in fiscal year 2020 gradually increasing to 9.55% 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 7.00%. 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, 2023

E. 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, 2022 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%	4.6%	1.12%
Non-U.S. Developed	13%	4.9%	0.90%
Emerging Markets	9%	5.4%	0.75%
Private Equity	14%	7.7%	1.55%
Stable Value			
Government Bonds	16%	1.0%	0.22%
Absolute Return	0%	3.7%	0.00%
Stable Value Hedge Funds	5%	3.4%	0.18%
Real Return			
Real Assets	15%	4.1%	0.94%
Energy & Natural Resources	6%	5.1%	0.37%
Commodities	0%	3.6%	0.00%
Risk Parity			
Risk Parity	8%	4.6%	0.43%
Leverage			
Cash	2%	3.0%	0.01%
Asset Allocation Leverage	-6%	3.6%	-0.05%
Inflation Expectation			2.70%
Volatility Drag			-0.91%
Total	100%		8.21%

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 6.000%	Current 7.000%	1% Increase 8.000%
District's proportionate share of the net position liability	\$ 22,297,212	\$ 14,333,320	\$ 7,878,213

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 AUGUST 31, 2023

E. Pension Plan (Continued)

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

At August 31, 2023, the District reported a liability of \$14,333,320 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	\$ 14,333,320
State's proportionate share	<u>26,155,861</u>
Total	<u>\$ 40,489,181</u>

The net pension liability was measured as of August 31, 2022 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, 2021 thru August 31, 2022.

At August 31, 2022 the employer's proportion of the collective net pension liability was 0.0241434081% which was an increase of 0.0005248548% from its proportion measured as of August 31, 2021.

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, 2023, the District recognized pension expense of \$3.8 million, including \$2.5 million for support provided by the State.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2023

E. Pension Plan (Continued)

At August 31, 2023, 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:

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
Differences between expected and actual experience	\$ 207,832	\$ 312,494
Changes of assumptions	2,670,764	665,629
Net difference between projected and actual earnings on pension plan investments	1,416,086	-
Changes in proportion and differences between District contributions and proportionate share of contributions	256,921	1,320,706
District contributions subsequent to the measurement date	<u>1,179,533</u>	<u>-</u>
Total	<u>\$ 5,731,136</u>	<u>\$ 2,298,829</u>

The \$1,179,533 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, 2024. 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:

<u>Year ending August 31,</u>	<u>Pension Expense</u>
2024	\$ 585,997
2025	96,837
2026	(179,734)
2027	1,525,064
2028	224,610
Thereafter	-
	<u>\$ 2,252,774</u>

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 AUGUST 31, 2023

F. 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 Annual Comprehensive 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, 2023

F. 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%	\$ 239,605
Non-employer Contributing Entity (State)	1.25%	1.25%	336,590
Employer	0.75%-1.25%	0.75%-1.25%	286,943
			\$ 863,138

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, 2023

F. Other Post-Employment Benefits (Continued)

5. Actuarial Assumptions

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, 2021 TRS pension actuarial valuation that was rolled forward to August 31, 2022:

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. The total OPEB liability in the August 31, 2021 actuarial valuation was rolled forward to August 31, 2022. 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, 2021, Rolled forward
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Single Discount Rate	3.91%
Aging Factors	Based on plan specific experience
Election Rates	62% participation prior to age 65 25% participation after age 65 30% 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

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 AUGUST 31, 2023

F. Other Post-Employment Benefits (Continued)

6. Discount Rate

A single discount rate of 3.91% was used to measure the total OPEB liability. There was an increase of 1.96% 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, 2022 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 2.91%	Discount Rate 3.91%	1% Increase in 4.91%
District's Proportionate Share of Net OPEB Liability	\$ 9,484,485	\$ 8,043,975	\$ 6,876,978

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	\$ 6,628,272	\$ 8,043,975	\$ 9,879,253

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

At August 31, 2023, the District reported a liability of \$8,043,975 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, 2023

F. 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	\$ 8,043,975
State's Proportionate Share	<u>9,812,386</u>
	<u>\$ 17,856,361</u>

The net OPEB liability was measured as of August 31, 2021 and rolled forward to August 31, 2022 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, 2021 thru August 31, 2022.

At August 31, 2022, the employer's proportion of the collective net OPEB liability was 0.0335949452% which was a decrease of 0.0007187640% from its proportion measured as of August 31, 2021.

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 1.95% as of August 31, 2021 to 3.91% as of August 31, 2022. This change decreased the TOL.
- There were no changes in benefit terms since the prior measurement date.

For the year ended August 31, 2023, the District recognized OPEB expense of (\$2.7 million), including (\$1.4 million) in cost savings recognized by the State.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2023

F. 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, 2023, 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	\$ 447,217	\$ 6,701,354
Changes in actuarial assumptions	1,225,257	5,588,476
Difference between projected and actual investment earnings	23,961	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	21	1,753,127
Contributions paid to TRS subsequent to the measurement date	286,943	-
	\$ 1,983,399	\$ 14,042,957

The \$286,943 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, 2024. 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
2024	\$ (2,270,008)
2025	(2,269,922)
2026	(1,928,811)
2027	(1,466,993)
2028	(1,527,202)
Thereafter	(2,883,565)
	\$ (12,346,501)

G. 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, 2023, 2022 and 2021, the subsidy payments received by TRS-Care on behalf of the District were \$187,034, \$108,185, and \$158,485, respectively.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2023

H. Employee Health Care Coverage

During the year ended August 31, 2023, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$366,398 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, 2022, have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

I. 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, 2023 was \$196,643. Claims paid for the fiscal years ending August 31, 2023, 2022, and 2021 were \$103,347, \$144,227, and \$72,124, respectively.

J. 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.

3. Commitments

As part of the voter approved bonds, the District has contracted for architectural services for an estimated total of \$7.56 million. In addition, the District has contracted for roof repairs to a campus for a total of \$1.74 million. As of August 31, 2023, \$1.5 million has been incurred on these contracts, leaving an estimated commitment of \$7.8 million.

ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2023

K. Adoption of GASB 96

The District implemented Government Accounting Standard Board's Statement 96 as of September 1, 2022. The statement changed the accounting for contracts that provide consideration in exchange for the right to use another's information technology assets. The District reviewed the agreements in place and did not identify any significant contracts for which new accounting procedures were needed.

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APPENDIX D

Form of Opinion of Bond Counsel

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May 2, 2024

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IN REGARD to the authorization and issuance of the “Alamo Heights Independent School District Unlimited Tax School Building Bonds, Series 2024” (the *Bonds*), dated April 15, 2024, in the aggregate original principal amount of \$____,____,____ we have reviewed the legality and validity of the issuance thereof by the Alamo Heights Independent School District (the *Issuer*). The Bonds are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The Bonds have Stated Maturities of February 1 in each of the years 20__ through 20__, unless redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Bonds. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the order (the *Order*) authorizing the issuance of the Bonds. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Order.

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

WE HAVE EXAMINED the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the Issuer in connection with the issuance of the Bonds, including the Order; (2) customary certifications and opinions of officials of the Issuer; (3) certificates executed by officers of the Issuer relating to the expected use and investment of proceeds of the Bonds and certain other funds of the Issuer, and to certain other facts solely within the knowledge and control of the Issuer; and (4) such other documentation, including an examination of the Bond executed and delivered initially by the Issuer, and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

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

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Legal Opinion of Norton Rose Fulbright US LLP, Austin, Texas, in connection with the authorization and issuance of “ALAMO HEIGHTS INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2024”

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 who are individuals.

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, corporations subject to the alternative minimum tax on adjusted financial statement income, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

OUR OPINIONS ARE BASED on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Norton Rose Fulbright US LLP

APPENDIX E

The Permanent School Fund Guarantee Program

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THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

This disclosure statement provides information relating to the program (the “Guarantee Program”) administered by the Texas Education Agency (the “TEA”) with respect to the Texas Permanent School Fund guarantee of tax-supported bonds issued by Texas school districts and the guarantee of revenue bonds issued by or for the benefit of Texas charter districts. The Guarantee Program was authorized by an amendment to the Texas Constitution in 1983 and 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”) was enacted and became effective on September 1, 2021. SB 1232 provided 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 required 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.

The regular session of the 88th Texas Legislature (the “Legislature”) was held from January 10, 2023, to May 29, 2023. As of the date of this disclosure, there have been four special sessions held, with the fourth special session ending December 5, 2023. The Texas Governor may call one or more additional special sessions. During this time, the Legislature may enact laws that materially change current law as it relates to the Guarantee Program, the TEA, the SBOE, the Act, the PSF Corporation, and Texas school finance generally. No representation is made regarding any actions the Legislature has taken or may take, but the TEA, SBOE, and PSF Corporation monitor and analyze legislation for any developments applicable thereto.

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 in 1845 and received its first significant funding with a \$2,000,000 appropriation by 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 was 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 PSF is provided annually through the PSF Corporation’s Annual Comprehensive Financial Report (the “Annual Report”), which is filed with the Municipal Securities Rulemaking Board (“MSRB”). Due to the establishment of the PSF Corporation, the most recent financial statements include several restatements related thereto. The SLB’s land and real assets investment operations, which are part of the PSF as described below, are also included in the annual financial report of the Texas General Land Office (the “GLO”) that is included in the annual comprehensive report of the State of Texas. The Annual Report includes the Message of the Chief Executive Officer of the PSF Corporation (the “Message”) and the Management’s Discussion and Analysis (“MD&A”). The Annual Report for the year ended August 31, 2023, as filed with the MSRB in accordance with the PSF undertaking and agreement made in accordance with Rule 15c2-12 (“Rule 15c2-12”) of the United States 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, 2023, is derived from the audited financial statements of the PSF, which are included in the Annual Report as it is filed and posted. Reference is made to the Annual Report for the complete Message and MD&A for the year ended August 31, 2023, and for a description of the financial results of the PSF for the year ended August 31, 2023, the most recent year for which audited financial information regarding the Fund is available. The 2023 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2023 Annual Report or any other Annual Report. The PSF Corporation 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 PSF Corporation’s Investment Policy Statement (the “IPS”), and (iv) monthly updates with respect to the capacity of the Guarantee Program (collectively, the “Web Site Materials”) on the PSF Corporation’s web site at <https://texaspsf.org/bond-guarantee-program/> 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, are available from the SEC at www.sec.gov/edgar. A list of the Fund’s equity and fixed income holdings as of August 31 of each year is posted to the PSF Corporation’s 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.

Management and Administration of the Fund

The Texas Constitution and applicable statutes delegate to the SBOE and the PSF Corporation 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 PSF Corporation is a special-purpose governmental corporation and instrumentality of the State entitled to sovereign immunity, and is governed by a nine-member board of directors (the "PSFC Board"), which consists 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 member being appointed by the Land Commissioner and the other two appointed by the Governor with confirmation by the Senate.

The PSF's non-financial real assets, including land, mineral and royalty interests, and individual real estate holdings, are held by the GLO and managed by the SLB. The SLB is required to send PSF mineral and royalty revenues to the PSF Corporation for investment, less amounts specified by appropriation to be retained by the SLB.

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"). 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. For a detailed description of the PSFC Board's investment objectives, as well as a description of the PSFC's roles and responsibilities in managing and administering the fund, see the IPS (available on the PSF Corporation's website).

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 PSF Corporation has also engaged outside counsel to advise it as to its duties with respect to 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. TEA's General Counsel provides legal advice to the SBOE but will not provide legal advice directly to the PSF Corporation.

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 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. Additionally, not less than once each year, the PSFC 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 State laws.

With respect to the 2024-2025 State biennium, and for subsequent biennia, the PSF Corporation is required to submit a legislative appropriations request ("LAR") to the LBB and the Office of the Governor that details a request for appropriation of funds to enable the PSF Corporation to carry out its responsibilities for the investment management of the Fund. The requested funding, budget structure, and riders are sufficient to fully support all operations of the PSF Corporation in state fiscal years 2024 and 2025. As described therein, the LAR is designed to provide the PSF Corporation with the ability to operate as a stand-alone state entity in the State budget while retaining the flexibility to fulfill its fiduciary duty and provide oversight and transparency to the Legislature and Governor.

The Total Return Constitutional Amendment

The Total Return Constitutional Amendment requires that PSF distributions to the ASF be determined using a “total-return-based” that 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 exceed the Ten Year Total Return, is not prohibited by State law, provided that such contingency plan applies only within a fiscal year time basis, not on a biennium basis, and (iii) 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 PSF Corporation and TEA 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.

The Texas Constitution also provides authority to the GLO or another entity (described in statute as the SLB or the PSF Corporation) 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. The Texas Constitution limits the maximum transfer to the ASF to \$600 million in 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)”), the PSF Corporation (the “PSF(CORP)”), and the SLB (the “PSF(SLB)”).

PSF Corporation Strategic Asset Allocation

The PSFC Board sets the asset allocation policy for the Fund, including determining the available asset classes for investment and approving target percentages and ranges for allocation to each asset class, with the goal of delivering a long-term risk adjusted return through all economic and market environments. Effective January 1, 2023, the IPS

includes a combined asset allocation for all Fund assets (consisting of assets transferred for management to the PSF Corporation from the SBOE and the SLB). The IPS provides that the Fund’s investment objectives are as follows:

- Generate distributions for the benefit of public schools in Texas;

- Maintain the purchasing power of the Fund, after spending and inflation, in order to maintain intergenerational equity with respect to distributions from the Fund;
- Provide a maximum level of return consistent with prudent risk levels, while maintaining sufficient liquidity needed to support Fund obligations; and
- Maintain a AAA credit rating, as assigned by a nationally recognized securities rating organization.

The table below sets forth the current asset allocation of the Fund that was adopted February 2024 (which is subject to change from time to time):

Asset Class	Strategic Asset Allocation	Range	
		Min	Max
Cash	2.0%	0.0%	7.0%
Core Bonds	10.0%	5.0%	15.0%
High Yield	2.0%	0.0%	7.0%
Bank Loans	4.0%	0.0%	9.0%
Treasury Inflation Protected Securities	2.0%	0.0%	7.0%
Large Cap Equity	14.0%	9.0%	19.0%
Small/Mid-Cap Equity	6.0%	1.0%	11.0%
Non-US Developed Equity	7.0%	2.0%	12.0%
Absolute Return	3.0%	0.0%	8.0%
Real Estate	12.0%	7.0%	17.0%
Private Equity	20.0%	10.0%	30.0%
Private Credit	8.0%	3.0%	13.0%
Natural Resources	5.0%	0.0%	10.0%
Infrastructure	5.0%	0.0%	10.0%

The table below sets forth the comparative investments of the PSF for the fiscal years ending August 31, 2022 and 2023, as set forth in the Annual Report for the 2023 fiscal year. As of January 1, 2023, the assets of the PSF(SBOE) and the PSF (SLB) were generally combined (referred to herein as the PSF(CORP)) for investment management and accounting purposes.

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Comparative Investment Schedule – PSF(CORP)

Fair Value (in millions) August 31, 2023 and 2022				
<u>ASSET CLASS</u>	August 31, <u>2023</u>	August 31, <u>2022</u>	Amount of Increase <u>(Decrease)</u>	Percent Change
EQUITY				
Domestic Small Cap	\$ 2,975.1	\$ 2,858.4	\$ 116.7	4.1%
Domestic Large Cap	<u>7,896.5</u>	<u>6,402.1</u>	<u>1,494.4</u>	<u>23.3%</u>
Total Domestic Equity	10,871.6	9,260.5	1,611.1	17.4%
International Equity	<u>7,945.5</u>	<u>7,197.9</u>	<u>747.6</u>	<u>10.4%</u>
TOTAL EQUITY	18,817.1	16,458.4	2,358.7	14.3%
FIXED INCOME				
Domestic Fixed Income	5,563.7	5,867.5	(303.8)	-5.2%
U.S. Treasuries	937.5	1,140.2	(202.7)	-17.8%
High Yield Bonds	1,231.6	1,142.5	89.1	7.8%
Emerging Market Debt	<u>869.7</u>	<u>1,190.9</u>	<u>(321.2)</u>	<u>-27.0%</u>
TOTAL FIXED INCOME	8,602.5	9,341.1	(738.6)	-7.9%
ALTERNATIVE INVESTMENTS				
Absolute Return	3,175.8	2,932.3	243.5	8.3%
Real Estate	6,525.2	6,286.9	238.3	3.8%
Private Equity	8,400.7	7,933.1	467.6	5.9%
Emerging Manager Program	134.5	29.9	104.6	349.8%
Real Return	1,663.7	1,620.3	43.4	2.7%
Real Assets	<u>4,712.1</u>	<u>4,341.3</u>	<u>370.8</u>	<u>8.5%</u>
TOT ALT INVESTMENTS	24,612.0	23,143.8	1,468.2	6.3%
UNALLOCATED CASH	<u>348.2</u>	<u>231.7</u>	<u>116.5</u>	<u>50.3%</u>
TOTAL PSF(CORP) INVESTMENTS	\$ 52,379.8	\$ 49,175.0	\$ 3,204.8	6.5%

Source: Annual Report for year ended August 31, 2023.

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The table below sets forth the investments of the PSF(SLB) for the year ended August 31, 2023.

Investment Schedule - PSF(SLB)¹

Fair Value (in millions) August 31, 2023

	As of <u>8-31-23</u>
Investment Type Investments in Real Assets	
Sovereign Lands	\$ 276.14
Discretionary Internal Investments	264.32
Other Lands	167.97
Minerals ^{(2), (3)}	<u>5,435.62</u> ⁽⁶⁾
Total Investments ⁽⁴⁾	6,144.05
Cash in State Treasury ⁽⁵⁾	508.38
Total Investments & Cash in State Treasury	\$ 6,652.44

¹ Unaudited figures from Table 5 in the FY 2023 Unaudited Annual Financial Report of the Texas General Land Office and Veterans Land Board.

² Historical Cost of investments at August 31, 2023 was: Sovereign Lands \$838,776.71; Discretionary Internal Investments \$129,728,504.04; Other Lands \$38,241,863.70; and Minerals \$13,437,063.73.

³ Includes an estimated 1,000,000.00 acres in freshwater rivers.

⁴ Includes an estimated 1,747,600.00 in excess acreage.

⁵ Cash in State Treasury is managed by the Treasury Operations Division of the Comptroller of Public Accounts of the State of Texas.

⁶ Future Net Revenues discounted at 10% and then adjusted for risk factors. A mineral reserve report is prepared annually by external third-party petroleum engineers.

The asset allocation of the Fund’s financial assets portfolio is subject to change by the PSF Corporation from time to time based upon a number of factors, including recommendations to the PSF Corporation 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; 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. 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. The SDBGP 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. As noted, above, in connection with the Regulatory Recodification, the SDBGP Rules are now codified in the Texas Administrative Code at 19 TAC section 33.6 and are available at <https://tea.texas.gov/finance-and-grants/state-funding/facilities-funding-and-standards/bond-guarantee-program>.

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"). As noted, above, in connection with the Regulatory Recodification, the CDBGP Rules are now codified at 19 TAC section 33.7 and are available at <https://tea.texas.gov/finance-and-grants/state-funding/facilities-funding-and-standards/bond-guarantee-program>.

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.

Pursuant to the CDBGP Rules, the Education Commissioner annually determines the ratio of charter district students to total public school students, for the 2024 fiscal year, the ratio is 7.69%. At February 26, 2024, there were 186 active open-enrollment charter schools in the State and there were 1,128 charter school campuses authorized under such charters, though as of such date, 212 of such campuses are not currently serving students for various reasons; therefore, there are 916 charter school campuses actively serving students in Texas. Section 12.101, Texas Education Code, limits the number of charters that the Education Commissioner may grant 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.

In the event of default, holders of guaranteed charter district bonds will receive all payments due from the corpus of the PSF. Following a determination that a charter district will be or is unable to pay maturing or matured principal or interest on any guaranteed bond, the Act requires a charter district to notify the Education Commissioner not later than the fifth day before the stated maturity date of such bond or interest payment and 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. The Charter District Bond Guarantee Program Capacity (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." 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 after the IRS updated regulations relating to the PSF and similar funds.

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 will estimate the available capacity of the PSF each month and may increase or reduce the State Capacity Limit multiplier to prudently manage fund capacity and 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.

Changes in SBOE-determined multiplier for State Capacity Limit

<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

Since December 16, 2009, the IRS Limit was a static limit set at 500% of the total cost value of the assets held by the PSF as of December 16, 2009; however, on May 10, 2023, the IRS released Notice 2023-39 (the “IRS Notice”), stating that the IRS would issue regulations amending the existing regulations to amend the calculation of the IRS limit to 500% of the total cost value of assets held by the PSF as of the date of sale of new bonds, effective as of May 10, 2023.

The IRS Notice changed the IRS Limit from a static limit to a dynamic limit for the Guarantee Program based upon the cost value of Fund assets, multiplied by five. As of December 31, 2023 the cost value of the Guarantee Program was \$44,034,322,531 (unaudited), thereby producing an IRS Limit of \$220,171,612,655 in principal amount of guaranteed bonds outstanding.

As of December 31, 2023, the estimated State Capacity Limit is \$154,120,128,859, which is lower than the IRS Limit, making the State Capacity Limit 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 March 1, 2023, the Act provides that the SBOE may establish a percentage of the Capacity Limit to be reserved from use in guaranteeing bonds (the “Capacity Reserve”). The SDBGP Rules provide for a maximum Capacity Reserve for the overall Guarantee Program of 5% and provide that the amount of the Capacity Reserve may be increased or decreased by a majority vote of the SBOE based on changes in the cost value, asset allocation, and risk in the portfolio, or may be increased or decreased by the Education Commissioner as necessary to prudently manage fund capacity and preserve the AAA credit rating of the Guarantee Program (subject to ratification or rejection by the SBOE at the next meeting for which an item can be posted). The CDBGP Rules provide for an additional reserve of CDBGP Capacity determined by calculating an equal percentage as established by the SBOE for the Capacity Reserve, applied to the CDBGP Capacity. Effective March 1, 2023, the Capacity Reserve is 0.25%. The Capacity Reserve is noted in the monthly updates with respect to the capacity of the Guarantee Program on the PSF Corporation’s web site at <https://texaspsf.org/monthly-disclosures/>, 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.

No representation is made as to how the capacity will remain available, and the capacity of the Guarantee Program is subject to change due to a number of factors, including changes in bond issuance volume throughout the State and some bonds receiving guarantee approvals may not close. If the amount of guaranteed bonds approaches the State Capacity Limit, the SBOE or Education Commissioner may increase the State Capacity Limit multiplier as discussed above.

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.

The percentage of the charter district scholastic population to the overall public school scholastic population has grown from 3.53% in September 2012 to 7.69% in February 2024. 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 also require the Education Commissioner to make an investigation of the accreditation status and financial status for a charter district applying for a bond guarantee.

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 January 31, 2024, the Charter District Reserve Fund contained \$97,636,048, which represented approximately 2.32% of the guaranteed charter district bonds. The Reserve Fund is held and invested as a non-commingled fund under the administration of the PSF Corporation 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 ongoing 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, to serve as a 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.

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 January 2024, 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.

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 the applicable rating section within the offering document to which this is attached for information regarding a district's underlying rating and the enhanced rating applied to a given series of bonds.

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations		
Fiscal Year Ended 8/31	Book Value ⁽¹⁾	Market Value ⁽¹⁾
2019	\$35,288,344,219	\$46,464,447,981
2020	36,642,000,738	46,764,059,745
2021	38,699,895,545	55,582,252,097
2022	42,511,350,050	56,754,515,757
2023 ⁽²⁾	43,915,792,841	59,020,536,667

⁽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 current, unaudited values for PSF investment portfolios and cash held by the SLB are used. 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 Corporation by the SLB. The SLB reports that information to the PSF Corporation 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, 2023, mineral assets, sovereign and other lands and discretionary internal investments, and cash managed by the SLB had book values of approximately \$13.4 million, \$168.8 million, and \$708.4 million, respectively, and market values of approximately \$5,435.6 million, \$678.4 million, and \$508.4 million, respectively.

Permanent School Fund Guaranteed Bonds	
At 8/31	Principal Amount ⁽¹⁾
2019	\$ 84,397,900,203
2020	90,336,680,245
2021	95,259,161,922
2022	103,239,495,929
2023	115,730,826,682 ⁽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, 2023 (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 \$178,520,723,868, of which \$62,789,897,186 represents interest to be paid. As shown in the table above, at August 31, 2023, there were \$115,730,826,682 in principal amount of bonds guaranteed under the Guarantee Program. Using the State Capacity Limit of \$154,120,128,859 (the State Capacity Limit is currently the Capacity Limit), net of the Capacity Reserve, as of December 31, 2023, 7.36% of the Guarantee Program's capacity was available to the Charter District Bond Guarantee Program. As of December 31, 2023, the amount of outstanding bond guarantees represented 76.36% of the Capacity Limit (which is currently the State Capacity Limit). December 31, 2023 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

Fiscal Year Ended 8/31	No. of Issues	<u>School District Bonds</u>		<u>Charter District Bonds</u>		<u>Totals</u>
		Principal Amount (\$)	No. of Issues	Principal Amount (\$)	No. of Issues	Principal Amount (\$)
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	3,346	91,951,175,922	83	3,307,986,000	3,429	95,259,161,922
2022	3,348	99,528,099,929	94	3,711,396,000	3,442	103,239,495,929
2023 ⁽²⁾	3,339	111,647,914,682	102	4,082,912,000	3,441	115,730,826,682

⁽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 December 31, 2023 (based on unaudited data, which is subject to adjustment), there were \$117,374,697,034 in principal amount of bonds guaranteed under the Guarantee Program, representing 3,369 school district issues, aggregating \$113,174,765,034 in principal amount and 105 charter district issues, aggregating \$4,199,932,000 in principal amount. At December 31, 2023 the projected guarantee capacity available was \$26,935,589,587(based on unaudited data, which is subject to adjustment).

Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2023

The following discussion is derived from the Annual Report for the year ended August 31, 2023, including the Message from the Chief Executive Officer of the Fund, the Management’s Discussion and Analysis, and other schedules 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 PSFC Board are referred to throughout this MD&A as the PSF(CORP). The Fund’s non-financial real assets are managed by the SLB and these assets are referred to throughout as the PSF(SLB) assets.

At the end of fiscal year 2023, the PSF(CORP) net position was \$52.3 billion. During the year, the PSF(CORP) continued implementing the long-term strategic asset allocation, diversifying the investment mix 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(CORP) is invested in global markets and liquid assets experience volatility commensurate with the related indices. The PSF(CORP) is broadly diversified and benefits from the cost structure of its investment program. Changes continue to be researched, crafted, and implemented to make the cost structure more effective and efficient. The PSF(CORP) annual rates of return for the one-year, five-year, and ten- year periods ending August 31, 2023, net of fees, were 6.14%, 6.19%, and 6.78%, respectively (total return takes into consideration the change in the market value of the Fund during the year as well as the interest and dividend income generated by the Fund’s investments). See “Comparative Investment Schedule - PSF(CORP)” for the PSF(CORP) holdings as of August 31, 2023.

Beginning January 1, 2023, Texas PSF transitioned into the PSF Corporation combining all PSF financial investment assets under the singular management of the PSF Corporation. The new structure of the PSF Corporation updated the strategic asset allocation among public equities, fixed income, and alternative assets, as discussed herein. Alternative assets now include absolute return, private equity, real estate, natural resources, infrastructure, and real return (TIPS and commodities). The inauguration of the PSF Corporation as a discretely presented component unit of the State of Texas for fiscal year 2023 required a change in the basis of accounting to full accrual. For a description of the full accrual basis of accounting and more information about performance, including comparisons to established benchmarks for certain periods, please see the 2023 Annual Report which is included by reference herein.

PSF Returns Fiscal Year Ended 8-31-2023¹

<u>Portfolio</u>	<u>Return</u>	<u>Benchmark Return²</u>
Total PSF(CORP) Portfolio	6.14	4.38
Domestic Large Cap Equities	16.09	15.94
Domestic Small/Mid Cap Equities	9.31	9.14
International Equities	12.38	11.89
Emerging Market Equity	2.48	1.25
Fixed Income	(1.30)	(1.19)
U.S. Treasuries	(9.21)	(9.69)
Absolute Return	7.59	3.58
Real Estate	(1.96)	(3.13)
Private Equity	4.55	0.20
Real Return	(5.51)	(5.88)
Emerging Market Debt	12.68	11.34
High Yield	7.80	7.19
Emerging Manager Program	33.35	0.97
Natural Resources	5.70	3.67
Infrastructure	14.22	3.67

¹ Time weighted rates of return adjusted for cash flows for the PSF(CORP) investment assets. Does not include SLB managed real estate or real assets. Returns are net of fees. Source: Annual Report for year ended August 31, 2023.

² Benchmarks are as set forth in the Annual Report for year ended August 31, 2023.

The SLB is responsible for the investment of money in the Real Estate Special Fund Account (RESFA) of the PSF (also referred to herein as the PSF(SLB)). Pursuant to applicable law, money in the PSF(SLB) may be invested in land, interest in real estate, mineral and royalty interest, and real property holdings. For more information regarding the investments of the PSF(SLB), please see the 2023 Unaudited Annual Financial Report of the Texas General Land Office and Veterans Land Board.

The Fund directly supports the public school system in the State by distributing a predetermined percentage of its asset value to the ASF. In fiscal year 2023, \$2.1 billion was distributed to the ASF, \$345 million of which was distributed by the PSF(CORP) on behalf of the SLB.

Other Events and Disclosures

State ethics laws govern the ethics and disclosure requirements for financial advisors and other service providers who advise certain State governmental entities, including the PSF. The SBOE code of ethics provides ethical standards for SBOE members, the Education Commissioner, TEA staff, and persons who provide services to the SBOE relating to the Fund. The PSF Corporation developed its own ethics policy that provides basic ethical principles, guidelines, and standards of conduct relating to the management and investment of the Fund in accordance with the requirements of §43.058 of the Texas Education Code, as amended. The SBOE code of ethics is codified in the Texas Administrative Code at 19 TAC sections 33.4 et seq. and is available on the TEA web site at <https://tea.texas.gov/sites/default/files/ch033a.pdf>. The PSF Corporation's ethics policy is posted to the PSF Corporation's website at texaspsf.org.

In addition, the SLB and GLO have established processes and controls over the administration of real estate transactions and are subject to provisions of the Texas Natural Resources Code and internal procedures in administering real estate transactions for Fund assets it manages.

As of August 31, 2023, 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 Regulatory Recodification included the codification of the TEA's undertaking pursuant to Rule 15c2-12 (the "TEA Undertaking") pertaining to the PSF and the Guarantee Program. As of March 1, 2023, the TEA Undertaking is codified at 19 TAC 33.8, which relates to the Guarantee Program and is available at [available at https://tea.texas.gov/sites/default/files/ch033a.pdf](https://tea.texas.gov/sites/default/files/ch033a.pdf).

Through the codification of the TEA Undertaking and its commitment to guarantee bonds, the TEA 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 Undertaking obligates the TEA to make any filings or disclosures with respect to guaranteed bonds, as the obligations of the TEA under the TEA Undertaking 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 Undertaking, the TEA is 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 PSF Corporation, on behalf of the TEA, and 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 offering document under the heading "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM." The information also includes the Annual Report. The PSF Corporation will update and provide this information within six months after the end of each fiscal year.

The TEA and the PSF Corporation 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. In the event audits are not available by the filing deadline, unaudited financial statements will be provided by such deadline, and audited financial statements will be provided when 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 are required to be prepared to conform to U.S. Generally Accepted Accounting Principles as established by the Governmental Accounting Standards Board. The Fund is composed of two primary segments: the financial assets (PSF(CORP)) managed by PSF Corporation, and the non-financial assets (PSF(SLB)) managed by the SLB. Each of these segments is reported separately und different bases of accounting.

The PSF Corporation classified as a proprietary endowment fund and reported by the State of Texas as a discretely presented component unit and accounted for on an economic resources measurement focus and the full accrual basis of accounting. Measurement focus refers to the definition of the resource flows measured. Under the full accrual basis of accounting, all revenues reported are recognized in the period they are earned or when the PSF Corporation has a right to receive them. Expenses are recognized in the period they are incurred, and the subsequent amortization of any deferred outflows. Additionally, costs related to capital assets are capitalized and subsequently depreciated over the useful life of the assets. Both current and long-term assets and liabilities are presented in the statement of net position.

The SLB manages the Fund's non-financial assets (PSF(SLB)), is classified as a governmental permanent fund and accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, amounts are recognized as revenues in the period in which they are available to finance expenditures of the current period and are measurable. Amounts are considered measurable if they can be estimated or otherwise determined. Expenditures are recognized in the period in which the related liability is incurred, if measurable.

The State's current fiscal year end is August 31. Accordingly, the TEA and the PSF Corporation 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 and the PSF Corporation 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 or the PSF Corporation 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 or the PSF Corporation will provide timely notice of any failure by the TEA or the PSF Corporation to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information

The TEA and the PSF Corporation have 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 and the PSF Corporation have agreed to update information and to provide notices of material events only as described above. The TEA and the PSF Corporation have 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 and the PSF Corporation make 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 and the PSF Corporation disclaim 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 and the PSF Corporation to comply with its agreement.

The continuing disclosure agreement 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 this offering document.

This continuing disclosure agreement may be amended by the TEA or the PSF Corporation 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 or the PSF Corporation, 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 or the PSF Corporation (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 or the PSF Corporation 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 and the PSF Corporation have not failed to substantially comply with their 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.

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