

Dated August 5, 2024

In the opinion of Bond Counsel (identified below), assuming continuing compliance by the Issuer (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 described under "TAX MATTERS" herein, interest on the Bonds under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income of the owners thereof for federal income tax purposes under Section 103 of the Internal Revenue Code, 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.)

\$19,070,000

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Galveston County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2024

Dated Date: August 1, 2024

Due: August 15, as shown on following page

The Texas City Independent School District Unlimited Tax School Building Bonds, Series 2024 (the "Bonds") are being issued pursuant to the Texas Constitution and general laws of the State of Texas, particularly Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, Chapter 1371, Texas Government Code, as amended ("Chapter 1371"), an election held in the District on November 8, 2022 (the "Election"), and an order (the "Order") adopted on June 11, 2024 by the Board of Trustees (the "Board") of the Texas City Independent School District (the "Issuer" or the "District"). As permitted by 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 sale terms for the Bonds. The Approval Certificate was executed by an Authorized Official on August 5, 2024. (See "THE BONDS – Authorization and Purpose" herein.)

The Bonds are direct obligations payable from an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District. (See "THE BONDS – Security for Payment" herein.) The Issuer has received conditional approval from the Texas Education Agency for the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined), which will automatically become effective when the Attorney General of Texas approves the Bonds. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.

Interest on the Bonds will accrue from the Dated Date shown above and will be payable on February 15, 2025 and semiannually thereafter on each August 15 and February 15 until stated maturity or prior redemption. The Bonds will be issued in fully-registered form in principal denominations of \$5,000 or any integral multiple thereof within a stated maturity. The definitive Bonds will be registered and delivered to Cede & Co. (the "Securities Depository") the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described herein.

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

Proceeds from the sale of the Bonds will be used for the purposes of (i) designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping school facilities and sports stadiums in the District and (ii) paying the costs of issuing the Bonds. (See "THE BONDS – Authorization and Purpose".)

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

The Bonds are offered for delivery, when, as and if issued and received by the initial purchasers thereof (the "Purchaser"), and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, Austin, Texas ("Bond Counsel"). It is expected that the Bonds will be available for delivery through DTC on or about August 28, 2024 (the "Delivery Date").

\$19,070,000
TEXAS CITY INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2024

MATURITY SCHEDULE

CUSIP ⁽¹⁾ No. Prefix: 882270

\$12,300,000 Serial Bonds

| Stated Maturity | Principal Amount | Interest Rate | Initial Yield | CUSIP No. Suffix ⁽¹⁾ | Stated Maturity | Principal Amount | Interest Rate | Initial Yield | CUSIP No. Suffix ⁽¹⁾ |
|--------------------|---------------------|------------------|-----------------------|---------------------------------------|--------------------|---------------------|------------------|-----------------------|---------------------------------------|
| 2025 | \$ 330,000 | 5.000% | 2.900% | XX4 | 2037 | \$ 540,000 | 5.000% | 3.000% ⁽²⁾ | YK1 |
| 2026 | 315,000 | 5.000% | 2.880% | XY2 | 2038 | 570,000 | 5.000% | 3.050% ⁽²⁾ | YL9 |
| 2027 | 330,000 | 5.000% | 2.830% | XZ9 | 2039 | 595,000 | 5.000% | 3.110% ⁽²⁾ | YM7 |
| 2028 | 350,000 | 5.000% | 2.810% | YA3 | 2040 | 625,000 | 4.000% | 3.600% ⁽²⁾ | YN5 |
| 2029 | 365,000 | 5.000% | 2.800% | YB1 | 2041 | 650,000 | 4.000% | 3.650% ⁽²⁾ | YP0 |
| 2030 | 385,000 | 5.000% | 2.800% | YC9 | 2042 | 675,000 | 4.000% | 3.700% ⁽²⁾ | YQ8 |
| 2031 | 405,000 | 5.000% | 2.800% | YD7 | 2043 | 705,000 | 4.000% | 3.750% ⁽²⁾ | YR6 |
| 2032 | 425,000 | 5.000% | 2.810% | YE5 | 2044 | 735,000 | 4.000% | 3.800% ⁽²⁾ | YS4 |
| 2033 | 445,000 | 5.000% | 2.830% | YF2 | 2045 | 760,000 | 4.000% | 3.850% ⁽²⁾ | YT2 |
| 2034 | 470,000 | 5.000% | 2.850% ⁽²⁾ | YG0 | 2046 | 795,000 | 4.000% | 3.890% ⁽²⁾ | YU9 |
| 2035 | 490,000 | 5.000% | 2.890% ⁽²⁾ | YH8 | 2047 | 825,000 | 4.000% | 3.930% ⁽²⁾ | YV7 |
| 2036 | 515,000 | 5.000% | 2.930% ⁽²⁾ | YJ4 | | | | | |

\$6,770,000

\$6,770,000 4.000% Term Bonds due August 15, 2054 and priced to Yield 4.000% CUSIP Suffix⁽¹⁾ ZC8

(Interest to accrue from the Dated Date)

The Bonds maturing on or after August 15, 2034 are subject to optional redemption prior to their scheduled maturities at the option of the Issuer, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2033 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption as further described herein. In addition, the Bonds maturing on August 15, 2054 are also subject to mandatory sinking fund redemption, as further described herein. (See "THE BONDS - Redemption Provisions" herein.)

⁽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 The American Bankers Association. CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for convenience of the Bondholders. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the District, the Financial Advisor, or the Purchaser are responsible for the selection or correctness of the CUSIP numbers set forth herein.

⁽²⁾ Yield calculated based on the assumption that the Bonds denoted and sold at premium will be redeemed on August 15, 2033, the first optional called date for the Bonds, at a redemption price of par plus accrued interest to the redemption date.

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
1700 Ninth Avenue North
Texas City, Texas 77590
Telephone: (409) 916-0103
Facsimile: (409) 942-2655

ELECTED OFFICIALS

| Name | Years Served | Term Expires (May) |
|---|--------------|--------------------|
| Melba Anderson President, District 1 | 23 | 2025 |
| Nakisha Paul Trustee, District 3 | 7 | 2026 |
| Maple Pratt Trustee, District 2 | 7 | 2025 |
| Lori Carnes Vice President, District 4 | 2 | 2025 |
| David Moss Trustee, District 5 | 1 | 2026 |
| Hal Biery Trustee, District 6 | 16 | 2027 |
| Randy Dietel Trustee, At-Large | 1 | 2027 |

ADMINISTRATION

| Name | Position | Length of Service With the District (years) |
|--------------------|---|---|
| Dr. Melissa Duarte | Superintendent of Schools | 4 years |
| Ms. Margaret Lee | Assistant Superintendent of Business and Operations | 10 years |
| Ms. Adriana Lyle | Secretary to the Board | 33 years |

CONSULTANTS AND ADVISORS

Bond Counsel Norton Rose Fulbright US LLP
Austin, Texas

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

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

For Additional Information Please Contact:

Ms. Margaret Lee
Assistant Superintendent of
Business and Operations
Texas City Independent School District
1700 Ninth Avenue North
Texas City, Texas 77590
Telephone: (409) 916-0112
mrlee@tcisd.org

Mr. Mark M. McLiney
Mr. Andrew T. Friedman
SAMCO Capital Markets, Inc.
1020 NE Loop 410, Suite 640
San Antonio, Texas 78209
Telephone: (210) 832-9760
mmcliney@samcocapital.com
afriedman@samcocapital.com

USE OF INFORMATION IN THE OFFICIAL STATEMENT

This Official Statement, which includes the cover page and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.

No dealer, broker, salesperson or other person has been authorized to give information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon.

The Purchaser has provided the following sentence for inclusion in this Official Statement. The Purchaser has reviewed the information in the Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Purchaser does not guarantee the accuracy or completeness of such information.

The information set forth herein has been obtained from the District and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the District, Financial Advisor or the Purchaser. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein. See "APPENDIX C - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – PSF Continuing Disclosure Undertaking" and "CONTINUING DISCLOSURE OF INFORMATION" for a description of the Texas Education Agency's ("TEA") and the District's respective undertakings to provide certain information on a continuing basis.

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

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

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

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

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

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

SELECTED DATA FROM THE OFFICIAL STATEMENT

The selected data is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this page from this Official Statement or to otherwise use it without the entire Official Statement.

| | |
|-------------------------------|---|
| The Issuer | Texas City Independent School District (the “Issuer” or the “District”) is a political subdivision of the State of Texas located in Galveston County, Texas. See “APPENDIX B – General Information Regarding the Texas City Independent School District and Galveston County, Texas.” |
| The Bonds | The District’s Unlimited Tax School Building Bonds, Series 2024 (the “Bonds”) are being issued in the principal amount of \$19,070,000 pursuant to the Texas Constitution and general laws of the State of Texas, including Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, Chapter 1371, Texas Government Code, as amended (“Chapter 1371”), an election held in the District on November 8, 2022 (the “Election”), and the order (the “Order”) adopted on June 11, 2024 by the Board of Trustees (the “Board”) of the District. As permitted by 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 sale terms for the Bonds. The Approval Certificate was executed by an Authorized Official on August 5, 2024. 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 sports stadiums in the District and (ii) paying the costs of issuing the Bonds. (See “THE BONDS - Authorization and Purpose” herein.) |
| Paying Agent/Registrar | The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas. |
| Security | The Bonds are direct obligations of the Issuer and are payable from an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District. (See “THE BONDS - Security for Payment” herein.) Additionally, the Issuer has received conditional approval from the Texas Education Agency for the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein.) |
| Redemption | The Bonds maturing on or after August 15, 2034 are subject to redemption at the option of the District in whole or in part on August 15, 2033 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. (See “THE BONDS – Optional Redemption”). In addition, the Bonds maturing on August 15, 2054 are also subject to mandatory sinking fund redemption, as further described herein. (See “THE BONDS – Mandatory Sinking Fund Redemption” herein.) |
| Tax Matters | In the opinion of Norton Rose Fulbright US LLP, Austin, Texas, as Bond Counsel to the District, 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 Legal Opinion of Bond Counsel” herein.) |
| Ratings | S&P Global Ratings (“S&P”) has assigned a municipal bond ratings of “AAA” to the Bonds based upon the Permanent School Fund Guarantee. (See “OTHER PERTINENT INFORMATION – Ratings” and the “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein.) The presently outstanding unenhanced tax-supported debt of the District is rated “AA” by S&P. |
| Book-Entry-Only System | The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 principal amount or integral multiples thereof. No physical delivery of the Bonds will be made to the owners thereof. The principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/ Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds. (See “BOOK-ENTRY-ONLY SYSTEM” herein.) |
| Payment Record | The District has never defaulted on the payment of its bonded indebtedness. |
| Future Bond Issues | The Issuer does not anticipate the issuance of additional debt in the next twelve months. |
| Delivery | When issued, anticipated to be on or about August 28, 2024. |
| Legality | Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the rendering of opinions as to certain legal matters by Norton Rose Fulbright US LLP, Austin, Texas. |

OFFICIAL STATEMENT
relating to

\$19,070,000
TEXAS CITY INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Galveston County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2024

INTRODUCTORY STATEMENT

This Official Statement provides certain information in connection with the issuance by the Texas City Independent School District (the “District” or the “Issuer”) of its \$19,070,000 Unlimited Tax School Building Bonds, Series 2024 (the “Bonds”) identified on page 2 hereof.

The Issuer is a body corporate and a political subdivision of the State of Texas (the “State”) duly organized and existing under the laws of the State. The Bonds are issued pursuant to the Constitution and general laws of the State, including Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, Chapter 1371, Texas Government Code, as amended (“Chapter 1371”), an election held in the District on November 8, 2022 (the “Election”), and an order (the “Order”) adopted by the District’s Board of Trustees (the “Board”) on June 11, 2024. (See “THE BONDS – Authorization and Purpose” herein.) As permitted by 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 sales terms for the Bonds. The Approval Certificate was executed by an Authorized Official on August 5, 2024. (See “THE BONDS – Authority for Issuance” herein.)

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

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the Official Statement will be deposited with the Municipal Securities Rulemaking Board (the “MSRB”) through its Electronic Municipal Market Access (“EMMA”) system. See “CONTINUING DISCLOSURE OF INFORMATION” for a description of the District’s undertaking to provide certain information on a continuing basis. Capitalized terms used, but not defined herein, shall have the meanings ascribed thereto in the Order.

THE BONDS

Authorization and Purpose

The Bonds are being issued in the principal amount of \$19,070,000 pursuant to the Texas Constitution and general laws of the State of Texas (the “State”), including Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, Chapter 1371, the Election and the Order. As permitted by Chapter 1371, the Board, in the Order, delegated the authority to certain Authorized Officials to execute the Approval Certificate establishing the final sales terms for the Bonds. 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 sports stadiums in the District and (ii) paying the costs of issuing the Bonds.

General Description

The Bonds are dated August 1, 2024 (the “Dated Date”). Interest on the Bonds will accrue from the Dated Date, with such interest payable initially on February 15, 2025 and semiannually thereafter on each August 15 and February 15 until stated maturity or prior redemption. The Bonds will mature on the dates, in the principal amounts, and will bear interest at the rates set forth on page 2 of this Official Statement.

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

If the date for the payment of the principal of or interest on the Bonds is a Saturday, Sunday, a legal holiday or a day when banking institutions in the District where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment will be the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on which banking institutions are authorized to close; and payment on such date will have the same force and effect as if made on the original date payment was due.

Security for Payment

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

Permanent School Fund Guarantee

In connection with the sale of the Bonds, the District has received conditional approval from the Texas Commissioner of Education for guarantee of the Bonds under the Texas Permanent School Fund Guarantee Program (Chapter 45, Subchapter C of the Texas Education Code, as amended). Subject to satisfying certain conditions discussed in "APPENDIX C – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein, the Bonds will be absolutely and unconditionally 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 corpus of the Permanent School Fund. The Permanent School Fund Guarantee will terminate with respect to Bonds that are defeased (see "THE BONDS – Defeasance of Bonds").

Redemption Provisions

Optional Redemption. The District reserves the right, at its option, to redeem the Bonds maturing on and after August 15, 2034 on August 15, 2033, or any date thereafter, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof (and, if within a stated maturity, selected at random and by lot by the Paying Agent/Registrar), at the redemption price of par plus accrued interest to the date fixed for redemption.

Mandatory Sinking Fund Redemption. The Bonds maturing on August 15, 2054 (the "Term Bonds") are also subject to mandatory sinking fund redemption in part prior to their stated maturity, and will be redeemed by the Issuer at the redemption prices equal to the principal amounts thereof plus interest accrued thereon to the redemption dates, on the dates and in the principal amounts shown in the following schedule:

| Term Bond | |
|------------------------|-------------------------|
| August 15, 2054 | |
| <u>Redemption Date</u> | <u>Principal Amount</u> |
| August 15, 2048 | \$ 855,000 |
| August 15, 2049 | 890,000 |
| August 15, 2050 | 925,000 |
| August 15, 2051 | 965,000 |
| August 15, 2052 | 1,005,000 |
| August 15, 2053 | 1,045,000 |
| August 15, 2054* | 1,085,000 |

*Maturity

Approximately forty-five (45) days prior to each mandatory redemption date that a Term Bond is to be mandatorily redeemed, the Paying Agent/Registrar shall select by lot the numbers of the Term Bonds within the applicable stated maturity to be redeemed on the next following August 15 from money set aside for that purpose in the Bond Fund maintained for the payment of the Bonds. Any Term Bond not selected for prior redemption shall be paid on the date of its stated maturity.

The principal amount of a Term Bond of a maturity to be redeemed on each mandatory redemption date may be reduced, at the option of the District by the principal amount of the Term Bonds of such maturity which, at least 50 days prior to the mandatory redemption date, (1) shall have been acquired by the District at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the District, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

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 Register 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 a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Bonds 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, will not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC direct participants and indirect participants may implement a redemption of such Bonds from the Beneficial Owners. Any such selection of Bonds the District has called for redemption 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 direct participants, indirect participants, or Beneficial Owners of the selection of portions of the Bonds for redemption. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Legality

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

Sources and Uses of Funds

| | |
|--------------------------------------|-------------------------|
| Sources | |
| Par Amount of the Bonds | \$ 19,070,000.00 |
| Accrued Interest on the Bonds | 62,107.50 |
| Reoffering Premium | <u>946,840.05</u> |
| Total Sources of Funds | <u>\$ 20,078,947.55</u> |
| Uses | |
| Project Fund | \$ 19,600,000.00 |
| Deposit to Interest and Sinking Fund | 62,107.50 |
| Costs of Issuance ⁽¹⁾ | 131,061.26 |
| Purchaser's Discount | <u>285,778.79</u> |
| Total Uses of Funds | <u>\$ 20,078,947.55</u> |

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

Payment Record

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

Amendments

The District may amend the Order without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding and affected thereby, amend, add to or rescind any of the provisions of the Order; except that, without the consent of the registered owners of all of the Bonds affected, no such amendment, addition or rescission may (1) extend the time or times of payment of the principal of, premium, if any, and interest on the Bonds, reduce the principal amount thereof or the rate of interest thereon, or in any other way modify the terms of payment of the principal of, redemption premium, if any, or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required to be held by holders for consent to any such amendment, addition, or rescission.

Defeasance of Bonds

The Order provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, in trust (1) money sufficient to make such payment, (2) Government Obligations (defined below) that mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, or (3) a combination of money and Government Obligations together so certified sufficient to make such payment. The District has additionally reserved the right in the Order, subject to satisfying

the requirements of (1) and (2) above, to substitute other Government Obligations for the Government Obligations originally deposited, to reinvest the uninvested money on deposit for such defeasance and to withdraw for the benefit of the District money in excess of the amount required for such defeasance. The Order provides that "Government Obligations" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that on the date the governing body of the District adopts or approves the proceedings authorizing the financial arrangements have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, or (d) any additional securities and obligations hereafter authorized by Texas law as eligible for use to accomplish the discharge of obligations such as the Bonds. There is no assurance that the ratings for United States Treasury securities acquired to defease any Bonds, or those for any other Government Obligations, will be maintained at any particular rating category. Further, there is no assurance that current State law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of those securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Bonds ("Defeasance Proceeds"), though the District has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Order does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the District to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, registered owners of Bonds are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under State law as permissible defeasance securities.

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

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

REGISTERED OWNERS' 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 – Authorization and Purpose"), 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, registered owners 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 C - 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 opinions of Co-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.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

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

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

Successor Paying Agent/Registrar

Provision is made in the Order for replacing the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a commercial bank; a trust company organized under the laws of the State; or other entity duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds.

Future Registration

In the event the Book-Entry Only System is discontinued, the Bonds may be transferred, registered and assigned on the Register only upon presentation and surrender of the Bonds to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on such Bond or by such other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bond being transferred or exchanged at the principal corporate office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk and expense. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the Owner in not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in authorized denominations and for a like aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer.

Record Date for Interest Payment

The record date ("Record Date") for determining the person to whom the interest on any Bond is payable on any interest payment date means the close of business on the last business day of the preceding month. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "Special Payment Date" which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each Owner of a Bond appearing on the Register at the close of business on the last business day next preceding the date of mailing of such notice.

Limitation on Transfer of Bonds

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

Replacement Bonds

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

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company (“DTC”), New York, New York, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District, the Financial Advisor, and the Purchaser believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered bond certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a S&P Global Ratings rating of AA+. The DTC Rules applicable to its Participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC’s MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to Issuer or Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, certificates representing each Bond stated maturity are required to be printed and delivered. The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, physical certificates representing each Bond stated maturity will be printed and delivered to DTC.

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

Use of Certain Terms in Other Sections of this Official Statement

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

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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 C – 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 C is incorporated herein and made a part hereof for all purposes.

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

On seven occasions in the last thirty years, the Texas Supreme Court (the "Court") has issued decisions assessing the constitutionality of the Texas public school finance system (the "Finance System"). The litigation has primarily focused on whether the Finance System, as amended by the Texas Legislature (the "State Legislature") from time to time (i) met the requirements of article VII, section 1 of the Texas Constitution, which requires the State Legislature to "establish and make suitable provision for the support and maintenance of an efficient system of public free schools," or (ii) imposed a statewide ad valorem tax in violation of article VIII, section 1-e of the Texas Constitution because the statutory limit on property taxes levied by school districts for maintenance and operation purposes had allegedly denied school districts meaningful discretion in setting their tax rates. In response to the Court's previous decisions, the State Legislature enacted multiple laws that made substantive changes in the way the Finance System is funded in efforts to address the prior decisions declaring the Finance System unconstitutional.

On May 13, 2016, the Court issued its opinion in the most recent school finance litigation, *Morath v. The Texas Taxpayer & Student Fairness Coal.*, 490 S.W.3d 826 (Tex. 2016) ("Morath"). The plaintiffs and intervenors in the case had alleged that the Finance System, as modified by the State Legislature in part in response to prior decisions of the Court, violated article VII, section 1 and article VIII, section 1-e of the Texas Constitution. In its opinion, the Court held that "[d]espite the imperfections of the current school funding regime, it meets minimum constitutional requirements." The Court also noted that:

Lawmakers decide if laws pass, and judges decide if those laws pass muster. But our lenient standard of review in this policy-laden area counsels modesty. The judicial role is not to second-guess whether our system is optimal, but whether it is constitutional. Our Byzantine school funding "system" is undeniably imperfect, with immense room for improvement. But it satisfies minimum constitutional requirements.

Possible Effects of Changes in Law on District Bonds

The Court's decision in *Morath* upheld the constitutionality of the Finance System but noted that the Finance System was "undeniably imperfect". While not compelled by the *Morath* decision to reform the Finance System, the State Legislature could enact future changes to the Finance System. Any such changes could benefit or be a detriment to the District. If the State Legislature enacts future changes to, or fails adequately to fund the Finance System, or if changes in circumstances otherwise provide grounds for a challenge, the Finance System could be challenged again in the future. In its 1995 opinion in *Edgewood Independent School District v. Meno*, 917 S.W.2d 717 (Tex. 1995), the Court stated that any future determination of unconstitutionality "would not, however, affect the district's authority to levy the taxes necessary to retire previously issued bonds, but would instead require the State Legislature to cure the system's unconstitutionality in a way that is consistent with the Contract Clauses of the U.S. and Texas Constitutions" (collectively, the "Contract Clauses"), which prohibit the enactment of laws that impair prior obligations of contracts.

Although, as a matter of law, the Bonds, upon issuance and delivery, will be entitled to the protections afforded previously existing contractual obligations under the Contract Clauses, the District can make no representations or predictions concerning the effect of future legislation, or any litigation that may be associated with such legislation, on the District's financial condition, revenues or operations. While the enactment of future legislation to address school funding in Texas could adversely affect the financial condition, revenues or operations of the District, the District does not anticipate that the security for payment of the Bonds, specifically, the District's obligation to levy an unlimited debt service tax and any Permanent School Fund guarantee of the Bonds would be adversely affected by any such legislation (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" herein).

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

Overview

The following language constitutes only a summary of the public school finance system as it is currently structured. For a more complete description of school finance and fiscal management in the State, reference is made to Chapters 43 through 49 of the Texas Education Code, as amended.

Local funding 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 2019 Legislation amended formulas for the State Compression Percentage and Maximum Compressed Tax Rate (each as described below) to compress M&O tax rates in response to year-over-year increases in property values across the State and within a school district, respectively. The discussion in this subcaption "Local Funding for School Districts" is generally intended to describe funding provisions applicable to all school districts; however, there are distinctions in the funding formulas for school districts that generate local M&O tax revenues in excess of the school districts' funding entitlements, as further discussed under the subcaption "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Local Revenue Level in Excess of Entitlement" herein.

State Compression Percentage. The "State Compression Percentage" 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 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" herein).

State Funding for School Districts

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

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

The Finance System also provides an Existing Debt Allotment ("EDA") to subsidize debt service on eligible outstanding school district bonds, an Instructional Facilities Allotment ("IFA") to subsidize debt service on newly issued bonds, and a New Instructional Facilities Allotment ("NIFA") to subsidize operational expenses associated with the opening of a new instructional facility. IFA primarily addresses the debt service needs of property-poor school districts. For the 2024-2025 State fiscal biennium, the 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 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 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 educational programs the students are being 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, (iii) a college, career and military readiness allotment to further the State's goal of increasing the number of students who attain a postsecondary education or workforce credential, and (iv) a teacher compensation incentive allotment to increase teacher retention in disadvantaged or rural school districts. A school district's total Tier One funding, divided by \$6,160, is a school district's measure of students in "Weighted Average Daily Attendance" ("WADA"), which serves to calculate Tier Two funding.

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, Instructional Facilities Allotment, and New Instructional Facilities Allotment. The Foundation School Program also includes facilities funding components consisting of the IFA and the EDA, subject to legislative appropriation each State fiscal biennium. To the extent funded for a biennium, these programs assist school districts in funding facilities by, generally, equalizing a school district's I&S tax effort. The IFA guarantees each awarded school district a specified amount per student (the "IFA Yield") in State and local funds for each cent of I&S

tax levied to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The IFA Yield has been \$35 since the program first began in 1997. New awards of IFA are only available if appropriated funds are allocated for such purpose by the Legislature. To receive an IFA award, in years where new IFA awards are available, a school district must apply to the Education 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 Education 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 Legislature did not appropriate any funds for new IFA awards; however, awards previously granted in years the 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 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 Education 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 Education 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 in excess of entitlement, 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," below. Chapter 49 school districts receive their allocable share of funds distributed from the constitutionally-prescribed Available School Fund, but are generally not eligible to receive State aid under the Foundation School Program, although they may continue to receive State funds for certain competitive grants and certain programs that remain outside the Foundation School Program.

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

For the 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.

A district's "excess local revenue" must be tested for each future school year and, if it exceeds the maximum permitted level, the District must reduce its wealth per student by the exercise of one of the permitted wealth equalization options. Accordingly, if the District's wealth per student should exceed the maximum permitted value in future school years, it may be required each year to exercise one or more of the wealth reduction options. If the District were to consolidate (or consolidate its tax base for all purposes) with a property-poor district, the outstanding debt of each district could become payable from the consolidated district's combined property tax base, and the District's ratio of taxable property to debt could become diluted. If the District were to detach property voluntarily, a portion of its outstanding debt (including the Bonds) could be assumed by the district to which the property is annexed, in which case timely payment of the Bonds could become dependent in part on the financial performance of the annexing district.

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

AD VALOREM PROPERTY TAXATION

The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. Prospective investors are encouraged to review Title 1 of the Texas Tax Code, as amended (the "Property Tax Code"), for identification of property subject to ad valorem taxation, property exempt or which may be exempted from ad valorem taxation if claimed, the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Valuation of Taxable Property

The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the "Appraisal Review Board") responsible for appraising property for all taxing units within the county. The appraisal of property within the District is the responsibility of the Galveston Central Appraisal District (the "Appraisal District"). Except as generally described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, the Appraisal District is

required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three (3) years. A taxing unit may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

State law requires the appraised value of an owner's principal residence ("homestead" or "homesteads") to be based solely on the property's value as a homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property.

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 presentation 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), allowed school districts to grant limitations on appraised property values to certain corporations and limited liability companies to encourage economic development within the school district. Generally, during the last eight (8) years of the ten-year term of a tax limitation agreement, a school district could only levy and collect M&O taxes on the agreed-to limited appraised property value. For the purposes of calculating its Tier One and Tier Two entitlements, the portion of a school district's property that is not fully taxable is excluded from the school district's taxable property values. Therefore, a school district will not be subject to a reduction in Tier One or Tier Two State funds as a result of lost M&O tax revenues due to entering into a tax limitation agreement. 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, Subchapter T of Chapter 403 of the Texas Government Code (“Chapter 403T”) was enacted into law. Chapter 403T 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. Chapter 403T 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 may be abated under HB 5.** 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 “THE PROPERTY 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 2022 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. The Property Tax Code permits taxpayers owning homes or certain businesses located in a disaster area and damaged as a direct result of the declared disaster to pay taxes imposed in the year following the disaster in four equal installments without penalty or interest, commencing on February 1 and ending on August 1. See “AD VALOREM PROPERTY TAXATION - Temporary Exemption for Qualified Property Damaged by a Disaster” for further information related to a discussion of the applicability of this section of the Property Tax Code.

District’s Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the District, having power to tax the property. The District’s tax lien is on a parity with tax liens of such other taxing units. A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the

tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

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

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

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

TAX RATE LIMITATIONS

M&O Tax Rate Limitations

The District is authorized to levy an M&O tax rate pursuant to the approval of the voters of the District at an election held on December 15, 1956 in accordance with the provisions of Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended. The 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 is therefore subject to the 50-cent Test. The District has not used projected property values or State assistance (other than EDA or IFA allotment funding) to satisfy the threshold test.

Public Hearing and Voter-Approval Tax Rate

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

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

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

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

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

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

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

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

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

The District does not allow split payment of taxes or discounts for early payment of taxes.

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

The District does collect an additional 20% penalty on delinquent taxes remaining on July 1 to defray attorney costs in the collection of delinquent taxes per the Tax Code in addition to the penalty and interest automatically assessed under the Tax Code.

The District does collect its own taxes.

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

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

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

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

The District grants a local option homestead exemption of \$10,900 for taxpayers who are at least 65 years of age. This is in addition to the State mandate of \$100,000 for homestead and \$10,000 for over 65.

The District entered into a tax value limitation agreement pursuant to the provisions of Chapter 313, as amended, Texas Tax Code, known as the Texas Economic Development Act, with Gulf Coast Ammonia LLC, effective December 12, 2017. This tax value limitation agreement applies only to the project’s taxable value for maintenance and operations taxing purposes and the project remains fully taxable for interest and sinking fund taxing purposes. A summary of this agreement is provided below. Additional information pertaining to this agreement may be found on the Texas Comptroller’s website.

| Company | First Year of Taxable Value for I&S Taxation | Total Investment | Capped Value For M&O Taxation | First year of Capped Value and Payments to the District | Additional Information |
|--------------------------|--|------------------|-------------------------------|---|--|
| Air Products | 2027 | 2,550,000,000 | 80,000,000 | 2030/31 | There are two supplemental payments in 2026-27 and 2027-28; payments resume starting in 2030 |
| Blue Bayou Ammonia, LLC | 2028 | 1,112,500,000 | 80,000,000 | 2030/31 | |
| Blue Bayou Ammonia, LLC | 2028 | 300,000,000 | 80,000,000 | 2030/31 | |
| Blue Bayou Ammonia, LLC | 2026 | 1,875,000,000 | 80,000,000 | 2028/29 | |
| Blue Bayou Ammonia, LLC | 2028 | 900,000,000 | 80,000,000 | 2030/31 | |
| Gulf Coat Ammonia, LLC | 2022 | 800,000,000 | 80,000,000 | 2022/23 | Supplemental payments started in 2019 per Agreement |
| Sandpiper Chemicals, LLC | 2026 | 805,026,500 | 80,000,000 | 2028/29 | Supplemental payments start in 2026 per Agreement |

INVESTMENTS

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

Legal Investments

Under State law and subject to certain limitations, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations issued and secured by a federal agency or instrumentality of the United States; (4) other obligations unconditionally guaranteed or insured by the State of Texas or the United States or their respective agencies and instrumentalities; (5) “A” or better rated obligations of states, agencies, counties, cities, and other political subdivisions of any state; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) federally insured interest-bearing bank deposits, brokered pools of such deposits, and collateralized certificates of deposit and share certificates; (8) fully collateralized United States government securities repurchase agreements; (9) one-year or shorter securities lending agreements secured by obligations described in clauses (1) through (7) above or (11) through (14) below or an irrevocable letter of credit issued by an “A” or better rated state or national bank; (10) 270-day or shorter bankers’ acceptances, if the short-term obligations of the accepting bank or its holding company are rated at least “A-1” or “P-1”; (11) commercial paper rated at least “A-1” or “P-1”; (12) SEC-registered no-load money market mutual funds that are subject to SEC Rule 2a-7; (13) SEC-registered no-load mutual funds that have an average weighted maturity of less than two years; (14) “AAA” or “AAAm”-rated investment pools that invest solely in investments described above; and (15) in the case of bond proceeds, guaranteed investment contracts that are secured by obligations described in clauses (1) through (7) above and, except for debt service funds and reserves, have a term of 5 years or less.

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

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

As a school district that qualifies as an “issuer” under Chapter 1371, as amended, Texas Government Code, the District is also authorized to purchase, sell, and invest its funds in corporate bonds, but only if the District has formally amended its investment policy to authorize such investments. Texas law defines “corporate bonds” as senior secured debt obligations issued by a domestic business entity and rated not lower than “AA-” or the equivalent by a nationally recognized investment rating firm. The term does not include a bond that is convertible into stocks or shares in the entity issuing the bond (or an affiliate or subsidiary thereof) or any unsecured debt. Corporate bonds must finally mature not later than 3 years from their date of purchase by the school district. A school district may not (1) invest more than 15% of its monthly average fund balance (excluding bond proceeds, reserves, and other funds held for the payment of debt service) in corporate bonds; or (2) invest more than 25% of the funds invested in corporate bonds in any one domestic business entity (including subsidiaries and affiliates thereof). Corporate bonds held by a school district must be sold if they are at any time downgraded below “AA-” (or the equivalent thereof) or, with respect to a corporate bond rated “AA” (or the equivalent thereof), such corporate bond is placed on negative credit watch.

Investment Policies

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

State law requires the District’s investments be made “with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person’s own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived.” The District is required to perform an annual audit of the management controls on investments and compliance with its investment policies and provide regular training for its investment officers.

Current Investments

TABLE 1

As of March 31, 2024, the District had the following investments:

| <u>Type</u> | <u>Book Value</u> | <u>Percentage</u> |
|-----------------------------------|-----------------------|-------------------|
| Certificates of Deposit | \$ 106,161,596 | 33.45% |
| Government/US Agency -US Treasury | 24,204,152 | 7.63% |
| Money Market/Mutual Funds | 21,210,315 | 6.68% |
| Investment Pools | <u>165,828,679</u> | <u>52.24%</u> |
| Total | <u>\$ 317,404,742</u> | <u>100.00%</u> |

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

The District’s employees participate in a retirement plan (the “Plan”) with the State. The Plan is administered by the Teacher Retirement System of Texas (“TRS”). State contributions are made to cover costs of the Plan up to certain statutory limits. The District is obligated for a portion of TRS costs relating to employee salaries that exceed the statutory limit. Aside from the District’s contribution to TRS, the District has no pension fund expenditures or liabilities. For fiscal year ended August 31, 2023, the District made a contribution of \$1,129,844.41 to TRS on a portion of its employees’ salaries that exceeded the statutory minimum. For a discussion of the TRS retirement plan, see “Note 4.C. - Defined Benefit Pension Plan” and “Note 4.D. - Defined Other Postemployment Benefit Plan” to the audited financial statements of the District that are attached hereto as APPENDIX E (the “Financial Statements”).

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

In addition to its participation in the TRS, the District contributes to the Texas Public School Retired Employees Group Insurance Program (the “TRS-Care Plan”), a cost-sharing multiple-employer defined post-employment benefits other than pensions (“OPEB”) health care plan. The TRS-Care Plan provides health care coverage for certain persons (and their dependents) who retired under the TRS. The TRS-Care Plan is administered through a trust by the TRS Board of Trustees. Contribution rates are legally established in state statute by the Legislature, and there is no continuing obligation to provide benefits beyond each fiscal year. The TRS-Care Plan is currently funded on a pay-as-you-go basis and is subject to change based on available funding. For more detailed information concerning the District’s funding policy and contributions in connection with the TRS-Care Plan, see “Note 4.D. – Defined Other Postemployment Benefit Plan” to the Financial Statements.

In June 2015, Government Accounting Standards Board (GASB) Statement No. 75 (Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions – which supersedes GASB Statement No. 45) was issued to improve accounting and financial reporting by state and local governments for OPEB. GASB Statement No. 75 requires reporting entities, such as the District, to recognize their proportionate share of the net OPEB liability in the TRS-Care Plan and a deferred outflow for the contributions made by the District subsequent to the measurement date in the Statement of Net Position, a government-wide financial statement. The changes related to OPEB in the Statement of Net Position to

implement GASB 75 are reflected in the Statement of Activities, a government-wide financial statement. The changes related to the OPEB affect only the government-wide financial statements and do not affect the General Fund balance. The calculation of OPEB contributions is unaffected by the change. Such reporting began with the District's fiscal year ended August 31, 2018. To date, the District has met all funding requirements of the TRS-Care Plan.

TAX MATTERS

Opinion

The delivery of the Bonds is subject to the opinion of Bond Counsel, to the effect that interest on the Bonds for federal income tax purposes (1) is excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), of the owners thereof pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof 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, 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 Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the Issuer as the "taxpayer," and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the Issuer may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

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, life insurance companies, property and casualty insurance companies, corporations subject to the alternative minimum tax on adjusted financial statement income, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a financial asset securitization investment trust ("FASIT"), and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

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 Changes

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

Tax Accounting Treatment of Discount 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.

CONTINUING DISCLOSURE OF INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually and timely notice of specified events to the MSRB. The information provided to the MSRB will be available to the public free of charge via the EMMA system through an internet website accessible at www.emma.msrb.org.

Annual Reports

The District will file with the MSRB through EMMA annually certain updated financial information and operating data. The information to be updated includes the quantitative financial information and operating data with respect to the District of the general type included in this Official Statement as Table 1, in Tables 1 through 8 and 11 through 14 of "APPENDIX A - Financial Information for the Texas City Independent School District" attached hereto, and in APPENDIX E attached hereto. The District will update and provide this information to the MSRB within six (6) months after the end of each fiscal year ending in or after 2024.

The District will provide the updated information to the MSRB in a designated electronic format, which will be available through EMMA to the general public without charge.

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

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

Notice of Certain Events

The District will file with the MSRB notice of any of the following events with respect to the Bonds in a timely manner (and not more than 10 business days after occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional paying agent/registrars or the change of name of a paying agent/registrars, if material; (15) incurrence of a Financial Obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such financial obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such financial obligation of the District, any of which reflect financial difficulties. Neither the Bonds nor the Order make any provision for debt service reserves, credit enhancement (except with respect to the Permanent School Fund guarantee), or liquidity enhancement. In the Order, the District has adopted policies and procedures to ensure timely compliance of its continuing disclosure undertakings. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The District will provide each notice described in this paragraph to the MSRB.

For these purposes, (a) any event described in clause (12) of the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District, and (b) the District intends the words used in the immediately preceding clauses (15) and (16) and in the definition of Financial Obligation above to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018.

Availability of Information

All information and documentation filing required to be made by the District in accordance with its undertaking made for the Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB.

Limitations and Amendments

The District has agreed to update information and to provide notices of certain events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders and Beneficial Owners of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if the agreement, as amended, would have permitted the Purchaser to purchase or sell Bonds in the offering described herein in compliance with Rule 15c2-12, taking into account any amendments or interpretations of Rule 15c2-12 to the date of such amendment, as well as such changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the Beneficial Owners of the Bonds. The District may also repeal or amend these provisions if the SEC amends or repeals the applicable provisions of Rule 15c2-12 or any court of final jurisdiction enters judgment that such provisions of Rule 15c2-12 are invalid, but in either case only if and to the extent that the provisions of this sentence would not prevent the Purchaser from lawfully purchasing or selling Bonds in the primary offering of the Bonds giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of Rule 15c2-12. If the District amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

Compliance with Prior Undertakings

During the past 5 years, the District has complied in all material respects with its continuing disclosure agreements in accordance with Rule 15c2-12.

LEGAL MATTERS

Legal Opinions

The delivery of the Bonds is subject to the approval of the State Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the District, and the approving legal opinion of Bond Counsel, to the effect that the Bonds are valid and legally binding obligations of the District. In addition, Bond Counsel will furnish the Purchaser with its opinion that, subject to the qualifications set forth herein under "TAX MATTERS," the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. The form of Bond Counsel opinion is attached hereto as APPENDIX D. The legal fees to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds.

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

Litigation

On the date of delivery of the Bonds to the Purchaser, the District will execute and deliver to the Purchaser a certificate to the effect that, except as disclosed in this Official Statement, no litigation of any nature has been filed or is pending, as of that date, to restrain or enjoin the issuance or delivery of the Bonds or which would affect the provisions made for their payment or security or in any manner question the validity of the Bonds.

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

Legal Investments and Eligibility to Secure Public Funds in Texas

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency. See "OTHER PERTINENT INFORMATION - Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

The District has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The District has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

OTHER PERTINENT INFORMATION

Registration and Qualification of Bonds for Sale

The sale of the Bonds has not been registered under the Securities Act of 1933, as amended, in reliance upon exemptions provided in such Act; the Bonds have not been qualified under the Securities Act of Texas in reliance upon exemptions contained therein; nor have the Bonds been qualified under the securities acts of any other jurisdiction. The Issuer assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which they may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

It is the obligation of the Purchaser to register or qualify the sale of the Bonds under the securities laws of any jurisdiction which so requires. The District agrees to cooperate, at the Purchaser' written request and sole expense, in registering or qualifying the Bonds or in obtaining an exemption from registration or qualification in any state where such action is necessary; provided, however, that the District shall not be required to qualify as a foreign corporation or to execute a general or special consent to service of process in any jurisdiction.

Ratings

S&P Global Ratings (“S&P”) has assigned a municipal bond rating of “AAA”, to the Bonds based upon the Permanent School Fund Guarantee. (See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” and “CONTINUING DISCLOSURE OF INFORMATION – Compliance with Prior Undertakings”.) The presently outstanding unenhanced tax-supported debt of the District are rated “AA” by S&P. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time. The rating of the Bonds by S&P reflects only the view of such company at the time the rating is given, and the Issuer makes no representation as to the appropriateness of the rating.

There is no assurance that the rating will continue for any given period of time, or that the rating will not be revised downward or withdrawn entirely by S&P if, in the judgment of said companies, circumstances so warrant. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time. Any such downward revisions or withdrawals of the rating may have an adverse effect on the market price of the Bonds.

Authenticity of Financial Information

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

Financial Advisor

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

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

Forward Looking Statements

The statements contained in this Official Statement, and in any other information provided by the Issuer, that are not purely historical, are forward-looking statements, including statements regarding the Issuer's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward looking statements included in this Official Statement are based on information available to the Issuer on the date hereof, and the Issuer assumes no obligation to update any such forward-looking statements. It is important to note that the Issuer's actual results could differ materially from those in such forward-looking statements.

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Issuer. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

Winning Bidder

After requesting competitive bids for the Bonds, the District accepted the bid of Robert W. Baird & Co. Incorporated (the “Purchaser” or the “Initial Purchaser”) to purchase the Bonds at the interest rates shown on the page 2 of this Official Statement at a price of par, plus a reoffering premium of \$946,840.05, plus accrued interest on the Bonds from their Dated Date to their date of initial delivery. The District can give no assurance that any trading market will be developed for the District after their sale by the District to the Purchaser. The District has no control over the price at which the Bonds are subsequently sold and the initial yield at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Purchaser.

Concluding Statement

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

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

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

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

TEXAS CITY INDEPENDENT SCHOOL DISTRICT

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

ATTEST:

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

APPENDIX A

FINANCIAL INFORMATION FOR THE TEXAS CITY INDEPENDENT SCHOOL DISTRICT

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FINANCIAL INFORMATION OF THE ISSUER

ASSESSED VALUATION

TABLE 1

| | |
|--|-------------------------|
| 2024 Actual Certified Market Value of Taxable Property (100% of Market Value)..... | \$ 10,143,765,410 |
| Less Exemptions: | |
| \$100,000 State Mandated Homestead Exemption..... | \$ 1,590,065,443 |
| \$10,000 Over-65/Disabled Homestead Exemption..... | 90,673,002 |
| Disabled and Deceased Veterans' Exemptions..... | 180,180,889 |
| Pollution Control..... | 298,482,664 |
| Productive Valuation of Open Space Land..... | 47,454,252 |
| Solar..... | 902,740 |
| 10% Per Year Residential Cap..... | 575,624,503 |
| TOTAL EXEMPTIONS | 2,783,383,493 |
| 2024 Net Taxable Assessed Value of Taxable Property..... | \$ 7,360,381,917 |
| Less: Freeze Taxable Valuation..... | 268,864,384 |
| Less: Transfer Adjustment..... | 1,257,958 |
| 2024 Freeze Adjusted Net Taxable Assessed Value of Taxable Property..... | <u>\$ 7,090,259,575</u> |

Source: Galveston Central Appraisal District.

GENERAL OBLIGATION BONDED DEBT

TABLE 2

(as of August 1, 2024)

General Obligation Debt Outstanding

| | |
|---|-----------------------|
| Unlimited Tax Refunding Bonds, Series 2015..... | \$ 23,415,000 |
| Unlimited Tax Refunding Bonds, Series 2017..... | 8,900,000 |
| Unlimited Tax School Building Bonds, Series 2018..... | 54,890,000 |
| Unlimited Tax School Building and Refunding Bonds, Series 2019..... | 54,365,000 |
| Unlimited Tax Refunding Bonds, Series 2020..... | 10,090,000 |
| Unlimited Tax Refunding Bonds, Series 2020A..... | 2,230,000 |
| Unlimited Tax Refunding Bonds, Series 2021..... | 3,015,000 |
| Unlimited Tax School Building Bonds, Series 2023..... | 131,390,000 |
| The Bonds..... | <u>19,070,000</u> |
| <i>Total Unlimited Tax Debt Outstanding</i> | <u>\$ 307,365,000</u> |

| | |
|--|------------------|
| 2024 Net Assessed Valuation | \$ 7,360,381,917 |
| Ratio of Total Gross General Obligation Debt Principal to Net Taxable Assessed Valuation | 4.18% |

District Population: Estimated 2024 - 63,669
 Per Capita Certified Net Taxable Assessed Valuation - \$115,603.86
 Per Capita Gross General Obligation Debt Principal - \$4,827.55

TAXABLE ASSESSED VALUATION FOR TAX YEARS 2015-2024

TABLE 3

| Year | Valuation | Change From Preceding Year | |
|---------------------|------------------|----------------------------|---------|
| | | Amount (\$) | Percent |
| 2015 | \$ 3,686,735,553 | - | - |
| 2016 ⁽¹⁾ | 4,568,437,442 | 881,701,889 | 23.92% |
| 2017 | 4,721,311,932 | 152,874,490 | 3.35% |
| 2018 | 5,045,878,221 | 324,566,289 | 6.87% |
| 2019 | 5,343,413,656 | 297,535,435 | 5.90% |
| 2020 | 5,804,815,719 | 461,402,063 | 8.63% |
| 2021 | 5,932,219,603 | 127,403,884 | 2.19% |
| 2022 | 6,757,894,516 | 825,674,913 | 13.92% |
| 2023 | 6,779,853,866 | 21,959,350 | 0.32% |
| 2024 | 7,360,381,917 | 580,528,051 | 8.56% |

Source: Galveston Central Appraisal District.

(1) Includes values of La Marque ISD, which was annexed into the District effective July 1, 2016.

GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

TABLE 4

| FYE (8/31) | Current Total | The Bonds | | | Combined Debt Service* |
|------------|--------------------------|----------------------|-------------------------|---------------------|------------------------|
| | Outstanding Debt Service | Principal | Interest ⁽¹⁾ | Total | |
| 2024 | \$ 28,365,733 | - | - | - | \$ 28,365,733 |
| 2025 | 25,735,381 | \$ 330,000 | \$ 860,304 | \$ 1,190,304 | 26,925,685 |
| 2026 | 24,086,356 | 315,000 | 811,600 | 1,126,600 | 25,212,956 |
| 2027 | 24,302,931 | 330,000 | 795,850 | 1,125,850 | 25,428,781 |
| 2028 | 23,506,556 | 350,000 | 779,350 | 1,129,350 | 24,635,906 |
| 2029 | 23,493,531 | 365,000 | 761,850 | 1,126,850 | 24,620,381 |
| 2030 | 22,989,006 | 385,000 | 743,600 | 1,128,600 | 24,117,606 |
| 2031 | 16,628,306 | 405,000 | 724,350 | 1,129,350 | 17,757,656 |
| 2032 | 15,754,556 | 425,000 | 704,100 | 1,129,100 | 16,883,656 |
| 2033 | 15,798,306 | 445,000 | 682,850 | 1,127,850 | 16,926,156 |
| 2034 | 15,772,806 | 470,000 | 660,600 | 1,130,600 | 16,903,406 |
| 2035 | 13,215,306 | 490,000 | 637,100 | 1,127,100 | 14,342,406 |
| 2036 | 13,206,656 | 515,000 | 612,600 | 1,127,600 | 14,334,256 |
| 2037 | 13,209,406 | 540,000 | 586,850 | 1,126,850 | 14,336,256 |
| 2038 | 13,202,406 | 570,000 | 559,850 | 1,129,850 | 14,332,256 |
| 2039 | 13,205,406 | 595,000 | 531,350 | 1,126,350 | 14,331,756 |
| 2040 | 13,219,956 | 625,000 | 501,600 | 1,126,600 | 14,346,556 |
| 2041 | 13,233,875 | 650,000 | 476,600 | 1,126,600 | 14,360,475 |
| 2042 | 13,247,181 | 675,000 | 450,600 | 1,125,600 | 14,372,781 |
| 2043 | 13,092,606 | 705,000 | 423,600 | 1,128,600 | 14,221,206 |
| 2044 | 13,100,250 | 735,000 | 395,400 | 1,130,400 | 14,230,650 |
| 2045 | 13,103,600 | 760,000 | 366,000 | 1,126,000 | 14,229,600 |
| 2046 | 13,106,800 | 795,000 | 335,600 | 1,130,600 | 14,237,400 |
| 2047 | 13,119,000 | 825,000 | 303,800 | 1,128,800 | 14,247,800 |
| 2048 | 13,109,200 | 855,000 | 270,800 | 1,125,800 | 14,235,000 |
| 2049 | 9,552,600 | 890,000 | 236,600 | 1,126,600 | 10,679,200 |
| 2050 | 8,095,400 | 925,000 | 201,000 | 1,126,000 | 9,221,400 |
| 2051 | 8,093,600 | 965,000 | 164,000 | 1,129,000 | 9,222,600 |
| 2052 | 8,095,800 | 1,005,000 | 125,400 | 1,130,400 | 9,226,200 |
| 2053 | 8,096,400 | 1,045,000 | 85,200 | 1,130,200 | 9,226,600 |
| 2054 | - | 1,085,000 | 43,400 | 1,128,400 | 1,128,400 |
| Total | <u>\$ 462,738,920</u> | <u>\$ 19,070,000</u> | <u>\$ 14,831,804</u> | <u>\$33,901,804</u> | <u>\$ 496,640,724</u> |

TAX ADEQUACY

TABLE 5

| | |
|--|------------------|
| 2024 Certified Freeze Adjusted Net Taxable Assessed Valuations | \$ 7,090,259,575 |
| Maximum Annual Debt Service Requirements (Fiscal Year Ending 8-31-2024) | 28,365,733 |
| Indicated required I&S Fund Tax Rate at 98% Collections to produce Maximum | \$ 0.408231 |

INTEREST AND SINKING FUND MANAGEMENT INDEX

| | |
|--|----------------------|
| Interest and Sinking Fund Balance, Fiscal Year Ended August 31, 2023 | \$ 18,403,244 |
| 2023 Interest and Sinking Fund Tax Levy at 98% Collections produce | <u>25,591,157</u> |
| Total Available for General Obligation Debt | \$ 43,994,401 |
| Less: General Obligation Debt Service Requirements, Fiscal Year Ending | <u>28,365,733</u> |
| Estimated Surplus at Fiscal Year Ending 8/31/2024 | <u>\$ 15,628,669</u> |

CLASSIFICATION OF ASSESSED VALUATION

TABLE 6

| | 2024 | % of Total | 2023 | % of Total | 2022 | % of Total |
|--|--------------------------|-------------------|-------------------------|-------------------|-------------------------|-------------------|
| Real, Residential, Single- | \$ 4,496,417,367 | 44.33% | \$ 4,227,266,023 | 45.40% | \$ 3,795,105,185 | 13.65% |
| Real, Residential, Multi- | 345,660,590 | 3.41% | 347,584,350 | 3.73% | 338,831,467 | 0.64% |
| Real, Vacant Lots/Tracts | 140,997,400 | 1.39% | 92,331,601 | 0.99% | 85,446,690 | 0.23% |
| Real, Acreage (Land Only) | 47,547,970 | 0.47% | 23,912,678 | 0.26% | 22,246,858 | 0.41% |
| Real, Farm and Ranch | 53,089,879 | 0.52% | 34,103,770 | 0.37% | 25,768,175 | 0.00% |
| Real, Commercial and Industrial | 3,615,851,799 | 35.65% | 2,669,212,198 | 28.67% | 2,777,501,737 | 56.35% |
| Real & Tangible, Oil and Gas | - | 0.00% | - | 0.00% | 6,754 | 0.00% |
| Real & Tangible, Personal Utilities | 299,106,950 | 2.95% | 291,930,350 | 3.14% | 253,238,280 | 1.46% |
| Tangible Personal, Industrial | 920,700,900 | 9.08% | 1,410,151,060 | 15.15% | 1,260,421,125 | 27.06% |
| Tangible Personal, | 208,405,349 | 2.05% | 199,494,260 | 2.14% | 214,116,240 | 0.01% |
| Real Property, Mobile Homes | 1,986,086 | 0.02% | 2,028,990 | 0.02% | 1,919,690 | |
| Real Inventory | 2,352,340 | 0.02% | 2,670,150 | 0.03% | 2,417,840 | 0.13% |
| Special Inventory | 11,648,780 | 0.11% | 9,451,190 | 0.10% | 10,644,530 | 0.05% |
| Total Appraised Value | \$ 10,143,765,410 | 100.00% | \$ 9,310,136,620 | 100.00% | \$ 8,787,664,571 | 100.00% |
| Less: | | | | | | |
| \$100,000 State Mandated | \$ 1,590,065,443 | | \$ 1,512,126,041 | | \$ 875,017,258 | |
| \$10,000 Over-65/Disabled and Deceased | 90,673,002 | | 82,100,313 | | 109,993,161 | |
| Veterans' Exemptions | 180,180,889 | | 35,727,205 | | 37,626,025 | |
| Freeport | - | | - | | 193,648,501 | |
| Pollution Control | 298,482,664 | | 305,478,778 | | 286,598,105 | |
| Productive Valuation of Open Solar | 47,454,252 | | 23,810,357 | | 22,138,867 | |
| 10% Per Year Residential Cap | 902,740 | | 184,880 | | 21,960 | |
| | 575,624,503 | | 570,855,180 | | 504,726,178 | |
| Net Taxable Assessed Valuation | \$ 7,360,381,917 | | \$ 6,779,853,866 | | \$ 6,757,894,516 | |
| Freeze Taxable | \$ 270,122,342* | | \$ 246,389,985* | | \$ 375,909,478* | |
| Freeze Adjusted Taxable | \$ 7,090,259,575 | | \$ 6,533,463,881 | | \$ 6,381,985,038 | |

Source: Galveston Central Appraisal District.

*Includes Transfer Adjustment for Galveston County.

TAX DATA

TABLE 7

| Tax Year | Net Taxable Valuation | Tax Rate | Tax Levy | % of Collections | | Year Ended |
|----------|-----------------------|-------------|---------------|----------------------------|---------|-------------|
| | | | | Current | Total | |
| 2015 | \$ 3,686,735,553 | \$ 1.429800 | \$ 52,712,945 | 99.39% | 100.00% | 8/31/2016 |
| 2016 | 4,568,437,442 | 1.440500 | 65,808,341 | 98.73% | 99.72% | 8/31/2017 |
| 2017 | 4,721,311,932 | 1.434900 | 67,746,105 | 97.90% | 98.77% | 8/31/2018 |
| 2018 | 5,045,878,221 | 1.413300 | 71,313,397 | 98.19% | 99.68% | 8/31/2019 |
| 2019 | 5,343,413,656 | 1.413300 | 75,518,465 | 98.25% | 99.02% | 8/31/2020 |
| 2020 | 5,804,815,719 | 1.360700 | 78,986,127 | 98.32% | 99.56% | 8/31/2021 |
| 2021 | 5,932,219,603 | 1.351300 | 80,162,083 | 98.36% * | 99.61%* | 8/31/2022 |
| 2022 | 6,757,894,516 | 1.311300 | 88,616,271 | 97.76% | 95.25% | 8/31/2023 |
| 2023 | 6,779,853,866 | 1.164200 | 78,931,059 | 97.18% | 98.47% | 8/31/2024** |
| 2024 | 7,360,381,917 | - | - | (In process of collection) | | 8/31/2025 |

*The District's top taxpayer, Blanchard Refining Co, LLC protested and filed suit for the tax years 2019-2021; an agreed judgment was filed on May 25, 2022 which resulted in the District rebating taxes to Blanchard Refining Co, LLC.

** Tax collections for tax year 2023 are as of May 31, 2024.

TAX RATE DISTRIBUTION

TABLE 8

| | 2023 | 2022 | 2021 | 2020 | 2019 |
|-----------------------|------------------|------------------|------------------|------------------|------------------|
| General Fund | \$ 0.7959 | \$ 0.9429 | \$ 1.0134 | \$ 1.0158 | \$ 1.0684 |
| I & S Fund | 0.3683 | 0.3684 | 0.3379 | 0.3449 | 0.3449 |
| Total Tax Rate | \$ 1.1642 | \$ 1.3113 | \$ 1.3513 | \$ 1.3607 | \$ 1.4133 |

Source: Texas Municipal Report published by the Municipal Advisory Council of Texas, the Galveston Central Appraisal District, the Issuer's Comprehensive Annual Financial Report for the Fiscal Year Ended August 31, 2019, and information supplied by the Issuer.

ESTIMATED OERLAPPING DEBT INFORMATION

TABLE 9

| Taxing Body | Gross Debt (As of 8/1/2024) | % Overlapping | Amount Overlapping |
|--|--|--------------------------|-------------------------------|
| Galveston, City of | \$ 188,140,000 | 0.03% | \$ 56,442 |
| College of the Mainland | 150,260,000 | 40.66% | 61,095,716 |
| Galveston Co | 158,754,634 | 14.72% | 23,368,682 |
| Galveston FWSD # 6 | 9,200,000 | 62.75% | 5,773,000 |
| Galveston Co MUD # 12 | 4,160,000 | 100.00% | 4,160,000 |
| Galveston Co MUD # 52 | 6,090,000 | 100.00% | 6,090,000 |
| Galveston Co MUD # 66 | 12,160,000 | 28.80% | 3,502,080 |
| La Marque, City of | 26,302,001 | 51.41% | 13,521,859 |
| Texas City, City of | 11,565,000 | 72.93% | 8,434,355 |
| Hitchcock, City of | 1,605,000 | 0.30% | 4,815 |
| Tiki Island, Village of | 7,945,000 | 62.71% | 4,982,310 |
| Total Gross Overlapping Debt | | | <u>\$ 130,989,258</u> |
| Texas City ISD | | | \$ 307,365,000 |
| Total Gross Direct and Overlapping Debt | | | <u>\$ 438,354,258</u> |
| Ratio of Direct and Overlapping Debt to Net Assessed Valuation | | | 5.96% |
| Per Capita Direct and Overlapping Debt | | | \$ 6,885 |

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

* Preliminary, subject to change; includes the Bonds.

AUTHORIZED BUT UNISSUED BONDS OF DIRECT AND OVERLAPPING GOVERNMENTAL ENTITIES

TABLE 10

| Issuer | Date of Authorization | Amount Authorized | Amount Issued to Date | Amount Unissued |
|-------------------------|----------------------------------|------------------------------|----------------------------------|----------------------------|
| Bayou Vista, City of | None | - | - | - |
| College of the Mainland | 5/6/2023 | 250,000,000 | - | 250,000,000 |
| Galveston Co | None | \$ - | \$ - | \$ - |
| Galveston FWSD # 6 | 1/20/2001 | 5,800,000 | 5,795,942 | 4,058 |
| Galveston Co MUD # 12 | 5/6/2023 | \$ 9,880,000 | \$ - | \$ 9,880,000 |
| Galveston Co MUD # 52 | 11/08/2005 | 65,725,000 | 7,330,000 | 58,395,000 |
| Galveston Co MUD # 66 | 11/07/2006 | 32,590,000 | 13,775,000 | 18,815,000 |
| | 5/4/2019 | 30,000,000 | - | 30,000,000 |
| | | | | <u>\$ 48,815,000</u> |
| Hitchcock, City of | None | | | |
| La Marque, City of | None | | | |
| Texas City, City of | None | | | |
| Tiki Island, Village of | None | | | |
| Texas City ISD* | 11/8/2022 | \$ 158,600,000 | \$ 158,600,000 | \$ - |

* Includes the Bonds and certain premium allocated to the issuance of the Bonds. After issuance of the Bonds, the District has no remaining authorized but unissued bonds.

| <u>Name</u> | <u>Business/Property</u> | <u>2023</u> | |
|--|--------------------------|---------------------------------------|---|
| | | <u>Net Taxable Assessed Valuation</u> | <u>% of Total 2023 Assessed Valuation</u> |
| Blanchard Refining Co LLC ⁽¹⁾ | Oil and Gas | \$ 1,489,364,100 | 21.97% |
| Valero Refining - Texas LP | Oil and Gas | 450,413,520 | 6.64% |
| Air Products Industrial Gas | Industrial Gas Supplier | 201,635,790 | 2.97% |
| Texas-New Mexico Power Co | Utility | 154,154,590 | 2.27% |
| Union Carbide Corp | Chemical | 158,178,070 | 2.33% |
| Gulf Coast Mmmonia, LLC | Chemical Manufacturing | 194,799,470 | 2.87% |
| Linde Inc. | Chemical | 145,260,650 | 2.14% |
| Union Carbide Corp | Chemical | 126,609,790 | 1.87% |
| South Houston Green Power LP | Utility | 71,891,580 | 1.06% |
| Marathon Petroleum Co LP | Oil and Gas | 64,385,550 | 0.95% |
| | | <u>\$ 3,056,693,110</u> | <u>45.08%</u> |

As shown in the table above, the top ten taxpayers in the District account for in excess of 45% of the District's tax base, with the largest taxpayer representing more than 21% of the tax base alone. Adverse developments in economic conditions, especially in a particular industry in which any one of these large taxpayers participates, could adversely impact these businesses and, consequently, the tax values in the District, resulting in less local tax revenue. Current events, including the Pandemic (See "INFECTIOUS DISEASE OUTBREAK - COVID-19" herein), have caused extreme volatility in the oil industry, depressing the price for that commodity. If any major taxpayer, or a combination of top taxpayers, were to default in the payment of taxes, the ability of the District to make timely payment of debt service on the Bonds may be dependent on its ability to enforce and liquidate its tax lien, which is a time consuming process that may only occur annually. See "REGISTERED OWNERS' REMEDIES" and "AD VALOREM TAX PROCEDURES – District's Rights in the Event of Tax Delinquencies" in this Official Statement.

⁽¹⁾ Blanchard Refining Co, LLC protested and filed suit for the tax years 2019-2021; an agreed judgment was filed on May 25, 2022 which resulted in the District rebating taxes to Blanchard Refining Co, LLC. The District has adequate resources available to cover the refund due. The District's M&O budget is unaffected by virtue of increased revenues from the State upon recalculation of their revenues due to the settlement.

* Top Ten Taxpayers for 2024 not available at time of printing.

GENERAL FUND COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES

TABLE 12

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

| | Fiscal Year Ended | | | | |
|---|-------------------------------|-----------------------|-----------------------|--------------------------------|-----------------------|
| | <u>8/31/2023</u> | <u>8/31/2022</u> | <u>8/31/2021</u> | <u>8/31/2020</u> | <u>8/31/2019*</u> |
| Fund Balance - Beginning of Year | \$ 98,864,670 | \$ 86,551,309 | \$ 69,703,705 | \$ 75,942,955 | \$ 51,845,170 |
| Revenues: | | | | | |
| Local and Intermediate Sources | \$ 69,793,039 | \$ 60,672,429 | \$ 62,049,639 | \$ 61,777,556 | \$ 64,271,622 |
| State Sources | 39,440,820 | 41,220,265 | 44,889,586 | 44,183,058 | 38,914,868 |
| Federal Sources & Other | <u>3,337,370</u> | <u>4,220,154</u> | <u>4,855,386</u> | <u>1,945,926</u> | <u>7,185,381</u> |
| Total Revenues | <u>\$ 112,571,229</u> | <u>\$ 106,112,848</u> | <u>\$ 111,794,611</u> | <u>\$ 107,906,540</u> | <u>\$ 110,371,871</u> |
| Expenditures: | | | | | |
| Instruction | \$ 46,132,266 | \$ 44,859,882 | \$ 46,427,662 | \$ 45,588,931 | \$ 41,250,006 |
| Instructional Resources & Media Services | 947,877 | 947,500 | 1,096,356 | 1,064,355 | 894,708 |
| Curriculum & Instructional Staff Development | 850,080 | 790,674 | 843,962 | 823,544 | 827,696 |
| Instructional Leadership | 1,233,299 | 1,353,652 | 836,718 | 798,164 | 760,669 |
| School Leadership | 5,794,824 | 5,274,929 | 5,260,225 | 5,225,356 | 5,015,176 |
| Guidance, Counseling & Evaluation Services | 2,476,508 | 2,237,257 | 2,250,462 | 2,188,656 | 2,322,566 |
| Social Work Services | 150,700 | 137,110 | 172,715 | 158,373 | 155,069 |
| Health Services | 848,182 | 813,018 | 787,878 | 897,454 | 819,059 |
| Student (Pupil) Transportation | 3,413,927 | 2,997,591 | 2,630,228 | 2,336,980 | 2,121,512 |
| Food Services | - | - | - | - | - |
| Cocurricular/Extracurricular Activities | 3,647,314 | 3,319,586 | 3,863,182 | 3,246,936 | 3,374,695 |
| General Administration | 3,891,285 | 3,961,859 | 3,470,650 | 3,565,738 | 3,144,979 |
| Plant Maintenance and Operations | 18,369,191 | 17,429,242 | 15,662,815 | 15,445,417 | 17,605,818 |
| Security and Monitoring Services | 3,747,234 | 2,899,580 | 2,659,941 | 3,110,384 | 3,332,434 |
| Data Processing Services | 3,250,631 | 2,885,394 | 3,036,034 | 2,580,887 | 2,359,917 |
| Community Services | 30,793 | 25,062 | 52,042 | 15,716 | 29,493 |
| Debt Service – Principal on long-term debt | 196,072 | 119,223 | 825,000 | 815,000 | 842,939 |
| Interest on long-term debt | 9,675 | - | 11,138 | 20,509 | 22,776 |
| Issuance costs and fees | - | - | 1,200 | 400 | 400 |
| Capital Outlay | - | - | - | - | 70,705 |
| Facilities acquisition and construction | 335,512 | 367,164 | 2,301,071 | 133,754 | |
| Contracted instructional services between schools | 826,620 | 460,170 | 631,414 | 183,450 | 518,451 |
| Payments related shares services arrangements | 348,195 | 287,471 | 387,258 | 329,659 | 292,075 |
| Payments to juvenile justice alternative education programs | - | 675,295 | 618,056 | - | 24,145 |
| Intergovernmental Charges | <u>566,183</u> | <u>-</u> | <u>-</u> | <u>616,127</u> | <u>488,798</u> |
| Total Expenditures | <u>\$ 97,066,368</u> | <u>\$ 91,841,659</u> | <u>\$ 93,826,007</u> | <u>\$ 89,145,790</u> | <u>\$ 86,274,086</u> |
| Other Financing Sources/(Uses) | \$ (6,419,220) ⁽²⁾ | \$ - | \$ 36,100 | \$ (25,000,000) ⁽¹⁾ | \$ - |
| Prior Period Adjustment | \$ - | \$ (1,957,828) | \$ (1,157,100) | \$ - | |
| Fund Balance - End of Year | <u>\$ 107,950,311</u> | <u>\$ 98,864,670</u> | <u>\$ 86,551,309</u> | <u>\$ 69,703,705</u> | <u>\$ 75,942,955</u> |

Source: The Issuer's Annual Financial Reports.

⁽¹⁾ Represents a transfer out of the general fund into the Capital Projects Fund.

⁽²⁾ Represents a transfer in of \$344,072 for lease issuances and \$6,763,292 transfer out to the Capital Projects Fund.

* Plant Maintenance and Operation Expenses in Fiscal Year 2019 are escalated due to repairs and expenses related to Hurricane Harvey which hit the Texas gulf Coast on August 26, 2018.

COMPARATIVE STATEMENT OF DEBT SERVICE FUND REVENUES AND EXPENDITURES

TABLE 13

| | Fiscal Year Ended August 31, | | | | |
|---|------------------------------|----------------------|----------------------|----------------------|----------------------|
| | <u>2023</u> | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> |
| Revenues: | | | | | |
| Local | \$ 25,439,573 | \$ 19,121,151 | \$ 19,397,175 | \$ 18,245,371 | \$ 17,302,769 |
| State | 704,018 | 229,087 | 3,775,246 | 3,755,979 | 3,789,799 |
| Total Revenues | <u>\$ 26,143,591</u> | <u>\$ 19,350,238</u> | <u>\$ 23,172,421</u> | <u>\$ 22,001,350</u> | <u>\$ 21,092,568</u> |
| Expenditures: | | | | | |
| Total Debt Service | \$ 24,628,171 | \$ 19,836,498 | \$ 20,047,947 | \$ 21,266,231 | \$ 19,638,624 |
| Excess (Deficiency) Revenues Over Expenditures | 1,515,420 | (486,260) | 3,124,474 | 735,119 | 1,453,944 |
| Fund Balance | | | | | |
| Beginning Balance - September 1 | 15,722,408 | 16,919,833 | 13,936,574 | 12,989,994 | 10,835,688 |
| Other Sources (Uses) | <u>1,165,416</u> | <u>(711,165)</u> | <u>(141,215)</u> | <u>211,461</u> | <u>430,362</u> |
| Fund Balance - End of Year | <u>\$ 18,403,244</u> | <u>\$ 15,722,408</u> | <u>\$ 16,919,833</u> | <u>\$ 13,936,574</u> | <u>\$ 12,719,994</u> |

Source: The Issuer's Annual Financial Reports.

ANALYSIS OF DELINQUENT TAXES

TABLE 14

| Tax Year | Outstanding Delinquent Taxes August 31, 2023 | Adjusted Tax Levy | Percentage of Tax Levy |
|----------------|--|----------------------|---------------------------|
| 2023 | \$ 1,895,486 | \$ 78,931,059 | 2.40% |
| 2022 | 951,188 | 88,616,271 | 1.07% |
| 2021 | 458,687 | 80,162,083 | 0.57% |
| 2020 | 304,159 | 78,986,127 | 0.39% |
| 2019 | 271,084 | 75,518,465 | 0.36% |
| 2018 | 233,667 | 71,313,397 | 0.33% |
| 2017 | 201,015 | 67,746,105 | 0.30% |
| 2016 | 148,638 | 65,808,341 | 0.23% |
| 2015 | 130,584 | 52,712,945 | 0.25% |
| 2014 and prior | 1,494,915 | | |

^(a) Various levies and percentages

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APPENDIX B

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

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GENERAL INFORMATION REGARDING THE DISTRICT

TEXAS CITY INDEPENDENT SCHOOL DISTRICT

Texas City Independent School District (the "District") is an industrial area that includes a major portion of the City of Texas City, Texas (the "City"), and Gulfport.

District Employment

| | |
|--|------------|
| Teachers | 553 |
| Administrators | 54 |
| Teachers' Aides | 138 |
| Non-Teaching Certified Professional Staff (nurses, counselors, diagnosticians) | 172 |
| Support Staff (secretaries, clerks) | 70 |
| Auxiliary Staff (food service & maintenance) | <u>328</u> |
| Total Number of Personnel | 1,316 |

School Facilities

Currently, the District is operating the following school facilities:

| <u>School Name</u> | <u>Grades Provided</u> | <u>Planned Capacity</u> | <u>Current Enrollment</u> | <u>Year Built</u> |
|-----------------------------|------------------------|-------------------------|---------------------------|-------------------|
| Calvin Vincent -ECC | PK | 300 | 334 | 1976 |
| Guajardo Elementary | K-4 | 750 | 537 | 2021 |
| Heights Elementary | K-4 | 600 | 410 | 1993 |
| Kohfeldt Elementary | K-4 | 600 | 427 | 2009 |
| Hayley Elementary | K-5 | 902 | 502 | 2021 |
| Simms Elementary | K-5 | 902 | 525 | 2021 |
| Roosevelt Wilson Elementary | K-4 | 600 | 466 | 1993 |
| Blocker Middle School | 7-8 | 1,100 | 814 | 2013 |
| Giles Middle School | 5-8 | 750 | 536 | 2022 |
| Levi Fry Intermediate | 5-6 | 900 | 770 | 2009 |
| La Marque High School | 9-12 | 2,400 | 699 | 1970 |
| Texas City High School | 9-12 | 1,800 | 1721 | 2011 |
| Woodrow Wilson Alternative | 6-12 | 200 | 117 | 1995 |
| Industrial Trades Center | N/A | 0 | 0 | 2017 |
| Totals | | 11,804 | 7,858 | |

HISTORICAL ENROLLMENT

| <u>YEAR</u> | <u>STUDENT ENROLLMENT</u> |
|-------------|---------------------------|
| 2009-10 | 5,984 |
| 2010-11 | 5,922 |
| 2011-12 | 5,936 |
| 2012-13 | 5,944 |
| 2013-14 | 6,163 |
| 2014-15 | 6,347 |
| 2015-16 | 6,397 |
| 2016-17 | 8,945 |
| 2017-18 | 8,945 |
| 2018-19 | 8,613 |
| 2019-20 | 8,451 |
| 2020-21 | 8,044 |
| 2021-22 | 7,811 |
| 2022-23 | 7,890 |
| 2023-24 | 7,858 |

CITY OF TEXAS CITY

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

Labor Force Statistics

| | <u>2024**</u> | <u>2023*</u> | <u>2022*</u> | <u>2021*</u> | <u>2020*</u> |
|----------------------|---------------|--------------|--------------|--------------|--------------|
| Civilian Labor Force | 23,869 | 23,474 | 22,855 | 22,520 | 22,483 |
| Total Employed | 22,672 | 22,210 | 21,530 | 20,612 | 19,897 |
| Total Unemployed | 1,197 | 1,264 | 1,325 | 1,908 | 2,586 |
| % Unemployed | 5.0% | 5.4% | 5.8% | 8.5% | 11.5% |

*Average annual statistics.

**As of May 2024.

Source: Texas Workforce Commission.

GALVESTON COUNTY, TEXAS

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

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

Labor Force Statistics

| | <u>2024**</u> | <u>2023*</u> | <u>2022*</u> | <u>2021*</u> | <u>2020*</u> |
|----------------------|---------------|--------------|--------------|--------------|--------------|
| Civilian Labor Force | 177,197 | 174,213 | 169,221 | 165,655 | 163,817 |
| Total Employed | 170,270 | 166,796 | 161,693 | 154,797 | 149,429 |
| Total Unemployed | 6,927 | 7,417 | 7,528 | 10,858 | 14,388 |
| % Unemployed | 3.9% | 4.3% | 4.4% | 6.6% | 8.8% |

*Average annual statistics.

**As of May 2024.

Source: Texas Workforce Commission.

APPENDIX C

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

The following is incorporated into the offering document to which it is attached.

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)").

Annual Distributions to the Available School Fund¹

| <u>Fiscal Year Ending</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>2023²</u> |
|---------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|------------------|-------------|-------------------------|
| PSF(CORP) Distribution | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 2,076 |
| PSF(SBOE) Distribution | 839 | 839 | 1,056 | 1,056 | 1,236 | 1,236 | 1,102 | 1,102 | 1,731 | - |
| PSF(SLB) Distribution | 0 | 0 | 0 | 0 | 0 | 300 | 600 | 600 ³ | 415 | 115 |
| Per Student Distribution | 175 | 173 | 215 | 212 | 247 | 306 | 347 | 341 | 432 | 440 |

¹ In millions of dollars. Source: Annual Report for year ended August 31, 2023.

² Reflects the first fiscal year in which distributions were made by the PSF Corporation.

³ In September 2020, the SBOE approved a special, one-time transfer of \$300 million from the portion of the PSF managed by the SBOE to the portion of the PSF managed by the SLB, which amount is to be transferred to the ASF by the SLB in fiscal year 2021. In approving the special transfer, the SBOE determined that the transfer was in the best interest of the PSF due to the historic nature of the public health and economic circumstances resulting from the COVID-19 pandemic and its impact on the school children of Texas.

In November 2022, the SBOE approved a \$3.1 billion distribution to the ASF for State fiscal biennium 2024-2025. In making its determination of the 2024-2025 Distribution Rate, the SBOE took into account the announced planned distribution to the ASF by the SLB of \$1.2 billion for the biennium.

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

| <u>State Fiscal Biennium</u> | <u>2008-09</u> | <u>2010-11</u> | <u>2012-13</u> | <u>2014-15</u> | <u>2016-17</u> | <u>2018-19</u> | <u>2020-21</u> | <u>2022-23</u> | <u>2024-25</u> |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|--------------------|
| SBOE Distribution Rate ¹ | 3.5% | 2.5% | 4.2% | 3.3% | 3.5% | 3.7% | 2.974% | 4.18% | 3.32% ² |

¹ Includes only distributions made to the ASF by the SBOE; see the immediately preceding table for amounts of direct SLB distributions to the ASF. In addition, the SLB approved transfers of \$600 million per year directly to the ASF for fiscal biennium 2024-25.

² The distribution rate approved by the SBOE for fiscal biennium 2024-25 was based on a number of assumptions, including a mid- to long-term expected return rate for the Fund of 6.35% and a rate of inflation measured by the consumer price index of 2.70% according to the policy adopted by the SBOE in June 2022.

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.

Comparative Investment Schedule – PSF(CORP)

| Fair Value (in millions) August 31, 2023 and 2022 | | | | |
|---|-----------------|-----------------|-------------------------------|----------------|
| ASSET CLASS | August 31, 2023 | August 31, 2022 | Amount of Increase (Decrease) | 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 | 869.7 | 1,190.9 | (321.2) | -27.0% |
| 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 | 4,712.1 | 4,341.3 | 370.8 | 8.5% |
| TOT ALT INVESTMENTS | 24,612.0 | 23,143.8 | 1,468.2 | 6.3% |
| UNALLOCATED CASH | 348.2 | 231.7 | 116.5 | 50.3% |
| TOTAL PSF(CORP) INVESTMENTS | \$ 52,379.8 | \$ 49,175.0 | \$ 3,204.8 | 6.5% |

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

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 8-31-23

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⁽⁶⁾</u> |
| 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 CDBG Capacity include Fund investment performance, future increases in the Guarantee Program multiplier, changes in State law that govern the calculation of the CDBG 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 SDBG 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 SDBG 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 on-going compliance with State law and regulations, which are monitored by TEA. TEA has a broad range of enforcement and remedial actions that it can take as corrective measures, and such actions may include the loss of the State charter, the appointment of a new board of directors to govern a charter district, the assignment of operations to another charter operator, or, as a last resort, the dissolution of an open-enrollment charter school. Charter holders are governed by a private board of directors, as compared to the elected boards of trustees that govern school districts.

As described above, the Act includes a funding "intercept" function that applies to both the School District Bond Guarantee Program and the Charter District Bond Guarantee Program. However, school districts are viewed as the "educator of last resort" for students residing in the geographical territory of the district, which makes it unlikely that State funding for those school districts would be discontinued, although the TEA can require the dissolution and merger into another school district if necessary to ensure sound education and financial management of a school district. That is not the case with a charter district, however, and open-enrollment charter schools in the State have been dissolved by TEA from time to time. If a charter district that has bonds outstanding that are guaranteed by the Charter District Bond Guarantee Program should be dissolved, debt service on guaranteed bonds of the district would continue to be paid to bondholders in accordance with the Charter District Bond Guarantee Program, but there would be no funding available for reimbursement of the PSF by the Comptroller for such payments. As described under "The Charter District Bond Guarantee Program," the Act established the Charter District Reserve Fund, 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.

Ratings of Bonds Guaranteed Under the Guarantee Program

Moody's Investors Service, Inc., S&P Global Ratings, and Fitch Ratings, Inc. rate bonds guaranteed by the PSF "Aaa," "AAA" and "AAA," respectively. Not all districts apply for multiple ratings on their bonds, however. See 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 | Book Value ⁽¹⁾ | Market Value ⁽¹⁾ |
| <u>Ended 8/31</u> | | |
| 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 | | |
|--|---------------------------------------|--------------------------------|
| <u>At 8/31</u> | <u>Principal Amount⁽¹⁾</u> | |
| 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 <u>8/31</u> | <u>School District Bonds</u> | | <u>Charter District Bonds</u> | | <u>Totals</u> | |
|----------------------------------|------------------------------|---------------------------------|-------------------------------|---------------------------------|-------------------------|---------------------------------|
| | No. of <u>Issues</u> | Principal <u>Amount (\$)</u> | No. of <u>Issues</u> | Principal <u>Amount (\$)</u> | No. of <u>Issues</u> | Principal <u>Amount (\$)</u> |
| 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>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 |

¹Time 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.

²Benchmarks 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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APPENDIX D

FORM OF LEGAL OPINION OF BOND COUNSEL

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August 28, 2024

Norton Rose Fulbright US LLP
98 San Jacinto Boulevard, Suite 1100
Austin, Texas 78701-4255
United States

Tel +1 512 474 5201
Fax +1 512 536 4598
nortonrosefulbright.com

FINAL

IN REGARD to the authorization and issuance of the “Texas City Independent School District Unlimited Tax School Building Bonds, Series 2024” (the *Bonds*), dated August 1, 2024, in the aggregate original principal amount of \$19,070,000, we have reviewed the legality and validity of the issuance thereof by the Texas City Independent School District (the *Issuer*). The Bonds are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof. The Bonds have Stated Maturities of August 15 in each of the years 2025 through 2047 and August 15, 2054, unless optionally or mandatorily 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, the defeasance and discharge of the Issuer’s obligations being refunded by the Bonds, and with respect to the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes and for no other purpose. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Bonds. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Bonds. Our role in connection with the Issuer’s Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

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

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

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

discretion in accordance with general principles of equity. The Bonds are payable from the proceeds of an ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the Issuer.

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

**EXCERPTS FROM THE DISTRICT'S AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2023**

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

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Texas City Independent School District (the District), as of and for the year ended August 31, 2023, and the related notes to the financial statements, which collectively comprise the 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, each major fund, and the aggregate remaining fund information of the 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.

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. We are required to be independent of the 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.

Emphasis of Matter

As discussed in Note 1 to the basic financial statements, during the year ended August 31, 2023, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The District's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 the 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 Responsibilities 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 the 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 the 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 Management's Discussion and Analysis and the Required Supplementary Information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

The Board of Trustees of
Texas City Independent School District

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Supplementary Information, as listed in the table of contents, and Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplementary Information and Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information and Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information Included in the Annual Report

Management is responsible for the other information included in the annual report. The other information comprises Schedule of Required Responses to Selected School FIRST Indicators, but 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 December 12, 2023 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Houston, Texas
December 12, 2023

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Management's Discussion and Analysis

As management of the Texas City Independent School District (the District), we offer readers of the accompanying report this narrative overview and analysis of the financial activities of the District for the fiscal year ended August 31, 2023.

Financial Highlights

- Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at year-end by \$200,579,570 (net position).
- The District's total net position increased by \$30,908,500 from current operations.
- As of the close of the year, the District's governmental funds had combined ending fund balances of \$ 284,222,754, an increase of \$147,082,331 as compared to the preceding year.
- At the end of the year, unassigned fund balance of the general fund was \$37,259,342 or 38 percent of the year's total general fund expenditures.
- The District's total bonded debt increased by \$122,768,166 (63 percent) during the year.

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

The District maintained thirty-three individual governmental funds during the year. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, capital projects fund and Elementary and Secondary Emergency Relief III of the American Rescue Plan Act fund (ESSER III ARP), which are considered to be major funds. Data from the other twenty-nine governmental funds are combined into a single, aggregated presentation titled *other governmental funds*.

The District adopts an annual revenue and appropriations budget for its general fund, debt service fund and national school breakfast and lunch program special revenue fund. All other governmental funds adopt project length budgets. Subsequent to adoption, amendments approved by the governing body are reflected in a revised budget column. A budgetary comparison statement has been provided for the general fund, debt service fund and national school breakfast and lunch program special revenue fund to demonstrate compliance with its budget.

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

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

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

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

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

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

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

Government-wide Financial Analysis

As mentioned earlier, net position may, over time, serve as an indicator of a District's changing financial position. At the close of the District's most recent fiscal year, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$200,579,570, an increase of \$30,908,500 from current operations over the preceding year.

Texas City Independent School District's Net Position

| | Governmental Activities | | | | | |
|--------------------------------------|-------------------------|------------|-----------------------|------------|----------------------|------|
| | 2023 | | 2022 | | Increase (Decrease) | |
| | Amount | % | Amount | % | Amount | % |
| Current and other assets | \$ 303,331,098 | 50 | \$ 156,642,705 | 35 | \$ 146,688,393 | 94 |
| Capital assets, net of depreciation | 298,754,404 | 50 | 293,072,870 | 65 | 5,681,534 | 2 |
| Total assets | 602,085,502 | 100 | 449,715,575 | 100 | 152,369,927 | |
| Total deferred outflows of resources | 20,019,589 | 100 | 17,186,604 | 100 | 2,832,985 | 16 |
| Long-term liabilities outstanding | 369,460,355 | 96 | 239,475,074 | 95 | 129,985,281 | 54 |
| Other liabilities | 13,793,694 | 4 | 12,288,177 | 5 | 1,505,517 | 12 |
| Total liabilities | 383,254,049 | 100 | 251,763,251 | 100 | 131,490,798 | |
| Total deferred inflows of resources | 38,271,472 | 100 | 45,467,858 | 100 | (7,196,386) | (16) |
| Net position: | | | | | | |
| Net investment in capital assets | 135,309,806 | 67 | 116,631,083 | 69 | 18,678,723 | 16 |
| Restricted | 19,882,037 | 10 | 18,781,399 | 11 | 1,100,638 | 6 |
| Unrestricted | 45,387,727 | 23 | 34,258,588 | 20 | 11,129,139 | 32 |
| Total net position | \$ 200,579,570 | 100 | \$ 169,671,070 | 100 | \$ 30,908,500 | |

The largest portion of the District's net position is net investment in capital assets. Investment in capital assets (e.g., land, buildings and improvements, furniture and equipment, right-to-use leased equipment, right-to-use subscriptions and construction in progress), less any related debt used to acquire those assets that are still outstanding represent 67 percent of the District's net position. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net position of \$19,882,037 which represents 10 percent of total net position, is restricted for future debt service and grant expenditures.

Unrestricted net position of \$45,387,727 increased due to favorable market conditions for investments.

Governmental Activities. Governmental activities increased the District's net position by \$30,908,500 from current operations. Key elements of this change are as follows:

Texas City Independent School District's Change in Net Position

| | Governmental Activities | | | | | |
|--|-------------------------|------------|-----------------------|------------|----------------------|--------|
| | 2023 | | 2022 | | Increase (Decrease) | |
| | Amount | % | Amount | % | Amount | % |
| Revenues | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 2,043,524 | 1 | \$ 1,593,558 | 1 | \$ 449,966 | 28 |
| Operating grants and contributions | 30,502,540 | 18 | 24,046,932 | 18 | 6,455,608 | 27 |
| General revenues: | | | | | | |
| Property taxes, levied for general purposes | 62,527,526 | 38 | 56,193,540 | 39 | 6,333,986 | 11 |
| Property taxes, levied for debt service | 24,056,602 | 14 | 18,431,581 | 13 | 5,625,021 | 31 |
| Grants and contributions not restricted to specific programs | 37,899,078 | 22 | 40,128,521 | 28 | (2,229,443) | (6) |
| Insurance proceeds | 1,553,676 | 1 | 32,013 | - | 1,521,663 | - |
| Investment earnings | 8,043,658 | 5 | 712,898 | - | 7,330,760 | 1,028 |
| Miscellaneous | 2,089,260 | 1 | 2,011,280 | 1 | 77,980 | 4 |
| Total revenues | 168,715,864 | 100 | 143,150,323 | 100 | 25,565,541 | |
| Expenses: | | | | | | |
| Instruction | 65,807,572 | 47 | 59,510,117 | 49 | 6,297,455 | 11 |
| Instructional resources and media services | 1,029,891 | 1 | 961,588 | 1 | 68,303 | 7 |
| Curriculum and instructional staff development | 2,178,833 | 2 | 1,815,530 | 1 | 363,303 | 20 |
| Instructional leadership | 2,602,536 | 2 | 2,311,024 | 2 | 291,512 | 13 |
| School leadership | 6,583,169 | 5 | 5,773,050 | 5 | 810,119 | 14 |
| Guidance, counseling, and evaluation services | 3,306,889 | 2 | 2,817,922 | 2 | 488,967 | 17 |
| Social work services | 436,627 | - | 274,832 | - | 161,795 | 59 |
| Health services | 956,803 | 1 | 860,063 | 1 | 96,740 | 11 |
| Student transportation | 3,455,715 | 3 | 3,091,795 | 3 | 363,920 | 12 |
| Food services | 6,643,579 | 5 | 5,535,696 | 5 | 1,107,883 | 20 |
| Extracurricular activities | 3,858,090 | 3 | 3,407,093 | 3 | 450,997 | 13 |
| General administration | 4,021,498 | 3 | 4,051,901 | 3 | (30,403) | (1) |
| Plant maintenance and operations | 17,901,263 | 13 | 17,767,463 | 15 | 133,800 | 1 |
| Security and monitoring services | 3,940,006 | 3 | 3,000,573 | 2 | 939,433 | 31 |
| Data processing services | 3,369,482 | 2 | 2,950,063 | 2 | 419,419 | 14 |
| Community services | 324,672 | - | 391,448 | - | (66,776) | (17) |
| Interest on long-term debt | 8,265,266 | 6 | 6,750,558 | 5 | 1,514,708 | 22 |
| Issuance costs and fees | 1,364,040 | 1 | 3,550 | - | 1,360,490 | 38,324 |
| Facilities repair and maintenance | 20,435 | - | 68,498 | - | (48,063) | (70) |
| Contracted instructional services between schools | 826,620 | 1 | 460,170 | - | 366,450 | 80 |
| Payments related to shared service arrangements | 348,195 | - | 287,471 | - | 60,724 | 21 |
| Other intergovernmental charges | 566,183 | - | 675,295 | 1 | (109,112) | (16) |
| Total expenses | 137,807,364 | 100 | 122,765,700 | 100 | 15,041,664 | |
| Change in net position | 30,908,500 | | 20,384,623 | | 10,523,877 | |
| Net position - beginning | 169,671,070 | | 149,286,447 | | 20,384,623 | |
| Net position - ending | \$ 200,579,570 | | \$ 169,671,070 | | \$ 30,908,500 | |

Revenues, aggregating \$168,715,864, were generated primarily from two sources. Property taxes \$86,584,128 represent 52 percent of total revenues while grants and contributions, including those not restricted for program-specific use as well as for general operations, totaling \$68,401,618, represent 40 percent of total revenues. The remaining 8 percent is generated from investment earnings, charges for services, insurance proceeds, and miscellaneous revenues. The most significant changes were the increases in investment earnings and property tax revenues as of result of favorable market conditions and an increase in the assessed taxable values.

The primary functional expenses of the District are instruction \$65,807,572, which represents 47 percent of total expenses and plant maintenance and operations \$17,901,263 which represents 13 percent of total expenses, while all remaining expense categories are individually 6 percent or less of total expenses. The increase in functional expenses is primarily due to increases in instructional expenses, interest on long-term debt, issuance costs and fees and food services.

Financial Analysis of the Government's Funds

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

Governmental Funds. At the end of the fiscal year, the District's governmental funds had combined ending fund balances of \$284,222,754, an increase of \$147,082,331 from the preceding year. Comments as to each individual major fund's change in fund balance follows.

The general fund is the primary operating fund of the District. At year-end, unassigned fund balance of the general fund was \$37,259,342, while total fund balance was \$107,950,311. To evaluate the general fund's liquidity, it may be helpful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 38 percent of total general fund expenditures, while total fund balance represents 111 percent of that same total. The fund balance of the general fund increased \$9,085,641 during the year, primarily related to increases in property tax revenue due to increased property values and increases in investment earnings due to higher interest rates.

The debt service fund ended the year with a total fund balance of \$18,403,244, all of which is restricted for the payment of principal and interest on debt. The debt service fund balance increased \$2,680,836 during the year, primarily due to an increase in the assessed taxable values.

The capital projects fund has a total fund balance of \$154,107,383, which is an increase of \$134,196,027. The net increase in fund balance during the current year in the capital projects fund was due to the bond proceeds from the sale of building bonds issued in the current year.

The ESSER III ARP fund has a \$0 fund balance due to current year revenues exceeding expenditures of by \$242,022 to remove the prior year deficit in fund balance. The fund recognized \$6,447,335 of revenues and \$6,205,313 of expenditures in the current year.

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

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

General Fund Budgetary Highlights

The District amends the budget as needed throughout the year. The final budgeted expenditures increased by \$14.5 million primarily due to increases in plant maintenance and operations, security and monitoring services, extracurricular activities and instruction.

Actual revenues were greater than final budget. Significant variances were \$1.7 million less than budgeted for local and intermediate sources and \$15.2 million more than budgeted for state program revenues. Expenditures were \$4.7 million less than budgeted primarily driven by less expenditures in plant maintenance and operations, security and monitoring services and data processing services.

Capital Assets and Long-term Liabilities

Capital Assets. The District's investment in capital assets for its governmental activities as of August 31, 2023 was \$298,754,404 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, furniture and equipment, right-to-use leased equipment, right-to-use subscriptions and construction in progress. The increase in capital assets, net of depreciation and amortization, for the current fiscal year was \$5,566,526.

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

| | Governmental Activities | | | | | |
|-------------------------------|-------------------------|------------|-----------------------|------------|---------------------|------|
| | 2023 | | 2022 | | Increase (Decrease) | |
| | Amount | % | Amount | % | Amount | % |
| Land and improvements | \$ 10,290,724 | 4 | \$ 7,200,816 | 3 | \$ 3,089,908 | 43 |
| Buildings and improvements | 273,526,143 | 92 | 235,249,513 | 80 | 38,276,630 | 16 |
| Furniture and equipment | 7,205,231 | 2 | 9,548,630 | 3 | (2,343,399) | (25) |
| Right-to-use leased equipment | 293,384 | - | 113,773 | - | 179,611 | 158 |
| Right-to-use subscriptions* | 146,388 | - | 115,008 | - | 31,380 | 27 |
| Construction in progress | 7,292,534 | 2 | 40,960,138 | 14 | (33,667,604) | (82) |
| Totals | \$ 298,754,404 | 100 | \$ 293,187,878 | 100 | \$ 5,566,526 | |

* Right-to-use subscriptions have been adjusted to reflect a beginning balance upon adoption of GASB 96, *Subscription-Based Information Technology Arrangements*.

Major additions consisted of:

- Land purchase
- Construction of various capital projects

Additional information on the District's capital assets can be found in the Note 3.D. to the financial statements.

Commitments. At the end of the current fiscal year, the District's commitments with construction contractors totaled \$11,358,032.

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

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

| | Governmental Activities | | | | | |
|--------------------------|-------------------------|------------|--------------------|------------|-----------------------|------|
| | 2023 | | 2022 | | Increase (Decrease) | |
| | Amount | % | Amount | % | Amount | % |
| General obligation bonds | \$ 317,779,675 | 86 | 195,011,509 | 82 | \$ 122,768,166 | 63 |
| Leases payable | 296,517 | - | 120,137 | - | 176,380 | 147 |
| Subscriptions payable * | 86,628 | - | 115,008 | - | (28,380) | (25) |
| Workers' compensation | 405,523 | - | 269,052 | - | 136,471 | 51 |
| Compensated absences | 1,244,041 | - | 1,066,284 | - | 177,757 | 17 |
| Net pension liability | 32,445,001 | 9 | 14,345,274 | 6 | 18,099,727 | 126 |
| Net OPEB liability | 17,202,970 | 5 | 28,662,818 | 12 | (11,459,848) | (40) |
| Totals | \$ 369,460,355 | 100 | 239,590,082 | 100 | \$ 129,870,273 | |

* Subscriptions payable has been adjusted to reflect a beginning balance upon adoption of GASB 96, *Subscription-Based Information Technology Arrangements*.

The District's total bonded debt increased by \$122,768,166 (63 percent) during the current fiscal year, which primarily resulted from the issuance of \$131,390,000 in bonds.

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

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

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

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

Economic Factors and Next Year's Budgets and Tax Rates

- School year (2023-24) student enrollment is 7,875, a 0% increase from the preceding year.
- District staff totals 1,300 employees in 2023-2024, excluding substitutes and other part-time employees, of which 538 are teachers and 207 are teacher aides and secretaries.
- The District maintains twelve regular education campuses and one disciplinary alternative education program campus. The district also participates in two shared service arrangements.
- Property values of the District are projected to remain comparable for the 2023-24 year.
- A maintenance and operations tax rate of \$0.7959 and a debt service tax rate of \$0.3683, a total rate of \$1.1642 were adopted for 2023-2024. Preceding year rates were \$0.9429, \$0.3684, and \$1.3113, respectively.

All of these factors and others were considered in preparing the District's budget for the 2023-2024 fiscal year.

During 2022-23, fund balance in the general fund increased to \$ 108,041,592. The District plans to utilize unassigned fund balance to fund current period expenditures prior to collecting the current year tax levy.

Requests for Information

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

Basic Financial Statements

Texas City Independent School District
Statement of Net Position
August 31, 2023

Exhibit A-1

1

| Data Control Codes | | Primary Government Governmental Activities |
|---------------------------------------|--------------------------------------|---|
| ASSETS | | |
| 1110 | Cash and cash equivalents | \$ 16,343,286 |
| 1120 | Investments | 196,820,866 |
| 1220 | Property taxes receivables | 6,089,423 |
| 1230 | Allowance for uncollectible taxes | (60,000) |
| 1240 | Due from other governments | 12,058,649 |
| 1290 | Other receivables | 15,501 |
| 1300 | Inventories | 216,978 |
| 1410 | Prepaid items | 3,159,247 |
| 1910 | Long-term investments | 68,687,148 |
| | Capital assets: | |
| 1510 | Land | 10,290,724 |
| 1520 | Buildings and improvements (net) | 273,526,143 |
| 1530 | Furniture and equipment (net) | 7,205,231 |
| 1550 | Right-to-use assets (net) | 439,772 |
| 1580 | Construction in progress | 7,292,534 |
| | | <hr/> |
| 1000 | Total assets | 602,085,502 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| 1705 | Deferred outflows - pension | 13,967,889 |
| 1706 | Deferred outflows - OPEB | 4,280,809 |
| 1710 | Deferred charge on refunding | 1,770,891 |
| | | <hr/> |
| 1700 | Total deferred outflows of resources | 20,019,589 |
| LIABILITIES | | |
| 2110 | Accounts payable | 5,568,209 |
| 2140 | Interest payable | 2,663,522 |
| 2150 | Payroll deductions and withholdings | 1,173,150 |
| 2160 | Accrued wages payable | 4,195,675 |
| 2180 | Due to other governments | 120,296 |
| 2300 | Unearned revenue | 72,842 |
| | Noncurrent liabilities: | |
| 2501 | Due within one year | 14,241,428 |
| 2502 | Due in more than one year | 305,570,956 |
| 2540 | Net pension liability | 32,445,001 |
| 2545 | Net OPEB liability | 17,202,970 |
| | | <hr/> |
| 2000 | Total liabilities | 383,254,049 |
| DEFERRED INFLOWS OF RESOURCES | | |
| 2605 | Deferred inflows - pension | 5,237,946 |
| 2606 | Deferred inflows - OPEB | 31,986,696 |
| 2610 | Deferred gain on refunding | 1,046,830 |
| | | <hr/> |
| 2600 | Total deferred inflows of resources | 38,271,472 |
| NET POSITION | | |
| 3200 | Net investment in capital assets | 135,309,806 |
| 3820 | Restricted for grants | 2,580,850 |
| 3820 | Restricted for scholarships | 129,322 |
| 3850 | Restricted for debt service | 17,171,865 |
| 3900 | Unrestricted | 45,387,727 |
| | | <hr/> |
| 3000 | TOTAL NET POSITION | \$ 200,579,570 |

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

Texas City Independent School District
Statement of Activities
For the Fiscal Year Ended August 31, 2023

Exhibit B-1

| Data Control Codes | Functions/Programs | 1 | 3 | 4 | 5 | Net (Expense) Revenue and Changes in Net Position |
|---------------------------|--|-----------------------|----------------------|------------------------------------|----------------------------------|---|
| | | Expenses | Program Revenues | | | Governmental Activities |
| | | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| PRIMARY GOVERNMENT | | | | | | |
| Governmental activities: | | | | | | |
| 0011 | Instruction | \$ 65,807,572 | \$ 913,763 | \$ 17,797,783 | \$ - | \$ (47,096,026) |
| 0012 | Instructional resources and media services | 1,029,891 | 40,985 | 17,874 | - | (971,032) |
| 0013 | Curriculum and instructional staff development | 2,178,833 | - | 1,304,623 | - | (874,210) |
| 0021 | Instructional leadership | 2,602,536 | - | 1,280,398 | - | (1,322,138) |
| 0023 | School leadership | 6,583,169 | 32,708 | 613,861 | - | (5,936,600) |
| 0031 | Guidance, counseling, and evaluation services | 3,306,889 | - | 746,516 | - | (2,560,373) |
| 0032 | Social work services | 436,627 | - | 275,938 | - | (160,689) |
| 0033 | Health services | 956,803 | 1,692 | 81,936 | - | (873,175) |
| 0034 | Student transportation | 3,455,715 | 236,583 | 50,142 | - | (3,168,990) |
| 0035 | Food services | 6,643,579 | 349,868 | 6,959,716 | - | 666,005 |
| 0036 | Extracurricular activities | 3,858,090 | 357,469 | 24,293 | - | (3,476,328) |
| 0041 | General administration | 4,021,498 | - | 67,012 | - | (3,954,486) |
| 0051 | Plant maintenance and operations | 17,901,263 | 11,644 | 112,137 | - | (17,777,482) |
| 0052 | Security and monitoring services | 3,940,006 | - | 105,810 | - | (3,834,196) |
| 0053 | Data processing services | 3,369,482 | 29,852 | 140,991 | - | (3,198,639) |
| 0061 | Community services | 324,672 | 68,960 | 219,481 | - | (36,231) |
| 0072 | Interest on long-term debt | 8,265,266 | - | - | - | (8,265,266) |
| 0073 | Issuance costs and fees | 1,364,040 | - | 704,018 | - | (660,022) |
| 0081 | Facilities repair and maintenance | 20,435 | - | 11 | - | (20,424) |
| 0091 | Contracted instructional services between schools | 826,620 | - | - | - | (826,620) |
| 0093 | Payments related to shared services arrangements | 348,195 | - | - | - | (348,195) |
| 0099 | Other intergovernmental charges | 566,183 | - | - | - | (566,183) |
| TG | Total governmental activities | 137,807,364 | 2,043,524 | 30,502,540 | - | (105,261,300) |
| TP | TOTAL PRIMARY GOVERNMENT | <u>\$ 137,807,364</u> | <u>\$ 2,043,524</u> | <u>\$ 30,502,540</u> | <u>\$ -</u> | (105,261,300) |
| General revenues | | | | | | |
| MT | Property taxes, levied for general purposes | | | | | 62,527,526 |
| DT | Property taxes, levied for debt service | | | | | 24,056,602 |
| GC | Grants and contributions not restricted to specific programs | | | | | 37,899,078 |
| IN | Insurance proceeds | | | | | 1,553,676 |
| IE | Investment earnings | | | | | 8,043,658 |
| MI | Miscellaneous | | | | | 2,089,260 |
| TR | Total general revenues | | | | | 136,169,800 |
| CN | Change in net position | | | | | 30,908,500 |
| NB | Net position - beginning | | | | | 169,671,070 |
| NE | NET POSITION - ENDING | | | | | <u>\$ 200,579,570</u> |

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

Texas City Independent School District

Balance Sheet – Governmental Funds

August 31, 2023

| Data Control Codes | | 199 | 599 |
|--------------------------------------|--|-----------------------|------------------------------|
| | | General Fund | Debt Service Fund |
| ASSETS | | | |
| 1110 | Cash and cash equivalents | \$ 9,150,624 | \$ 357,533 |
| 1120 | Investments | 50,438,964 | 18,105,787 |
| 1220 | Property taxes receivables | 4,643,280 | 1,446,143 |
| 1230 | Allowance for uncollectible taxes | (46,000) | (14,000) |
| 1240 | Due from other governments | 2,443,456 | - |
| 1260 | Due from other funds | 9,240,033 | 60,220 |
| 1290 | Other receivables | 15,501 | - |
| 1300 | Inventories | 120,860 | - |
| 1410 | Prepaid items | 2,612,136 | - |
| 1910 | Long-term investments | 41,631,351 | - |
| 1000 | Total assets | <u>120,250,205</u> | <u>19,955,683</u> |
| 1000a | TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | <u>\$ 120,250,205</u> | <u>\$ 19,955,683</u> |
| LIABILITIES | | | |
| 2110 | Accounts payable | \$ 2,061,168 | \$ - |
| 2150 | Payroll and withholdings | 1,054,286 | - |
| 2160 | Accrued wages payable | 4,195,675 | - |
| 2170 | Due to other funds | 391,485 | - |
| 2180 | Due to other governments | - | 120,296 |
| 2300 | Unearned revenue | - | - |
| 2000 | Total liabilities | <u>7,702,614</u> | <u>120,296</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| 2600 | Unavailable revenue - property taxes | <u>4,597,280</u> | <u>1,432,143</u> |
| | Total deferred inflows of resources | 4,597,280 | 1,432,143 |
| FUND BALANCES | | | |
| 3410 | Nonspendable - inventories | 120,860 | - |
| 3430 | Nonspendable - prepaid items | 2,612,136 | - |
| 3450 | Restricted - grants | - | - |
| 3470 | Restricted - capital acquisitions and contractual obligations | - | - |
| 3480 | Restricted - debt service | - | 18,403,244 |
| 3490 | Restricted - scholarships | - | - |
| 3545 | Committed - campus activity | - | - |
| 3550 | Assigned - construction | 28,053,606 | - |
| 3590 | Assigned - other | 39,904,367 | - |
| 3600 | Unassigned | <u>37,259,342</u> | <u>-</u> |
| 3000 | Total fund balances | <u>107,950,311</u> | <u>18,403,244</u> |
| 4000 | TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | <u>\$ 120,250,205</u> | <u>\$ 19,955,683</u> |

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

Exhibit C-1

| 699 | 282 | Total | 98 |
|--------------------------|---------------------|---------------------|--------------------------------|
| Capital Projects Fund | ESSER III ARP | Nonmajor Funds | Total Governmental Funds |
| \$ 6,071,623 | \$ - | \$ 705,376 | \$ 16,285,156 |
| 123,803,729 | - | 2,980,822 | 195,329,302 |
| - | - | - | 6,089,423 |
| - | - | - | (60,000) |
| - | 4,987,523 | 4,627,670 | 12,058,649 |
| - | - | 469 | 9,300,722 |
| - | - | - | 15,501 |
| - | - | 96,118 | 216,978 |
| - | 116,094 | 397,751 | 3,125,981 |
| 27,055,797 | - | - | 68,687,148 |
| <hr/> | <hr/> | <hr/> | <hr/> |
| 156,931,149 | 5,103,617 | 8,808,206 | 311,048,860 |
| <hr/> | <hr/> | <hr/> | <hr/> |
| <u>\$ 156,931,149</u> | <u>\$ 5,103,617</u> | <u>\$ 8,808,206</u> | <u>\$ 311,048,860</u> |
| | | | |
| \$ 2,823,766 | \$ 230,981 | \$ 452,294 | \$ 5,568,209 |
| - | 15,156 | 103,708 | 1,173,150 |
| - | - | - | 4,195,675 |
| - | 4,857,480 | 4,417,546 | 9,666,511 |
| - | - | - | 120,296 |
| - | - | 72,842 | 72,842 |
| <hr/> | <hr/> | <hr/> | <hr/> |
| 2,823,766 | 5,103,617 | 5,046,390 | 20,796,683 |
| | | | |
| - | - | - | 6,029,423 |
| <hr/> | <hr/> | <hr/> | <hr/> |
| - | - | - | 6,029,423 |
| | | | |
| - | - | 96,118 | 216,978 |
| - | - | - | 2,612,136 |
| - | - | 2,580,850 | 2,580,850 |
| 154,107,383 | - | - | 154,107,383 |
| - | - | - | 18,403,244 |
| - | - | 129,322 | 129,322 |
| - | - | 955,526 | 955,526 |
| - | - | - | 28,053,606 |
| - | - | - | 39,904,367 |
| - | - | - | 37,259,342 |
| <hr/> | <hr/> | <hr/> | <hr/> |
| 154,107,383 | - | 3,761,816 | 284,222,754 |
| <hr/> | <hr/> | <hr/> | <hr/> |
| <u>\$ 156,931,149</u> | <u>\$ 5,103,617</u> | <u>\$ 8,808,206</u> | <u>\$ 311,048,860</u> |

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Texas City Independent School District
 Reconciliation of the Governmental Funds Balance Sheet
 to the Statement of Net Position
 August 31, 2023

Exhibit C-1R

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS (EXHIBIT C-1) \$ 284,222,754

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

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

| | | |
|--|----------------------|-------------|
| Governmental capital assets costs | \$ 432,598,458 | |
| Accumulated depreciation and amortization of governmental capital assets | <u>(133,844,054)</u> | 298,754,404 |

| | | |
|---|--|-----------|
| Property taxes receivable, which will be collected subsequent to year-end, but are not available soon enough to pay expenditures and, therefore, are deferred in the funds. | | 6,029,423 |
|---|--|-----------|

Long-term liabilities, including bonds payable, subscription and lease liabilities, compensated absences, net pension liability, and net OPEB liability are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Liabilities at year-end related to such items consist of:

| | | |
|--------------------------------|---------------------|---------------|
| Bonds payable, at original par | \$ (290,895,000) | |
| Premium on bonds payable | (26,884,675) | |
| Accrued interest on the bonds | (2,663,522) | |
| Lease liability | (296,517) | |
| Subscriptions payable | (86,628) | |
| Compensated absences | (1,244,041) | |
| Net pension liability | (32,445,001) | |
| Net OPEB liability | <u>(17,202,970)</u> | (371,718,354) |

| | | |
|--|--|-----------|
| An internal service fund is used by the District to charge the costs of workers' compensation benefits to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities. | | 1,543,226 |
|--|--|-----------|

| | | |
|---|--|-----------|
| Deferred charge on refunding is reported as deferred outflow in the statement of net position and is not reported in the funds due to it is not a current financial resource available to pay for current expenditures. | | 1,770,891 |
|---|--|-----------|

| | | |
|---|--|-------------|
| Deferred gain on refunding represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. | | (1,046,830) |
|---|--|-------------|

| | | |
|--|--|------------|
| Deferred outflows of resources for pension represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenses/expenditures) until then. | | 13,967,889 |
|--|--|------------|

| | | |
|--|--|-------------|
| Deferred inflows of resources for pension represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. | | (5,237,946) |
|--|--|-------------|

| | | |
|---|--|-----------|
| Deferred outflows of resources for OPEB represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenses/expenditures) until then. | | 4,280,809 |
|---|--|-----------|

| | | |
|---|--|---------------------|
| Deferred inflows of resources for OPEB represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. | | <u>(31,986,696)</u> |
|---|--|---------------------|

TOTAL NET POSITON - GOVERNMENTAL ACTIVITIES (EXHIBIT A-1) \$ 200,579,570

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

Texas City Independent School District
Statement of Revenues, Expenditures, and Changes
in Fund Balances
Governmental Funds
For the Fiscal Year Ended August 31, 2023

| Data Control Codes | | 199 | 599 |
|---------------------------------------|--|-----------------------|------------------------------|
| | | General Fund | Debt Service Fund |
| REVENUES | | | |
| 5700 | Local and intermediate sources | \$ 69,793,039 | \$ 25,439,573 |
| 5800 | State program revenues | 39,440,820 | 704,018 |
| 5900 | Federal program revenues | 3,337,370 | - |
| 5020 | Total revenues | 112,571,229 | 26,143,591 |
| EXPENDITURES | | | |
| Current: | | | |
| 0011 | Instruction | 46,132,266 | - |
| 0012 | Instructional resources and media services | 947,877 | - |
| 0013 | Curriculum and instructional staff development | 850,080 | - |
| 0021 | Instructional leadership | 1,233,299 | - |
| 0023 | School leadership | 5,794,824 | - |
| 0031 | Guidance, counseling, and evaluation services | 2,476,508 | - |
| 0032 | Social work services | 150,700 | - |
| 0033 | Health services | 848,182 | - |
| 0034 | Student transportation | 3,413,927 | - |
| 0035 | Food services | - | - |
| 0036 | Extracurricular activities | 3,647,314 | - |
| 0041 | General administration | 3,891,285 | - |
| 0051 | Plant maintenance and operations | 18,369,191 | - |
| 0052 | Security and monitoring services | 3,747,234 | - |
| 0053 | Data processing services | 3,250,631 | - |
| 0061 | Community services | 30,793 | - |
| Debt service: | | | |
| 0071 | Principal on long-term debt | 196,072 | 15,865,000 |
| 0072 | Interest on long-term debt | 9,675 | 7,399,131 |
| 0073 | Issuance costs and fees | - | 1,364,040 |
| Capital outlay: | | | |
| 0081 | Facilities acquisition and construction | 335,512 | - |
| Intergovernmental: | | | |
| 0091 | Contracted instructional services between schools | 826,620 | - |
| 0093 | Payments related shares services arrangements | 348,195 | - |
| 0099 | Other intergovernmental charges | 566,183 | - |
| 6030 | Total expenditures | 97,066,368 | 24,628,171 |
| 1100 | Excess (deficiency) of revenues over expenditures | 15,504,861 | 1,515,420 |
| OTHER FINANCING SOURCES (USES) | | | |
| 7911 | Capital-related debt issued (regular bonds) | - | - |
| 7913 | Issuance of leases | 344,072 | - |
| 7915 | Transfers in | - | - |
| 7916 | Premium or discount on issuance of bonds | - | 1,165,416 |
| 8911 | Transfers out | (6,763,292) | - |
| 7080 | Total other financing sources (uses) | (6,419,220) | 1,165,416 |
| 1200 | Net change in fund balances | 9,085,641 | 2,680,836 |
| 0100 | Fund balances - beginning | 98,864,670 | 15,722,408 |
| 3000 | FUND BALANCES - ENDING | \$ 107,950,311 | \$ 18,403,244 |

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

| 699 | 282 | Total | 98 |
|--------------------------|---------------|-------------------|--------------------------------|
| Capital Projects Fund | ESSER III ARP | Nonmajor Funds | Total Governmental Funds |
| \$ 2,916,900 | \$ - | \$ 1,702,869 | \$ 99,852,381 |
| - | - | 546,483 | 40,691,321 |
| - | 6,447,335 | 21,601,370 | 31,386,075 |
| 2,916,900 | 6,447,335 | 23,850,722 | 171,929,777 |
| - | 5,537,146 | 12,002,819 | 63,672,231 |
| - | 7,609 | 41,144 | 996,630 |
| - | 216,564 | 1,077,751 | 2,144,395 |
| - | 19,631 | 1,237,053 | 2,489,983 |
| - | 268,627 | 317,124 | 6,380,575 |
| - | 69,788 | 644,522 | 3,190,818 |
| - | 3,044 | 267,803 | 421,547 |
| - | 6,087 | 69,320 | 923,589 |
| - | - | 22,487 | 3,436,414 |
| - | - | 6,559,183 | 6,559,183 |
| - | 3,044 | 176,984 | 3,827,342 |
| - | - | 42,058 | 3,933,343 |
| - | 27,108 | 24,948 | 18,421,247 |
| - | 7,661 | 89,897 | 3,844,792 |
| - | 36,721 | 119,774 | 3,407,126 |
| - | 2,283 | 280,050 | 313,126 |
| - | - | - | 16,061,072 |
| - | - | - | 7,408,806 |
| - | - | - | 1,364,040 |
| 14,484,165 | - | - | 14,819,677 |
| - | - | - | 826,620 |
| - | - | - | 348,195 |
| - | - | - | 566,183 |
| 14,484,165 | 6,205,313 | 22,972,917 | 165,356,934 |
| (11,567,265) | 242,022 | 877,805 | 6,572,843 |
| 131,390,000 | - | - | 131,390,000 |
| - | - | - | 344,072 |
| 6,763,292 | - | - | 6,763,292 |
| 7,610,000 | - | - | 8,775,416 |
| - | - | - | (6,763,292) |
| 145,763,292 | - | - | 140,509,488 |
| 134,196,027 | 242,022 | 877,805 | 147,082,331 |
| 19,911,356 | (242,022) | 2,884,011 | 137,140,423 |
| \$ 154,107,383 | \$ - | \$ 3,761,816 | \$ 284,222,754 |

Texas City Independent School District
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended August 31, 2023

Exhibit C-3

TOTAL NET CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS (EXHIBIT C-2) \$ 147,082,331

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

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

| | | |
|---------------------------------------|---------------------|-----------|
| Capital assets increased | \$ 16,275,682 | |
| Depreciation and amortization expense | <u>(10,709,156)</u> | 5,566,526 |

Because some property taxes will not be collected for several months after the District's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues increased (decreased) by this amount this year. 410,326

Because some grant revenue will not be collected for several months after the District's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred grant revenues increased (decreased) by this amount this year. (242,022)

Issuance of bonds provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.

| | | |
|--------------------|--------------------|---------------|
| Par value | \$ (131,390,000) | |
| (Premium) discount | <u>(8,775,416)</u> | (140,165,416) |

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 15,865,000

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

| | | |
|--|-----------------|-----------|
| Accrued interest on current interest bonds payable (increased) decreased | \$ (2,337,495) | |
| Amortization of bond premium and discount | 1,532,250 | |
| Amortization of defeasance costs | <u>(51,215)</u> | (856,460) |

Acquiring right-to-use assets through lease arrangements is a financing source for governmental funds, but the lease arrangements increase long-term liabilities in the statement of net position. (344,072)

Repayment of lease liability through lease arrangements is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 167,692

Repayment of subscription liability through lease arrangements is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 28,380

The (increase) decrease in compensated absences is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. (177,757)

An internal service fund is used by the District to charge the costs of workers' compensation benefits to the individual funds. The net activity of the internal service fund was reported in the government-wide statements. 133,265

The net change in net pension liability, deferred outflows, and deferred inflows is reported in the statement of activities but does not require the use of current financial resources and, therefore, funds. The net change consists of the following:

| | | |
|---|---------------------|-----------|
| Deferred outflows increased (decreased) | \$ 3,833,712 | |
| Deferred inflows (increased) decreased | 13,828,896 | |
| Net pension liability (increased) decreased | <u>(18,099,727)</u> | (437,119) |

The net change in net OPEB liability, deferred outflows, and deferred inflows is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. The net change consists of the following:

| | | |
|--|-------------------|-----------|
| Deferred outflows increased (decreased) | \$ (746,921) | |
| Deferred inflows (increased) decreased | (6,835,101) | |
| Net OPEB liability (increased) decreased | <u>11,459,848</u> | 3,877,826 |

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES (EXHIBIT B-1) \$ 30,908,500

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

Texas City Independent School District

Statement of Net Position

Proprietary Fund

August 31, 2023

Exhibit D-1

| <u>Data Control Codes</u> | | <u>Governmental Activities Internal Service Fund</u> |
|-----------------------------------|--|--|
| | ASSETS | |
| | Current assets: | |
| 1110 | Cash and cash equivalents | \$ 58,130 |
| 1120 | Investments | 1,491,564 |
| 1260 | Due from other funds | 365,789 |
| 1410 | Prepaid items | 33,266 |
| | Total current assets | <u>1,948,749</u> |
| 1000 | Total assets | 1,948,749 |
| | LIABILITIES | |
| | Current liabilities: | |
| 2123 | Claims payable - due within one year | <u>200,000</u> |
| | Total current liabilities | 200,000 |
| | Noncurrent liabilities: | |
| 2590 | Claims payable - due in more than one year | <u>205,523</u> |
| | Total noncurrent liabilities | <u>205,523</u> |
| 2000 | Total liabilities | 405,523 |
| | NET POSITION | |
| 3900 | Unrestricted | <u>1,543,226</u> |
| 3000 | TOTAL NET POSITION | <u><u>\$ 1,543,226</u></u> |

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

Texas City Independent School District
Statement of Revenues, Expenses, and Changes
in Net Position
Proprietary Fund
For the Fiscal Year Ended August 31, 2023

Exhibit D-2

| <u>Data Control Codes</u> | | <u>Governmental Activities Internal Service Fund</u> |
|-----------------------------------|--------------------------------------|--|
| OPERATING REVENUES | | |
| 5754 | Interfund service provided | \$ 463,710 |
| 5020 | Total operating revenues | 463,710 |
| OPERATING EXPENSES | | |
| 6200 | Professional and contracted services | 34,424 |
| 6400 | Other operating costs | 364,505 |
| 6030 | Total operating expenses | 398,929 |
| 1100 | Operating income | 64,781 |
| NONOPERATING REVENUES | | |
| 7955 | Investment earnings | 68,484 |
| 8030 | Total nonoperating revenues | 68,484 |
| 1300 | Change in net position | 133,265 |
| 0100 | Net position - beginning | 1,409,961 |
| 3300 | NET POSITION - ENDING | \$ 1,543,226 |

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

Texas City Independent School District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended August 31, 2023

Exhibit D-3

| | Governmental Activities |
|---|--------------------------------------|
| | Internal Service Fund |
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash received from District | \$ 97,921 |
| Cash payments for claims, net of stop loss reimbursements | (230,374) |
| Cash payments for contracted services and supplies and materials | (34,547) |
| | <hr/> |
| Net cash used for operating activities | (167,000) |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest and dividends received on investments | 68,484 |
| Sale of investments | 81,520 |
| | <hr/> |
| Net cash provided by investing activities | 150,004 |
| Net decrease in cash and cash equivalents | (16,996) |
| Cash and cash equivalents at beginning of year | 75,126 |
| | <hr/> |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | \$ 58,130 |
| | <hr/> |
| RECONCILIATION OF OPERATING INCOME TO NET CASH USED FOR OPERATING ACTIVITIES | |
| Operating income | \$ 64,781 |
| Change in assets and liabilities: | |
| (Increase) decrease in due from other funds | (365,789) |
| (Increase) decrease in prepaid items | (123) |
| Increase (decrease) in accounts payable | (2,340) |
| Increase (decrease) in claims payable | 136,471 |
| | <hr/> |
| NET CASH USED FOR OPERATING ACTIVITIES | \$ (167,000) |
| | <hr/> |

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

Texas City Independent School District
Statement of Fiduciary Net Position
Fiduciary Funds
August 31, 2023

Exhibit E-1

| <u>Data Control Codes</u> | | <u>865 Custodial Fund</u> |
|-----------------------------------|---------------------------|-----------------------------------|
| | | <u>Student Activity</u> |
| | ASSETS | |
| | Current assets: | |
| 1110 | Cash and cash equivalents | \$ 116,162 |
| 1120 | Investments | 122,793 |
| | Total assets | <u>238,955</u> |
| | LIABILITIES | |
| | Current liabilities: | |
| 2110 | Accounts payable | <u>8,354</u> |
| | Total liabilities | 8,354 |
| | NET POSITION | |
| | Restricted for: | |
| | Student activities | <u>230,601</u> |
| 3000 | TOTAL NET POSITION | <u><u>\$ 230,601</u></u> |

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

Texas City Independent School District
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Fiscal Year Ended August 31, 2023

Exhibit E-2

| <u>Data Control Codes</u> | | <u>865 Custodial Fund</u> |
|-----------------------------------|--------------------------------------|-----------------------------------|
| | | <u>Student Activity</u> |
| | ADDITIONS | |
| 5700 | Student activities | \$ 408,538 |
| | Total additions | 408,538 |
| | DEDUCTIONS | |
| 6200 | Student activity fees | 383,269 |
| | Total deductions | 383,269 |
| | Net change in fiduciary net position | 25,269 |
| 3400 | Net position - beginning | 205,332 |
| | NET POSITION - END OF YEAR | <u>\$ 230,601</u> |

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Texas City Independent School District

Notes to the Basic Financial Statements

Note 1. Summary of Significant Accounting Policies

A. Description of Government-wide Financial Statements

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

B. Reporting Entity

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

C. Basis of Presentation – Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and an internal service fund. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

All interfund transactions between governmental funds and between governmental funds and internal service funds are eliminated in the government-wide financial statements. Interfund services provided and used are not eliminated in the process of consolidation.

D. Basis of Presentation – Fund Financial Statements

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

The District reports the following major governmental funds:

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

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

The *capital projects fund* accounts for the acquisition, construction, and equipping the District's major capital facilities.

The *Elementary and Secondary Emergency Relief III of the American Rescue Plan Act fund (ESSER III ARP)* accounts for resources granted to the District restricted for the uses outlined under the ESSER III ARP federal program.

Texas City Independent School District

Notes to the Basic Financial Statements

Additionally, the District reports the following fund types:

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

The *custodial fund* accounts for assets held by the District for student organizations. Contributions, student fees and fundraisers benefit the related organizations.

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

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

E. Measurement Focus and Basis of Accounting

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers property tax revenues to be available when collected and all other revenues collected within 120 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to pensions, OPEB, compensated absences, and claims and judgments, are recorded only when payment is due.

Grant and similar revenues, state funding, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The proprietary funds and fiduciary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

Texas City Independent School District

Notes to the Basic Financial Statements

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

1. Cash and Cash Equivalents

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

2. Investments

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

3. Inventories and Prepaid Items

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. Capital Assets

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

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

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

| <u>Capital Asset Classes</u> | <u>Lives</u> |
|------------------------------|--------------|
| Buildings and improvements | 8-60 |
| Furniture and equipment | 5-20 |

5. Deferred Outflows/Inflows of Resources

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

Texas City Independent School District

Notes to the Basic Financial Statements

Deferred outflows/inflows of resources are amortized as follows:

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

6. Compensated Absences

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

7. Net Position Flow Assumption

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

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

8. Fund Balance Flow Assumptions

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

9. Fund Balance Policies

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

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

Texas City Independent School District

Notes to the Basic Financial Statements

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

10. Pension

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

11. Other Postemployment Benefits

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

12. Leases

The District is a lessee for noncancellable leases of equipment. The District recognizes a lease liability, reported with long-term debt, and a right-to-use lease asset (lease asset), reported with other capital assets, in the government-wide financial statements. The District recognizes lease liabilities with an initial, individual value of \$5,000 or more.

At the commencement of a lease, the District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over the shorter of the lease term or its useful life.

Key estimates and judgments related to leases include how the District determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease.
- Lease payments included in the measurement of the lease liability are composed of fixed payments, variable payments fixed in substance or that depend on an index or a rate, purchase option price that the District is reasonably certain to exercise, lease incentives receivable from the lessor, and any other payments that are reasonably certain of being required based on an assessment of all relevant factors.

Texas City Independent School District

Notes to the Basic Financial Statements

The District monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

13. Subscription-Based Information Technology Arrangements (SBITAs)

The District has noncancellable contracts with SBITA vendors for the right to use information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets). The District recognizes a subscription liability, reported with long-term debt, and a right-to-use subscription asset (an intangible asset), reported with other capital assets, in the government-wide financial statements. The District recognizes subscription liabilities with an initial, individual value of \$5,000 or more. At the commencement of a SBITA, the District initially measures the subscription liability at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of SBITA payments made. The subscription asset is initially measured as the initial amount of the subscription liability, adjusted for SBITA payments made at or before the SBITA commencement date, plus certain initial implementation costs. Subsequently, the subscription asset is amortized on a straight-line basis over the shorter of the subscription term or the useful life of the underlying IT assets.

Key estimates and judgments related to SBITAs include how the District determines (1) the discount rate it uses to discount the expected subscription payments to present value, (2) subscription term, and (3) subscription payments.

- The District uses the interest rate charged by the SBITA vendor as the discount rate. When the interest rate charged by the SBITA vendor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for SBITAs.
- The subscription term includes the noncancellable period of the SBITA.
- Subscription payments included in the measurement of the subscription liability are composed of fixed payments.

The District monitors changes in circumstances that would require a remeasurement of its SBITAs and will remeasure the subscription asset and liability if certain changes occur that are expected to significantly affect the amount of the subscription liability.

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property Taxes

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

Texas City Independent School District

Notes to the Basic Financial Statements

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

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

H. Use of Estimates

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

I. Data Control Codes

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

J. Implementation of New Accounting Standards

GASB Statement No. 91, *Conduit Debt Obligations* (GASB 91), provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with 1) commitments extended by issuers, 2) arrangements associated with conduit debt obligations, and 3) related note disclosures. The requirements of this statement were originally effective for reporting periods beginning after December 15, 2020; however, issuance of GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* (GASB 95), extended the effective date of GASB 91 to reporting periods beginning after December 15, 2021, with earlier application encouraged. GASB 91 was implemented in the District's fiscal year 2023 financial statements with no impact to amounts previously reported.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (GASB 94), improves financial reporting by addressing issues related to public-private and public-public partnership arrangements and provides guidance for accounting and financial reporting for availability payment arrangements. The requirements of this statement are effective for reporting periods beginning after June 15, 2022, with earlier application encouraged. GASB 94 was implemented in the District's fiscal year 2023 financial statements with no impact to amounts previously reported.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96), provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. This statement 1) defines a SBITA; 2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset - and a corresponding subscription liability; 3) provides the capitalization criteria for outlays other than subscription payments; and 4) requires note disclosures regarding a SBITA. The requirements of this statement are effective for reporting periods beginning after June 15, 2022, with earlier application encouraged. GASB 96 was implemented in the District's fiscal year 2023 financial statements, resulting in the recognition of \$115,008 in subscription liabilities and subscription assets as of September 1, 2022 in the government-wide financial statements to conform to the new standard.

Texas City Independent School District

Notes to the Basic Financial Statements

K. Recent Accounting Pronouncements

GASB Statement No. 99, *Omnibus 2022* (GASB 99), enhances comparability in accounting and financial reporting and improves consistency of authoritative literature by addressing 1) practice issues that have been identified during implementation and application of certain GASB statements and 2) accounting and financial reporting for financial guarantees. The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance. The requirements related to leases were implemented in the District's fiscal year 2022 financial statements in conjunction with GASB 87. The requirements related to PPPs and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. These requirements for GASB 99 were implemented in the District's fiscal year 2023 financial statements in conjunction with GASB 94 and GASB 96 as described in Note 1. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter. These requirements for GASB 99 will be implemented in the District's fiscal year 2024 financial statements and the impact has not yet been determined.

GASB Statement No. 100, *Accounting Changes and Error Corrections* (GASB 100), enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This statement 1) defines accounting changes and corrections of errors; 2) prescribes the accounting and financial reporting for each type of accounting change and error corrections; and 3) clarifies required note disclosures. The requirements of this statement are effective for reporting periods beginning after June 15, 2023, with earlier application encouraged. GASB 100 will be implemented in the District's fiscal year 2024 financial statements and the impact has not yet been determined.

GASB Statement No. 101, *Compensated Absences* (GASB 101), improves the information needs of financial statements users by updating the recognition and measurement guidance for compensated absences under a unified model and amending certain previously required disclosures. The requirements of this statement are effective for reporting periods beginning after December 15, 2023, with earlier application encouraged. GASB 101 will be implemented in the District's fiscal year 2025 financial statements and the impact has not yet been determined.

Texas City Independent School District

Notes to the Basic Financial Statements

Note 2. Stewardship, Compliance, and Accountability

A. Budgetary Information

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

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

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

B. Encumbrances

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

As of August 31, 2023, significant encumbrances included in governmental fund balances are as follows:

| | Restricted Fund Balance | Committed Fund Balance | Assigned Fund Balance |
|---------------------------|----------------------------|---------------------------|--------------------------|
| General fund | \$ - | \$ - | \$ 1,401,332 |
| Capital projects fund | 8,753,380 | - | - |
| Nonmajor funds | - | 39,320 | - |
| Total encumbrances | \$ 8,753,380 | \$ 39,320 | \$ 1,401,332 |

Note 3. Detailed Notes on All Funds

A. Deposits and Investments

Cash Deposits

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

Texas City Independent School District

Notes to the Basic Financial Statements

Investments

The District's investment policy is in accordance with the Public Funds Investment Act, the Public Funds Collateral Act, and federal and state laws. State law and District policy limits credit risk by allowing investing in 1) Obligations of the United States or its agencies which are backed by the full faith and credit of the United States, obligations of the State of Texas or its agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized statistical rating organization (NRSRO) not less than A or its equivalent; 2) Certificates of deposit issued by a broker or depository located in Texas which is insured by the FDIC or purchased through a broker who has an office located in Texas; 3) Fully collateralized repurchase agreements secured by obligations of the United States or its agencies not to exceed 90 days to maturity from the date of purchase; 4) Securities lending program as permitted by Government Code 2256.0015; 5) Bankers acceptances with a stated maturity of 270 days or fewer which are eligible for collateral for borrowing from a Federal Reserve Bank; 6) Commercial paper if it has a stated maturity of 270 days or fewer from the date of its issuance and is rated not less than A-1 or P-1 or an equivalent rating by at least: two nationally recognized credit rating agencies or one nationally recognized agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state; 7) No-load money market mutual funds which shall be registered with the Securities and Exchange Commission and have a dollar-weighted average stated maturity of 90 days or fewer; 8) No-load mutual funds which shall be registered with the Securities and Exchange Commission, have an average weighted maturity of less than two years, include investments that comply with the Public Funds Investment Act and are continuously rated not less than AAA by at least one NRSRO; 9) A guaranteed investment contract (for bond proceeds only) which meets the criteria and eligibility requirements established by the Public Funds Investment Act; 10) Public funds investment pools which meet the requirements of the Public Funds Investment Act.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72, *Fair Value Measurement and Application* provides a framework for measuring fair value which establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 inputs are inputs—other than quoted prices included within Level 1—that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

Texas City Independent School District

Notes to the Basic Financial Statements

The District's investment measurements and balances, weighted average maturity, and credit risks of such investments are as follows (including the investments in the custodial funds):

| | Governmental and Proprietary Funds | Fiduciary Funds | Markets for Identical Assets (Level 1) | Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Percent of Total Investments | Weighted Average Maturity (Days) | Credit Risk |
|--|--|--------------------|---|--|--|------------------------------------|---|----------------|
| Investment measured at cost, not subject to level reporting: Certificates of deposit | \$ 123,338,946 | \$ - | \$ - | \$ - | \$ - | 47% | 363 | Not rated** |
| Investment measured at amortized cost, not subject to level reporting: Investment pools: | | | | | | | | |
| TexPool Prime | 5,597,982 | - | - | - | - | 2% | 32 | AAAm* |
| TexPool | 99,404,569 | 122,793 | - | - | - | 37% | 23 | AAAm* |
| Investments measured at fair value, subject to level reporting: US Treasury | 37,166,517 | - | - | 37,166,517 | - | 14% | 277 | Not rated |
| Total value | \$ 265,508,014 | \$ 122,793 | \$ - | \$ 37,166,517 | \$ - | 100% | | |
| Portfolio weighted average maturity | | | | | | | 217 | |

*Standard & Poor's Rating

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

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

Investment pools are measured at amortized cost. Such investments are not subject to the fair value hierarchy reporting.

US Treasury securities, classified as level 2, are measured at fair value based on price obtained from broker dealers and/or pricing vendors, including observed transactions such as last price traded when available, or valuations in reference to similar securities for which prices are available.

TexPool and TexPoolPrime are duly chartered and overseen by the State Comptroller's Office, administered and managed by Federated Hermes, Inc. State Street Bank serves as the custodial bank. The TexPool portfolio consists of U.S. government securities; collateralized repurchase and reverse repurchase agreements; and AAA rated money market mutual funds. The TexPool Prime portfolio consists of U.S. government securities; collateralized repurchase and reverse repurchase agreements; money market mutual funds; commercial paper and certificates of deposit.

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

Texas City Independent School District

Notes to the Basic Financial Statements

Credit Risk

At year end, the District's investments were rated as noted in the table above. The District also invests in certificates of deposits which are insured or collateralized. The District invests in money market funds which consists primarily of cash and government agency securities.

Interest Rate Risk

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

Concentration of Credit Risk

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

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of August 31, 2023, District's banks' balances were not exposed to custodial credit risk because such balances were insured and collateralized with securities held by the District's agent in the District's name.

Custodial Credit Risk – Investments

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

B. Receivables

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

| | | |
|--|-----------|-----------------------|
| Change in uncollectibles related to general fund property taxes | \$ | (2,000) |
| Change in uncollectibles related to debt service property taxes | | <u>(1,000)</u> |
| Total change in uncollectibles of the current fiscal year | \$ | <u>(3,000)</u> |

Approximately 74% of the outstanding balance of property taxes receivable is not anticipated to be collected within the next year.

A concentration of risk exists for local revenue sources since approximately 21% of the District's taxable property value is attributed to one taxpayer. Similarly, the District's ten largest taxpayers approximate 40% of the total taxable value of the District.

Texas City Independent School District

Notes to the Basic Financial Statements

C. Interfund Receivables, Payables, and Transfers

Receivables/Payables

The composition of interfund balances as of August 31, 2023, is as follows:

| Funds | Interfund Receivables | Interfund Payables |
|-------------------------------------|--------------------------|-----------------------|
| Governmental funds: | | |
| General fund | \$ 9,240,033 | \$ 391,485 |
| Debt service fund | 60,220 | - |
| ESSER III ARP fund | - | 4,857,480 |
| Other governmental funds - nonmajor | 469 | 4,417,546 |
| Proprietary fund: | | |
| Internal service fund | 365,789 | - |
| Totals | \$ 9,666,511 | \$ 9,666,511 |

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

Transfers

Interfund transfers are defined as “flows of assets without equivalent flow of assets in return and without a requirement for repayment.” Transfers are the use of funds collected in one fund and are transferred to finance various programs accounted for in other funds. The composition of interfund transfers for the fiscal year ended August 31, 2023 is as follows:

| Transfer Out | Transfers In | Amount |
|---------------|-----------------------|---------------------|
| General fund | Capital projects fund | <u>\$ 6,763,292</u> |
| Totals | | <u>\$ 6,763,292</u> |

Transfers from the general fund to the capital projects fund were for current construction payments.

Texas City Independent School District
Notes to the Basic Financial Statements

D. Capital Assets

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

| | Beginning Balance | Additions | Retirements, Transfers, and Adjustments | Ending Balance |
|---|-----------------------|---------------------|---|-----------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated/amortized: | | | | |
| Land | \$ 7,200,816 | \$ 3,089,908 | \$ - | \$ 10,290,724 |
| Construction in progress | 40,960,138 | 7,292,534 | (40,960,138) | 7,292,534 |
| Total capital assets, not being depreciated/amortized | 48,160,954 | 10,382,442 | (40,960,138) | 17,583,258 |
| Capital assets, being depreciated/amortized: | | | | |
| Buildings and improvements | 336,201,614 | 4,834,856 | 40,960,138 | 381,996,608 |
| Furniture and equipment | 31,663,706 | 632,203 | - | 32,295,909 |
| Right-to-use leased equipment | 230,935 | 357,249 | (49,441) | 538,743 |
| Right-to-use subscriptions* | 115,008 | 68,932 | - | 183,940 |
| Total capital assets, being depreciated/amortized | 368,211,263 | 5,893,240 | 40,910,697 | 415,015,200 |
| Less accumulated depreciation/amortization for: | | | | |
| Buildings and improvements | (100,952,101) | (7,518,364) | - | (108,470,465) |
| Furniture and equipment | (22,115,076) | (2,975,602) | - | (25,090,678) |
| Right-to-use leased equipment | (117,162) | (177,638) | 49,441 | (245,359) |
| Right-to-use subscriptions* | - | (37,552) | - | (37,552) |
| Total accumulated depreciation/amortization | (123,184,339) | (10,709,156) | 49,441 | (133,844,054) |
| Total capital assets, being depreciated/amortized, net | 245,026,924 | (4,815,916) | 40,960,138 | 281,171,146 |
| Governmental activities capital assets, net | \$ 293,187,878 | \$ 5,566,526 | \$ - | \$ 298,754,404 |

* Right-to-use subscriptions have been adjusted to reflect a beginning balance upon adoption of GASB 96, *Subscription-Based Information Technology Arrangements*.

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

| | |
|--|----------------------|
| Governmental activities: | |
| 11 Instruction | \$ 6,497,566 |
| 12 Instructional resources and media services | 104,182 |
| 13 Curriculum and instructional staff development | 119,633 |
| 21 Instructional leadership | 275,748 |
| 23 School leadership | 731,989 |
| 31 Guidance, counseling, and evaluation services | 371,760 |
| 32 Social work services | 48,390 |
| 33 Health services | 103,241 |
| 34 Student transportation | 363,370 |
| 35 Food services | 318,250 |
| 36 Extracurricular activities | 263,445 |
| 41 General administration | 364,582 |
| 51 Plant maintenance and operations | 782,863 |
| 52 Security and monitoring services | 171,497 |
| 53 Data processing services | 164,337 |
| 61 Community services | 28,303 |
| Total depreciation/amortization expense-governmental activities | \$ 10,709,156 |

Texas City Independent School District

Notes to the Basic Financial Statements

Construction Commitments

The District has active construction projects as of August 31, 2023. The projects include the construction and equipment of school facilities. At year end, the District's commitments with contractors are as follows:

| Project | Remaining Commitment |
|---|-----------------------------|
| STEM Center | \$ 3,619,819 |
| La Marque High School Replacement & New Stadium | 3,139,175 |
| Calvin Vincent ELCC | 2,794,945 |
| New Early Childhood Center | 1,413,285 |
| Texas City High School Auditorium Upgrades | 390,808 |
| Total | <u>\$ 11,358,032</u> |

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

E. Long-term Liabilities

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

Changes in Long-term Liabilities

Long-term liability activity for the fiscal year ended August 31, 2023, was as follows:

| | Beginning Balance | Additions (Adjustments) | Reductions | Ending Balance | Due Within One Year |
|--|------------------------------|------------------------------|-------------------------------|------------------------------|----------------------------|
| Governmental activities: | | | | | |
| Bonds payable: | | | | | |
| General obligation bonds | \$ 175,370,000 | \$ 131,390,000 | \$ (15,865,000) | \$ 290,895,000 | \$13,755,000 |
| Issuance premiums | 19,641,509 | 8,775,416 | (1,532,250) | 26,884,675 | - |
| Total bonds payable | 195,011,509 | 140,165,416 | (17,397,250) | 317,779,675 | 13,755,000 |
| Workers' compensation | 269,052 | 310,134 | (173,663) | 405,523 | 200,000 |
| Lease liability | 120,137 | 344,072 | (167,692) | 296,517 | 153,028 |
| Subscriptions payable* | 115,008 | - | (28,380) | 86,628 | 27,400 |
| Compensated absences | 1,066,284 | 232,575 | (54,818) | 1,244,041 | 106,000 |
| Net pension liability | 14,345,274 | 20,998,628 | (2,898,901) | 32,445,001 | - |
| Net OPEB liability | 28,662,818 | 544,640 | (12,004,488) | 17,202,970 | - |
| Governmental activities long-term liabilities | <u>\$ 239,590,082</u> | <u>\$ 162,595,465</u> | <u>\$ (32,725,192)</u> | <u>\$ 369,460,355</u> | <u>\$14,241,428</u> |

* Subscriptions payable has been adjusted to reflect a beginning balance upon adoption of GASB 96, *Subscription-Based Information Technology Arrangements*.

Texas City Independent School District

Notes to the Basic Financial Statements

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

General Obligation Bonds

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

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

| Series | Interest Rate | Original Issue | Maturity Date | Beginning Balance | Additions | Reductions | Ending Balance |
|------------------------|---------------|----------------|---------------|-----------------------|-----------------------|------------------------|-----------------------|
| Series 2015 REF | 2.00-5.00% | 44,050,000 | 8/15/2030 | \$ 29,405,000 | \$ - | \$ (5,990,000) | \$ 23,415,000 |
| Series 2017 REF | 3.00-4.00% | 8,900,000 | 8/15/2030 | 8,900,000 | - | - | 8,900,000 |
| Series 2018 BLDG | 3.50-5.00% | 70,000,000 | 8/15/2048 | 57,960,000 | - | (3,070,000) | 54,890,000 |
| Series 2019 BLDG & REF | 3.125-5.00% | 63,875,000 | 8/15/2049 | 57,450,000 | - | (3,085,000) | 54,365,000 |
| Series 2020 REF | 5.00% | 13,365,000 | 8/15/2030 | 11,270,000 | - | (1,180,000) | 10,090,000 |
| Series 2020A REF | 2.00-4.00% | 8,535,000 | 2/15/2025 | 6,480,000 | - | (2,100,000) | 4,380,000 |
| Series 2021 REF | 3.00% | 4,300,000 | 2/15/2030 | 3,905,000 | - | (440,000) | 3,465,000 |
| Series 2023 BLDG | 4.0% - 5.0% | 131,390,000 | 8/15/2053 | - | 131,390,000 | - | 131,390,000 |
| Totals | | | | <u>\$ 175,370,000</u> | <u>\$ 131,390,000</u> | <u>\$ (15,865,000)</u> | <u>\$ 290,895,000</u> |

Texas City Independent School District

Notes to the Basic Financial Statements

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

| Year Ending August 31, | Principal | Interest | Total Requirements |
|---------------------------|-----------------------|-----------------------|-----------------------|
| 2024 | \$ 13,755,000 | \$ 14,610,733 | \$ 28,365,733 |
| 2025 | 13,900,000 | 11,835,381 | 25,735,381 |
| 2026 | 12,870,000 | 11,216,356 | 24,086,356 |
| 2027 | 13,715,000 | 10,587,931 | 24,302,931 |
| 2028 | 13,575,000 | 9,931,555 | 23,506,555 |
| 2029 | 14,200,000 | 9,293,531 | 23,493,531 |
| 2030 | 14,270,000 | 8,719,007 | 22,989,007 |
| 2031 | 8,475,000 | 8,153,306 | 16,628,306 |
| 2032 | 8,025,000 | 7,729,556 | 15,754,556 |
| 2033 | 8,470,000 | 7,328,306 | 15,798,306 |
| 2034 | 8,830,000 | 6,942,806 | 15,772,806 |
| 2035 | 6,675,000 | 6,540,307 | 13,215,307 |
| 2036 | 6,970,000 | 6,236,656 | 13,206,656 |
| 2037 | 7,290,000 | 5,919,407 | 13,209,407 |
| 2038 | 7,615,000 | 5,587,405 | 13,202,405 |
| 2039 | 7,965,000 | 5,240,407 | 13,205,407 |
| 2040 | 8,330,000 | 4,889,957 | 13,219,957 |
| 2041 | 8,655,000 | 4,578,876 | 13,233,876 |
| 2042 | 8,995,000 | 4,252,182 | 13,247,182 |
| 2043 | 9,180,000 | 3,912,606 | 13,092,606 |
| 2044 | 9,545,000 | 3,555,250 | 13,100,250 |
| 2045 | 9,920,000 | 3,183,600 | 13,103,600 |
| 2046 | 10,320,000 | 2,786,800 | 13,106,800 |
| 2047 | 10,745,000 | 2,374,000 | 13,119,000 |
| 2048 | 11,165,000 | 1,944,200 | 13,109,200 |
| 2049 | 8,055,000 | 1,497,600 | 9,552,600 |
| 2050 | 6,920,000 | 1,175,400 | 8,095,400 |
| 2051 | 7,195,000 | 898,600 | 8,093,600 |
| 2052 | 7,485,000 | 610,800 | 8,095,800 |
| 2053 | 7,785,000 | 311,400 | 8,096,400 |
| Totals | \$ 290,895,000 | \$ 171,843,921 | \$ 462,738,921 |

Texas City Independent School District

Notes to the Basic Financial Statements

As of August 31, 2023, the District has \$19,600,000 of authorized but unissued bonds from the November 2022 bond election.

The District defeased certain previously issued and outstanding bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At August 31, 2023, the remaining outstanding defeased bonds to be called for redemption was \$2,875,000.

In April 2023, the District issued \$131,390,000 of Unlimited Tax School Building Bonds, Series 2023. Proceeds from the sale of the bonds will be used for designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping school facilities and sports stadiums (and any necessary and related removal of existing facilities) and the purchase of the necessary sites for school facilities.

Leases

The District has entered into multiple lease agreements as lessee. The leases allow the right-to-use postage meter and copiers over the term of the lease. The District is required to make quarterly payments at its incremental borrowing rate or the interest rate stated or implied within the leases. The lease rate, term and ending lease liability are as follows:

| Description | Interest Rate (%) | Liability at Commencement | Maturity Date | Ending Balance |
|---------------|----------------------|------------------------------|------------------|-------------------|
| Postage Meter | 0.582% | \$ 35,744 | 2027 | \$ 21,539 |
| Copiers | 0.2847% -9.807% | 552,442 | 2023-2027 | 274,978 |
| | | <u>\$ 588,186</u> | | <u>\$ 296,517</u> |

The future principal and interest lease payments as of fiscal year end are as follows:

| Year Ending August 31, | Principal | Interest | Total Requirements |
|---------------------------|-------------------|-----------------|-----------------------|
| 2024 | \$ 153,028 | \$ 4,535 | \$ 157,563 |
| 2025 | 108,748 | 1,607 | 110,355 |
| 2026 | 33,842 | 195 | 34,037 |
| 2027 | 899 | 7 | 906 |
| Totals | <u>\$ 296,517</u> | <u>\$ 6,344</u> | <u>\$ 302,861</u> |

The value of the right-to-use leased equipment as of the end of the current fiscal year was \$538,743 and had accumulated amortization of \$245,359.

Texas City Independent School District

Notes to the Basic Financial Statements

Subscription-Based Information Technology Arrangements (SBITA)

The District has entered into multiple SBITAs that allow the right-to-use the SBITA vendor's information technology software over the subscription term. The District is required to make annual payments at its incremental borrowing rate or the interest rate stated or implied within the SBITAs. The SBITA rate, term and ending subscription liability are as follows:

| Description | Interest Rate (%) | Liability at Commencement | Maturity Date | Ending Balance |
|-----------------------|-------------------|---------------------------|---------------|------------------|
| Software Subscription | 2.11% | \$ 115,008 | 2026 | \$ 86,628 |
| | | <u>\$ 115,008</u> | | <u>\$ 86,628</u> |

The future principal and interest SBITA payments as of fiscal year end are as follows:

| Year Ending June 30, | Principal | Interest | Total Requirements |
|----------------------|------------------|-----------------|--------------------|
| 2024 | \$ 27,400 | \$ 1,830 | \$ 29,230 |
| 2025 | 28,859 | 1,251 | 30,110 |
| 2026 | <u>30,369</u> | <u>641</u> | <u>31,010</u> |
| Totals | <u>\$ 86,628</u> | <u>\$ 3,722</u> | <u>\$ 90,350</u> |

The value of the subscription assets as of the end of the current fiscal year was \$183,940 and had accumulated amortization of \$37,552.

F. Fund Balance

Other assigned fund balance in the governmental funds as of August 31, 2023 is comprised of the following:

| | |
|--|----------------------|
| General fund - catastrophic events | \$ 20,000,000 |
| General fund - campus activity | 3,114,523 |
| General fund - property value lawsuits/settlements | 10,000,000 |
| General fund - formula transition grant | 5,388,512 |
| General fund - purchases on order | <u>1,401,332</u> |
| Total other assigned fund balance | <u>\$ 39,904,367</u> |

Texas City Independent School District

Notes to the Basic Financial Statements

G. Revenues from Local and Intermediate Sources

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

| | General | Debt Service | Capital Projects | Nonmajor Funds | Totals |
|--|----------------------|----------------------|---------------------|---------------------|----------------------|
| Property taxes | \$ 61,433,103 | \$ 23,875,699 | \$ - | \$ - | \$ 85,308,802 |
| Investment earnings | 3,666,518 | 1,563,874 | 2,680,317 | 64,465 | 7,975,174 |
| Food service | - | - | - | 349,868 | 349,868 |
| Extracurricular student activities | 171,687 | - | - | 1,277,036 | 1,448,723 |
| Foreign trade zone tax equivalency payment | 1,949,354 | - | - | - | 1,949,354 |
| Chapter 313 payments | 865,000 | - | - | - | 865,000 |
| Other | 1,707,377 | - | 236,583 | 11,500 | 1,955,460 |
| Totals | \$ 69,793,039 | \$ 25,439,573 | \$ 2,916,900 | \$ 1,702,869 | \$ 99,852,381 |

Note 4. Other Information

A. Risk Management

Property/Liability

The District is exposed to various risks of loss related to property/liability losses and tax-assessor bond for which the District carries commercial insurance. In addition, the District participates in the Texas Association of School Board's Risk Management Fund (Fund) for employees and official's legal liability and vehicle coverage. The Fund was created to formulate, develop and administer a program of modified self-funding for the Fund's membership, obtain competitive costs for coverages and develop a comprehensive loss control program. The District pays an annual premium to the Fund for its liability coverage and transfers the risk of loss to the Fund. The District's agreement with the Fund provides that the Fund will be self-sustaining through member premiums and may provide, through commercial companies, reinsurance contracts. In the event that the Fund was to discontinue operations, the member districts would be responsible for any eligible claims not funded by the Fund. In addition, there were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

Health Care Coverage

During the year ended August 31, 2023, employees of the District were covered by TRS-Active Care (the Plan) a statewide health coverage program for Texas public education employees, implemented by the Teacher Retirement System of Texas (TRS). The District paid premiums of \$300 per month, per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to the TRS. The legislature created the Plan for public school employee group health coverage in 2002-03, requiring all Districts with fewer than 500 employees to participate in the Plan.

Workers' Compensation

During the year ended August 31, 2023, employees of the Texas City Independent School District were provided workers' compensation benefits which were self-funded from accumulated assets provided directly by the District, the plan sponsor. The District is solely responsible for the cost of all claims, both reported and unreported. All claims were submitted, processed, and approved by a third party administrator acting as an agent for the District. The plan was documented by contractual agreement. The District was protected against unanticipated, catastrophic individual or aggregate loss by stop-loss coverage carried through Midwest Employers Casualty Company, which limited annual claims paid from the Plan for the fiscal year ended August 31, 2023, to \$350,000 per occurrence with a maximum level of indemnity of \$5,000,000.

Texas City Independent School District

Notes to the Basic Financial Statements

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

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities also include an estimated amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from stop-loss or subrogation, are another component of the claims liability estimate. An excess coverage insurance policy covers individual claims in excess of \$450,000 up to the statutory limits for any given claim. There were no significant reductions in insurance coverage from the prior year. Settlements have not exceeded coverages for each of the past two fiscal years. Changes in the balances of claims liabilities during the past two years are as follows:

| | Year Ended 8/31/2023 | Year Ended 8/31/2022 |
|--|--------------------------|--------------------------|
| Unpaid claims, beginning of fiscal year | \$ 269,052 | \$ 355,568 |
| Incurred claims, including provision (adjustment) for IBNR | 310,134 | 167,007 |
| Claim payments | <u>(173,663)</u> | <u>(253,523)</u> |
| Unpaid claims, end of fiscal year | <u>\$ 405,523</u> | <u>\$ 269,052</u> |

B. Litigation and Contingencies

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

The District participates in a number of federal and state financial assistance programs. Although the District's grant programs have been audited in accordance with the provisions of the Single Audit Act through August 31, 2023, these programs are subject to financial and compliance audits by the grantor agencies. The District is also subject to audit by the TEA of the attendance data upon which payments from the agency are based. These audits could result in questioned costs or refunds to be paid back to the granting agencies.

C. Defined Benefit Pension Plan

Plan Description

The District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS) and is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

Texas City Independent School District

Notes to the Basic Financial Statements

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

Pension Plan Fiduciary Net Position

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

Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3% (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 where the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic postemployment benefit changes, including automatic cost of living adjustments (COLAs). Ad hoc postemployment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as previously noted in the Plan Description above.

Contributions

Contribution requirements are established or amended pursuant to Article XVI, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements if, as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Employee contribution rates are set in state statute, Texas Government Code 825.402. 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 through 2025.

Rates for such plan fiscal years are as follows:

| | Contribution Rates | |
|--|--------------------|-------|
| | 2023 | 2022 |
| Member | 8.00% | 8.00% |
| Non-employer contributing entity (State) | 8.00% | 7.75% |
| Employers (District) | 8.00% | 7.75% |

Texas City Independent School District

Notes to the Basic Financial Statements

The contribution amounts for the District's fiscal year 2023 are as follows:

| | |
|--------------------------------------|--------------|
| District contributions | \$ 3,205,946 |
| Member contributions | 5,410,320 |
| NECE on-behalf contributions (State) | 3,234,743 |

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.

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 the 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 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 surcharges an employer is subject to:

- When employing a retiree of the Teacher Retirement System, the employer shall pay both the member contribution and the state contribution as an employment-after-retirement surcharge.
- Public education employer contribution – all public schools, charter schools and regional education service centers must contribute 1.7% of the member's salary beginning in fiscal year 2022, gradually increasing to 2.0% in fiscal year 2025.

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

On August 31, 2023, the District reported a liability of \$32,445,001 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District are as follows:

| | |
|---|----------------------|
| District's proportionate share of the net pension liability | \$ 32,445,001 |
| State's proportionate share of the net pension liability associated with the District | <u>36,486,660</u> |
| Total | <u>\$ 68,931,661</u> |

Texas City Independent School District

Notes to the Basic Financial Statements

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 August 31, 2021 rolled forward to August 31, 2022. The District's proportion of the net pension liability was based on the District's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2021 through August 31, 2022.

At the measurement date of August 31, 2022, the District's proportion of the collective net pension liability was 0.0546512%, which was a decrease of 0.0016789% from its proportion measured as of August 31, 2021.

For the fiscal year ended August 31, 2023, the District recognized pension expense of \$7,130,776 and revenue of \$3,487,711 for support provided by the State.

On August 31, 2023, the District reported its proportionate share of the TRS' deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ 470,450 | \$ 707,362 |
| Changes of assumptions | 6,045,560 | 1,506,722 |
| Difference between projected and actual earnings on pension plan investments | 3,205,462 | - |
| Changes in proportion and difference between District's contributions and the proportionate share of contributions | 1,040,471 | 3,023,862 |
| District contributions paid subsequent to the measurement date | 3,205,946 | - |
| Totals | \$ 13,967,889 | \$ 5,237,946 |

\$3,205,946 reported as deferred outflows of resources resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| | Year Ending August 31, |
|---------------|---------------------------|
| 2024 | \$ 1,741,468 |
| 2025 | 333,390 |
| 2026 | (225,363) |
| 2027 | 3,326,744 |
| 2028 | 347,758 |
| Totals | \$ 5,523,997 |

Texas City Independent School District

Notes to the Basic Financial Statements

Actuarial Methods and Assumptions

The actuarial valuation of the total pension liability was performed as of August 31, 2021. Update procedures were used to roll forward the total pension liability to August 31, 2022 and was determined using the following actuarial methods and assumptions:

| | |
|---|--|
| Actuarial cost method | Individual entry age normal |
| Asset valuation method | Fair value |
| Single discount rate | 7.00% |
| Long-term expected rate of return | 7.00% |
| Municipal bond rate as of August 2022 | 3.91%. The source for the rate is the Fixed Income Market Data/Yield Curve/Data Municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index." |
| Last year ending August 31 in projection period (100 years) | 2121 |
| Inflation | 2.30% |
| Salary increases | 2.95% to 8.95% including inflation |
| Ad hoc postemployment benefit changes | None |
| Active mortality rates | The post-retirement mortality rates for healthy lives were based on the 2021 TRS of Texas Healthy Pensioner Mortality Tables with full generational projection using the ultimate improvement rates from the most recently published projection scale ("U-MP"). The active mortality rates were based on the published PUB(2010) Mortality Tables for Teachers, below median, also with full generational mortality. |

The actuarial methods and assumptions are primarily based on a study of actual experience for the four year period ending August 31, 2021 and adopted in July 2022.

Texas City Independent School District

Notes to the Basic Financial Statements

Discount Rate and Long-term Expected Rate of Return

A single 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 the single discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity will be made at the rates set by the legislature in the 2019 session. It is assumed that future employer and state contributions will be 8.50 percent of payroll in fiscal year 2020 gradually increasing to 9.55 percent of payroll over the next several years. This includes all employer and state contributions for active and rehired retirees.

Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected 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 expected rate of return on pension plan investments was determined using a building-block method in which best estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in TRS's target asset allocation as of August 31, 2022 are summarized below:

| Asset Class | Target Allocation** | Long-term Expected Geometric Real Rate of Return*** | Expected Contribution to Long-term Portfolio Returns |
|--|---------------------|---|--|
| Global equity: | | | |
| U.S. | 18.00% | 4.60% | 1.12% |
| Non-U.S. developed | 13.00% | 4.90% | 0.90% |
| Emerging markets | 9.00% | 5.40% | 0.75% |
| Private equity* | 14.00% | 7.70% | 1.55% |
| Stable value: | | | |
| Government bonds | 16.00% | 1.00% | 0.22% |
| Absolute return* | - | 3.70% | - |
| Stable value hedge funds | 5.00% | 3.40% | 0.18% |
| Real return: | | | |
| Real estate | 15.00% | 4.10% | 0.94% |
| Energy, natural resources and infrastructure | 6.00% | 5.10% | 0.37% |
| Commodities | - | 3.60% | - |
| Risk parity: | | | |
| Risk parity | 8.00% | 4.60% | 0.43% |
| Asset allocation leverage: | | | |
| Cash | 2.00% | 3.00% | 0.01% |
| Asset allocation leverage cash | -6.00% | 3.60% | -0.05% |
| Inflation expectation | | | 2.70% |
| Volatility drag**** | | | -0.91% |
| Total | 100.00% | | 8.21% |

* Absolute return includes credit sensitive investments.

** Target allocations are based on the FY 2022 policy model.

*** Capital market assumptions come from Aon Hewitt (as of 8/31/2022).

**** The volatility drag results from the conversion between arithmetic and geometric mean returns.

Texas City Independent School District

Notes to the Basic Financial Statements

Discount Rate Sensitivity Analysis

The following table presents the District's proportionate share of the TRS net pension liability calculated using the discount rate of 7.00%, as well as what the District's proportionate share of the net pension liability would be if it was calculated using a discount rate that is 1% lower or 1% higher than the current rate:

| | 1% Decrease (6.00%) | Current Discount Rate (7.00%) | 1% Increase (8.00%) |
|---|------------------------|-------------------------------------|------------------------|
| District's proportionate share of the net pension liability | \$ 50,472,120 | \$ 32,445,001 | \$ 17,833,175 |

Change of Assumptions Since the Prior Measurement Date

New assumptions were adopted in conjunction with an actuarial experience study since the prior measurement date that affected measurement of the total pension liability during the measurement period. The primary assumption change was the lowering of the single discount rate from 7.25 percent to 7.00 percent.

Change of Benefit Terms Since the Prior Measurement Date

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

D. Defined Other Post-Employment Benefit Plan

Plan Description

The District participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care). It is a multiple-employer, cost-sharing defined Other Post-Employment Benefit (OPEB) plan that has a special funding situation. TRS-Care was established in 1986 by the Texas Legislature and is administered through a trust by the Teacher Retirement System of Texas (TRS) Board of Trustees in accordance with the Texas Insurance Code, Chapter 1575. The Board may adopt rules, plans, procedures and orders reasonably necessary to administer the program, including minimum benefits and financing standards.

OPEB Plan Fiduciary Net Position

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

Benefits Provided

TRS-Care provides health insurance coverage to retirees from public schools, charter schools, regional education service centers and other educational districts who are members of the TRS pension plan. Optional dependent coverage is available for an additional fee.

Eligible 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. The Board of Trustees of TRS 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.

Texas City Independent School District

Notes to the Basic Financial Statements

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

TRS-Care Monthly Plan Premium Rates

| | Medicare | Non-Medicare |
|--|----------|--------------|
| Retiree or surviving spouse | \$ 135 | \$ 200 |
| Retiree and spouse | 529 | 689 |
| Retiree or surviving spouse and children | 468 | 408 |
| Retiree and family | 1,020 | 999 |

Contributions

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

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

Rates for such plan fiscal years are as follows:

| | Contribution Rates | |
|--|--------------------|-------|
| | 2023 | 2022 |
| Active employee | 0.65% | 0.65% |
| Non-employer contribution entity (State) | 1.25% | 1.25% |
| Employers (District) | 0.75% | 0.75% |
| Federal/private funding* | 1.25% | 1.25% |

*Contributions paid from federal funds and private grants are remitted by the employer (District) and paid at the State rate.

The contribution amounts for the District's fiscal year 2023 are as follows:

| | |
|--------------------------------------|------------|
| District contributions | \$ 652,730 |
| Member contributions | 439,562 |
| NECE on-behalf contributions (State) | 744,699 |

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 hiring a TRS retiree, employers are required to pay TRS-Care a monthly surcharge of \$535 per retiree.

The State of Texas also contributed \$342,817, \$257,574, and \$282,313 in 2023, 2022, and 2021, respectively, for on-behalf payments for Medicare Part D.

Texas City Independent School District

Notes to the Basic Financial Statements

TRS-Care received a supplemental appropriation from the State of Texas as the Non-Employer Contributing Entity in the amount of \$83 million in fiscal year 2022 from the Federal Rescue Plan Act (ARPA) to help defray Covid-19 related health care costs during fiscal year 2022.

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

On August 31, 2023, the District reported a liability of \$17,202,970 for its proportionate share of the TRS's net OPEB liability. This liability reflects a reduction for State OPEB support provided by the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District are as follows:

| | |
|--|-----------------------------|
| District's proportionate share of the net OPEB liability | \$ 17,202,970 |
| State's proportionate share of the net OPEB liability associated with the District | <u>20,984,920</u> |
| Total | <u>\$ 38,187,890</u> |

The net OPEB liability was measured as of August 31, 2022 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as August 31, 2021 rolled forward to August 31, 2022. The District's proportion of the net OPEB liability was based on the District's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2021 through August 31, 2022.

At the measurement date of August 31, 2022, the employer's proportion of the collective net OPEB liability was 0.0718467%, which was a decrease of 0.0024585% from its proportion measured as of August 31, 2021.

GASB 75 requires the District to record OPEB expense for the amount of the State's proportionate share of collective OPEB expense that is associated with the District, and record revenue in the same amount for the support provided by the State. For the measurement period ended August 31, 2022, the State's proportionate share of the collective OPEB expense was a negative expense of \$1,867,177,302 and the portion of that amount that is associated with the District is a negative expense of \$2,977,930. This amount is recorded as a negative revenue and negative expense for the year ended June 30, 2023.

For the year ended August 31, 2023, the District recognized total negative OPEB expense of \$6,203,026, which includes both the District's proportionate share of collective OPEB expense and the portion of the State's proportionate share of collective OPEB expense that is associated with the District, as described above.

On August 31, 2023, the District reported its proportionate share of the TRS' deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences between expected and actual experience | \$ 956,424 | \$ 14,331,618 |
| Changes of assumptions | 2,620,353 | 11,951,600 |
| Difference between projected and actual earnings on OPEB plan investments | 51,243 | - |
| Changes in proportion and difference between District's contributions and the proportionate share of contributions | 59 | 5,703,478 |
| District contributions paid subsequent to the measurement date | <u>652,730</u> | <u>-</u> |
| Totals | <u>\$ 4,280,809</u> | <u>\$ 31,986,696</u> |

Texas City Independent School District

Notes to the Basic Financial Statements

\$652,730 reported as deferred outflows of resources resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended August 31, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Year Ending August 31, | |
|---------------------------|-------------------------------|
| 2024 | \$ (5,182,481) |
| 2025 | (5,182,294) |
| 2026 | (4,452,776) |
| 2027 | (3,465,139) |
| 2028 | (3,525,514) |
| Thereafter | <u>(6,550,413)</u> |
| Total | \$ <u>(28,358,617)</u> |

Actuarial Methods and Assumptions

The actuarial valuation of the total OPEB liability was performed as of August 31, 2021. Update procedures were used to roll forward the total OPEB liability to August 31, 2022.

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. The following assumptions used for the valuation of the TRS-Care OPEB liability are identical to the assumptions employed in the August 31, 2021 TRS pension actuarial valuation that was rolled forward to August 31, 2022:

| <u>Demographic Assumptions</u> | <u>Economic Assumptions</u> |
|--------------------------------|-----------------------------|
| Rates of mortality | General inflation |
| Rates of retirement | Wage inflation |
| Rates of termination | |
| Rates of disability | |

See Note 4.C for detail on these assumptions. The demographic assumptions were developed in the experience study performed for TRS for the period ending August 31, 2017.

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. The rates were projected on a fully generational basis using the ultimate improvement rates from mortality projection scale MP-2018.

The initial medical trend rates were 8.25% for Medicare retirees and 7.25% for non-Medicare retirees. There was an initial prescription drug trend rate of 8.25% for all retirees. The initial trend rates decrease to an ultimate trend rate of 4.25 % over a period of 13 years.

Texas City Independent School District

Notes to the Basic Financial Statements

The following methods and additional assumptions were used in the TRS-Care OPEB valuation:

| | |
|---------------------------------------|--|
| Actuarial cost method | Individual entry age normal |
| Single discount rate | 3.91% |
| Aging factors | Based on plan specific experience |
| Election rates | Normal retirement: 62% participation prior to age 65 and 25% after age 65. Pre-65 retirees: 30% of pre-65 retirees are assumed to discontinue coverage at age 65. |
| Expenses | Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs. |
| Ad hoc postemployment benefit changes | None |

Discount Rate

A single discount rate of 3.91% was used to measure the total OPEB liability at August 31, 2022. This was an increase of 1.96% in the discount rate since the August 31, 2021 measurement date. The plan is essentially a "pay-as-you-go" plan, and based on the assumption that contributions are made at the statutorily required rates, the OPEB plan's fiduciary net position was projected to not be able to make all future benefit payments to current plan members and therefore, the single discount rate is equal to the prevailing municipal bond rate. The source for the rate is the Fixed Income Market Data / Yield Curve / Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of August 31, 2022.

Sensitivity Analysis of Rates

Discount Rate

The following table presents the District's proportionate share of the TRS-Care net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that was 1% less than and 1% greater than the discount rate that was used (3.91%) in measuring the net OPEB liability.

| | 1% Decrease (2.91%) | Current Discount Rate (3.91%) | 1% Increase (4.91%) |
|--|------------------------|-------------------------------------|------------------------|
| District's proportionate share of the net OPEB liability | \$ 20,283,665 | \$ 17,202,970 | \$ 14,707,211 |

Texas City Independent School District

Notes to the Basic Financial Statements

Healthcare Cost Trend Rates

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

| | <u>1% Decrease</u> | <u>Current Healthcare Cost Trend Rate</u> | <u>1% Increase</u> |
|--|--------------------|---|--------------------|
| District's proportionate share of the net OPEB liability | \$ 14,175,324 | \$ 17,202,970 | \$ 21,127,922 |

Change of Assumptions Since the Prior Measurement Date

The following were changes to the actuarial assumptions or other inputs that affected 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 total OPEB liability.
- Lower participation rates and updates to the health care trend rate assumptions were also factors that decreased the total OPEB liability.

Change of Benefit Terms Since the Prior Measurement Date

There were no changes in benefit terms since the prior measurement date.

E. Nonmonetary Transactions

During 2023, the District received textbooks purchased by the State of Texas for the benefit of the District for a purchase price of \$85,253. The District receives the textbooks as part of state funding for textbook allotment. The textbooks have been recorded in the amount of \$85,253 in a special revenue fund as both state revenues and expenditures, which represents the amount of consideration given by the State of Texas.

F. Shared Service Arrangements

Galveston County Transforming Lives Cooperative Program

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

Texas City Independent School District

Notes to the Basic Financial Statements

Galveston-Brazoria Cooperation for the Deaf and Hard of Hearing (GBCDHH) and Regional Day School Program for the Deaf (RDSPD) Shared Services Arrangement

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

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Required Supplementary Information

Texas City Independent School District
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual
General Fund
For the Fiscal Year Ended August 31, 2023

Exhibit G-1

| Data Control Codes | 1 | 2 | 3 | Variance with Final Budget | |
|--|--|-----------------------|----------------------|-------------------------------|----------------------|
| | Budgeted Amounts | | Actual | Positive (Negative) | |
| | Original | Final | | | |
| REVENUES: | | | | | |
| 5700 | Local and intermediate sources | \$ 68,427,754 | \$ 71,481,254 | \$ 69,793,039 | \$ (1,688,215) |
| 5800 | State program revenues | 24,264,588 | 24,264,588 | 39,440,820 | 15,176,232 |
| 5900 | Federal program revenues | 3,350,000 | 3,350,000 | 3,337,370 | (12,630) |
| 5020 | Total revenues | 96,042,342 | 99,095,842 | 112,571,229 | 13,475,387 |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| 0011 | Instruction | 42,977,929 | 46,647,509 | 46,132,266 | 515,243 |
| 0012 | Instructional resources and media services | 946,977 | 993,329 | 947,877 | 45,452 |
| 0013 | Curriculum and instructional staff development | 796,843 | 959,492 | 850,080 | 109,412 |
| 0021 | Instructional leadership | 1,172,922 | 1,277,339 | 1,233,299 | 44,040 |
| 0023 | School leadership | 5,304,976 | 5,849,558 | 5,794,824 | 54,734 |
| 0031 | Guidance, counseling, and evaluation services | 2,459,185 | 2,533,281 | 2,476,508 | 56,773 |
| 0032 | Social work services | 161,977 | 153,377 | 150,700 | 2,677 |
| 0033 | Health services | 834,353 | 881,792 | 848,182 | 33,610 |
| 0034 | Student transportation | 3,330,977 | 3,574,174 | 3,413,927 | 160,247 |
| 0036 | Extracurricular activities | 2,698,229 | 3,817,363 | 3,647,314 | 170,049 |
| 0041 | General administration | 3,396,759 | 4,095,916 | 3,891,285 | 204,631 |
| 0051 | Plant maintenance and operations | 15,441,236 | 20,009,257 | 18,369,191 | 1,640,066 |
| 0052 | Security and monitoring services | 3,029,276 | 4,564,426 | 3,747,234 | 817,192 |
| 0053 | Data processing services | 2,751,457 | 3,876,425 | 3,250,631 | 625,794 |
| 0061 | Community services | 22,930 | 32,530 | 30,793 | 1,737 |
| Debt services: | | | | | |
| 0071 | Principal on long-term debt | - | 323,077 | 196,072 | 127,005 |
| 0072 | Interest on long-term debt | - | 9,675 | 9,675 | - |
| Capital outlay: | | | | | |
| 0081 | Facilities acquisition and construction | 74,757 | 97,357 | 335,512 | (238,155) |
| Intergovernmental: | | | | | |
| 0091 | Contracted instructional services between schools | 991,466 | 1,041,466 | 826,620 | 214,846 |
| 0093 | Payments related shares services arrangements | 209,370 | 354,870 | 348,195 | 6,675 |
| 0099 | Other intergovernmental charges | 675,105 | 675,105 | 566,183 | 108,922 |
| 6030 | Total expenditures | 87,276,724 | 101,767,318 | 97,066,368 | 4,700,950 |
| 1100 | Excess (deficiency) of revenues over expenditures | 8,765,618 | (2,671,476) | 15,504,861 | 18,176,337 |
| OTHER FINANCING SOURCES (USES): | | | | | |
| 7913 | Issuance of leases | - | 344,072 | 344,072 | - |
| 8911 | Transfers out | - | (6,763,292) | (6,763,292) | - |
| 7080 | Total other financing sources (uses) | - | (6,419,220) | (6,419,220) | - |
| 1200 | Net change in fund balance | 8,765,618 | (9,090,696) | 9,085,641 | 18,176,337 |
| 0100 | Fund balance - beginning | 98,864,670 | 98,864,670 | 98,864,670 | - |
| 3000 | FUND BALANCE - ENDING | \$ 107,630,288 | \$ 89,773,974 | \$ 107,950,311 | \$ 18,176,337 |

The Notes to the Required Supplementary Information are an integral part of this schedule.

Texas City Independent School District

Exhibit G-2

Schedule of the District's Proportionate Share of the Net Pension Liability of a Cost-Sharing Multiple-Employer Pension Plan Teacher Retirement System of Texas For the Last Nine Fiscal Years*

| Year | District's Proportion of Net Pension Liability | District's Proportionate Share of the Net Pension Liability | State's Proportionate Share of the Net Pension Liability Associated with the District | Total | District's Covered Payroll | District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|------|--|---|---|---------------|----------------------------|--|--|
| 2023 | 0.0546512% | \$ 32,445,001 | \$ 36,486,660 | \$ 68,931,661 | \$ 62,824,635 | 51.64% | 75.62% |
| 2022 | 0.0563301% | 14,345,274 | 18,961,743 | 33,307,017 | 63,068,555 | 22.75% | 88.79% |
| 2021 | 0.0587682% | 31,475,062 | 39,734,373 | 71,209,435 | 63,026,972 | 49.94% | 75.54% |
| 2020 | 0.0614157% | 31,925,778 | 38,262,365 | 70,188,143 | 60,668,699 | 52.62% | 75.24% |
| 2019 | 0.0619939% | 34,122,953 | 45,031,447 | 79,154,400 | 60,458,695 | 56.44% | 73.74% |
| 2018 | 0.0670813% | 21,448,971 | 25,889,561 | 47,338,532 | 60,256,723 | 35.60% | 82.17% |
| 2017 | 0.0536378% | 20,268,931 | 28,937,450 | 49,206,381 | 50,996,372 | 39.75% | 78.00% |
| 2016 | 0.0551546% | 19,496,417 | 29,089,883 | 48,586,300 | 50,195,373 | 38.84% | 78.43% |
| 2015 | 0.0370889% | 9,906,958 | 25,393,310 | 35,300,268 | 45,436,168 | 21.80% | 83.25% |

* The amounts presented for the fiscal years were determined as of the Plan's fiscal year end, August 31 of the prior year. Ten years of data is not available.

Texas City Independent School District**Exhibit G-3**

Schedule of the District's Contributions to the
 Teacher Retirement System of Texas Pension Plan
 For the Last Nine Fiscal Years*

| Year | Contractually Required Contributions | Contributions in Relation to the Contractually Required Contributions | Contribution Deficiency (Excess) | District's Covered Payroll | Contributions as a Percentage of Covered Payroll |
|-------------|---|--|---|---|---|
| 2023 | \$ 3,205,946 | \$ (3,205,946) | \$ - | \$ 67,641,109 | 4.74% |
| 2022 | 2,544,181 | (2,544,181) | - | 62,824,635 | 4.05% |
| 2021 | 2,403,746 | (2,403,746) | - | 63,068,555 | 3.81% |
| 2020 | 2,424,798 | (2,424,798) | - | 63,026,972 | 3.85% |
| 2019 | 2,117,225 | (2,117,225) | - | 60,668,699 | 3.49% |
| 2018 | 2,087,351 | (2,087,351) | - | 60,458,695 | 3.45% |
| 2017 | 2,198,532 | (2,198,532) | - | 60,256,723 | 3.65% |
| 2016 | 1,702,088 | (1,702,088) | - | 50,996,372 | 3.34% |
| 2015 | 1,633,154 | (1,633,154) | - | 50,195,373 | 3.25% |

* The amounts presented for the fiscal years were determined as of the District's fiscal year end.
 Ten years of data is not available.

Texas City Independent School District

Exhibit G-4

Schedule of the District's Proportionate Share of the Net OPEB Liability of a Cost-Sharing Multiple-Employer OPEB Plan Teacher Retirement System of Texas For the Last Six Fiscal Years*

| Year | District's Proportion of Net OPEB Liability | District's Proportionate Share of the Net OPEB Liability | State's Proportionate Share of the Net OPEB Liability Associated with the District | Total | District's Covered Payroll | District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability |
|------|---|--|--|---------------|----------------------------|---|---|
| 2023 | 0.0718467% | \$ 17,202,970 | \$ 20,984,920 | \$ 38,187,890 | \$ 62,824,635 | 27.38% | 11.52% |
| 2022 | 0.0743052% | 28,662,818 | 38,401,788 | 67,064,606 | 63,068,555 | 45.45% | 6.18% |
| 2021 | 0.0796850% | 29,259,184 | 39,317,329 | 68,576,513 | 63,026,972 | 46.42% | 4.99% |
| 2020 | 0.0793049% | 37,504,239 | 49,834,747 | 87,338,986 | 60,668,699 | 61.82% | 2.66% |
| 2019 | 0.0824790% | 41,182,504 | 48,954,608 | 90,137,112 | 60,458,695 | 68.12% | 1.57% |
| 2018 | 0.0862308% | 37,498,549 | 44,689,617 | 82,188,166 | 60,256,723 | 62.23% | 0.91% |

* The amounts presented for the fiscal years were determined as of the Plan's fiscal year end, August 31 of the prior year. Ten years of data is not available.

Texas City Independent School District
 Schedule of the District's Contributions to the
 Teacher Retirement System of Texas OPEB Plan
 For the Last Six Fiscal Years*

Exhibit G-5

| Year | Contractually Required Contributions | Contributions in Relation to the Contractually Required Contributions | Contribution Deficiency (Excess) | District's Covered Payroll | Contributions as a Percentage of Covered Payroll |
|-------------|---|--|---|---|---|
| 2023 | \$ 652,730 | \$ (652,730) | \$ - | \$ 67,641,109 | 0.96% |
| 2022 | 587,715 | (587,715) | - | 62,824,635 | 0.94% |
| 2021 | 580,488 | (580,488) | - | 63,068,555 | 0.92% |
| 2020 | 585,018 | (585,018) | - | 63,026,972 | 0.93% |
| 2019 | 594,237 | (594,237) | - | 60,668,699 | 0.98% |
| 2018 | 569,522 | (569,522) | - | 60,458,695 | 0.94% |

* The amounts presented for the fiscal years were determined as of the District's fiscal year end.
 Ten years of data is not available.

Texas City Independent School District
Notes to the Required Supplementary Information

Note 1. Budget

A. Budgetary Information

Each school district in Texas is required by law to prepare annually a budget of anticipated revenues and expenditures for the general fund, debt service fund, and the National School Breakfast and Lunch Program special revenue fund. The Texas Education Code requires the budget to be prepared not later than August 20 and adopted by August 31 of each year. The budgets are prepared on a basis of accounting that is used for reporting in accordance with generally accepted accounting principles.

The following procedures are followed in establishing the budgetary data reflected in the fund financial schedules:

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

The appropriated budget is prepared by fund and function. The District's campus/department heads may make transfers of appropriations within a campus or department. Transfers of appropriations between campuses or departments require the approval of the District's management. Increasing any one of the functional spending categories, or revenues object accounts and other resources require the approval of the Board. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the function level within a fund. All annual appropriations lapse at fiscal year-end.

B. Excess of Expenditures Over Appropriations

For the fiscal year ended August 31, 2023 expenditures exceeded appropriations in the general fund due to construction costs incurred during the year but were paid after year-end.

| <u>Fund</u> | <u>Function</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance</u> |
|--------------|-----------------|---------------------|---------------|-----------------|
| General fund | 81 | \$ 97,357 | \$ 335,512 | \$ (238,155) |

Texas City Independent School District
Notes to the Required Supplementary Information

Note 2. Net Pension Liability and Net OPEB Liability

The following factors significantly affect trends in the amounts reported for the District's proportionate share of the net pension liability and net OPEB liability:

Changes in Actuarial Assumptions and Inputs

| Measurement Date August 31, | Net Pension Liability | | Net OPEB Liability |
|-----------------------------|-----------------------|-----------------------------------|--------------------|
| | Discount Rate | Long-term Expected Rate of Return | Discount Rate |
| 2022 | 7.000% | 7.000% | 3.910% |
| 2021 | 7.250% | 7.250% | 1.950% |
| 2020 | 7.250% | 7.250% | 2.330% |
| 2019 | 7.250% | 7.250% | 2.630% |
| 2018 | 6.907% | 7.250% | 3.690% |
| 2017 | 8.000% | 8.000% | 3.420% |
| 2016 | 8.000% | 8.000% | |
| 2015 | 8.000% | 8.000% | |
| 2014 | 8.000% | 8.000% | |

Changes in Demographic and Economic Assumptions

For measurement date August 31, 2018 – Net Pension Liability and Net OPEB Liability:

- Demographic assumptions including post-retirement mortality, termination rates, and rates of retirement and economic assumptions, including rates of salary increase for individual participants were updated based on the experience study performed for TRS for the period ending August 31, 2017.

Changes in Benefit Terms

For measurement date August 31, 2018 – Net OPEB Liability:

- Changes of benefit terms were made effective September 1, 2017 by the 85th Texas Legislature.

Other Changes

For measurement date August 31, 2022 – Net OPEB Liability:

- The participation rate for pre-65 retirees was lowered from 65% to 62%. The participation rate for post-65 retirees was lowered from 40% to 25%.

For measurement date August 31, 2020 – Net OPEB Liability:

- The participation rate for pre-65 retirees was lowered from 50% to 40%. This change decreased the total OPEB liability.
- The ultimate healthcare trend rate assumption decreased to reflect the repeal of the excise (Cadillac) tax on high-cost employer health plans.

Texas City Independent School District

Notes to the Required Supplementary Information

For measurement date August 31, 2019 – Net Pension Liability:

- With the enactment of SB3 by the 2019 Texas Legislature, an assumption was made about how this would impact future salaries. It is assumed that eligible active members will each receive a \$2,700 increase in fiscal year 2020. This is in addition to the salary increase expected based on the actuarial assumptions.

For measurement date August 31, 2019 – Net OPEB Liability:

- The participation rate for pre-65 retirees was lowered from 70% to 65%. The participation rate for post-65 retirees was lowered from 75% to 50%. 25% of pre-65 retirees are assumed to discontinue their coverage at age 65.
- The trend rates were reset to better reflect the plan's anticipated experience.
- The percentage of retirees who are assumed to have two-person coverage was lowered from 20% to 15%. In addition, the participation assumption for the surviving spouses of employees that die while actively employed was lowered from 20% to 10%.

For measurement date August 31, 2018 – Net OPEB Liability:

- Adjustments were made for retirees that were known to have discontinued their health care coverage in fiscal year 2018.
- The health care trend rate assumption was updated to reflect the anticipated return of the Health Insurer Fee (HIF) in 2020.

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