

**PRELIMINARY OFFICIAL STATEMENT  
DATED JULY 19, 2024**

**NEW ISSUE – Book-Entry-Only**

**Ratings: S&P: “Applied For”  
(See “THE PERMANENT SCHOOL FUND  
GUARANTEE PROGRAM” (2024A Bonds only),  
“BOND INSURANCE”, “BOND INSURANCE  
RISK FACTORS” (2024B Bonds only)  
and “RATINGS” (both series) herein)**

*In the opinion of Bond Counsel to the District, interest on the Bonds (defined below) 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, including the alternative minimum tax on certain corporations.*

**HARLANDALE INDEPENDENT SCHOOL DISTRICT  
(A political subdivision of the State of Texas located in Bexar County)**

**\$10,000,000\*  
UNLIMITED TAX SCHOOL BUILDING BONDS,  
SERIES 2024A**

**\$19,220,000\*  
UNLIMITED TAX REFUNDING BONDS,  
SERIES 2024B (NON-PSF)**

**Dated Date: July 15, 2024 (interest will accrue from the Delivery Date)**

**Due: August 15, as shown pages ii and iii**

The Harlandale Independent School District (the “District”) is issuing its Unlimited Tax School Building Bonds, Series 2024A (the “2024A Bonds”) pursuant to the Constitution and general laws of the State of Texas, including, particularly, Chapter 45, Texas Education Code, as amended, Chapter 1371, Texas Government Code, as amended (“Chapter 1371”), an order adopted by the Board of Trustees of the District (the “2024A Order”) on May 21, 2024 authorizing the issuance of the 2024A Bonds in which the District delegated authority to certain officers of the District to complete the sale of the 2024A Bonds through the execution of a pricing certificate (the “2024A Pricing Certificate”), and an election held within the District on May 7, 2022 (the “Election”). The District is issuing its Unlimited Tax Refunding Bonds, Series 2024B (Non-PSF) (the “2024B Bonds” and, collectively with the 2024A Bonds, the “Bonds”) pursuant to the Constitution and general laws of the State of Texas, including particularly, Chapter 1207, as amended, Texas Government Code (“Chapter 1207”), Chapter 1371, the Election, and an order adopted by the Board of Trustees of the District (the “2024B Order”) on May 21, 2024 authorizing the issuance of the 2024B Bonds in which the District delegated authority to certain officers of the District to complete the sale of the 2024B Bonds through the execution of a pricing certificate (the “2024B Pricing Certificate”). The 2024A Order, the 2024B Order, the 2024A Pricing Certificate, and the 2024B Pricing Certificate are collectively referred to herein as the “Order”.

The Bonds are direct obligations of the District and are payable as to principal and interest from the proceeds of an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District, as provided in the Order (see “THE BONDS – Security” herein). The District has applied for and received conditional approval from the Texas Education Agency for payment of the principal of and interest on the 2024A Bonds to be guaranteed under the Texas Permanent School Fund Guarantee Program, which guarantee will automatically become effective when the Texas Attorney General approves the 2024A Bonds (see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein). **The payment of debt service on the 2024B Bonds is not guaranteed by the Texas Permanent School Fund Guarantee Program.**

Application has been made to municipal bond insurance companies to have the payment of principal of and interest on the 2024B Bonds insured by a municipal bond insurance policy. See “BOND INSURANCE” and “BOND INSURANCE RISK FACTORS” herein.

Interest on the Bonds will accrue from the date of initial delivery identified below (the “Delivery Date”) to the initial purchasers thereof named below (the “Underwriters”), will be payable initially on each February 15 and August 15, commencing on February 15, 2025, until stated maturity or prior redemption, as applicable, and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Bonds will be issued as fully registered obligations in the principal denomination of \$5,000 for any one stated maturity. The Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”), pursuant to the Book-Entry-Only System described herein. DTC will act as securities depository. Book entry interests in the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the owners thereof. Principal of and interest on the Bonds will be payable by U.S. Bank Trust Company, National Association, Dallas, Texas, as the initial 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).

Proceeds from the sale of the 2024A Bonds will be used for (i) the purposes of designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping school facilities (and any necessary or related removal of existing facilities), including school athletic facilities, namely, an existing stadium and related infrastructure, the purchase of the necessary sites for school facilities, and the purchase of new school buses, and (ii) paying the costs of issuing the 2024A Bonds (see “THE BONDS – Authorization and Purpose” herein).

Proceeds from the sale of the 2024B Bonds will be used for the purposes of (i) refunding certain outstanding maintenance tax obligations of the District in accordance with the Election (the “Refunded Obligations”) (see “THE BONDS - Refunded Obligations” herein; see also “SCHEDULE I – Schedule of Refunded Obligations” herein) and (ii) paying the costs of issuing the 2024B Bonds (see “THE BONDS – Authorization and Purpose” herein).

**SEE STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, REDEMPTION PROVISIONS,  
INITIAL YIELDS, AND CUSIP NUMBERS ON PAGES -ii- and -iii- HEREOF**

*The Bonds are offered for delivery when, as, and if issued and received by the Underwriters and subject to the approving opinions of the Attorney General of the State of Texas and the legal opinions of McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel. Certain legal matters also will be passed upon for the Underwriters by their co-counsel Cantu Harden Montoya LLP, San Antonio, Texas and Winstead PC, San Antonio, Texas. It is expected that the Bonds will be available for initial delivery through the services of DTC on or about August 15, 2024 (the “Delivery Date”).*

**CABRERA CAPITAL MARKETS, LLC**

**RAYMOND JAMES  
OPPENHEIMER & CO.**

**SIEBERT WILLIAMS SHANK & CO., LLC**

\* Preliminary, subject to change.

## MATURITY SCHEDULE FOR THE 2024A BONDS

\$10,000,000\*

HARLANDALE INDEPENDENT SCHOOL DISTRICT  
(A political subdivision of the State of Texas located in Bexar County)

## UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2024A

<u>Maturity Date (8/15)</u>	<u>Principal Amount*</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix No. <sup>(1)</sup></u>	<u>Maturity Date (8/15)</u>	<u>Principal Amount*</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix No. <sup>(1)</sup></u>
2025	\$20,000				2040	\$370,000			
2026	20,000				2041	390,000			
2027	20,000				2042	405,000			
2028	20,000				2043	430,000			
2029	20,000				2044	450,000			
2030	20,000				2045	470,000			
2031	20,000				2046	490,000			
2032	20,000				2047	510,000			
2033	265,000				2048	530,000			
2034	275,000				2049	550,000			
2035	290,000				2050	575,000			
2036	305,000				2051	595,000			
2037	320,000				2052	620,000			
2038	335,000				2053	645,000			
2039	350,000				2054	670,000			

(Interest to accrue from the Delivery Date)

**REDEMPTION PROVISIONS...** The District reserves the right, at its option, to redeem the 2024A Bonds maturing on or after August 15, 20\_\_ and thereafter, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 20\_\_ or any date thereafter, at par value thereof plus accrued interest to the date of redemption. (See “THE BONDS – Redemption Provisions”.) If two or more serial 2024A Bonds of consecutive maturity are combined into one or more “term bonds” (the “2024A Term Bonds”) by the Underwriters, such 2024A Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order.

\* Preliminary, subject to change.

<sup>(1)</sup> 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 the convenience of the owners of the 2024A Bonds. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. None of the District, the Financial Advisor or the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

## MATURITY SCHEDULE FOR THE 2024B BONDS

\$19,220,000\*

HARLANDALE INDEPENDENT SCHOOL DISTRICT  
(A political subdivision of the State of Texas located in Bexar County)

## UNLIMITED TAX REFUNDING BONDS, SERIES 2024B (NON-PSF)

<u>Maturity Date (8/15)</u>	<u>Principal Amount*</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix No. <sup>(1)</sup></u>	<u>Maturity Date (8/15)</u>	<u>Principal Amount*</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix No. <sup>(1)</sup></u>
2026	\$100,000				2036	\$1,210,000			
2027	100,000				2037	1,270,000			
2028	100,000				2038	1,335,000			
2029	100,000				2039	1,405,000			
2030	100,000				2040	1,470,000			
2031	100,000				2041	1,545,000			
2032	100,000				2042	1,625,000			
2033	1,045,000				2043	1,705,000			
2034	1,100,000				2044	1,790,000			
2035	1,155,000				2045	1,865,000			

(Interest to accrue from the Delivery Date)

**REDEMPTION PROVISIONS...** The District reserves the right, at its option, to redeem the 2024B Bonds maturing on or after August 15, 20\_\_ and thereafter, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 20\_\_ or any date thereafter, at par value thereof plus accrued interest to the date of redemption. (See "THE BONDS – Redemption Provisions".) If two or more serial 2024B Bonds of consecutive maturity are combined into one or more "term bonds" (the "2024B Term Bonds") by the Underwriters, such 2024B Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order.

\* Preliminary, subject to change.

<sup>(1)</sup> 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 the convenience of the owners of the 2024B Bonds. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. None of the District, the Financial Advisor or the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

**DISTRICT ADMINISTRATION**

**Elected Officials**

<b>Name</b>	<b>Office</b>	<b>Length of Service</b>	<b>Term Expires (May)</b>	<b>Occupation</b>
Ricardo Moreno <sup>(1)</sup>	President	8 years	2027	Educator
Louie G. Luna	Vice President	3 years	2025	Retired Educator
Rebecca “Becky” Ruiz	Secretary	1 year	2027	Realtor
Juan Mancha	Trustee	10 years	2025	Food Services Business Owner
Erica Salazar	Trustee	6 months	2025	Realtor
Elaine Anaya-Ortiz	Trustee	4 years	2027	Government Employee
Norma Cavazos	Trustee	4 years	2025	Court Coordinator

<sup>(1)</sup> See “INTRODUCTORY STATEMENT – District Governance” herein.

**Selected Administrative Staff**

<b>Name</b>	<b>Office</b>	<b>Years with District</b>
Gerardo Soto <sup>(1)</sup>	Superintendent of Schools	4.5
David Flores <sup>(2)</sup>	Assistant Superintendent for Finance	6 months

<sup>(1)</sup> See “INTRODUCTORY STATEMENT – District Governance” herein.

<sup>(2)</sup> Mr. Richard Hernandez, the District’s previous Assistant Superintendent for Finance, retired effective June 30, 2024 after 33 years with the District. Mr. David Flores began the transition into this position on January 2, 2024, and formally assumed it on July 1, 2024.

**Consultants and Advisors**

Auditors..... ABIP, PC  
San Antonio, Texas

Bond Counsel ..... McCall, Parkhurst & Horton L.L.P.  
San Antonio, Texas

Financial Advisor ..... RBC Capital Markets, LLC  
San Antonio, Texas

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## USE OF INFORMATION IN OFFICIAL STATEMENT

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

No dealer, broker, salesman or other person has been authorized by the District, the Financial Advisor or the Underwriters 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, the Financial Advisor or the Underwriters.

This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any jurisdiction 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 or solicitation.

Certain information set forth herein has been obtained from the District and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as representation by the Financial Advisor or the Underwriters. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of the 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 since the date of this Official Statement. See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM - PSF Continuing Disclosure Undertaking” and “CONTINUING DISCLOSURE OF INFORMATION” for a description of the undertakings of the Texas Education Agency (the “TEA”) and of the District, respectively, 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 JURISDICTION IN WHICH THE BONDS HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED, SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN 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, the Financial Advisor, or the Underwriters make any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company (“DTC”) or its Book-Entry-Only System as described under “BOOK-ENTRY-ONLY SYSTEM”, the affairs of the TEA described under “APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”, as such information has been provided by DTC and the TEA, respectively, or any potential bond insurer or its municipal bond guaranty policy as described herein under the captions “BOND INSURANCE” and “BOND INSURANCE RISK FACTORS”, as such information has been provided by the Bond Insurer.

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 any purchaser of the Bonds. The cover page contains certain information for general reference only and is not intended as a summary of this offering. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING THE SCHEDULE AND ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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. SEE “FORWARD-LOOKING STATEMENTS” HEREIN.

EACH OF THE UNDERWRITERS AND THE FINANCIAL ADVISOR HAVE PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT. THE UNDERWRITERS AND FINANCIAL ADVISOR HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH THEIR RESPECTIVE RESPONSIBILITIES TO INVESTORS AND THE DISTRICT UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT NEITHER THE UNDERWRITERS NOR THE FINANCIAL ADVISOR GUARANTEES THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

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*The cover page hereof, maturity schedules, this Table of Contents, Schedule I, and Appendices attached hereto are part of this Official Statement.*

**PRELIMINARY OFFICIAL STATEMENT  
RELATING TO**

**HARLANDALE INDEPENDENT SCHOOL DISTRICT  
(A political subdivision of the State of Texas located in Bexar County)**

**\$10,000,000\***  
**UNLIMITED TAX SCHOOL BUILDING BONDS,  
SERIES 2024A**

**\$19,220,000\***  
**UNLIMITED TAX REFUNDING BONDS,  
SERIES 2024B (NON-PSF)**

**INTRODUCTORY STATEMENT**

**General**

This Official Statement, including Schedule I, and Appendices A, B and C, has been prepared by the Harlandale Independent School District (the “District”), a political subdivision of the State of Texas (the “State”), located in Bexar County, in connection with the offering by the District of its Unlimited Tax School Building Bonds, Series 2024A (“2024A Bonds”) and Unlimited Tax Refunding Bonds, Series 2024B (Non-PSF) (the “2024B Bonds” and, together with the 2024A Bonds, the “Bonds”) identified on pages ii and iii hereof. Capitalized terms used herein have the same meanings assigned to such terms in the Order (defined herein), except as otherwise indicated.

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

There follows in this Official Statement descriptions of the Bonds and certain information regarding the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained upon request from the District’s Financial Advisor, RBC Capital Markets, LLC, San Antonio, Texas, at the address provided under “DISTRICT ADMINISTRATION” appearing on page iv hereof, by electronic mail or upon payment of reasonable copying, handling, and delivery charges.

This Official Statement speaks only as of its date and the information contained herein is subject to change. A copy of the final Official Statement for the Bonds will be submitted to the Municipal Securities Rulemaking Board and will be available through its Electronic Municipal Market Access system. See “CONTINUING DISCLOSURE OF INFORMATION” for a description of the undertaking of the District to provide certain information on a continuing basis.

**Additional Obligations Issued in Close Proximity to the Bonds**

Prior to the closing on the Bonds, it is anticipated that the District will remarket the variable rate portion of its “Harlandale Independent School District, Fixed and Variable Rate Unlimited Tax Refunding Bonds, Series 2020” (the “Series 2020 Bonds”) to convert to fixed rates the variable rate portion of this issuance. The Bonds and Series 2020 Bonds are separate and distinct securities offerings being issued and sold independently, and, while the Bonds and Series 2020 Bonds share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including, without limitation, the type of obligations being offered, the terms for payment, the security for its payment, credit enhancement, the treatment of interest for federal income tax purposes, and the rights of the holders. Investors interested in purchasing any of the Series 2020 Bonds should review the offering document relating thereto.

**District Governance**

The District is governed by a seven-member Board of Trustees (the “Board”), the members of which serve staggered four-year terms, with elections being held in May of every odd-numbered year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools, who is the chief administrative officer of the District. Support services are supplied by consultants and advisors.

On June 25, 2019, after conduct of an investigation in response to complaints of Board and Superintendent actions regarding contracting practices, contract procurement, nepotism, and violation of the Texas Open Meetings Act, the Texas Commissioner of Education (the “Commissioner”) lowered the District’s accreditation status to “Accredited-Warning”, appointed a conservator to oversee Board governance and District administration, recommended replacement of the Board with a board of managers, and recommended removal of the then-serving Superintendent. Although the District requested and received a review of these recommendations, the Superintendent and a Board member ultimately resigned. On August 20, 2019, 26-year District resident Norma Cavazos was appointed to fill the vacant Board seat; on December 30, 2019, District administrator Gerardo Soto was unanimously approved by the Board to serve as Superintendent. On February 14, 2020, the Commissioner notified the District that he would not require replacement of the

\* Preliminary, subject to change.

Board with a board of managers, but that the accreditation downgrade and conservator appointment were confirmed. The conservator was introduced to the Board at its March 2020 meeting. The District achieved Accredited-Warning Status for the 2019-2020 school year. The conservator continues to work with the Board on the identified deficiencies in the District's governance and management. On December 15, 2021, the Deputy Commissioner of Governance and Accountability notified the District of his decision to continue the appointment of the conservator for the District. Recognizing the impact of COVID-19 and the unique challenges faced by schools in the past few years, the Commissioner did not assign accreditation status for the 2020-2021 or the 2021-2022 school years. In a TEA letter dated May 6, 2022, TEA stated it conducts quarterly reviews of all conservators and has made the determination to continue the appointment of the District's conservator. The District continues to work with the Texas Education Agency and the conservator in response to its management and operational deficiencies identified by the Commissioner. The District is in the process of working on exit procedures, with a decision expected in late August 2024 or early September 2024 to determine any outstanding needs or finalize the process.

## **THE BONDS**

### **Authorization and Purpose**

The 2024A Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, including, particularly, Chapter 45, Texas Education Code, as amended, Chapter 1371, Texas Government Code, as amended ("Chapter 1371"), an order adopted by the Board of Trustees of the District (the "2024A Order") on May 21, 2024 authorizing the issuance of the 2024A Bonds in which the District delegated authority to certain officers of the District to complete the sale of the 2024A Bonds through the execution of a pricing certificate (the "2024A Pricing Certificate"), and an election held within the District on May 7, 2022 (the "Election"). The 2024B Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, including particularly, Chapter 1207, as amended, Texas Government Code ("Chapter 1207"), Chapter 1371, the Election, and an order adopted by the Board of Trustees of the District (the "2024B Order") on May 21, 2024 authorizing the issuance of the 2024B Bonds in which the District delegated authority to certain officers of the District to complete the sale of the 2024B Bonds through the execution of a pricing certificate (the "2024B Pricing Certificate"). The 2024A Order, the 2024B Order, the 2024A Pricing Certificate, and the 2024B Pricing Certificate are collectively referred to herein as the "Order".

Proceeds from the sale of the 2024A Bonds will be used for (i) the purposes of designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping school facilities (and any necessary or related removal of existing facilities), including school athletic facilities, namely, an existing stadium and related infrastructure, the purchase of the necessary sites for school facilities, and the purchase of new school buses, and (ii) paying the costs of issuing the 2024A Bonds.

Proceeds from the sale of the 2024B Bonds will be used for the purposes of (i) refunding certain outstanding maintenance tax obligations of the District in accordance with the Election (the "Refunded Obligations") (see "THE BONDS - Refunded Obligations" herein; see also "SCHEDULE I – Schedule of Refunded Obligations" herein) and (ii) paying the costs of issuing the 2024B Bonds.

### **General Description**

Interest on the Bonds will accrue from the Delivery Date and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The initial paying agent/registrant for the Bonds is U.S. Bank Trust Company, National Association, Dallas, Texas (the "Paying Agent/Registrar").

The Bonds are to mature on the dates and in the principal amounts shown on pages ii and iii hereof. The Bonds will be issued as fully registered obligations in principal denominations of \$5,000 or any integral multiple thereof within a stated maturity. Interest on the Bonds will accrue from the Delivery Date at the interest rates shown on pages ii and iii, hereof and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Interest on the Bonds will accrue from the Delivery Date and will be payable on February 15, 2025 and on August 15 and February 15 of each year thereafter, until stated maturity or prior redemption, as applicable.

Initially, the Bonds will be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC"), New York, New York, pursuant to the Book-Entry-Only System described below. No physical delivery of the Bonds will be made to the Beneficial Owners. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will distribute the amounts paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" below for a more complete description of such system.

In the event the Bonds are no longer in the Book-Entry-Only System, interest on the Bonds shall be payable to the registered owner whose name appears on the bond registration books of the Paying Agent/Registrar at the close of business on the "Record Date" (hereinafter defined) and such accrued interest will be paid by (i) check sent by United States mail, first class, postage prepaid, to the address of the registered owner appearing on such registration books of the Paying Agent/Registrar or (ii) such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner (see "REGISTRATION, TRANSFER AND EXCHANGE" herein). The principal of the Bonds payable at maturity or (as applicable) prior redemption shall be paid only upon presentation of such Bonds at the designated office of the Paying Agent/Registrar upon maturity.



## Refunded Obligations

The Refunded Obligations, and interest due thereon, are to be paid on the scheduled redemption date from funds to be deposited with U.S. Bank Trust Company, National Association, Dallas, Texas (the “Escrow Agent”) pursuant to an Escrow Deposit Letter (the “Escrow Agreement”) between the District and the Escrow Agent. See Schedule I for a list of the Refunded Obligations.

The 2024B Order provides that from a portion of the proceeds of the sale of the 2024B Bonds received from the Underwriters (defined herein), the District will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Obligations to their redemption date. Such funds will be held by the Escrow Agent in a special escrow account (the “Escrow Fund”) irrevocably pledged to the payment of the principal of and interest on the Refunded Obligations and will be used to purchase certain obligations of the United States of America and obligations of agencies or instrumentalities of the United States of America, including obligations that are unconditionally guaranteed by such agency or instrumentality, that are noncallable and that were, on the date the 2024B Order was adopted, rated as to investment quality by a nationally recognized rating firm not less than “AAA” (the “Federal Securities”). Such maturing principal of and interest on the Federal Securities will not be available to pay debt service on the 2024B Bonds.

Prior to, or simultaneously with, the issuance of the 2024B Bonds, the District will give irrevocable instructions to provide notice to the owners of the Refunded Obligations that such Refunded Obligations will be redeemed prior to stated maturity, on which date money will be made available to redeem the Refunded Obligations from funds held under the Escrow Agreement.

The issuance of the 2024B Bonds will be subject to delivery by Robert Thomas CPA, LLC, certified public accountants (the “Verification Agent”), of a report (the “Report”) of the mathematical accuracy of certain computations. The Verification Agent will verify from the information provided to them the mathematical accuracy as of the date of the closing on the 2024B Bonds of the computations contained in the provided schedules to determine that the anticipated receipts from the Federal Securities and cash deposits listed in the schedules provided by RBC Capital Markets, LLC, as financial advisor to the District, to be held in escrow, will be sufficient to pay, when due, the principal and interest requirements of the Refunded Obligations. The Verification Agent will express no opinion on the assumptions provided to them. See “VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS” herein.

By the deposit of a portion of the 2024B Bond proceeds and cash from the District, if any, with the Escrow Agent pursuant to the Escrow Agreement, the District will have effectuated the defeasance of the Refunded Obligations pursuant to the terms of the District resolution authorizing their issuance. It is the opinion of Bond Counsel (defined herein) that, as a result of such defeasance, and in reliance upon the Report, the Refunded Obligations will no longer be payable from the District’s limited maintenance and operations tax revenue, but will be payable solely from the amounts on deposit in the Escrow Fund and held for such purpose by the Escrow Agent, and that the Refunded Obligations will be defeased and are not to be included in or considered to be indebtedness of the District for the purpose of a limitation of indebtedness or for any other purpose.

## Redemption Provisions

Optional Redemption . . . The District reserves the right, at its sole option, to redeem 2024A Bonds having stated maturities on or after August 15, \_\_\_\_\_, in whole or in part thereof, in principal amounts of \$5,000 or any integral multiple thereof on August 15, \_\_\_\_\_, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. If two or more 2024A Bonds of consecutive maturity are combined into one or more “term bonds” (the “2024A Term Bonds”) by the Underwriters, such 2024A Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order.

The District reserves the right, at its sole option, to redeem 2024B Bonds having stated maturities on or after August 15, \_\_\_\_\_, in whole or in part thereof, in principal amounts of \$5,000 or any integral multiple thereof on August 15, \_\_\_\_\_, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. If two or more serial 2024B Bonds of consecutive maturity are combined into one or more “term bonds” (the “2024B Term Bonds”) by the Underwriters, such 2024B Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order.

Selection of Bonds for Redemption . . . If less than all of the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

Notice of Redemption . . . Not less than thirty (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 the registered owners of the Bonds to be redeemed at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice.

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

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

### **Security**

The Bonds are direct obligations of the District and are payable as to principal and interest from a direct and continuing ad valorem tax levied annually on all taxable property within the District, without legal limitation as to rate or amount, as provided in the Order. Additionally, the District has made application and has received conditional approval for the payment of the 2024A Bonds to be guaranteed by the corpus of the Permanent School Fund of State of Texas. (See “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS”, “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” and “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).

**The 2024B Bonds will not be guaranteed under the Texas Permanent School Fund Guarantee Program.**

### **Permanent School Fund Guarantee**

In connection with the sale of the 2024A Bonds, the District has submitted an application to the Texas Education Agency and has received conditional approval from the Commissioner of Education for the 2024A Bonds to be guaranteed under the Permanent School Fund Guarantee Program (Chapter 45, Subchapter C of the Texas Education Code). Subject to satisfying certain conditions discussed in “APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein, the 2024A Bonds will be absolutely and unconditionally guaranteed by the corpus of the Permanent School Fund of the State of Texas.

**The 2024B Bonds will not be guaranteed under the Texas Permanent School Fund Guarantee Program.**

### **Legality**

The Bonds are offered when, as and if issued, and subject to the approving opinions of the Attorney General of the State of Texas and the opinions of McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel. (See “LEGAL MATTERS” and “Appendix D – Forms of Legal Opinions of Bond Counsel”).

### **Payment Record**

The District has never defaulted with respect to the payment of its tax supported indebtedness.

### **Defeasance of the Bonds**

The Order provides for the defeasance of the Bonds when 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 or other authorized escrow agent, in trust (1) money in an amount sufficient to make such payment and/or (2) Government Securities, that will 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, and thereafter the District will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased Bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Government Securities. The District has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such

defeasance. The Order provides that “Government Securities” 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 adopts or approves the proceedings authorizing the issuance of refunding bonds, 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 have been refunded and that on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of the refunding bonds are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (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. Authorized District officials may limit the foregoing Government Securities in connection with the sale of the Bonds. There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Order does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used for defeasance purposes or that for any other Government Security will be maintained at any particular rating category.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, the District has the option, as it relates to the Bonds, to be exercised at the time of the defeasance of the Bonds, to call for redemption at an earlier date those Bonds which have been defeased to their maturity date, if the District (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption, (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements, and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Defeasance will cancel the Permanent School Fund Guarantee with respect to those defeased 2024A Bonds.

**Amendments**

The District may, without the consent of or notice to any registered owners, amend, change, or modify the Order as may be required by the provisions thereof for the purpose of (i) curing any ambiguity, inconsistency, or formal defect or omission herein, or (ii) in connection with any other change which is not to the prejudice of the registered owners. The District may, with the written consent of the registered owners of a majority in aggregate principal amount of Bonds of each series then outstanding affected thereby, amend, change, modify, or rescind any provisions of the applicable Order; provided that without the consent of all of the registered owners affected, no such amendment, change, modification, or rescission shall (i) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount or redemption price thereof or the rate of interest thereon or in any way modify the terms of the payment of the principal of, premium, if any, or interest on the Bonds, (ii) give any preference to any Bond over any other Bond, or (iii) reduce the aggregate principal amount of Bonds required for consent to any such amendment, change, modification, or rescission.

**Sources and Uses of Funds**

The proceeds from the sale of the 2024A Bonds will be applied approximately as follows:

<b>Sources:</b>		
	Principal Amount of the 2024A Bonds	\$
	[Net] Reoffering Premium on the 2024A Bonds	
	<b>Total Source of Funds</b>	<b>\$</b>
<b>Uses:</b>		
	Deposit to the Project Fund	\$
	Costs of Issuance and Underwriters’ Discount	
	<b>Total Uses of Funds</b>	<b>\$</b>

The proceeds from the sale of the 2024B Bonds will be applied approximately as follows:

<b>Sources:</b>		
	Principal Amount of the 2024B Bonds	\$
	[Net] Reoffering Premium on the 2024B Bonds	
	<b>Total Source of Funds</b>	<b>\$</b>
<b>Uses:</b>		
	Deposit to the Escrow Fund	\$
	Costs of Issuance and Underwriters’ Discount	
	<b>Total Uses of Funds</b>	<b>\$</b>

## REGISTERED OWNERS' REMEDIES

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or as it relates to the 2024A Bonds the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, or the District defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, the registered owners may seek a writ of mandamus to compel the District or District officials to carry out the 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, and as it relates to the 2024A Bonds, to enforce the rights of payment under the Permanent School Fund Guarantee. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

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 proceeding 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, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinions of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and by general principles of equity which permit the exercise of judicial discretion.

## 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 Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.*

*DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered Bonds 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 each series of the Bonds, in the aggregate principal amount of the Bonds 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 issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a S&P Global

Ratings rating of “AA+”. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://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, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

All 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 payable 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 Bonds 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, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, 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 the District or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates for each series of Bonds are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates for each series of Bonds will be printed and delivered.

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

#### **Use of Certain Terms in Other Sections of this Official Statement**

In reading this Official Statement it should be understood that while the Bonds are in Book-Entry-Only form, references in other sections of this Official Statement to registered owners or 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.

## **BOND INSURANCE**

The District has applied for a bond insurance policy to guarantee the scheduled payment of principal of and interest on the 2024B Bonds. The District has yet to determine whether an insurance policy will be purchased on the 2024B Bonds and no representation is hereby made that the District will use municipal bond insurance in connection with the issuance of the 2024B Bonds. If an insurance policy is purchased, the following are risk factors relating to bond insurance. The final Official Statement shall disclose to the extent necessary, any relevant information related to bond insurance and the associated policy, if any.

### **BOND INSURANCE RISK FACTORS**

In the event of default of the payment of principal or interest with respect to the 2024B Bonds when all or some becomes due, any owner of the 2024B Bonds shall have a claim under the applicable Bond Insurance Policy (the “Policy”) for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the 2024B Bonds by the District which is recovered by the District from the certificate owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy, however, such payments will be made by the Bond Insurer at such time and in such amounts as would have been due absent such prepayment by the District unless the Bond Insurer chooses to pay such amounts at an earlier date.

The 2024B Order does not allow acceleration of payment of principal and interest in the event of default. The Bond Insurer may direct and must consent to any remedies and the Bond Insurer’s consent may be required in connection with amendments to any applicable bond documents.

In the event the Bond Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the 2024B Bonds are payable solely from the moneys received pursuant to the applicable bond documents. In the event the Bond Insurer becomes obligated to make payments with respect to the 2024B Bonds, no assurance is given that such event will not adversely affect the market price of the 2024B Bonds or the marketability (liquidity) for the 2024B Bonds.

The long-term ratings on the 2024B Bonds are dependent in part on the financial strength of the Bond Insurer and its claim paying ability. The Bond Insurer’s financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Bond Insurer and of the ratings on the 2024B Bonds insured by the Bond Insurer will not be subject to downgrade and such event could adversely affect the market price of the 2024B Bonds or the marketability (liquidity) for the 2024B Bonds. See “RATINGS” herein.

The obligations of the Bond Insurer are contractual obligations and in an event of default by the Bond Insurer, the remedies available may be limited by applicable bankruptcy law or state law related to insolvency of insurance companies.

Neither the District nor Underwriters have made independent investigation into the claims paying ability of the Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the 2024B Bonds and the claims paying ability of the Bond Insurer, particularly over the life of the investment. See “BOND INSURANCE” herein for further information provided by the Bond Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Bond Insurer.

### **Claims-Paying Ability and Financial Strength of Municipal Bond Insurers**

In the past, Moody’s Investors Service, Inc., S&P Global Ratings, and Fitch Ratings, Inc. have downgraded and/or placed on negative watch the claims-paying ability and financial strength of most providers of municipal bond insurance. Additional downgrades or negative changes in the rating outlook for all bond insurers is possible.

In addition, past events in the credit markets have had substantial negative effects on the bond insurance business. These developments could be viewed as having a material adverse effect on the claims-paying ability of such bond insurers, including any bond insurer of the 2024B Bonds. Thus, when making an investment decision, potential investors should carefully consider the ability of any such bond insurer to pay principal and interest on the 2024B Bonds and the claims-paying ability of any such bond insurer, particularly over the life of the 2024B Bonds.

## **REGISTRATION, TRANSFER AND EXCHANGE**

### **Paying Agent/Registrar**

U.S. Bank Trust Company, National Association, Dallas, Texas, has been named to serve as initial Paying Agent/Registrar for the Bonds. In the Order, the District retains the right to replace 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 legally qualified bank, trust company, financial institution or other agency duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar, the District has agreed to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Interest on the Bonds will be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date, and such interest will be paid (i) by check sent United States mail, first class, postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Bonds will be paid to the registered owner at the stated maturity, or upon earlier redemption, as applicable, upon presentation to the designated payment/transfer office of the Paying Agent/Registrar. If the date for any payment on the Bonds is a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the principal corporate trust office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment will be the next succeeding day which is not such a day, and payment on such date will have the same force and effect as if made on the date payment was due. So long as Cede & Co. is the registered owner of the Bonds, principal of and interest on the Bonds will be made as described in "BOOK-ENTRY-ONLY SYSTEM" above.

### **Future Registration**

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

### **Record Date for Interest Payment**

The record date ("Record Date") for determining the party to whom the interest on a Bond is payable on any interest payment date for the Bonds means the close of business on the last business day of the month next preceding such interest payment date. In the event of a nonpayment 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 registered owner of a Bond appearing on the books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

### **Limitation on Transfer of the Bonds**

Neither the District nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond (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 called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

### **Replacement of the Bonds**

If any Bond is mutilated, destroyed, stolen or lost, a new Bond in the same principal amount as the Bond so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Bond, such new Bond will be delivered only upon surrender and cancellation of such mutilated Bond. In the case of any Bond issued in lieu of and in substitution for a Bond which has been destroyed, stolen or lost, such new Bond will be delivered only (a) upon filing with the Paying Agent/Registrar of satisfactory evidence 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.

## AD VALOREM PROPERTY TAXATION

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

### **Valuation of Taxable Property**

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

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

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

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

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

### **State Mandated Homestead Exemptions**

State law grants, with respect to each school district in the State, (1) a \$100,000 exemption of the appraised value of all homesteads, (2) a \$10,000 exemption of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled, and (3) various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty.

### **Local Option Homestead Exemptions**

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

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



## **State Mandated Freeze on School District Taxes**

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

## **Personal Property**

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

## **Freeport and Goods-In-Transit Exemptions**

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

Certain goods, that are acquired in or imported into the State to be forwarded to another location within or outside the State, stored in a location that is not owned by the owner of the goods and are transported to another location within or outside the State within 175 days (“Goods-in-Transit”), are generally exempt from ad valorem taxation; however, the Property Tax Code permits a taxing unit, on a local option basis, to tax Goods-in-Transit if the taxing unit takes official action, after conducting a public hearing, before January 1 of the first tax year in which the taxing unit proposes to tax Goods-in-Transit. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include aircraft or special inventories such as manufactured housing inventory, or a dealer’s motor vehicle, boat, or heavy equipment inventory.

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

## **Other Exempt Property**

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

## **Temporary Exemption for Qualified Property Damaged by a Disaster**

The Property Tax Code entitles the owner of certain qualified (i) tangible personal property used for the production of income, (ii) improvements to real property, and (iii) manufactured homes located in an area declared by the Governor to be a disaster area following a disaster and is at least 15 percent physically damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. 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 previously 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, as amended.

## **Tax Increment Reinvestment Zones**

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

Until September 1, 1999, school districts were able to reduce the value of taxable property reported to the State to reflect any taxable value lost due to TIRZ participation by the school district. The ability of the school district to deduct the taxable value of the tax

increment that it contributed prevented the school district from being negatively affected in terms of state school funding. However, due to a change in law, local M&O tax rate revenue contributed to a TIRZ created on or after May 31, 1999 will count toward a school district's Tier One entitlement (reducing Tier One State funds for eligible school districts) and will not be considered in calculating any school district's Tier Two entitlement (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts").

### **Tax Limitation Agreements**

The Texas Economic Development Act (Chapter 313, Texas Tax Code, as amended) allowed school districts to grant limitations on appraised property values to certain corporations and limited liability companies to encourage economic development within the school district. Generally, during the last eight (8) years of the ten-year term of a tax limitation agreement, a school district could only levy and collect M&O taxes on the agreed-to limited appraised property value. For the purposes of calculating its Tier One and Tier Two entitlements, the portion of a school district's property that is not fully taxable is excluded from the school district's taxable property values. Therefore, a school district will not be subject to a reduction in Tier One or Tier Two State funds as a result of lost M&O tax revenues due to entering into a tax limitation agreement (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts").

During the Regular Session of the 88th Texas Legislature, House Bill 5 ("HB 5") was enacted into law. HB 5 is intended as a replacement of former Chapter 313, Texas Tax Code ("Chapter 313"), but it contains significantly different provisions than the prior program under Chapter 313. Under HB 5, a school district may offer a 50% abatement on taxable value for maintenance and operations property taxes for certain eligible projects, except that projects in a federally designated economic opportunity zone receive a 75% abatement. HB 5 also provides a 100% abatement of maintenance and operations taxes for eligible property during a project's construction period. **Taxable valuation for purposes of the debt services taxes securing the Bonds cannot be abated under 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 HB 5 was January 1, 2024, and the District is still in the process of reviewing HB 5 and cannot make any representations as to what impact, if any, HB 5 will have on its finances or operations.

### **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 "THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT" 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. The minimum eligibility amount was set at \$59,562,331 for the 2024 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

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

### **Levy and Collection of Taxes**

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

District. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers. Furthermore, the District may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances. 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.

### **THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT**

The Appraisal District has the responsibility for appraising the majority of the property in the District as well as other taxing units in Bexar County. The Appraisal District is governed by a board of five directors appointed by voters of the governing bodies of various Bexar County political subdivisions. The District’s taxes are collected by the Bexar County Tax Assessor/Collector.

The District grants a State mandated \$100,000 general residence homestead exemption.

The District grants a State mandated residence homestead exemption for disabled veterans.

The District grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$15,000; the disabled are also granted an exemption of \$10,000.

The District has not granted an additional exemption of 20% of the market value of residence homesteads; minimum exemption of \$5,000.

The District has adopted the tax freeze for citizens who are disabled or are 65 years of age or older, which became a local option and subject to local referendum on January 1, 2004.

Ad valorem taxes are not levied by the District against the exempt value of residence homesteads for the payment of debt. The District does not tax freeport property.

On October 17, 2011, the District’s Board adopted a resolution authorizing the continued taxation of goods-in-transit for the 2012 tax year and beyond.

The District has not adopted a tax abatement policy. The District does not tax nonbusiness personal property.

See Table 1 included in APPENDIX A hereto for listing of the amounts of the exemptions described above.

## 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 2024A 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 the fourth called special session the Legislature considered (i) “legislation relating to primary and secondary education, including the establishment of an education savings account program, the certification, compensation, and health coverage of certain public school employees, the public school finance system, special education in public schools, measures to support the education of public school students that include certain educational grant programs, reading instruction, and early childhood education, the provision of virtual education, and public school accountability;” and (ii) “legislation related to school safety measures and related state funding mechanisms.” The session adjourned on December 5, 2023 without any action on these items. As described above, the Governor may call additional special sessions.

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. 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. The MCR for the 2024-2025 school year is \$0.6855 and the floor is \$0.6169.

**Tier One Tax Rate.** A school district’s Tier One Tax Rate is defined as a school district’s M&O tax rate levied that does not exceed the school district’s MCR.

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

School districts may levy an Enrichment Tax Rate at a level of their choice, subject to the limitations described under “TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate.” However, to levy any of the Enrichment Tax Rate in a given year, a school district must levy a Tier One Tax Rate equal to the school district’s MCR for 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 “– 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 post-secondary 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 and \$320 million for the 2024-2025 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 not designated as an "excess local revenue" district by the TEA. Accordingly, the District has not been required to exercise one of the wealth equalization options permitted under applicable State law. As a district with local revenue less than the maximum permitted level, the District may benefit in the future by agreeing to accept taxable property or funding assistance from, or agreeing to consolidate with, a property-rich district to enable such district to reduce its wealth per student to the permitted level.

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

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

### **TAX RATE LIMITATIONS**

#### **M&O Tax Rate Limitations**

The District is authorized to levy an M&O tax rate pursuant to the approval of the voters of the District at an election held on May 27, 2000 in accordance with the provisions of Section 45.003, Texas Education Code, as amended.

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

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

#### **I&S Tax Rate Limitations**

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

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, 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 2024A Bonds are issued for school building purposes as new debt and are subject to the \$0.50 threshold tax rate test. The 2024B Bonds are issued as refunding bonds pursuant to Chapter 1207 and, therefore, are not subject to the 50-cent Test, however, taxes levied to pay debt service on the 2024B Bonds are included in the calculation of the 50-cent Test as applied to subsequent issues of “new debt”. The District has not used projected property values or State assistance other than EDA, IFA, or Tier I 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. 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 PERMANENT SCHOOL FUND GUARANTEE PROGRAM**

*This section and APPENDIX E relate only to the 2024A Bonds; the 2024B Bonds will not be guaranteed under the Texas Permanent School Fund Guarantee Program.*

Subject to satisfying certain conditions, the payment of the 2024A 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 2024A Bonds from the Permanent School Fund, and the Charter District Bond Guarantee Reserve would be the first source to pay debt service if a charter school was unable to make such payment. See “Appendix E – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” for pertinent information regarding the Permanent School Fund Guarantee Program. The disclosure regarding the Permanent School Fund Guarantee Program in Appendix E is incorporated herein and made a part hereof for all purposes.

*The information Appendix E concerning the Texas Permanent School Fund and the Guarantee Program has been provided by the TEA and is not guaranteed as to accuracy or completeness by, and should not be construed as a representation by, the District, the Financial Advisor or the Underwriters.*

### **EMPLOYEES’ BENEFIT PLANS**

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 TRS 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. For the year ended June 30, 2023, the State contributed \$5,329,244 to TRS on behalf of the District’s employees and the District paid additional contributions of \$4,770,546. For a discussion of the TRS and the Plan, see “Note P – Defined Benefit Pension Plan” of the audited financial statements of the District that are attached hereto as APPENDIX C.

During the year ended June 30, 2023, employees of the District were covered by a fully-insured health insurance plan (the “Health Care Plan”). The District contributed \$350.00 per month per employee to the Health Care Plan. Employees, at their option, authorize payroll withholdings to pay premiums for dependents. All premiums were paid to licensed health providers. Total health plan premiums expensed during the year were \$5,057,141. See “Note S – Health Care Coverage” of the audited financial statements of the District that are attached hereto as APPENDIX C.

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

In June 2012, GASB Statement No. 68 (Accounting and Financial Reporting for Pensions) was issued to improve accounting and financial reporting by state and local governments regarding pensions. The GASB Statement which was later amended by GASB Statement No. 71 ( Pension Transition for Contributions Made Subsequent to the Measurement Date) (together the “GASB Statement”) requires reporting entities, such as the District, to recognize their proportionate share of the net pension liability and operating statement activity related to changes in collective pension liability. This means that reporting entities, such as the District, that contribute to the TRS pension plan will report a liability on the face of their government-wide financial statements (See Exhibit B-1 in “APPENDIX C – AUDITED FINANCIAL STATEMENT FOR THE YEAR ENDED JUNE 30, 2023”). Such reporting began with the District’s fiscal year ended June 30, 2015. The GASB Statement applies only to pension benefits and does not apply to Other Post-Employment Benefits (OPEB) or TRS-Care related liabilities.

### **DEFICIT BUDGET**

The District concluded its Fiscal Year ending June 30, 2021 with an operational deficit in the General Fund of \$9.6 million (compared to a budgeted deficit of \$3.4 million) and an operational deficit in the Child Nutrition program of \$1.6 million (compared to a budgeted deficit of \$71,379), resulting in ending balances of \$35.2 million (General Fund) and \$1.2 million (Child Nutrition program), respectively. The operational deficit resulted from the TEA’s November 2021 final State hold harmless calculations, whereby the District’s ADA for hold harmless was determined as 11,558, but the actual ADA was 10,175 (translating to a reduction of \$11.1 million from what the District expected from the State). The District utilized certain of its ESSER II funds to accommodate this State funding shortfall. The Child Nutrition program deficit resulted from the District’s receipt of \$2 million less in National School Lunch Program reimbursements in the Child Nutrition fund as a result of less meals served (attributable to lower than projected ADA).

For the Fiscal Year ending June 30, 2022, the District's final amended budget provided for an estimated operational deficit budget of \$11.9 million, however, through adjustment in expenses and increased fiscal responsibility, the operational deficit was reduced to \$9.1 million. This operational deficit is primarily attributable to declining ADA, as adjusted by the State, of 10,590 from a budgeted ADA of 11,733. As a result, the District final June 30, 2022 Fiscal Year and General Fund Balance was \$53,535,852. The fund balance for the Fiscal Year Ended June 30, 2023 was \$63,606,523. The District's unaudited General Fund balance on June 30, 2024 was \$52,914,788; however, the District does not anticipate this deficit to materialize, and instead, an increase in the General Fund is expected occur due to the usage of Elementary and Secondary School Emergency Relief ("ESSER") grant fund that will offset costs to the General Fund.

As indicated in the table appearing on page B-2 of the Official Statement, the District has experienced significant decline in student enrollment over the past several years. Decreased enrollment negatively impacts the amount of State funding received by the District, which is a contributing factor to the operational losses realized by the District over the past two years as well as prospective projected budget deficits. For the upcoming 2024-2025 Fiscal Year, the District is projecting total revenues of \$128,968,520 based on an ADA of 10,200 and expenditures of \$139,837,535, for a deficit budget of \$10,869,015. The District will consider all options, including staffing, programs, enrollment, and campus use efficiency to address the projected General Fund balance decrease, with the goal of adopting a balanced budget for the within the next 5 years, as discussed and accepted by the State appointed conservator. Any plans, though, are dependent on many factors, including some (such as State funding, enrollment (which the District projects will stabilize, then slightly increase in the coming years), and local and global influences) that are beyond the District's control. As a result, the District calls to investors' attention these recent events affecting its financial position. Further, the District cannot make guarantees regarding its ability to achieve its stated, prospective goals concerning adoption of a balanced budget or the realization of the assumptions upon which those goals are based.

## RATINGS

It is anticipated that the 2024A Bonds will be rated "AAA" by S&P Global Ratings ("S&P") by virtue of the Guarantee of the corpus of the Permanent School Fund of the State of Texas, as S&P generally rates all bond issues guaranteed by the Permanent School Fund of the State of Texas "AAA" (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM"). The 2024B Bonds have been assigned an unenhanced rating of "A+" by S&P. The 2024B Bonds are not guaranteed by the Texas Permanent School Fund Guarantee Program. The presently outstanding unenhanced tax-supported debt of the District is rated "A+" by S&P.

An explanation of the significance of such ratings may be obtained from S&P. The rating of the Bonds by S&P reflects only the views of said company at the time the ratings are given, and the District makes no representations as to the appropriateness of the ratings. There is no assurance that the ratings will continue for any given period of time, or that the ratings will not be revised downward or withdrawn entirely by S&P if, in the judgment of S&P, circumstances so warrant. A securities rating is not a recommendation to buy, sell, or hold securities.

Periodically, rating agencies will evaluate and, on occasion as a result of these evaluations revise, their rating methodologies and criteria for municipal issuers such as the District. A revision in a rating agency's rating methodology could result in a positive or negative change in a rating assigned by that agency, even if the rated entity has experienced no material change in financial condition or operation. Any of the rating agencies at any time while the Bonds remain outstanding could undertake such an evaluation process.

## LEGAL MATTERS

The District will furnish to the Underwriters complete respective transcripts of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinions of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcripts of proceedings, the approving legal opinions of McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel, with respect to the Bonds being issued in compliance with the provisions of the Order. The forms of Bond Counsel's opinions are attached hereto as APPENDIX D.

Though they represents the Underwriters and the Financial Advisor from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel was engaged by, and only represent, the District in connection with the issuance of the Bonds. McCall, Parkhurst & Horton L.L.P. also advises the TEA in connection with its disclosure obligations under the federal securities laws, but such firm has not passed upon any TEA disclosures contained in this Official Statement. Except as noted below, Bond Counsel did not take part in the preparation of this Official Statement, and such firms have not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in their capacity as Bond Counsel, such firms have reviewed the information appearing under the captions, "THE BONDS" (except for the subcaptions "Permanent School Fund Guarantee", "Payment Record", "Redemption Provisions – DTC Redemption Provisions", and "Sources and Uses of Funds", as to which no opinion is expressed), "REGISTRATION, TRANSFER AND EXCHANGE," "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM", "TAX RATE LIMITATIONS – M&O Tax Rate Limitations" (first paragraph only), "LEGAL MATTERS" (except the last sentence of the second paragraph thereof, as to which no opinion is expressed), "TAX MATTERS", "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE" and "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance with Prior Undertakings", as to which no opinion is expressed) and such firms are of the opinion that the information relating to the Bonds and legal matters contained under such captions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such

information conforms to the applicable Order. 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. The legal opinions of Bond Counsel will accompany the applicable series of Bonds deposited with DTC or will be printed on the definitive Bonds of such series in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by their co-counsel, Cantu Harden Montoya LLP, San Antonio, Texas and Winstead PC, San Antonio, Texas whose legal fees of such firms are contingent upon the sale and delivery of the Bonds.

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

## **TAX MATTERS**

### **Opinions**

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel, will render its opinions that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof (“Existing Law”), (1) interest on the Bonds for federal income tax purposes will be excludable from the “gross income” of the holders thereof and (2) the Bonds will not be treated as “specified private activity obligations” the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the “Code”). Except as stated above, Bond Counsel to the District will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See “APPENDIX D – FORMS OF LEGAL OPINIONS OF BOND COUNSEL.”

In rendering its opinion, Bond Counsel to the District will rely upon the Report (as it relates to the 2024B Bonds only) and (a) the District’s federal tax certificate and the verification report prepared by Robert Thomas CPA, LLC, (b) covenants of the District with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Bonds and certain other matters, and (c) the certificate with respect to arbitrage by the Commissioner of Education regarding the allocation and investment of certain investments in the Permanent School Fund. Failure by the District to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinions of Bond Counsel are conditioned on compliance by the District with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Bond Counsel’s opinions represent its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel’s opinions are not a guarantee of a result. Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service (the “IRS”) by the District with respect to the Bonds or the property financed with proceeds of the Bonds. No assurances can be given as to whether the IRS will commence an audit of the Bonds, or as to whether the IRS would agree with the opinions of Bond Counsel. If an IRS audit is commenced, under current procedures the IRS is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

### **Federal Income Tax Accounting Treatment of Original Issue Discount**

The initial public offering price to be paid for one or more maturities of the Bonds may be less than the maturity amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year (the “Original Issue Discount Bonds”). In such event, the difference between (i) the “stated redemption price at maturity” of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The “stated redemption price at maturity” means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue 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 Original Issue Discount Bond was held by such initial owner) is includable in gross income.

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each accrual period and ratably within each such accrual period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

### **Collateral Federal Income Tax Consequences**

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with Subchapter C earnings and profits, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Interest on the Bonds may be includable in certain corporation's "adjusted financial statement income" determined under section 56A of the Code to calculate the alternative minimum tax imposed by section 55 of the Code.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

### **State, Local and Foreign Taxes**

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

### **Information Reporting and Backup Withholding**

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the IRS. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other

taxpayer identification number (“TIN”), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient’s federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

### **Future and Proposed Legislation**

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under federal or state law and could affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

## **LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS**

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code, as amended) provides that the Bonds constitute negotiable instruments, and are investment securities governed by Chapter 8, Texas Uniform Commercial Code, notwithstanding any provisions of law or court decision to the contrary, and are legal and authorized investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries, and for the sinking funds of cities, towns, villages, school districts, and other political subdivisions or public agencies of the State. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256, as amended), the Bonds may have to be assigned a rating of at least “A” or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds (see “RATINGS” herein). In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations.

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

## **INVESTMENTS**

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

### **Legal Investments**

Under State law and subject to certain limitations, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations issued and secured by a federal agency or instrumentality of the United States; (4) other obligations unconditionally guaranteed or insured by the State of Texas or the United States or their respective agencies and instrumentalities; (5) “A” or better rated obligations of states, agencies, counties, cities, and other political subdivisions of any state; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) federally insured interest-bearing bank deposits, brokered pools of such deposits, and collateralized certificates of deposit and share certificates; (8) fully collateralized United States government securities repurchase agreements; (9) one-year or shorter securities lending agreements secured by obligations described in clauses (1) through (7) above or (11) through (14) below or an irrevocable letter of credit issued by an “A” or better rated state or national bank; (10) 270-day or shorter bankers’ acceptances, if the short-term obligations of the accepting bank or its holding company are rated at least “A-1” or “P-1”; (11) commercial paper rated at least “A-1” or “P-1”; (12) SEC-registered no-load money market mutual funds that are subject to SEC Rule 2a-7; (13) SEC-registered no-load mutual funds that have an average weighted maturity of less than two years; (14) “AAA” or “AAA”-rated investment pools that invest solely in investments described above; (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; and (16) aggregate repurchase agreement transactions entered into by an investing entity in conformity with the provisions of subsections (a-1), (f), and (g) of Section 2256.011 of the Public Funds Investment Act.

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

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

As a school district that qualifies as an “issuer” under Chapter 1371, the District may also invest up to 15% of its monthly average fund balance (excluding bond proceeds and debt service funds and reserves) in “AA-” or better rated corporate bonds with a remaining term of three years or less. Not more than 25% of its funds invested in corporate bonds may be invested in any single issuer and its affiliates. Corporate bonds must be sold if downgraded below the required rating or placed on negative credit watch.

### **Investment Policies**

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

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

### **Current Investments**

Please see “Table 13 - Current Investments” in APPENDIX A for the District’s current investments as of March 31, 2024.

## **REGISTRATION AND QUALIFICATION OF BONDS FOR SALE**

No registration statement relating to the Bonds has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2). The Bonds have not been approved or disapproved by the United States Securities and Exchange Commission, nor has the Securities and Exchange Commission passed upon the accuracy or adequacy of the Official Statement. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities acts of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

It is the obligation of the Underwriters to register or qualify the sale of the Bonds under the securities laws of any jurisdiction which so requires. The District has agreed to cooperate, at the Underwriters’ 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 consent to service of process in any jurisdiction.

## **CONTINUING DISCLOSURE OF INFORMATION**

In the Order, the District has made the following agreement for the benefit of the owners of the Bonds. The District is required to observe the agreement while 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 the timely notice of specified events to the Municipal Securities Rulemaking Board (“MSRB”) via the Electronic Municipal Market Access system (“EMMA”) through an internet website accessible at [www.emma.msrb.org](http://www.emma.msrb.org).

### **Annual Reports**

The District will provide certain updated financial information and operating data to the MSRB on an annual basis. The information to be updated includes quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under Tables 1 through 6, and 8 through 13 of APPENDIX A and in APPENDIX C. The District will update and provide this information within six months after the end of each fiscal year.



The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the “Rule”). The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial statements by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX C or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation.

The District’s current fiscal year end is June 30. Accordingly, it must provide updated information by the last day of December in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB through EMMA of the change.

### **Notice of Occurrence 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; (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 Bonds, or other material events affecting the tax determinations with respect to 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 sale of substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such 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 trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District, if material, or an agreement to covenants, events of default, remedies, priority rights, or other similar terms of a 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 a financial obligation of the District or obligated person, any of which reflect financial difficulties. In the Order, the District adopted policies and procedures to ensure timely compliance with 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. Neither the Bonds nor the Order make any provision for debt service reserves, credit enhancement (except with respect to the Permanent School Fund guarantee which applies to the 2024A Bonds only), or liquidity enhancement.

For these purposes, any event described in clause (12) of the immediately preceding paragraph (is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers of the District 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 clauses (15) and (16) of the immediately preceding paragraph and in the definition of “financial obligation” within the undertaking described above to have the same meanings as when they are used in the Rule, as evidenced by SEC Release No. 34-83885, dated August 20, 2018.

### **Availability of Information**

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

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

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

### **Limitations and Amendments**

The District has agreed to update information and to provide notices of specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders 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 with respect to a series of Bonds 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 District, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the registered owners of the Bonds. The District may also amend or repeal the provisions of its continuing disclosure agreements if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District so amends its agreements, it has agreed to include with the next financial information and operating data provided in accordance with its agreements 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 financial information and operating data so provided.

### **Compliance with Prior Undertakings**

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

## **LITIGATION**

The District is not a party to any litigation or other proceeding pending or to its knowledge, threatened, in any court, agency or other administrative body (either state or federal) which, if decided adversely to the District, would have a material adverse effect on the financial condition or operations of the District.

At the time of the initial delivery of the Bonds, the District will provide the Underwriters with respective certificates for each series of Bonds to the effect that no litigation of any nature has been filed or is then pending challenging the issuance of the Bonds or that affects the payment and security of the Bonds or in any other manner questioning the issuance, sale or delivery of the Bonds.

## **VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS**

The issuance of the 2024B Bonds will be subject to delivery by the Verification Agent of the Report of the mathematical accuracy of certain computations. The Verification Agent will verify from the information provided to them the mathematical accuracy as of the date of the closing on the 2024B Bonds of the computations contained in the provided schedules to determine that the anticipated receipts from the Federal Securities and cash deposits listed in the schedules provided by RBC Capital Markets, LLC (as Financial Advisor to the District) to be held in the Escrow Fund, will be sufficient to pay, when due, the principal and interest requirements of the Refunded Obligations. The Verification Agent will express no opinion on the assumptions provided to them. Such verification of accuracy of such mathematical computation will be based upon information and assumptions supplied by the District and RBC Capital Markets, LLC, and such verification, information and assumptions will be relied on by Bond Counsel in rendering its opinions described herein.

## **FINANCIAL ADVISOR**

RBC Capital Markets, LLC (the “Financial Advisor”) is employed as Financial Advisor to the District. The fees paid to the Financial Advisor for services rendered in connection with the issuance and sale of the Bonds are based on the amount of Bonds

actually issued, sold and delivered, and therefore such fees are contingent on the sale and delivery of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

### **UNDERWRITING**

The Underwriters have agreed, subject to certain customary conditions, to purchase the 2024A Bonds at a price equal to the initial offering prices to the public, as shown on page ii hereof, less an Underwriters' discount of \$ \_\_\_\_\_, and no accrued interest.

The Underwriters have agreed, subject to certain customary conditions, to purchase the 2024B Bonds at a price equal to the initial offering prices to the public, as shown on page iii hereof, less an Underwriters' discount of \$ \_\_\_\_\_, and no accrued interest.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the District for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the District.

### **CYBERSECURITY RISKS**

The District relies on its information systems to provide security for processing, transmission and storage of confidential personal, health-related, credit and other information. It is possible that the District's security measures will not prevent improper or unauthorized access or disclosure of personally identifiable information resulting from cyber-attacks. Security breaches, including electronic break-ins, computer viruses, attacks by hackers and similar breaches can create disruptions or shutdowns of the District and the services it provides, or the unauthorized disclosure of confidential personal, health-related, credit and other information. If personal or otherwise protected information is improperly accessed, tampered with or distributed, the District may incur significant costs to remediate possible injury to the affected persons, and the District may be subject to sanctions and civil penalties if it is found to be in violation of federal or state laws or regulations. Any failure to maintain proper functionality and security of information systems could interrupt the District's operations, delay receipt of revenues, damage its reputation, subject it to liability claims or regulatory penalties and could have a material adverse effect on its operations, financial condition and results of operations.

### **FORWARD-LOOKING STATEMENTS**

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

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

### **CONCLUDING STATEMENT**

The information set forth herein has been obtained from the District's records, audited financial statements and other sources which are considered by the District 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 statutes, documents and the Order 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 the Rule.

#### MISCELLANEOUS

The Order authorizing the issuance of the Bonds approved the use of this Official Statement and any addenda, supplement or amendment thereto in the reoffering of the Bonds by the Underwriters in accordance with the provisions of the Rule.

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President, Board of Trustees

ATTEST:

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Secretary, Board of Trustees

## SCHEDULE I

### Schedule of Refunded Obligations\*

	Maturity Date	Principal Amount	Call Date	Redemption Price
Variable Rate Maintenance Tax Notes, Series 2021	<u>8/15</u> 2027	\$900,000	08/15/2024	100.00
	2028	965,000	08/15/2024	100.00
	2029	1,030,000	08/15/2024	100.00
	2030	1,105,000	08/15/2024	100.00
	2031	1,180,000	08/15/2024	100.00
	2032	1,265,000	08/15/2024	100.00
	2033	1,355,000	08/15/2024	100.00
	2034	1,450,000	08/15/2024	100.00
	2035	1,550,000	08/15/2024	100.00
	2036	1,655,000	08/15/2024	100.00
	2037	1,775,000	08/15/2024	100.00
	2038	1,895,000	08/15/2024	100.00
	2039	2,030,000	08/15/2024	100.00
	2040	<u>2,170,000</u>	08/15/2024	100.00
		<u>\$20,325,000</u>		

\* Preliminary, subject to change.

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**APPENDIX A**  
**FINANCIAL INFORMATION**  
**REGARDING THE HARLANDALE INDEPENDENT SCHOOL DISTRICT**

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**HARLANDALE INDEPENDENT SCHOOL DISTRICT  
FINANCIAL INFORMATION OF THE DISTRICT**

**Table 1 - Valuation, Exemptions and Tax Supported Debt**

2023/24 Market Valuation Established by Bexar Appraisal District		\$ 4,352,472,674
Less Homestead Cap	392,364,685	
Assessed Value		\$ 3,960,107,989
Less Exemptions:		
Totally Exempt Property	225,318,640	
Residential Homestead Exemptions	995,316,946	
Over 65 Homestead Exemptions	55,019,966	
Disabled Veterans (State Mandated)	19,757,462	
Disabled residential Homestead Exemptions	3,285,912	
Other	5,348,744	1,304,047,670
Net Taxable Value		\$ 2,656,060,319
Less Freeze Value Loss	45,850,897	
Taxable Assessed Value after Loss to Freeze		\$ 2,610,209,422
Debt Payable from Unlimited Tax Ad Valorem Taxes (as of July 15, 2024)		
Unlimited Tax Bonds	\$ 151,574,920 <sup>(1)</sup>	
Plus: the 2024A Bonds	10,000,000 <sup>(2)</sup>	
Plus: the 2024B Bonds	19,220,000 <sup>(2)</sup>	
Plus: the 2020 Bonds	37,050,000 <sup>(2)</sup>	
Limited Tax Debt (as of December 1, 2023)		
Maintenance Tax Notes	\$ - <sup>(1)</sup>	
Debt Payable from Ad Valorem Taxes before Application of State Aid		\$ 217,844,920
Less: Instructional Facilities Allotment (IFA) & Tier III Allotment (EDA)	45,427,004 <sup>(3)</sup>	
Interest and Sinking Fund as of June 30, 2023	19,016,168	
Total Ad Valorem Tax Debt Offsets	\$ 64,443,172	
Net Debt Payable from Ad Valorem Taxes		\$ 153,401,748
Ratio Tax Supported Debt to Taxable Assessed Valuation		8.35%
Ratio Tax Supported Debt to Taxable Assessed Valuation After State Assistance		5.88%

Estimated Population	66,814
Per Capita Taxable Assessed Valuation:	\$ 39,067
Per Capita Debt Payable from Ad Valorem Taxes:	\$ 2,296

<sup>(1)</sup> Net of the of the bonds being remarketed by the District's Fixed and Variable Rate Unlimited tax Refunding Bonds, Series 2020 issue (see "INTRODUCTORY STATEMENT - Additional Obligations Issued in Close Proximity to the Bonds").

<sup>(2)</sup> Preliminary, subject to change.

<sup>(3)</sup> The District currently receives approximately 29.97% in State Aid which are supported by the Texas Education Agency's Instructional Facilities Allotment program as provided by Chapter 46, Texas Education Code, as amended, and Tier III (Existing Debt Allotment) debt payment assistance as provided by Chapter 46, Texas Education Code, as amended. The amount of State aid for debt service may substantially differ from year to year, depending on a number of factors, including amounts, if any, appropriated for that purpose by the Texas Legislature from time to time.

**Table 2 – Taxable Assessed Valuation by Category**

Category	FYE 2024		FYE 2023		FYE 2022	
	Amount (\$)	% of Total	Amount (\$)	% of Total	Amount (\$)	% of Total
Real, Residential, Single-Family	\$ 2,909,272,462	66.84%	\$ 2,608,633,045	68.56%	\$ 2,089,935,298	66.54%
Real, Residential, Multi-Family	161,716,565	3.72%	155,522,465	4.09%	135,541,095	4.32%
Real, Vacant Lots/Tracts	85,541,026	1.97%	61,384,209	1.61%	47,748,593	1.52%
Real, Acreage (Land Only)	11,180,710	0.26%	10,478,508	0.28%	5,015,385	0.16%
Real, Farm and Ranch Improvements	-	0.00%	-	0.00%	-	0.00%
Real, Commercial	792,340,914	18.20%	648,196,018	17.04%	571,276,523	18.19%
Real, Industrial	3,729,550	0.09%	3,631,060	0.10%	3,457,900	0.11%
Real and Tangible Personal, Utilities	17,502,264	0.40%	16,353,902	0.43%	15,595,651	0.50%
Tangible Personal, Commercial	113,849,846	2.62%	106,844,490	2.81%	106,010,204	3.38%
Tangible Personal, Industrial	4,731,233	0.11%	4,999,220	0.13%	4,438,941	0.14%
Tangible Personal, Other	-	0.00%	-	0.00%	-	0.00%
Tangible Personal, Mobile Homes	5,259,170	0.12%	5,077,170	0.13%	3,215,620	0.10%
Real Property, Inventory	5,169,150	0.12%	4,050,300	0.11%	31,010	0.00%
Special Inventory Tax	11,624,220	0.27%	10,589,710	0.28%	8,634,720	0.27%
Totally Exempt Property	230,555,564	5.30%	169,012,674	4.44%	150,137,093	4.78%
Total Appraised Value Before Exemptions	\$ 4,352,472,674	100.00%	\$ 3,804,772,771	100.00%	\$ 3,141,038,033	100.00%
Less: Total Exemptions/Reductions	(1,742,263,252)		(1,280,751,200)		(942,691,413)	
Taxable Assessed Value	\$ 2,610,209,422		\$ 2,524,021,571		\$ 2,198,346,620	

Category	FYE 2021		FYE 2020	
	Amount (\$)	% of Total	Amount (\$)	% of Total
Real, Residential, Single-Family	\$ 1,959,340,523	64.92%	\$ 1,624,379,414	63.86%
Real, Residential, Multi-Family	136,952,024	4.54%	119,263,928	4.69%
Real, Vacant Lots/Tracts	43,028,176	1.43%	37,224,970	1.46%
Real, Acreage (Land Only)	5,136,827	0.17%	3,434,251	0.14%
Real, Farm and Ranch Improvements	-	0.00%	-	0.00%
Real, Commercial	585,039,336	19.38%	560,165,210	22.02%
Real, Industrial	4,837,090	0.16%	4,335,400	0.17%
Real and Tangible Personal, Utilities	14,899,875	0.49%	15,413,273	0.61%
Tangible Personal, Commercial	106,581,695	3.53%	102,678,458	4.04%
Tangible Personal, Industrial	4,572,419	0.15%	4,289,431	0.17%
Tangible Personal, Other	-	0.00%	-	0.00%
Tangible Personal, Mobile Homes	3,162,620	0.10%	3,232,710	0.13%
Real Property, Inventory	2,176,860	0.07%	3,394,580	0.13%
Special Inventory Tax	10,095,870	0.33%	9,101,490	0.36%
Totally Exempt Property	142,394,469	4.72%	56,597,567	2.23%
Total Appraised Value Before Exemptions	\$ 3,018,217,784	100.00%	\$ 2,543,510,682	100.00%
Less: Total Exemptions/Reductions	(919,160,188)		(731,373,082)	
Taxable Assessed Value	\$ 2,099,057,596		\$ 1,812,137,600	

*Note: Valuations shown are certified taxable assessed values reported by the Bexar Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Bexar Appraisal District updates records.*

**Table 3 - Valuation and Tax Supported Debt History**

Period Ended 08/31 <sup>(1)</sup>	Estimated Population <sup>(2)</sup>	Taxable Assessed Valuation <sup>(3)</sup>		Taxable Assessed Valuation Per Capita		Unlimited Tax Debt Outstanding	Percent of State Financial Assistance which includes IFA & EDA	Net Unlimited Tax Supported Debt Outstanding at End of Year	Ratio of Tax Supported Debt to Taxable Assessed Valuation		Ratio of Tax Supported Debt to Taxable Assessed Valuation	
		Taxable Assessed Valuation	Taxable Assessed Valuation <sup>(3)</sup>	Taxable Assessed Valuation Per Capita	Taxable Assessed Valuation Per Capita				Supported Debt to Taxable Assessed Valuation	Supported Debt to Taxable Assessed Valuation	Net of IFA and EDA	
											Tax Supported Debt Per Capita	Tax Supported Debt Per Capita
2020	66,814	\$1,812,137,600	\$27,122	\$180,669,920	57.05%	\$77,597,731	9.97%	\$2,704	4.28%	\$1,161	4.28%	
2021	66,814	2,099,057,596	31,416	171,334,920	51.66%	82,823,300	8.16%	2,564	3.95%	1,240	3.95%	
2022	66,814	2,198,346,620	32,902	201,879,920	40.04%	121,041,690	9.18%	3,022	5.51%	1,812	5.51%	
2023	66,814	2,524,021,571	37,777	190,719,920	35.42%	123,166,924	7.56%	2,854	4.88%	1,843	4.88%	
2024 <sup>(4)</sup>	66,814	2,610,209,422	39,067	208,968,045	29.97%	146,340,322	8.01%	3,128	5.61%	2,190	5.61%	

<sup>(1)</sup> The District's Fiscal Year ends on June 30; to reconcile with the State's fiscal year-end (and upon which State debt service assistance is paid), the numbers shown reflect the period ending August 31 to account for August 1 and August 15 debt service payments.

<sup>(2)</sup> Source: The District's Annual Comprehensive Financial Reports.

<sup>(3)</sup> As reported by the Bexar Appraisal District on District's annual Certified Totals; subject to change for fiscal year end 2023.

<sup>(4)</sup> Net of the Refunded Obligations. Includes the Series 2024A Bonds, Series 2024B Bonds, and remarketed Series 2020 Bonds.

**Table 4 - Tax Rate, Levy and Collection History**

<b>Fiscal Year Ended</b>	<b>Tax Rate</b>	<b>Local Maintenance</b>	<b>Interest and Sinking Fund</b>	<b>Tax Levy</b>	<b>% Current Collections</b>	<b>% Total Collections</b>
2019	\$1.55880	\$1.17000	\$0.38880	\$27,231,543	91.00%	95.08%
2020	1.49890	1.06830	0.43060	28,551,666	90.68%	96.54%
2021	1.42820	0.99760	0.43060	28,308,728	95.96%	102.20%
2022	1.40070	0.97010	0.43060	30,431,471	92.14%	99.26%
2023	1.44290	0.94290	0.50000	34,079,981	95.38%	102.02%
2024	1.25750	0.75750	0.50000	32,823,383	(in process of collection)	

Source: The District's Annual Comprehensive Financial Reports.

**Table 5 - Ten Largest Taxpayers**

<b>Name of Taxpayer</b>	<b>Type of Property</b>	<b>2023/24 Taxable Assessed Valuation</b>	<b>% of Total Assessed Valuation</b>
Zachry Properties LLC	Commercial	\$ 39,713,460	1.52%
HEB Grocery Company LP	Grocery Store	34,395,747	1.32%
Wal Mart Stores Inc #2404	Retail	20,545,350	0.79%
El Centro del Barrio	Medical	19,409,340	0.74%
Riverbend TTM LLC	Apartment Complex	14,750,000	0.57%
1215 Farragut LTD	Branch Bank	14,425,000	0.55%
Southwest Junction LTD	Railroad	13,850,000	0.53%
807 Flame Circle Property Owner	Apartment Complex	13,093,920	0.50%
Shoppers City LLC	Shopping Center	12,600,000	0.48%
Spectrum Gulf Coast	Utility Provider	12,081,687	0.46%
<b>TOTAL</b>		<b>\$ 194,864,504</b>	<b>7.47%</b>

**Table 6 - Tax Adequacy**

Estimated 2023/24 Unlimited Tax Principal and Interest Requirements	\$ 17,942,332
Less: Estimated State Aid <sup>(1)</sup>	5,377,317
Less: Estimated Interest & Sinking Fund Withdrawal	-
Net Debt Service Requirements	12,565,015
\$0.5000 Tax Rate at 97.00% Collection Produces	12,659,516

<sup>(1)</sup> A projection based upon receiving State of Texas payments from the Instructional Facilities Allotment (IFA) and Existing Debt Allotment (EDA) program which is subject to annual appropriation. Approximately 29.97% of the debt service requirements on the District's bonded indebtedness is supported with funds received under the State's IFA and EDA program.

**Table 7 - Estimated Overlapping Debt**

<b>Taxing Jurisdiction</b>	<b>Total Tax Debt</b>	<b>As of</b>	<b>Estimated Applicable Overlap</b>	<b>District's Overlapping Tax Debt</b>
Harlandale ISD (General Obligation Debt)	\$ 146,340,322	07/15/2024	100.00%	\$ 146,340,322
Alamo CCD (General Obligation Debt)	741,940	05/31/2024	1.37%	10,165
Bexar Co (General Obligation Debt)	2,287,355,000	05/31/2024	1.37%	31,336,764
Bexar Co Hospital District (General Obligation Debt)	1,280,820,000	05/31/2024	1.37%	17,547,234
San Antonio, City of (General Obligation Debt)	2,520,820,000	05/31/2024	1.62%	40,837,284
Total Direct and Overlapping Tax Debt				\$ 236,071,768
Ratio of Direct and Overlapping Tax Debt to Taxable Assessed Valuation				9.04%
Total Direct Net Debt and Overlapping Tax Debt				\$ 243,133,195 <sup>(1)</sup>
Ratio of Direct Net Debt and Overlapping Tax Debt to Taxable Assessed Valuation				6.14%
Per Capita Direct and Overlapping Tax Debt				\$ 3,533
Per Capita Direct Net and Overlapping Tax Debt (Net of State Aid for the District)				\$ 3,639

Source: Municipal Advisory Council of Texas & Harlandale ISD

<sup>(1)</sup> Net of estimated State Aid. The District currently receives approximately 29.97% in State Aid which are supported by the Texas Education Agency's Instructional Facilities Allotment program as provided by Chapter 46, Texas Education Code, as amended, and Existing Debt Allotment debt payment assistance as provided by Chapter 46, Texas Education Code, as amended. The amount of State aid for debt service may substantially differ from year to year, depending on a number of factors, including amounts, if any, appropriated for that purpose by the Texas Legislature from time to time.

**Table 8 - Pro-Forma Unlimited Tax Debt Service Requirements**

Fiscal Year Ending 08/31 <sup>(1)</sup>	Outstanding Debt Service Requirements <sup>(2)</sup>	The Series 2024A Bonds <sup>(3)</sup>			The Series 2024B Bonds <sup>(3)</sup>			The Series 2020 Bonds <sup>(3)</sup>			Total	Outstanding Debt Service Requirements
		Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total		
2024	\$ 17,942,332											\$ 17,942,332
2025	15,708,257	\$ 20,000	\$ 443,450	\$ 463,450	\$ -	\$ 929,019	\$ 929,019	\$ 100,000	\$ 1,852,500	\$ 1,952,500	\$ 1,952,500	19,053,225
2026	16,481,770	20,000	442,450	462,450	100,000	929,019	1,029,019	100,000	1,847,500	1,947,500	1,947,500	19,207,738
2027	15,386,832	20,000	441,450	461,450	100,000	924,019	1,024,019	305,000	1,842,500	2,147,500	2,147,500	19,019,800
2028	15,971,807	20,000	440,450	460,450	100,000	919,019	1,019,019	315,000	1,827,250	2,142,250	2,142,250	19,593,525
2029	16,054,357	20,000	439,450	459,450	100,000	914,019	1,014,019	325,000	1,811,500	2,136,500	2,136,500	19,664,325
2030	14,141,107	20,000	438,450	458,450	100,000	909,019	1,009,019	2,160,000	1,795,250	3,955,250	3,955,250	19,563,825
2031	13,172,674	20,000	437,450	457,450	100,000	904,019	1,004,019	2,180,000	1,687,250	3,867,250	3,867,250	18,501,393
2032	13,595,074	20,000	436,450	456,450	100,000	899,019	999,019	2,210,000	1,578,250	3,788,250	3,788,250	18,838,793
2033	11,104,974	265,000	435,450	700,450	1,045,000	894,019	1,939,019	2,230,000	1,467,750	3,697,750	3,697,750	17,442,193
2034	11,432,053	275,000	422,200	697,200	1,100,000	841,769	1,941,769	2,245,000	1,356,250	3,601,250	3,601,250	17,672,272
2035	8,966,333	290,000	408,450	698,450	1,155,000	786,769	1,941,769	2,265,000	1,244,000	3,509,000	3,509,000	15,115,552
2036	6,141,313	305,000	393,950	698,950	1,210,000	729,019	1,939,019	2,275,000	1,130,750	3,405,750	3,405,750	12,185,032
2037	6,138,045	320,000	378,700	698,700	1,270,000	668,519	1,938,519	2,280,000	1,017,000	3,297,000	3,297,000	12,072,263
2038	6,355,363	335,000	362,700	697,700	1,335,000	605,019	1,940,019	2,285,000	903,000	3,188,000	3,188,000	12,181,081
2039	6,348,763	350,000	345,950	695,950	1,405,000	538,269	1,943,269	2,290,000	788,750	3,078,750	3,078,750	12,066,731
2040	3,791,988	370,000	328,450	698,450	1,470,000	468,019	1,938,019	2,285,000	674,250	2,959,250	2,959,250	9,387,706
2041	3,271,513	390,000	309,950	699,950	1,545,000	394,519	1,939,519	2,280,000	560,000	2,840,000	2,840,000	8,750,981
2042	3,274,475	405,000	290,450	695,450	1,625,000	317,269	1,942,269	2,265,000	446,000	2,711,000	2,711,000	8,623,194
2043	1,405,350	430,000	270,200	700,200	1,705,000	236,019	1,941,019	2,245,000	332,750	2,577,750	2,577,750	6,624,319
2044	1,406,250	450,000	248,700	698,700	1,790,000	150,769	1,940,769	2,215,000	220,500	2,435,500	2,435,500	6,481,219
2045	1,405,450	470,000	226,200	696,200	1,865,000	76,931	1,941,931	2,195,000	109,750	2,304,750	2,304,750	6,348,331
2046	1,407,950	490,000	207,400	697,400	-	-	-	-	-	-	-	2,105,350
2047	1,408,538	510,000	187,800	697,800	-	-	-	-	-	-	-	2,106,338
2048	1,207,213	530,000	167,400	697,400	-	-	-	-	-	-	-	1,904,613
2049	1,203,125	550,000	146,200	696,200	-	-	-	-	-	-	-	1,899,325
2050	1,206,675	575,000	124,200	699,200	-	-	-	-	-	-	-	1,905,875
2051	1,207,338	595,000	101,200	696,200	-	-	-	-	-	-	-	1,903,538
2052	1,145,000	620,000	77,400	697,400	-	-	-	-	-	-	-	1,842,400
2053	-	645,000	52,600	697,600	-	-	-	-	-	-	-	697,600
2054	-	670,000	26,800	696,800	-	-	-	-	-	-	-	696,800
	\$ 218,281,913	\$ 10,000,000	\$ 9,031,950	\$ 19,031,950	\$ 19,220,000	\$ 14,034,056	\$ 33,254,056	\$ 37,050,000	\$ 24,492,750	\$ 61,542,750	\$ 61,542,750	\$ 332,110,669

<sup>(1)</sup> The District's Fiscal Year now ends on June 30; to reconcile with the State's fiscal year-end (and upon which State debt service assistance is paid), the numbers shown reflect the period ending August 31 to account for August 1 and August 15 debt service payments.  
<sup>(2)</sup> Net of the bonds being remarketed by the District's Fixed and Variable Rate Unlimited tax Refunding Bonds, Series 2020 issue (see "INTRODUCTORY STATEMENT - Additional Obligations Issued in Close Proximity to the Bonds").  
<sup>(3)</sup> Preliminary, subject to change. Interest calculated at an assumed rate for purposes of illustration only.

**Table 8a - Limited Tax Debt Service Requirements**

<b>Fiscal Year</b>	<b>Ending 08/31<sup>(1)</sup></b>	<b>Outstanding Debt Service Requirements<sup>(2)</sup></b>		
		<b>Principal</b>	<b>Interest</b>	<b>Total</b>
	2024	\$ -	\$ 203,100	\$ 203,100
		\$ -	\$ 203,100	\$ 203,100

<sup>(1)</sup> The District's Fiscal Year ends on June 30; to reconcile with the State's fiscal year-end (and upon which State debt service assistance is paid), the numbers shown reflect the period ending August 31 to account for August 1 and August 15 debt service payments.

<sup>(2)</sup> Net of the Refunded Obligations.

**Table 9 - Interest and Sinking Fund Budget Projection**

Estimated Unlimited Tax Supported Debt Service Requirements, Fiscal Year Ending August 31, 2024		\$	17,942,332
<u>Resources Available</u>			
Interest and Sinking Fund Balance, August 31, 2023 (unaudited)	8,297,915		
Projected \$0.5000 Interest and Sinking Fund Tax Levy @ 97% Collection	12,659,516		
Projected State Aid <sup>(1)</sup>	5,377,317		26,334,748
Estimated Interest and Sinking Fund Projected Balance, August 31, 2024		\$	8,392,416

<sup>(1)</sup> Net of estimated State Aid. The District currently receives approximately 29.97% in State Aid which are supported by the Texas Education Agency's Instructional Facilities Allotment program as provided by Chapter 46, Texas Education Code, as amended, and Existing Debt Allotment debt payment assistance as provided by Chapter 46, Texas Education Code, as amended. The amount of State aid for debt service may substantially differ from year to year, depending on a number of factors, including amounts, if any, appropriated for that purpose by the Texas Legislature from time to time.

**Table 10 - Authorized but Unissued Unlimited Tax Bonds**

<u>Purpose</u>	<u>Date Authorized</u>	<u>Amount Authorized</u>	<u>Amount Previously Issued</u>	<u>Amount Being Issued<sup>(1)(2)</sup></u>	<u>Unissued Balance</u>
School Facilities, Purchase of Land, Purchase of Buses	May 7, 2022	\$ 93,500,000	\$ 30,500,000	10,000,000	\$ 53,000,000
Athletic Facilities (Stadium and Related Infrastructure)	May 7, 2022	9,500,000	9,500,000	-	-
Refunding Series 2021 Maintenance Tax Notes	May 7, 2022	22,000,000	1,635,000	20,365,000	-

In addition to voter authorized unlimited ad valorem tax-supported debt, the District may also enter into other financial obligations, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes. See "Table 11 - Other Outstanding Obligations" below for a description of this other type of District indebtedness.

<sup>(1)</sup> Includes the Bonds and certain [net] premium allocations; preliminary, subject to change.

<sup>(2)</sup> Preliminary, subject to change.

**Table 11 - Other Outstanding Obligations**

*None*

Source: The District's Annual Comprehensive Financial Report.



**Table 12 – Comparative Statement of Revenues, Expenditures, and Changes to Fund Balance**

	Fiscal Year Ended				
	2023	2022	2021	2020	2019
<b>REVENUES:</b>					
Local and Intermediate Sources	\$ 26,767,403	\$ 23,113,391	\$ 23,173,610	\$ 22,580,047	\$ 23,459,138
State Program Revenues	95,343,366	100,312,272	101,504,380	112,659,404	104,278,312
Federal Program Revenues	18,862,367	16,344,060	10,803,124	12,897,175	16,834,062
Total Revenues	<u>\$ 140,973,136</u>	<u>\$ 139,769,723</u>	<u>\$ 135,481,114</u>	<u>\$ 148,136,626</u>	<u>\$ 144,571,512</u>
<b>EXPENDITURES:</b>					
Instruction	\$ 62,841,327	\$ 71,527,972	\$ 81,177,117	\$ 80,222,543	\$ 77,163,131
Instructional Resources & Media Services	2,104,915	2,265,128	2,248,749	2,328,308	2,231,325
Curriculum & Instructional Staff Development	3,538,252	3,599,673	3,466,670	3,649,168	3,657,145
Instructional Leadership	2,004,127	1,981,578	1,842,425	1,913,328	1,836,109
School Leadership	8,640,630	9,488,172	9,581,305	9,501,924	9,025,466
Guidance, Counseling & Evaluation Services	2,394,610	4,822,508	5,205,169	5,256,482	5,093,505
Attendance & Social Work Services	404,546	422,871	867,030	1,621,354	1,543,777
Health Services	2,019,276	1,962,687	1,914,739	1,944,951	1,782,279
Student (Pupil) Transportation Regular	2,736,261	2,710,203	2,816,492	4,784,179	3,214,032
Food Services	12,127,191	12,255,231	8,573,061	12,004,844	11,366,878
Co curricular/Extracurricular Activities	2,907,998	2,721,103	2,811,632	2,583,064	2,759,217
General Administration	4,459,031	4,847,701	4,472,440	4,178,021	3,985,075
Plant Maintenance & Operations	20,285,709	28,290,745	16,675,782	16,254,417	15,343,870
Security and Monitoring	2,518,079	2,492,768	3,165,927	2,194,924	1,973,444
Data Processing Services	3,422,652	2,942,191	3,052,667	3,383,452	2,865,326
Community Services	35,367	32,065	25,843	34,625	37,587
Debt Services	559,428	401,940	325,568	-	-
Facilities Acquisition & Construction	-	-	-	-	-
Payments to Fiscal Agents	-	-	-	-	-
Juvenile Justice Alternative Education Program	45,238	47,548	12,362	81,646	113,163
Other Intergovernmental Charges	258,440	203,284	188,122	157,560	155,640
Total Expenditures	<u>\$ 133,303,077</u>	<u>\$ 153,015,368</u>	<u>\$ 148,423,100</u>	<u>\$ 152,094,790</u>	<u>\$ 144,146,969</u>
Other Resources and (Uses)	2,400,613	4,098,824	22,379,026	-	-
Excess (Deficiency) of Revenues over Expenditures	10,070,672	(9,146,821)	9,437,040	(3,958,164)	424,543
Beginning Fund Balances on July 1	53,535,852	62,682,672	53,245,632	57,203,796	56,779,253
Ending Fund Balance on June 30	<u>\$ 63,606,523</u>	<u>\$ 53,535,852</u>	<u>\$ 62,682,672</u>	<u>\$ 53,245,632</u>	<u>\$ 57,203,796</u>

Source: The District's Annual Comprehensive Financial Reports.

Note: The District's unaudited General Fund balance on June 30, 2024 was \$52,914,788; however, the District does not anticipate this deficit to materialize, and instead, an increase in the General Fund is expected occur due to the usage of Elementary and Secondary School Emergency Relief ("ESSER") grant fund that will offset costs to the General Fund.

**Table 13 – Current Investments**

As of March 31, 2024, the District’s funds were invested as follows:

<b>Type of Investment</b>	<b>% of Portfolio</b>	<b>Market Value</b>
Cash on Hand	1.23%	\$ 1,519,227
Investment Pools	83.35%	103,017,298
Money Market Account	6.56%	8,104,105
US Agencies	4.88%	6,030,418
CDs	0.98%	1,205,521
Municipal Bonds	3.01%	3,714,518
	100.00%	\$ 123,591,086

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

Source: District staff.

**APPENDIX B**  
**GENERAL INFORMATION REGARDING**  
**THE DISTRICT AND ITS ECONOMY**

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**GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY**

*The information contained in this Appendix relating to the District is intended solely to provide certain general information concerning the District.*

**THE DISTRICT**

The District, originally chartered by the State of Texas (the “State”) in 1924, now encompasses 13.70 square miles of densely populated, urban residential and commercial property, including shopping centers and established residential properties. The District is located three miles south of downtown San Antonio, in central Bexar County. The District had an estimated population of 66,814 and has a current enrollment of 12,080.

**Full Time Equivalents (FTE) Employees Last Five Fiscal Years**

	<u>2023/24</u>	<u>2022/23</u>	<u>2021/22</u>	<u>2020/21</u>	<u>2019/20</u>
Professional Staff					
Teachers	768.8	846.5	913.2	953.1	906.5
Professional Support	230.2	275.3	312.8	280.5	297.3
Campus Administration	43.2	53.6	60.2	67.0	66
Central Administration	<u>19.8</u>	<u>22.9</u>	<u>26.2</u>	<u>28.0</u>	<u>28</u>
Total Professional Staff	1,062.0	1,198.3	1,312.4	1,328.6	1,297.8
Educational Aides	167.6	204.5	221.4	212.6	209.9
Auxiliary Staff	560.9	569.4	623.1	629.7	602.5
Total Staff	<u>1,790.5</u>	<u>1,972.2</u>	<u>2,159.9</u>	<u>2,170.9</u>	<u>2,110.2</u>
Pupil to Staff Ratio	6.59	6.17	5.60	5.84	6.56
Student Enrollment	11,814	12,174	12,080	12,685	13,847

Source: Information supplied by the District.

**Teacher Base Salaries Last Ten Years**

<u>Fiscal Year</u>	<u>Minimum Salary (\$)</u>	<u>Maximum Salary (\$)</u>	<u>State Minimum Salary (\$)</u>	<u>State Maximum Salary (\$)</u>
2012	45,000	65,004	27,320	44,270
2013	46,000	66,250	27,320	44,270
2014	47,000	69,900	27,320	44,270
2015	48,500	72,696	27,540	44,620
2016	50,000	74,513	28,080	45,510
2017	50,750	63,492	28,080	45,510
2018	51,550	63,892	28,080	45,510
2019	52,050	64,122	28,080	45,510
2020	54,150	67,249	33,660	54,540
2021	54,150	67,249	33,660	54,540
2022	55,500	69,163	33,660	54,540
2023	56,400	69,756	33,660	54,540
2024	58,000	71,080	33,660	54,540

Source: State Minimum Salary Information Obtained from TEA website; District Salary Information obtained from the District’s Department of Human Resources.

**Historical enrollment for the District is as follows:**

<u>School Year</u>	<u>Student Enrollment</u>	<u>Average Student Attendance</u>	<u>Attendance Percentage(%)</u>	<u>Expense Per Student(\$)</u>
2010/11	14,846	13,442	90.5	9,922
2011/12	14,913	13,549	90.9	8,793
2012/13	15,154	13,723	90.6	11,014
2013/14	15,324	13,921	90.8	11,470
2014/15	15,289	13,782	90.1	12,913
2015/16	15,272	13,589	89.0	13,722
2016/17	15,205	13,367	87.9	13,738
2017/18	14,591	12,884	88.3	14,035
2018/19	14,272	12,476	87.4	15,035
2019/20	13,847	11,558	83.5	16,392
2020/21	12,685	10,585	83.4	17,787
2021/22	12,080	10,589	87.9	16,514
2022/23	12,174	10,368	86.7	16,930
2023/24	11,814	10,046	85.0	N/A

Source: District Statement of Activities (Exhibit B-1); District staff.

**BEXAR COUNTY AND THE CITY OF SAN ANTONIO**

Neither Bexar County, Texas (the “County”) nor the City of San Antonio, Texas (the “City”) has any obligation with respect to the Bonds. Information concerning the County and the City is provided for general information concerning the area of the District. The County was organized in 1836 as one of the original counties of the Republic of Texas and is the fourth largest of the 254 counties in the State. According to the U.S. Census of Population, the 2010 population of the County was 1,714,773. The County is located in south central Texas on the edge of the Balcones Escarpment and coastal plains, with the City of San Antonio as the county seat. The County has an area of approximately 1,248 square miles, and contains 22 other incorporated cities within its boundaries.

The City covers approximately 467 square miles. The City was founded in the early eighteenth century and was incorporated by the Republic of Texas in 1837, and is the county seat of the County. According to the U.S. Census of Population, the 2010 population of the City was 1,326,539. The Bureau of Census ranks the City as the second largest city in Texas and the seventh largest in the United States.

The County and the City have a diversified economic base which is composed of agribusiness, manufacturing, construction, tourism, and the South Texas Medical Center complex. The County is the site of the largest concentration of military installations in the United States. The City’s proximity to Mexico provides favorable conditions for international business relations with Mexico in the areas of agriculture, tourism, manufacturing of apparel, food products, aircraft, electronics, pharmaceuticals, iron and steel products and oil well equipment. The City is also a major insurance center in the southwest, serving as the headquarters for several insurance companies, including United States Automobile Association, the nation’s fifth largest private automobile insurer and the tenth largest homeowners insurer.

The military presence in the County is a principal component of the area’s economy. The major installations located in the County include Fort Sam Houston, the U.S. Army Health Services Command, the U.S. Army Southern Command, Randolph Air Force Base, and the Air Force Military Training Center at Lackland Air Force Base.

The County continues to play a significant role in expanding medical service, research and development. The health care industry has an annual impact on the local economy of nearly \$10 billion. There are over 101,000 medical industry employees as well as approximately 7,600 military health system employees. The South Texas Medical Center houses 11 major hospitals and almost 80 other related facilities. Southwest Research Institute is one of the world’s foremost independent nonprofit applied research and development organizations serving industry and government around the world in the engineering sciences and physical sciences.

**LABOR FORCE STATISTICS FOR BEXAR COUNTY**

	<u>2024<sup>(A)</sup></u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Labor Force	1,020,498	1,004,146	977,978	948,855	942,127
Employed	986,893	966,616	941,275	895,189	871,017
Unemployed	33,605	37,530	36,703	50,666	71,110
Percent of Labor Force Unemployed	3.3%	3.7%	3.8%	5.4%	7.5%

<sup>(A)</sup> As of April 2024.

Source: Labor Market Information Department, Texas Workforce Commission.

**Comparative Unemployment Rates**

	<b><u>2024<sup>(A)</sup></u></b>	<b><u>2023</u></b>	<b><u>2022</u></b>	<b><u>2021</u></b>	<b><u>2020</u></b>
Bexar County	3.3%	3.7%	3.8%	5.4%	7.5%
State of Texas	3.5%	3.9%	3.9%	5.7%	7.6%
United States of America	3.5%	3.6%	3.6%	5.3%	8.1%

<sup>(A)</sup> As of April 2024.

Source: Labor Market Information Department, Texas Workforce Commission.

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**APPENDIX C**

**AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2023**

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FOR THE FISCAL YEAR  
ENDING JUNE 30, 2023

# ANNUAL FINANCIAL REPORT



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**HARLANDALE INDEPENDENT SCHOOL DISTRICT**  
**102 Genevieve**  
**San Antonio, Texas 78214-2997**

**ANNUAL FINANCIAL REPORT**

**Year Ended June 30, 2023**



**Prepared by: Ricardo J. Hernandez, CPA**  
**Assistant Superintendent for Business**

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**HARLANDALE INDEPENDENT SCHOOL DISTRICT**  
**San Antonio, Texas**

**Annual Financial Report**  
**Year Ended June 30, 2023**

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**San Antonio, Texas**

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**San Antonio, Texas**

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**Annual Financial Report**  
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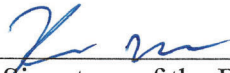
## CERTIFICATE OF BOARD

Harlandale Independent School District  
Name of School District

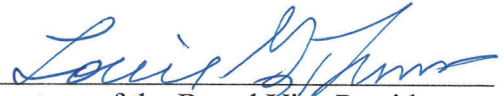
Bexar  
County

015-904-20  
County-District-Region No.

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and ✓ approved \_\_\_\_\_disapproved for the year ended June 30, 2023 at a meeting of the Board of School Trustees of such school district on the 13<sup>th</sup> day of November, 2023.



\_\_\_\_\_  
Signature of the Board President



\_\_\_\_\_  
Signature of the Board Vice President

If the board of trustees disapproved of the auditors' report, the reason(s) for disapproving it is/are: (attach list as necessary)

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Harlandale Independent School District  
San Antonio, Texas

### Report on the Audit of the Financial Statements

#### Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Harlandale Independent School District (the District) as of and for the year ended June 30, 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the District as of June 30, 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 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.

#### Change in Accounting Principle

As discussed in Note A to the financial statements, in 2023 the District adopted new accounting guidance, GASB Statement No. 96 (GASBS 96), *Subscription-Based Information Technology Arrangements (SBITA)*, which establishes a single model for SBITA accounting based on the foundational principle that SBITAs are financings of the right-to-use an underlying subscription-asset. The District, as required by GASBS 96, has recognized a right-to-use liability and an intangible right-to-use asset. Our opinions are not modified with respect to this matter.

## **Responsibility of Management for the Financial Statements**

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 generally accepted auditing standards 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 generally accepted auditing standards 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 the Management's Discussion and Analysis; budgetary comparison information for the general fund, Schedule of the District's Proportionate Share of the Net Pension and OPEB Liability - Teacher Retirement System of Texas; and Schedules of District Contributions for Net Pension and OPEB Liability - Teacher Retirement System of Texas, 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.

### **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 accompanying combining statements and schedules required by the Texas Education Agency as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining statements, schedules required by the Texas Education Agency, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the combining and individual non-major fund financial statements, schedules required by Texas Education Agency, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 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 the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

ABIP, PC

San Antonio, Texas  
November 13, 2023

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## **MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED)**

Management of the Harlandale Independent School District (the District) offers readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended June 30, 2023. The intent of this section is to look at the District's financial performance as a whole. We encourage readers to consider the additional information presented in the notes to the financial statements in conjunction with this discussion and analysis to enhance their understanding of the District's financial performance.

### **FINANCIAL HIGHLIGHTS**

- Assets of the district exceeded liabilities by \$21.9 million (net position). The increase of \$22.6 million in total net position from the prior year is due to the general revenues exceeding the cost of governmental activities by \$20.2 million, and the \$2.4 million extraordinary item due to a settlement related to a building roof damage occurring in a prior year reported as a special item.
- The ending fund balance of the District's General Fund was \$63.6 million which represents an increase of \$10.1 million. However, the increase of \$10.1 million is the amount after considering the \$2.4 million due to the settlement of the litigation. Thus, before the settlement, revenues exceeded expenditures by \$7.7 million. In conjunction with the District's efforts to control costs and the allowability to transfer Elementary and Secondary School Emergency Relief Fund II (ESSER II) eligible cost from the General Fund to the ESSER II Major Special Revenue Fund this resulted in an excess of revenues of \$10.1 million in addition to the operating gain in the Child Nutrition Program of \$1.6 million. This is offset by the District's continuation of expending funds to complete major projects utilizing the Maintenance Tax Notes in the amount of \$4.1 million. The remaining MTN balance of \$5.2 million is reflected as restricted fund balance for Capital Acquisition. The ending fund balance for the Child Nutrition Program and General Fund (unassigned; available to finance operations) are at a stable amount of \$3.1 million and \$50.4 million, respectively. This is 26% and 43% of operating expenditures, for the Child Nutrition Program and the General Fund, respectively.

### **OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

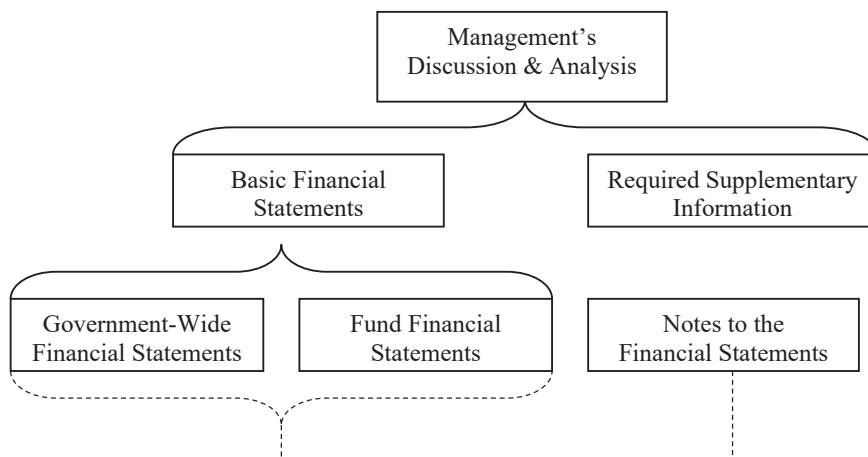
The Annual Financial Report consists of a Financial Section and a Federal Awards Section. The Financial Section consists of four parts – Management's Discussion and Analysis (this section), the basic financial statements, required supplementary information, and other supplementary information that presents required TEA schedules, and combining statements for non-major governmental funds. The statements are intended to be organized so that the reader can understand the District as an entire operating entity.

The basic financial statements include two kinds of statements that present different views of the District, in addition to the notes that explain some of the information in the financial statements and provide data that are more detailed:

1. The first two statements are government-wide financial statements – the Statement of Net Position and the Statement of Activities, provide both long-term and short-term information about the District’s overall financial status.
2. The remaining statements are fund financial statements that focus on individual parts of the District, and report the District’s operations in more detail than the government-wide statements. The governmental funds statements tell how general government services were financed in the short term as well as what remains for future spending. Proprietary fund statements offer short-and-long-term financial information about the activities the District operates like businesses; such as, worker compensation services. Fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee for the benefit of others, to whom the resources in question belong.

The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

**Figure A-1  
Required Components of the District’s Financial Report**



**Government-Wide Financial Statements (Reporting the District as a Whole)**

These statements summarize the large number of funds used by the District to provide programs and activities and view the entire District as a whole. The Statement of Net Position includes all assets, deferred outflows/inflows of resources, and liabilities of the District using the accrual basis of accounting similar to the accounting used by most private-sector companies. The Statement of Activities considers all of the current year’s revenues and expenses regardless of when cash is received or paid. All inter-fund transactions are eliminated. These two statements report the District’s net position and changes in the net position. Net position, the difference between the District’s assets plus deferred outflows and liabilities plus deferred inflows, are one way to measure the District’s financial health or position. Over time, increases or decreases in the District’s net position are an indication of whether its financial health is improving or deteriorating, respectively. Change in net position is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include the District’s property tax base, current Texas school finance laws, student decline, facility needs, and required educational programs.

The District reports governmental activities in the Statement of Net Position and the Statement of Activities. Governmental activities are the activities where most of the District's programs and services are reported; including, but not limited to, instruction, support services, administration, maintenance, pupil transportation and extracurricular activities. The District does not have any business type activities.

### **Fund Financial Statements (Reporting the School District's Most Significant Funds)**

Fund financial statements provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions that have been separated for specific activities or projects. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the General Fund, Debt Service Fund, and the Capital Projects Fund. The General Fund is always presented as a major fund; the Debt Service Fund is presented as a major fund since it meets the criteria, as established by GASB; and, the Capital Projects Fund is designated as a major fund by the District for fiscal transparency.

All the funds of the District can be described by three categories:

- **Governmental Funds** – Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.
- **Proprietary Funds** – Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. We use an internal service fund to report the activities that provide services for the District's other programs and activities—such as the District's self-funded workers' compensation program and health insurance programs.
- **Fiduciary Funds** – The District is the trustee for Student Activity Funds. The District's fiduciary activity is reported in a custodial fund within the Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations.

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## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Government-wide)

### Net Position

The District's net position was \$21.88 million at June 30, 2023.

**Table A-1**  
**Net Position**  
*(in millions of dollars)*

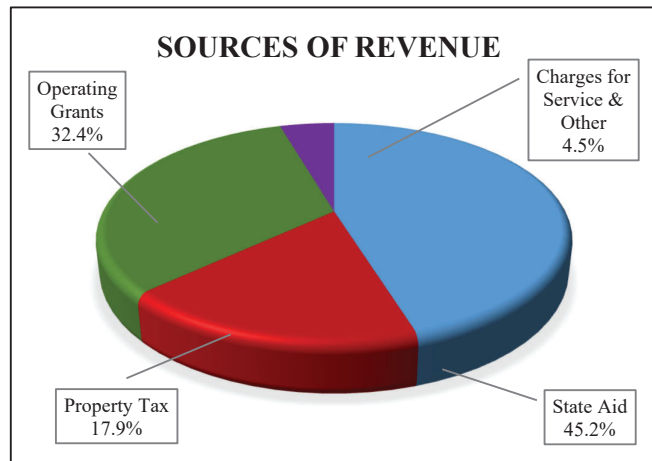
	6/30/2023	6/30/2022	Increase (Decrease)
Current and Other Assets	\$ 155.3	\$ 107.9	\$ 47.4
Capital Assets	250.6	246.2	4.4
Total Assets	405.9	354.1	51.8
Deferred Outflows-Resources	51.6	32.4	19.2
Current and Other Liabilities	39.9	41.5	(1.6)
Long-Term Liabilities	333.5	277.0	56.5
Total Liabilities	373.4	318.5	54.9
Deferred Inflows - Resources	62.2	68.7	(6.5)
Net Position			
Net Investment in Capital Assets	71.6	70.0	1.6
Restricted	24.2	15.9	8.3
Unrestricted	(73.9)	(86.6)	12.7
Total Net Position	\$ 21.9	\$ (0.7)	\$ 22.6

- The \$(73.9) million of unrestricted net position represents the net effect of accounting for the District's proportionate share of pension related liabilities and available operating resources.

### Changes in Net Position

The District's total revenues were \$197.82 million (See Table A-2). A significant portion, 45.2%, of the District's revenue comes from state aid-formula funding, 17.9% comes from property taxes, 32.4% from operating grants and contributions, 4.5% from charges for service and other revenue items such as investments and special items.

The total cost of all programs and services was \$175.53 million, 79.6% of these costs are for instructional and student support services.



**Table A-2**  
**Change in Net Position**  
*(in millions of dollars)*

	Governmental		
	Activities		Increase (Decrease)
	Year Ended		
	6/30/2023	6/30/2022	
Revenues			
<u>Program Revenues</u>			
Charges for Services			
Tuition and Fees	\$ 0.11	\$ 0.02	\$ 0.09
Student Extra-Curricular Activities	1.99	2.09	(0.10)
Operating Grants and Contributions	64.14	50.50	13.64
<u>General Revenues</u>			
Property Taxes	35.40	30.38	5.02
State Aid - formula	88.69	93.32	(4.63)
Grants and Contributions	0.56	0.34	0.22
Investment Earnings	3.84	0.28	3.56
Miscellaneous Local and Intermediate Revenue	0.91	0.64	0.27
<u>Speical Item - Settlement</u>	2.40	3.02	(0.62)
Total Revenues and Special Items	<u>198.15</u>	<u>180.59</u>	<u>17.45</u>
Expenses			
Instruction	91.46	91.73	(0.27)
Instructional Resources & Media Services	2.43	2.33	0.10
Curriculum & Staff Development	4.61	4.34	0.27
Instructional Leadership	3.06	2.85	0.21
School Leadership	9.26	9.30	(0.04)
Guidance, Counseling & Evaluation Services	5.95	5.51	0.44
Social Work Services	2.36	2.23	0.13
Health Services	2.05	2.00	0.05
Student (pupil) Transportation	3.11	2.88	0.23
Food Services	12.14	11.62	0.52
Extra Curricular Activities	3.21	2.83	0.38
General Administration	4.42	4.45	(0.03)
Facilities Maintenance and Operations	17.80	20.80	(3.00)
Security & Monitoring Services	2.63	2.49	0.14
Data Processing Services	3.36	2.89	0.47
Community Services	0.32	0.28	0.04
Debt Service - Interest and Issuance Cost & Fees	7.36	6.37	0.99
Total Expenses	<u>175.53</u>	<u>174.90</u>	<u>0.63</u>
Change in Net Position	22.62	5.69	16.93
Beginning Net Position	(0.74)	(6.43)	5.69
Ending Net Position	<u>\$ 21.88</u>	<u>\$ (0.74)</u>	<u>\$ 22.62</u>

**Governmental Activities**

- The total property tax collection of the current levy continues to be at 95.4% with a total tax collection of \$34.8 million.

Table A-3 presents the cost of each of the District’s largest functions as well as each function’s net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what state revenues as well as local tax dollars funded.

**Table A-3**  
**Net Cost of Selected District Functions**  
(in millions of dollars)

	Cost of Services			
	6/30/2023		6/30/2022	
	Total	Net	Total	Net
Instruction	\$ 91.46	\$ 59.33	\$ 91.73	\$ 65.62
School Leadership	9.26	8.55	9.30	8.66
Guidance/Counseling	5.95	1.52	5.51	3.91
Food Services	12.14	(1.29)	11.62	(0.35)
Facilities Maintenance and Operation	17.80	17.39	20.80	20.75
Debt Service	7.36	(0.16)	6.37	0.37

Instruction and instructional related activities comprise 56% of the District’s expenses.

- The net cost of all governmental activities this year (the amount that the District paid for from property taxes, state aid, and other revenues) was \$109.21 million.
- The cost paid through State aid in the form of formula grants was \$88.69 million.
- The cost paid by the programs that directly benefited from the grants for a specific purpose was \$64.14 million.
- The cost paid in charges for services was \$2.18 million, which was comprised mainly from food sales and student campus activity.
- Approximately 40% of the District’s bonded debt is eligible for state funding.

**FINANCIAL ANALYSIS OF THE DISTRICT’S FUNDS**

Using the modified accrual basis of accounting, revenues from governmental funds totaled \$200.56 million and expenditures were \$200.57 million. The District reported combined governmental funds ending fund balances of \$125.28 million, an increase of \$47.34 million from the prior year. The General Fund had an increase of \$10.1 million. In conjunction with the District’s efforts to control costs and the allowability to transfer Elementary and Secondary School Emergency Relief Fund II (ESSER II) eligible cost from the General Fund to the ESSER II Major Special Revenue Fund this resulted in an excess of revenues of \$10.1 million in addition to the operating gain in the Child Nutrition Program of \$1.6 million. This is offset by the District’s continuation of expending funds to complete major projects utilizing the Maintenance Tax Notes

in the amount of \$4.1 million. The ending restricted fund balance for the Child Nutrition Program and unassigned fund balance for the General Fund are at a stable amount of \$3.1 million and \$50.4 million, respectively. This is 26% and 43% of operating expenditures, for the Child Nutrition Program and the General Fund, respectively. The District continues its efforts in obtaining School Health Related Services (Medicaid) reimbursement for serving eligible participants and received \$5.5 million. Additionally, the Board has a committed amount of \$3 million to supplement the Bond Series 2022A Stadium Improvements of \$9.5 million to complete phase II of the project. The Unassigned fund balance for the General Fund is \$50.4 million, which can be used to finance the District's operations.

The Debt Service Fund realized an increase of \$6.79 million due to the premium received from the issuance of Unlimited Tax School Building Bonds Series 2022A in the amount of \$4.8 million and Unlimited Tax Refunding Bonds Series 2022B issuance of \$1.6 million. The premium of \$4.8 million will be used for future debt obligations and the \$1.6 million is to refund a portion of the Maintenance Tax Notes for relatively the same amount. However, the refunding moves the debt over to the Debt Service fund where it is eligible for a share of the Existing Debt Allotment. The debt payments of August 15, 2023 consisting of principal and interest will be met with the cash and cash equivalents available as of June 30, 2023. The District receives its resources of property taxes and state funding to meet debt obligations primarily from November through February.

The analysis of the capital project fund is presented in the following Capital Assets and Long-Term Debt sections.

### **General Fund Budgetary Highlights**

Over the course of the year, the District revised its budget several times. The budget amendments can be characterized into three categories:

- Budget Category #1 reflects adjustments for carryover of appropriations because of commitments made against the budget for goods and services not received or incomplete as of June 30, 2023.
- Budget Category #2 included an increase in estimated revenues and similar increase in appropriations. No impact on fund balance resulted from this amendment.
- Budget Category #3 included all adjustments authorized by the Board of Trustees throughout the year. Additionally, accounts were adjusted to reflect a fairly accurate fund balance at the close of the school year.

In conjunction with these adjustments, actual expenditures were \$28.1 million below final budget amounts. The variance is due to the District's efforts to control costs and the allowability to transfer Elementary and Secondary School Emergency Relief Fund II (ESSER II) eligible cost from the General Fund to the ESSER II Major Special Revenue Fund this resulted in an excess of revenues of \$10.1 million. Additionally, the variance is from staffing and other personnel issues due to retirement and less staffing resulting from efforts to match staffing to enrollment. Vacancies remained unfilled due to the decrease of in-person needs of serving students. Revenues were \$3.3 million above the final amended amount. This was due to an increase in School Health & Related Services program revenues of \$1.5 million and the increase amount of property tax while being offset with the reduction in State funding due to a decrease in enrollment or average daily attendance.



## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2023, the District had invested \$411.24 million in a broad range of capital assets, including land, equipment, buildings, and vehicles (see Table A-4). This amount represents a net increase (including additions and deductions) of \$14.6 million. Detailed information about the District's capital assets is presented in the notes to the Financial Statements under Note G. At June 30, 2023, there was outstanding commitments for facilities construction contracts in the amount of \$8,889,931.

	<u>6/30/2023</u>	<u>6/30/2022</u>
Land	\$ 1.57	\$ 1.57
Buildings and Improvements	381.44	366.54
Furniture and Equipment	15.55	14.39
Right-to-Use Lease Asset	0.71	0.71
Right-to-Use SBITA	0.73	-
Construction in Progress	11.24	13.43
Total at Historical Cost	<u>411.24</u>	<u>396.64</u>
Total Accumulated Depreciation	<u>(160.65)</u>	<u>(150.48)</u>
Net Capital Assets	<u>\$ 250.59</u>	<u>\$ 246.16</u>

### Long-Term Debt

At year-end, the District had \$252.81 million in long-term debt outstanding as shown in Table A-5. Long-term debt increased by \$31.52 million due to the issuance of Unlimited Tax School Building Bonds Series 2022A in the amount of \$39.5 million. These bonds will be used to construct instructional facilities such as a multi-purpose facility for the arts and extra-curricular activity, a Career and Technology Education Center and to supplement the completion of major improvements to the District stadium. More detailed information about the District's changes in debt is presented in the Notes to the Financial Statements under Note L.

	<u>6/30/2023</u>	<u>6/30/2022</u>
Bonds Payable	\$ 250.87	\$ 219.06
Right-to-Use Lease Payable	0.46	0.60
Right-to-Use SBITA	0.14	-
Compensated Absences	1.34	1.63
Total Long-Term Debt	<u>\$ 252.81</u>	<u>\$ 221.29</u>

The District's 2022-2023 debt service tax rate was \$0.50 of a \$100 taxable property valuation. The estimated tax levy and the State support of 32% continues to support the District's annual debt payment.

Long-term bonds are rated "AAA" by Moody's Investors Service, Inc. ("Moody's"), Standard and Poor's ("S&P"), and Fitch Investors Service ("Fitch") by virtue of the guarantee of

the Permanent School Fund of the State of Texas. The District has been rated by Standard & Poor's to an A+ with a Stable Outlook.

## DISTRICT 2022 – 2023 BUDGET

Based on discussions with the Board, Cabinet budget meetings, assessments of campus needs through the daily interaction with the Principals and departments, and projected demands and requirements of the State and STAAR, staff has evaluated the proposed existing budgeted items as valued components of the overall budget. Some of these budgeted items are in the form of recurring cost and non-recurring costs.



## **Salary and Wage Increase**

In conjunction with TASB recommendation and to remain competitive, various pay structures are realigned to market and provide adjustments to address market differences and maintain equity. This is done by bringing employee pay to new range minimums, and targeting adjustments for those below 90 percent of market. However, in establishing the pay increases for teachers, the District used a combination of District data and the information provided from the TASB pay maintenance study and determined that teachers would be provided a 2% increase based on their current salary, and a general pay increase of 2% was provided to the remaining staff. A tool the District has used in past budget years entailing uncertain circumstances that may affect long term planning is the payment of a retention stipend that is a non-recurring cost. This option allows the District to determine the level of funding in upcoming years and allows it to make the adjustment of compensating for it again or not to include it in the budget.

### Elementary and Secondary School Emergency Relief funds (ESSER) II and III

All school districts received federal funds through the American Rescue Plan Act and the Coronavirus Response and Relief Supplemental Appropriations Act. These funds are referenced as Elementary and Secondary School Emergency Relief funds (ESSER) II and III. The funds are to provide school districts with short-term relief to address the effects of COVID-19 on elementary and secondary schools. **The funding period is from March, 2020 to September 30, 2023 for ESSER II and September 30, 2024 for ESSER III.** The funds may benefit all students and schools or be targeted depending on the local needs. **One of the allowable uses of the funds is to pay retention stipends as an effort to keep valuable staff and reinforce the instruction to the students.** Due to its broad flexibility it was applied to staff supporting student instruction and social and emotional needs. This included teachers, special education professionals, instructional aides, nurses, social workers, counselors, campus administration, and curriculum & instruction professionals. The stipend of \$1,300 was paid to all eligible teachers, paraprofessionals and classified employees in two installments. Administration/professionals were paid a stipend in the amount of \$1,100.

### Other Budget Items

#### **New Annual Initiatives**

The new annual initiatives for 2022-2023 are listed below. At the May 26, 2022 budget work session, the Board agreed with staff to move forward with the below initiatives affecting personnel in order to obtain the most qualified individuals for the proposed positions. The additions, deletions and realignment of positions were formally approved after conducting a budget hearing and formal adoption.

As the District completes each school year, it reviews its staffing requirements based on enrollment and the data from such sources as the Texas Academic Performance Report or TAPER. The critical factor to keep in mind is the following change in teacher allotments was completed with the elimination of current/created vacant positions. A Reduction in Force was NOT performed to accomplish this change but rather done through employee attrition.

Other budgeted items included a teacher attendance incentive since it is directly related to student outcomes. The primary objective of this initiative is to incentivize teachers to minimize their absences throughout the year. Their presence provides the necessary and consistent instruction necessary and avoids the added cost of employing a substitute during their absence. In regard to hard to fill positions in the District's Career and Technology Education (CTE) program, a specific stipend amount was budgeted as an incentive to obtain and maintain a highly qualified staff. The designated positions were required to have licensure for their industry, work experience in the area taught and participate in professional development and mentoring.

An impactful source of funding for 2022-2023 is the ESSER II and III in the granted amounts of \$17.2 million and \$38.7 million, respectively. This funding source is available to be expended with the years ending 2023 and 2024. These federal funds have already allowed the District to add much needed staff in its efforts to accelerate the closing of the learning gap of the students due to COVID-19, **but without a cost to the General Fund.** The added staff was thirteen (13) Response to Intervention teachers, one for each elementary; and, twenty-seven (27) Multi-Classroom Leaders (MCL) teachers who provided instructional coaching, professional development and assistance with planning to maximize the delivery of instruction.

Another significant and critical aspect of ESSER II funds was its availability to move eligible costs from the General Fund to be funded under the ESSER II funds. The District was able to utilize these funds to absorb eligible staffing cost from the General Fund in the amount of \$9.1 million.

The net effect of these initiatives was a final amended deficit budget of \$22.7 million which consisted of a deficit budget for General Fund and Maintenance Tax Notes of \$16.5 million and \$9.2 million, respectively. Although it is a deficit budget the District had an Unassigned fund balance at the end of June 30, 2023 of \$50.4 million. This provided the financial stability necessary to implement these initiatives which not only serve our present students but contribute to the District's efforts in increasing enrollment.

## **UTILIZATION OF FUND BALANCE**

The District, with the Board's leadership and Community support continue to maintain financial stability as evident with its fund balance. The overall general fund balance was \$63.3 million at June 30, 2023. Available amounts from the overall fund balance is the Unassigned Fund balance of \$50.4 million which addresses the Board's intent to maintain, at a minimum, two and one-half months of operations or \$25 million. The remaining amount of \$25.4 million will be used to continue the District's vision. Other classifications of fund balances within the overall fund balance are the set asides of the Restricted amount for facility improvements funded by the Maintenance Tax Notes of \$5.1 million, and Committed fund balance for Other Facility and District needs of \$3 million. The remaining fund balance amounts are comprised of \$3.2 million for the Child Nutrition program and \$899,447 for obligations to be paid in the subsequent year.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND TAX RATES**

The 2023-2024 School Year will be the first year of the State's budget for the biennium. As a result of the 88<sup>th</sup> legislative session the State passed House Bill 1 (HB1) and Senate Bill 30 (SB30). As provided by Moak Casey, a vital resource regarding funding of public education, HB 1 reflects a \$3.1 billion reduction in total Foundation School Program (FSP) M&O and I&S state aid appropriations under Article III – TEA, compared to the prior biennium. The bill spends \$5.3

billion to continue current law tax compression, contingent on legislation that would need to be passed during a subsequent special legislative session. The bill fully funds the FSP under current law, including \$3.2 billion for projected enrollment growth and \$2.4 billion for increases to the golden penny yield. **Contingent on enactment of legislation during a subsequent special session, the budget includes \$4 billion for additional new public education formula funding and teacher compensation increases.** *Thus, included in the adoption of the budget was a Board Resolution to Approve a Temporary and Limited Compensation Plan for the months of July 1, 2023 through June 30, 2024.* Also, contingent on enactment of legislation, the budget also includes \$500 million for vouchers or Education Savings Accounts. HB 1 and SB30 increase funding for school safety measures by a total of \$1.4 billion. HB1 provides \$300 million in school safety funding and SB30 provides \$1.1 billion in one-time grants to districts and charters to implement statewide initiatives. SB30 reduces General Revenue appropriations to FSP by \$8.4 billion due to ESSER supplanting, higher-than-expected property value growth, and lower-than-expected ADA growth.

As a result of the 88<sup>th</sup> Legislature the District benefited under current law of the increase to the golden penny yield from \$98.56 in fiscal year 2023 to \$126.21 in fiscal year 2024. The additional revenue is estimated to be \$2,389,870. However, the unfavorable impact continues under current law to the District in requiring the use of **current-year property values** versus prior year values. This removes the District's State funding to be calculated on values that have been finalized versus values that may be under appeal based on the new law. **In prior year funding the District would receive funding based on a one-year lag of property values.** This also applies to the computation of state funding for servicing the District's debt under Existing Debt and Instructional Facility allotments.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

The financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. If you have questions about this report or need additional financial information, contact the District's Assistant Superintendent for Business at Harlandale ISD, 102 Genevieve, San Antonio, Texas 78214.

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## **BASIC FINANCIAL STATEMENTS**

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HARLANDALE ISD  
STATEMENT OF NET POSITION  
JUNE 30, 2023

EXHIBIT A-1

Data Control Codes	Primary Government
	Governmental Activities
<b>ASSETS</b>	
1110 Cash and Cash Equivalents	\$ 65,771,513
1120 Current Investments	55,575,273
1220 Property Taxes - Delinquent	6,478,772
1230 Allowance for Uncollectible Taxes	(323,939)
1240 Due from Other Governments	19,688,221
1250 Accrued Interest	6,111
1290 Other Receivables, Net	36,638
1300 Inventories	920,134
Capital Assets:	
1510 Land	1,575,319
1520 Buildings, Net	231,609,824
1530 Furniture and Equipment, Net	5,104,207
1550 Right-to-Use Leased Assets, Net	449,178
1553 SBITA Assets, Net	615,463
1580 Construction in Progress	11,238,384
1800 Restricted Assets	7,106,884
1000 Total Assets	405,851,982
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
1701 Deferred Charge for Refunding	10,338,845
1705 Deferred Outflow Related to TRS Pension	26,939,164
1706 Deferred Outflow Related to TRS OPEB	14,346,519
1700 Total Deferred Outflows of Resources	51,624,528
<b>LIABILITIES</b>	
2110 Accounts Payable	3,772,952
2140 Interest Payable	2,797,758
2150 Payroll Deductions and Withholdings	1,532,252
2160 Accrued Wages Payable	16,362,920
2180 Due to Other Governments	1,408,290
2190 Due to Student Groups	224,641
2200 Accrued Expenses	991,145
2300 Unearned Revenue	585,695
Noncurrent Liabilities:	
2501 Due Within One Year: Loans, Note, Leases, etc.	12,253,699
Due in More than One Year:	
2502 Bonds, Notes, Loans, Leases, etc.	240,561,913
2540 Net Pension Liability (District's Share)	61,113,943
2545 Net OPEB Liability (District's Share)	31,807,620
2000 Total Liabilities	373,412,828
<b>DEFERRED INFLOWS OF RESOURCES</b>	
2605 Deferred Inflow Related to TRS Pension	8,118,261
2606 Deferred Inflow Related to TRS OPEB	54,064,613
2600 Total Deferred Inflows of Resources	62,182,874
<b>NET POSITION</b>	
3200 Net Investment in Capital Assets	71,620,369
Restricted:	
3820 Restricted for Federal and State Programs	3,161,327
3850 Restricted for Debt Service	20,969,360
3900 Unrestricted	(73,870,248)
3000 Total Net Position	\$ 21,880,808

The notes to the financial statements are an integral part of this statement.

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HARLANDALE ISD  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2023

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
		3	4	6	
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities	
<b>Primary Government:</b>					
GOVERNMENTAL ACTIVITIES:					
11	Instruction	\$ 91,460,330	\$ 959,756	\$ 31,174,136	\$ (59,326,438)
12	Instructional Resources and Media Services	2,431,655	-	366,218	(2,065,437)
13	Curriculum and Instructional Staff Development	4,614,623	-	1,353,184	(3,261,439)
21	Instructional Leadership	3,060,709	-	1,299,964	(1,760,745)
23	School Leadership	9,261,620	-	707,929	(8,553,691)
31	Guidance, Counseling, and Evaluation Services	5,946,227	-	4,430,463	(1,515,764)
32	Social Work Services	2,355,097	-	2,273,788	(81,309)
33	Health Services	2,047,023	-	274,169	(1,772,854)
34	Student (Pupil) Transportation	3,109,502	-	475,486	(2,634,016)
35	Food Services	12,144,311	514,123	12,922,717	1,292,529
36	Extracurricular Activities	3,209,906	206,852	260,720	(2,742,334)
41	General Administration	4,416,019	466,894	302,365	(3,646,760)
51	Facilities Maintenance and Operations	17,802,901	31,054	379,339	(17,392,508)
52	Security and Monitoring Services	2,627,330	-	74,881	(2,552,449)
53	Data Processing Services	3,361,410	-	16,389	(3,345,021)
61	Community Services	321,565	-	314,392	(7,173)
72	Debt Service - Interest on Long-Term Debt	6,769,483	-	6,926,164	156,681
73	Debt Service - Bond Issuance Cost and Fees	592,409	-	592,409	-
81	Capital Outlay	1	-	-	(1)
	[TP] TOTAL PRIMARY GOVERNMENT:	\$ 175,532,121	\$ 2,178,679	\$ 64,144,713	(109,208,729)

Data Control Codes	General Revenues:	
	Taxes:	
MT	Property Taxes, Levied for General Purposes	23,029,156
DT	Property Taxes, Levied for Debt Service	12,400,316
SF	State Aid - Formula Grants	88,688,488
GC	Grants and Contributions not Restricted	562,835
IE	Investment Earnings	3,839,096
MI	Miscellaneous Local and Intermediate Revenue	907,750
E1	Extraordinary Item - resource	2,400,613
TR	Total General Revenues & Extraordinary Items	131,828,254
CN	Change in Net Position	22,619,525
NB	Net Position - Beginning	(738,717)
NE	Net Position - Ending	\$ 21,880,808

The notes to the financial statements are an integral part of this statement.

HARLANDALE ISD  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2023

Data Control Codes	10 General Fund	Major Special Revenue Fund	50 Debt Service Fund
<b>ASSETS</b>			
1110 Cash and Cash Equivalents	\$ 42,832,060	\$ -	\$ 3,881,995
1120 Investments - Current	19,820,291	-	15,530,603
1220 Property Taxes - Delinquent	4,484,217	-	1,994,555
1230 Allowance for Uncollectible Taxes	(224,211)	-	(99,728)
1240 Due from Other Governments	7,162,100	9,113,618	-
1250 Accrued Interest	-	-	6,111
1260 Due from Other Funds	15,967,608	-	664,258
1290 Other Receivables	36,638	-	-
1300 Inventories	920,134	-	-
1800 Restricted Assets	-	-	7,106,884
1000 Total Assets	<u>\$ 90,998,837</u>	<u>\$ 9,113,618</u>	<u>\$ 29,084,678</u>
<b>LIABILITIES</b>			
2110 Accounts Payable	\$ 1,628,955	\$ 57,206	\$ -
2150 Payroll Deductions and Withholdings Payable	1,532,252	-	-
2160 Accrued Wages Payable	11,779,001	1,844,265	-
2170 Due to Other Funds	8,759,362	7,212,147	-
2180 Due to Other Governments	6,935	-	1,399,765
2190 Due to Student Groups	224,641	-	-
2200 Accrued Expenditures	8,398	-	-
2300 Unearned Revenue	7,726	-	-
2000 Total Liabilities	<u>23,947,270</u>	<u>9,113,618</u>	<u>1,399,765</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
2601 Unavailable Revenue - Property Taxes	3,445,044	-	1,474,745
2600 Total Deferred Inflows of Resources	<u>3,445,044</u>	<u>-</u>	<u>1,474,745</u>
<b>FUND BALANCES</b>			
Nonspendable Fund Balance:			
3410 Inventories	912,408	-	-
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	3,161,327	-	-
3470 Capital Acquisition and Contractual Obligation	5,212,432	-	-
3480 Retirement of Long-Term Debt	-	-	26,210,168
Committed Fund Balance:			
3545 Other Committed Fund Balance	3,000,000	-	-
Assigned Fund Balance:			
3590 Other Assigned Fund Balance	899,447	-	-
3600 Unassigned Fund Balance	50,420,909	-	-
3000 Total Fund Balances	<u>63,606,523</u>	<u>-</u>	<u>26,210,168</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 90,998,837</u>	<u>\$ 9,113,618</u>	<u>\$ 29,084,678</u>

The notes to the financial statements are an integral part of this statement.

60 Capital Projects	Other Funds	Total Governmental Funds
\$ 16,766,241	\$ 1,125,614	\$ 64,605,910
20,224,379	-	55,575,273
-	-	6,478,772
-	-	(323,939)
-	3,412,503	19,688,221
-	-	6,111
-	-	16,631,866
-	-	36,638
-	-	920,134
-	-	7,106,884
<u>\$ 36,990,620</u>	<u>\$ 4,538,117</u>	<u>\$ 170,725,870</u>
\$ 1,903,919	\$ 181,192	\$ 3,771,272
-	-	1,532,252
-	2,728,244	16,351,510
1,263	669,785	16,642,557
-	1,590	1,408,290
-	-	224,641
-	-	8,398
-	577,969	585,695
<u>1,905,182</u>	<u>4,158,780</u>	<u>40,524,615</u>
-	-	4,919,789
-	-	4,919,789
-	-	912,408
-	-	3,161,327
35,085,438	-	40,297,870
-	-	26,210,168
-	-	3,000,000
-	379,337	1,278,784
-	-	50,420,909
<u>35,085,438</u>	<u>379,337</u>	<u>125,281,466</u>
<u>\$ 36,990,620</u>	<u>\$ 4,538,117</u>	<u>\$ 170,725,870</u>

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HARLANDALE ISD  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
JUNE 30, 2023

EXHIBIT C-2

<b>Total Fund Balances - Governmental Funds</b>	\$	125,281,466
1 The District uses internal service funds to charge for the costs for the activity of the self-insured workers compensation program to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase net position.		180,457
2 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. See Note B1 to the financial statements for details. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position. See Note B1.		36,440,243
3 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2023 capital outlays and debt principal payments is to decrease net position.		(20,785,787)
4 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. At the beginning of the year, the net position related to TRS was a Deferred Resource Outflow in the amount of \$12,186,731 a Deferred Resource Inflow in the amount of (\$29,873,825) and a net pension liability in the amount of (\$22,939,972). The impact of this on net position is (\$40,627,066). Changes from the current year reporting of the TRS plan resulted in a decrease in net position in the amount of (\$1,665,974). The combination of the beginning of the year amount and the changes during the year resulted in a net increase to the ending net position in the amount of (\$42,293,040).		(42,293,040)
5 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 75. At the beginning of the year, the net position related to TRS was a Deferred Resource Outflow in the amount of \$8,644,599 a Deferred Resource Inflow in the amount of (\$38,794,771) and a net pension liability in the amount of (\$46,616,803). The impact of this on net position is (\$76,766,975). Changes from the current year reporting of the TRS plan resulted in a decrease in net position in the amount of \$5,241,261. The combination of the beginning of the year amounts and the changes during the year resulted in a net decrease to the ending net position in the amount of (\$71,525,714).		(71,525,714)
6 The 2023 depreciation expense increased accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(10,336,606)
7 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue and eliminating interfund transactions. The net effect of these reclassifications and recognitions is to increase net position.		4,919,789
<b>19 Net Position of Governmental Activities</b>	<b>\$</b>	<b><u>21,880,808</u></b>

The notes to the financial statements are an integral part of this statement.

HARLANDALE ISD  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2023

Data Control Codes	10 General Fund	Major Special Revenue Fund	50 Debt Service Fund
<b>REVENUES:</b>			
5700 Total Local and Intermediate Sources	\$ 26,767,403	\$ -	\$ 12,518,487
5800 State Program Revenues	95,343,366	409,546	7,518,573
5900 Federal Program Revenues	18,862,367	13,245,497	-
5020 Total Revenues	<u>140,973,136</u>	<u>13,655,043</u>	<u>20,037,060</u>
<b>EXPENDITURES:</b>			
Current:			
0011 Instruction	62,841,327	8,528,464	-
0012 Instructional Resources and Media Services	2,104,915	-	-
0013 Curriculum and Instructional Staff Development	3,538,252	349,163	-
0021 Instructional Leadership	2,004,127	3,989	-
0023 School Leadership	8,640,630	-	-
0031 Guidance, Counseling, and Evaluation Services	2,394,610	2,940,709	-
0032 Social Work Services	404,546	1,822,252	-
0033 Health Services	2,019,276	-	-
0034 Student (Pupil) Transportation	2,736,261	-	-
0035 Food Services	12,127,191	-	-
0036 Extracurricular Activities	2,907,998	-	-
0041 General Administration	4,459,031	-	-
0051 Facilities Maintenance and Operations	20,285,709	-	-
0052 Security and Monitoring Services	2,518,079	-	-
0053 Data Processing Services	3,422,652	-	-
0061 Community Services	35,367	10,466	-
Debt Service:			
0071 Principal on Long-Term Liabilities	136,851	-	10,820,000
0072 Interest on Long-Term Liabilities	422,577	-	6,567,657
0073 Bond Issuance Cost and Fees	-	-	592,409
Capital Outlay:			
0081 Facilities Acquisition and Construction	-	-	-
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	100,000	-	-
0095 Payments to Juvenile Justice Alternative Ed. Prg.	45,238	-	-
0099 Other Intergovernmental Charges	158,440	-	-
6030 Total Expenditures	<u>133,303,077</u>	<u>13,655,043</u>	<u>17,980,066</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>7,670,059</u>	<u>-</u>	<u>2,056,994</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
7911 Capital Related Debt Issued	-	-	1,575,000
7913 Proceeds of Right-to-Use Lease	-	-	-
7916 Premium or Discount on Issuance of Bonds	-	-	4,810,023
8949 Other (Uses)	-	-	(1,651,350)
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>4,733,673</u>
<b>EXTRAORDINARY ITEMS:</b>			
7919 Extraordinary Item - Resource	2,400,613	-	-
1200 Net Change in Fund Balances	10,070,672	-	6,790,667
0100 Fund Balance - July 1 (Beginning)	<u>53,535,851</u>	<u>-</u>	<u>19,419,501</u>
3000 Fund Balance - June 30 (Ending)	<u>\$ 63,606,523</u>	<u>\$ -</u>	<u>\$ 26,210,168</u>

The notes to the financial statements are an integral part of this statement.

	60 Capital Projects	Other Funds	Total Governmental Funds
\$	1,555,199	\$ 852,208	\$ 41,693,297
	-	383,419	103,654,904
	-	23,101,436	55,209,300
	1,555,199	24,337,063	200,557,501
	-	19,339,428	90,709,219
	-	351,891	2,456,806
	-	944,257	4,831,672
	-	1,284,802	3,292,918
	-	642,025	9,282,655
	-	791,012	6,126,331
	-	224,252	2,451,050
	-	45,095	2,064,371
	-	15,706	2,751,967
	-	-	12,127,191
	-	8,955	2,916,953
	-	-	4,459,031
	-	330,458	20,616,167
	-	60,050	2,578,129
	1,100,620	-	4,523,272
	-	303,926	349,759
	76,000	-	11,032,851
	-	-	6,990,234
	-	-	592,409
	10,112,929	-	10,112,929
	-	3,410	103,410
	-	-	45,238
	-	-	158,440
	11,289,549	24,345,267	200,573,002
	(9,734,350)	(8,204)	(15,501)
	39,920,000	-	41,495,000
	219,234	-	219,234
	80,000	-	4,890,023
	-	-	(1,651,350)
	40,219,234	-	44,952,907
	-	-	2,400,613
	30,484,884	(8,204)	47,338,019
	4,600,554	387,541	77,943,447
\$	35,085,438	\$ 379,337	\$ 125,281,466

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HARLANDALE ISD  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2023

EXHIBIT C-4

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	47,338,019
<p>The District uses internal service funds to charge the costs for the activity of the self-insured workers compensation program to appropriate functions in other funds. The net income of internal service funds are reported with governmental activities. The net effect of this consolidation is to decrease net position.</p>		
		29,390
<p>Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. Also, governmental funds report the effect of bond refundings, issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of removing the capital outlays and debt principal payments is to decrease net position. See note B.2 to the financial statements for further details.</p>		
		(18,648,265)
<p>Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.</p>		
		(10,336,606)
<p>Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions. The net effect of these reclassifications and recognitions is to increase net position.</p>		
		661,700
<p>Current year changes due to GASB 68 increased revenues in the amount of (\$1,158,128) but also increased expenditures in the amount of \$2,824,102. The net effect on the change in the ending net position was a decrease to net position.</p>		
		(1,665,974)
<p>Current year changes due to GASB 75 decreased revenues in the amount of (\$6,626,296) but also decreased expenditures in the amount of \$11,867,557. The net effect on the change in the ending net position was an increase to net position.</p>		
		5,241,261
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b>22,619,525</b>

The notes to the financial statements are an integral part of this statement.

HARLANDALE ISD  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2023

EXHIBIT D-1

	Governmental Activities -
	Total Internal Service Funds
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 1,165,603
Due from Other Funds	11,177
Total Assets	1,176,780
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable	1,680
Accrued Wages Payable	11,410
Due to Other Funds	486
Accrued Expenses	982,747
Total Liabilities	996,323
<b>NET POSITION</b>	
Unrestricted Net Position	180,457
Total Net Position	\$ 180,457

The notes to the financial statements are an integral part of this statement.

HARLANDALE ISD  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2023

	Governmental Activities -
	Total Internal Service Funds
<hr/>	
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 4,422,447
State Program Revenues	10,455
Total Operating Revenues	<u>4,432,902</u>
OPERATING EXPENSES:	
Payroll Costs	175,572
Professional and Contracted Services	766,197
Supplies and Materials	25,282
Other Operating Costs	3,436,461
Total Operating Expenses	<u>4,403,512</u>
Operating Income	29,390
Total Net Position - July 1 (Beginning)	<u>151,067</u>
Total Net Position - June 30 (Ending)	<u><u>\$ 180,457</u></u>

The notes to the financial statements are an integral part of this statement.

HARLANDALE ISD  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2023

EXHIBIT D-3

	Governmental Activities -
	Total Internal Service Funds
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 4,432,902
Cash Payments to Employees for Services	(183,286)
Cash Payments for Suppliers	(3,458,233)
Net Cash Provided by Operating Activities	791,383
Net Increase in Cash and Cash Equivalents	791,383
Cash and Cash Equivalents at Beginning of Year	374,220
Cash and Cash Equivalents at End of Year	\$ 1,165,603
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided by Operating Activities:</u>	
Operating Income:	\$ 29,390
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease in Due from Other Funds	21,041
Increase in Accounts Payable	433
(Decrease) in Accrued Wages Payable	(7,714)
Increase in Due to Other Funds	486
Increase in Accrued Expenses	747,747
Net Cash Provided by Operating Activities	\$ 791,383

The notes to the financial statements are an integral part of this statement.

HARLANDALE ISD  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2023

	Custodial Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 496,792
Total Assets	<u>496,792</u>
LIABILITIES	
Due to Other Governments	<u>557</u>
Total Liabilities	<u>557</u>
NET POSITION	
Restricted for Other Purposes	<u>496,235</u>
Total Net Position	<u>\$ 496,235</u>

The notes to the financial statements are an integral part of this statement.

HARLANDALE ISD  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2023

	Custodial Fund
<b>ADDITIONS:</b>	
Contributions to Student Groups	\$ 1,093,714
Total Additions	<u>1,093,714</u>
<b>DEDUCTIONS:</b>	
Supplies and Materials	1,025,220
Total Deductions	<u>1,025,220</u>
Change in Fiduciary Net Position	68,494
Total Net Position - July 1 (Beginning)	<u>427,741</u>
Total Net Position - June 30 (Ending)	<u><u>\$ 496,235</u></u>

The notes to the financial statements are an integral part of this statement.

Harlandale Independent School District  
NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting Entity

The Harlandale Independent School District (District) a public educational agency was chartered by the State of Texas in 1924. The District encompasses 13.7 square miles and serves over 12,000 students. There are 13 elementary schools, 4 middle schools, 3 high schools, 2 alternative centers, and 1 center for individuals with disabilities.

The Board of School Trustees (Board), a seven-member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the Harlandale Independent School District, San Antonio, Texas. Because members of the Board of Trustees are elected by the public, have the authority to make decisions, appoint a superintendent, significantly influence operations, and have the primary accountability for fiscal matters, the District is not included in any other governmental "reporting entity" as defined by Governmental Accounting Standards Board (GASB), Statement No. 61, "The Financial Reporting Entity: omnibus – an amendment of GASB Statements No. 14 and No. 34"

The District prepares its basic financial statements in conformity with generally accepted accounting principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB), and it complies with the requirements of the appropriate version of Texas Education Agency's Financial Accountability System Resource Guide (FASRG) and the requirements of contracts and grants of agencies from which it receives funds.

During fiscal year 1997, the District approved the formation of the Harlandale Independent School District Public Facilities Corporation ("the Corporation"). The District has reflected this Corporation as a blended component unit using the following criteria:

- The Corporation is organized exclusively for the purpose of benefiting and accomplishing public purposes of, and to act on behalf of, the District.
- The Corporation is organized to assist in the financing, accounting, refinancing, or providing "public facilities", to purchase obligations of the District, and to incur obligations issued or incurred in accordance with existing law.
- The Corporation's governing body is the same as the governing body of the District.

There are no year end balances to report for the Corporation.

2. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. statement of net position and the statement of activities) display information about the District's non-fiduciary activities of the primary government and its component unit. All interfund transactions between governmental funds and internal service funds are eliminated in the government-wide statements. There are no other interfund services provided and used in the District. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

Harlandale Independent School District  
NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges for services and operating grants and contributions. Charges for services consist of charges to customers or applicants that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. Operating grants and contributions include amounts paid by organizations outside the District that are restricted to meeting the operational requirements of a particular program. Property taxes, State aid -formula grants, and other items not included in program revenues are presented as general revenues. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses result from providing services in connection with the internal service funds of the self-insurance programs. Operating expenses for internal service fund include the administrative expenses. All other revenues and expenses are nonoperating.

School districts are required to report all expenses by function, except certain indirect expenses. General administration and data processing service functions (data control codes 41 and 53, respectively) include expenses that are indirect expenses of other functions. These indirect expenses are not allocated to other functions.

3. Measurement Focus Basis of Accounting and Financial Statement Presentation

The government-wide and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The Custodial Funds utilize the accrual basis of accounting but do not have measurement focus as they report only assets and liabilities. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met. The fiduciary fund financial statement is accounted for using the accrual basis of accounting and includes a Custodial Fund, which principally consists of funds set aside for monies that are collected through fund raising efforts of the individual schools or school-sponsored groups (student activity funds).

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when they are both measurable and available. For this purpose, the District considers all revenues to be available if the revenues are collected within sixty days after year-end.

Expenditures generally are recorded when the related fund liability is incurred, if measurable, except for debt service expenditures, claims and judgments, and compensated absences, which are recognized as expenditures only when payment is due. Property tax revenue and revenues received from the State



Harlandale Independent School District  
NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

are recognized under the susceptible to accrual concept. Miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. General capital asset acquisitions are reported as expenditures in governmental funds.

Property taxes and interest associated with the current fiscal period are 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 government.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as unearned revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometime require the District to refund all or part of the unused amount.

The Proprietary Funds are accounted for using the economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Position. The net positions are segregated into net investment in capital assets, restricted net position, and unrestricted net position.

The District reports the following major governmental funds:

- General Fund -The District accounts for financial resources used for the fundamental operations of the District. All revenues and expenditures not required to be accounted for in other funds are included here. It is a budgeted fund, and any fund balances are considered resources available for current operations. General Fund primary revenue sources include local property taxes and state funding. The General Fund is always presented as a major fund.
- Debt Service Fund -The Debt Service Fund accounts for the accumulation of resources for, and the payment of, bonded debt principal and interest. The primary revenue source is local property taxes levied specifically for debt service and state funding. The fund balance of this fund represents amounts that will be used for retirement of bonds and payment of interest in the future. The Debt Service Fund is a budgeted fund. The Debt Service Fund meets the criteria established by GASB, to be presented as major.
- Major Special Revenue Fund -This special revenue fund accounts for the federal grant funds received as a pass-through the Texas Education Agency under the Elementary and Secondary School Emergency Relief Fund II (ESSER II) of the Coronavirus Response and Relief Supplemental Appropriations Act. Funds are to support the District's ability to operate, instruct students, and address learning loss.
- Capital Projects Fund -The Capital Projects Fund was established to account for the proceeds from the sale of bonds including earnings on investments of the fund. Proceeds are used for acquiring school sites, constructing, and equipping new school facilities, and renovating existing facilities. The District has elected to present this fund as major due to its perceived significance.

Harlandale Independent School District  
NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Additionally, the District reports the following fund types:

- Special Revenue Funds -These funds are used to account for the majority of federal and state funded grants. These grants are awarded to the District with the purpose of accomplishing specific educational tasks. Generally, unused balances are returned to the grantor at the close of specified project periods.
- Internal Service Funds -These funds are used to account for the financing of services provided by one fund to other funds of the District, on a cost -reimbursement basis. This activity includes the worker’s compensation and Health self-insurance program of the District. This is not a budgeted fund.
- Custodial Fund -This fund is used to account for assets held by the District as custodian for individuals. The funds set aside are for school-sponsored groups (student activity funds).

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements. Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to use restricted resources first, then unrestricted as they are needed.

4. Budgets

The official budget was prepared for adoption for the General Fund, Debt Service Fund and the Child Nutrition Program as a subfund of the General Fund. The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

- 1) Prior to June 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning July 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 July 1, the budget is legally enacted through passage of a resolution by the Board.

The legal level of budgetary control is at the major functional expenditure level by fund type. As required by TEA, annual budgets are adopted for the General Fund, Child Nutrition Program, and Debt Service Fund on a basis consistent with generally accepted accounting principles. A Child Nutrition program budget is adopted separately. All budget appropriations lapse at year end even if they have related encumbrances. Encumbrances are commitments to purchase goods or services that were not fully executed at year end. Encumbrance accounting is used to ensure effective budgetary control and accountability. While encumbrances lapse at year end, valid, outstanding encumbrances are re-appropriated and become part of the subsequent year’s budget.

Harlandale Independent School District  
NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The original budget was approved by the Board on June 20, 2022. The budget may be amended by management without Board approval within a major functional expenditure category and can be amended at the function and fund level only by approval of a majority of the members of the Board. Amendments at the function and fund level are presented to the Board at its regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board and are made before the fiscal year end as required by law.

The budget amounts included in this report reflect various amendments made by management or adopted by the Board throughout the year through the final amended budget, which was approved by the Board on June 19, 2023.

During the year the budget was properly amended in accordance with the above procedures.

5. Inventories

Inventories of supplies on the balance sheet are stated at cost, determined on the weighted average method, while inventories of food commodities are recorded at market values supplied by the United States Department of Agriculture. Inventories are maintained on a perpetual inventory system and adjusted at year end to physical count balances, if necessary. Inventory in governmental funds consist of expendable goods held for consumption. Reported inventories in these funds are equally offset by a fund balance reserve, or unearned revenue in the case of

U.S.D.A. donated commodities, which indicates they do not constitute "available spendable resources" and therefore are unavailable for appropriation. Expenditures are recorded when individual inventory items are requisitioned or consumed.

6. Restricted Assets

Restricted assets represents required deposits made into a "Cumulative Sinking Fund Deposit Account" created and maintained by the District, in accordance with a bond covenant. The funds deposited and interest earned on those deposits are restricted to pay the principal on the Unlimited Tax Qualified School Construction Bonds Series 2009 at maturity or redemption.

7. Long-Term Debt

Long-term debt are reported as liabilities in the applicable government activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method or straight-line method, as applicable.

In the fund financial statements, governmental fund types recognized bond premiums and discounts during the period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as "other financing sources" while discounts on debt issuances are reported as "other financing uses." Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Harlandale Independent School District  
 NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The District implemented GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITAs) during the fiscal year 2023. The Statement is based on the principle that SBITAs are financings of the right-to-use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets). It establishes that a SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability.

The District also reports a right-to-use lease liability in accordance with GASB 87. A right-to-use lease is defined as a contract that conveys control of another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. To be accounted for as a lease, the lease must meet the definition of a "long-term" lease provided in GASB 87 and must meet the capitalization level set by the District.

The right-to-use lease and SBITA liabilities are reported in the government-wide financial statements and is calculated as the present value of the reasonably certain expected payments to be made over the term of the lease and the interest included in the lease payment is recorded as an expense. In the fund financial statements, the initial measure of a new right-to-use lease or SBITA is reported in governmental fund types as other sources during the current period. Monthly payments are reported as principal and interest payments during the reporting period in the fund level financial statements.

8. Capital Assets

Capital assets, which include land, buildings and improvements, furniture and equipment, lease assets and construction in progress are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives, or, for the lease asset, for the term of the lease:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings and Improvements	40 years
Automotive Equipment	5 - 10 years
Furniture and Equipment	10 years

9. Fund Balance

Beginning with fiscal year 2011, the District implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." In applying this statement, the initial distinction that is made in reporting fund balance information is identifying amounts that are considered *nonspendable*; such as, fund balance associated with inventories, and then identifying other amounts to be classified as *restricted*, *committed*, *assigned*, and *unassigned* based on the relative strength of the constraints that control how specific amounts can be spent.

Harlandale Independent School District  
NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The District uses the following criteria when classifying fund balance amounts:

Nonspendable – amounts not available for appropriation or legally earmarked for a specific use. Examples include inventories and prepaid items. (Exhibit C-1)

Restricted – amounts that have been legally separated for a specific purpose; such as, grants, capital acquisition from bond proceeds and long term debt.

Committed – amounts that require Board (the government’s highest level of decision-making authority) formal action by majority vote (Board resolution) to be used for a specific purpose; such as, construction improvements not funded by bond proceeds. Formal action to commit funds must occur prior to fiscal year end and can only be modified or removed by the same formal action.

Assigned – amounts that do not require Board approval but are intended to be used for a specific purpose, as determined by an official or body to which the Board has delegated authority per Board Local Policy CE; such as, the Superintendent. These amounts do not meet the criteria to be classified as restricted or committed.

Unassigned – residual amount in the general fund that is available to finance operating expenditures. In other funds, this classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

10. Spending Order

Fund balance amounts that are restricted, committed, or assigned are considered to have been spent when an expenditure is incurred for the respective purpose. If an expenditure is incurred that meets the criteria in more than one fund balance category, the District considers that fund balance is relieved in the following order: restricted, committed, assigned, and then unassigned.

11. Net Position

In the government-wide financial statements, net position represents the difference between assets, deferred inflows/outflows of resources and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by outstanding debt related to the acquisition of those capital assets. Net Position is reported as restricted when there are limitations imposed in their use by external creditors or grantors. Any remaining net position is considered unrestricted.

12. Accumulated Unpaid Vacation and Sick Pay

Accumulated vacation leave and sick leave considered to have matured and that is expected to be liquidated with expendable available resources is reported as an expenditure and a liability in the General Fund, however, as of June 30, 2023 no liability exists and thus no such provision has been recorded. All vacation pay is accrued when incurred in the government-wide financial statements, and is reported in noncurrent liabilities.

Harlandale Independent School District  
NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

13. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents consist of cash in banks, investment pool deposits, and securities with maturities of less than three months from the date purchased.

14. Accounting System

In accordance with Texas Education Code, Chapter 44, subchapter A, the District has adopted and installed an accounting system which meets at least the minimum requirements prescribed by the State Board of Education and approved by the State Auditor. Data Control codes refer to the account code structure prescribed by the TEA in the Resource Guide.

15. Unearned Revenue

Unearned revenue accounted for on the balance sheet of the governmental fund relates to excess program grant funds received over that which has been earned.

16. Investments

The District measures and records certain investments in accordance with GASB Statement No. 72 using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows: Level 1: Quoted prices for identical investments in active markets; Level 2: Observable inputs other than quoted market prices; and, Level 3: Unobservable inputs.

17. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the District's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses/expenditures during the reported period. Actual results could differ from those estimates.

18. Pensions

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.

Harlandale Independent School District  
 NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

19. Other Post-Employment 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 post-employment 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.

NOTE B – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

1. Explanation of certain differences between the governmental funds balance sheet and the government-wide statement of net position

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the Governmental Fund Balance Sheet and the net position for governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt (excluding internal service fund activity) at the beginning of the year were as follows:

<u>Capital Assets</u>	<u>Historic Cost</u>	<u>Accumulated Depreciation Beginning</u>	<u>Net Value at the Beginning of the Year</u>	<u>Change in Net Position</u>
Land	\$ 1,575,319	\$ -	\$ 1,575,319	
Buildings and Improvements	366,538,297	140,940,865	225,597,432	
Furniture and Equipment	14,389,775	9,429,368	4,960,407	
Right-to-Use Leases	709,234	118,209	591,025	
Construction in Progress	13,439,353	-	13,439,353	
Capital Assets Total	<u>\$ 396,651,978</u>	<u>\$ 150,488,442</u>	<u>\$ 246,163,536</u>	\$ 246,163,536
Deferred Charge on Refunding				\$ 11,566,000
Bonds and Other Debt Payable			\$ 219,064,213	
Right-to Use Leases Payable			598,282	
Compensated Absences			1,626,798	
Change in Net Position			<u>\$ 221,289,293</u>	<u>\$ (221,289,293)</u>
				<u>\$ 36,440,243</u>



Harlandale Independent School District  
NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE B – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

2. Explanation of Certain Differences Between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental funds statement of revenues, expenditures, and changes in fund balances and the changes in net position of governmental activities as reported on the government-wide Statement of Activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net position balance and the change in net position. The details of this adjustment, excluding internal service fund activity, are as follows:

<b>Changes in Capital Assets</b>	<b>Amount</b>	<b>Adjustments to Net Position</b>
Construction in Progress	\$ 12,704,798	
Buildings and Improvements	-	
Furniture and Equipment	1,335,106	
Right-to Use Lease Asset	-	
Right-to Use SBITA	725,541	
Total Capital Outlay	\$ 14,765,445	\$ 14,765,445
Amortized Deferred Charge on Refunding		(1,227,155)
<b>Debt Payments</b>		
<hr style="border: 0.5px solid black;"/>		
Bonds Principal	\$ 10,820,000	
Other Debt Principal - Compensated Absences	285,595	
Right-to Use Lease Payments	136,851	
Right-to Use SBITA	76,000	
Accretion on Capital Appreciation Bonds	(289,755)	
Change in Bond Interest Payable	(660,236)	
Net Change due to Debt Issuance/ Refunding	(40,079,234)	
Premium on Bond Issuance	(4,890,023)	
Loss of Refunding	-	
Amortize Premiums on Bond Issuance	2,444,863	
Amortize Bond Discount	(30,616)	
Total Adjustment to Net Position		\$ (32,186,555) \$ (18,648,265)



Harlandale Independent School District  
 NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE C – DEPOSITS AND INVESTMENTS

Deposits and investments are comprised of the following:

	Cash and Cash		Total
	Equivalents	Investments	
Deposits:			
Cash on Hand	\$ 8,302	\$ -	\$ 8,302
Demand Accounts	6,346,237	-	6,346,237
Investment Pools	41,881,082	-	41,881,082
Money Market Accounts	17,535,892	-	17,535,892
Municipal Bonds	-	54,564,130	54,564,130
Commercial Paper	-	1,011,143	1,011,143
Total	\$65,771,513	\$ 55,575,273	\$121,346,786

1. Restricted Assets

The District’s restricted assets at June 30, 2023 are comprised of \$150,288 of Money Market funds, \$3,352,541 of Agency Bonds and \$3,604,055 of Municipal Bonds; the restricted assets are to be utilized for the payment of the 2009 Unlimited Tax Qualified School Construction Bonds due in 2026.

At June 30, 2023, the District had the following recurring fair value measurements (Level 1 inputs):

Investment Type	Fair Value	Weighted Average Maturity (Years)	Standard & Poors Rating
Money Market Fund	\$ 150,288	-	AAAm
Government Agency Note	3,352,541	3.02	AA- to AAA
Municipal Bonds	3,604,055	2.10	AA+
Total	\$ 7,106,884		

2. Deposits

The District’s funds are required to be deposited and invested under the terms of a depository contract. Under Texas State law, a bank serving as the school depository must have a bond or in lieu thereof, deposited or pledged securities with the District or independent third party agent, an amount equal to the highest daily balance of all deposits the District may have during the term of the depository contract, less an applicable federal depository insurance (FDIC).

Harlandale Independent School District  
 NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE C – DEPOSITS AND INVESTMENTS (Continued)

At June 30, 2023, the carrying amount of the District’s deposits was \$6,346,237 and the bank balance was \$6,798,414. The District’s deposits at June 30, 2023 were fully insured by FDIC insurance and/or collateralized with securities pledged to the District in the District’s name held at the Bank of New York.

In addition, the following is disclosed regarding coverage of combined balances on the date of the highest deposit:

Name of contracted depository bank:	Wells Fargo (Texas)
a. The market value of securities and depository bond pledged as of the date of the highest combined balance on deposit was:	\$ 3,528,488
b. The highest combined balance of cash, savings and time deposit accounts amounted to: This occurred on July 29, 2022.	\$ 2,840,868
c. Total amount of FDIC coverage at the time of the highest combined balance was:	\$ 500,000

3. Investments

The District is required by Government Code Chapter 2256, the Public Funds Investment Act (PFIA), to adopt, implement, and publicize an investment policy. That policy must address the following areas: safety of principal and liquidity, portfolio diversification, allowable investments, acceptable risk levels, expected rates of return, maximum allowable stated maturity of portfolio investments, maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, investment staff quality and capabilities, and bid solicitation preferences for certificates of deposit. State statutes and Board policy authorize the District to invest in the following investment types meeting criteria and eligibility requirements established by Texas Government Code 2256:

- 1) Obligations of, or guaranteed by, governmental entities,
- 2) Certificates of deposit and share certificates,
- 3) Fully collateralized repurchase agreements,
- 4) A securities lending program,
- 5) Bankers acceptances,
- 6) Commercial paper,
- 7) No-load money market mutual funds and no-load mutual funds,
- 8) Guaranteed investment contracts as an investment vehicle for bond proceeds, and
- 9) Public funds investment pools.

The PFIA also requires the District to have independent auditors perform procedures related to investment practices as provided by the PFIA. The District is in substantial compliance with the requirements of the PFIA and with local policies.

Harlandale Independent School District  
 NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE C – DEPOSITS AND INVESTMENTS (Continued)

As of June 30, 2023, the District had the following investments:

Investment Type	Amortized Cost	Weighted Average Maturity (Days)	Standard & Poors or Fitch Rating
Municipal Bonds	\$ 54,564,130	32.00	AA+
Commercial Paper	<u>1,011,143</u>	51.45	A-1
Total	<u>\$ 55,575,273</u>		

The investment pools used by the District are organized under the authority of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. The public fund investment pools were created to provide a safe environment for the placement of local government funds in authorized short-term investments. The District’s investments in investment pools, which are exempt from regulation by the Securities and Exchange Commission, have as one of their objectives the maintenance of a stable asset value of \$1. The book value of the position in the pools is the same as the number of shares in each pool; the market value of a share should approximately equal the book value of a share. Additionally, funds are held in money market funds and commercial paper at Wells Fargo Bank.

Texas Short Term Asset Reserve Fund (TexSTAR) operates in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940. TexSTAR is governed by a board of directors. JP Morgan Fleming Asset Management, Inc. acts as the investment manager and First Southwest Asset Management, Inc. serves as marketing agent and customer service representative. TexSTAR uses amortized cost rather than fair value to report net assets to compute share prices. TexSTAR participants have daily access to their funds with no penalties on withdrawals. At June 30, 2023 the District’s investments in TexSTAR totaled \$434,230.

Lone Star Investment Pool’s (the Pool) liquidity fund operates in a manner consistent with the SEC Rule 2a7 of the Investment Company Act of 1940, which allows the fund to use amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the District’s position in the Pool is the same as the value of the Pool’s shares and does not include any unrealized gains and losses. At June 30, 2023, the District investments in Lone Star Investment Pool totaled \$28,202,287.

The TX-FIT Cash Pool is a high-quality money market alternative for local government investors. The Cash Pool is a short-term investment product designed to add diversification with multiple asset classes and a competitive yield to other cash alternatives. Providing same day liquidity to participants, the pool is managed as a dollar-in/dollar-out product and has a floating net asset value. This product has a floating rate Net Asset Value (NAV), however the portfolio is managed in a manner that strives to keep the NAV at \$1.00. Although the Fixed Income Trust Cash Pool seeks to preserve the value of the investments at \$1.00 per share, it is possible to lose money by investing in the pool. The investment pool is rated “AAAf/SI” by Fitch Rating. At June 30, 2023 the Districts investments in TX-FIT Pool totaled \$1,243,876.

Harlandale Independent School District  
NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE C – DEPOSITS AND INVESTMENTS (Continued)

The District has investments in the Wells Fargo Heritage Fund. The fund are money market mutual funds, regulated primarily under SEC’s Rule 2a7 of the Investment Company Act of 1940 (the “Act”). The funds attempt to stabilize the net asset value (NAV) of their shares at \$1.00 by valuing the portfolio securities using the amortized cost method; however, there is no guarantee that the NAV will remain at \$1.00 share. At June 30, 2023, the District’s investments in the money market fund was \$17,535,892 and the money market was rated AAAM by Standard & Poor’s.

*Credit Risk:* In accordance with state law and the District’s investment policy, investments in mutual funds and investment pools must be rated at least AAA or AAA-m or have an equivalent rating by at least one nationally recognized rating service such as Standard & Poor’s or Moody’s Investor Service. Obligations of U.S. agencies may not be rated less than A or its equivalent. As of June 30, 2023, the District’s investments in investment pools met or exceeded the ratings criteria and were rated AAA by Standard and Poor’s.

*Concentration of Credit Risk:* The District places no limit on the amount the District may invest in any one issuer, rather investments are governed by the objectives of preservation and safety of principal, liquidity and yield. In addition, the investment portfolio is 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 issue.

Concentration of credit risk is the risk of loss attributable to the magnitude of investments in a single issuer. Information regarding investments in any one issuer that represents five percent or more of the District’s total investments must be disclosed under GASB Statement No. 40. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. There are no investments at June 30, 2023, requiring concentration of credit risk disclosures.

*Interest Rate Risk:* State law does not permit investments with maturities greater than five (5) years. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District’s investment policy limits the stated maturity of investments to three (3) years from the time of purchase.

Cash and investments on deposit in the Debt Service Fund are pledged to the payment of the bonds and notes payable.

NOTE D – PROPERTY TAXES

Property taxes are levied by October 1, on the basis of assessed value as of January 1, in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due and receivable within the current period, and those expected to be collected during a 60 day period after the close of the school fiscal year.

Harlandale Independent School District  
NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE D – PROPERTY TAXES (Continued)

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of levy. Allowances for uncollectible tax receivables within the general and debt service funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

NOTE E – DUE TO/FROM OTHER FUNDS

Due to/from other funds at June 30, 2023 are expected to be collected within the next year and are as follows:

Fund	Due From	Due To
General Fund	\$ 15,967,608	\$ 8,759,362
Major Special Revenue Fund	-	7,212,147
Debt Service Fund	664,258	-
Non-Major Special Revenue Funds		
ESEA I, A Improving Basic Program	-	65,226
IDEA - Part B Formula	-	53,553
IDEA - Part B Preschool	-	69,275
Career and Technical Basic Grant	-	9,602
Title III, A English Lag. Acquisition	-	2,560
Title IV, B Community Learning	-	70,160
ESSER (ARP) Homeless Children	-	4,534
ESSER III TCLAS ARP Act	-	37,261
ESSER III Homeless Children	-	4,835
ESSER III ARP Act	-	2,525
IDEA - B Formula ARP Act	-	57,522
IDEA - B Preschool ARP Act	-	16,560
Other Federal Special Revenue Funds	-	136,647
Other State Special Revenue Funds	-	1,049
Campus Activity Funds	-	1,321
After School Challenge City of SA	-	137,155
Total Non-Major Special Revenue Funds	-	669,785
Capital Projects Fund	-	1,263
Proprietary Fund	11,177	486
<b>Totals</b>	<b>\$ 16,643,043</b>	<b>\$ 16,643,043</b>

The Due From balance in the General Fund is the result of utilizing a pooled cash account since as funds are expended for Non-Major Special Revenue Funds' benefit, the District will subsequently submit for reimbursement from the granting agencies.

The Due From balance in the Proprietary Fund is due to amounts owed from various funds for their respective Workers Compensation expenditures.

Harlandale Independent School District  
 NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE E – DUE TO/FROM OTHER FUNDS (Continued)

The Due From balance in the Debt Service Fund is due to property taxes.

The Due From balance in the Capital Projects Fund is due to the use of funds for facility improvements that are to be funded with the Maintenance Tax Notes of the General Fund.

From time to time, grant funds, which are on a reimbursement basis, may experience deficit cash balances. The centralized cash disbursement process will pay for liabilities incurred while reimbursement is received. At June 30, 2023, such cash deficits are recorded as due to other funds.

NOTE F – RECEIVABLES FROM OTHER GOVERNMENTS

The District participates in a variety of local and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation, per Capita Programs and the Instructional Facilities and Existing Debt Allotment. Amounts due from state, federal and local governments as of June 30, 2023 are summarized below.

	General Fund	Major Special Revenue Fund	Other Non- Major Funds	Total
State Funds	\$ 7,022,581	\$ -	\$ -	\$ 7,022,581
Federal Grants	138,185	9,113,618	3,273,758	12,525,561
Other	1,334	-	138,745	140,079
	<u>\$ 7,162,100</u>	<u>\$ 9,113,618</u>	<u>\$ 3,412,503</u>	<u>\$ 19,688,221</u>

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Harlandale Independent School District  
 NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE G – CAPITAL ASSETS

Below is a summary of capital asset activity for the year ended June 30, 2023:

Governmental Activities	Balance July 1, 2022	Additions	Deletions or Transfers	Balance June 30, 2023
<u>Capital Assets,</u>				
<u>not being depreciated</u>				
Land	\$ 1,575,319	\$ -	\$ -	\$ 1,575,319
Construction in Progress	13,439,353	12,704,798	(14,905,767)	11,238,384
Total	<u>15,014,672</u>	<u>12,704,798</u>	<u>(14,905,767)</u>	<u>12,813,703</u>
<u>Capital Assets</u>				
<u>being depreciated</u>				
Buildings and				
Improvements	366,538,297	14,905,767	-	381,444,064
Furniture and Equipment	14,389,775	1,335,106	(176,401)	15,548,480
Right-To-Use Lease Asset	709,234	-	-	709,234
Right-To-Use Subscription Asset	-	725,541	-	725,541
Total	<u>381,637,306</u>	<u>16,966,414</u>	<u>(176,401)</u>	<u>398,427,319</u>
<u>Less Accumulated Depreciation and Amortization:</u>				
Buildings and				
Improvements	(140,940,865)	(8,893,375)	-	(149,834,240)
Furniture and Equipment	(9,429,368)	(1,191,306)	176,401	(10,444,273)
Right-To-Use Lease Asset	(118,209)	(141,847)	-	(260,056)
Right-To-Use Subscription Asset	-	(110,078)	-	(110,078)
Total Accumulated	<u>(150,488,442)</u>	<u>(10,336,606)</u>	<u>176,401</u>	<u>(160,648,647)</u>
Depreciation and Amortization	<u>(150,488,442)</u>	<u>(10,336,606)</u>	<u>176,401</u>	<u>(160,648,647)</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 246,163,536</u>	<u>\$ 19,334,606</u>	<u>\$ (14,905,767)</u>	<u>\$ 250,592,375</u>

Harlandale Independent School District  
 NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE G – CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 6,656,289
Instructional Resources & Media Services	104,327
Curriculum & Staff Development	29,810
Instructional Leadership	9,649
School Leadership	505,529
Guidance, Counseling & Evaluation Services	176,140
Social Work Services	57,402
Health Services	105,686
Student Transportation	440,404
Food Services	652,176
Co-Curricular Activities	404,771
General Administration	43,829
Plant Maintenance & Operations	780,502
Security & Monitoring Services	145,238
Data Processing Services	223,441
Community Services	1,413
Total Depreciation	<u>\$ 10,336,606</u>

NOTE H – RESTRICTED ASSETS

On December 4, 2009 the district issued \$11,990,000 Unlimited Tax Qualified School Construction Bonds Series 2009 (Bonds). The District, in accordance with the bond covenant, created and maintains a “Cumulative Sinking Fund Deposit Account” (CSFDA). On dates specified the District deposits funds into the CSFDA and credits any interest earnings from the deposited funds to apply as a credit against the deposit requirement in the then current fiscal year. Funds credited to the CSFDA shall be applied to pay the principal on the Bonds at maturity or prior redemption. Any money and investments on deposit in the CSFDA are pledged to pay the debt service requirement on the bonds. The amount of \$5,412,429 represents required deposits made and interest earned. This amount is restricted within the Restricted Fund Balance for Retirement of Long-Term Debt.

NOTE I – UNEARNED REVENUES

Unearned revenues for General and Special Revenue funds at June 30, 2023 are comprised of the following:

Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities in the current period. Governmental funds also defer revenue recognition in connection with revenues that have been received, but not yet earned.

	General Fund	Other Non- Major Funds	Total
Commodities Inventory	\$ 7,726	\$ -	\$ 7,726
Other Funds	-	577,969	577,969
Total Unearned Revenue	<u>\$ 7,726</u>	<u>\$ 577,969</u>	<u>\$ 585,695</u>



Harlandale Independent School District  
 NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE J – DEFERRED OUTFLOWS / INFLOWS OF RESOURCES

Deferred Outflows of Resources represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred Inflows of Resources represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenues) until that time.

The District reports Deferred Resource Outflows and Deferred Resource Inflows in the Statement of Net Position as of June 30, 2023 as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Deferred Charge for Refunding of Debt	\$ 10,338,845	\$ -
Districts Share of Resources related to TRS Pension	26,939,164	8,118,261
Districts Share of Resources related to TRS OPEB	14,346,519	54,064,613
Reported by the District as of June 30, 2023	\$ 51,624,528	\$ 62,182,874

At June 30, 2023, unavailable revenues reported as deferred inflows of resources in the governmental funds were as follows:

	Major Fund		Total Governmental Funds
	General Fund	Debt Service Fund	
Property Taxes Receivable	\$ 4,484,217	\$ 1,994,555	\$ 6,478,772
Allowance for Uncollectible Taxes	(224,211)	(99,728)	(323,939)
Sixty Day Tax Accrual	(814,961)	(420,084)	(1,235,045)
Total Deferred Inflows of Resources	\$ 3,445,045	\$ 1,474,743	\$ 4,919,788

The unavailable revenue of \$4,919,788 relates to uncollected property taxes.

NOTE K – DUE TO OTHER GOVERNMENTS

The District participates in a variety of local and state programs from which it receives grants to partially or fully finance certain activities.

Amounts due to state and local governments as of June 30, 2023 are summarized below:

	General Fund	Debt Service Fund	Other Non- Major Funds	Total
State	\$ -	\$ 1,399,765	\$ -	\$ 1,399,765
Other	6,935	-	1,590	8,525
	\$ 6,935	\$ 1,399,765	\$ 1,590	\$ 1,408,290

Harlandale Independent School District  
NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE L – LONG-TERM DEBT

1. Bonded Debt Payable

The District issues general obligation bonds for the governmental activities to provide funds for the acquisition and construction of major capital facilities. The bonds are supported by a pledge of the District's full faith and credit. The bond indentures require a levy and collection of taxes without limitation as to rate or amount on all property subject to taxation by the District sufficient in amount to pay the principal and interest on such bonds as they become due. The indentures also require that a debt service fund be created and administered by the District solely for paying principal and interest when due. Current law requires school districts to demonstrate their ability to pay debt service on outstanding bonded indebtedness through the levy of an I&S tax at a rate not to exceed \$0.50 per \$100 of taxable value at the time bonds are issued.

Bond indebtedness of the District is reflected in the government-wide financial statements, and current requirements for principal and interest expenditures are accounted for in the Debt Service Fund.

The State of Texas continued funding in 2023 through the Instructional Facilities Allotment (IFA) and Existing Debt Allotment (EDA) Programs, whereby the District received state funds of \$7,518,573 or approximately 42% of its general obligation annual debt. Although the future funding is subject to future State legislative appropriations, the State statute guarantees IFA state aid for the life of the District's eligible debt as well as for the EDA program which will become part of the baseline budget for the Texas Education Agency. However, in the event that the legislature does not appropriate adequate funds for the IFA and EDA programs, the statute directs the Texas Commissioner of Education to make a transfer from the Foundation School Program (FSP) in an amount sufficient to cover the required payments of the State. This transfer is required by statute and is not subject to the discretion of the Texas Commissioner of Education. This transfer would have the effect of slightly reducing the FSP distributions to all school districts in the State during the fiscal year in which the transfer takes place.

The District is eligible for approximately 32% of state assistance on its annual debt under the IFA and EDA program. The District estimates to receive \$5,919,000 in total State Aid to supplement the total general obligation annual debt for 2024.

Since the District defeased certain School Building Bonds and Unlimited Tax School Building Bonds in prior years by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds, the trust account assets and the liabilities for the defeased bonds are not included in the District's financial statements. On June 30, 2023, \$12,450,000 of bonds outstanding are considered defeased.

Harlandale Independent School District  
NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE L – LONG-TERM DEBT (Continued)

Unlimited Tax School Building Bonds – Series 2022A

On July 20, 2022, the District issued \$39,920,000 Unlimited Tax School Building Bonds, Series 2022A, comprised of \$29,720,000 in Serial Bonds and \$10,200,000 in Term Bonds. The Bonds were issued pursuant to an election held on May 7, 2022. Bond proceeds will be used to pay the costs of designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping school facilities including school athletic facilities, namely, an existing stadium and related infrastructure and to pay costs of issuance of the bonds. The Serial Bonds are set to mature on August 15<sup>th</sup> in various years beginning from 2025 to 2033, with coupons ranging from 5.00% to 5.25%. The Term Bonds are set to mature on August 15<sup>th</sup> in each of the years 2047 and 2052, with coupon rates of 4.25% and 5.25%, respectively. The District received proceeds in the amount of \$44,645,852, comprised of the par amount of the Bonds, plus a reoffering premium of \$4,725,582. From these proceeds, the District paid an underwriter's discount of \$245,358 and other costs of issuance of \$245,358, deposited \$4,153,223 to interest and sinking fund for capitalized interest, and deposited \$30,500,000 to the General Facilities Construction fund and \$9,500,000 to the Stadium Construction fund in to finance capital projects approved by voter referendums.

Unlimited Tax Refunding Bonds – Series 2022B

On July 20, 2022, the District issued \$1,575,000 Unlimited Tax Refunding Bonds, Series 2022B. Proceeds of \$1,739,441 received by the District from the sale of these Bonds were used to refund a portion of the District's Maintenance Tax Notes, Series 2021 (\$1,635,000 in principal and \$16,350 interest), pay an underwriter's discount of \$10,527, pay other costs of issuance of \$67,000, pay a bond insurance premium of \$8,000 to Build America Mutual Assurance, and deposit a rounding amount of \$2,564 to the interest and sinking fund. The District purchased a bond insurance guarantee policy from Build America Mutual Assurance Company because the Bonds were not eligible for the Permanent School Fund guarantee (because they refunded District obligations that were not initially eligible for such guarantee).

Although the refunding of the Maintenance Tax Notes resulted in the recognition of an accounting loss of \$16,350 for the year ended June 30, 2023, the District's total gross debt service savings was a negative \$191,619 with a net present value savings of a negative \$24,577.

Harlandale Independent School District  
 NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE L – LONG-TERM DEBT (Continued)

Annual debt service requirements to maturity for Maintenance Tax Notes payable are as follows:

Year Ending June 30,	Total	Principal	Interest
2024	\$ 406,500	\$ -	\$ 406,500
2025	914,625	-	914,625
2026	1,422,750	-	1,422,750
2027	1,422,750	-	1,422,750
2028	2,291,250	900,000	1,391,250
2029-2033	11,425,875	5,545,000	5,880,875
2034-2038	11,353,775	7,785,000	3,568,775
2039-2042	6,754,225	6,095,000	659,225
	<u>\$ 35,991,750</u>	<u>\$ 20,325,000</u>	<u>\$ 15,666,750</u>

The following is a summary of bonds payable at June 30, 2023.

Issue Date	Original Amount	Interest Rates	Final Maturity	6/30/2023	Due Within One Year
Unlimited Tax School Building Bonds (Variable Rate)					
2020	53,040,000	3.00-5.00%	2025 *	50,060,000	655,000
2022A	39,920,000	5.00-5.25%	2052	39,920,000	-
Unlimited Tax Refunding Bonds					
2005	103,920	3.00-5.06%	2025	103,920	-
2011	2,945,000	2.00-4.00%	2023	165,000	165,000
2012	8,275,000	3.00-4.25%	2024	1,630,000	165,000
2013	8,310,000	2.00-5.00%	2031	1,220,000	1,220,000
2014	9,025,000	3.00-4.00%	2033	30,000	-
2015	17,915,000	4.00-5.00%	2040	6,270,000	-
2016	8,590,000	4.00%	2031	8,590,000	-
2017 (A)	22,155,000	3.00-5.00%	2027	8,280,000	1,990,000
2017 (B)	12,845,000	3.00-5.00%	2032	12,820,000	-
2019(A)	4,360,000	3.00-4.00%	2034	4,275,000	-
2019(B)	13,730,000	2.39-4.00%	2030	10,790,000	3,150,000
2019(C)	5,940,000	2.50-4.00%	2027	5,810,000	1,870,000
2022	41,610,000	2.56-5.00%	2037	41,610,000	-
2022B	1,575,000	5.00%	2032	1,575,000	-
Unlimited Tax Qualified School Construction Bonds					
2009	11,990,000	2.25%	2026	11,990,000	2,045,000
Totals	<u>\$ 262,328,920</u>			<u>\$ 205,138,920</u>	<u>\$ 11,260,000</u>

\* Mandatory Tender Period. Remarketing expected August 2025.

Harlandale Independent School District  
NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE L – LONG-TERM DEBT (Continued)

The District makes annual deposits into a reserve fund account for the QSCB, Series 2009. These annual deposits plus the interest earned on the reserve accounts will be used to pay off the debt upon maturity in 2026. As described in Note H, the District has deposited \$7,525,585 into the Cumulative Sinking Fund Deposit Account as of June 30, 2023. Annual payments will continue through 2026.

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

Year Ending June 30,	Total	Principal	Interest
2024	\$ 18,391,682	\$ 11,260,000	\$ 7,131,682
2025	17,893,338	8,976,875	8,916,463
2026	24,601,662	14,862,045	9,739,617
2027	17,996,207	9,725,000	8,271,207
2028	18,228,357	10,410,000	7,818,357
2029-2033	87,659,852	56,645,000	31,014,852
2034-2038	63,120,962	44,705,000	18,415,962
2039-2043	39,749,469	30,470,000	9,279,469
2044-2048	16,717,300	13,835,000	2,882,300
2049-2052	4,822,250	4,250,000	572,250
	<u>\$ 309,181,079</u>	<u>\$ 205,138,920</u>	<u>\$ 104,042,159</u>

There are a number of limitations and restrictions contained in the general obligation bonded debt. Management has indicated that the District is in compliance with all significant limitations and restrictions at June 30, 2023.

2. Compensated Absences

Eligible employees of the District accumulate State, District and vacation leave and scheduled/non-duty days in varying amounts as part of their compensation in accordance with the Board policy and District regulations.

Accumulated State leave benefits is not provided as a long term debt since it may be carried by the employee to other districts. It is more probable that the District will not pay the allowable accumulated amount since State leave benefits are reimbursed only if an employee’s separation is due to retirement.

Vacation benefits and scheduled/non-duty days are required to be taken by June 30 with certain exceptions. Employees are paid for accumulated vacation benefits upon voluntary separation and employees with accumulated scheduled/non-duty days are paid upon separation as specified in Board policy and District regulations.

Harlandale Independent School District  
 NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE L – LONG-TERM DEBT (Continued)

Current Board policy and District regulations provides reimbursement upon certain separations, of qualifying accrued District local personal and vacation leave and scheduled/non-duty days to employees in accordance with Board policy and District regulations. Accumulated personal and vacation leave benefits and scheduled/non-duty days are paid from the general fund and/or applicable non-major special revenue funds (such as Title I), relative to the personnel paid from these funding sources.

3. Right-To-Use Lease

On September 1, 2021, the District entered into a lease agreement with Great America Financial Services for the lease of 140 copy machines, that meets the definition of a "long-term" lease provided in GASB 87. As such, a right-to-use lease liability is reported in the government-wide financial statements, which was calculated as the present value of the expected payments to be made over the term of the lease, which is 60 months.

The lease is payable from the District’s General Fund with monthly payments of \$12,744 over the remaining 50 months, with a final maturity of 2027. The copiers and the associated accumulated amortization are included in capital assets, as right-to-use assets.

There were no payments recorded in the current year that were not included in the measurement of the right-to-use lease liability, no commitments prior to the commencement of the lease contract, and no lease impairments as of June 30, 2023.

The schedule of changes for the right-to-use lease is as follows:

Description	Purpose	Discount Rate	Final Maturity	Original Lease Liability	Amounts Outstanding 07/01/22	Additions	Retired	Amounts Outstanding 06/30/22	Due Within One Year
Great America Financial Services	Multiple Copiers	3.00%	2027	\$ 709,234	\$ 598,282	\$ -	\$ 136,851	\$ 461,431	\$ 141,014

Annual debt service requirements to maturity for the right-to-use lease are as follows:

Year Ending June 30,	Total	Principal	Interest
2024	152,928	141,014	11,914
2025	152,928	145,303	7,625
2026	152,928	149,722	3,206
2027	25,487	25,392	95
	<u>\$ 484,271</u>	<u>\$ 461,431</u>	<u>\$ 22,840</u>

Harlandale Independent School District  
NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE L – LONG-TERM DEBT (Continued)

Right-To-Use SBITA

On December 1, 2022, the District entered into a 36 month subscription for the use of Tenable Software. The District is required to make annual fixed payments of \$76,000. The subscription has an interest rate of 3.98%. An initial subscription liability was recorded in the amount of \$219,234. As of 06/30/2023, the value of the subscription liability is \$143,234. The value of this right to use asset as of 06/30/2023 of \$228,234 with accumulated amortization of \$44,379 is included with Right-To-Use Subscription Assets in footnote G.

The schedule of changes for the right-to-use SBITA is as follows:

Description	Purpose	Discount Rate	Final Maturity	Original Lease Liability	Amounts Outstanding 07/01/22	Additions	Retired	Amounts Outstanding 06/30/23	Due Within One Year
Tenable	Security software download	3.98%	2024	\$ 219,234	\$ -	\$ 219,234	\$ 76,000	\$ 143,234	\$ 70,194

Annual debt service requirements to maturity for the subscription-based information

Year Ending June 30,	Total	Principal	Interest
2024	76,000	70,194	5,806
2025	76,001	73,040	2,961
	<u>\$ 152,001</u>	<u>\$ 143,234</u>	<u>\$ 8,767</u>

Harlandale Independent School District  
 NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE L – LONG-TERM DEBT (Continued)

4. Changes in Long-term Liabilities

Changes in long-term liabilities of governmental activities for the year ended June 30, 2023 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable:					
General Obligation	\$ 174,463,920	\$ 41,495,000	\$ (10,820,000)	\$ 205,138,920	\$ 11,260,000
Maintenance Tax Notes	21,960,000	-	(1,635,000)	20,325,000	-
Less Deferred Amounts:					
For Issuance Discounts	(393,745)	-	30,616	(363,129)	-
For Issuance Premiums	18,475,857	4,890,023	(2,444,863)	20,921,017	-
For Accumulated Accretion	4,558,181	-	289,755	4,847,936	-
<b>Total Bonds Payable</b>	<b>219,064,213</b>	<b>46,385,023</b>	<b>(14,579,492)</b>	<b>250,869,744</b>	<b>11,260,000</b>
Right-To-Use Lease	598,282	-	(136,851)	461,431	141,014
Right-To-Use SBITA	-	219,234	(76,000)	143,234	70,194
Compensated Absences	1,626,798	1,061,694	(1,347,288)	1,341,204	782,491
<b>Total</b>	<b>\$ 221,289,293</b>	<b>\$ 47,665,951</b>	<b>\$ (16,139,631)</b>	<b>\$ 252,815,613</b>	<b>\$ 12,253,699</b>

NOTE M – FUND BALANCES

The fund balances as of June 30, 2023 consist of the following amounts:

	General Fund	Debt Service Fund	Capital Projects Fund	Other Non-Major Funds	Total
Inventory	\$ 912,408	\$ -	\$ -	\$ -	\$ 912,408
Federal State and Other Grants	3,161,327	-	-	-	3,161,327
Capital Acquisition	5,212,432	-	35,085,438	-	40,297,870
Retirement of Long Term Debt	-	26,210,168	-	-	26,210,168
Committed	3,000,000	-	-	-	3,000,000
Other Assigned	899,447	-	-	379,337	1,278,784
Unassigned	50,420,909	-	-	-	50,420,909
<b>Total</b>	<b>\$ 63,606,523</b>	<b>\$ 26,210,168</b>	<b>\$ 35,085,438</b>	<b>\$ 379,337</b>	<b>\$ 125,281,466</b>

Restricted fund balance of Federal, State and Other grants reported under the General Fund consists of a fund balance of \$3,161,327 for the federal Child Nutrition program.

The Other Committed fund balance of \$3,000,000 in the General Fund is for facility improvements in subsequent school years.

Other Assigned fund balance in the General Fund is \$899,447 for encumbrances at the end of the year related to goods and services ordered but not received. Other Funds of \$379,337 is composed of \$212,793 for Campus Activity Funds that is specifically for campus use at the respective sites and \$166,544 from local grants. Thus comprising a total of \$1,278,784.



Harlandale Independent School District  
NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE N – REVENUES FROM LOCAL AND INTERMEDIATE SOURCES

Revenues from local and intermediate sources consisted of the following:

	General Fund	Debt Service Fund	Capital Projects Fund	Other Non-Major Funds	Total Governmental Funds	Internal Service Fund
Property Taxes	\$ 22,705,740	\$ 12,062,032	\$ -	\$ -	\$ 34,767,772	\$ -
Penalties and Interest	706,255	201,494	-	-	907,749	-
Tuition and Fees	110,169	-	-	-	110,169	-
Investment Income *	2,023,110	254,961	1,555,199	5,826	3,839,096	4,027
Food Sales	281,221	-	-	-	281,221	-
Co Curricular Student Activities	206,852	-	-	368,355	575,207	-
Gifts and Bequests	-	-	-	26,668	26,668	-
Other Revenue	734,056	-	-	451,359	1,185,415	-
Worker's Compensation Program	-	-	-	-	-	478,190
Health Insurance Self-Funded	-	-	-	-	-	3,940,230
	<u>\$ 26,767,403</u>	<u>\$ 12,518,487</u>	<u>\$ 1,555,199</u>	<u>\$ 852,208</u>	<u>\$ 41,693,297</u>	<u>\$ 4,422,447</u>

\* The District measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. The District's investment practice is to buy and hold its portfolio which uses its investments to fund upcoming liabilities. Therefore, any loss between the cost of the investment and the market value is an "unrealized loss" due to market fluctuations as rates rise and is to be offset against the actual interest earned for the year.

NOTE O – GENERAL FUND FEDERAL REVENUES

For the year ended June 30, 2023, revenues from federal programs included in the General Fund consisted of the following:

Program or Source	CFDA Number	Amount
National School Breakfast Program	10.553	\$ 4,479,354
National School Lunch Program (NSLP)	10.555	6,842,459
Commodity Supplemental Food Program	10.565	564,610
Child and Adult Food Care Program	10.558	206,350
Supply Chain Assistance	10.555	491,275
Fresh Fruit and Vegetable Program	10.582	189,196
ESEA Title I, Part A-Improving Basic Programs	84.010A	190,344
ESEA Title II, Part A-Supporting Effective Instruction	84.367A	30,484
Title III, Part A-English Language Acquisition	84.365A	8,688
Title IV, Pt B-21st Century Community Learning Center	84.287C	30,000
Title IV, Part A, Subpart 1	84.424A	12,740
Junior ROTC Program	12.unknown	109,122
School Health & Related Services Program	N/A	5,511,530
Medicaid Administrative Claiming Program	93.778	196,215
<b>Total</b>		<u>\$ 18,862,367</u>

Indirect cost revenues were determined by applying approved indirect cost rates to actual applicable expenditures of federally funded grant programs.

Harlandale Independent School District  
NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE P – 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). TRS's defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

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

Pension Plan Fiduciary Net Position

Detailed information about the Teacher Retirement System'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 [https://www.trs.texas.gov/Pages/about\\_publications.aspx](https://www.trs.texas.gov/Pages/about_publications.aspx); by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698, or by calling (512) 542-6592.

Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description in (A) above. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. Actuarial implications of the funding provided in the manner are determined by the systems actuary.

Harlandale Independent School District  
 NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE P – DEFINED BENEFIT PENSION PLAN (Continued)

Contributions

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member’s annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year.

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

	<u>Contribution Rates</u>	
	<u>2022</u>	<u>2023</u>
Member	8.0%	8.0%
Non-Employer Contributing Entity (State)	7.75%	8.0%
Employers	7.75%	8.0%
Harlandale ISD 2023 Employer Contributions		
	\$	4,770,546
Harlandale ISD 2023 Member Contributions		
	\$	8,643,714
Harlandale ISD 2022 NECE On-behalf Contributions		
	\$	5,329,244

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

As the non-employer contributing entity for public education, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers including public schools are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member’s first 90 days of employment.
- When any part or all of an employee’s salary is paid by federal funding sources or a privately sponsored source, from non-educational and general, or local funds.

Harlandale Independent School District  
 NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE P – DEFINED BENEFIT PENSION PLAN (Continued)

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

- When the employing district is a public school, the employer must contribute 1.7% of the member’s salary beginning in fiscal year 2022. This contribution rate called the Public Education Employer Contribution (PEEC) will replace the Non (OASDI) surcharge that was in effect in fiscal year 2019. The PEEC rate for fiscal year 2023 was 1.8% and will gradually increase to 2% in fiscal year 2025.
- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

Actuarial Assumptions

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

Valuation Date	August 31, 2021 rolled forward to August 31, 2022
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Fair Value
Single Discount Rate	7.0%
Long-term Expected Rate	7.0%
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"
Inflation	2.30%
Salary Increases*	2.95% to 8.95%
Last Year Ending August 31 Projection Period (100 years)	2121
Ad hoc Post Employment Benefit Changes	None

*\*Includes Inflation of 2.3%*

The actuarial methods and assumptions are used in the determination of the total pension liability are the same assumptions used in the actuarial valuation as of August 31, 2021. For a full description of these assumptions please see the actuarial valuation report dated November 12, 2021.

Discount Rate

A single discount rate of 7.0 percent was used to measure the total pension liability. The single discount rate was based on plan investments of 7.0 percent. The projection of cash flows used to determine this single discount rate assumed that contributions from active members, employers and the non-employer contributing entity will be made at the rates set by the legislature during the 2019 session. It is assumed that future employer and state contributions will be 8.50 percent of payroll in fiscal year 2020 gradually increasing to 9.55 percent of payroll over the next several years. This includes all employer and state contributions for active and rehired retirees.

Harlandale Independent School District  
NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE P – DEFINED BENEFIT PENSION PLAN (Continued)

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

The long-term rate of return on pension plan investments is 7.0%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2022 (see page 54 of the TRS ACFR) are summarized below:

Asset Class <sup>4</sup>	Target Allocation % <sup>1</sup>	Long-Term Expected Geometric Real Rate of Return <sup>2</sup>	Expected Contribution to Long-Term Portfolio Returns
<b>Global Equity</b>			
USA	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%
<b>Stable Value</b>			
Government Bonds	16.00%	1.00%	0.22%
Absolute Return	-	3.70%	-
Stable Value Hedge Funds	5.00%	3.40%	0.18%
<b>Real Return</b>			
Real Estates	15.00%	4.10%	0.94%
Commodities	-	3.60%	-
Energy and Natural Resources	6.00%	5.10%	0.37%
<b>Risk Parity</b>			
Risk Parity	8.00%	4.60%	0.43%
<b>Leverage</b>			
Cash	2.00%	3.00%	0.01%
Asset Allocation Leverage	-6.00%	3.60%	-0.05%
Inflation Expectation			2.70%
Volatility Drag <sup>3</sup>			-0.91%
<b>Total</b>	100%		8.19%

1 Target allocations are based on the FY2022 policy model.

2 Capital Market Assumptions come from Aon Hewitt (as of 08/31/2022).

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

4 Absolute Return includes Credit Sensitive Investments.

Harlandale Independent School District  
 NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE P – DEFINED BENEFIT PENSION PLAN (Continued)

Discount Rate Sensitivity Analysis

The following table presents the Net Pension Liability of the plan using the discount rate of 7.0%, and what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.0%) or one percentage point higher (8.0%) than the current rate. The discount rate can be found in the 2022 TRS ACFR, Note 11, page 87 and the table of sensitivities [Table 11.I.1] can be found on page 87.

	1% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
District's proportionate share of the net pension liability:	\$ 95,070,124	\$ 61,113,943	\$ 33,590,865

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

At June 30, 2023, the District reported a liability of \$61,113,943 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's Proportionate share of the collective net pension liability	\$ 61,113,943
State's proportionate share that is associated with the District	67,801,856
Total	\$ 128,915,799

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

At August 31, 2023 the employer's proportion of the collective net pension liability was 0.001029418738% which is an increase of 0.00012862722% from its proportion measured as of August 31, 2021.

Changes Since the Prior Actuarial Valuation – The actuarial assumptions and methods have been modified since the determination of the prior year's Net Pension Liability. These new assumptions were adopted in conjunction with an actuarial experience study. The primary assumption change was the lowering of the single discount rate from 7.25% to 7.0%.

For the year ended June 30, 2023, the District recognized pension expense of \$6,481,089 and revenue of \$6,481,089 for support provided by the State in the Government Wide Statement of Activities.

Harlandale Independent School District  
NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE P – DEFINED BENEFIT PENSION PLAN (Continued)

At June 30, 2023, the District reported its proportionate share of the TRS’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources: (The amounts shown below will be the cumulative layers for the current and prior years combined.)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 886,147	\$ 1,332,400
Changes in actuarial assumptions	11,387,517	2,838,087
Differences between projected and actual investment earnings	6,037,862	-
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	4,621,055	3,947,774
Contributions paid to TRS subsequent to the measurement date	4,006,583	-
Total	\$ 26,939,164	\$ 8,118,261

The net amounts of the employer’s balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	Pension Expense Amount
2023	\$ 3,335,914
2024	1,710,461
2025	627,184
2026	7,574,744
2027	1,566,017
Thereafter	-
Total	\$ 14,814,320

Medicare Part D

Federal legislation enacted in January 2006 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One provision of the law allows TRS-Care to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible participants. These payments totaled \$481,972, \$463,219, and \$573,291 for years 2021, 2022 and 2023 respectively. Revenue and expenditures equal to the amount paid by the federal government on behalf of the District, were recognized during the 2023 fiscal year.

NOTE Q – DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS

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. The TRS-Care program was established in 1986 by the Texas legislature. The plan is administered through a trust by the Teacher Retirement System of Texas (TRS) Board of Trustees. It is established and administered in accordance with the Texas Insurance Code,



Harlandale Independent School District  
 NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE Q – DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (Continued)

Chapter 1575. The Board of Trustees is granted the authority to establish basic and optional group insurance coverage for participants as well as amend benefit terms as needed under Chapter 1575.052. The Board may adopt rules, plans, procedures, and orders reasonably necessary to administer the program, including minimum benefits and financing standards.

OPEB Plan Fiduciary Net Position

Detail 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\\_publications.aspx](http://www.trs.texas.gov/pages/about_publications.aspx); by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

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 dependents may enroll in the TRS-Care Medicare Advantage Medical Plan and the TRS-Care Medicare RX Prescription Drug Plan. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. There are no automatic post-employment benefit changes; including automatic COLAs.

The schedule below shows the monthly premium rates for a retiree with and without Medicare coverage.

TRS-Care Plan Premium Rates		
	Medicare	Non-Medicare
Retiree *	\$ 135	\$ 200
Retiree and Spouse	529	689
Retiree * and Children	468	408
Retiree and Family	1,020	999
* or surviving spouse		

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.



Harlandale Independent School District  
 NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE Q – DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (Continued)

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 .65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

	<u>Contribution Rates</u>
	<u>2023</u>
Active Employee	0.65%
Non-Employer Contributing Entity (State)	1.25%
Employers	0.75%
Federal/private Funding remitted by Employers	1.25%
Harlandale ISD 2023 Employer Contributions	\$ 1,053,706
Harlandale ISD 2023 Member Contributions	\$ 701,743
Harlandale ISD 2022 NECE On-behalf Contributions	\$ 1,330,950

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

TRS-Care received supplemental appropriations 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.

Actuarial Assumptions

The actuarial valuation 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 was determined using the following actuarial assumptions:

The actuarial valuation of the OPEB plan offered through TRS-Care is similar to the actual valuation performed for the pension plan, except that the OPEB valuation is more complex. The demographic assumptions were developed in the experience study performed for TRS for the period ending August 31, 2017.

Harlandale Independent School District  
 NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE Q – DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (Continued)

The following assumptions and other inputs used for members of TRS-Care are based on an established pattern of practice and are identical to the assumptions used in the August 31, 2021 TRS pension actuarial valuation that was rolled forward to August 31, 2022:

Rates of Mortality	General Inflation
Rates of Retirement	Wage Inflation
Rates of Termination	
Rates of Disability	

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

***Additional Actuarial Methods and Assumptions:***

Valuation Date	August 31, 2021 rolled forward to August 31, 2022
Actuarial Cost Method	Individual Entry-Age Normal
Inflation	2.30%
Single Discount Rate	3.91% as of August 31, 2022
Aging Factors	Based on plan specific experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age adjusted claims costs.
Salary Increases	3.05% to 9.05%, including inflation
Ad hoc Post Employment Benefit Changes	None

Discount Rate

A single discount rate of 3.91% was used to measure the total OPEB liability. There was an increase of 1.96% in the discount rate since the previous year. Because the plan is essentially a “pay-as-you-go” plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to ***not be able*** to make all future benefit payments of current plan members. Therefore, the municipal bond rate was used for the long-term rate of return and was applied to all periods of projected benefit payments to determine the total OPEB liability.

The source of the municipal bond rate is the Fidelity “20-year Municipal Go AA Index” as of August 31, 2021 using the Fixed-Income Market Data/Yield Curve/Data Municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds.

Harlandale Independent School District  
 NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE Q – DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (Continued)

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net OPEB Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.91%) in measuring the Net OPEB Liability.

	1% Decrease in Discount Rate (2.91%)	Current Single Discount Rate (3.91%)	1% Increase in Discount Rate (4.91%)
District's Proportionate share of the Net OPEB Liability	\$ 37,503,707	\$ 31,807,620	\$ 27,193,059

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

At June 30, 2023, the District reported a liability of \$31,807,620 for its proportionate share of the TRS's Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's Porportionate Share of the Collective Net OPEB Liability	\$ 31,807,620
State's Proportionate Share that is Associated with the District	<u>38,800,299</u>
Total	<u><u>\$ 70,607,919</u></u>

The Net OPEB Liability was measured as of August 31, 2021 and rolled forward to August 31, 2022 and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of that date. The employer's proportion of the Net OPEB Liability was based on the employer's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2021 thru August 31, 2022.

At August 31, 2023 the employer's proportion of the collective Net OPEB Liability was 0.001328416859% compared to 0.001208488522% as of August 31, 2022.

Harlandale Independent School District  
 NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE Q – DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (Continued)

The following schedule shows the impact of the net OPEB liability if a healthcare trend rate that is 1% less than and 1% greater than the health trend rates assumed:

	<u>1% Increase in Healthcare Trend Rate</u>	<u>Current Single Healthcare Trend Rate</u>	<u>1% Increase in Healthcare Trend Rate</u>
District's proportionate share of the net pension liability	\$ 26,209,622	\$ 31,807,620	\$ 39,064,704

Changes Since the Prior Actuarial Valuation

The following were changes to the actuarial assumptions or other inputs that affected measurement of the Total OPEB Liability (TOL) since the prior measurement period:

- The discount rate was changed from 1.95 percent as of August 31, 2021 to 3.91 percent as of August 31, 2022. This change decreased the TOL.

Changes of Benefit Terms since the Prior Measurement Date – There were no changes in benefit terms since the prior measurement date.

For the year ended June 30, 2023, the District recognized OPEB expense of \$(5,506,076) and revenue of \$(5,506,076) for support provided by the State.

At June 30, 2023, the District reported its proportionate share of the TRS’s deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources: (The amounts shown below will be the cumulative layers for the current and prior years combined.)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 1,768,391	\$ 26,498,603
Changes in actuarial assumptions	4,844,931	22,098,042
Differences between projected and actual investment earnings	94,746	-
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	6,760,920	5,467,968
Contributions paid to TRS subsequent to the measurement date	877,531	-
Total	<u>\$ 14,346,519</u>	<u>\$ 54,064,613</u>

Harlandale Independent School District  
 NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE Q – DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (Continued)

The net amounts of the employer’s balances of deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30:	OPEB Expense Amount
2023	\$ (7,811,097)
2024	(7,810,754)
2025	(6,461,907)
2026	(4,635,794)
2027	(5,299,742)
Thereafter	(8,576,330)
Total	\$ (40,595,624)

NOTE R – RISK MANAGEMENT

The claims liability of \$235,000 at June 30, 2023 was actuarially determined based on the requirements of Governmental Accounting Standards Board (GASB) Statement No. 10, as amended by GASB Statement No. 30 and includes provisions for the following: a.) reserve for unpaid incurred claims, b.) reserve for unreported claims, and c.) claims recoverable from reinsurance. The carrying amount of the liability is presented at the nominal value since there are no contractual obligations to be paid on fixed or determinable rates and is reported in accrued expenses in the Statement of Net Position.

A reconciliation of changes in the accrued expenses amount for the prior and current year is presented below:

	Beginning of Fiscal Year Accrued Expenses	Current Year Claims and Changes in Estimates	Claim Payments	Ending of Fiscal Year Accrued Expenses
2021-2022	\$ 227,000	\$ 248,430	\$ 240,430	\$ 235,000
2022-2023	\$ 235,000	\$ 391,763	\$ 301,763	\$ 325,000

The claims liability is considered a current liability based on previous claims payment history.

NOTE S – HEALTH CARE COVERAGE

At June 30, 2023, 1,841 employees of the District were eligible for the employee benefits health plan. TRS-qualified insurance plan participants were 1,109. The District paid premiums of \$350.00 per month per employee to the plan and employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to licensed health providers. Total health plan premiums expensed during the year, were \$5,057,141.

NOTE T – SHARED SERVICES ARRANGEMENTS

The District is a member district in a Regional Day School Program for the Deaf which is considered a Shared Services Arrangement (SSA). The fiscal agent for the SSA is South San Independent School District. All SSA services are provided by the fiscal agent. Funds are provided by member districts when required by the fiscal agent. The District has neither a joint ownership interest in capital assets purchased by the fiscal agent, nor a net equity interest in the fiscal agent. The fiscal agent is neither

Harlandale Independent School District  
NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

NOTE T – SHARED SERVICES ARRANGEMENTS (Continued)

accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District.

NOTE U – RELATED ORGANIZATIONS

The Harlandale Education Foundation (the “Foundation”), a not-for-profit entity which was organized to provide scholarship funds, is a “related organization” of the District as defined by Governmental Accounting Standards Board Statement No. 61. The members of the Foundation Board are comprised of appointees by the District’s Board and high school principals.

NOTE V – CONTINGENCIES AND COMMITMENTS

1. Legal Proceedings

From time to time, the District is a defendant in legal proceedings relating to its operations as a school district. In the best judgment of the District's management, the outcome of any present legal proceedings will not have any material adverse effect on the financial condition of the District. Accordingly, no provision for losses has been recorded in the accompanying financial statements for such contingencies.

2. State and Federal Grant Programs

The District participates in numerous State and Federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at June 30, 2023 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

3. Encumbrances

As discussed in note A.4, encumbrance accounting is utilized to ensure budgetary control and accountability. At June 30, 2023, the amount of encumbrances expected to be executed in the subsequent year are as follows:

General Fund	\$899,447
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4. Construction Commitments

At June 30, 2023, there was outstanding commitments for facilities construction contracts in the amount of \$8,889,931.

NOTE W – NET POSITION UNRESTRICTED

At June 30, 2023, the District has a deficit unrestricted net position in the government-wide statement of net position for governmental activities of \$73,870,248. This deficit is due to the District’s implementation of accounting standards Statement No. 68 related to the net pension liabilities and Statement No. 75 related to other postemployment benefits. The combined effect on net position from the implementation at June 30, 2023 was a reduction of net position by \$113.8 million.

**APPENDIX D**  
**FORMS OF LEGAL OPINIONS OF BOND COUNSEL**

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August 15, 2024

**HARLANDALE INDEPENDENT SCHOOL DISTRICT  
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2024A  
DATED AS OF JULY 15, 2024  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$ \_\_\_\_\_**

**AS BOND COUNSEL FOR THE HARLANDALE INDEPENDENT SCHOOL DISTRICT** (the *District*) in connection with the issuance of the bonds described above (the *Bonds*), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds until maturity or prior redemption at the rates and are payable on the dates as stated in the text of the Bonds, all in accordance with the terms and conditions stated in the text of the Bonds.

**WE HAVE EXAMINED** the applicable and pertinent provisions of the Constitution and general laws of the State of Texas and a transcript of certified proceedings of the District, and other pertinent instruments authorizing and relating to the issuance of the Bonds including (i) the order authorizing the issuance of the Bonds (the *Order*), (ii) one of the executed Bonds (*Bond No. T-1*), and (iii) the District's Federal Tax Certificate of even date herewith.

**BASED ON SAID EXAMINATION, IT IS OUR OPINION** that the Bonds have been authorized, issued and delivered in accordance with law; that the Bonds constitute valid and legally binding general obligations of the District in accordance with their terms except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally; that the District has the legal authority to issue the Bonds and to repay the Bonds; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of the Bonds, as such interest comes due, and as such principal matures, have been levied and ordered to be levied against all taxable property in the District, and have been pledged for such payment, without limit as to rate or amount.

**IT IS FURTHER OUR OPINION**, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the *Code*). In expressing the aforementioned opinions, we have relied on and assume continuing compliance with, certain representations contained in the Federal Tax Certificate of the District and covenants set forth in the order adopted by the District to authorize the issuance of the Bonds, relating to, among other matters, the use of the project and the investment and expenditure of the proceeds and certain other amounts used to pay or to secure the payment of debt service on the Bonds, and the certificate with respect to arbitrage by the Commissioner of Education regarding the allocation and investment of certain investments in the Permanent School Fund, the accuracy of which we have not independently verified. We call your attention to the fact that if such representations are



determined to be inaccurate or if the District fails to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

**EXCEPT AS STATED ABOVE**, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Bonds, including the amount, accrual or receipt of interest on, the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds.

**WE CALL YOUR ATTENTION TO THE FACT** that the interest on tax-exempt obligations, such as the Bonds, may be includable in a corporation's adjusted financial statement income for purposes of determining the alternative minimum tax imposed on certain corporations by section 55 of the Code.

**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 (the *Service*); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer. We observe that the District has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

**OUR SOLE ENGAGEMENT** in connection with the issuance of the Bonds is as Bond Counsel for the District, and, in that capacity, we have been engaged by the District for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and general laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. 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 District, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the District as to the current outstanding indebtedness of, and assessed valuation of taxable property within, the District. Our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

Respectfully,

August 15, 2024

**HARLANDALE INDEPENDENT SCHOOL DISTRICT  
UNLIMITED TAX REFUNDING BONDS, SERIES 2024B  
DATED AS OF JULY 15, 2024  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$ \_\_\_\_\_**

**AS BOND COUNSEL FOR THE HARLANDALE INDEPENDENT SCHOOL DISTRICT** (the *District*) in connection with the issuance of the bonds described above (the *Bonds*), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds until maturity at the rates and are payable on the dates, all in accordance with the terms and conditions stated in the text of the Bonds.

**WE HAVE EXAMINED** the applicable and pertinent provisions of the Constitution and general laws of the State of Texas and a transcript of certified proceedings of the District, and other pertinent instruments authorizing and relating to the issuance of the Bonds including (i) the order authorizing the issuance of the Bonds (the *Order*), (ii) the Escrow Deposit Letter, dated as of May 21, 2024, between the District and U.S. Bank Trust Company, National Association, Dallas, Texas, as Escrow Agent (the *Escrow Agreement*), (iii) a special report (the *Report*) of Robert Thomas CPA, LLC (the *Verification Agent*) concerning the sufficiency of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement, (iv) the executed Initial Bond numbered T-1, and (v) the District's Federal Tax Certificate of even date herewith.

**BASED ON SAID EXAMINATION, IT IS OUR OPINION** that the Bonds have been authorized, issued and delivered in accordance with law; that the Bonds constitute valid and legally binding general obligations of the District in accordance with their terms except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally; that the District has the legal authority to issue the Bonds and to repay the Bonds; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of the Bonds, as such interest comes due, and as such principal matures, have been levied and ordered to be levied against all taxable property in the District, and have been pledged for such payment, without limit as to rate or amount.

**IT IS FURTHER OUR OPINION** that the Escrow Agreement has been duly authorized, executed and delivered by the District and constitutes a binding and enforceable agreement in accordance with its terms and that the "Refunded Obligations" (as defined in the Order) being refunded by the Bonds are outstanding under the resolution authorizing their issuance only for the purpose of receiving the funds provided by, and are secured solely by and payable solely from, the Escrow Agreement and the cash and investments, including the income therefrom, held by the Escrow Agent pursuant to the Escrow Agreement. In rendering this opinion, we have relied upon the Report concerning the sufficiency of the cash and investments deposited pursuant to the Escrow Agreement for the purpose of paying the principal of, redemption premium, if any, and interest on the Refunded Obligations.



**IT IS FURTHER OUR OPINION**, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not “specified private activity bonds” and that, accordingly, interest on the Bonds will not be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the *Code*). In expressing the aforementioned opinions, we have relied on the Report, and we have further relied on, and assumed compliance by the District with, certain representations and covenants regarding the use and investment of the proceeds of the Bonds. We call your attention to the fact that failure by the District to comply with such representations and covenants may cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds.

**EXCEPT AS STATED ABOVE**, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Bonds, including the amount, accrual or receipt of interest on, the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds.

**WE CALL YOUR ATTENTION TO THE FACT** that the interest on tax-exempt obligations, such as the Bonds, may be includable in a corporation’s adjusted financial statement income for purposes of determining the alternative minimum tax imposed on certain corporations by section 55 of the Code.

**WE EXPRESS NO OPINION** as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.

**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 (the *Service*); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer. We observe that the District has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.



**OUR SOLE ENGAGEMENT** in connection with the issuance of the Bonds is as Bond Counsel for the District, and, in that capacity, we have been engaged by the District for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds and the defeasance of the Refunded Obligations under the Constitution and general laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. 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 District, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the District as to the current outstanding indebtedness of, and assessed valuation of taxable property within, the District. Our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

Respectfully,

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**APPENDIX E**

**THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM**

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(Dated: February 28, 2024)

*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](http://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](http://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 Fund<sup>1</sup>**

<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>2023<sup>2</sup></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 <sup>3</sup>	415	115
Per Student Distribution	175	173	215	212	247	306	347	341	432	440

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

<sup>2</sup> Reflects the first fiscal year in which distributions were made by the PSF Corporation.

<sup>3</sup> 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>
<u>SBOE Distribution Rate<sup>1</sup></u>	3.5%	2.5%	4.2%	3.3%	3.5%	3.7%	2.974%	4.18%	3.32% <sup>2</sup>

<sup>1</sup> 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.

<sup>2</sup> 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):

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

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

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## Comparative Investment Schedule – PSF(CORP)

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

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

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

### Investment Schedule - PSF(SLB)<sup>1</sup>

	<u>Fair Value (in millions) August 31, 2023</u>
	As of <u>8-31-23</u>
Investment Type	
Investments in Real Assets	
Sovereign Lands	\$ 276.14
Discretionary Internal Investments	264.32
Other Lands	167.97
Minerals <sup>(2), (3)</sup>	<u>5,435.62</u> <sup>(6)</sup>
Total Investments <sup>(4)</sup>	6,144.05
Cash in State Treasury <sup>(5)</sup>	508.38
Total Investments & Cash in State Treasury	\$6,652.44

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

<sup>2</sup> 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.

<sup>3</sup> Includes an estimated 1,000,000.00 acres in freshwater rivers.

<sup>4</sup> Includes an estimated 1,747,600.00 in excess acreage.

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

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

The asset allocation of the Fund's financial assets portfolio is subject to change by the PSF Corporation from time to time based upon a number of factors, including recommendations to the PSF Corporation made by internal investment staff and external consultants. Fund performance may also be affected by factors other than asset allocation, including, without limitation, the general performance of the securities markets and other capital markets in the United States and abroad, which may be affected by different levels of economic activity; decisions of political officeholders; significant adverse weather events; development of hostilities in and among nations; cybersecurity threats and events; changes in international trade policies or practices; application of the Prudent Person Standard, which may eliminate certain investment opportunities for the Fund; management fees paid to external managers and embedded management fees for some fund investments; and PSF operational limitations impacted by Texas law or legislative appropriation. The Guarantee Program could also be impacted by changes in State or federal law or regulations or the implementation of new accounting standards.

### The School District Bond Guarantee Program

The School District Bond Guarantee Program requires an application be made by a school district to the Education Commissioner for a guarantee of its bonds. If the conditions for the School District Bond Guarantee Program are satisfied, the guarantee becomes effective upon approval of the bonds by the

Attorney General and remains in effect until the guaranteed bonds are paid or defeased, by a refunding or otherwise.

In the event of default, holders of guaranteed school district bonds will receive all payments due from the corpus of the PSF. Following a determination that a school district will be or is unable to pay maturing or matured principal or interest on any guaranteed bond, the Act requires the school district to notify the Education Commissioner not later than the fifth day before the stated maturity date of such bond or interest payment. Immediately following receipt of such notice, the Education Commissioner must cause to be transferred from the appropriate account in the PSF to the Paying Agent/Registrar an amount necessary to pay the maturing or matured principal and interest. Upon receipt of funds for payment of such principal or interest, the Paying Agent/Registrar must pay the amount due and forward the canceled bond or evidence of payment of the interest to the State Comptroller of Public Accounts (the "Comptroller"). The Education Commissioner will instruct the Comptroller to withhold the amount paid, plus interest, from the first State money payable to the school district. The amount withheld pursuant to this funding "intercept" feature will be deposited to the credit of the PSF. The Comptroller must hold such canceled bond or evidence of payment of the interest on behalf of the PSF. Following full reimbursement of such payment by the school district to the PSF with interest, the Comptroller will cancel the bond or evidence of payment of the interest and forward it to the school district. The Act permits the Education Commissioner to order a school district to set a tax rate sufficient to reimburse the PSF for any payments made with respect to guaranteed bonds, and also sufficient to pay future payments on guaranteed bonds, and provides certain enforcement mechanisms to the Education Commissioner, including the appointment of a board of managers or annexation of a defaulting school district to another school district.

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

In the event that two or more payments are made from the PSF on behalf of a district, the Education Commissioner shall request the Attorney General to institute legal action to compel the district and its officers, agents and employees to comply with the duties required of them by law in respect to the payment of guaranteed bonds.

Generally, the regulations that govern the School District Bond Guarantee Program (the "SDBGP Rules") limit guarantees to certain types of notes and bonds, including, with respect to refunding bonds issued by school districts, a requirement that the bonds produce debt service savings. The SDBGP

Rules include certain accreditation criteria for districts applying for a guarantee of their bonds, and limit guarantees to districts that have less than the amount of annual debt service per average daily attendance that represents the 90th percentile of annual debt service per average daily attendance for all school districts, but such limitation will not apply to school districts that have enrollment growth of at least 25% over the previous five school years. As noted, above, in connection with the Regulatory Recodification, the SDBGP Rules are now codified in the Texas Administrative Code at 19 TAC section 33.6 and are available at <https://tea.texas.gov/finance-and-grants/state-funding/facilities-funding-and-standards/bond-guarantee-program>.

### **The Charter District Bond Guarantee Program**

The Charter District Bond Guarantee Program became effective March 3, 2014. The SBOE published final regulations in the Texas Register that provide for the administration of the Charter District Bond Guarantee Program (the “CDBGP Rules”). As noted, above, in connection with the Regulatory Recodification, the CDBGP Rules are now codified at 19 TAC section 33.7 and are available at <https://tea.texas.gov/finance-and-grants/state-funding/facilities-funding-and-standards/bond-guarantee-program>.

The Charter District Bond Guarantee Program has been authorized through the enactment of amendments to the Act, which provide that a charter holder may make application to the Education Commissioner for designation as a “charter district” and for a guarantee by the PSF under the Act of bonds issued on behalf of a charter district by a non-profit corporation. If the conditions for the Charter District Bond Guarantee Program are satisfied, the guarantee becomes effective upon approval of the bonds by the Attorney General and remains in effect until the guaranteed bonds are paid or defeased, by a refunding or otherwise.

Pursuant to the CDBGP Rules, the Education Commissioner annually determines the ratio of charter district students to total public school students, for the 2024 fiscal year, the ratio is 7.69%. At February 26, 2024, there were 186 active open-enrollment charter schools in the State and there were 1,128 charter school campuses authorized under such charters, though as of such date, 212 of such campuses are not currently serving students for various reasons; therefore, there are 916 charter school campuses actively serving students in Texas. Section 12.101, Texas Education Code, limits the number of charters that the Education Commissioner may grant to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see “Capacity Limits for the Guarantee Program.” The Act provides that the Education Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

In accordance with the Act, the Education Commissioner may not approve charter district bonds for guarantee if such guarantees will result in lower bond ratings for public school district bonds that are guaranteed under the School District Bond Guarantee Program. To be eligible for a guarantee, the Act provides that a charter district’s bonds must be approved by the Attorney General, have an unenhanced

investment grade rating from a nationally recognized investment rating firm, and satisfy a limited investigation conducted by the TEA.

The Charter District Bond Guarantee Program does not apply to the payment of principal and interest upon redemption of bonds, except upon mandatory sinking fund redemption, and does not apply to the obligation, if any, of a charter district to pay a redemption premium on its guaranteed bonds. The guarantee applies to all matured interest on guaranteed charter district bonds, whether the bonds were issued with a fixed or variable interest rate and whether the interest rate changes as a result of an interest reset provision or other bond resolution provision requiring an interest rate change. The guarantee does not extend to any obligation of a charter district under any agreement with a third party relating to guaranteed bonds that is defined or described in State law as a “bond enhancement agreement” or a “credit agreement,” unless the right to payment of such third party is directly as a result of such third party being a bondholder.

In the event of default, holders of guaranteed charter district bonds will receive all payments due from the corpus of the PSF. Following a determination that a charter district will be or is unable to pay maturing or matured principal or interest on any guaranteed bond, the Act requires a charter district to notify the Education Commissioner not later than the fifth day before the stated maturity date of such bond or interest payment and provides that immediately following receipt of notice that a charter district will be or is unable to pay maturing or matured principal or interest on a guaranteed bond, the Education Commissioner is required to instruct the Comptroller to transfer from the Charter District Reserve Fund to the district's paying agent an amount necessary to pay the maturing or matured principal or interest. If money in the Charter District Reserve Fund is insufficient to pay the amount due on a bond for which a notice of default has been received, the Education Commissioner is required to instruct the Comptroller to transfer from the PSF to the district's paying agent the amount necessary to pay the balance of the unpaid maturing or matured principal or interest. If a total of two or more payments are made under the Charter District Bond Guarantee Program on charter district bonds and the Education Commissioner determines that the charter district is acting in bad faith under the program, the Education Commissioner may request the Attorney General to institute appropriate legal action to compel the charter district and its officers, agents, and employees to comply with the duties required of them by law in regard to the guaranteed bonds. As is the case with the School District Bond Guarantee Program, the Act provides a funding “intercept” feature that obligates the Education Commissioner to instruct the Comptroller to withhold the amount paid with respect to the Charter District Bond Guarantee Program, plus interest, from the first State money payable to a charter district that fails to make a guaranteed payment on its bonds. The amount withheld will be deposited, first, to the credit of the PSF, and then to restore any amount drawn from the Charter District Reserve Fund as a result of the non-payment.

The CDBGP Rules provide that the PSF may be used to guarantee bonds issued for the acquisition, construction, repair, or renovation of an educational facility for an open-enrollment charter holder and equipping real property of an open-enrollment charter school and/or to refinance promissory notes executed by an open-enrollment charter school, each in an amount in excess of \$500,000 the proceeds of which loans were used for a purpose described above (so-called new money bonds) or for refinancing bonds previously issued for the charter school that were approved by the Attorney General

(so-called refunding bonds). Refunding bonds may not be guaranteed under the Charter District Bond Guarantee Program if they do not result in a present value savings to the charter holder.

The CDBGP Rules provide that an open-enrollment charter holder applying for charter district designation and a guarantee of its bonds under the Charter District Bond Guarantee Program satisfy various provisions of the regulations, including the following: It must (i) have operated at least one open-enrollment charter school with enrolled students in the State for at least three years; (ii) agree that the bonded indebtedness for which the guarantee is sought will be undertaken as an obligation of all entities under common control of the open-enrollment charter holder, and that all such entities will be liable for the obligation if the open-enrollment charter holder defaults on the bonded indebtedness, provided, however, that an entity that does not operate a charter school in Texas is subject to this provision only to the extent it has received state funds from the open-enrollment charter holder; (iii) have had completed for the past three years an audit for each such year that included unqualified or unmodified audit opinions; and (iv) have received an investment grade credit rating within the last year. Upon receipt of an application for guarantee under the Charter District Bond Guarantee Program, the Education Commissioner is required to conduct an investigation into the financial status of the applicant charter district and of the accreditation status of all open-enrollment charter schools operated under the charter, within the scope set forth in the CDBGP Rules. Such financial investigation must establish that an applying charter district has a historical debt service coverage ratio, based on annual debt service, of at least 1.1 for the most recently completed fiscal year, and a projected debt service coverage ratio, based on projected revenues and expenses and maximum annual debt service, of at least 1.2. The failure of an open-enrollment charter holder to comply with the Act or the applicable regulations, including by making any material misrepresentations in the charter holder's application for charter district designation or guarantee under the Charter District Bond Guarantee Program, constitutes a material violation of the open-enrollment charter holder's charter.

From time to time, TEA has limited new guarantees under the Charter District Bond Guarantee Program to conform to capacity limits specified by the Act. The Charter District Bond Guarantee Program Capacity (the "CDBGP Capacity") is made available from the capacity of the Guarantee Program but is not reserved exclusively for the Charter District Bond Guarantee Program. See "Capacity Limits for the Guarantee Program." Other factors that could increase the CDBGP Capacity include Fund investment performance, future increases in the Guarantee Program multiplier, changes in State law that govern the calculation of the CDBGP Capacity, as described below, changes in State or federal law or regulations related to the Guarantee Program limit, growth in the relative percentage of students enrolled in open-enrollment charter schools to the total State scholastic census, legislative and administrative changes in funding for charter districts, changes in level of school district or charter district participation in the Guarantee Program, or a combination of such circumstances.

### **Capacity Limits for the Guarantee Program**

The capacity of the Fund to guarantee bonds under the Guarantee Program is limited to the lesser of that imposed by State law (the "State Capacity Limit") and that imposed by regulations and a notice issued by the IRS (the "IRS Limit", with the limit in effect at any given time being the "Capacity Limit"). From 2005 through 2009, the Guarantee Program twice reached capacity under the IRS Limit, and in each instance the Guarantee Program was closed to new bond guarantee applications until relief

was obtained from the IRS. The most recent closure of the Guarantee Program commenced in March 2009 and the Guarantee Program reopened in February 2010 after the IRS updated regulations relating to the PSF and similar funds.

Prior to 2007, various legislation was enacted modifying the calculation of the State Capacity limit; however, in 2007, Senate Bill 389 (“SB 389”) was enacted, providing for increases in the capacity of the Guarantee Program, and specifically providing that the SBOE may by rule increase the capacity of the Guarantee Program from two and one-half times the cost value of the PSF to an amount not to exceed five times the cost value of the PSF, provided that the increased limit does not violate federal law and regulations and does not prevent bonds guaranteed by the Guarantee Program from receiving the highest available credit rating, as determined by the SBOE. SB 389 further provided that the SBOE shall at least annually consider whether to change the capacity of the Guarantee Program. Additionally, on May 21, 2010, the SBOE modified the SDBGP Rules, and increased the State Capacity Limit to an amount equal to three times the cost value of the PSF. Such modified regulations, including the revised capacity rule, became effective on July 1, 2010. The SDBGP Rules provide that the Education Commissioner will estimate the available capacity of the PSF each month and may increase or reduce the State Capacity Limit multiplier to prudently manage fund capacity and maintain the AAA credit rating of the Guarantee Program but also provide that any changes to the multiplier made by the Education Commissioner are to be ratified or rejected by the SBOE at the next meeting following the change. See “Valuation of the PSF and Guaranteed Bonds” below.

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

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

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**

<b>Permanent School Fund Valuations</b>		
<u>Fiscal Year Ended 8/31</u>	<u>Book Value<sup>(1)</sup></u>	<u>Market Value<sup>(1)</sup></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 <sup>(2)</sup>	43,915,792,841	59,020,536,667

<sup>(1)</sup> 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.

<sup>(2)</sup> 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.

<b>Permanent School Fund Guaranteed Bonds</b>	
<u>At 8/31</u>	<u>Principal Amount<sup>(1)</sup></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 <sup>(2)</sup>

<sup>(1)</sup> 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.

<sup>(2)</sup> 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.

<b>Permanent School Fund Guaranteed Bonds by Category<sup>(1)</sup></b>						
<u>Fiscal Year Ended 8/31</u>	<u>School District Bonds</u>		<u>Charter District Bonds</u>		<u>Totals</u>	
	<u>No. of Issues</u>	<u>Principal Amount (\$)</u>	<u>No. of Issues</u>	<u>Principal Amount (\$)</u>	<u>No. of Issues</u>	<u>Principal Amount (\$)</u>
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 <sup>(2)</sup>	3,339	111,647,914,682	102	4,082,912,000	3,441	115,730,826,682

<sup>(1)</sup> 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.

<sup>(2)</sup> 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.

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### PSF Returns Fiscal Year Ended 8-31-2023<sup>1</sup>

<u>Portfolio</u>	<u>Return</u>	<u>Benchmark Return<sup>2</sup></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

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

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

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

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

#### **Other Events and Disclosures**

State ethics laws govern the ethics and disclosure requirements for financial advisors and other service providers who advise certain State governmental entities, including the PSF. The SBOE code of ethics provides ethical standards for SBOE members, the Education Commissioner, TEA staff, and persons who provide services to the SBOE relating to the Fund. The PSF Corporation developed its own ethics policy that provides basic ethical principles, guidelines, and standards of conduct relating to the management and investment of the Fund in accordance with the requirements of §43.058 of the Texas Education Code, as amended. The SBOE code of ethics is codified in the Texas Administrative Code at 19 TAC sections 33.4 et seq. and is available on the

TEA web site at <https://tea.texas.gov/sites/default/files/ch033a.pdf>. The PSF Corporation's ethics policy is posted to the PSF Corporation's website at [texaspsf.org](https://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](http://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](http://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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