

AMENDED AND RESTATED
PRELIMINARY OFFICIAL STATEMENT

Dated May 2, 2024

Ratings:
Moody's: "Aa3"
S&P: "AA-"
(See "OTHER MATTERS -
Ratings" herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, under existing law, interest on the Bonds (i) is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended, and (ii) is not an item of tax preference for purposes of the alternative minimum tax on individuals. See "TAX MATTERS" herein, including information regarding potential alternative minimum tax consequences for corporations.

THE BONDS WILL NOT BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.

\$20,510,000*
BAYTOWN AREA WATER AUTHORITY
WATER SUPPLY CONTRACT REVENUE BONDS, SERIES 2024
(CITY OF BAYTOWN PROJECT)

Dated Date: June 1, 2024

Interest Accrual Date: Delivery Date (defined below)

Due: May 1, as shown on page ii

PAYMENT TERMS . . . Interest on the \$20,510,000* Baytown Area Water Authority Water Supply Contract Revenue Bonds, Series 2024 (City of Baytown Project) (the "Bonds") will accrue from the Delivery Date (defined below), and will be payable May 1 and November 1 of each year commencing November 1, 2024, until maturity or earlier redemption and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS – BOOK-ENTRY-ONLY SYSTEM" herein. The initial Paying Agent/Registrar is BOKF, N.A. (see "THE BONDS – PAYING AGENT/REGISTRAR").

AUTHORITY FOR ISSUANCE . . . The Bonds are special obligations of the Baytown Area Water Authority (the "Authority") and are being issued pursuant to the constitution and laws of the State of Texas, including particularly Chapter 8104, Texas Special District Local Laws Code. The Bonds are payable both as to principal and interest solely from certain contract payments to be made by the City of Baytown, Texas (the "City") to the Authority pursuant to an Amended and Restated Water Supply Contract for Treated Water between the City and the Authority, as amended from time to time. (see "THE BAYTOWN CONTRACT"). **Neither the Authority nor the City has covenanted or obligated itself to pay the Bonds from monies raised or to be raised from taxation, and no Owner shall ever have the right to demand payment of the Bonds from funds raised or to be raised from taxation. The Authority has no taxing power.**

PURPOSE . . . Proceeds from the sale of the Bonds will be used for the purposes of (i) the design, construction, acquisition and equipment of (a) raw water rehabilitation projects and (b) expansion of the East Surface Water Treatment Plant and related infrastructure and (ii) paying the costs of issuing such Bonds.

See Maturity Schedules on Page ii

OPTIONAL REDEMPTION . . . The Authority reserves the right, at its option, to redeem Bonds having stated maturities on and after May 1, 2035, in whole or from time to time in part, in principal amounts of \$5,000 or any integral multiple thereof, on May 1, 2034, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. (See "THE BONDS – OPTIONAL REDEMPTION").

MANDATORY REDEMPTION . . . In addition to the foregoing optional redemption provision, if principal amounts designated at the election of the Underwriters (defined below) in the serial maturity schedule on page ii hereof are combined to create one or more term bonds (the "Term Bonds"), each such Term Bond shall be subject to mandatory sinking fund redemption as provided herein (see "THE BONDS – MANDATORY SINKING FUND REDEMPTION").

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the underwriters identified below (collectively the "Underwriter") and subject to the approving opinion of the Attorney General of Texas and the opinion of Bracewell LLP, Houston, Texas, Bond Counsel (see "APPENDIX C – FORM OF BOND COUNSEL'S OPINION"). Certain matters will be passed upon for the Authority by Bracewell LLP, Houston, Texas as Disclosure Counsel. Certain matters will be passed upon by the Underwriter by Cantu, Harden, Montoya LLP.

DELIVERY . . . It is expected that the Bonds will be available for delivery through DTC on or about June 6, 2024 ("Delivery Date").

BAIRD

FHN FINANCIAL CAPITAL MARKETS

RAYMOND JAMES

* Preliminary, subject to change.

MATURITY SCHEDULE*

WATER SUPPLY CONTRACT REVENUE BONDS, SERIES 2024 (CITY OF BAYTOWN PROJECT)

CUSIP PREFIX: 073177^(b)

| Principal Amount* | Maturity (May 1) | Interest Rate | Initial Yield ^(a) | CUSIP ^(b) | Principal Amount* | Maturity (May 1) | Interest Rate | Initial Yield ^(a) | CUSIP ^(b) |
|----------------------|---------------------|------------------|---------------------------------|----------------------|----------------------|---------------------|------------------|---------------------------------|----------------------|
| \$ 865,000 | 2025 | | | | \$ 1,280,000 | 2033 | | | |
| 910,000 | 2026 | | | | 1,345,000 | 2034 | | | |
| 955,000 | 2027 | | | | 1,415,000 | 2035 ^(c) | | | |
| 1,005,000 | 2028 | | | | 1,485,000 | 2036 ^(c) | | | |
| 1,055,000 | 2029 | | | | 1,555,000 | 2037 ^(c) | | | |
| 1,105,000 | 2030 | | | | 1,635,000 | 2038 ^(c) | | | |
| 1,160,000 | 2031 | | | | 1,715,000 | 2039 ^(c) | | | |
| 1,220,000 | 2032 | | | | 1,805,000 | 2040 ^(c) | | | |

- (a) The initial yields on the Bonds are furnished by the Underwriter and represent the initial yields to the public, which may be changed by the Underwriter at any time.
- (b) CUSIP numbers have been assigned to this issue by the CUSIP Global Services and are included solely for the convenience of the purchasers of the Bonds. None of the Authority, the City, the Financial Advisor nor the Underwriter shall be responsible for the selection or correctness of the CUSIP numbers set forth herein. CUSIP data herein is provided by CUSIP Global Services, managed by FactSet Research Systems Inc. on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Global Services.
- (c) The Authority reserves the right, at its option, to redeem Bonds having stated maturities on and after May 1, 2035, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on May 1, 2034, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. (See "THE BONDS – OPTIONAL REDEMPTION.") If principal amounts designated at the election of the Underwriter in the serial maturity schedule are combined to create one or more term Bonds (the "Term Bond"), each such Term Bond shall be subject to mandatory sinking fund redemption as provided herein (see "THE BONDS – MANDATORY SINKING FUND REDEMPTION.")

* Preliminary, subject to change.

OFFICIALS AND CONSULTANTS

BOARD OF DIRECTORS

| <u>Directors</u> | <u>Original Appointment</u> | <u>Term Expires</u> |
|-----------------------------------|---------------------------------|--------------------------|
| Brenda Bradley Smith President | 3/26/2009 | 8/31/2024 ⁽¹⁾ |
| Frank McKay III Secretary | 9/1/2013 | 8/31/2025 |
| Jimmy Smith Director | 9/1/2021 | 8/31/2025 |
| Alyssa Linares Director | 9/1/2022 | 8/31/2024 ⁽¹⁾ |
| David Start Vice President | 4/25/2024 | 8/31/2025 ⁽²⁾ |

(1) Under Chapter 8104, Texas Special District Local Laws Code, Members of the Authority's Board of Directors are appointed by the City Council of the City. The City is in the process of filling the vacant position and expects to appoint or reappoint individuals to serve in positions expiring on August 31, 2024, in connection with the expiration of such terms.

(2) David Start is scheduled to be sworn in as a Director at the Authority's next meeting.

CONSULTANTS AND ADVISORS

Auditor.....Belt Harris Pechacek LLP
Certified Public Accountants
Houston, Texas

Bond Counsel and Disclosure Counsel Bracewell LLP
Houston, Texas

Financial Advisor.....Hilltop Securities, Inc.
Houston, Texas

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

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

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

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

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or other matters described.

NONE OF THE AUTHORITY, THE CITY, THE UNDERWRITER OR THE FINANCIAL ADVISOR MAKES 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 SUCH INFORMATION HAS BEEN PROVIDED BY DTC.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAW OF THE STATES IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF.

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

The agreements of the Authority, the City, 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 nor sale of the Bonds is to be construed as constituting an agreement with the purchasers of the Bonds. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

The prices and other terms respecting the offering and sale of the Bonds may be changed from time to time by the Underwriter after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to Underwriter who may sell the Bonds into investment accounts.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES 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.

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

References to website 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 websites and the information or links contained therein are not incorporated into, and are not part of, this final official statement for any purpose.

TABLE OF CONTENTS

| | | | |
|--|------------|--|-----------|
| OFFICIALS AND CONSULTANTS | III | THE CITY'S UTILITY SYSTEMS..... | 11 |
| BOARD OF DIRECTORS | III | WATER SYSTEM | 11 |
| CONSULTANTS AND ADVISORS..... | III | RECEIPT OF WATER THROUGH THE AUTHORITY | 11 |
| OFFICIAL STATEMENT SUMMARY..... | VI | CITY UTILITY SYSTEM LITIGATION..... | 12 |
| FINANCIAL HIGHLIGHTS | VII | TABLE 3 – TEN LARGEST WATER CUSTOMERS OF THE CITY BASED ON GALLONS CONSUMED)..... | 12 |
| INTRODUCTION | 1 | TABLE 4 - CITY OF BAYTOWN MONTHLY WATER RATE (EFFECTIVE JANUARY 2024)..... | 12 |
| THE AUTHORITY | 1 | WASTEWATER SYSTEM | 12 |
| DESCRIPTION OF THE AUTHORITY | 1 | TABLE 5 - CITY OF BAYTOWN MONTHLY SEWER RATE (EFFECTIVE JANUARY 2024) | 13 |
| ADMINISTRATION OF THE AUTHORITY..... | 1 | TABLE 6 - WATERWORKS AND SEWER SYSTEM CONDENSED SUMMARY OF OPERATIONS | 13 |
| CONSULTANTS..... | 1 | TAX MATTERS..... | 14 |
| SOURCE OF WATER SUPPLY | 2 | TAX EXEMPTION | 14 |
| WATER SYSTEM | 2 | COLLATERAL TAX CONSEQUENCES | 14 |
| THE AUTHORITY’S OPERATIONS | 2 | TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE PREMIUM | 15 |
| NEW EPA LIMITS FOR PER- AND POLYFLUOROALKYL SUBSTANCES IN DRINKING WATER..... | 2 | TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT..... | 15 |
| TABLE 1 - BAYTOWN AREA WATER AUTHORITY CONDENSED SUMMARY OF OPERATIONS..... | 3 | TAX LEGISLATIVE CHANGES | 15 |
| PLAN OF FINANCING..... | 4 | CONTINUING DISCLOSURE OF INFORMATION..... | 16 |
| PURPOSE..... | 4 | ANNUAL REPORTS..... | 15 |
| USE OF PROCEEDS | 4 | EVENT NOTICES | 16 |
| THE BONDS | 4 | LIMITATIONS AND AMENDMENTS | 17 |
| DESCRIPTION OF THE BONDS..... | 4 | COMPLIANCE WITH PRIOR UNDERTAKINGS | 17 |
| AUTHORITY FOR ISSUANCE OF THE BONDS | 4 | OTHER MATTERS..... | 18 |
| SECURITY | 4 | WEATHER EVENTS | 18 |
| OPTIONAL REDEMPTION | 5 | EXPOSURE TO OIL AND GAS INDUSTRY | 18 |
| MANDATORY SINKING FUND REDEMPTION | 5 | CYBERSECURITY | 18 |
| NOTICE OF REDEMPTION..... | 5 | RATINGS | 18 |
| BOOK-ENTRY-ONLY SYSTEM | 6 | SOURCES AND COMPILATION OF INFORMATION..... | 18 |
| PAYING AGENT/REGISTRAR..... | 7 | CITY UTILITY SYSTEM LITIGATION..... | 18 |
| TRANSFER, EXCHANGE AND REGISTRATION | 7 | REGISTRATION AND QUALIFICATION OF BONDS FOR SALE..... | 19 |
| RECORD DATE FOR INTEREST PAYMENT | 7 | LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS..... | 19 |
| BONDHOLDERS’ REMEDIES | 8 | LEGAL MATTERS..... | 19 |
| DEBT INFORMATION..... | 8 | FINANCIAL ADVISOR | 19 |
| TABLE 2 – PRO FORMA DEBT SERVICE SCHEDULE | 8 | UNDERWRITER | 20 |
| ISSUANCE OF ADDITIONAL DEBT..... | 8 | AUDITED FINANCIAL STATEMENTS..... | 20 |
| THE BAYTOWN CONTRACT | 9 | MISCELLANEOUS..... | 20 |
| GENERAL..... | 9 | APPENDICES | |
| DEFINITIONS..... | 9 | EXCERPTS FROM THE ANNUAL FINANCIAL REPORT FOR THE AUTHORITY | A |
| SALE AND DELIVERY OF TREATED WATER..... | 9 | EXCERPTS FROM THE ANNUAL FINANCIAL REPORT FOR THE CITY OF BAYTOWN | B |
| RATES AND PRICES | 9 | FORM OF BOND COUNSEL'S OPINION..... | C |
| ISSUANCE OF BONDS; PAYMENTS BY THE CITY | 9 | | |
| TERM | 10 | | |
| THE BOND RESOLUTION | 10 | | |
| GENERAL..... | 10 | | |
| DEFINITIONS..... | 10 | | |
| PLEDGE; SPECIAL OBLIGATIONS | 10 | | |
| DEBT SERVICE FUND | 10 | | |
| PAYMENT OF PLEDGED REVENUES..... | 10 | | |
| ADDITIONAL BONDS | 11 | | |

OFFICIAL STATEMENT SUMMARY

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

| | |
|-------------------------------------|--|
| THE AUTHORITY | The Baytown Area Water Authority (the "Authority") is a political subdivision of the State of Texas, created by act of the 63 rd Legislature on June 15, 1973. The Authority lies at the head of Galveston Bay between the San Jacinto and Trinity Rivers serving an area of approximately 53 square miles. The Authority is bounded on the north by Barbers Hill Road (FM 1942), on the south by Galveston Bay and the Houston Ship Channel, on the east by Bayshore Road (FM 2354) and on the west by Crosby-Lynchburg Road. Due to severe subsidence caused by the extraction of water from underground sources in the area included within the boundaries of the Authority, the Authority was created for the purposes of acquiring surface and groundwater supplies from sources both within and outside the boundaries of the Authority, which boundaries generally encompass the City of Baytown, Texas (the "City"). The Authority is authorized to issue revenue bonds to provide for the construction of water supply facilities. |
| THE ISSUE | \$20,510,000* Baytown Area Water Authority Water Supply Contract Revenue Bonds, Series 2024, (City of Baytown Project) dated April 1, 2024, maturing May 1, 2025 through May 1, 2040, inclusive (the "Bonds"), unless the Underwriter designates two or more consecutive maturities as Term Bonds. Interest is payable November 1, 2024 and semi-annually on May 1 and November 1 thereafter until maturity or earlier redemption. |
| AUTHORITY FOR ISSUANCE | The Authority is authorized to issue the Bonds pursuant to the constitution and laws of the State of Texas (the "State"), including Chapter 8104, Texas Special District Local Laws Code. The Bonds are issued pursuant to a resolution to be adopted by the Board of Directors of the Authority (the "Board") and approved by the City Council of the City of Baytown (the "City"). |
| SOURCE OF PAYMENT | The Bonds are special obligations of the Authority which are payable both as to principal and interest solely from certain contract payments to be made by the City to the Authority pursuant to an Amended and Restated Water Supply Contract – Treated Water, as amended from time to time (the "Baytown Contract") between the City and the Authority. The Authority has no taxing power, and neither the Authority nor the City has covenanted or obligated itself to pay the Bonds from monies raised or to be raised from taxation. No Owner shall ever have the right to demand payment of the Bonds from funds raised or to be raised from taxation. |
| REDEMPTION | The Authority reserves the right, at its option, to redeem Bonds having stated maturities on or after May 1, 2035, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on May 1, 2034, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS – OPTIONAL REDEMPTION"). In addition, the Bonds may be subject to mandatory redemption in the event the Underwriter elects to aggregate two or more consecutive maturities as one or more term Bonds (see "THE BONDS – MANDATORY REDEMPTION"). |
| TAX EXEMPTION | In the opinion of Bond Counsel, under existing law, interest on the Bonds (i) is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended, and (ii) is not an item of tax preference for purposes of the alternative minimum tax on individuals. See "TAX MATTERS" herein, including information regarding potential alternative minimum tax consequences for corporations. |
| RATINGS | The presently outstanding contract revenue debt of the Authority is rated "Aa3" by Moody's Investors Service, Inc. ("Moody's") and "AA-" by Standard & Poor's Global Ratings, a division of Standard & Poor's Financial Services LLC ("S&P") without regard to credit enhancement. |

* Preliminary, subject to change.

BOOK-ENTRY-ONLY SYSTEM The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS – BOOK-ENTRY-ONLY SYSTEM").

USE OF PROCEEDS Proceeds from the sale of the Bonds will be for the purposes of (i) the design, construction, acquisition and equipment of (a) raw water rehabilitation projects and (b) expansion of the East Surface Water Treatment Plant and related infrastructure and (ii) paying the costs of issuing such Bonds. (See "PLAN OF FINANCING – Use of Proceeds").

FINANCIAL HIGHLIGHTS

| | |
|---|------------------------------|
| Outstanding Contract Revenue Bonds (after issuance of the Bonds) | \$ 57,085,000 ⁽¹⁾ |
| Baytown Area Water Authority's Statement of Operations (9/30/2023) | |
| Total Revenues | \$ 18,494,588 |
| Total Expenses | <u>7,955,033</u> |
| Net Revenue ⁽²⁾ | \$ 10,539,555 |
| Average Annual Debt Service Requirement (2024-2044) | \$ 4,818,312 ⁽¹⁾ |
| Coverage of Average Annual Debt Service Requirement based on Net Revenue (2023) | 2.19x ⁽¹⁾⁽²⁾ |
| Maximum Debt Service Requirement (2025) | \$ 5,351,544 ⁽¹⁾ |
| Coverage of Maximum Annual Debt Service Requirement based on Net Revenue (2024) | 1.97x ⁽¹⁾⁽²⁾ |
| City of Baytown Water Customers (September 2023) | 22,767 |

(1) Includes existing debt and the Bonds. Preliminary, subject to change.

(2) Net Revenues are shown for the purpose of illustration. The Net Revenues of the Authority are not pledged to the payment of the Bonds. The Bonds are payable from contract payments to be made by the City to the Authority pursuant to the Baytown Contract (as defined herein) in amounts required to pay the principal of, premium if any, and interest on the Bonds and the Outstanding Bonds. See "THE BONDS – SECURITY."

PRELIMINARY OFFICIAL STATEMENT

RELATING TO THE

BAYTOWN AREA WATER AUTHORITY

\$20,510,000*

**WATER SUPPLY CONTRACT REVENUE BONDS, SERIES 2024
(CITY OF BAYTOWN PROJECT)**

INTRODUCTION

This Official Statement, including the cover page, the summary and the appendices hereto, provides certain information in connection with the issuance by the Baytown Area Water Authority (the "Authority") of its \$20,510,000* Water Supply Contract Revenue Bonds, Series 2024 (City of Baytown Project) (the "Bonds").

The Authority is authorized to issue the Bonds pursuant to Chapter 8104, Texas Special District Local Laws Code (the "Act") and by a water supply contract that was approved by voters of the City of Baytown, Texas (the "City") at an election held on January 15, 1977, and amended from time to time. The Bonds are issued pursuant to a bond resolution (the "Bond Resolution") to be adopted by the Board of Directors of the Authority (the "Board") and approved by the City Council of the City ("City Council").

Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Resolution except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Plan of Financing, the Bonds, the Baytown Contract (as defined herein), the Bond Resolution and certain information about the Authority and its finances and certain information about the City. 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 from the Authority.

THE AUTHORITY

DESCRIPTION OF THE AUTHORITY

The Authority is a political subdivision of the State of Texas, and operates under the Act and Chapters 49 and 54, Texas Water Code. Due to severe subsidence caused by extraction of water from underground sources in the area included within the Authority, the Authority was created for the purposes of acquiring surface and/or underground water supplies from sources both within and without the boundaries of the Authority, which boundaries generally encompass the City. As set forth in the Act, the Authority has the power to issue revenue bonds to provide for the construction and acquisition of water supply facilities.

ADMINISTRATION OF THE AUTHORITY

Policy-making and supervisory functions are the responsibility of and are vested in the Board. The Board consists of five members, appointed by the City Council to two-year staggered terms, which begin on September 1. One of the members of the Board must reside outside the City and none may be a member of the City Council. The Board members are listed on the page iii hereof.

Under the provisions of the Act, the City Manager of the City is designated the General Manager of the Authority and acts its chief executive officer. Under policies established by the Board, he is responsible for the following duties: administering the directives of the Board; keeping the Authority's records and minutes; coordinating with state, federal and local agencies; developing plans and programs for Board approval; formulating the Authority's budget subject to the approval of both the Board and City Council; hiring, supervising, training and discharging Authority employees, if any; contracting for or retaining outside professional services; and performing any other duties assigned by the Board.

The General Manager is Mr. Jason Reynolds, currently the City Manager of the City.

CONSULTANTS

The Authority has retained several consultants to perform professional services in connection with the issuance of the Bonds. Several of the consultants are identified on page iii hereof.

* Preliminary, subject to change.

SOURCE OF WATER SUPPLY

The Authority, as buyer, entered into a "Wholesale Water Supply Contract – Untreated Water" with the City of Houston, as seller, which was initially entered into as of October 24, 1994 and has been amended from time to time, most recently in 2024 (the "Houston Contract"). Under the Houston Contract, the Authority purchases raw water from the City of Houston for treatment and resale collectively, to the City and others. The term of the Houston Contract currently runs to December 31, 2040. The raw water provided under the Houston Contract is delivered to the Authority by the Coastal Water Authority ("CWA") from the Trinity River via the CWA canal system. The Houston Contract establishes an obligation of the City of Houston to provide water to the Authority up to an average of 32 million gallons per day (MGD). The Authority may reserve additional quantities of untreated water by providing 30 days' notice to the City of Houston. If the Authority exceeds the contracted quantity by an average over 10 percent for a month, a surcharge of five percent is added to the overage of the contracted quantity.

WATER SYSTEM

The Authority operates two surface water treatment plants. The Authority's Water Treatment facilities are surface water treatment plants utilizing coagulation, flocculation, sedimentation, filtration, and disinfection for treatment of the raw water. The current total firm capacity for the Authority's two surface water treatment plants is 31.9 MGD with a peak capacity of 31.9 MGD. The total storage capacity is 15 million gallons stored in four ground storage tanks. The Authority has the capability to expand its surface water treatment plant capacity to 59 MGD in the future. During the fiscal year ended September 30, 2023, the average daily water usage from the Authority's plants was approximately 15.19 MGD. The information in this paragraph updates the information contained under the heading "CAPITAL ASSETS" in the Management's Discussion and Analysis included in the Annual Financial Report. See Appendix A -Excerpts from the Annual Financial Report for the Authority, page 12.

Proceeds from the sale of the Bonds will be used for the purposes of (i) the design, construction, acquisition and equipment of (a) raw water rehabilitation projects and (b) expansion of the East Surface Water Treatment Plant and related infrastructure and (ii) paying the costs of issuing such Bonds.

THE AUTHORITY'S OPERATIONS

The Authority provides treated water to the City and seven other utility districts under contract. Approximately 91% percent of the treated water is utilized by the City and approximately 9% is utilized by the seven other political subdivisions that are customers of the Authority. For fiscal year 2023, the Authority sold an average of 15.19 MGD to its customers. The Authority has contracted with the City for personnel to operate the facilities of the Authority, including the water treatment plants.

NEW EPA LIMITS FOR PER- AND POLYFLUOROALKYL SUBSTANCES IN DRINKING WATER

On April 10, 2024, the Environmental Protection Agency (the "EPA") released new standards aimed at reducing the level of per- and polyfluoroalkyl substances ("PFAS") in drinking water. PFAS are certain man-made chemical compounds that persist in the environment for long periods of time and are frequently referred to as "forever chemicals."

The EPA has reported that under the new standards regulated public water systems have three years (by 2027) to complete their initial monitoring for these chemicals, which will be followed by compliance monitoring. Public water systems must provide the public with information on the levels of PFAS in their drinking water beginning in 2027. Public water systems that detect PFAS in their drinking water exceeding the maximum contaminant levels established under the final rule will have five years (by 2029) to implement solutions that reduce PFAS in their drinking water. The EPA estimated that between 6% and 10% of the approximately 66,000 public drinking water systems subject to the rule may have to take action to reduce PFAS to meet these new standards.

Recent press reports indicate that about 50 of the approximately 420 public water systems in Texas that have submitted PFAS results to the EPA thus far have reported samples exceeding the standards established in the new regulations for at least one of the PFAS that the EPA is targeting. Results from preliminary sampling undertaken through the City at Authority's Fritz Lanham Water Treatment Plant as part of the City's participation in the EPA's Unregulated Contaminant Monitoring Rule program initially showed contaminants that would have exceeded the limits for four of the PFAS covered by the new regulation.

The City and the Authority are pursuing a number of actions in connection with the adoption and implementation of the new EPA standards. If continued monitoring indicates the presence of PFAS in excess of the new standards, Authority and the City intend to pursue the integration of EPA-recommended removal technology at the Authority's water treatment plants. The City and the Authority are in the process of evaluating potential treatment options, which may include the introduction of granular activated carbon (GAC) into the filtration process at the Authority's water treatment plants. GAC has been shown to effectively remove PFAS from drinking water under certain treatment conditions. As part of their evaluation process, the City and the Authority will assess the estimated scope and cost of implementing such new water treatment technology. The City and the Authority will also explore the availability of funding under the Bipartisan Infrastructure Law, which set aside funding for communities with drinking water impacted by PFAS and other emerging contaminants, as well as other funding options. In addition, the City Council of the City and the Authority Board have taken action to authorize and are seeking permission from the Texas Office of the Attorney General to retain specialized outside legal counsel to evaluate potential claims. The City and the Authority may choose to take legal action based on the recommendations received from specialized outside legal counsel.

TABLE 1 – BAYTOWN AREA WATER AUTHORITY CONDENSED SUMMARY OF OPERATIONS

| | For Fiscal Year Ended September 30 | | | | |
|---|------------------------------------|---------------|---------------|---------------|---------------|
| Revenues | 2023 | 2022 | 2021 | 2020 | 2019 |
| Sale of treated water: | | | | | |
| City of Baytown | \$ 16,466,818 | \$ 13,511,028 | \$ 12,472,111 | \$ 12,559,655 | \$ 11,923,502 |
| Municipal utility districts | 1,694,670 | 1,475,071 | 1,394,136 | 1,479,575 | 1,639,432 |
| Rents and Royalties | - | - | - | - | - |
| Interest Income | 209,842 | 18,178 | 7,465 | 269,397 | 827,203 |
| Miscellaneous Revenues | 123,258 | 123,258 | 117,227 | 111,280 | 113,749 |
| Total Operating Revenue | \$ 18,494,588 | \$ 15,127,535 | \$ 13,990,940 | \$ 14,419,907 | \$ 14,503,886 |
| Expenses | | | | | |
| Raw water purchase | \$ 3,931,863 | \$ 5,448,723 | \$ 5,485,638 | \$ 4,898,337 | \$ 4,172,186 |
| Contract personnel costs | 1,950,242 | 1,720,147 | 1,603,278 | 1,534,472 | 1,381,420 |
| Maintenance | 480,397 | 506,836 | - | 235,491 | 290,002 |
| Services | 1,592,531 | 1,228,335 | 1,320,303 | 1,081,417 | 957,718 |
| Total Operating Expenses | \$ 7,955,033 | \$ 8,904,041 | \$ 8,409,220 | \$ 7,749,717 | \$ 6,801,326 |
| Net Revenue Available for Debt Service⁽¹⁾ | \$ 10,539,555 | \$ 6,223,494 | \$ 5,581,720 | \$ 6,670,190 | \$ 7,702,560 |
| Debt Requirement | \$ 3,583,294 | \$ 3,511,705 | \$ 3,515,370 | \$ 3,675,515 | \$ 3,296,355 |
| Surplus Net Revenue Available | \$ 6,956,261 | \$ 2,711,789 | \$ 2,066,350 | \$ 2,994,675 | \$ 4,406,205 |
| Debt Service Coverage | 2.94x | 1.77x | 1.59x | 1.81x | 2.34x |
| Average Daily Water Usage (MGD) ⁽²⁾ | 15.19 | 12.3 | 11.81 | 13.49 | 13.94 |

Source: The Authority's audited financial statements.

- (1) Net Revenues are shown for purposes of illustration. The Net Revenues of the Authority are not pledged to the payment of the Bonds. The Bonds are payable from payments to be made by the City to the Authority pursuant to the Baytown Contract in amounts required to pay the principal of, premium, if any, and interest on the Bonds and the Outstanding Bonds. See "THE BONDS – SECURITY."
- (2) The average daily water usage number reported in Table 1 of the Authority's Annual Financial and Operating Data Disclosure Information for fiscal year 2023 contained a scrivener's error. The corrected number for fiscal year 2023 is 15.19 MGD.

(REMAINDER OF PAGE LEFT BLANK)

PLAN OF FINANCING

PURPOSE

The Bonds are being issued for the purposes of (i) the design, construction, acquisition and equipment of (a) raw water rehabilitation projects and (b) expansion of the East Surface Water Treatment Plant and related infrastructure and (ii) paying the costs of issuing such Bonds.

USE OF PROCEEDS

Proceeds from the sale of the Bonds are expected to be applied as follows:

| <u>Sources of Funds</u> | |
|---------------------------------|-------------|
| Par Amount of Bonds | \$ - |
| Original Issue Premium | - |
| Total Sources of Funds | <u>\$ -</u> |
| <u>Uses of Funds</u> | |
| Deposit to Project Fund | \$ - |
| Underwriters' Discount | - |
| Cost of Issuance ⁽¹⁾ | - |
| Total Uses of Funds | <u>\$ -</u> |

(1) Includes legal fees of the Authority, financial advisory fees, rating agency fees, fees of the Paying Agent/Registrar, and other costs of issuance, including contingency.

THE BONDS

DESCRIPTION OF THE BONDS

The Bonds are dated June 1, 2024 (the "Dated Date"), and mature on May 1 in each of the years and in the amounts shown on page ii hereof. Interest on the Bonds will accrue from the date of delivery to the underwriters identified on the cover page of the Official Statement (collectively the "Underwriter"), and will be computed on the basis of a 360-day year of twelve 30-day months. Interest on the Bonds will be payable on May 1 and November 1 of each year, commencing November 1, 2024 until maturity or prior redemption. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and 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. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar, initially BOKF, N.A. 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").

AUTHORITY FOR ISSUANCE OF THE BONDS

The Bonds are being issued pursuant to the Constitution and general laws of the State, including particularly Chapter 8104, Texas Special District Local Laws Code, as amended, and the Bond Resolution.

SECURITY

The Bonds, when issued, will constitute valid and binding special obligations of the Authority, subject and pursuant to the terms and conditions of the Bond Resolution adopted by the Board and approved by the City. The principal of and interest on the Bonds, together with the Authority's outstanding Water Supply Contract Revenue & Refunding Bonds, Series 2012 (City of Baytown Project), Water Supply Contract Revenue Bonds, Series 2018 (City of Baytown Project) and Water Supply Contract Revenue Bonds, Series 2019 (City of Baytown Project) are payable from, and secured by a first lien on and pledge of, certain payments (the "Pledged Revenues") to be made to the Authority by the City pursuant to the Amended and Restated Water Supply Contract for Treated Water between the Authority and the City (the "Baytown Contract"), which was initially entered into as of January 31, 1977, amended and restated as of October 23, 1997, and further amended effective January 3, 2005, effective February 23, 2012, effective March 27, 2014, effective January 18, 2017, effective January 25, 2019, and effective May 9, 2024. The source of such payments includes any and all available sources that the City may pledge toward such payments, including gross revenues of its waterworks and sewer system, but does not include ad valorem taxes. The City has agreed and is obligated to the Authority, pursuant to the provisions of the Baytown Contract, to make payments of the Pledged Revenues in accordance with the terms of the Bond Resolution which requires payments to be made into the Debt Service Fund in amounts sufficient to pay the principal of, premium, if any, and interest on the Bonds when due. **The beneficial owners of the Bonds do not have the right to demand payment out of any funds derived or to be derived from taxation or any other revenues of the Authority other than the Pledged Revenues. The Authority has no taxing power.**

Pursuant to the Houston Contract, the City of Houston is obligated to supply untreated water to the Authority until December 31, 2040. See "THE AUTHORITY – SOURCE OF WATER SUPPLY." In addition, the Authority is obligated to supply treated water to the City and the City is required to make contract payments to the Authority until December 31, 2040.

OPTIONAL REDEMPTION

The Authority reserves the right, at its option, to redeem Bonds having stated maturities on or after May 1, 2035, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on May 1, 2034, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the Authority may select the maturities of Bonds (or mandatory sinking fund redemption amounts with respect to any Term Bonds (as defined herein)) 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.

MANDATORY SINKING FUND REDEMPTION

In addition to the foregoing optional redemption provisions, if principal amounts for two or more consecutive maturities designated at the election of the Underwriter in the serial maturity schedule on page ii hereof are combined by the Underwriter to create one or more term Bonds (the "Term Bonds"), each such Term Bond shall be subject to mandatory sinking fund redemption commencing on May 1 of the first year which has been combined to form such Term Bond and continuing on May 1 in each year thereafter until the stated maturity date of that Term Bond, and the amount required to be redeemed in any year shall be equal to the principal amount for such year set forth in the serial maturity schedule on page ii hereof, without premium, plus accrued interest to the date of redemption.

The principal amount of the Term Bonds required to be redeemed pursuant to the operation of such mandatory redemption provisions may be reduced, at the option of the Authority, by the principal amount of the Term Bonds of the same maturity which at least forty-five (45) days prior to a mandatory redemption date (i) shall have been acquired by the Authority and delivered to the Paying Agent/Registrar for cancellation or (ii) shall have been redeemed and not theretofore credited against a mandatory redemption requirement.

NOTICE OF REDEMPTION

Not less than 30 days prior to a redemption date for the Bonds, the Paying Agent/Registrar, at the direction of the Authority, 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, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar. 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, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY OBLIGATION OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH OBLIGATION OR PORTION THEREOF SHALL CEASE TO ACCRUE.

The Authority has reserved the right to give notice of its election or direction to optionally redeem Bonds conditioned upon the occurrence of subsequent events. Such notice may state (A) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date or (B) that the Authority retains the right to rescind such notice at any time prior to the scheduled redemption date if the Authority delivers a certificate of the Authority to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Bonds subject to conditional redemption where redemption has been rescinded shall remain outstanding.

The Paying Agent/Registrar and the Authority, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the Authority will reduce the outstanding principal amount of such Bonds held by DTC.

In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Bonds from the beneficial owners.

Neither the Authority nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Bonds for redemption. See "THE BONDS – BOOK-ENTRY-ONLY SYSTEM."

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by DTC while the Bonds are registered in its nominee's 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 Financial Advisor and the Authority believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities 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 certificate for each maturity will be issued for the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument 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 Bonds. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has an S&P Global Ratings rating of "AA+." The DTC Rules applicable to its Participants are on file with the SEC. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for such purchases 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 Bonds representing their ownership interests in the Bonds, except in the event that use of the book-entry system described herein 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 for the Bonds shall be sent to DTC. If less than all of the Bonds of a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue 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 Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority and 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 securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority and the Paying Agent/Registrar. Disbursement of such payments to Direct Participants will be the responsibility of DTC, and reimbursement 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 Authority and the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bonds are required to be printed and delivered.

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

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

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the Authority or the Underwriter.

Effect of Termination of Book-Entry-Only System. In the event that the Book-Entry-Only System of the Bonds is discontinued, printed Bonds will be issued to the DTC Participants or the holder, as the case may be, and such Bonds will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "THE BONDS – TRANSFER, EXCHANGE AND REGISTRATION" below.

PAYING AGENT/REGISTRAR

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

TRANSFER, EXCHANGE AND REGISTRATION

In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange 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, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. 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 business days after the receipt of the Bonds to be canceled, 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 any integral multiple of \$5,000 for any one maturity and for a like aggregate designated amount as the Bonds surrendered for exchange or transfer. See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

RECORD DATE FOR INTEREST PAYMENT

The record date ("Record Date") for the interest payable on the Bonds on any interest payment date means the close of business on the 15th day of the preceding month. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the Authority. 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 Holder of a Bond appearing on the registration 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.

BONDHOLDERS' REMEDIES

No lien has been created on any property of the Authority to secure payment of principal or interest on the Bonds, and the Owners of the Bonds have no right in the event of default, to attach or dispose of the projects or any property of the City or the Authority (other than certain funds as specified in the Resolution). No provision has been made for the appointment of a trustee to protect the rights of Bond owners, to provide for the acceleration of maturity, or for the operation of the Authority's system by an independent third party in the event of default. Accordingly, the only practical remedy in the event of default may be a mandamus proceeding to compel the Authority to perform its obligations under the Resolution. Such remedy, however, may be impracticable and difficult to enforce, and might need to be invoked periodically because of the unavailability of acceleration. The enforcement of a claim for payment of principal or interest may also be subject to the applicable provisions of the federal bankruptcy laws, other statutes, if any, hereinafter enacted, which might impose constraints on such enforcement, and general principles of equity which permit the exercise of judicial discretion.

DEBT INFORMATION

TABLE 2 – PRO FORMA DEBT SERVICE SCHEDULE

| Fiscal Year Ended | Outstanding Debt Service | | | The Bonds ⁽¹⁾ | | | Total Outstanding Debt Service | % of Principal Retired |
|-------------------------|--------------------------|----------------------|----------------------|--------------------------|---------------------|----------------------|--------------------------------------|------------------------------|
| 9/30 | Principal | Interest | Total | Principal | Interest | Total | | |
| 2024 | \$ 2,005,000 | \$ 1,528,994 | \$ 3,533,994 | \$ - | \$ 512,750 | \$ 512,750 | \$ 4,046,744 | |
| 2025 | 2,040,000 | 1,442,669 | 3,482,669 | 865,000 | 1,003,875 | 1,868,875 | 5,351,544 | |
| 2026 | 2,080,000 | 1,354,219 | 3,434,219 | 910,000 | 959,500 | 1,869,500 | 5,303,719 | |
| 2027 | 2,120,000 | 1,264,269 | 3,384,269 | 955,000 | 912,875 | 1,867,875 | 5,252,144 | |
| 2028 | 2,160,000 | 1,172,400 | 3,332,400 | 1,005,000 | 863,875 | 1,868,875 | 5,201,275 | 23.93% |
| 2029 | 2,250,000 | 1,078,588 | 3,328,588 | 1,055,000 | 812,375 | 1,867,375 | 5,195,963 | |
| 2030 | 2,345,000 | 980,888 | 3,325,888 | 1,105,000 | 758,375 | 1,863,375 | 5,189,263 | |
| 2031 | 2,440,000 | 887,250 | 3,327,250 | 1,160,000 | 701,750 | 1,861,750 | 5,189,000 | |
| 2032 | 2,540,000 | 789,225 | 3,329,225 | 1,220,000 | 642,250 | 1,862,250 | 5,191,475 | |
| 2033 | 2,640,000 | 686,850 | 3,326,850 | 1,280,000 | 579,750 | 1,859,750 | 5,186,600 | 54.45% |
| 2034 | 2,755,000 | 574,150 | 3,329,150 | 1,345,000 | 514,125 | 1,859,125 | 5,188,275 | |
| 2035 | 2,855,000 | 473,900 | 3,328,900 | 1,415,000 | 445,125 | 1,860,125 | 5,189,025 | |
| 2036 | 2,960,000 | 369,950 | 3,329,950 | 1,485,000 | 372,625 | 1,857,625 | 5,187,575 | |
| 2037 | 3,065,000 | 262,100 | 3,327,100 | 1,555,000 | 296,625 | 1,851,625 | 5,178,725 | |
| 2038 | 3,175,000 | 150,350 | 3,325,350 | 1,635,000 | 216,875 | 1,851,875 | 5,177,225 | 92.10% |
| 2039 | 1,150,000 | 34,500 | 1,184,500 | 1,715,000 | 133,125 | 1,848,125 | 3,032,625 | |
| 2040 | - | - | - | 1,805,000 | 45,125 | 1,850,125 | 1,850,125 | 100.00% |
| | <u>\$ 38,580,000</u> | <u>\$ 13,050,300</u> | <u>\$ 51,630,300</u> | <u>\$ 20,510,000</u> | <u>\$ 9,771,000</u> | <u>\$ 30,281,000</u> | <u>\$ 81,911,300</u> | |

(1) Interest calculated at market rates for the purpose of illustration. Preliminary, subject to change.

ISSUANCE OF ADDITIONAL DEBT . . . The Authority plans to issue additional debt in the future to complete the expansion of the East Surface Water Treatment Plant. It is expected that approximately \$50,000,000 additional debt will be issued in calendar year 2025 or 2026.

(REMAINDER OF PAGE LEFT BLANK)

THE BAYTOWN CONTRACT

GENERAL

The following are summaries of certain provisions of the Baytown Contract and do not purport to be a complete statement of the provisions of the Baytown Contract. Reference is hereby made to the Baytown Contract for complete details.

DEFINITIONS

Authority's Cost: The costs to be incurred by the Authority in the performance of its obligations under the Baytown Contract, including (i) the Pledged Revenues with respect to all outstanding Bonds, (ii) maintenance, operational and administrative costs, and (iii) the cost of untreated water pursuant to the Houston Contract (as defined herein).

Bonds: Bonds or other evidences of indebtedness, including notes, issued by the Authority pursuant to the Act and the terms of the Baytown Contract, which, together with the interest thereon, are to be paid from payments of Pledged Revenues to be made by the City pursuant to the Baytown Contract and which have been issued and sold to acquire funds to make, purchase, construct, lease, or otherwise acquire the Project; complete such making, purchasing, constructing, leasing or acquiring; enlarge, expand, or modify the Project; reconstruct the Project; or refund any Bonds.

Bond Resolution: Any resolution or resolutions adopted by the Board which authorizes the issuance of Bonds pursuant to the Baytown Contract and provides for other security and payment as such resolution or resolutions may be amended from time to time.

Pledged Revenues: The payments to be made by the City to the Authority for treated water and pledged in a Bond Resolution for payment of the principal of, premium, if any, and interest on the bonds issued pursuant to the terms of the Baytown Contract.

Project: The property, works, facilities and improvements, whether previously existing or to be made, constructed or acquired, within or without the boundaries of the Authority, necessary

- (a) to acquire surface water supplies from sources both within and without the boundaries of the Authority, including particularly the sources provided* by the Houston Contract,
- (b) to conserve, store, transport, treat and purify untreated water purchased by the Authority pursuant to BAWA's Contract, and
- (c) to distribute, sell and deliver treated water to the City pursuant to the terms of the Baytown Contract.

SALE AND DELIVERY OF TREATED WATER

Subject to the terms and conditions of the Baytown Contract, the Authority agrees to sell and deliver (or cause to be delivered) to the City, all of the City's treated water requirements for municipal purposes, and the City agrees to purchase from the Authority, all of the City's treated water requirements for municipal purposes. It is expressly agreed that the Authority shall not be obligated to deliver to the City treated water in excess of the Contract Quantity of 28.6 million gallons per day. The information in this paragraph updates the information related to the Authority's maximum obligation to provide treated water to the City that is contained in Note 10 to the Authority's Annual Financial Statements and Note IV. B. of the City's Annual Comprehensive Financial Statements. See Appendix A – Excerpts from the Annual Financial Report for the Authority, Note 10 and Appendix B – Excerpts from the Annual Financial Report of the City, Note IV. B.

RATES AND PRICES

The City agrees to pay the Authority's Costs through the establishment of rates for the purchase of treated water and by payments to the Authority based on such established rates. The Authority and the City shall periodically establish rates for the purchase of treated water.

ISSUANCE OF BONDS; PAYMENTS BY THE CITY

The Authority agrees, upon request of the City, to issue and sell, from time to time, Bonds in amounts sufficient to provide and pay for the costs of the Project. The Bonds shall have the form and characteristics as provided in the Bond Resolution.

In consideration of the Authority's agreement to issue the Bonds, and as part of the Authority's Costs, the City agrees to pay Pledged Revenues to the Authority pursuant to and in accordance with the terms of any Bond Resolution. The City shall pay the Pledged Revenues in the amounts and at the time designated in the Bond Resolutions. In the event the City should fail to make any payment required by the Baytown Contract, such payment shall continue as an obligation of the City until such overdue amount shall have been fully paid.

The source of funds for the City to make the payments of the Pledged Revenues shall include any and all available sources that the City may pledge toward such payments, including gross revenues of the City's utility systems.

A copy of any Bond Resolution, showing the principal amount of and rate of interest on the Bonds, their maturities, the name of the purchaser thereof, and other pertinent features, must be delivered to and approved by the City prior to the issuance and delivery of the Bonds.

The Authority and the City agree and understand that the holders of the Bonds shall rely upon such approval of the City and upon the City's promise to pay the Pledged Revenues. Therefore, the City covenants and agrees that such payments of the Pledged Revenues shall be made without setoff or counterclaim and, notwithstanding any other provisions of the Baytown Contract, the holders of the Bonds shall be entitled to rely upon the foregoing covenants and agreements regardless of any other agreements between the City and the Authority.

TERM

The Baytown Contract is for a term ending December 31, 2040, but provides that it shall continue in effect until all of the Bonds are paid.

THE BOND RESOLUTION

GENERAL

Certain provisions of the Bond Resolution are summarized below. The following does not purport to be a complete statement of the provisions of the Bond Resolution, to which reference is hereby made for complete details.

DEFINITIONS

Outstanding Bonds: The Authority's Water Supply Contract Revenue & Refunding Bonds, Series 2012 (City of Baytown Project), Water Supply Contract Revenue Bonds, Series 2018 (City of Baytown Project) and Water Supply Contract Revenue Bonds, Series 2019 (City of Baytown Project).

Pledged Revenues: (i) The payments to be made by the City to the Authority pursuant to the Baytown Contract consisting of the amounts required to pay, and pledged for payment of, the principal of, premium, if any, and interest on the Bonds and the Outstanding Bonds, and (ii) any additional revenues, income, receipts, or other resources, including without limitations, any grants, donations, or income received or to be received from the United States Government, or any other public or private source, whether pursuant to an agreement or otherwise, which in the future may, at the option of the Authority pursuant to official action by the Board, be pledged to the payment of the Parity Bonds. The City is authorized to pay the Pledged Revenues described in (i) of the previous sentence pursuant to Section 402.014, Texas Local Government Code (recodified as Section 552.014, Texas Local Government Code).

Project: The property, works, facilities, and improvements (whether previously existing or to be made, constructed, or acquired) within or without the boundaries of the Authority, necessary (1) to acquire surface water supplies from sources both within and without the boundaries of the Authority, including particularly the sources provided by the Houston Contract, (2) to conserve, store, transport, treat, and purify untreated water purchased by the Authority pursuant to the Houston Contract, and (3) to distribute, sell, and deliver treated water to the City pursuant to the terms of the Baytown Contract.

PLEDGE; SPECIAL OBLIGATIONS

The Bonds, together with the Outstanding Bonds, are payable from, and secured by an irrevocable first lien on and pledge of, the Pledged Revenues. The Authority covenants to maintain rates and charges to the City pursuant to the Baytown Contract in amounts sufficient to provide Pledged Revenues to meet the debt service requirements on the Bonds and the Outstanding Bonds. The Authority reserves the right, at the option of the Authority exercised through the adoption of official action by the Board, to add any additional revenues, income, receipts, or other resources, including without limitations, any grants, donations, or income received or to be received from the United States Government, or any other public or private source, whether pursuant to an agreement or otherwise, to the definition of Pledged Revenues.

The Bonds and the Outstanding Bonds are special obligations of the Authority payable solely from the sources described above, and no owner of the Bonds shall ever have the right to demand payment of the Bonds from funds derived or to be derived from taxation or any revenues of the Authority other than the Pledged Revenues.

DEBT SERVICE FUND

Immediately after delivery of the Bonds, the Authority shall deposit into the Debt Service Fund for the Bonds the accrued interest, if any, on the Bonds to the date of delivery. All payments by the City of Pledged Revenues shall be deposited directly into the appropriate debt service fund for the Bonds and the Outstanding Bonds.

All moneys from time to time deposited and held in the Debt Service Fund shall be held in trust by the Registrar for the benefit of the Bond owners and used to pay, or cause to be paid, the principal of and interest on the Bonds.

PAYMENT OF PLEDGED REVENUES

Under the terms of the Baytown Contract, by approving the issuance of the Bonds and the terms and conditions of the Bond Resolution, the City has absolutely and unconditionally obligated itself and agreed to make the following payments to the Authority in immediately available funds:

- (i) On or before July 1, 2024, and the first day of each month thereafter, such amounts, in approximately equal monthly installments, as will be sufficient, together with any other amounts available therefor in the Debt Service Fund, to pay the interest which shall become due on the Bonds on the next succeeding interest payment date; and
- (ii) On or before July 1, 2024, and on or before the first day of each month thereafter, such amounts, in approximately equal monthly installments, as will be sufficient, together with any other amounts available therefor in the Debt Service Fund, to pay the principal which shall become due on the Bonds on the next succeeding principal payment date.

ADDITIONAL BONDS

The Authority reserves the right, upon the request of the City, to issue additional bonds (the "Additional Bonds") in such amounts as are required for the purpose of acquiring funds to (i) complete making, purchasing, constructing, leasing, or acquiring the Project, (ii) enlarge, expand, or modify the Project, (iii) reconstruct the Project, or (iv) refund any Bonds, Outstanding Bonds, or Additional Bonds. The Additional Bonds, when issued and delivered, shall be payable from and secured by a first lien on and pledge of the Pledged Revenues (which shall include additional payments sufficient to enable the Authority to comply with all terms and conditions of the resolution authorizing the issuance of such Additional Bonds), in the same manner and to the same extent as the Outstanding Bonds and the Bonds; and the Bonds, the Outstanding Bonds and any Additional Bonds shall in all respects be on a parity and of equal dignity.

No such installment or series of Additional Bonds shall be issued unless:

- (i) A certificate is executed by the President and Secretary of the Board to the effect that no default exists in connection with any covenants or requirements of the Bonds, Outstanding Bonds or Additional Bonds, if any, and that the Debt Service Fund contains the amount then required to be on deposit therein;
- (ii) The City is not in default with respect to any series of bonds or other debt issued by it; and
- (iii) The principal of and interest on any such installment or series of Additional Bonds are payable on the same semiannual interest dates and annual principal dates as the Bonds and the Outstanding Bonds.

THE CITY'S UTILITY SYSTEMS

WATER SYSTEM

The following information is presented regarding the City's utility systems as it relates to the City's payment of Pledged Revenues to the Authority. The City obtains its entire domestic and commercial water supply from the Authority and began taking water in April 1981.

RECEIPT OF WATER THROUGH THE AUTHORITY

The raw water that is delivered to and treated by the Authority is purchased from the City of Houston under the Houston Contract. The water originates from the Trinity River and is conveyed to the Authority via the CWA canal system. CWA's Trinity River water conveyance system is operated under a contract with the City of Houston.

The Houston Contract, which extends through December 31, 2040, obligates the City of Houston to provide the Baytown Area Water Authority with raw water. This contract allows the Authority to purchase at and above an average of 32 MGD with a surcharge if the overage exceeds a ten percent average for the month.

The City is the largest customer of the Authority. Approximately 91% of the Authority's water is purchased by the City with the remaining 9% purchased by the Authority's seven other customers. The average daily amount of water purchased by the City from the Authority was approximately 13.85 MGD in fiscal year 2023.

The Authority operates two surface water treatment plants. The Authority's Water Treatment facilities are surface water treatment plants utilizing coagulation, flocculation, sedimentation, filtration, and disinfection for treatment of the raw water. The current total firm capacity of the two surface water treatment plants is 31.9 MGD with a peak capacity of 31.9 MGD. The total storage capacity is 15 million gallons stored in four ground storage tanks. The Authority has the capability to expand its surface water treatment plant capacity to 59 MGD in the future.

The Bonds are being issued in part for the design, early construction, acquisition and equipment of the first phase of the East Surface Water Treatment Plant expansion. Upon completion of the second phase of the expansion, the East Surface Water Treatment Plant will have a maximum firm capacity of 12 MGD, with the ability to expand the East Surface Water Treatment Plant in the future.

The Authority and the City have entered into a contract where the City provides the personnel necessary to manage, operate, and maintain the water treatment plants. The Authority reimburses the City the actual cost of the employees' salaries and benefits, and the materials and supplies used by the Authority in operating and maintaining the treatment plants.

CITY UTILITY SYSTEM LITIGATION

SEE "OTHER MATTERS – LITIGATION" for information related to a lawsuit affecting the City's sanitary sewer system.

TABLE 3 – TEN LARGEST WATER CUSTOMERS OF THE CITY (BASED ON GALLONS CONSUMED)

| Customer | Water Usage In Gallons ⁽¹⁾ |
|--|--|
| Chambers County Industrial District #1 | 482,296 |
| ExxonMobil | 249,658 |
| Spring Meadows MUD | 175,120 |
| Chambers Co MUD | 128,168 |
| GCCISD | 73,250 |
| San Jacinto Memorial Hospital | 63,897 |
| Chambers County Industrial District #3 | 38,704 |
| Chevron Chemical Company | 32,919 |
| Creekside Apartments | 29,746 |
| Chambers County Industrial District #2 | 24,423 |
| | <u>1,298,181</u> |

Source: The City.

For the fiscal year ended September 30, 2023.

TABLE 4 – CITY OF BAYTOWN MONTHLY WATER RATE (EFFECTIVE JANUARY 2024)

Water Service—Rate Schedule Individually Metered Single-Family Residential

| | Inside City Limits | Outside City Limits |
|---|-----------------------|------------------------|
| <u>Base Facility Charge:</u> | | |
| Per Dwelling Unit | \$7.53 | \$11.30 |
| <u>Customer Charge:</u> | | |
| Per Bill Issued | \$3.62 | \$5.43 |
| <u>Gallage Charge (Per Thousand Gallons):</u> | | |
| Up to 2,000 gallons per unit | \$2.72 | \$4.09 |
| Over 2,000—6,000 gallons per unit | \$6.79 | \$10.20 |
| Use over 6,000 gallons per unit | \$9.37 | \$14.06 |

Water Service—Rate Schedule Multifamily Residential Master Meter Service

| | Inside City Limits | Outside City Limits |
|---|-----------------------|------------------------|
| <u>Base Facility Charge:</u> | | |
| Per Dwelling Unit | \$7.53 | \$11.30 |
| <u>Customer Charge:</u> | | |
| Per Bill Issued | \$3.62 | \$5.43 |
| <u>Gallage Charge (Per Thousand Gallons):</u> | | |
| Up to 2,000 gallons per unit | \$2.76 | \$4.13 |
| Over 2,000 gallons per unit | \$6.79 | \$10.20 |

Source: The City.

WASTEWATER SYSTEM

The City has four wastewater treatment plants. The East District Plant is rated at 6.0 MGD, the Central District Plant is rated at 6.2 MGD, the West District Plant is rated at 8.0 MGD, and the Northeast Plant is rated at 4.0 MGD. Currently, all plants are operating at less than 75% design capacity and all meet the minimum standards as set forth by the EPA and the Texas Commission on Environmental Quality.

TABLE 5 – CITY OF BAYTOWN MONTHLY SEWER RATE (EFFECTIVE JANUARY 2024)

| Wastewater Service—Rate Schedule Individually Metered Single-Family Residential | | |
|--|-------------------------------|--------------------------------|
| | <u>Inside City Limits</u> | <u>Outside City Limits</u> |
| <u>Base Facility Charge:</u> | | |
| Per Dwelling Unit | \$8.13 | \$12.20 |
| <u>Customer Charge:</u> | | |
| Per Bill Issued | \$3.91 | \$5.87 |
| <u>Gallonge Charge (Per Thousand Gallons):</u> | | |
| Up to 2,000 gallons per unit | \$2.98 | \$4.47 |
| Over 2,000 - 12,000 gallons per unit | \$6.74 | \$10.11 |
| Over 12,000 gallons per unit | No charge | No charge |

| Wastewater Service—Rate Schedule Multifamily Residential Master Meter Service | | |
|--|-------------------------------|--------------------------------|
| | <u>Inside City Limits</u> | <u>Outside City Limits</u> |
| <u>Base Facility Charge:</u> | | |
| Per Dwelling Unit | \$8.13 | \$12.20 |
| <u>Customer Charge:</u> | | |
| Per Bill Issued | \$3.91 | \$5.87 |
| <u>Gallonge Charge (Per Thousand Gallons):</u> | | |
| Up to 2,000 gallons per unit | \$2.81 | \$4.47 |
| Over 2,000 gallons per unit | \$6.74 | \$10.11 |

Source: The City.

TABLE 6 – WATERWORKS AND SEWER SYSTEM CONDENSED SUMMARY OF OPERATIONS

| City of Baytown | | | | | |
|--|---------------------------|----------------------|----------------------|----------------------|----------------------|
| For Fiscal Year Ended September 30, | | | | | |
| | <u>2023⁽¹⁾</u> | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> |
| Revenue: | | | | | |
| Charges for Service | \$ 47,729,025 | \$ 40,996,385 | \$ 39,113,079 | \$ 40,008,357 | \$ 37,337,723 |
| Service Charges and Other | 8,380,209 | 9,280,152 | 8,031,423 | 6,043,474 | 5,078,258 |
| Intergovernmental | 1,881,496 | 1,526,388 | 3,253,158 | 1,363,365 | 1,365,276 |
| Interest Income | 3,140,823 | 580,648 | 66,528 | 513,840 | 743,135 |
| Total Revenue | <u>\$ 61,131,553</u> | <u>\$ 52,383,573</u> | <u>\$ 50,464,188</u> | <u>\$ 47,929,036</u> | <u>\$ 44,524,392</u> |
| Expenses (Other Than Depreciation): | | | | | |
| Personnel Costs | \$ 12,443,303 | \$ 10,608,959 | \$ 10,906,565 | \$ 11,291,063 | \$ 8,124,358 |
| Supplies | 17,659,023 | 14,617,927 | 13,410,364 | 13,306,622 | 12,640,329 |
| Maintenance | 2,833,299 | 2,191,022 | 2,221,983 | 1,876,530 | 2,445,092 |
| Services | 2,769,721 | 2,856,440 | 3,814,445 | 2,942,680 | 2,819,180 |
| Miscellaneous | - | - | - | - | 14,930 |
| Total Expenses | <u>\$ 35,705,346</u> | <u>\$ 30,274,348</u> | <u>\$ 30,353,357</u> | <u>\$ 29,416,895</u> | <u>\$ 26,043,889</u> |
| Net Revenue Available for Debt Service | \$ 25,426,207 | \$ 22,109,225 | \$ 20,110,831 | \$ 18,512,141 | \$ 18,480,503 |
| Water Customers | 22,767 | 22,552 | 24,067 | 23,810 | 22,148 |
| Sewer Customers | 22,223 | 22,166 | 23,613 | 22,344 | 21,276 |

(1) The information provided for the Fiscal year ended September 30, 2023 updates the unaudited information provided in Table 5 of the Authority's Annual Financial and Operating Data Disclosure Information for the Fiscal Year Ended September 30, 2023.

TAX MATTERS

The following discussion of certain federal income tax considerations is for general information only and is not tax advice. Each prospective purchaser of the Bonds should consult its own tax advisor as to the tax consequences of the acquisition, ownership and disposition of the Bonds.

TAX EXEMPTION

In the opinion of Bracewell LLP, Bond Counsel, under existing law, interest on the Bonds (i) is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) is not an item of tax preference for purposes of the alternative minimum tax on individuals.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the "Service"). The Authority has covenanted in the Ordinance that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Ordinance pertaining to those sections of the Code that affect the excludability of interest on the Bonds from gross income for federal income tax purposes and, in addition, will rely on representations by the Authority and other parties involved with the issuance of the Bonds with respect to matters solely within the knowledge of the Authority and such other parties, which Bond Counsel has not independently verified. If the Authority fails to comply with the covenants in the Ordinance or if the foregoing representations are determined to be inaccurate or incomplete, interest on the Bonds could become includable in gross income from the date of delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, Bond Counsel will express no opinion as to the amount or timing of interest on the Bonds or any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Bonds. Certain actions may be taken or omitted subject to the terms and conditions set forth in the Ordinance upon the advice or with the approving opinion of Bond Counsel. Bond Counsel will express no opinion with respect to Bond Counsel's ability to render an opinion that such actions, if taken or omitted, will not adversely affect the excludability of interest of the Bonds from gross income for federal income tax purposes.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems 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 as to 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 Authority as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds regardless of the ultimate outcome of the audit.

COLLATERAL TAX CONSEQUENCES

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences, including but not limited to those noted below. Therefore, prospective purchasers of the Bonds should consult their own tax advisors as to the tax consequences of the acquisition, ownership, and disposition of the Bonds.

An "applicable corporation" (as defined in section 59(k) of the Code) may be subject to a 15% alternative minimum tax imposed under section 55 of the Code on its "adjusted financial statement income" (as defined in section 56A of the Code) for such taxable year. Because interest on tax-exempt obligations, such as the Bonds, is included in a corporation's "adjusted financial statement income," ownership of the Bonds could subject certain corporations to alternative minimum tax consequences.

Ownership of tax-exempt obligations also may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Bonds.

Prospective purchasers of the Bonds should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE PREMIUM

If the issue price of a maturity of the Bonds exceeds the stated redemption price payable at maturity of such Bonds, such Bonds (the "Premium Bonds") are considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Premium Bond.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Bond and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Bonds.

TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT

If the issue price of a maturity of the Bonds is less than the stated redemption price payable at maturity of such Bonds (the "Original Issue Discount Bonds"), the difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds. Generally, such initial owner 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 period that such Original Issue Discount Bond continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussions regarding interest on the Bonds under the captions "TAX MATTERS – TAX EXEMPTION" and "TAX MATTERS – ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS – COLLATERAL TAX CONSEQUENCES" and "—TAX LEGISLATIVE CHANGES" generally apply and should be considered in connection with the discussion in this portion of the Official Statement.

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.

The foregoing discussion assumes that (i) the Underwriter has purchased the Bonds for contemporaneous sale to the public and (ii) all of the Original Issue Discount Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the inside cover page of this Official Statement. Neither the Authority nor Bond Counsel has made any investigation or offers any comfort that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

Under existing law, the original issue discount on each Original Issue Discount Bond accrues daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month 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 (i) 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 (ii) 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, and redemption, sale or other disposition of Original Issue Discount Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that 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 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.

TAX LEGISLATIVE CHANGES

Current law may change so as to directly or indirectly reduce or eliminate the benefit of the excludability of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any recently enacted, proposed, pending or future legislation.

CONTINUING DISCLOSURE OF INFORMATION

The Authority in the Bond Resolution and the City in a separate undertaking have made the following agreements for the benefit of the holders and beneficial owners of the Bonds. The Authority is required to observe the agreement for so long as it remains obligated for payment of the Bonds and the City is required to observe the agreement for so long as it remains obligated to advance funds under the Baytown Contract for payment of the Bonds. Under the agreements, the Authority and the City will be obligated to provide certain updated financial information and operating data annually, and the Authority and the City will be obligated to provide timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors. Information will be available free of charge via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

ANNUAL REPORTS

The Authority and the City will provide certain updated financial information and operating data to the MSRB annually via EMMA. The information to be updated by the Authority includes all quantitative financial information and operating data with respect to the Authority of the general type included in this Official Statement under Tables 1 and 2 and in Appendix A and the information to be updated by the City includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables 3 through 6 and in Appendix B. The Authority and the City will update and provide this information within six months after the end of their respective fiscal years.

The Authority and the City may provide updated information in full text or may incorporate by reference other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements if the Authority and/or the City commissions an audit and the audits are completed by the required time. If audited financial statements are not available by the required time, the Authority and/or the City will provide such financial statements on an unaudited basis within the required time and audited financial statements when they become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX A (with respect to the Authority) and APPENDIX B (with respect to the City) or such other accounting principles as the Authority or the City may be required to employ from time to time pursuant to state law or regulation.

The Authority's current fiscal year end is September 30. Accordingly, the Authority must provide updated information by the last day of March in each year, unless the Authority changes its fiscal year. If the Authority changes its fiscal year, it will notify the MSRB of the change. The City's current fiscal year end is September 30. Accordingly, the City must provide updated information by the last day of March in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

EVENT NOTICES

The Authority will notify the MSRB through EMMA of any of the following events with respect to the Bonds in a timely manner, and not more than 10 business days after occurrence of the event:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other material events affecting the tax status of the Bonds;
- (7) Modifications to rights of Holders of the Bonds, if material;
- (8) Bond calls, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the Bonds; if material;
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership, or similar event of the Authority, which will occur as described below;

- (13) The consummation of a merger, consolidation, or acquisition involving the Authority or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material;
- (15) Incurrence of a Financial Obligation of the Authority, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Authority, 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 Authority, any of which reflect financial difficulties.

For the purposes of the event identified in (12), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Authority in a proceeding under the U.S. 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 Authority, 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 Authority, and the words used in clauses (15) and (16) in the immediately preceding paragraphs and in the definition of Financial Obligation have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018. The Ordinance defines "Financial Obligation" as a (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of a debt obligation or any such derivative instrument; provided that "Financial Obligation" shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

The Authority will notify the MSRB through EMMA, in a timely manner, of any failure by the Authority to provide financial information or operating data by the time required.

LIMITATIONS AND AMENDMENTS

The Authority and the City have agreed to update information and to provide notices of material events only as described above. The Authority and the City have not agreed to provide other information that may be relevant or material to a complete presentation of their financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The Authority and the City 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 Authority and the City each disclaim any contractual or tort liability for damages resulting in whole or in part from any breach of their continuing disclosure agreements or from any statements made pursuant to their agreements, although holders of Bonds may seek a writ of mandamus to compel the Authority and the City to comply with their agreements.

The Authority and the City may each amend their continuing disclosure agreements 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 Authority or the City, as the case may be, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the initial primary offering 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 Authority and the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The Authority and the City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the SEC Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of the SEC 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 in the primary offering of the Bonds.

If the Authority or the City so amends its agreement, the Authority or the City, as applicable, have agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "ANNUAL REPORTS" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS

For the fiscal year ended September 30, 2023, the City filed unaudited financial information and operating data by the required date. The City did not file audited financial statements until April 12, 2024. For the fiscal year ended September 30, 2022, the City filed unaudited financial information by the required date. The City filed its audited financial statements on October 23, 2023. For the fiscal year ended September 30, 2021, the City timely filed unaudited financial information and operating data. The City filed its audited financial statements on July 13, 2022.

For the fiscal year ended September 30, 2022, the Authority timely filed unaudited financial information and operation data. The Authority filed its audited financial statements on October 23, 2023.

OTHER MATTERS

WEATHER EVENTS

The Authority is located on the Texas Gulf Coast. Land located in this area is susceptible to high winds, heavy rain and flooding caused by hurricanes, tropical storms, and other tropical disturbances. If a future weather event were to significantly damage all or part of the improvements within the Authority or disrupted the operations or damaged the facilities of City could reduce the usage of the City's utility systems. While the City is obligated under the Baytown Contract to make payments of Pledged Revenues while the Bonds are outstanding, the source of the City's payments is generally the revenues of the City's water and sewer system. If there were a prolonged disruption to the operation of the City's water and sewer system, such a disruption could adversely impact the City's ability to pay its obligations under the Baytown Contract and the revenues of the Authority available to pay debt service on the Bonds.

EXPOSURE TO OIL AND GAS INDUSTRY

In the past, the greater Houston area has been affected by adverse conditions in the oil and gas industry. Such adverse conditions may result in reduced revenues, declines in capital and operating expenditures, business failures, and the layoff of workers within the oil and gas industry. Adverse conditions in the oil and gas industry and spillover effects into other industries could adversely impact demand for residential and commercial property in the Houston area and could reduce or negatively impact the demand for water and the revenues available to the Authority.

CYBERSECURITY

The Authority's operations are increasingly dependent on information technologies and services, which are exposed to cybersecurity risks and cyber incidents or attacks. While the Authority continually assesses and monitors its cybersecurity risks, the city has been (and may be in the future) subject to cyber-attacks from time to time. The Authority regularly monitors its systems and devices to assess and respond to any cyber-attack to minimize the disruption to Authority services; it regularly obtains technology improvements to mitigate cybersecurity risks; it has in place cybersecurity training programs for its personnel and it takes other actions it deems appropriate to prepare for and address cybersecurity risks. No assurance can be given that the Authority will fully prevent or successfully remediate the operational and/or financial impact of any cybersecurity incursions or incidents arising from events wholly or partially beyond the Authority's control, including electrical telecommunications outages, natural disasters or cyber-attacks initiated by criminal activities of individuals or organizations. There have been no recent cyber security incidents.

RATINGS

The Bonds have been rated "Aa3" by Moody's and "AA-" by S&P. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the Authority makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Bonds.

SOURCES AND COMPILATION OF INFORMATION

All information contained in this Official Statement is subject, in all respects, to the complete body of information contained in the original sources thereof and no guaranty, warranty or other representation is made concerning the accuracy or completeness of the information herein. In particular, no opinion or representation is rendered as to whether any projection will approximate actual results, and all opinions, estimates and assumptions, whether or not expressly identified as such, should not be considered statements of fact.

CITY UTILITY SYSTEM LITIGATION

Since 2013, the City has been involved in a voluntary program established by the State called the Sanitary Sewer Overflow Initiative (the "SSOI"). The State's program allows municipalities to direct resources toward corrective actions to fix sanitary sewer overflows that are prohibited by the Clean Water Act. As part of the SSOI, the City entered into a 10-year formal agreement with the Texas Commission on Environmental Quality ("TCEQ") in 2013 to complete substantial work to improve the performance of the sanitary sewer system. The City has completed or is in the process of closing out the projects included in the initial 10-year agreement, with the exception of a lift station project that is currently under design and expected to be completed in 2025.

Prior to the end of the initial 10-year agreement, the City began working on a plan that it would propose to the State regarding the next stage in its improvements to the sanitary sewer system. However, prior to the negotiation of such an agreement with the State, a citizens group called Bayou City Waterkeeper filed a notice of intent to sue the City regarding sanitary sewer overflows. As required by law, the notice of intent was sent to the EPA, the State, and the Texas Commission on Environmental Quality, which allowed those governmental agencies the opportunity to take action as the primary regulators of the Clean Water Act rather than having a private group initiate litigation. As a result, the City is now party to a lawsuit filed by the United States on behalf of the Environmental Protection Agency and the State of Texas on behalf of the TCEQ regarding sanitary sewer overflows in the City and Bayou City Waterkeeper has intervened in the lawsuit as permitted by the Clean Water Act. The lawsuit and related negotiations are expected to facilitate the development of a scope of work for improvements to the City's sanitary sewer system that would be formalized in a consent decree filed with a federal court. The parties jointly requested a

stay in the litigation pending settlement discussions, which the Judge granted, administratively closing the matter. On April 9, 2024, the Judge signed an order extending the stay through September 30, 2024 and the parties will report to the Court on the status of negotiations no later than September 30, 2024. The City believes it is likely that the current negotiations will continue into 2025 and anticipates requesting that the stay be continued accordingly and as necessary to facilitate a mutually-agreeable settlement. The scope of the sanitary sewer improvements that would be included in a consent decree and the financial impact on the City associated with funding such improvements are currently unknown. However, resolution of the suit may involve a substantial investment in the City's sanitary sewer system that could be material to investors.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction. The Authority assumes no responsibility for 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 qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency. See "OTHER MATTERS—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 capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the Authority has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

LEGAL MATTERS

The delivery of the Bonds is subject to the approving opinions of the Attorney General of the State to the effect that the Bonds are valid and legally binding obligations of the Authority and the approving legal opinion of Bracewell LLP, Bond Counsel to the Authority ("Bond Counsel"), in substantially the forms attached as APPENDIX C.

In its capacity as Bond Counsel, Bracewell LLP was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information in this Official Statement appearing under the captions and subcaptions "THE BONDS" (excluding the information under the subcaption "BOOK-ENTRY-ONLY SYSTEM," "SECURITY," and "BONDHOLDERS' REMEDIES" as to which no opinion is expressed), "THE BOND RESOLUTION", "THE BAYTOWN CONTRACT" and "CONTINUING DISCLOSURE OF INFORMATION" (excluding the information under "COMPLIANCE WITH PRIOR UNDERTAKINGS" as to which no opinion is expressed) and Bond Counsel is of the opinion that the information contained therein conforms to the provisions of the Resolution; further, such firm has reviewed the information in this Official Statement appearing under the captions and subcaptions "TAX MATTERS," "OTHER INFORMATION – LEGAL MATTERS" (excluding the last sentence of the second paragraph thereof), "OTHER INFORMATION – LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," and such firm is of the opinion that the information contained under such captions and subcaptions is an accurate description of the laws (See "OTHER INFORMATION - REGISTRATION AND QUALIFICATION OF BONDS FOR SALE") and legal issues addressed therein. Certain legal matters will be passed upon for the Authority by Bracewell LLP, Houston, Texas in its capacity as Special Disclosure Counsel for the Authority. Certain legal matters will be passed upon for the Underwriters by Cantu Harden Montoya, LLP, Counsel to the Underwriters.

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.

Bracewell LLP represents the Financial Advisor and the Underwriters from time to time in matters unrelated to the issuance of the Bonds. Bracewell LLP has been engaged by and only represents the Authority in connection with the issuance of the Bonds. The fees of Bracewell LLP and counsel to the Underwriters are contingent upon the sale and delivery of the Bonds.

FINANCIAL ADVISOR

Hilltop Securities, Inc. is employed as Financial Advisor to the Authority in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. Hilltop Securities, Inc., in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

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

UNDERWRITER

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the Authority, at a price of \$_____ (representing the principal amount of the Bonds, plus [a net] premium of \$_____, less an underwriting discount of \$_____).

The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

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

AUDITED FINANCIAL STATEMENTS

Belt Harris Pechacek LLLP (the "Auditor"), the Authority's and the City's independent auditor, has not reviewed, commented on, or approved, and is not associated with, this Official Statement. Excerpts from the report of the Auditor relating to the Authority's and the City's financial statements for the fiscal year ended September 30, 2023 are included in this Official Statement in Appendix A and Appendix B, respectively; however, the Auditor has not performed any procedures on such financial statements since the date of such reports, and has not performed any procedures on any other financial information of the Authority or the City, including without limitation any of the information contained in this Official Statement, and has not been asked to consent to the inclusion of its report, or otherwise be associated with this Official Statement.

MISCELLANEOUS

The financial data and other information contained herein have been obtained from the Authority's and the City's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

The use of this Official Statement has been authorized by the Authority.

(REMAINDER OF PAGE LEFT BLANK)

THIS PAGE LEFT BLANK INTENTIONALLY

APPENDIX A

EXCERPTS FROM THE BAYTOWN AREA WATER AUTHORITY ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2023

The information contained in this Appendix consists of excerpts from the Baytown Area Water Authority Annual Financial Report for the Year Ended September 30, 2023, and is not intended to be a complete statement of the Authority's financial condition. Reference is made to the complete Report for further information.

THIS PAGE LEFT BLANK INTENTIONALLY



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of the
Baytown Area Water Authority of the
City of Baytown, Texas:

We have audited, in accordance with the 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, the accompanying financial statements of the business-type activities of the Baytown Area Water Authority (the "Authority"), a component unit of the City of Baytown, Texas, as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents and have issued our report thereon dated January 31, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The logo for Belt Harris Pechacek, LLP features the company name in a stylized, cursive font. The letters 'B', 'H', and 'P' are significantly larger and more ornate than the other letters, which are in a smaller, simpler font. The entire logo is rendered in a dark red or maroon color.

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas
January 31, 2024

***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

(This page intentionally left blank.)

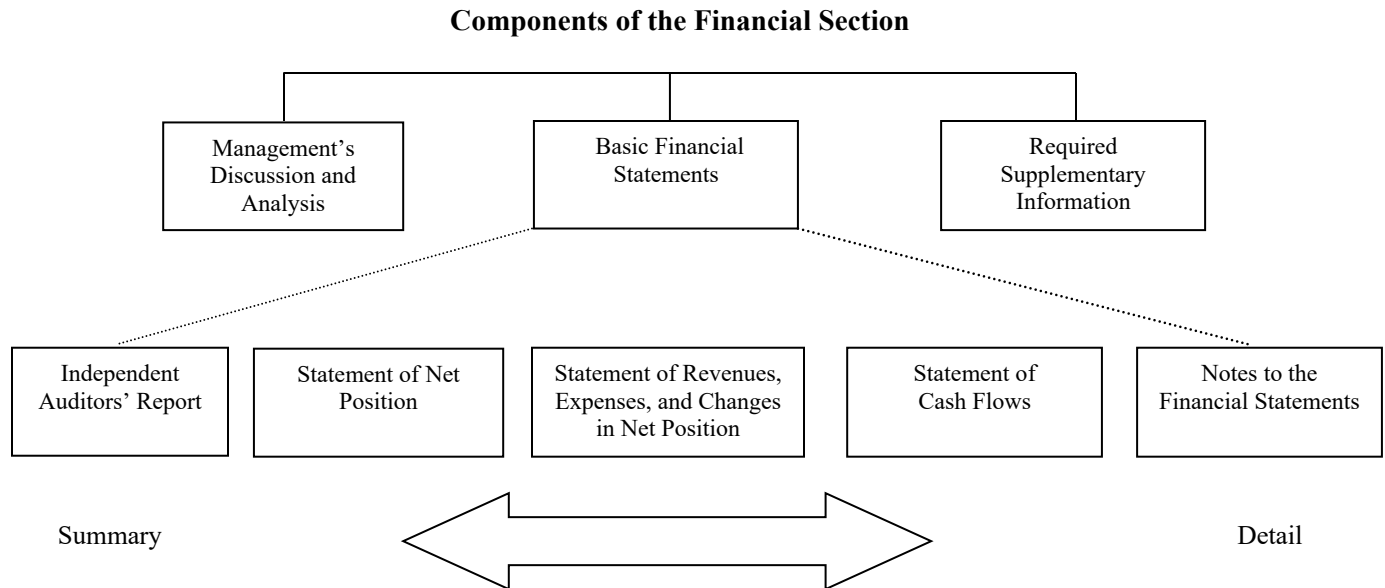
BAYTOWN AREA WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2023

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the Baytown Area Water Authority's (the "Authority") financial activities for the year. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the Authority's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the Authority's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT



The Authority's basic financial statements include the Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; Statement of Cash Flows; and notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Basic Financial Statements

The basic financial statements report information for the Authority as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the Authority as an economic entity. The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position, which appear first in the Authority's financial statements, report information on the Authority's activities that enable the reader to understand the financial condition of the Authority. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

BAYTOWN AREA WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended September 30, 2023

The Statement of Net Position presents information on all of the Authority's assets, liabilities, and deferred outflows/inflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Other nonfinancial factors, such as the Authority's customer base and the condition of the Authority's infrastructure, need to be considered to assess the overall health of the Authority.

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the Authority's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method.

The Statement of Cash Flows presents information about the Authority's cash receipts and cash payments during the reporting period. It reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

The basic financial statements can be found after the MD&A within this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes are the last section of the basic financial statements.

Other Information

In addition to the financial statements, this MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI) concerning the Authority's budgetary comparison schedule. RSI can be found after the notes to the basic financial statements.

FINANCIAL ANALYSIS OF THE AUTHORITY

As noted earlier, net position may serve over time as a useful indicator of the Authority's financial position. The Authority's total net position increased from \$66,214,551 to \$72,125,733 (8.9 percent).

Key elements of this increase are as follows:

- Operating revenues increased \$3,175,389 or 21.2 percent primarily due to an increase in rates.
- Capital assets, net of accumulated depreciation, increased \$1,007,043 or 1.0 percent primarily due to the addition of construction in progress.

Unrestricted net position increased \$1,770,651 from a balance of \$7,099,981 to \$8,870,632 (24.9 percent) at the end of this year. Unrestricted net position can be used to finance day-to-day operations without constraints established by debt covenants and enabling legislation.

BAYTOWN AREA WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2023

Condensed Statement of Net Position

| | 2023 | 2022 | Dollar Change | Percentage Change |
|----------------------------------|----------------------|----------------------|--------------------------|------------------------------|
| Current and other assets | \$ 9,949,496 | \$ 8,458,552 | \$ 1,490,944 | 17.6% |
| Restricted assets | 4,231,861 | 3,271,984 | 959,877 | 29.3% |
| Capital assets, net | 100,797,875 | 99,790,832 | 1,007,043 | 1.0% |
| Total Assets | 114,979,232 | 111,521,368 | 3,457,864 | 3.1% |
| Current liabilities | 1,078,864 | 1,358,571 | (279,707) | (20.6%) |
| Current liabilities - restricted | 2,642,081 | 2,642,206 | (125) | (0.0%) |
| Noncurrent liabilities | 39,132,554 | 41,306,040 | (2,173,486) | (5.3%) |
| Total Liabilities | 42,853,499 | 45,306,817 | (2,453,318) | (5.4%) |
| Net investment in capital assets | 59,660,321 | 56,514,792 | 3,145,529 | 5.6% |
| Restricted for: | | | | |
| Debt service | 3,594,780 | 2,599,778 | 995,002 | 38.3% |
| Unrestricted | 8,870,632 | 7,099,981 | 1,770,651 | 24.9% |
| Total Net Position | \$ 72,125,733 | \$ 66,214,551 | \$ 5,911,182 | 8.9% |

Condensed Statement of Revenues, Expenses, and Changes in Net Position

| | 2023 | 2022 | Dollar Change | Percentage Change |
|-------------------------------|----------------------|----------------------|--------------------------|------------------------------|
| Operating revenues | \$ 18,161,488 | \$ 14,986,099 | \$ 3,175,389 | 21.2% |
| Nonoperating revenues | 333,100 | 161,436 | 171,664 | 106.3% |
| Total Revenues | 18,494,588 | 15,147,535 | 3,347,053 | 22.1% |
| Depreciation expense | 3,213,190 | 3,209,926 | 3,264 | 0.1% |
| Operating expenses | 7,955,033 | 8,904,041 | (949,008) | (10.7%) |
| Nonoperating expenses | 1,415,183 | 1,504,030 | (88,847) | (5.9%) |
| Total Expenses | 12,583,406 | 13,617,997 | (1,034,591) | (7.6%) |
| Change in Net Position | 5,911,182 | 1,529,538 | 4,381,644 | 286.5% |
| Beginning net position | 66,214,551 | 64,685,013 | 1,529,538 | 2.4% |
| Ending Net Position | \$ 72,125,733 | \$ 66,214,551 | \$ 5,911,182 | 8.9% |

BUDGETARY HIGHLIGHTS

- Operating revenues were \$2,940,659 over the budget estimate due to more than expected water sales in the City.
- Operating expenses were \$2,777,984 under budget due primarily to lower than anticipated raw water purchases and other supplies.
- Nonoperating expenses were \$476,458 under budget due primarily to the Authority not recognizing contingency costs, as well as certain budgeted capital outlay expense and transfers.

BAYTOWN AREA WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2023

CAPITAL ASSETS

The Authority's plant operates at an average of 12.3 million gallons per day (MGD). The average capacity of the plant is 22.2 MGD, and the peak capacity is 32.0 MGD. During the past 30 years, there has not been an interruption in service. The Authority is in compliance with all rules and regulations of the Environmental Protection Agency, Texas Commission on Environmental Quality, and Texas Department of State Health Services applicable to surface water treatment, analysis, and operations.

At year end, the Authority had invested \$100,797,875 in capital assets, net of accumulated depreciation. More detailed information about the Authority's capital assets is presented in Note 5 to the financial statements.

LONG-TERM DEBT

The Authority has sufficient reserves established for debt service requirements. The Authority's revenue bonds carry the rating of "Aa3" with Moody's Investors Service and "AA-" with Standard & Poor's. At year end, the Authority had \$38,580,000 in revenue bonds outstanding versus \$40,550,000 last year. More detailed information about the Authority's long-term liabilities is presented in Note 6 to the financial statements.

ECONOMIC FACTORS

The 2022-2023 budget projected sales of \$15,220,829 for 13.5 MGD based upon an average annual rainfall. Fluctuations in rainfall can significantly impact system water sales. The existing rate structure for the Authority is \$3.08 per 1,000 gallons for the City of Baytown and \$3.12 per 1,000 gallons for customers outside the city. The rates consisted of a 6% increase to cover the cost of operations, including debt service, the purchase of raw water, and provide funds for future capital projects. The City of Houston adjusts its rates by any increase in the Producers Price Index over the prior year. Rate changes are effective April 1 of each year. A schedule of the City of Houston rate increases over the years follows:

| <u>City of Houston Purchased Water</u> | | |
|---|--------------------|-----------------|
| <u>Effective April 1</u> | | |
| <u>Year</u> | <u>Rate</u> | <u>%</u> |
| 2013 | \$ 0.61580 | 3.60% |
| 2014 | \$ 0.62320 | 1.20% |
| 2015 | \$ 0.65060 | 4.40% |
| 2016 | \$ 0.65970 | 1.40% |
| 2017 | \$ 0.68210 | 3.40% |
| 2018 | \$ 0.70120 | 2.80% |
| 2019 | \$ 0.72080 | 2.80% |
| 2020 | \$ 0.74600 | 3.50% |
| 2021 | \$ 0.75730 | 1.50% |
| 2022 | \$ 0.90000 | 1.88% |
| 2023 | \$ 0.98020 | 0.89% |

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Baytown Finance Department, 2401 Market Street, Baytown, Texas 77522. A copy of the budget is available to the public at the Sterling Municipal Library and at the City of Baytown's City Clerk office.

BASIC FINANCIAL STATEMENTS

(This page intentionally left blank.)

BAYTOWN AREA WATER AUTHORITY
STATEMENT OF NET POSITION
PROPRIETARY FUND
September 30, 2023

| | | Business-Type Activities | |
|---|-----------|---------------------------------|----------------------|
| | | Enterprise Fund | |
| | | 2023 | 2022 |
| <u>Assets</u> | | | |
| Current Assets | | | |
| Cash and cash equivalents | \$ | 9,793,030 | \$ 8,341,087 |
| Receivables | | 156,466 | 117,465 |
| Total Current Assets | | 9,949,496 | 8,458,552 |
| Restricted Assets | | | |
| Cash and cash equivalents - debt service | | 4,231,861 | 3,271,984 |
| Total Restricted Assets | | 4,231,861 | 3,271,984 |
| Noncurrent Assets | | | |
| Nondepreciable capital assets: | | | |
| Land | | 2,877,960 | 2,877,960 |
| Construction in progress | | 6,009,060 | 2,124,256 |
| Depreciable capital assets: | | | |
| Plant and equipment | | 125,293,812 | 124,958,383 |
| Less accumulated depreciation | | (33,382,957) | (30,169,767) |
| Total Noncurrent Assets | | 100,797,875 | 99,790,832 |
| Total Assets | | 114,979,232 | 111,521,368 |
| <u>Liabilities</u> | | | |
| Current Liabilities Payable from Unrestricted Assets | | | |
| Accounts payable | | 793,547 | 1,265,068 |
| Retainage payable | | 285,317 | 93,503 |
| Total Current Liabilities Payable From Unrestricted Assets | | 1,078,864 | 1,358,571 |
| Current Liabilities Payable from Restricted Assets | | | |
| Accrued interest payable | | 637,081 | 672,206 |
| Bonds payable due within one year | | 2,005,000 | 1,970,000 |
| Total Current Liabilities Payable From Restricted Assets | | 2,642,081 | 2,642,206 |
| Total Current Liabilities | | 3,720,945 | 4,000,777 |
| Noncurrent Liabilities | | | |
| Bonds payable due in more than one year | | 39,132,554 | 41,306,040 |
| Total Liabilities | | 42,853,499 | 45,306,817 |
| <u>Net Position</u> | | | |
| Net investment in capital assets | | 59,660,321 | 56,514,792 |
| Restricted for: | | | |
| Debt service | | 3,594,780 | 2,599,778 |
| Unrestricted | | 8,870,632 | 7,099,981 |
| Total Net Position | \$ | 72,125,733 | \$ 66,214,551 |

See Notes to Financial Statements.

(This page intentionally left blank.)

BAYTOWN AREA WATER AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION PROPRIETARY FUND

For the Year Ended September 30, 2023

| | | Business-Type Activities | |
|--|-----------|--------------------------|----------------------|
| | | Enterprise Fund | |
| | | 2023 | 2022 |
| <u>Operating Revenues</u> | | | |
| Sale of treated water: | | | |
| City of Baytown | \$ | 16,466,818 | \$ 13,511,028 |
| Municipal utility districts | | 1,694,670 | 1,475,071 |
| Total Operating Revenues | | 18,161,488 | 14,986,099 |
| <u>Operating Expenses</u> | | | |
| Raw water purchases and other supplies | | 3,931,863 | 5,448,723 |
| Contracted personnel costs | | 1,950,242 | 1,720,147 |
| Maintenance | | 480,397 | 506,836 |
| Services | | 1,592,531 | 1,228,335 |
| Depreciation | | 3,213,190 | 3,209,926 |
| Total Operating Expenses | | 11,168,223 | 12,113,967 |
| Operating Income | | 6,993,265 | 2,872,132 |
| <u>Nonoperating Revenues (Expenses)</u> | | | |
| Interest income | | 209,842 | 18,178 |
| Intergovernmental | | 123,258 | 123,258 |
| Interest expense and fiscal agent fees | | (1,415,183) | (1,504,030) |
| Miscellaneous | | - | 20,000 |
| Total Nonoperating (Expenses) | | (1,082,083) | (1,342,594) |
| Change in Net Position | | 5,911,182 | 1,529,538 |
| Beginning net position | | 66,214,551 | 64,685,013 |
| Ending Net Position | \$ | 72,125,733 | \$ 66,214,551 |

See Notes to Financial Statements.

BAYTOWN AREA WATER AUTHORITY

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

For the Year Ended September 30, 2023

| | Business-Type Activities | |
|--|---------------------------------|----------------------|
| | Enterprise Fund | |
| | 2023 | 2022 |
| <u>Cash Flows from Operating Activities</u> | | |
| Cash received from customers for sale of treated water | \$ 18,122,487 | \$ 13,428,010 |
| Cash payments to suppliers for goods and services | (6,319,623) | (9,823,039) |
| Cash payments to contract personnel for services | (1,950,242) | (1,720,147) |
| Net Cash Provided by Operating Activities | 9,852,622 | 1,884,824 |
| <u>Cash Flows from Noncapital Financing Activities</u> | | |
| Intergovernmental revenues received | 123,258 | 123,258 |
| Miscellaneous revenues received | - | 20,000 |
| Net Cash Provided by Noncapital Financing Activities | 123,258 | 143,258 |
| <u>Cash Flows from Capital and Related Financing Activities</u> | | |
| Construction of capital assets | (4,220,233) | (2,724,241) |
| Principal paid on capital debt | (1,970,000) | (1,835,000) |
| Interest and fiscal agent fees paid, net | (1,583,669) | (1,672,515) |
| Net Cash (Used) by Capital and Related Financing Activities | (7,773,902) | (6,231,756) |
| <u>Cash Flows from Investing Activities</u> | | |
| Interest received | 209,842 | 18,178 |
| Net Cash Provided from Investing Activities | 209,842 | 18,178 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 2,411,820 | (4,185,496) |
| Beginning cash and cash equivalents | 11,613,071 | 15,798,567 |
| Ending Cash and Cash Equivalents | \$ 14,024,891 | \$ 11,613,071 |
| Unrestricted cash and cash equivalents | \$ 9,793,030 | \$ 8,341,087 |
| Restricted cash and cash equivalents | 4,231,861 | 3,271,984 |
| Ending Cash and Cash Equivalents | \$ 14,024,891 | \$ 11,613,071 |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities | | |
| Operating income | \$ 6,993,265 | \$ 2,872,132 |
| Depreciation | 3,213,190 | 3,209,926 |
| Changes in Operating Assets and Liabilities: | | |
| (Increase) Decrease in Current Assets: | | |
| Receivables, net | (39,001) | (2,953) |
| Increase (Decrease) in Current Liabilities: | | |
| Accounts payable | (471,521) | (2,722,958) |
| Restricted payables | (35,125) | (9,690) |
| Retainage payable | 191,814 | 93,503 |
| Due to primary government | - | (1,555,136) |
| Net Cash Provided by Operating Activities | \$ 9,852,622 | \$ 1,884,824 |

See Notes to Financial Statements.

BAYTOWN AREA WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2023

NOTE 1 – CREATION OF AUTHORITY

The Baytown Area Water Authority (the “Authority”) was created by House Bill No. 967 of the Texas Legislature on June 15, 1973. The Authority was created to purchase and distribute surface and/or underground water supplies to persons, corporations, municipal corporations, political subdivisions, and others. The boundaries of the Authority include all of the City of Baytown, Texas (the “City”) and most of the City’s extraterritorial jurisdiction in East Harris County, Texas. Presently, the Authority provides water to eight municipal entities which in turn service a total population area of 81,000 people. Administration of the Authority is vested in the Board of Directors (the “Board”), which held its first meeting on September 20, 1973. The Board is appointed by the City Council. The first Authority bonds were sold in May 1977. The water treatment plant and a portion of the water transmission lines were completed in 1981 and actual operations and sale of treated water began in April 1981.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements and accounting policies of the Authority are prepared in conformity with generally accepted accounting principles for local governmental units as prescribed by the Governmental Accounting Standards Board, which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority’s significant accounting policies are described below.

A. Reporting Entity

The City exercises significant influence over the operations of the Authority and, as a result, the Authority is a discretely presented component unit of the City. The Authority’s financial statements are included as a discrete component unit in the government-wide financial statements of the City. The Authority has no component units and is presented on a stand-alone basis. The accounting policies of the Authority conform to generally accepted accounting principles as applicable to governmental entities and are presented as a proprietary fund type.

The Authority has no employees. Personnel employed by the City are responsible for the physical operation and maintenance of the water treatment plant. The City’s personnel perform the purchasing and accounting functions of the Authority. The Authority reimburses the City for payroll costs and related fringe benefits of personnel assigned to the water treatment plant operations and for goods and services purchased on its behalf.

B. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the Authority’s funds. Separate statements for each fund category, proprietary, are presented. The emphasis of fund financial statements is on major enterprise funds, each displayed in a separate column.

The Authority reports the following enterprise fund:

The *enterprise fund* is used to account for water operations. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The enterprise fund is considered a major fund for reporting purposes.

BAYTOWN AREA WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

C. Measurement Focus and Basis of Accounting

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

The proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

D. Budget

The general manager for the Authority formulates a budget for the Authority's fiscal year beginning on October 1 and ending on September 30. Both the Authority's Board and the City Council approve the annual budget.

E. Comparative Data

Comparative total data for the prior year have been presented in selected sections of the accompanying financial statements in order to provide an understanding of the changes in the Authority's financial position and operations.

F. Deposits and Investments

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

Investments, except for certain investment pools and commercial paper, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost.

The Authority has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. In summary, the Authority is authorized to invest in the following:

- Direct obligations of the U.S. government
- Fully collateralized certificates of deposit
- Fully collateralized repurchase agreements
- Bankers' acceptances that meets certain criteria
- Commercial paper that meet certain criteria
- Mutual funds of specific type
- Collateralized guaranteed investment contract
- Statewide investment pools

BAYTOWN AREA WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

G. Receivables and Payables

All receivables are shown at full value and are expected to be 100 percent collected. The Authority reports payables as obligations that are expected to be financed with current, available financial resources.

H. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., water lines), have been recorded at cost. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the Authority are depreciated using the straight-line method over the following estimated useful years:

| Asset Description | Estimated Useful Life |
|-----------------------------------|-----------------------|
| Buildings | 25 to 50 years |
| Improvements other than buildings | 10 to 50 years |
| Machinery and equipment | 5 to 30 years |

I. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *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. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *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 (revenue) until that time. The Authority did not recognize deferred items as of fiscal year end.

J. Long-Term Obligations

The Authority reports long-term debt as a liability on the Statement of Net Position. Bond premiums and discounts are amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

K. Leases

The Authority is a lessee for a noncancellable lease of equipment. The Authority would recognize a lease liability and an intangible, right-to-use lease asset (the "lease asset") in the financial statements. The Authority's leases are immaterial to the financial statements as a whole and are not recognized as a lease liability or a lease asset.

BAYTOWN AREA WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

L. Subscription-Based Information Technology Arrangements

The Authority has noncancellable subscription-based information technology arrangements (SBITAs) to finance the use of information technology software. The Authority would recognize a liability (the “subscription liability”) and an intangible, right-to-use subscription asset (the “subscription asset”) in the financial statements. The Authority’s SBITAs are immaterial to the financial statements as a whole and are not recognized as a subscription liability or a subscription asset.

M. Net Position Flow Assumption

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority’s policy to consider restricted net position to have been depleted before unrestricted net position is applied.

N. Estimates

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

O. Proprietary Fund Operating and Nonoperating Revenues

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposits – State statutes require that all deposits in financial institutions be fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of the state of Texas (the “State”) or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. The Authority’s deposits were fully insured or collateralized as required by the state statutes at year end. The City consolidates cash to maximize investment earnings and streamline operations. The City’s deposits were fully insured or collateralized as required by state statutes at year end.

BAYTOWN AREA WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

The Authority held the following investments as of September 30, 2023:

| Investment Type | Value | Weighted Average Maturity (Years) | Credit Rating |
|-------------------------------------|--------------|---|------------------|
| Government pool (TexPool) | \$ 4,133,605 | 0.07 | AAA-m |
| Portfolio Weighted Average Maturity | | 0.07 | |

Interest Rate Risk – In compliance with the Authority’s investment policy and as of year end, the Authority minimized the interest rate risk related to the decline in market value of securities due to rising interest rates in the portfolio by limiting the weighted average maturity not to exceed five years; structuring the investment portfolio so that securities matured to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the secondary market prior to maturity; monitoring credit ratings of portfolio positions to ensure compliance with rating requirements imposed by the Public Funds Investment Act; and investing operating funds primarily in shorter term securities or similar government investment pools.

Credit Risk – As of year end and in compliance with the Authority’s investment policy, the Authority minimized credit risk losses due to default of a security issuer or backer by limiting investments to the safest types of securities; prequalifying the financial institutions, brokers/dealers, intermediaries, and advisers with which the Authority will do business; and diversifying the investment portfolio so that potential losses on individual securities were minimized.

TexPool

TexPool was established as a trust company with the Treasurer of the State as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor’s rates TexPool ‘AAAm’. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor’s, as well as to the office of the Comptroller of Public Accounts for review.

TexPool is an external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, TexPool must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity, and diversification requirements within TexPool. TexPool transacts at a net asset value of \$1.00 per share, has weighted average maturities of 60 days or less, and weighted average lives of 120 days or less. Investments held are highly rated by nationally recognized statistical rating organizations, have no more than five percent of portfolio with one issuer (excluding U.S. government securities), and can meet reasonably foreseeable redemptions. TexPool has a redemption notice period of one day and may redeem daily. TexPool may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium, or national state of emergency that affects TexPool’s liquidity.

NOTE 4 – RESTRICTED CASH AND CASH EQUIVALENTS

Restricted cash and cash equivalents include proceeds from the sale of bonds issued for construction and reserves held to satisfy the debt service reserve requirements of the Authority’s bond ordinances.

BAYTOWN AREA WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

The restricted cash and cash equivalents at year end are as follows:

| | |
|--------------------|----------------------------|
| Bond reserve funds | \$ 4,231,861 |
| Total | <u>\$ 4,231,861</u> |

NOTE 5 – CAPITAL ASSETS

A summary of changes in capital assets for the year ended September 30, 2023 is as follows:

| | Beginning Balance | Increases | (Decreases) | Ending Balance |
|---|-----------------------------|---|--------------------|-----------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 2,877,960 | \$ - | \$ - | \$ 2,877,960 |
| Construction in progress | 2,124,256 | 3,884,804 | - | 6,009,060 |
| Total Capital Assets Not Being Depreciated | <u>5,002,216</u> | <u>3,884,804</u> | <u>-</u> | <u>8,887,020</u> |
| Capital asset being depreciated: | | | | |
| Buildings | 58,944,489 | 271,553 | - | 59,216,042 |
| Improvements other than buildings | 58,914,226 | - | - | 58,914,226 |
| Machinery and equipment | 7,099,668 | 63,876 | - | 7,163,544 |
| Total Capital Assets Being Depreciated | <u>124,958,383</u> | <u>335,429</u> | <u>-</u> | <u>125,293,812</u> |
| Total Capital Assets | <u>129,960,599</u> | <u>4,220,233</u> | <u>-</u> | <u>134,180,832</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | (2,425,415) | (1,201,479) | - | (3,626,894) |
| Improvements other than buildings | (22,836,805) | (1,553,964) | - | (24,390,769) |
| Machinery and equipment | (4,907,547) | (457,747) | - | (5,365,294) |
| Total Accumulated Depreciation | <u>(30,169,767)</u> | <u>(3,213,190)</u> | <u>-</u> | <u>(33,382,957)</u> |
| Total Capital Assets Being Depreciated, Net | <u>94,788,616</u> | <u>(2,877,761)</u> | <u>-</u> | <u>91,910,855</u> |
| Total Business-Type Activities Capital Assets, Net | <u>\$ 99,790,832</u> | <u>\$ 1,007,043</u> | <u>\$ -</u> | <u>100,797,875</u> |
| | | Less associated debt | | <u>(41,137,554)</u> |
| | | Net Investment in Capital Assets | | <u>\$ 59,660,321</u> |

NOTE 6 – REVENUE BONDS PAYABLE

Outstanding bonds are payable using revenues generated from the sale of treated water to the City and other entities. The City also guarantees payment of bonds and such bonds may be redeemed prior to their scheduled maturity. The Authority is in compliance with all bond resolutions. The resolutions provide that reserves are sufficient to pay the current portion of the principal and interest payments.

Redemption Provisions

2012 Series Baytown Area Water Authority Water Supply Contract Revenue and Refunding Bonds issued for \$8,315,000. The Authority reserves the right, at its option, to redeem bonds having stated maturities on or after May 1, 2023, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof; on May 1, 2022, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

2018 Series Baytown Area Water Authority Water Supply Contract Revenue Bonds issued for \$22,040,000. The Authority reserves the right, at its option, to redeem bonds having stated maturities on

BAYTOWN AREA WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

or after May 1, 2028, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof; on May 1, 2027, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

2019 Series Baytown Area Water Authority Water Supply Contract Revenue Bonds issued for \$17,315,000. The Authority reserves the right, at its option, to redeem bonds having stated maturities on or after May 1, 2029, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof; on May 1, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

The following is a summary of changes in bonds payable for the year ended September 30, 2023:

| | Interest Rate | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year |
|---|------------------|----------------------|-------------|-----------------------|----------------------|-----------------------------------|
| Series | | | | | | |
| 2012 | 2.00 - 3.50% | \$ 3,440,000 | \$ - | \$ (300,000) | \$ 3,140,000 | \$ 310,000 |
| 2018 | 4.00 - 5.00% | 21,700,000 | - | (1,000,000) | 20,700,000 | 1,000,000 |
| 2019 | 3.00 - 4.00% | 15,410,000 | - | (670,000) | 14,740,000 | 695,000 |
| Total Bonds | | <u>40,550,000</u> | <u>-</u> | <u>(1,970,000)</u> | <u>38,580,000</u> | <u>* 2,005,000</u> |
| Plus net (discount) and premium | | <u>2,726,040</u> | <u>-</u> | <u>(168,486)</u> | <u>2,557,554</u> | <u>* -</u> |
| Total Business-Type Activities | | <u>\$ 43,276,040</u> | <u>\$ -</u> | <u>\$ (2,138,486)</u> | <u>\$ 41,137,554</u> | <u>\$ 2,005,000</u> |
| Debt associated with payable in more than one year | | | | | <u>\$ 39,132,554</u> | |
| *Long-term debt related to capital assets | | | | | <u>\$ 41,137,554</u> | |

As of year end, the debt service requirements on bonds outstanding for the next five years and thereafter are as follows:

| Fiscal Year | Principal | Interest | Total |
|----------------|----------------------|----------------------|----------------------|
| 2024 | \$ 2,005,000 | \$ 1,528,994 | \$ 3,533,994 |
| 2025 | 2,040,000 | 1,442,669 | 3,482,669 |
| 2026 | 2,080,000 | 1,354,219 | 3,434,219 |
| 2027 | 2,120,000 | 1,264,269 | 3,384,269 |
| 2028 | 2,160,000 | 1,172,400 | 3,332,400 |
| 2029-2033 | 12,215,000 | 4,422,801 | 16,637,801 |
| 2034-2038 | 14,810,000 | 1,830,450 | 16,640,450 |
| 2039 | 1,150,000 | 34,500 | 1,184,500 |
| Total | <u>\$ 38,580,000</u> | <u>\$ 13,050,302</u> | <u>\$ 51,630,302</u> |

BAYTOWN AREA WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

NOTE 7 – NET POSITION

The Authority’s net position has been reported net of related outstanding debt. The three components of net position (net investment in capital assets, restricted net position for debt service, and unrestricted net position) are detailed below:

| | 2023 | 2022 |
|---|-----------------------------|-----------------------------|
| Net Investment in Capital Assets: | | |
| Capital assets, net of accumulated depreciation | \$ 100,797,875 | \$ 99,790,832 |
| Outstanding debt that applies to capital assets | <u>(41,137,554)</u> | <u>(43,276,040)</u> |
| Net Investment in Capital Assets | <u>59,660,321</u> | <u>56,514,792</u> |
| Restricted for Debt Service: | | |
| Debt service restricted assets | 4,231,861 | 3,271,984 |
| Accrued interest | <u>(637,081)</u> | <u>(672,206)</u> |
| Restricted Net Position for Debt Service | <u>3,594,780</u> | <u>2,599,778</u> |
| Unrestricted Net Position: | | |
| Current assets | 9,949,496 | 8,458,552 |
| Current liabilities | <u>(1,078,864)</u> | <u>(1,358,571)</u> |
| Unrestricted Net Position | <u>8,870,632</u> | <u>7,099,981</u> |
| Total Net Position | <u><u>\$ 72,125,733</u></u> | <u><u>\$ 66,214,551</u></u> |

NOTE 8 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Authority cooperatively purchases commercial insurance and participates in a public entity risk pool with the City. The Authority and the City participate along with 2,617 other entities in the Texas Municipal League’s Intergovernmental Risk Pool (the “Pool”). The Pool purchases commercial insurance at group rates for participants in the Pool. The Authority has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The Authority has not significantly reduced insurance coverage or had settlements that exceeded coverage amounts for the past three fiscal years.

NOTE 9 – CONTINGENT LIABILITIES

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or are not performed correctly, a substantial liability to the Authority could result. The Authority periodically engages an arbitrage consultant to perform the calculations in accordance with the rules and regulations of the IRS.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

On October 24, 1994, the Authority entered into a 26-year agreement with the City of Houston (the “Agreement”) to purchase raw water for treatment. The Agreement was amended in January 2005 to

BAYTOWN AREA WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

increase the maximum obligation of the City of Houston to provide water from 11.9 MGD to 15.8 MGD and to extend the termination date to December 31, 2040. A second amendment was approved in February 2007 to increase the maximum obligation of the City of Houston to provide water from 15.8 MGD to 20.0 MGD. A third amendment was approved in December 2015 to increase the maximum obligation of the City of Houston to provide water from 20.0 MGD to 26.0 MGD. A fourth amendment was approved in September 2023 to increase the maximum obligation of the City of Houston to provide water from 26.0MGD to 32.0 MGD. The Authority may reserve additional monthly quantities of untreated water by giving 30 days' notice to the City of Houston. Should the consumption exceed the contract quantity by ten percent, a five percent surcharge shall be charged against that portion of the consumption that exceeds the contract quantity.

The Authority is contractually obligated to provide treated water to the City. As with the City of Houston Agreement, the Authority increased the maximum obligation to provide treated water to the City from 10.71 MGD to 14.22 MGD and extended the term of the contract through calendar year 2040. The Authority is also obligated to provide 1.58 MGD to other municipal entities, making the total obligation 15.8 MGD.

NOTE 11 – RELATED PARTIES, CONCENTRATIONS, AND ECONOMIC DEPENDENCY

The Authority is a discretely presented component unit of the City. In addition, approximately 90.67 percent of the Authority's operating revenues are attributable to the sale of treated water to the City.

THIS PAGE LEFT BLANK INTENTIONALLY

APPENDIX B

EXCERPTS FROM THE
CITY OF BAYTOWN, TEXAS
ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2023

The information contained in this Appendix consists of excerpts from the City of Baytown, Texas Annual Financial Report for the Year Ended September 30, 2023, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

THIS PAGE LEFT BLANK INTENTIONALLY



INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor,
City Council Members, and Finance Committee of the
City of Baytown, Texas:

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Baytown, Texas (the "City"), as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the City'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, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of September 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, 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.

Responsibility of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America 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 City'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.

Auditors' 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 auditors' 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 City'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 City'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, schedules of changes in net pension liability and total other postemployment benefits liability and related ratios, and schedule of contributions, identified as Required Supplementary Information on 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 City's basic financial statements. The accompanying combining statements and schedules are presented for purposes of additional analysis and are not required parts of the basic financial statements. Such

information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 statements and schedules are fairly stated, in all material aspects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2024 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control over financial reporting and compliance.

The logo for Belt Harris Pechacek, LLP features the names 'BELT', 'HARRIS', and 'PECHACEK' in a stylized, serif font, with 'LLP' in a smaller, sans-serif font to the right. The letters are dark blue or black.

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas
April 10, 2024

***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

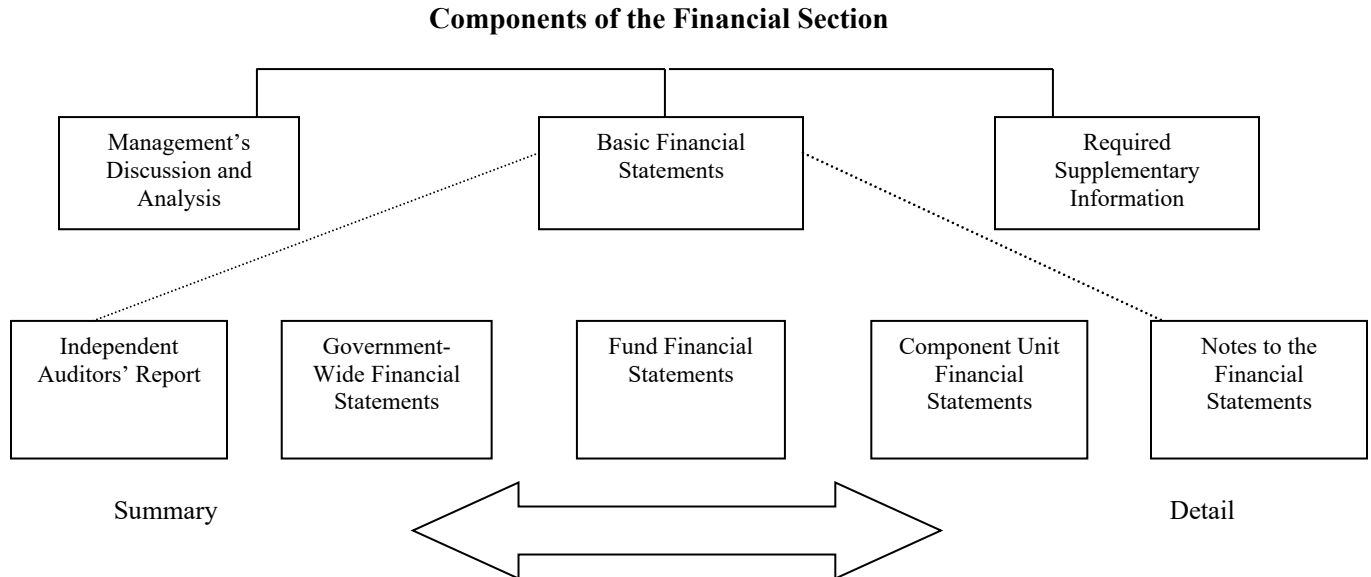
CITY OF BAYTOWN, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2023

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Baytown, Texas (the "City") for the year ended September 30, 2023. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the transmittal letter at the front of this report and the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT



The City's basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Statements

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the City's financial statements, report information on the City's activities that enable the reader to understand the financial condition of the City. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Position presents information on all of the City's assets, liabilities, and deferred outflows/inflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other nonfinancial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

The Statement of Activities presents information showing how the City's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change

CITY OF BAYTOWN, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2023

occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities divide the City's financials into two classes of activities:

1. *Governmental Activities* – Most of the City's basic services are reported within this class including police and fire protection, municipal court, streets, drainage, leisure services, community development, and general administrative services. This class also includes interest payments on the City's debt. Sales tax, property tax, franchise fees, municipal court fines, and permit fees finance most of these activities.
2. *Business-Type Activities* – Services involving a fee for those services are reported within this class. These services include the City's water and sewer services, as well as solid waste collection, storm water utility operations, and water park operations.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate municipal development district and the legally separate Baytown Area Water Authority for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself. The tax increment reinvestment zone; crime control and prevention district; fire control, prevention, and emergency medical services district; and public improvement district funds although also legally separate, function for all practical purposes as departments of the City and, therefore, have been included as an integral part of the primary government.

The government-wide financial statements can be found after the MD&A.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the City. They are usually segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The two categories of City funds are governmental and proprietary.

Governmental Funds

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

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

The City maintains 15 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund

CITY OF BAYTOWN, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2023

balances for the general fund, debt service fund, and capital projects fund. The general fund and capital projects fund are considered to be major funds for reporting purposes. The debt service fund did not meet the technical requirement to be presented as a major fund; however, the City has elected to present as a major fund.

The City adopts an annual appropriated budget for its general; debt service; crime control and prevention district; hotel/motel; and fire control, prevention, and emergency medical services district funds. Budgetary comparison schedules have been provided for these funds to demonstrate compliance with these budgets.

Proprietary Funds

The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The enterprise funds are used to account for operations that provide water and wastewater collection, wastewater treatment operations, solid waste collection and disposal, water park operations, and storm water utility operations. The proprietary fund financial statements provide separate information for the respective enterprise funds. The proprietary fund financial statements can be found in the basic financial statements of this report.

The City also uses internal service funds to account for its equipment replacement services and for expenses associated with risk management of health benefits and workers' compensation claims. These internal service funds have been included within governmental activities in the government-wide financial statements.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

Other Information

In addition to basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes a budgetary comparison schedule for the general fund, schedule of changes in net pension liability and related ratios for the Texas Municipal Retirement System (TMRS), schedule of contributions for TMRS, and schedules of changes in total other postemployment benefits (OPEB) liability and related ratios for the City's retiree healthcare benefits and TMRS OPEB benefits. RSI can be found after the notes to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. Assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$547,812,273 as of September 30, 2023 in the primary government. The largest portion of the City's net position, \$513,788,705, reflects its investments in capital assets (e.g., land, building, equipment, improvements, construction in progress, and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

CITY OF BAYTOWN, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2023

Statement of Net Position

The following table reflects the condensed Statement of Net Position:

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|---|------------------------------------|-----------------------|-------------------------------------|-----------------------|---|-----------------------|
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| Current and other assets | \$ 194,734,774 | \$ 225,110,153 | \$ 82,606,990 | \$ 60,532,734 | \$ 277,341,764 | \$ 285,642,887 |
| Capital assets, net | 412,050,245 | 328,694,110 | 249,407,985 | 242,095,527 | 661,458,230 | 570,789,637 |
| Total Assets | 606,785,019 | 553,804,263 | 332,014,975 | 302,628,261 | 938,799,994 | 856,432,524 |
| Deferred charge on refunding | 3,778,125 | 4,220,788 | 477,410 | 538,629 | 4,255,535 | 4,759,417 |
| Deferred outflows - pensions | 40,726,306 | 13,098,971 | 5,573,291 | 1,868,228 | 46,299,597 | 14,967,199 |
| Deferred outflows - OPEB | 6,475,439 | 10,631,010 | 928,689 | 1,485,987 | 7,404,128 | 12,116,997 |
| Total Deferred Outflows of Resources | 50,979,870 | 27,950,769 | 6,979,390 | 3,892,844 | 57,959,260 | 31,843,613 |
| Long-term liabilities | 294,911,161 | 251,038,133 | 73,339,790 | 74,811,194 | 368,250,951 | 325,849,327 |
| Other liabilities | 30,798,585 | 34,946,598 | 24,339,805 | 6,640,416 | 55,138,390 | 41,587,014 |
| Total Liabilities | 325,709,746 | 285,984,731 | 97,679,595 | 81,451,610 | 423,389,341 | 367,436,341 |
| Deferred charge on refunding | 185,801 | 209,026 | 3,202,878 | 3,523,165 | 3,388,679 | 3,732,191 |
| Deferred inflows - pensions | 3,695 | 20,043,452 | - | 2,587,427 | 3,695 | 22,630,879 |
| Deferred inflows - OPEB | 19,067,595 | 6,137,750 | 2,606,167 | 872,164 | 21,673,762 | 7,009,914 |
| Deferred inflows - leases | 464,930 | 564,558 | 26,574 | 72,130 | 491,504 | 636,688 |
| Total Deferred Inflows of Resources | 19,722,021 | 26,954,786 | 5,835,619 | 7,054,886 | 25,557,640 | 34,009,672 |
| Net Position: | | | | | | |
| Net investment in capital assets | 312,834,010 | 226,618,411 | 200,954,695 | 192,004,893 | 513,788,705 | 418,623,304 |
| Restricted | 29,502,852 | 59,138,284 | 11,033,635 | 6,802,407 | 40,536,487 | 65,940,691 |
| Unrestricted | (30,003,740) | (16,941,180) | 23,490,821 | 19,207,309 | (6,512,919) | 2,266,129 |
| Total Net Position | \$ 312,333,122 | \$ 268,815,515 | \$ 235,479,151 | \$ 218,014,609 | \$ 547,812,273 | \$ 486,830,124 |

A portion of the primary government's net position, \$40,536,487, represents resources that are subject to external restriction on how they may be used.

The City's total net position increased by \$60,982,149 during the current fiscal year, an increase of 13 percent in comparison to the prior year. Deferred outflows of resources related to pensions increased significantly compared to the prior year due to a decrease in projected and actual earnings and the difference in expected and actual experience for the pension plan. Deferred inflows of resources related to pensions decreased due to the net difference between projected and actual investment earnings on pension plan assets. This decrease was offset by an increase in deferred inflows for other postemployment benefits. Capital assets increased by a net of \$90,668,593 due to current year capital additions. Current and other assets decreased by \$8,301,123 largely due to current year capital expenditures of bond proceeds. Total liabilities increased by \$55,953,000 primarily due to the issuance of new debt and an increase in the net pension liability. Other liabilities increased mainly due to an increase in construction payables due at fiscal year end.

CITY OF BAYTOWN, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2023

Statement of Activities

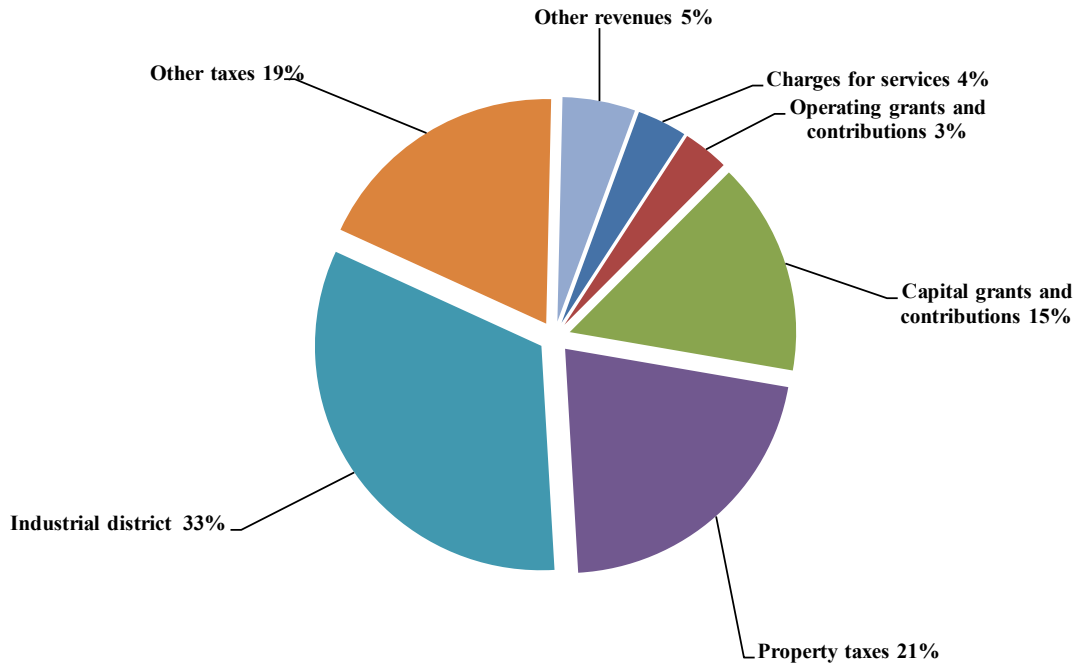
The following table provides a summary of the City's changes in net position:

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|--|------------------------------------|-----------------------|-------------------------------------|-----------------------|---|-----------------------|
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| Revenues | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 7,255,023 | \$ 7,231,676 | \$ 71,142,737 | \$ 64,996,002 | \$ 78,397,760 | \$ 72,227,678 |
| Operating grants and contributions | 6,746,460 | 8,254,143 | 1,351,768 | 1,526,388 | 8,098,228 | 9,780,531 |
| Capital grants and contributions | 31,321,260 | 10,473,060 | 3,987,449 | 130,977 | 35,308,709 | 10,604,037 |
| General revenues: | | | | | | |
| Property taxes | 43,619,406 | 38,879,872 | - | - | 43,619,406 | 38,879,872 |
| Industrial district | 67,030,403 | 66,118,684 | - | - | 67,030,403 | 66,118,684 |
| Other taxes | 37,766,028 | 35,935,898 | - | - | 37,766,028 | 35,935,898 |
| Other revenues | 10,627,759 | 7,540,609 | 3,140,823 | 580,648 | 13,768,582 | 8,121,257 |
| Total Revenues | 204,366,339 | 174,433,942 | 79,622,777 | 67,234,015 | 283,989,116 | 241,667,957 |
| Expenses | | | | | | |
| General government | 39,663,698 | 43,338,424 | - | - | 39,663,698 | 43,338,424 |
| Public safety | 78,350,694 | 65,934,972 | - | - | 78,350,694 | 65,934,972 |
| Public works | 16,481,571 | 14,561,561 | - | - | 16,481,571 | 14,561,561 |
| Public health | 5,134,804 | 4,480,489 | - | - | 5,134,804 | 4,480,489 |
| Parks, recreation, and culture | 16,974,203 | 13,135,098 | - | - | 16,974,203 | 13,135,098 |
| Interest and fiscal agent fees on long-term debt | 4,909,383 | 4,202,723 | - | - | 4,909,383 | 4,202,723 |
| Water and sewer | - | - | 45,763,321 | 40,737,009 | 45,763,321 | 40,737,009 |
| Sanitation | - | - | 8,321,776 | 7,327,685 | 8,321,776 | 7,327,685 |
| Aquatics | - | - | 4,973,048 | 4,497,100 | 4,973,048 | 4,497,100 |
| Bayland Island development | - | - | 212,606 | 209,241 | 212,606 | 209,241 |
| Storm water utility | - | - | 2,221,863 | 6,070,667 | 2,221,863 | 6,070,667 |
| Total Expenses | 161,514,353 | 145,653,267 | 61,492,614 | 58,841,702 | 223,006,967 | 204,494,969 |
| Increase in Net Position before Transfers | 42,851,986 | 28,780,675 | 18,130,163 | 8,392,313 | 60,982,149 | 37,172,988 |
| Transfers | 665,621 | 1,638,818 | (665,621) | (1,638,818) | - | - |
| Change in Net Position | 43,517,607 | 30,419,493 | 17,464,542 | 6,753,495 | 60,982,149 | 37,172,988 |
| Beginning net position | 268,815,515 | 238,396,022 | 218,014,609 | 211,261,114 | 486,830,124 | 449,657,136 |
| Ending Net Position | \$ 312,333,122 | \$ 268,815,515 | \$ 235,479,151 | \$ 218,014,609 | \$ 547,812,273 | \$ 486,830,124 |

CITY OF BAYTOWN, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2023

Graphic presentations of selected data from the summary tables follow to assist in the analysis of the City's activities.

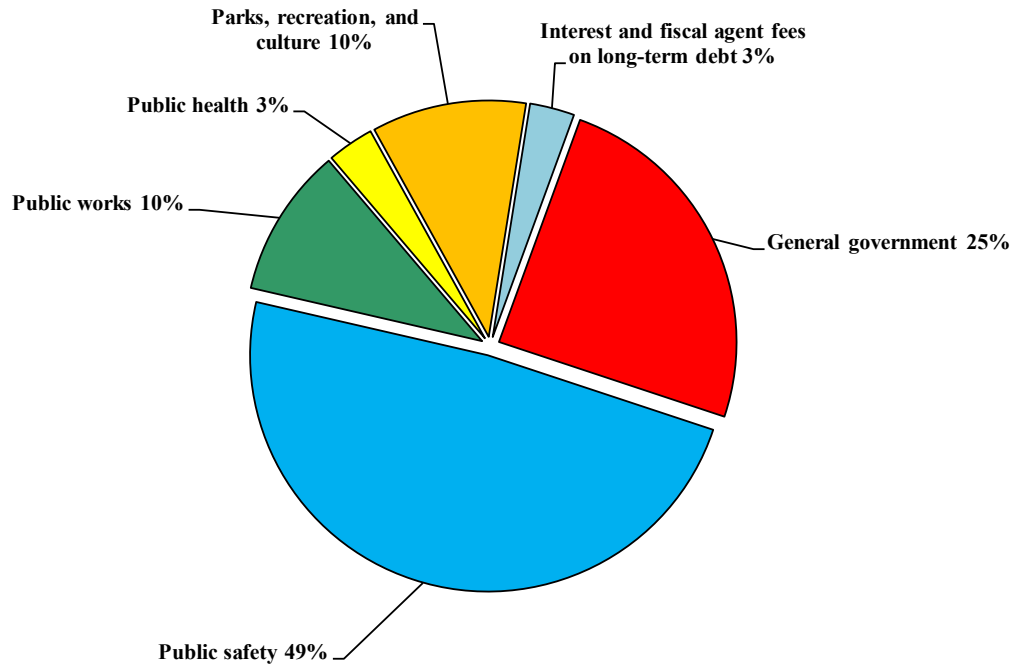
GOVERNMENTAL ACTIVITIES REVENUES



For the year ended September 30, 2023, revenues from governmental activities totaled \$204,366,339. Industrial district payments are the City's largest revenue sources at \$67,030,403 or 33 percent. Capital grants and contributions increased by \$20,848,200 or 199 percent largely due to the conveyance of a convention center to the City from the Municipal Development District (MDD). Property taxes increased by \$4,739,534 compared to the prior year due to an increase in the assessed value of properties within the City. Other taxes increased by \$1,830,130 due to an increase in sales tax revenue largely due to an increase in economic activity within the City. Other revenues increased by \$3,087,150 primarily due to an increase in investment earnings as a result of a rise in interest rates.

CITY OF BAYTOWN, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2023

GOVERNMENTAL ACTIVITIES EXPENSES



For the year ended September 30, 2023, expenses for governmental activities totaled \$161,514,353. This represents an increase of \$15,861,086 from last year, primarily due to an increase in payroll-related expenses. This net increase was offset by a decrease in general government expenses primarily due to a contribution to Harris County Flood Control for drainage improvements in the prior year.

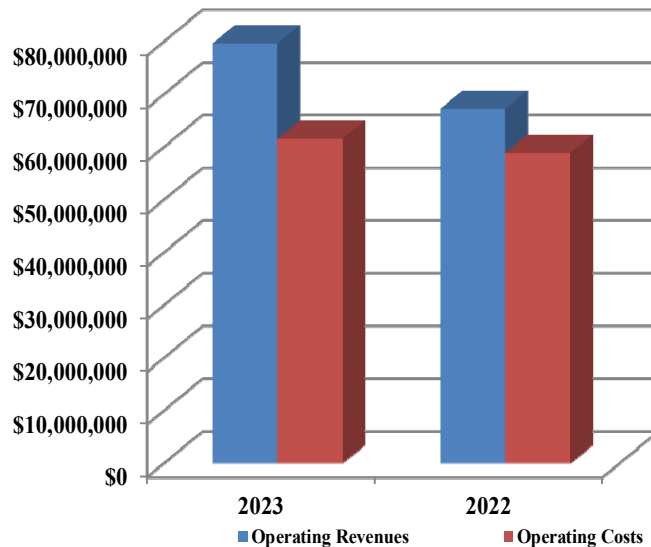
CITY OF BAYTOWN, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended September 30, 2023

Business-type activities are shown comparing operating costs to revenues generated by related services.

BUSINESS-TYPE ACTIVITIES Revenue vs. Costs



Total business-type activities revenues increased \$12,388,762 or 18 percent, primarily due to an increase in charges for services. The increase in charges for services is primarily due to an increase in water and sewer fees as a result of an increase in consumption. Expenses had a net increase of \$2,650,912 or 5 percent, primarily due to an increase in payroll-related expenses and water and sewer supplies. After transfers to governmental activities, total net position increased by \$17,464,542 or 8 percent over the prior year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

Governmental Funds – The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

The City's governmental funds reflect a combined fund balance of \$143,265,830. Of the total governmental fund balance, \$384,369 is nonspendable, \$78,843,361 is restricted for various purposes, and \$40,192,418 is assigned for capital projects. The remaining balance of \$23,845,682 is unassigned.

There was a net decrease in the combined fund balance of \$23,656,647 from the prior year. This decrease in fund balance is in large part due to the decrease in fund balance within the capital projects fund as a result of current year capital expenditures and the general fund due to an increase in expenditures in the current year.

The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the general fund was \$25,547,318, while total fund balance reached \$25,999,515. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned and total fund balance both represent approximately 21 percent of total general fund

CITY OF BAYTOWN, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2023

expenditures. The general fund had a decrease in fund balance of \$15,922,180 primarily due to an increase in payroll-related expenditures and transfer outs to the capital project fund for capital expenditures.

The debt service fund has a total fund balance of \$0 in the current and prior year. Property taxes increased due to an increase in assessed value of properties. There was also an increase in transfers from the general fund for debt service payments. Expenditures increased due to an increase in principal and interest payments.

The capital projects fund had a total fund balance of \$94,568,768. The capital projects fund had a decrease in fund balance of \$13,589,103, which was primarily as a result of current year capital expenditures.

Proprietary Funds – The City's proprietary funds financial statements provide the same type of information found in the government-wide financial statements, but in more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City's amended budget included a planned decrease in fund balance in the amount of \$19,276,404.

Actual general fund revenues exceeded original and amended budgeted revenues by \$5,077,738. This net positive variance includes the positive variance of \$2,006,893 for taxes which is primarily due to additional property tax and sales tax revenues, \$566,337 for charges for services due to additional ambulance revenue, and \$2,418,917 for investment earnings as a result of a rise in interest rates. This variance also includes a positive variance of \$981,364 for intergovernmental revenue due to an increase in grant revenue and \$135,053 for miscellaneous revenue due to proceeds received from a settlement.

Total expenditures were greater than budgeted amounts by a net \$454,514 for the fiscal year. This is largely due to an increase in expenditures for electric services for the City facilities department.

CAPITAL ASSETS

At the end of fiscal year 2023, the City has invested \$412,050,245 of governmental activities and \$249,407,985 of business-type activities in a variety of capital assets and infrastructure (net of accumulated depreciation).

Major capital asset events during the current year included the following:

- The City invested \$11 million in construction in progress for the fiscal year 2023 for business-type activities for water and sewer improvements.
- The City invested \$45 million in construction in progress for the fiscal year 2023 for governmental activities for drainage improvements.
- The City also spent \$10 million on vehicles and equipment for all of the City's departments.
- The MDD conveyed a convention center to the City for \$28 million during the fiscal year 2023.

More detailed information about the City's capital assets is presented in note III.D. to the financial statements.

CITY OF BAYTOWN, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2023

LONG-TERM DEBT

At the end of the current year, the City's governmental funds had total bonds and certificates of obligation outstanding of \$135,817,108. Of this amount, \$52,927,108 was general obligation debt and \$82,890,000 was certificates of obligation. Business-type activities had total refunding bonds and certificates of obligation outstanding of \$48,792,894 at year end. During the year, the City had a net increase in long-term debt of \$3,585,000.

More detailed information about the City's long-term liabilities is presented in note III.E. to the financial statements.

The City maintains an underlying rating of "AA" from Standard & Poor's and an "Aa2" rating from Moody's Investors Services for general obligation debt. Revenue bonds of the City have an underlying rating of "AA" from Standard & Poor's and an "Aa2" rating by Moody's.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City Council approved a \$257 million budget for the City's major operating funds (general, debt service, hotel/motel tax, aquatics, water and sewer, water and sewer debt service, sanitation, storm water utility, and garage and warehouse operations) for fiscal year 2024. This budget includes a tax rate reduction.

The budget for 2023-2024 highlights the City's priorities while considering the available resources. This year's budget theme "Realigning for a Sustainable Tomorrow" outlines our vision for a financially responsible and forward-thinking approach, as we collectively navigate the challenges and opportunities that lie ahead. The core objective of this budget is to address the current fiscal climate and to lay the foundation for a sustainable and prosperous future for our community. To achieve these goals, we have undertaken a thorough analysis of our financial status, scrutinized departmental expenditures, and engaged in constructive discussions with our city's leadership and stakeholders.

In January 2021, the City of Baytown relaunched a community-engagement effort to develop a City-wide strategic plan to guide decisions about Baytown's future. A strategic plan is the most fundamental guide for a community's future where the plan sets a common direction for the City (a vision) based on the needs expressed by community members. The strategic plan is high-level, broad in nature, and designed to inform more specific policy and decision-making in the future. Our plan relied on heavy public participation in conversations focused on the future. The Strategic Planning Advisory Committee (SPAC), comprised of residents, business owners, and other community stakeholders, led the process. Baytown's 5-year community-based strategic plan is a community vision supported by shared values, goals, and objectives. The City Council unanimously adopted the new 5-year community-based strategic plan on April 14, 2022 for fiscal years 2023-2027.

1. Economic Prosperity
 - a. Align with the action plan for mall renovation
 - b. Attract additional entertainment opportunities for residents
 - c. Match the forward vision land plan for San Jacinto Boulevard
 - d. Development of Evergreen golf course and additional commercial growth in South Baytown
 - e. The growth of Downtown Baytown and Texas Avenue as an eclectic art, cultural, and business center
 - f. Enhance Baytown's perception as a destination city
 - g. Complete the convention center construction plan
 - h. Waterfront commercial development

CITY OF BAYTOWN, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2023

2. Critical Infrastructure and Traffic Flow
 - a. Increase investment levels into road improvements and pavement preservation
 - b. Review traffic light coordination and efficiency along major traffic points
 - c. Execute planned improvements to Ward Road, Market Street, West Cedar Bayou Lynchburg
 - d. Execute planned improvements to residential streets throughout Baytown
 - e. Complete expansion of the water production and treatment facility to maintain water quality for growing population
 - f. Invest in and execute flood mitigation projects to reduce the risk of future flooding
 - g. Designated water infrastructure projects
 - h. Safe Routes with more biking and pedestrian access to and from schools, including the construction of additional sidewalks
 - i. Improve connectivity of trails, walkways, and bike lanes, including existing street projects and the extension of Goose Creek Trail
 - j. Continue to implement sidewalk master plan to increase pedestrian access and safety, including accessways and Americans with Disabilities Act compliance
3. Outdoor Recreation and Amenities
 - a. Explore possibilities to build electric vehicle charging stations
 - b. Signage improvements across the City
 - c. New animal shelter
4. Building a Connected Baytown
 - a. Conduct more regular meetings between elected leaders and their constituents in each of the six council districts
 - b. Implement Baytown Police Strategic Plan to instill greater trust and transparency between residents and local law enforcement
 - c. Enhance current policing efforts to create positive interactions between residents and law enforcement
 - d. Increase community outreach and relationship building between law enforcement and local stakeholders, including ethnic groups, religious organizations, and teenagers
 - e. Leverage the Civic Academy to expand volunteer recruitment efforts to empower more residents to serve on local boards and committees
5. Beautification and Environmental Stewardship
 - a. Coordinate with local stakeholders to draft and launch an anti-littering campaign
 - b. Partner with local businesses and volunteers on cleanup initiatives
 - c. Work with Baytown Police Department to identify possible areas for increased enforcement of littering
 - d. Leverage current "Clean Team" efforts in addressing general cleanliness
 - e. Evaluate trash management system and programs to recruit sanitation workers
 - f. Continue to evaluate new, data-driven methods and strategies for enforcing residential codes and addressing repeat offenders and infractions
 - g. Continue consistent, proactive code enforcement with noncompliant residences and businesses
 - h. Coordinate with neighborhood watch groups and civic associations to identify opportunities for improved code enforcement
 - i. Market and leverage anonymous hotline for residents to report code infractions
 - j. Evaluate adjustments to staffing levels to address code infractions and eye sores
 - k. Complete planned Urban Land Development Code review and rewrite
 - l. Improve accountability standards for underdeveloped businesses in the downtown district

CITY OF BAYTOWN, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2023

- m. Fund additional tree planting, draft a tree preservation ordinance, and pursue other natural beautification efforts
- n. Explore grant funding possibilities to build electric vehicle charging stations
- o. Improve the consistency of wayfinding and other signage improvements across the City
- p. Leverage the new animal shelter and existing animal control efforts to address stray cats and dogs
- q. Offer educational resources to pet adopters to prevent future strays and rescues

Acting on behalf of the City the Baytown-West Chambers County Economic Development Foundation (EDF) provides technical assistance to existing and/or new commercial/retail business, as well as industries seeking to locate, relocate, or expand operations in the Baytown-West Chambers County service area. The availability of Municipal Development District (MDD) funding has proven crucial to providing resources for this endeavor. Programs funded by the MDD include development of new and expansion of existing businesses, acquisition of property for economic development incentives, and continued support of the EDF operations and special programs. There exists a strong public-private partnership comprising the City, the EDF, industry/manufacturers/contractors, educational institutions, other governmental agencies. This partnership has had notable success in implementing a workforce preparedness strategy that addresses current and future manufacturing demands.

The City budget involves a collaborative effort between the City Council, staff, citizens, business owners, customers, and other partners in the Baytown community. Despite challenging economic conditions, the approved budget takes a well-rounded approach to minimize negative effects on our citizens and customers. It also allocates funds to improve and sustain quality-of-life measures and promote economic growth.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to the Finance Director, City of Baytown, Texas, 2401 Market Street, Baytown, TX 77522; telephone 281-420-6531; or for general City information, visit the City's website at <http://www.baytown.org>.

BASIC FINANCIAL STATEMENTS

CITY OF BAYTOWN, TEXAS

STATEMENT OF NET POSITION

September 30, 2023

| | Primary Government | | |
|--|-------------------------|--------------------------|-----------------------|
| | Governmental Activities | Business-Type Activities | Total |
| <u>Assets</u> | | | |
| Cash and equity in pooled cash and investments | \$ 170,678,549 | \$ 78,601,871 | \$ 249,280,420 |
| Receivables, net | 16,404,313 | 9,518,992 | 25,923,305 |
| Leases receivable | 485,364 | 27,142 | 512,506 |
| Due from component unit | 166,505 | - | 166,505 |
| Internal balances | 5,541,015 | (5,541,015) | - |
| Inventories | 809,659 | - | 809,659 |
| Prepays and other assets | 649,369 | - | 649,369 |
| Restricted assets: | | | |
| Cash and cash equivalents - debt service | - | - | - |
| Cash and cash equivalents - fiscal agent | - | - | - |
| Capital assets: | | | |
| Nondepreciable/nonamortizable | 113,252,854 | 20,757,947 | 134,010,801 |
| Depreciable/amortizable, net | 298,797,391 | 228,650,038 | 527,447,429 |
| Total Assets | 606,785,019 | 332,014,975 | 938,799,994 |
| <u>Deferred Outflows of Resources</u> | | | |
| Deferred outflows - pensions | 40,726,306 | 5,573,291 | 46,299,597 |
| Deferred outflows - OPEB | 6,475,439 | 928,689 | 7,404,128 |
| Deferred charge on refunding | 3,778,125 | 477,410 | 4,255,535 |
| Total Deferred Outflows of Resources | 50,979,870 | 6,979,390 | 57,959,260 |
| <u>Liabilities</u> | | | |
| Accounts payable | 19,899,838 | 5,222,269 | 25,122,107 |
| Accrued expenses | 4,540,159 | 22,858 | 4,563,017 |
| Accrued interest payable | 946,064 | 322,379 | 1,268,443 |
| Refundable deposits and escrow funds | 20,988 | 3,808,553 | 3,829,541 |
| Due to primary government | - | - | - |
| Claims and judgments | 2,492,106 | - | 2,492,106 |
| Unearned revenue | 2,899,430 | 14,470,272 | 17,369,702 |
| Retainage payable | - | 493,474 | 493,474 |
| Noncurrent liabilities: | | | |
| Portion due within one year: | | | |
| Leases | 61,638 | - | 61,638 |
| Compensated absences | 14,720,439 | 1,012,763 | 15,733,202 |
| Total OPEB liability | 1,908,865 | 256,117 | 2,164,982 |
| Bonds payable | 14,769,619 | 5,750,381 | 20,520,000 |
| Portion due in more than one year: | | | |
| Leases | 550,691 | - | 550,691 |
| Compensated absences | 1,635,604 | 112,530 | 1,748,134 |
| Net pension liability | 81,088,838 | 11,851,567 | 92,940,405 |
| Total OPEB liability | 43,408,347 | 6,637,509 | 50,045,856 |
| Bonds payable | 136,767,120 | 47,718,923 | 184,486,043 |
| Total Liabilities | 325,709,746 | 97,679,595 | 423,389,341 |
| <u>Deferred Inflows of Resources</u> | | | |
| Deferred inflows - pensions | 3,695 | - | 3,695 |
| Deferred inflows - OPEB | 19,067,595 | 2,606,167 | 21,673,762 |
| Deferred inflows - leases | 464,930 | 26,574 | 491,504 |
| Deferred charge on refunding | 185,801 | 3,202,878 | 3,388,679 |
| Total Deferred Inflows of Resources | 19,722,021 | 5,835,619 | 25,557,640 |
| <u>Net Position</u> | | | |
| Net investment in capital assets | 312,834,010 | 200,954,695 | 513,788,705 |
| Restricted for: | | | |
| Capital projects | 5,035,841 | - | 5,035,841 |
| Debt service | - | 11,033,635 | 11,033,635 |
| Special projects | 24,467,011 | - | 24,467,011 |
| Unrestricted | (30,003,740) | 23,490,821 | (6,512,919) |
| Total Net Position | \$ 312,333,122 | \$ 235,479,151 | \$ 547,812,273 |

See Notes to Financial Statements.

| Component Units | |
|---|---|
| Municipal Development District | Baytown Area Water Authority |
| \$ 948,195 | \$ 9,793,030 |
| 1,410,229 | 156,466 |
| - | - |
| - | - |
| - | - |
| 47,688 | - |
| 8,359 | - |
| 3,978,997 | 4,231,861 |
| 1,919,337 | - |
| - | 8,887,020 |
| 46,906,233 | 91,910,855 |
| <u>55,219,038</u> | <u>114,979,232</u> |
| - | - |
| - | - |
| - | - |
| <u>-</u> | <u>-</u> |
| 1,770,070 | 793,547 |
| - | - |
| 1,372,024 | 637,081 |
| - | - |
| 166,505 | - |
| - | - |
| 600,000 | - |
| 404,041 | 285,317 |
| - | - |
| - | - |
| - | - |
| - | 2,005,000 |
| - | - |
| - | - |
| - | - |
| - | - |
| 72,051,765 | 39,132,554 |
| <u>76,364,405</u> | <u>42,853,499</u> |
| - | - |
| - | - |
| - | - |
| - | - |
| <u>-</u> | <u>-</u> |
| <u>-</u> | <u>-</u> |
| 2,025,189 | 59,660,321 |
| - | - |
| - | 3,594,780 |
| - | - |
| (23,170,556) | 8,870,632 |
| <u>\$ (21,145,367)</u> | <u>\$ 72,125,733</u> |

CITY OF BAYTOWN, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2023

| Functions/Programs | Expenses | Program Revenues | | |
|---------------------------------------|-----------------------|----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary Government | | | | |
| Governmental Activities | | | | |
| General government | \$ 39,663,698 | \$ 1,042,531 | \$ 3,240,934 | \$ - |
| Public safety | 78,350,694 | 3,742,114 | 2,806,792 | - |
| Public works | 16,481,571 | 2,046,615 | 628,734 | 2,350,961 |
| Public health | 5,134,804 | 208,181 | - | - |
| Parks, recreation, and culture | 16,974,203 | 215,582 | 70,000 | 28,970,299 |
| Interest and fiscal agent fees | 4,909,383 | - | - | - |
| Total Governmental Activities | <u>161,514,353</u> | <u>7,255,023</u> | <u>6,746,460</u> | <u>31,321,260</u> |
| Business-Type Activities | | | | |
| Water and sewer | 45,763,321 | 56,109,234 | 1,351,768 | 3,987,449 |
| Sanitation | 8,321,776 | 6,964,971 | - | - |
| Bayland Island development | 212,606 | 55,445 | - | - |
| Aquatics | 4,973,048 | 3,943,065 | - | - |
| Storm water utility | 2,221,863 | 4,070,022 | - | - |
| Total Business-Type Activities | <u>61,492,614</u> | <u>71,142,737</u> | <u>1,351,768</u> | <u>3,987,449</u> |
| Total Primary Government | <u>\$ 223,006,967</u> | <u>\$ 78,397,760</u> | <u>\$ 8,098,228</u> | <u>\$ 35,308,709</u> |
| Component Units | | | | |
| Municipal Development District | \$ 40,819,643 | \$ 1,661,181 | \$ - | \$ 2,041,108 |
| Baytown Area Water Authority | <u>12,583,406</u> | <u>18,161,488</u> | <u>123,258</u> | <u>-</u> |
| Total Component Units | <u>\$ 53,403,049</u> | <u>\$ 19,822,669</u> | <u>\$ 123,258</u> | <u>\$ 2,041,108</u> |

General Revenues:

Taxes:
 Property taxes
 Sales and hotel/motel taxes
 Franchise fees
 Industrial district payments
 Investment income
 Miscellaneous
 Transfers, net

Total General Revenues and Transfers

Change in Net Position

Beginning net position

Ending Net Position

See Notes to Financial Statements.

Net Revenue (Expense) and Changes in Net Position

| Primary Government | | | Component Units | |
|--------------------------------|---------------------------------|-----------------------|---------------------------------------|-------------------------------------|
| Governmental Activities | Business-Type Activities | Total | Municipal Development District | Baytown Area Water Authority |
| \$ (35,380,233) | \$ - | \$ (35,380,233) | \$ - | \$ - |
| (71,801,788) | - | (71,801,788) | - | - |
| (11,455,261) | - | (11,455,261) | - | - |
| (4,926,623) | - | (4,926,623) | - | - |
| 12,281,678 | - | 12,281,678 | - | - |
| (4,909,383) | - | (4,909,383) | - | - |
| (116,191,610) | - | (116,191,610) | - | - |
| - | 15,685,130 | 15,685,130 | - | - |
| - | (1,356,805) | (1,356,805) | - | - |
| - | (157,161) | (157,161) | - | - |
| - | (1,029,983) | (1,029,983) | - | - |
| - | 1,848,159 | 1,848,159 | - | - |
| - | 14,989,340 | 14,989,340 | - | - |
| (116,191,610) | 14,989,340 | (101,202,270) | - | - |
| - | - | - | (37,117,354) | - |
| - | - | - | - | 5,701,340 |
| - | - | - | (37,117,354) | 5,701,340 |
| 43,619,406 | - | 43,619,406 | - | - |
| 33,096,797 | - | 33,096,797 | 8,499,110 | - |
| 4,669,231 | - | 4,669,231 | - | - |
| 67,030,403 | - | 67,030,403 | - | - |
| 9,097,642 | 3,140,823 | 12,238,465 | 931,674 | 209,842 |
| 1,530,117 | - | 1,530,117 | - | - |
| 665,621 | (665,621) | - | - | - |
| 159,709,217 | 2,475,202 | 162,184,419 | 9,430,784 | 209,842 |
| 43,517,607 | 17,464,542 | 60,982,149 | (27,686,570) | 5,911,182 |
| 268,815,515 | 218,014,609 | 486,830,124 | 6,541,203 | 66,214,551 |
| <u>\$ 312,333,122</u> | <u>\$ 235,479,151</u> | <u>\$ 547,812,273</u> | <u>\$ (21,145,367)</u> | <u>\$ 72,125,733</u> |

CITY OF BAYTOWN, TEXAS

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2023

| | General | Debt Service | Capital Projects | Nonmajor Governmental |
|---|----------------------|---------------------|-----------------------|--------------------------|
| <u>Assets</u> | | | | |
| Current assets: | | | | |
| Cash and equity in pooled cash and investments | \$ 17,088,806 | \$ 200 | \$ 110,683,354 | \$ 23,768,592 |
| Receivables, net | 8,379,565 | 1,049,275 | 491,871 | 6,483,602 |
| Leases receivable | 485,364 | - | - | - |
| Due from component unit | 166,505 | - | - | - |
| Due from other funds | 6,681,494 | - | - | - |
| Prepays | 384,369 | - | - | - |
| Advances to other funds | 2,250,000 | - | - | - |
| Total Assets | \$ 35,436,103 | \$ 1,049,475 | \$ 111,175,225 | \$ 30,252,194 |
| <u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u> | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 1,514,034 | \$ - | \$ 16,585,654 | \$ 1,570,298 |
| Accrued expenditures | 4,539,959 | 200 | - | - |
| Due to other funds | - | - | - | 2,707,480 |
| Refundable deposits | 20,988 | - | - | - |
| Unearned revenue | 877,236 | - | - | 2,022,194 |
| Total Liabilities | 6,952,217 | 200 | 16,585,654 | 6,299,972 |
| Deferred inflows of resources: | | | | |
| Unavailable revenue - leases | 464,930 | - | - | - |
| Unavailable revenue - grants | - | - | 20,803 | 1,254,675 |
| Unavailable revenue - property taxes | 2,019,441 | 1,049,275 | - | - |
| Total Deferred Inflows of Resources | 2,484,371 | 1,049,275 | 20,803 | 1,254,675 |
| Fund balances: | | | | |
| Nonspendable: | | | | |
| Prepays | 384,369 | - | - | - |
| Restricted: | | | | |
| Capital projects | - | - | 54,376,350 | - |
| Special projects | 67,828 | - | - | 24,399,183 |
| Assigned: | | | | |
| Capital projects | - | - | 40,192,418 | - |
| Unassigned | 25,547,318 | - | - | (1,701,636) |
| Total Fund Balances | 25,999,515 | - | 94,568,768 | 22,697,547 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | \$ 35,436,103 | \$ 1,049,475 | \$ 111,175,225 | \$ 30,252,194 |

See Notes to Financial Statements.

**Total
Governmental
Funds**

| | |
|----|--------------------|
| \$ | 151,540,952 |
| | 16,404,313 |
| | 485,364 |
| | 166,505 |
| | 6,681,494 |
| | 384,369 |
| | 2,250,000 |
| \$ | <u>177,912,997</u> |

| | |
|----|-------------------|
| \$ | 19,669,986 |
| | 4,540,159 |
| | 2,707,480 |
| | 20,988 |
| | <u>2,899,430</u> |
| | <u>29,838,043</u> |

| | |
|--|------------------|
| | 464,930 |
| | 1,275,478 |
| | <u>3,068,716</u> |
| | <u>4,809,124</u> |

| | |
|----|--------------------|
| | 384,369 |
| | 54,376,350 |
| | 24,467,011 |
| | 40,192,418 |
| | <u>23,845,682</u> |
| | <u>143,265,830</u> |
| \$ | <u>177,912,997</u> |

CITY OF BAYTOWN, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
September 30, 2023

Total fund balances for governmental funds \$ 143,265,830

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

| | | |
|---|-------------|-------------|
| Capital assets, nondepreciable/nonamortizable | 113,252,854 | |
| Capital assets, net depreciable/amortizable | 298,797,391 | |
| | 412,050,245 | 412,050,245 |

Some of the City's revenues will be collected after year end, but are not available to pay for current period expenditures and, therefore, are reported as deferred inflows in the funds.

4,344,194

Internal service funds are used by management to charge the costs of certain services and benefits to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position.

| | | |
|--|------------|------------|
| Internal service funds' net position | 15,491,041 | |
| Capital assets accounted for in capital assets used in governmental activities | (144,902) | |
| Compensated absences accounted for in long-term liabilities | 131,139 | |
| Deferred outflows - pensions accounted for in governmental activities | (506,730) | |
| Deferred outflows - OPEB accounted for in governmental activities | (79,156) | |
| Deferred inflows - OPEB accounted for in governmental activities | 235,460 | |
| Net pension liability accounted for in long-term liabilities | 1,105,511 | |
| Total OPEB liability accounted for in long-term liabilities | 574,936 | 16,807,299 |

Long-term liabilities and deferred outflows/inflows related to pension and other postemployment benefits (OPEB) are not due and payable in the current period and, therefore, are not reported in the funds.

| | | |
|---|---------------|---------------|
| Bonds payable, net of unamortized premium | (151,536,739) | |
| Deferred outflows - charge on refunding | 3,778,125 | |
| Deferred inflows - charge on refunding | (185,801) | |
| Leases | (612,329) | |
| Compensated absences | (16,356,043) | |
| Deferred outflows - pensions | 40,726,306 | |
| Deferred inflows - pensions | (3,695) | |
| Net pension liability | (81,088,838) | |
| Deferred outflows - OPEB | 6,475,439 | |
| Deferred inflows - OPEB | (19,067,595) | |
| Total OPEB liability | (45,317,212) | |
| Accrued interest payable | (946,064) | (264,134,446) |

Net Position of Governmental Activities \$ 312,333,122

See Notes to Financial Statements.

CITY OF BAYTOWN, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended September 30, 2023

| | <u>General</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Nonmajor Governmental</u> |
|--|----------------------|-------------------------|-----------------------------|----------------------------------|
| <u>Revenues</u> | | | | |
| Taxes and fees | \$ 118,315,525 | \$ 15,367,939 | \$ - | \$ 14,638,197 |
| Licenses and permits | 2,082,869 | - | - | - |
| Charges for services | 3,054,313 | - | - | 514,549 |
| Fines and forfeitures | 1,472,787 | - | - | 130,505 |
| Intergovernmental | 2,805,297 | 435,637 | 416,067 | 7,314,988 |
| Investment earnings, net | 2,608,461 | 43,226 | 5,852,988 | 592,967 |
| Miscellaneous | 1,023,764 | 7,261 | - | 499,092 |
| Total Revenues | <u>131,363,016</u> | <u>15,854,063</u> | <u>6,269,055</u> | <u>23,690,298</u> |
| <u>Expenditures</u> | | | | |
| Current: | | | | |
| General government | 29,905,390 | - | 982,365 | 5,705,271 |
| Public safety | 67,632,829 | - | - | 3,863,263 |
| Public works | 6,781,931 | - | 1,801,675 | 762,750 |
| Public health | 4,728,776 | - | - | - |
| Parks, recreation, and culture | 11,972,925 | - | - | 759,188 |
| Capital outlay | 1,237,202 | - | 69,199,481 | 3,850,302 |
| Debt service: | | | | |
| Principal | - | 15,231,750 | - | 70,271 |
| Interest and fiscal agent fees | - | 5,719,169 | - | 6,369 |
| Issuance costs | - | - | 338,091 | - |
| Total Expenditures | <u>122,259,053</u> | <u>20,950,919</u> | <u>72,321,612</u> | <u>15,017,414</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>9,103,963</u> | <u>(5,096,856)</u> | <u>(66,052,557)</u> | <u>8,672,884</u> |
| <u>Other Financing Sources (Uses)</u> | | | | |
| Transfers in | 2,557,413 | 5,096,856 | 27,117,500 | 789,482 |
| Transfers (out) | (27,583,556) | - | - | (4,290,330) |
| Debt issued | - | - | 24,270,000 | - |
| Leases | - | - | - | 682,600 |
| Premium on debt issued | - | - | 1,075,954 | - |
| Total Other Financing Sources (Uses) | <u>(25,026,143)</u> | <u>5,096,856</u> | <u>52,463,454</u> | <u>(2,818,248)</u> |
| Net Change in Fund Balances | (15,922,180) | - | (13,589,103) | 5,854,636 |
| Beginning fund balances | 41,921,695 | - | 108,157,871 | 16,842,911 |
| Ending Fund Balances | <u>\$ 25,999,515</u> | <u>\$ -</u> | <u>\$ 94,568,768</u> | <u>\$ 22,697,547</u> |

See Notes to Financial Statements.

**Total
Governmental
Funds**

| | |
|----|-------------------------|
| \$ | 148,321,661 |
| | 2,082,869 |
| | 3,568,862 |
| | 1,603,292 |
| | 10,971,989 |
| | 9,097,642 |
| | 1,530,117 |
| | <hr/> 177,176,432 <hr/> |

| |
|------------|
| 36,593,026 |
| 71,496,092 |
| 9,346,356 |
| 4,728,776 |
| 12,732,113 |
| 74,286,985 |

| |
|------------|
| 15,302,021 |
| 5,725,538 |
| 338,091 |

| |
|-------------------------|
| <hr/> 230,548,998 <hr/> |
|-------------------------|

| |
|--------------------------|
| <hr/> (53,372,566) <hr/> |
|--------------------------|

| |
|------------------------|
| 35,561,251 |
| (31,873,886) |
| 24,270,000 |
| 682,600 |
| 1,075,954 |
| <hr/> 29,715,919 <hr/> |

| |
|--------------|
| (23,656,647) |
|--------------|

| |
|-------------|
| 166,922,477 |
|-------------|

| | |
|----|-------------------------|
| \$ | <hr/> 143,265,830 <hr/> |
|----|-------------------------|

(This page intentionally left blank.)

CITY OF BAYTOWN, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2023

Net change in fund balances – total governmental funds \$ (23,656,647)

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

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

| | |
|--|--------------|
| Capital outlay, net of contributions to business-type activities and disposals | 68,491,096 |
| Depreciation/Amortization | (14,105,260) |
| Capital contributions from component units and/or developers. | 28,970,299 |

The issuance of long-term debt (e.g., bonds, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

| | |
|----------------------------------|--------------|
| Debt principal payments | 15,231,750 |
| Lease principal payment | 70,271 |
| Debt issued | (24,270,000) |
| Leases | (682,600) |
| Premium on bonds | (1,075,954) |
| Amortization of premium on bonds | 1,644,926 |
| Amortization of deferred charges | (419,438) |

Revenue in the Statement of Activities that does not provide current financial resources is not reported as revenue in the funds.

| | |
|----------------|-------------|
| Property taxes | 94,176 |
| Grants | (1,874,568) |

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

| | |
|--|--------------|
| Compensated absences | (1,614,298) |
| Change in net pension liability | (52,616,966) |
| Change in total OPEB liability | 19,439,843 |
| Change in deferred outflows - pensions | 27,627,335 |
| Change in deferred outflows - OPEB | (4,155,571) |
| Change in deferred inflows - pensions | 20,039,757 |
| Change in deferred inflows - OPEB | (12,929,845) |
| Interest expense on bonds | (71,242) |

Internal service funds are used by management to charge the costs of providing various services and benefits to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.

(619,457)

| | |
|--|----------------------|
| Change in Net Position of Governmental Activities | \$ 43,517,607 |
|--|----------------------|

See Notes to Financial Statements.

CITY OF BAYTOWN, TEXAS
STATEMENT OF NET POSITION (Page 1 of 2)
PROPRIETARY FUNDS
September 30, 2023

| Business-Type Activities - Enterprise Funds | | | | |
|---|----------------------------|----------------------|---------------------|--------------------------------|
| | Water and Sewer | Aquatics | Sanitation | Nonmajor Enterprise |
| <u>Assets</u> | | | | |
| Current assets: | | | | |
| Cash and equity in pooled cash and investments | \$ 78,280,554 | \$ - | \$ 50 | \$ 321,267 |
| Accounts receivable, net | 6,184,033 | 1,916,489 | 1,070,220 | 348,250 |
| Leases receivable | - | - | - | 27,142 |
| Inventories | - | - | - | - |
| Prepaid items | - | - | - | - |
| Total Current Assets | 84,464,587 | 1,916,489 | 1,070,270 | 696,659 |
| Noncurrent assets: | | | | |
| Capital assets: | | | | |
| Nondepreciable | 20,757,947 | - | - | - |
| Depreciable, net | 208,227,149 | 16,040,766 | 369,011 | 4,013,112 |
| Total Capital Assets | | | | |
| (Net of Accumulated Depreciation) | 228,985,096 | 16,040,766 | 369,011 | 4,013,112 |
| Total Noncurrent Assets | 228,985,096 | 16,040,766 | 369,011 | 4,013,112 |
| Total Assets | \$ 313,449,683 | \$ 17,957,255 | \$ 1,439,281 | \$ 4,709,771 |
| <u>Deferred Outflows of Resources</u> | | | | |
| Deferred charge on refunding | 477,410 | - | - | - |
| Deferred outflows - pensions | 4,407,789 | 168,887 | 432,054 | 564,561 |
| Deferred outflows - OPEB | 682,183 | 34,448 | 85,798 | 126,260 |
| Total Deferred Outflows of Resources | 5,567,382 | 203,335 | 517,852 | 690,821 |

| Business-Type Activities - Enterprise Funds | |
|--|-----------------------------|
| Total | |
| Enterprise Funds | Internal Service |
| <hr/> | |
| \$ 78,601,871 | \$ 19,137,597 |
| 9,518,992 | - |
| 27,142 | - |
| - | 809,659 |
| - | 265,000 |
| <hr/> | <hr/> |
| 88,148,005 | 20,212,256 |
| <hr/> | |
| | |
| 20,757,947 | - |
| 228,650,038 | 144,902 |
| <hr/> | <hr/> |
| 249,407,985 | 144,902 |
| <hr/> | <hr/> |
| 249,407,985 | 144,902 |
| <hr/> | <hr/> |
| \$ 337,555,990 | \$ 20,357,158 |
| <hr/> | |
| | |
| 477,410 | - |
| 5,573,291 | 506,730 |
| 928,689 | 79,156 |
| <hr/> | <hr/> |
| 6,979,390 | 585,886 |
| <hr/> | |

CITY OF BAYTOWN, TEXAS
STATEMENT OF NET POSITION (Page 2 of 2)
PROPRIETARY FUNDS
September 30, 2023

| | Business-Type Activities - Enterprise Funds | | | |
|---|--|----------------------|-----------------------|--------------------------------|
| | Water and Sewer | Aquatics | Sanitation | Nonmajor Enterprise |
| <u>Liabilities</u> | | | | |
| Current liabilities: | | | | |
| Accounts payable | \$ 4,357,339 | \$ 20,513 | \$ 602,486 | \$ 241,931 |
| Accrued expenses | - | - | 22,858 | - |
| Compensated absences | 821,267 | 12,645 | 86,591 | 92,260 |
| Refundable deposits | 3,808,553 | - | - | - |
| Due to other funds | - | 417,817 | 855,686 | 2,017,512 |
| Retainage payable | 493,474 | - | - | - |
| Unearned | 14,470,272 | - | - | - |
| Accrued interest payable | 322,379 | - | - | - |
| Bonds payable - current | 5,750,381 | - | - | - |
| Total OPEB liability - current | 204,278 | 7,351 | 19,337 | 25,151 |
| Advances from other funds | - | 2,250,000 | - | - |
| Total Current Liabilities | 30,227,943 | 2,708,326 | 1,586,958 | 2,376,854 |
| Noncurrent liabilities: | | | | |
| Bonds payable, net of premiums | 47,718,923 | - | - | - |
| Compensated absences | 91,252 | 1,405 | 9,621 | 10,252 |
| Net pension liability | 9,836,296 | 361,828 | 905,821 | 747,622 |
| Total OPEB liability | 5,135,385 | 216,177 | 565,348 | 720,599 |
| Total Noncurrent Liabilities | 62,781,856 | 579,410 | 1,480,790 | 1,478,473 |
| Total Liabilities | 93,009,799 | 3,287,736 | 3,067,748 | 3,855,327 |
| <u>Deferred Inflows of Resources</u> | | | | |
| Deferred charges on refunding | 3,202,878 | - | - | - |
| Deferred inflows - OPEB | 2,049,358 | 79,944 | 203,278 | 273,587 |
| Deferred inflows - leases | - | - | - | 26,574 |
| Total Deferred Inflows of Resources | 5,252,236 | 79,944 | 203,278 | 300,161 |
| <u>Net Position</u> | | | | |
| Net investment in capital assets | 180,531,806 | 16,040,766 | 369,011 | 4,013,112 |
| Restricted for: | | | | |
| Debt service | 11,033,635 | - | - | - |
| Unrestricted | 29,189,589 | (1,247,856) | (1,682,904) | (2,768,008) |
| Total Net Position | \$ 220,755,030 | \$ 14,792,910 | \$ (1,313,893) | \$ 1,245,104 |

See Notes to Financial Statements.

| Business-Type Activities- Enterprise Funds | | | |
|---|----------------------|--|--|
| Total | | | |
| Enterprise Funds | Internal Service | | |
| | | | |
| \$ 5,222,269 | \$ 229,852 | | |
| 22,858 | 2,492,106 | | |
| 1,012,763 | 117,329 | | |
| 3,808,553 | - | | |
| 3,291,015 | 682,999 | | |
| 493,474 | - | | |
| 14,470,272 | - | | |
| 322,379 | - | | |
| 5,750,381 | - | | |
| 256,117 | 23,598 | | |
| 2,250,000 | - | | |
| <u>36,900,081</u> | <u>3,545,884</u> | | |
| | | | |
| 47,718,923 | - | | |
| 112,530 | 13,810 | | |
| 11,851,567 | 1,105,511 | | |
| 6,637,509 | 551,338 | | |
| <u>66,320,529</u> | <u>1,670,659</u> | | |
| <u>103,220,610</u> | <u>5,216,543</u> | | |
| | | | |
| 3,202,878 | - | | |
| 2,606,167 | 235,460 | | |
| 26,574 | - | | |
| <u>5,835,619</u> | <u>235,460</u> | | |
| | | | |
| 200,954,695 | 144,902 | | |
| | | | |
| 11,033,635 | - | | |
| 23,490,821 | 15,346,139 | | |
| <u>\$ 235,479,151</u> | <u>\$ 15,491,041</u> | | |

CITY OF BAYTOWN, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION PROPRIETARY FUNDS

For the Year Ended September 30, 2023

| | Business-Type Activities - Enterprise Funds | | | |
|---|---|----------------------|-----------------------|------------------------|
| | Water and Sewer | Aquatics | Sanitation | Nonmajor Enterprise |
| <u>Operating Revenues</u> | | | | |
| Water and sewer sales | \$ 47,729,025 | \$ - | \$ - | \$ - |
| Service charges and other services | 8,380,209 | 3,943,065 | - | 4,125,467 |
| Solid waste collection | - | - | 6,944,965 | - |
| Other revenue | - | - | 20,006 | - |
| Total Operating Revenues | 56,109,234 | 3,943,065 | 6,964,971 | 4,125,467 |
| <u>Operating Expenses</u> | | | | |
| Personnel costs | 12,443,303 | 2,744,785 | 1,173,862 | 1,515,780 |
| Supplies | 17,659,023 | 551,108 | 73,190 | 85,105 |
| Maintenance | 2,833,299 | 230,686 | 116,755 | 223,151 |
| Services | 2,769,721 | 196,967 | 6,865,090 | 106,192 |
| Claim payments and fees | - | - | - | - |
| Miscellaneous | - | 236,246 | - | - |
| Depreciation | 8,728,512 | 1,013,256 | 92,879 | 504,241 |
| Total Operating Expenses | 44,433,858 | 4,973,048 | 8,321,776 | 2,434,469 |
| Operating Income (Loss) | 11,675,376 | (1,029,983) | (1,356,805) | 1,690,998 |
| <u>Nonoperating Revenues (Expenses)</u> | | | | |
| Investment earnings | 3,140,823 | - | - | - |
| Intergovernmental | 1,881,496 | - | - | - |
| Interest expense and other | (1,329,463) | - | - | - |
| Total Nonoperating Revenues | 3,692,856 | - | - | - |
| Income (Loss) Before Contributions and Transfers | 15,368,232 | (1,029,983) | (1,356,805) | 1,690,998 |
| <u>Contributions and Transfers</u> | | | | |
| Capital contributions | 7,279,465 | - | - | - |
| Transfers in | 2,107,890 | - | - | - |
| Transfers (out) | (3,739,038) | (380,951) | - | (2,475,266) |
| Total Contributions and Transfers | 5,648,317 | (380,951) | - | (2,475,266) |
| Change in Net Position | 21,016,549 | (1,410,934) | (1,356,805) | (784,268) |
| Beginning net position | 199,738,481 | 16,203,844 | 42,912 | 2,029,372 |
| Ending Net Position | \$ 220,755,030 | \$ 14,792,910 | \$ (1,313,893) | \$ 1,245,104 |

See Notes to Financial Statements.

| Business-Type Activities - Enterprise Funds | |
|--|-----------------------------|
| Total | |
| Enterprise Funds | Internal Service |
| \$ 47,729,025 | \$ - |
| 16,448,741 | 20,482,489 |
| 6,944,965 | - |
| 20,006 | 445,104 |
| <u>71,142,737</u> | <u>20,927,593</u> |
| 17,877,730 | 1,269,113 |
| 18,368,426 | 2,786,224 |
| 3,403,891 | 12,247 |
| 9,937,970 | 46,626 |
| - | 18,283,083 |
| 236,246 | - |
| 10,338,888 | 40,750 |
| <u>60,163,151</u> | <u>22,438,043</u> |
| <u>10,979,586</u> | <u>(1,510,450)</u> |
| 3,140,823 | - |
| 1,881,496 | - |
| <u>(1,329,463)</u> | <u>-</u> |
| <u>3,692,856</u> | <u>-</u> |
| 14,672,442 | (1,510,450) |
| 7,279,465 | - |
| 2,107,890 | 800,000 |
| <u>(6,595,255)</u> | <u>-</u> |
| <u>2,792,100</u> | <u>800,000</u> |
| 17,464,542 | (710,450) |
| 218,014,609 | 16,201,491 |
| <u>\$ 235,479,151</u> | <u>\$ 15,491,041</u> |

CITY OF BAYTOWN, TEXAS

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS (Page 1 of 2) For the Year Ended September 30, 2023

| | Business-Type Activities - Enterprise Funds | | | |
|---|---|------------------|------------------|------------------------|
| | Water and Sewer | Aquatics | Sanitation | Nonmajor Enterprise |
| <u>Cash Flows from Operating Activities</u> | | | | |
| Cash received from customers | \$ 56,037,482 | \$ 3,943,065 | \$ 6,921,173 | \$ 4,129,150 |
| Cash received from interfund charges for central services | - | - | - | - |
| Cash received from interfund charges for risk management services | - | - | - | - |
| Cash payments for goods and services | (20,163,563) | (812,264) | (6,103,624) | 3,003 |
| Cash payments to employees | (11,789,807) | (2,749,850) | (1,150,358) | (1,602,174) |
| Other | - | - | 20,006 | - |
| Net Cash Provided (Used) by Operating Activities | 24,084,112 | 380,951 | (312,803) | 2,529,979 |
| <u>Cash Flows from Noncapital and Related Financing Activities</u> | | | | |
| Transfers in | 2,107,890 | - | - | - |
| Transfers (out) | (3,739,038) | (380,951) | - | (2,475,266) |
| Intergovernmental revenue | 1,351,768 | - | - | - |
| Net Cash Provided (Used) for Noncapital and Related Financing Activities | (279,380) | (380,951) | - | (2,475,266) |
| <u>Cash Flows from Capital and Related Financing Activities</u> | | | | |
| Acquisition and construction of capital assets | (10,318,485) | - | (53,396) | - |
| Capital grants | 15,000,000 | - | - | - |
| Principal paid on capital debt | (5,453,250) | - | - | - |
| Interest and fiscal agent fees paid | (2,185,561) | - | - | - |
| Net Cash (Used) by Capital and Related Financing Activities | (2,957,296) | - | (53,396) | - |
| <u>Cash Flows from Investing Activities</u> | | | | |
| Interest received | 3,140,823 | - | - | - |
| Net Cash Provided by Investing Activities | 3,140,823 | - | - | - |
| Net Increase (Decrease) in Cash and Cash Equivalents | 23,988,259 | - | (366,199) | 54,713 |
| Beginning cash and cash equivalents | 54,292,295 | - | 366,249 | 266,554 |
| Ending Cash and Cash Equivalents | \$ 78,280,554 | \$ - | \$ 50 | \$ 321,267 |

See Notes to Financial Statements.

| Business-Type Activities - Enterprise Funds | |
|--|-----------------------------|
| Total Enterprise Funds | Internal Service |
| \$ 71,030,870 | \$ 3,044,498 |
| - | 2,037,547 |
| - | 15,851,568 |
| (27,076,448) | (20,544,742) |
| (17,292,189) | (1,207,690) |
| 20,006 | - |
| 26,682,239 | (818,819) |
| 2,107,890 | 800,000 |
| (6,595,255) | - |
| 1,351,768 | - |
| (3,135,597) | 800,000 |
| (10,371,881) | (11,180) |
| 15,000,000 | - |
| (5,453,250) | - |
| (2,185,561) | - |
| (3,010,692) | (11,180) |
| 3,140,823 | - |
| 3,140,823 | - |
| 23,676,773 | (29,999) |
| 54,925,098 | 19,167,596 |
| \$ 78,601,871 | \$ 19,137,597 |

CITY OF BAYTOWN, TEXAS

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS (Page 2 of 2) For the Year Ended September 30, 2023

| | Business-Type Activities - Enterprise Funds | | | |
|--|---|-------------------|---------------------|------------------------|
| | Water and Sewer | Aquatics | Sanitation | Nonmajor Enterprise |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities | | | | |
| Operating income (loss) | \$ 11,675,376 | \$ (1,029,983) | \$ (1,356,805) | \$ 1,690,998 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | |
| Depreciation | 8,728,512 | 1,013,256 | 92,879 | 504,241 |
| Changes in Operating Assets and Liabilities: | | | | |
| (Increase) Decrease in Current Assets: | | | | |
| Prepaid expenses | - | - | - | - |
| Accounts receivable | (66,935) | - | (23,792) | 3,486 |
| Leases receivable | - | - | - | 45,753 |
| Inventory | - | - | - | - |
| Deferred outflows - pensions | (2,955,414) | (106,184) | (279,758) | (363,707) |
| Deferred outflows - OPEB | 444,539 | 15,972 | 42,080 | 54,707 |
| Increase (Decrease) in Current Liabilities: | | | | |
| Accounts payable | 2,991,889 | (15,074) | 95,725 | 46,949 |
| Accrued expenses | - | - | 4,759 | - |
| Retainage payable | 106,591 | - | - | - |
| Compensated absences | 113,195 | (5,127) | 18,468 | 6,097 |
| Net pension liability | 5,628,662 | 202,230 | 532,807 | 692,689 |
| Total OPEB liability | (2,079,565) | (74,715) | (196,850) | (255,920) |
| Refundable deposits | (4,817) | - | - | - |
| Due to other funds | - | 417,817 | 855,686 | 370,502 |
| Deferred inflows - pensions | (1,881,081) | (86,936) | (228,932) | (390,478) |
| Deferred inflows - OPEB | 1,383,160 | 49,695 | 130,930 | 170,218 |
| Deferred inflows - leases | - | - | - | (45,556) |
| Net Cash Provided (Used) by Operating Activities | \$ 24,084,112 | \$ 380,951 | \$ (312,803) | \$ 2,529,979 |
| Noncash investing, capital, and financing activities: | | | | |
| Contributions of capital assets | \$ 7,279,465 | \$ - | \$ - | \$ - |

See Notes to Financial Statements.

| Business-Type Activities - Enterprise Funds | |
|--|-----------------------------|
| Total Enterprise Funds | Internal Service |
| | |
| \$ 10,979,586 | \$ (1,510,450) |
| | |
| 10,338,888 | 40,750 |
| | |
| - | 6,020 |
| (87,241) | - |
| 45,753 | - |
| - | (94,889) |
| (3,705,063) | (343,061) |
| 557,298 | 51,602 |
| | |
| 3,119,489 | (80,218) |
| 4,759 | 75,546 |
| 106,591 | - |
| 132,633 | 20,090 |
| 7,056,388 | 653,368 |
| (2,607,050) | (241,394) |
| (4,817) | - |
| 1,644,005 | 682,999 |
| (2,587,427) | (239,738) |
| 1,734,003 | 160,556 |
| (45,556) | - |
| | |
| <u>\$ 26,682,239</u> | <u>\$ (818,819)</u> |
| | |
| <u>\$ 7,279,465</u> | <u>\$ -</u> |

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2023

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Baytown, Texas (the “City”) was incorporated and has operated under a “Home Rule Charter,” which provides for a Council-Manager form of government, since 1948.

The City Council is the principal legislative body of the City. The City Manager is appointed by a majority vote of the City Council and is responsible to City Council for the administration of all the affairs of the City. The City Manager is responsible for the appointment and removal of department directors and employees, supervision and control of all City departments, and preparation of the annual budget.

The City provides the following services: public safety (police, fire services, and emergency medical services), municipal court, culture and recreation, streets, drainage, water and sewer services, solid waste collection and disposal, storm water utilities, community development, and general administration.

The City is an independent political subdivision of the State of Texas (the “State”) governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City’s financial reporting entity. They present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government’s operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the primary government. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the City’s financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City’s financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

1. Blended Component Units

Crime Control and Prevention District

The Crime Control and Prevention District (CCPD) has been included in the reporting entity as a blended component unit. The CCPD is reported as a blended component unit due to the CCPD providing services almost entirely for the City. The CCPD is funded by a local sales and use tax at a rate of one-eighth of one percent. The expenditure of this tax is restricted for public safety activities. The CCPD is dissolved on the fifth anniversary of the date the CCPD began to levy taxes, if the

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

CCPD has not held a continuation or dissolution referendum (Texas Local Government Code, Chapter 363). The operations of the CCPD are presented as a governmental fund type.

Fire Control, Prevention, and Emergency Medical Services District

The Fire Control, Prevention, and Emergency Medical Services District (FCPEMSD) has been included in the reporting entity as a blended component unit. The FCPEMSD is reported as a blended component unit due to the FCPEMSD providing services almost entirely for the City. The FCPEMSD is dedicated to fire safety and emergency medical services and is funded by a local sales and use tax at a rate of one-eighth of one percent. The FCPEMSD is dissolved on the fifth anniversary of the date the FCPEMSD began to levy taxes, if the FCPEMSD has not held a continuation or dissolution referendum (Texas Local Government Code, Chapter 344). The operations of the FCPEMSD are presented as a governmental fund type.

Tax Increment Reinvestment Zone Number One

The Tax Increment Reinvestment Zone (TIRZ) Number One was created in 2001 as a development/redevelopment financing tool and is included in the reporting entity as a blended component unit. The TIRZ is reported as a blended component unit due to the TIRZ providing services almost entirely for the City. The TIRZ provides a method to finance public improvements in a designated zone utilizing the property tax increment, or growth in value, subsequent to the creation of the TIRZ. The operations of the TIRZ are presented as a governmental fund type.

Crossings at Baytown Public Improvement District

The Crossings at Baytown Public Improvement District (PID) was created pursuant to Chapter 372 of the Texas Local Government Code. The City created the PID as a mechanism to finance public infrastructure improvements within the PID boundaries. These improvements consist of the construction of street and roadway improvements, water lines, sanitary sewer lines, storm sewers, sidewalks, parks, public landscaping, recreational amenities, contingency provisions, engineering services, financing costs, and administrative and legal services for the PID. The City Council found that the improvements would serve to promote the construction of single-family units and confer a special benefit to properties within the PID. Consequently, it would be necessary to apportion the costs of the improvements against property owners in the PID by special assessments. Initially, the public improvements would be prefunded by the developers of the residential subdivisions within the PID. The developers would then be entitled to receive reimbursement of the public improvement costs, subject to limitations contained in their development agreements with the City.

Bay Creek Public Improvement District

The Bay Creek Public Improvement District (PID) was created pursuant to Chapter 372 of the Texas Local Government Code. The City created the PID as a mechanism to finance public infrastructure improvements within the PID boundaries. These improvements consist of the construction of street and roadway improvements, water lines, sanitary sewer lines, storm sewers, sidewalks, parks, public landscaping, recreational amenities, contingency provisions, engineering services, financing costs, and administrative and legal services for the PID. The City Council found that the improvements would serve to promote the construction of single-family units and confer a special benefit to properties within the PID. Consequently, it would be necessary to apportion the costs of the improvements against property owners in the PID by special assessments. Initially, the public improvements would be prefunded by the developers of the residential subdivisions within the PID. The developers would

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

then be entitled to receive reimbursement of the public improvement costs, subject to limitations contained in their development agreements with the City.

Bayview Heights Public Improvement District

The Bayview Heights Public Improvement District (PID) was created pursuant to Chapter 372 of the Texas Local Government Code. The City created the PID as a mechanism to finance public infrastructure improvements within the PID boundaries. These improvements consist of the construction of street and roadway improvements, water lines, sanitary sewer lines, storm sewers, sidewalks, parks, public landscaping, recreational amenities, contingency provisions, engineering services, financing costs, and administrative and legal services for the PID. The City Council found that the improvements would serve to promote the construction of single-family units and confer a special benefit to properties within the PID. Consequently, it would be necessary to apportion the costs of the improvements against property owners in the PID by special assessments. Initially, the public improvements would be prefunded by the developers of the residential subdivisions within the PID. The developers would then be entitled to receive reimbursement of the public improvement costs, subject to limitations contained in their development agreements with the City.

The CCPD, FCPMSD, TIRZ, and PID funds are reported as special revenue funds and do not issue separate financial statements.

2. Discretely Presented Component Units

Baytown Area Water Authority

The Baytown Area Water Authority (BAWA) was created to purchase and distribute surface and/or water supplies to the City and seven other smaller entities and neighborhoods. The boundaries of BAWA include the entire City and most of the City's extraterritorial jurisdiction in east Harris County, Texas. The City Council appoints all members of the governing board of BAWA and approves any debt issued by BAWA. Separate financial statements of BAWA may be obtained from the finance department of the City.

Municipal Development District

The Municipal Development District (MDD) was created to levy and account for the collection of a sales and use tax at the rate of one-half of one percent for the purpose of financing economic development projects that provide economic benefit and diversify the economic base of the community. The boundaries of the MDD include the portion of the City that is in Harris County and exclude the portion that is in Chambers County. City Council appoints all members of the governing board of the MDD and approves any debt issued by the MDD. Separate financial statements are not issued for the MDD.

B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the City's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the City's water functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Basis of Presentation – Fund Financial Statements

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

The City reports the following governmental funds:

The *general fund* is used to account for and report all financial resources not accounted for and reported in another fund. The principal sources of revenues include local property taxes, sales taxes, franchise fees, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government; public safety; public works; public health; and parks, recreation, and culture. The general fund is always considered a major fund for reporting purposes.

The *debt service fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. The primary source of revenue for debt service is local property taxes. The debt service fund did not meet the technical requirement to be presented as a major fund, however the City has elected to present as a major fund.

The *special revenue funds* are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The special revenue funds are considered nonmajor funds for reporting purposes.

The *capital projects fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The capital projects fund is considered a major fund for reporting purposes.

The City reports the following proprietary funds:

The *enterprise funds* are used to account for and report the operations that provide water and wastewater collection, wastewater treatment operations, solid waste collection and disposal, water park operations (aquatics), and storm utility operations. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

continuing basis will be financed or recovered primarily through user charges. The water and sewer fund is considered a major fund for reporting purposes. The City has elected to present the sanitation and aquatic funds as major funds. The nonmajor funds include the Bayland Island fund and storm water utility fund.

Additionally, the City reports the following fund types:

Internal service funds account for services provided to other departments or agencies of the City, or to other governments, on a cost reimbursement basis. These funds include the central services operation for the garage and warehouse and the risk management fund.

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

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

E. Measurement Focus and Basis of Accounting

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

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under leases are reported as other financing sources.

Property taxes, sales taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

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

1. Cash and Equity in Pooled Cash and Investments

The City maintains a pooled cash and investments account. Each fund whose monies are deposited in the pooled cash and investments account has equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at the previous month end. Amounts on deposit in interest-bearing accounts and other investments are displayed on the combined balance sheet as “cash and equity in pooled cash and investments.”

2. Investments

Investments, except for certain investment pools and commercial paper, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost. Commercial paper is reported at amortized cost.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. government
- Money market mutual funds that meet certain criteria
- Collateralized certificates of deposit and share certificates
- Fully collateralized repurchase agreements that meet certain criteria
- Bankers’ acceptances
- Commercial paper that meets certain criteria
- Guaranteed investment contracts that meet certain criteria
- Statewide investment pools

3. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method). Inventories in the central services fund consist of expendable supplies held for consumption and are carried at weighted-average cost. The weighted-average cost is recorded as an expenditure at the time of consumption. Certain payments to vendors

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

reflect costs applicable to future accounting periods (prepaid expenditures) and are recognized as expenditures when utilized.

4. Restricted Assets

Certain resources of BAWA are set aside for the repayment of revenue bonds, which are classified as restricted assets on the Statement of Net Position because their use is limited by applicable bond covenants. The bond reserve requirement account is used to segregate resources accumulated for debt service payments over the next 12 months.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the City as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

| Asset Description | Estimated Useful Life |
|-----------------------------------|------------------------------|
| Buildings | 15 to 50 years |
| Improvements other than buildings | 5 to 50 years |
| Machinery and equipment | 3 to 30 years |
| Infrastructure | 10 to 50 years |

6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net assets that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net assets that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

Deferred outflows/inflows of resources are amortized as follows:

- Deferred outflows/inflows from pension/other postemployment benefits (OPEB) activities are amortized over the average of the expected service lives of pension/OPEB plan members, except for the net differences between the projected and actual investment earnings on the pension/OPEB plan assets, which are amortized over a period of five years.
- For employer pension/OPEB plan contributions that were made subsequent to the measurement date through the end of the City's fiscal year, the amount is deferred and recognized as a reduction to the net pension/OPEB liability during the measurement period in which the contributions were made.
- A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Deferred inflows related to leases are amortized over the terms of the leases.

At the fund level, the City has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes, leases, and grants. These amounts are deferred and recognized as inflows of resources in the period that the amounts becomes available.

7. Compensated Employee Absences

It is the City's policy to permit employees to accumulate certain earned but unused benefits. Amounts accumulated, up to certain amounts, may be paid to employees upon termination of employment. The estimated amount of compensation for services provided that is expected to be liquidated with expendable, available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it when it matures or becomes due. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable, available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

8. Long-Term Obligations

In government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current 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.

General capital asset acquisitions, including entering into contracts giving the City the right to use leased assets, are reported as expenditures in governmental funds. Issuance of long-term debt and financing through leases are reported as other financing sources.

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with the interest earned in the debt service fund. Although a portion of the general obligation debt was directly related to the purchase of water and sewer infrastructure, the debt service expenditures are included in the governmental fund financial statements as they are expected to be paid from debt service tax revenues instead of water system revenues.

9. Leases

Lessee

The City is a lessee for noncancellable leases of equipment. The City recognizes a lease liability and an intangible, right-to-use lease asset (the “lease asset”) in the government-wide financial statements. The City recognizes lease liabilities and lease assets with an initial, individual value of at least \$5,000 or more.

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

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

- The City uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the City generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease.
- Lease payments included in the measurement of the lease liability are composed of fixed payments and the purchase option price that the City is reasonably certain to exercise.

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

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the Statement of Net Position.

Lessor

The City is a lessor for noncancellable leases. The City recognizes a lease receivable and a deferred inflow of resources in the government-wide and governmental fund financial statements.

At the commencement of a lease, the City initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

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

- The City uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease.
- Lease receipts included in the measurement of the lease receivable are composed of fixed payments from the lessee.

The City monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflow of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

10. Subscription-Based Information Technology Arrangements

The City has noncancellable subscription-based information technology arrangements (SBITAs) to finance the use of information technology software. The City would recognize a liability (the “subscription liability”) and an intangible, right-to-use subscription asset (the “subscription asset”) in the government-wide financial statements. The City’s SBITAs to report are immaterial to the financial statements as a whole and are not recognized as a subscription liability or a subscription asset.

11. Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City’s policy to consider restricted net position to have been depleted before unrestricted net position is applied.

12. Fund Balance Flow Assumptions

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

13. Fund Balance Policies

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

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted fund balance.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation. By resolution approved by the City Council, the City does not utilize this category of fund balance.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. By resolution approved by the City Council, the City does not utilize this category of fund balance.

14. Estimates

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

15. Pensions

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

16. Other Postemployment Benefits

The City participates in a defined benefit group-term life insurance plan administered by TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. Benefit payments are treated as being equal to the employer's yearly contributions for retirees. Benefit payments and refunds are due and payable in accordance with the benefit terms. Information about the City's total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense is provided by TMRS from reports prepared by their consulting actuary.

The City administers an additional single-employer defined benefit OPEB plan, known as the City of Baytown Retiree Healthcare Plan (the "Plan"). The City elected, by ordinance, to provide medical benefits for eligible retirees and their dependents. The premiums are based on a combination of years of service and hire date, and the coverage levels for retirees are the same as the coverage provided to active employees. The City has elected to subsidize premiums for the Plan and funding is provided on a pay-as-you-go basis.

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

G. Revenues and Expenditures/Expenses

1. Program Revenues

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

2. Property Taxes

Property taxes are levied during October of each year and are due upon receipt of the City's tax bill. Taxes become delinquent, with an enforceable lien on property, on February 1 of the following year.

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and internal service funds are charges to customers for sales and services. The water and sewer fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

The City prepares its general and special revenue funds' annual budgets on a basis that differs from generally accepted accounting principles (GAAP). The budgets and all transactions are presented in accordance with the City's method (budgetary basis) in the schedule of revenues, expenditures, and changes in fund balances – budget and actual (budgetary basis) for the general and special revenue funds to provide a meaningful comparison of actual results with the budget. The major differences between budgetary and GAAP basis of accounting for the general fund's budget are that some revenue and expenditures within the general fund do not have an adopted budget. The debt service fund's budget is adopted and presented in accordance with GAAP.

On or before May 31 of each year, all departments of the City submit requests for appropriations to the City Manager so that a budget may be prepared. At least 60 days prior to the beginning of each fiscal year, the City Manager submits to the City Council a proposed budget for the fiscal year beginning the following October 1. The operating budget includes proposed expenditures and the means of financing them. The City Council holds public hearings and a final budget must be prepared and adopted no later than September 27. The annual budget adopted by ordinance by the City Council covers the general; debt service; crime control and prevention district; hotel/motel; fire control, prevention, and emergency medical services district; water and sewer; sanitation; storm water; and central services funds. The budget is legally enacted at the department level by the City Council through passage of an ordinance prior to the beginning of the fiscal year.

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

The City Council must approve any supplemental budget appropriations at the department level. The City Manager is authorized to transfer budgeted amounts within departments within any fund. During the fiscal year ended September 30, 2023, the City Manager approved various budget revisions within departments.

A. Deficit Fund Balance/Net Position

The central services fund reported deficit net position of \$1,207,018 due to an increase in the cost for fuel. The MDD fund reported a deficit net position of \$21,145,367 due to the conveyance of a convention center to the City. The storm water utility fund reported a deficit in net position of \$2,542,864 due to capital contributions to the water and sewer fund. The sanitation fund reported a deficit in net position of \$1,313,893 due to an increase in contract fees for garbage collection. The CDBG fund reported a deficit fund balance of \$1,654,348 due to the deferral of revenue related to federal grant reimbursements that have not been approved yet. The Crossings at Baytown PID fund reported a negative fund balance of \$20,978 and the Bayview Heights PID fund reported a negative fund balance of \$26,310 due to administrative expenses in the prior year related to the creation of the PIDs.

B. Expenditures in Excess of Appropriations

Expenditures exceeded appropriations at the legal level of control as follows:

| | | |
|-----------------|----|-----------|
| General fund: | | |
| City facilities | \$ | 871,548 |
| Transfers (out) | \$ | 1,269,000 |

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2023, the City and its component units had the following investments:

| Investment Type | Value | Weighted Average Maturity (Years) | Credit Risk |
|-------------------------------------|-----------------------|---|---------------------|
| Commercial paper | \$ 19,457,110 | 0.47 | A-1/A-1+/P-1/F1/F1+ |
| U.S. government and agencies | 39,866,864 | 1.21 | N/A |
| U.S. Treasury notes | 29,795,072 | 0.13 | N/A |
| External investment pools | | | |
| TexPool | 125,126,155 | 0.07 | AAA-m |
| TexSTAR | 38,656,052 | 0.08 | AAA-m |
| Total | \$ 252,901,253 | | |
| Portfolio weighted average maturity | | 0.29 | |

Fair Value Measurements

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

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

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

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

Fair value is measured in a manner consistent with one of the three approaches: market approach, cost approach, and the income approach. The valuation methodology used is based upon whichever technique is the most appropriate and provides the best representation of fair value for that particular asset or liability. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or groups of assets and liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts, such as cash flows, to a single current (discounted) amount.

As of September 30, 2023, the City had the following recurring fair value measurements:

| | | Fair Value Measurements Using |
|------------------------------------|-----------------------|---|
| | September 30, 2023 | Quoted Prices in Active Markets for Identical Assets (Level 1) |
| Investments by Fair Value Level | | |
| U.S. Government Agency Bonds/Notes | | |
| Federal Home Loan Bank | \$ 17,163,329 | \$ 17,163,329 |
| Federal Home Loan Mortgage Corp | 22,703,535 | 22,703,535 |
| Treasury Notes | 29,795,072 | 29,795,072 |
| Total | \$ 69,661,936 | \$ 69,661,936 |

U.S. Government agency bonds and notes and collateralized mortgage obligations are classified in Level 1 and are valued using the market approach.

Interest rate risk. In accordance with its investment policy, the City manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and invest operating funds primarily in short-term securities.

Credit risk. The City's investment policy limits investments in no-load money market mutual funds rated as to investment quality not less than "AAA" by a nationally recognized investment rating firm.

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

As of September 30, 2023, the City's investments in the investment pools were rated "AAAm" by Standard & Poor's. All other investments are guaranteed (either express or implied) by the full faith and credit of the United States government or the issuing U.S. agency. More specifically, the investments in U.S. agencies held by the City as of September 30, 2023 consist of a variety of bonds and discount notes issued by the Federal Home Loan Bank and Federal Home Loan Mortgage Corporation.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. As of September 30, 2023, the fair value of pledged securities and FDIC coverage exceeded bank balances.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that it will seek to safekeep securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City's safekeeping account prior to the release of funds.

TexPool

TexPool was established as a trust company with the Treasurer of the State as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rates TexPool "AAAm". As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review.

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

TexSTAR

The Texas Short-Term Asset Reserve Fund (TexSTAR) is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. TexSTAR was created in April 2002 by contract among its participating governmental units and is governed by a

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

board of directors. JPMorgan Fleming Asset Management (USA), Inc. and First Southwest Asset Management, Inc. act as co-administrators, providing investment management services, participant services, and marketing. JPMorgan Chase Bank and/or its subsidiary, J.P. Morgan Investor Services, Inc., provide custodial, transfer agency, fund accounting, and depository services.

TexSTAR is measured at amortized cost. TexSTAR's strategy is to seek preservation of principal, liquidity, and current income through investment in a diversified portfolio of short-term marketable securities. The City has no unfunded commitments related to TexSTAR. TexSTAR has a redemption notice period of one day and may redeem daily. TexSTAR's authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium, or national state of emergency that affects TexSTAR's liquidity.

B. Receivables

The following comprise receivable balances at year end:

Governmental Funds

| | General | Debt Service | Capital Projects | Nonmajor Governmental | Total Funds |
|-------------------|---------------------|-------------------------|-----------------------------|----------------------------------|------------------------|
| Taxes | \$ 6,753,039 | \$ 1,402,125 | \$ - | \$ 2,005,994 | \$ 10,161,158 |
| Accounts | 3,410,077 | - | 436,871 | 656,256 | 4,503,204 |
| Intergovernmental | - | - | - | 102,531 | 102,531 |
| Interest | 351,791 | - | 55,000 | - | 406,791 |
| Grants | 108,895 | - | - | 3,718,821 | 3,827,716 |
| Less allowance | (2,244,237) | (352,850) | - | - | (2,597,087) |
| | <u>\$ 8,379,565</u> | <u>\$ 1,049,275</u> | <u>\$ 491,871</u> | <u>\$ 6,483,602</u> | <u>\$ 16,404,313</u> |

Proprietary Funds

| | Water and Sewer | Aquatics | Sanitation | Nonmajor Enterprise | Total Funds |
|----------------|----------------------------|---------------------|---------------------|--------------------------------|------------------------|
| Taxes | \$ - | \$ 1,916,489 | \$ 3,591 | \$ - | \$ 1,920,080 |
| Accounts | 6,640,687 | - | 1,066,629 | 348,250 | 8,055,566 |
| Interest | 40,625 | - | - | - | 40,625 |
| Less allowance | (497,279) | - | - | - | (497,279) |
| | <u>\$ 6,184,033</u> | <u>\$ 1,916,489</u> | <u>\$ 1,070,220</u> | <u>\$ 348,250</u> | <u>\$ 9,518,992</u> |

C. Leases Receivable

The City has entered into several lease agreements (the "Agreements") as a lessor for the use of their towers and land located throughout the City with the lessee monitoring communication signals on the towers. The City has also entered into lease agreements for the use of Bayland Island's Harbor Master Facility. The Agreements range from 31 to 80 months after extension options in which it is reasonably certain that these options will be exercised. As of September 30, 2023, the value of the leases receivable is \$485,364 for governmental activities and \$27,142 for business-type activities. The interest rate on the leases receivable ranges from 2.1 to 4.5%. The lease revenue that was recorded with charges for services for fiscal year 2023 was \$99,628 for governmental activities and \$45,556 for business-type activities which equals the amounts that were amortized for deferred inflows of resources for leases in the current year. The amount recorded for interest revenue for leases receivable was \$24,085 for governmental activities and \$1,107 for business-type activities.

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

The remaining principal and interest payments, along with the amortization of the deferred inflows of resources, from the Agreements are as follows:

| Fiscal Year Ending Sep. 30 | Governmental Activities | | | Amortization of Deferred Inflows |
|---|--------------------------------|------------------|-------------------|---|
| | Principal | Interest | Total | |
| 2024 | \$ 95,618 | \$ 19,885 | \$ 115,503 | \$ 99,628 |
| 2025 | 100,011 | 15,493 | 115,504 | 99,628 |
| 2026 | 104,605 | 10,898 | 115,503 | 99,628 |
| 2027 | 109,411 | 6,093 | 115,504 | 99,628 |
| 2028 | 75,719 | 1,283 | 77,002 | 66,418 |
| Total | \$ 485,364 | \$ 53,652 | \$ 539,016 | \$ 464,930 |

| Fiscal Year Ending Sep. 30 | Business-Type Activities | | | Amortization of Deferred Inflows |
|---|---------------------------------|-----------------|--------------|---|
| | Principal | Interest | Total | |
| 2024 | \$ 27,142 | \$ 193 | \$ 27,335 | \$ 26,574 |

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

D. Capital Assets

1. Governmental Activities

A summary of changes in capital assets for the year ended is as follows:

| | Beginning Balance | Increases | Reclassifications/ (Decreases) | Ending Balance |
|---|-----------------------|-----------------------|-----------------------------------|--|
| Governmental Activities: | | | | |
| Capital assets not being depreciated/amortized: | | | | |
| Land | \$ 19,721,539 | \$ 3,500 | \$ - | \$ 19,725,039 |
| Construction in progress | 65,423,461 | 45,039,379 | (16,935,025) | 93,527,815 |
| Total Capital Assets Not Being Depreciated/Amortized | <u>85,145,000</u> | <u>45,042,879</u> | <u>(16,935,025)</u> | <u>113,252,854</u> |
| Capital assets being depreciated/amortized: | | | | |
| Buildings | 93,220,937 | 41,908,920 | - | 135,129,857 |
| Improvements other than buildings | 24,670,269 | 9,568,905 | - | 34,239,174 |
| Machinery and equipment | 68,163,515 | 10,090,978 | (458,795) | 77,795,698 |
| Infrastructure | 238,779,218 | 7,102,138 | - | 245,881,356 |
| Right-to-use asset | - | 682,600 | - | 682,600 |
| Total Capital Assets Being Depreciated/Amortized | <u>424,833,939</u> | <u>69,353,541</u> | <u>(458,795)</u> | <u>493,728,685</u> |
| Less accumulated depreciation/amortization for: | | | | |
| Buildings | (35,920,664) | (2,522,825) | - | (38,443,489) |
| Improvements other than buildings | (8,711,678) | (1,046,500) | - | (9,758,178) |
| Machinery and equipment | (50,616,885) | (4,906,642) | 458,795 | (55,064,732) |
| Infrastructure | (86,035,602) | (5,601,610) | - | (91,637,212) |
| Right-to-use asset | - | (27,683) | - | (27,683) |
| Total Accumulated Depreciation/Amortization | <u>(181,284,829)</u> | <u>(14,105,260)</u> | <u>458,795</u> | <u>(194,931,294)</u> |
| Total Capital Assets, Net Governmental Activities | <u>243,549,110</u> | <u>55,248,281</u> | <u>-</u> | <u>298,797,391</u> |
| Capital Assets, Net | <u>\$ 328,694,110</u> | <u>\$ 100,291,160</u> | <u>\$ (16,935,025)</u> | <u>412,050,245</u> |
| | | | | |
| | | | | Less associated debt (152,149,068) |
| | | | | Plus deferred charge on refunding 3,778,125 |
| | | | | Less deferred gain on refunding (185,801) |
| | | | | Unspent bond proceeds 49,340,509 |
| | | | | <u>Net Investment in Capital Assets \$ 312,834,010</u> |

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

Depreciation was charged to governmental functions as follows:

| | |
|--|----------------------|
| General government | \$ 1,768,684 |
| Public safety | 3,647,369 |
| Public works | 6,667,418 |
| Public health | 210,830 |
| Parks, recreation, and culture | 1,770,209 |
| Capital assets held by the City's internal service funds are charged to various functions based on their usage of the assets | 40,750 |
| Total Governmental Activities Depreciation/Amortization Expense | \$ 14,105,260 |

2. Construction Commitments – Governmental Activities

The City has active governmental activities construction projects as of September 30, 2023. The projects include the following:

| Project Description | Authorized Contract | Contract Expenditures | Remaining Commitment |
|--|----------------------------|------------------------------|-----------------------------|
| Allen and Edgebrook Street Reconstruction | \$ 4,944,170 | \$ 4,769,661 | \$ 174,509 |
| Baker Road Lift Station | 4,500,000 | 4,491,140 | 8,860 |
| Bluebill Bay and Angelfish Cove Improvements | 1,944,411 | 84,443 | 1,859,968 |
| Cedar Bayou Crossing Improvements | 661,177 | 548,109 | 113,068 |
| Sjolander/Crosby | 14,881,322 | 6,139,366 | 8,741,956 |
| Chambers Commons | 7,638,279 | 3,680,861 | 3,957,418 |
| City Gateway Monument #3 | 106,271 | 98,530 | 7,741 |
| Danubina Area Drainage Improvements | 20,026,186 | 5,666,973 | 14,359,213 |
| Evergreen Strategic Plan | 499,800 | 473,816 | 25,984 |
| Garth Road Improvements | 24,414,939 | 6,846,221 | 17,568,718 |
| Goose Creek Trail Phase VII | 692,005 | 392,739 | 299,266 |
| I-10 Lift Station | 10,135,749 | 1,288,510 | 8,847,239 |
| I-10 Lift Station #1 Improvements | 3,366,362 | 268,509 | 3,097,853 |
| Lincoln Cedars and Julie Ann Villa Drainage Improvements | 2,705,364 | 2,540,826 | 164,538 |
| Public Safety Building | 71,500,000 | 55,173,144 | 16,326,856 |
| Reconstruction of Fairway | 3,106,146 | 2,640,920 | 465,226 |
| Reconstruction of Savell | 3,579,753 | 3,113,660 | 466,093 |
| Texas Avenue Drainage Improvements | 4,998,599 | 1,159,366 | 3,839,233 |
| Wayne Gray Sports Complex Improvements | 2,131,317 | 851,252 | 1,280,065 |
| Total | \$ 181,831,850 | \$ 100,228,046 | \$ 81,603,804 |

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

3. Business-Type Activities

The following is a summary of changes in capital assets for business-type activities for the year ended September 30, 2023:

| | Beginning Balance | Increases | Reclassifications/ (Decreases) | Ending Balance |
|---|-----------------------|----------------------|---|-----------------------|
| Business-Type Activities | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 1,898,968 | \$ - | \$ - | \$ 1,898,968 |
| Construction in progress | 14,710,347 | 11,195,641 | (7,047,009) | 18,858,979 |
| Total Capital Assets Not Being Depreciated | <u>16,609,315</u> | <u>11,195,641</u> | <u>(7,047,009)</u> | <u>20,757,947</u> |
| Capital assets being depreciated: | | | | |
| Buildings and systems | 63,468,072 | 1,612,623 | - | 65,080,695 |
| Improvements other than buildings | 301,782,282 | 10,754,828 | - | 312,537,110 |
| Machinery and equipment | 13,680,830 | 1,135,263 | (57,581) | 14,758,512 |
| Total Capital Assets Being Depreciated | <u>378,931,184</u> | <u>13,502,714</u> | <u>(57,581)</u> | <u>392,376,317</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and systems | (59,055,617) | (1,287,784) | - | (60,343,401) |
| Improvements other than buildings | (84,367,368) | (8,023,460) | - | (92,390,828) |
| Machinery and equipment | (10,021,987) | (1,027,644) | 57,581 | (10,992,050) |
| Total Accumulated Depreciation | <u>(153,444,972)</u> | <u>(10,338,888)</u> | <u>57,581</u> | <u>(163,726,279)</u> |
| Total Capital Assets, Net Business-Type Activities | <u>225,486,212</u> | <u>3,163,826</u> | <u>-</u> | <u>228,650,038</u> |
| Capital Assets, Net | <u>\$ 242,095,527</u> | <u>\$ 14,359,467</u> | <u>\$ (7,047,009)</u> | <u>249,407,985</u> |
| | | | | |
| | | | | (53,469,304) |
| | | | | 477,410 |
| | | | | (3,202,878) |
| | | | | 7,741,482 |
| | | | Net Investment in Capital Assets | <u>\$ 200,954,695</u> |

Depreciation was charged to business-type functions as follows:

| | |
|--|----------------------|
| Water and sewer | \$ 8,728,512 |
| Sanitation | 92,879 |
| Bayland Island | 212,288 |
| Storm water | 291,953 |
| Aquatics | 1,013,256 |
| Total Business-Type Activities Depreciation Expense | <u>\$ 10,338,888</u> |

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

4. Construction Commitments – Business-Type Activities

The City has active business-type activities construction projects as of September 30, 2023. The projects include the following:

| Project Description | Authorized Contract | Contract Expenditures | Remaining Commitment |
|--|----------------------------|------------------------------|-----------------------------|
| West District WWTP Building Upgrades | \$ 2,000,000 | \$ 22,300 | \$ 1,977,700 |
| Baker Road Lift Station | 450,000 | 364,906 | 85,094 |
| East District WWTP Phase I | 7,334,000 | 608,968 | 6,725,032 |
| East District WWTP Phase II | 32,394,114 | 549,590 | 31,844,524 |
| Goose Creek Lift Station | 5,468,652 | 3,064,549 | 2,404,103 |
| Lanie Lift Station Upgrades | 300,000 | 18,129 | 281,871 |
| North East WWTP Study | 95,379 | 88,387 | 6,992 |
| Sjolander & Crosby Cedar Bayou Utilities | 13,114,222 | 3,065,775 | 10,048,447 |
| South Main Storm Sewer | 2,260,000 | 282,220 | 1,977,780 |
| Total | \$ 63,416,367 | \$ 8,064,824 | \$ 55,351,543 |

5. Discretely Presented Component Units

The following is a summary of changes in capital assets for BAWA for the year ended September 30, 2023:

| | Beginning Balance | Increases | (Decreases) | Ending Balance |
|--|--------------------------|---|--------------------|-----------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 2,877,960 | \$ - | \$ - | \$ 2,877,960 |
| Construction in progress | 2,124,256 | 3,884,804 | - | 6,009,060 |
| Total Capital Assets Not Being Depreciated | 5,002,216 | 3,884,804 | - | 8,887,020 |
| Capital assets, being depreciated: | | | | |
| Buildings | 58,944,489 | 271,553 | - | 59,216,042 |
| Improvements other than buildings | 58,914,226 | - | - | 58,914,226 |
| Machinery and equipment | 7,099,668 | 63,876 | - | 7,163,544 |
| Total Capital Assets Being Depreciated | 124,958,383 | 335,429 | - | 125,293,812 |
| Total Capital Assets | 129,960,599 | 4,220,233 | - | 134,180,832 |
| Less accumulated depreciation for: | | | | |
| Buildings | (2,425,415) | (1,201,479) | - | (3,626,894) |
| Improvements other than buildings | (22,836,805) | (1,553,964) | - | (24,390,769) |
| Machinery and equipment | (4,907,547) | (457,747) | - | (5,365,294) |
| Total Accumulated Depreciation | (30,169,767) | (3,213,190) | - | (33,382,957) |
| Total Capital Assets Being Depreciated, Net | 94,788,616 | (2,877,761) | - | 91,910,855 |
| Discretely Presented Component Unit Capital Assets, Net | \$ 99,790,832 | \$ 1,007,043 | \$ - | 100,797,875 |
| | | Less associated debt | | (41,137,554) |
| | | Net Investment in Capital Assets | | \$ 59,660,321 |

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

The following is a summary of changes in capital assets for MDD for the year ended September 30, 2023

| | Beginning Balance | Increases | (Decreases) | Ending Balance |
|---|------------------------------|---|----------------------|---------------------------|
| Capital assets not being depreciated: | | | | |
| Construction in progress | \$ 36,368,037 | \$ 38,063,094 | \$ (74,431,131) | \$ - |
| Total Capital Assets Not Being Depreciated | <u>36,368,037</u> | <u>38,063,094</u> | <u>(74,431,131)</u> | <u>-</u> |
| Capital assets being depreciated: | | | | |
| Buildings | - | 74,431,131 | (27,524,898) | 46,906,233 |
| Total Capital Assets Being Depreciated | <u>-</u> | <u>74,431,131</u> | <u>(27,524,898)</u> | <u>46,906,233</u> |
| Total Capital Assets | <u>36,368,037</u> | <u>112,494,225</u> | <u>(101,956,029)</u> | <u>46,906,233</u> |
| | | Less associated debt | | <u>(44,881,044)</u> |
| | | Net Investment in Capital Assets | | <u>\$ 2,025,189</u> |

E. Long-Term Debt

The following is a summary of changes in the City's primary government and component units total long-term liabilities for the year ended September 30, 2023. In general, the City uses the general and debt service funds to liquidate governmental long-term liabilities.

| | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year |
|--------------------------------------|------------------------------|---|----------------------|---------------------------|--|
| Governmental Activities | | | | | |
| Bonds, notes, and other payables: | | | | | |
| General obligation bonds | \$ 61,453,858 | \$ - | \$ 8,526,750 | \$ 52,927,108 | \$ 8,009,619 |
| Certificates of obligation | 65,325,000 | 24,270,000 | 6,705,000 | 82,890,000 | 6,760,000 |
| Plus deferred amounts: | | | | | |
| For premiums | 16,288,603 | 1,075,954 | 1,644,926 | 15,719,631 | - |
| Leases | - | 682,600 | 70,271 | 612,329 | 61,638 |
| | <u>143,067,461</u> | <u>26,028,554</u> | <u>16,946,947</u> | <u>152,149,068</u> * | <u>14,831,257</u> |
| Other liabilities: | | | | | |
| Net pension liability | 28,471,872 | 52,616,966 | - | 81,088,838 | - |
| Total OPEB liability | 64,757,055 | - | 19,439,843 | 45,317,212 | 1,908,865 |
| Compensated absences | 14,741,745 | 14,881,868 | 13,267,570 | 16,356,043 | 14,720,439 |
| | <u>107,970,672</u> | <u>67,498,834</u> | <u>32,707,413</u> | <u>142,762,093</u> | <u>16,629,304</u> |
| Total Governmental Activities | <u>\$ 251,038,133</u> | <u>\$ 93,527,388</u> | <u>\$ 49,654,360</u> | <u>\$ 294,911,161</u> | <u>\$ 31,460,561</u> |
| | | Long-term debt due in more than one year | | <u>\$ 263,450,600</u> | |
| | | *Debt associated with capital assets | | <u>\$ 152,149,068</u> | |

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

| | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year |
|---|----------------------|---------------------|---------------------|----------------------|-----------------------------------|
| Business-Type Activities | | | | | |
| General obligation bonds | \$ 29,561,144 | \$ - | \$ 4,203,250 | \$ 25,357,894 | \$ 4,455,381 |
| Certificates of obligation | 24,685,000 | - | 1,250,000 | 23,435,000 | 1,295,000 |
| Less deferred amounts: | | | | | |
| For premiums | 5,276,535 | - | 600,125 | 4,676,410 | - |
| | <u>59,522,679</u> | <u>-</u> | <u>6,053,375</u> | <u>53,469,304 *</u> | <u>5,750,381</u> |
| Other liabilities: | | | | | |
| Net pension liability | 4,795,179 | 7,056,388 | - | 11,851,567 | - |
| Total OPEB liability | 9,500,676 | - | 2,607,050 | 6,893,626 | 256,117 |
| Compensated absences | 992,660 | 1,026,026 | 893,393 | 1,125,293 | 1,012,763 |
| | <u>15,288,515</u> | <u>8,082,414</u> | <u>3,500,443</u> | <u>19,870,486</u> | <u>1,268,880</u> |
| Total Business-Type Activities | <u>\$ 74,811,194</u> | <u>\$ 8,082,414</u> | <u>\$ 9,553,818</u> | <u>\$ 73,339,790</u> | <u>\$ 7,019,261</u> |

Long-term debt due in more than one year \$ 66,320,529

***Debt associated with capital assets** \$ 53,469,304

| | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year |
|---|-----------------------|-------------|---------------------|-----------------------|-----------------------------------|
| Discretely Presented Component Units | | | | | |
| Revenue bonds | | | | | |
| BAWA | \$ 40,550,000 | \$ - | \$ 1,970,000 | \$ 38,580,000 * | \$ 2,005,000 |
| MDD | 62,765,000 | - | - | 62,765,000 ** | - |
| Total revenue bonds | <u>103,315,000</u> | <u>-</u> | <u>1,970,000</u> | <u>101,345,000</u> | <u>2,005,000</u> |
| Less deferred amounts: | | | | | |
| For premiums | | | | | |
| BAWA | 2,726,040 | - | 168,486 | 2,557,554 * | - |
| MDD | 9,648,737 | - | 361,972 | 9,286,765 ** | - |
| Total premiums | <u>12,374,777</u> | <u>-</u> | <u>530,458</u> | <u>11,844,319</u> | <u>-</u> |
| Total Discretely Presented Component Units | <u>\$ 115,689,777</u> | <u>\$ -</u> | <u>\$ 2,500,458</u> | <u>\$ 113,189,319</u> | <u>\$ 2,005,000</u> |

Long-term debt payable in more than one year \$ 111,184,319

***Debt associated with BAWA capital assets** \$ 41,137,554 *

****Debt associated with MDD** \$ 72,051,765 **
Less debt for governmental activities asset (27,170,721)
Debt associated with MDD capital assets 44,881,044

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end, \$1,811,586

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

makes up the internal service funds' compensated absences, net pension liability, and total OPEB liability, which is included in the above amounts for governmental activities. The governmental activities compensated absences, net pension liability, and total OPEB liability are generally liquidated by the general fund. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

MDD Series 2021 Bonds

In September of 2021 MDD issued a series of bonds ("2021 Bonds") in the aggregate of \$62,765,000 for the purposes of financing the costs required to design, acquire, construct, equip, and furnish an upscale full-service hotel with just over 200 rooms, as well as a public, City-owned convention center facility along with surface or structured parking and certain public facilities and infrastructure improvements. The issuance of this debt is part of an overall project ("Convention Center and Hotel Project") that includes the management and operation of the newly constructed hotel and convention center facilities. Together, the City and MDD will work as follows: (i) the City will lease to the MDD, pursuant to a ground lease (onetime payment of \$10), a tract of land located in the City as well as owned by the City, on which the hotel ("Hotel Unit") and convention center facilities ("City Facilities Unit") will be constructed; (ii) MDD will file a condominium declaration pursuant to which a Hotel Unit, City Facilities Unit, and General Common Elements will be created; (iii) the MDD will retain ownership of the Hotel Unit; and (iv) the MDD will convey the City Facilities Unit, upon completion of construction, to the City, and the City will then lease the City Facilities Unit to the MDD, pursuant to a City Facilities Unit lease agreement (\$10/month) for use as public meeting and convention center facilities along with public parking.

The Convention Center and Hotel Project will be planned, designed, and constructed pursuant to a Development Management Agreement between MDD and the Development Manager and a Design-Build Agreement with a final guaranteed maximum price between MDD and DPR Construction (the "Design/Builder"). The Hotel and City Facilities Units will be prepared for opening by Hyatt Corporation ("Hyatt") pursuant to a Technical Services Agreement between MDD and Hyatt, and after opening, managed, and operated by Hyatt pursuant to a Hotel Services Agreement between MDD and Hyatt. The 2021 bonds are secured through a pledge of operating revenues from the Hotel and Convention Center Facilities Units as well as sales tax revenue collected by MDD.

Certificates of Obligation, Series 2022

During the current year, the City issued Combination Tax and Revenue Certificates of Obligation, Series 2022 (the "Certificates") in the amount of \$24,270,000. Proceeds from the sale of the Certificates will be used for all or any part of the costs associated with (i) the design, construction, and equipment of streets, sidewalks, and related infrastructure; (ii) the design, construction, and equipment of storm water drainage facilities and improvements; (iii) the design, construction, renovation, and equipment of firefighting facilities and the purchase of related land and/or rights-of-way located in the vicinity of the 2200 block of Market Street; (iv) the design, construction, renovation, and equipment of public safety facilities; (v) the design, construction, renovation, and equipment of parks and recreational facilities; (vi) the design, construction, renovation, and equipment of improvements to existing municipal buildings and facilities, including (a) buildings and facilities for municipal courts, public works, facilities maintenance, mosquito control, and environmental health and community services; (b) the Arts League Building; and (c) Sterling Library; and (vii) the cost of professional services incurred in connection therewith. The Certificates will mature during fiscal year 2042 and have an interest rate ranging from 4% to 5%.

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

Long-term governmental activities debt at year end was comprised of the following debt issues:

| Description | Interest Rate (%) | Maturity Date | Original Issue | Net Retirement | Outstanding |
|---|-------------------|---------------|-----------------------|----------------------|-----------------------|
| General Obligation Bonds: | | | | | |
| Refunding, Series 2014 | 2.00 - 4.00 | 2034 | \$ 28,520,000 | \$ 17,255,000 | \$ 11,265,000 |
| Refunding, Series 2015 | 2.00 - 5.00 | 2035 | 11,135,000 | 5,525,706 | 5,609,294 |
| Refunding, Series 2016 | 2.00 - 5.00 | 2028 | 8,337,324 | 4,059,510 | 4,277,814 |
| Refunding, Series 2019 | 3.00 - 5.00 | 2030 | 5,965,000 | 1,935,000 | 4,030,000 |
| Refunding, Series 2019A | 3.00 - 5.00 | 2031 | 9,530,000 | 3,430,000 | 6,100,000 |
| Refunding, Series 2020 | 3.00 - 5.00 | 2032 | 16,555,000 | 5,870,000 | 10,685,000 |
| Refunding, Series 2021A | 4.00 - 5.00 | 2033 | 11,781,670 | 821,670 | 10,960,000 |
| Total General Obligation Bonds | | | <u>91,823,994</u> | <u>38,075,216</u> | <u>52,927,108</u> |
| Certificates of Obligation: | | | | | |
| Series 2015 | 2.00 - 5.00 | 2035 | 6,600,000 | 2,145,000 | 4,455,000 |
| Series 2016 | 2.00 - 5.00 | 2036 | 17,635,000 | 4,755,000 | 12,880,000 |
| Series 2017 | 4.00 - 5.00 | 2027 | 18,010,000 | 9,860,000 | 8,150,000 |
| Series 2019A | 3.00 - 4.00 | 2024 | 6,925,000 | 5,260,000 | 1,665,000 |
| Series 2020 | 3.00 - 5.00 | 2040 | 36,300,000 | 3,855,000 | 32,445,000 |
| Series 2022 | 4.13 - 5.00 | 2042 | 24,270,000 | 975,000 | 23,295,000 |
| Total Certificates of Obligation | | | <u>109,740,000</u> | <u>16,760,000</u> | <u>82,890,000</u> |
| Total General Bonded Debt | | | <u>\$ 204,583,994</u> | <u>\$ 57,855,216</u> | <u>\$ 135,817,108</u> |
| Leases: | | | | | |
| EKG Monitors and Defibrillators | 2.45 | 2032 | \$ 682,600 | \$ 70,271 | \$ 612,329 |
| Total Leases | | | <u>\$ 682,600</u> | <u>\$ 70,271</u> | <u>\$ 612,329</u> |

Long-term business-type activities debt at year end was comprised of the following debt issues:

| Description | Interest Rate (%) | Maturity Date | Original Issue | Net Retirement | Outstanding |
|--|-------------------|---------------|----------------------|----------------------|----------------------|
| General Obligation Bonds: | | | | | |
| General Obligation and Refunding Series, 2015 | 2.00 - 5.00 | 2035 | \$ 14,175,000 | \$ 7,034,294 | \$ 7,140,706 |
| General Obligation and Refunding Series, 2016 | 2.00 - 5.00 | 2028 | 27,192,676 | 14,385,488 | 12,807,188 |
| General Obligation and Refunding Series, 2021A | 4.00 - 5.00 | 2033 | 5,813,330 | 403,330 | 5,410,000 |
| Total General Obligation Bonds | | | <u>47,181,006</u> | <u>21,419,782</u> | <u>25,357,894</u> |
| Certificates of Obligation: | | | | | |
| Certificates of Obligation, Series 2014 | 2.00 - 4.00 | 2034 | 11,715,000 | 4,220,000 | 7,495,000 |
| Certificates of Obligation, Series 2019 | 3.00 - 5.00 | 2039 | 18,440,000 | 2,500,000 | 15,940,000 |
| Total Certificates of Obligation | | | <u>30,155,000</u> | <u>6,720,000</u> | <u>23,435,000</u> |
| Total Bonded Debt | | | <u>\$ 77,336,006</u> | <u>\$ 28,139,782</u> | <u>\$ 48,792,894</u> |

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

The discretely presented component units' debt at year end was comprised of the following debt issues:

| Description | Interest Rate (%) | Maturity Date | Original Issue | Net Retirement | Outstanding |
|----------------------------|-------------------|---------------|-----------------------|---------------------|-----------------------|
| Revenue Bonds | | | | | |
| BAWA | | | | | |
| Series 2012 | 2.00 - 3.50 | 2032 | \$ 8,315,000 | \$ 5,175,000 | \$ 3,140,000 |
| Series 2018 | 4.00 - 5.00 | 2038 | 22,040,000 | 1,340,000 | 20,700,000 |
| Series 2019 | 3.00 - 4.00 | 2038 | 17,315,000 | 2,575,000 | 14,740,000 |
| MDD | | | | | |
| Series 2021A | 2.50 - 4.00 | 2051 | 18,055,000 | - | 18,055,000 |
| Series 2021B | 3.50 - 5.00 | 2051 | 14,030,000 | - | 14,030,000 |
| Series 2021C | 4.00 - 5.00 | 2051 | 30,680,000 | - | 30,680,000 |
| Total Revenue Bonds | | | <u>110,435,000</u> | <u>9,090,000</u> | <u>101,345,000</u> |
| Total Bonded Debt | | | <u>\$ 110,435,000</u> | <u>\$ 9,090,000</u> | <u>\$ 101,345,000</u> |

The annual requirements to amortize bond and certificate debt issues outstanding at year end were as follows:

| Fiscal Year Ending Sept. 30 | Governmental Activities | | Business-Type Activities | | Total Primary Government |
|-----------------------------|-------------------------|----------------------|--------------------------|----------------------|--------------------------|
| | Principal | Interest | Principal | Interest | |
| 2024 | \$ 14,769,619 | \$ 5,333,794 | \$ 5,750,381 | \$ 1,800,663 | \$ 27,654,457 |
| 2025 | 12,854,168 | 4,702,906 | 6,040,832 | 1,541,150 | 25,139,056 |
| 2026 | 12,569,938 | 4,130,035 | 5,695,062 | 1,291,333 | 23,686,368 |
| 2027 | 11,857,591 | 3,600,723 | 4,732,409 | 1,048,814 | 21,239,537 |
| 2028 | 9,700,728 | 3,157,205 | 4,424,273 | 874,086 | 18,156,292 |
| 2029-2033 | 38,750,147 | 10,642,893 | 13,454,854 | 2,717,638 | 65,565,532 |
| 2034-2038 | 23,534,917 | 4,175,851 | 7,425,083 | 738,186 | 35,874,037 |
| 2039-2042 | 11,780,000 | 752,491 | 1,270,000 | 21,431 | 13,823,922 |
| Total | <u>\$ 135,817,108</u> | <u>\$ 36,495,898</u> | <u>\$ 48,792,894</u> | <u>\$ 10,033,301</u> | <u>\$ 231,139,201</u> |

| Fiscal Year Ending Sept. 30 | Discretely Presented Component Units | | | | |
|-----------------------------|--------------------------------------|----------------------|----------------------|----------------------|-----------------------|
| | MDD | | BAWA | | Total |
| | Principal | Interest | Principal | Interest | |
| 2024 | \$ - | \$ 2,759,125 | \$ 2,005,000 | \$ 1,528,994 | \$ 6,293,119 |
| 2025 | - | 2,759,125 | 2,040,000 | 1,442,669 | 6,241,794 |
| 2026 | 1,025,000 | 2,739,263 | 2,080,000 | 1,354,219 | 7,198,482 |
| 2027 | 1,070,000 | 2,698,575 | 2,120,000 | 1,264,269 | 7,152,844 |
| 2028 | 1,440,000 | 2,648,013 | 2,160,000 | 1,172,400 | 7,420,413 |
| 2029-2033 | 8,455,000 | 12,250,737 | 12,215,000 | 4,422,801 | 37,343,538 |
| 2034-2038 | 11,085,000 | 10,033,500 | 14,810,000 | 1,830,450 | 37,758,950 |
| 2039-2043 | 14,555,000 | 7,039,000 | 1,150,000 | 34,500 | 22,778,500 |
| 2044-2048 | 15,990,000 | 3,597,000 | - | - | 19,587,000 |
| 2049-2051 | 9,145,000 | 607,550 | - | - | 9,752,550 |
| Total | <u>\$ 62,765,000</u> | <u>\$ 47,131,888</u> | <u>\$ 38,580,000</u> | <u>\$ 13,050,302</u> | <u>\$ 161,527,190</u> |

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged. Repayment of general obligation bonds is from taxes levied on all taxable property located within the City. The City is not obligated in any manner for special assessment debt.

Leases

The City has entered into a lease agreement as lessee for the use of EKG monitors and defibrillators. As of September 30, 2023 the value of the lease liability was \$612,329. The City is required to make yearly payments of \$76,640. The lease interest rate is based on the City's incremental borrowing rate of 2.45%. In addition, the City's right-to-use lease asset will be amortized using a straight-line basis over the term of the lease. The value of the right-to-use assets as of the end of the current fiscal year was \$682,600 with accumulated amortization of \$27,683. The future principal and interest payments as of September 30, 2023 for governmental activities were as follows:

| Fiscal Year Ending Sep. 30 | Governmental Activities | | |
|----------------------------------|-------------------------|------------------|-------------------|
| | Principal | Interest | Total |
| 2024 | \$ 61,638 | \$ 15,002 | \$ 76,640 |
| 2025 | 63,148 | 13,492 | 76,640 |
| 2026 | 64,695 | 11,945 | 76,640 |
| 2027 | 66,280 | 10,360 | 76,640 |
| 2028 | 67,904 | 8,736 | 76,640 |
| 2029-2032 | 288,664 | 17,895 | 306,559 |
| Total | \$ 612,329 | \$ 77,430 | \$ 689,759 |

Federal Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage legislation consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed or are not performed correctly, a substantial liability to the City could result. The City periodically engages an arbitrage consultant to perform the calculations in accordance with the IRS rules and regulations.

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

F. Interfund Transactions

Transfers between the primary government funds during the year were as follows:

| <u>Transfers In</u> | <u>Transfers Out</u> | <u>Amount</u> |
|-----------------------|-----------------------|----------------------|
| General | Water and sewer | \$ 1,561,163 |
| General | Aquatics | 250,000 |
| General | Nonmajor governmental | 746,250 |
| Debt service | Water and sewer | 1,589,875 |
| Debt service | Nonmajor governmental | 3,506,981 |
| Capital projects | General | 26,533,500 |
| Capital projects | Water and sewer | 88,000 |
| Capital projects | Nonmajor enterprise | 496,000 |
| Water and sewer | Aquatics | 130,951 |
| Water and sewer | Nonmajor enterprise | 1,939,840 |
| Water and sewer | Nonmajor governmental | 37,099 |
| Internal service | General | 300,000 |
| Internal service | Water and sewer | 500,000 |
| Nonmajor governmental | Nonmajor enterprise | 39,426 |
| Nonmajor governmental | General | 750,056 |
| | | <u>\$ 38,469,141</u> |

Transfers to the debt service fund are for debt service principal and interest payments from funds with collection authorization. Transfers to the capital project funds are for the finance of various capital expenditures. Transfers to nonmajor governmental funds are to provide matching funds for various grant programs. Transfers to the general, water and sewer, and internal service funds are to finance various governmental expenditures in accordance with budget authorizations.

The composition of interfund balances as of year end was as follows:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amounts</u> |
|------------------------|-----------------------|---------------------|
| General | Nonmajor governmental | \$ 2,707,480 |
| General | Sanitation | 855,686 |
| General | Internal service | 682,999 |
| General | Storm water | 2,017,512 |
| General | Aquatics | 417,817 |
| | | <u>\$ 6,681,494</u> |

Amounts recorded as due to/from are considered to be temporary loans and will be repaid during the following year.

The composition of interfund advances as of year end was as follows:

| <u>Receivable fund</u> | <u>Payable fund</u> | <u>Amounts</u> |
|------------------------|---------------------|---------------------|
| General | Aquatics | <u>\$ 2,250,000</u> |

The amount payable to the general fund from the aquatics fund relates to a working capital loan as result of the City having to close its water parks in response to the COVID-19 pandemic. It is anticipated that the aquatics fund will pay back the advance over the next five years if sufficient resources are available; however, the City is providing for a maximum of up to ten years.

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

G. Fund Equity

As of September 30, 2023, \$7,819,641 of the City's total fund balance is restricted by enabling legislation.

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City participates along with 2,824 other entities in the Texas Municipal League's Intergovernmental Risk Pools (the "Pool"). The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

The City maintains a self-insurance program for medical benefits and workers' compensation. The risk management internal service fund pays claims and judgments, maintains loss reserves, and purchases insurance coverage as required. A third-party administrator pays group medical benefits and workers' compensation claims. Revenues are recognized from payroll deductions for employee dependent coverage, from City contributions for employee coverage, and from interest earnings.

Group medical benefits have an annually negotiated specific and aggregate stop-loss policy. The fund provides the first dollar coverage of claims up to the casualty insurance policy's deductible amounts. This policy also contains aggregate excess loss coverage for claims in excess of approximately \$3 million, less any amounts reimbursed on the individual stop-loss insurance. Medical claims liabilities have been recorded at \$1,703,105 as of September 30, 2023.

The City maintains third-party coverage for workers' compensation claims that exceed \$300,000 per individual claim. Workers' compensation claims and judgments at year end have been recorded at \$789,001. Liabilities include an amount for claims that have been incurred but not reported (IBNR). The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of allocation to specific claims.

Changes in the balances of claim liabilities during the past year are as follows:

| Reconciliation of Changes in the Aggregate Liabilities for Claims and Judgments: | 2023 | 2022 |
|---|----------------------------|----------------------------|
| Unpaid claims, beginning of year | \$ 2,416,560 | \$ 2,272,414 |
| Plus: incurred claims (including IBNR) | 13,795,634 | 12,546,517 |
| Less: claim payments | <u>(13,720,088)</u> | <u>(12,402,371)</u> |
| Unpaid Claims, End of Year | <u>\$ 2,492,106</u> | <u>\$ 2,416,560</u> |

B. Related Party Transactions

The City and BAWA entered into an agreement on November 26, 1996 to provide treated water to the City. BAWA is contractually obligated to provide treated water to the City with a maximum obligation of 14.22 million gallons per day per month through calendar year 2040. Should the

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

consumption exceed the contract quantity by ten percent, a five percent surcharge shall be charged against that portion of the consumption that exceeds the contract quantity.

C. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is a defendant in several lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's management that resolution of these matters will not have a material adverse effect of the financial condition of the City.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors. With the exception of medical and workers' compensation claims, no other claim liabilities are reported at year end.

D. Pension Plan

Texas Municipal Retirement System

The City participates as one of 909 plans in the defined benefit cash-balance plan administered by TMRS. TMRS is a statewide public retirement plan created by the State and administered in accordance with the Texas Government Code, Title 8, Subtitle G (the "TMRS Act") as an agent multiple-employer retirement system for employees of Texas participating cities. The TMRS Act places the general administration and management of TMRS with a six-member, Governor-appointed Board of Trustees (the "Board"); however, TMRS is not fiscally dependent on the State. TMRS issues a publicly available annual comprehensive financial report that can be obtained at tmrs.com.

All eligible employees of the City are required to participate in TMRS.

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the member's benefit is calculated based on the sum of the member's contributions, with interest, and the City-financed monetary credits, with interest, and their age at retirement and other actuarial factors. The retiring member may select one of seven monthly payment options. Members may also choose to receive a portion of their benefit as a lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the total member contributions and interest.

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

| | <u>2023</u> | <u>2022</u> |
|--|---------------------------|---------------------------|
| Employee deposit rate | 7.00% | 7.00% |
| Matching ratio (City to employee) | 2 to 1 | 2 to 1 |
| Years required for vesting | 5 | 5 |
| Service requirement eligibility (expressed as age/yrs of service) | 60/5, 0/20 | 60/5, 0/20 |
| Updated service credit | 100% Repeating, Transfers | 100% Repeating, Transfers |
| Annuity increase (to retirees) | 70% of CPI Repeating | 70% of CPI Repeating |

Employees Covered by Benefit Terms

At the December 31, 2022 valuation and measurement date, the following employees were covered by the benefit terms:

| | |
|--|--------------|
| Inactive employees or beneficiaries currently receiving benefits | 559 |
| Inactive employees entitled to, but not yet receiving, benefits | 456 |
| Active employees | 896 |
| Total | <u>1,911</u> |

Contributions

Member contribution rates in TMRS are either 5%, 6%, or 7% of the member's total compensation, and the City-matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal actuarial cost method. The City's contribution rate is based on the liabilities created from the benefit plan options selected by the City and any changes in benefits or actual experience over time.

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 17.29% and 17.56% in calendar years 2022 and 2023, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2023 were \$13,952,947, which were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2022, and the Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The TPL in the December 31, 2022 actuarial valuation was determined using the following actuarial assumptions:

| | |
|---------------------------|--|
| Inflation | 2.50% per year |
| Overall payroll growth | 2.75% per year, adjusted down for population declines, if any |
| Investment rate of return | 6.75%, net of pension plan investment expense, including inflation |

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-Distinct 2019 Municipal Retirees of Texas mortality tables. The rates for active members, healthy retirees, and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees are used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied for males and females, respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. The assumptions were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-retirement mortality assumption for the annuity purchase rates is based on the mortality experience investigation study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation, as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate 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. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, TMRS' actuary focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return (Arithmetic) |
|---------------------------------|--------------------------|--|
| Global equity | 35.0% | 7.7% |
| Core fixed income | 6.0% | 4.9% |
| Non-core fixed income | 20.0% | 8.7% |
| Other public and private market | 12.0% | 8.1% |
| Real estate | 12.0% | 5.8% |
| Hedge funds | 5.0% | 6.9% |
| Private equity | 10.0% | 11.8% |
| Total | 100.0% | |

Discount Rate

The discount rate used to measure the TPL was 6.75%. The projection of cash flows used to determine the discount rate assumed that member and employer contributions will be made at the rates specified in statute. Based on that assumption, TMRS's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive 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 TPL.

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

Changes in the NPL

| | Increase (Decrease) | | |
|---|-------------------------|-----------------------------|-----------------------|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
| | (A) | (B) | (A) - (B) |
| Changes for the year: | | | |
| Service cost | \$ 12,593,996 | \$ - | \$ 12,593,996 |
| Interest | 27,855,064 | - | 27,855,064 |
| Difference between expected and actual experience | 9,077,246 | - | 9,077,246 |
| Contributions - employer | - | 12,629,578 | (12,629,578) |
| Contributions - employee | - | 5,113,571 | (5,113,571) |
| Net investment income | - | (27,936,906) | 27,936,906 |
| Benefit payments, including refunds of employee contributions | (18,889,707) | (18,889,707) | - |
| Administrative expense | - | (241,643) | 241,643 |
| Other changes | - | 288,352 | (288,352) |
| Net Changes | 30,636,599 | (29,036,755) | 59,673,354 |
| Balance at December 31, 2021 | 415,815,475 | 382,548,424 | 33,267,051 |
| Balance at December 31, 2022 | \$ 446,452,074 | \$ 353,511,669 | \$ 92,940,405 |

Sensitivity of the NPL to Changes in the Discount Rate

The following presents the NPL of the City, calculated using the discount rate of 6.75%, as well as what the City's NPL would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

| | 1% Decrease in Discount Rate (5.75%) | Discount Rate (6.75%) | 1% Increase in Discount Rate (7.75%) |
|------------------------------|--------------------------------------|-----------------------|--------------------------------------|
| City's Net Pension Liability | \$ 158,665,037 | \$ 92,940,405 | \$ 39,215,271 |

Pension Plan Fiduciary Net Position

Detailed information about TMRS's fiduciary net position is available in the Schedule of Changes in Fiduciary Net Position, by Participating City. That report may be obtained at tmrs.com.

Pension Expense and Deferred Outflows/Deferred Inflows of Resources Related to Pensions

For the fiscal year ended September 30, 2023, the City recognized pension expense of \$19,666,874.

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

At September 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Differences between expected and actual economic experience | \$ 10,812,193 | \$ 3,695 |
| Changes in actuarial assumptions | 117,041 | - |
| Difference between projected and actual investment earnings | 24,493,594 | - |
| Contributions subsequent to the measurement date | 10,876,769 | - |
| Total | \$ 46,299,597 | \$ 3,695 |

\$10,876,769 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the NPL for the fiscal year ending September 30, 2024. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Fiscal Year Ended September 30: | Pension Expense |
|--|----------------------------|
| 2024 | \$ 4,635,987 |
| 2025 | 9,076,957 |
| 2026 | 9,457,321 |
| 2027 | 12,248,868 |
| Total | \$ 35,419,133 |

E. Other Postemployment Benefits

1. TMRS - Supplemental Death Benefits

Plan Description

The City participates in an OPEB plan administered by TMRS. TMRS administers the defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. Employers may terminate coverage under, and discontinue participation in, the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The member city contributes to the SDBF at a contractually required rate (based on the covered payroll of employee members) as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to pre-fund retiree term life insurance during employees' entire careers. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). As such, the SDBF is considered to be a single-employer unfunded OPEB defined benefit plan with benefit payments treated as being equal to the employer's yearly contributions for retirees.

The contributions to the SDBF are pooled for investment purposes with those of the Pension Trust Fund (PTF). The SDBF's funding policy assures that adequate resources are available to meet all

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

death benefit payments for the upcoming year. The SDBF is a pay-as-you-go fund, and any excess contributions are available for future SDBF benefits.

Benefits

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an OPEB and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e., no assets are accumulated).

Participation in the SDBF as of December 31, 2022 is summarized below:

| | |
|--|--------------|
| Inactive employees or beneficiaries currently receiving benefits | 411 |
| Inactive employees entitled to, but not yet receiving, benefits | 124 |
| Active employees | 896 |
| Total | <u>1,431</u> |

Total OPEB Liability

The City's total OPEB liability of \$2,336,646 was measured as of December 31, 2022 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the December 31, 2022 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement period, unless otherwise specified:

| | |
|--|--|
| Inflation | 2.50% |
| Salary increases | 3.50% to 11.50% including inflation |
| Discount rate* | 4.05% |
| Retirees' share of benefit-related costs | Zero |
| Administrative expenses | All administrative expenses are paid through the PTF and accounted for under reporting requirements of GASB Statement 68. |
| Mortality rates-service retirees | 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. |
| Mortality rates-disabled retirees | 2019 Municipal Retirees of Texas Mortality Tables with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.50% and 3.00% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor. |

* The discount rate is based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2022.

The actuarial assumptions used in the December 31, 2022 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018. Due to the higher mortality rates associated with the global pandemic, the TMRS Board adopted changes to the assumptions and methodology used for calculating 2023 and 2024 rates as determined in the December 31, 2021 and December 31, 2022 actuarial valuations, respectively.

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

Changes in the Total OPEB Liability

| | <u>Total OPEB Liability</u> |
|--|------------------------------------|
| Changes for the year: | |
| Service cost | \$ 160,712 |
| Interest | 63,645 |
| Differences between expected and actual experience | (36,422) |
| Changes of assumptions | (1,200,681) |
| Benefit payments* | (58,441) |
| | <u>Net Changes</u> (1,071,187) |
| Beginning balance | 3,407,833 |
| | <u>Ending balance</u> \$ 2,336,646 |

*Due to the SDBF being considered an unfunded OPEB plan under GASB 75, benefit payments are treated as being equal to the City's yearly contributions for retirees.

The discount rate increased from 1.84% as of December 31, 2021 to 4.05% as of December 31, 2022. There were no other changes of assumptions or other inputs that affected measurement of the total OPEB liability during the measurement period.

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

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

| | <u>1% Decrease in Discount Rate (3.05%)</u> | <u>Discount Rate (4.05%)</u> | <u>1% Increase in Discount Rate (5.05%)</u> |
|-----------------------------|---|----------------------------------|---|
| City's Total OPEB Liability | \$ 2,796,740 | \$ 2,336,646 | \$ 1,976,832 |

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended September 30, 2023, the City recognized OPEB expense of \$134,115. The City reported deferred outflows/inflows of resources related to OPEB from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences between expected and actual experience | \$ 61,422 | \$ 279,076 |
| Changes in actuarial assumptions | 478,320 | 1,048,600 |
| Contributions subsequent to the measurement date | 55,452 | - |
| Total | <u>\$ 595,194</u> | <u>\$ 1,327,676</u> |

\$55,452 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the fiscal year ending September 30, 2024.

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

Amounts reported as deferred outflows/inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Fiscal Year Ended September 30 | OPEB Expense |
|--------------------------------------|---------------------|
| 2024 | \$ (105,674) |
| 2025 | (127,849) |
| 2026 | (132,092) |
| 2027 | (161,593) |
| 2028 | (192,544) |
| Thereafter | (68,182) |
| | <u>\$ (787,934)</u> |

2. Postemployment Healthcare Plan

Plan Description

The City administers a single-employer defined benefit OPEB plan, known as the City of Baytown Retiree Healthcare Plan (the “Plan”). The Plan offers medical benefits for eligible retirees and their dependents. The premiums are based on a combination of years of service and hire date, and the coverage levels for retirees are the same as coverage provided to active employees. Upon the death of the retiree, spouses are eligible to receive the same coverage at the same rate. Like the retiree, the coverage is supplemental once the spouse is eligible for Medicare. The City requires all covered retirees/spouses to apply for Medicare when eligible in order to continue coverage under the City’s Plan.

Employees hired after January 1, 2010 are not eligible for benefits under this Plan.

A separate, audited GAAP basis postemployment benefit plan report is not available for this Plan.

Participation in the Plan as of December 31, 2022 is summarized below:

| | |
|--|------------|
| Inactive employees or beneficiaries currently receiving benefits | 278 |
| Active employees | 247 |
| Total | <u>525</u> |

Funding Policy

The City has elected to subsidize premiums for the Plan and funding is provided on a pay-as-you-go basis. There are no assets accumulated in a trust.

Total OPEB Liability

The City’s total OPEB liability of \$49,874,192 was measured as of December 31, 2022 and was determined by an actuarial valuation as of that date.

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

Actuarial Assumptions and Other Inputs

The total OPEB liability in the December 31, 2022 actuarial valuation was determined using the following actuarial assumptions and other inputs applied to all periods included in the measurement period, unless otherwise specified:

| | |
|-------------------------|--|
| Inflation | 2.50% |
| Salary increases | 3.50% to 11.50% including inflation |
| Discount rate* | 4.05% |
| Actuarial cost method | Individual entry-age normal |
| Demographic assumptions | Based on the experience study covering the four-year period ending December 31, 2018 as conducted for the TMRS. |
| Mortality | For healthy retirees, the gender-distinct 2019 Municipal Retirees of Texas mortality tables are used. The rates are projected on a fully generational basis using the ultimate mortality improvement rates in the MP tables published through 2019 to account for future mortality improvements. |
| Healthcare trends rates | Pre-65: Initial rate of 7.00% declining to an ultimate rate of 4.25% after 15 years Post-65: Initial rate of 6.10% declining to an ultimate rate of 4.25% after 11 years. |
| Participation rates | Hired before January 1, 2004: 85% for retirees with 10 or more years of service; 0% for retirees with less than 10 years of service; Hired on or after January 1, 2004: 85% for retirees with 25 or more years of service; 40% for retirees with 20 to 24 years of service; 20% for retirees with 15 to 19 years of service; 0% for retirees with less than 15 years of service Retirees hired on or after January 1, 2004 with less than 25 years of service are assumed to discontinue their health coverage when they become eligible for Medicare. |

* The discount rate is based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2022.

Changes in the Total OPEB Liability

| | Total OPEB Liability |
|---|---------------------------------|
| Changes for the year: | |
| Service cost | \$ 1,927,192 |
| Interest | 1,300,835 |
| Difference between expected and actual experience | (10,995,118) |
| Changes of assumptions | (10,976,752) |
| Benefit payments | (2,231,863) |
| | Net Changes |
| | (20,975,706) |
| Beginning balance | 70,849,898 |
| | Ending Balance |
| | \$ 49,874,192 |

Changes in benefit terms were related to the benefits provided to Medicare retirees. Changes of assumptions reflect a change in the discount rate from 1.84% as of December 31, 2021 to 4.05% as of December 31, 2022, the removal of excise tax load, and revised TMRS demographic and salary increase assumptions.

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

Sensitivity of Total OPEB Liability to the Discount Rate

Regarding the sensitivity of the total OPEB liability to changes in the discount rate, the following presents the Plan's total OPEB liability, calculated using a discount rate of 4.05%, as well as what the Plan's total OPEB liability would be if it were calculated using a discount rate that is one percent lower or one percent higher:

| | 1% Decrease in Discount Rate (3.05%) | Discount Rate (4.05%) | 1% Increase in Discount Rate (5.05%) |
|-----------------------------|---|----------------------------------|---|
| City's Total OPEB Liability | \$ 54,185,381 | \$ 49,874,192 | \$ 45,951,413 |

Sensitivity of Total OPEB Liability to the Healthcare Costs Trend Rate Assumption

Regarding the sensitivity of the total OPEB liability to changes in the healthcare cost trend rates, the following presents the Plan's total OPEB liability, calculated using the assumed trend rates, as well as what the Plan's total OPEB liability would be if it were calculated using a trend rate that is one percent lower or one percent higher:

| | 1% Decrease | Current Healthcare Cost Trend Rate Assumption | 1% Increase |
|-----------------------------|--------------------|--|--------------------|
| City's Total OPEB Liability | \$ 45,078,051 | \$ 49,874,192 | \$ 55,433,747 |

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended September 30, 2023, the City recognized OPEB income of \$570,201. The City reported deferred outflows/inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Difference between expected and actual experience | \$ 3,306 | \$ 12,066,361 |
| Changes in actuarial assumptions | 5,261,919 | 8,279,725 |
| Contributions subsequent to the measurement date | 1,543,709 | - |
| Total | \$ 6,808,934 | \$ 20,346,086 |

\$1,543,709 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the fiscal year ending September 30, 2024.

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

Amounts reported as deferred outflows/inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Fiscal Year Ended September 30 | OPEB Expense |
|--------------------------------------|------------------------|
| 2024 | \$ (4,266,669) |
| 2025 | (5,539,646) |
| 2026 | (5,274,546) |
| | <u>\$ (15,080,861)</u> |

3. Aggregate Total OPEB Expenses/Expenditures

The City recognized aggregate total OPEB income of \$436,086 during the fiscal year ending September 30, 2023 related to the City's TMRS and City-administered OPEB plans.

F. Tax Abatements

Chapter 380 Economic Development Agreements

Chapter 380 of the Texas Local Government Code, *Miscellaneous Provisions Relating to Municipal Planning and Development*, provides the authority to the governing body of a municipality to establish and provide for the administration of one or more programs to promote state or local economic development and to stimulate business and commercial activity in the municipality.

Sales Taxes

The City has entered into sales tax abatement agreements (the "Agreements") with several developers as authorized by Chapter 380 of the Texas Local Government Code.

Under each Agreement, the developers must meet certain commercial/retail development and/or employment requirements in order to have a portion of their sales taxes abated. The minimum limitation value varies by Agreement. Each Agreement provides for recapture in the event of material breach. The following summarizes the current Agreements over 10% of total taxes abated:

- A developer constructed a retail development of at least 60,000 square feet (the "Project") for the purpose of promoting economic development in the City and stimulating business and commercial activity. The retail store opened for business in December 2014. The Agreement expires 15 years after January 1 following the year in which a certificate of occupancy is issued for the Project. The City will make payments to the developer from sales tax revenues at an amount equal to 1% of taxable sales generated by the Project. For the year ended September 30, 2023, the total amount of taxes abated were \$468,367 for the City and \$156,122 for the MDD.
- A developer will construct a new shopping center with approximately 170,000 square feet of new retail shops and anchored by a 120,000 square-foot grocery store (the "Project") for the purpose of creating and/or retaining at least 135 full-time equivalent (FTE) employees. The City has granted the developer a tax limitation of \$2.5 million for a period of 10 years. In order to be eligible to receive the limitation, the developer must have invested at least \$21 million during the time period beginning April 10, 2014 and ending December 31, 2015, and the taxable value for the property should have a minimum value of \$15 million. The City will

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

make annual payments to the developer from sales tax revenues at an amount equal to 1% of taxable sales generated by the Project beginning 14 months after the grocery store opens to the public. For the year ended September 30, 2023, the total amount of taxes abated was \$368,834 for the City.

- A developer will construct an HEB grocery store (the “Project”) for the purpose of creating and/or retaining at least 100 FTE employees. The City has granted the developer a tax limitation of \$2.75 million for a period of 10 years. In order to be eligible to receive the limitation, the developer must have invested at least \$15 million during the time period beginning May 26, 2016 and ending January 1, 2018, and the taxable value for the property should have a minimum value of \$10 million. The City will make annual payments to the developer from sales tax revenues at an amount equal to 100% of annual sales tax collected at the Project over \$50,000. For the year ended September 30, 2023, the total amount of taxes abated was \$280,795 for the City.

Property Taxes

On April 20, 2022, the City entered into a Chapter 380 agreement with a developer to construct a public golf course and related amenities, features, and retail businesses (the “Project”) on land that the City is leasing to the developer. Upon completion of the Project, the value of the property shall be at least \$10 million. In return, the City will provide the developer with a \$6 million cash incentive payment and agreed to reimburse the developer for any City property taxes that become due within twenty years from the date of execution of this agreement. Additionally, the City will also waive any related permit fees for the construction of the Project. For the year ended September 30, 2023, the total amount of taxes abated was \$57,949 for the City.

G. Section 212 Agreement

A Chapter 212 agreement is part of the Texas Local Government Code (Section 212.172) that grants cities the ability to enter a written contract with property owners to grant land immunity from annexation for a period not to exceed a total duration of 45 years. Additionally, this allows the City to receive funds in lieu of taxes without providing services to the property.

On September 24, 2019, the City entered into a Section 212 agreement (the “Agreement”) with Enterprise Products Operating LLC. As part of the Agreement, the City will receive two payments of \$33 million in October 2019 and July 2020 for the design and construction of a public safety building. The City will not annex the property through calendar year 2054 and in exchange will receive annual contractual payments as defined in the Agreement.

In December 2022, the City approved a Section 212 agreement (the “Agreement”) with ExxonMobil beginning January 1, 2023 through December 31, 2057. As part of the Agreement, ExxonMobil will make 4 annual payments of \$18,750,000 in years 2024 through 2027 towards the design and construction of a multipurpose event center, or another building with a substantial community benefit. The City will not annex the property through calendar year 2057 and in exchange will receive annual contractual payments as defined in the Agreement.

CITY OF BAYTOWN, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2023

H. Restatement

The City has restated beginning net position for governmental activities for additions to construction in progress.

| | Governmental Activities |
|---|------------------------------------|
| Beginning net position as reported | \$ 265,792,743 |
| Construction in progress | <u>3,022,772</u> |
| Beginning net position , as restated | <u><u>\$ 268,815,515</u></u> |

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

THIS PAGE LEFT BLANK INTENTIONALLY

BRACEWELL

[CLOSING DATE]

We have acted as bond counsel for Baytown Area Water Authority (the “Authority”), in connection with the bonds hereinafter described (the “Bonds”):

BAYTOWN AREA WATER AUTHORITY WATER SUPPLY CONTRACT REVENUE BONDS, SERIES 2024 (CITY OF BAYTOWN PROJECT), dated June 1, 2024, in the aggregate principal amount of \$_____.

The Bonds mature, bear interest, are subject to redemption prior to maturity, and may be transferred and exchanged as set out in the Bonds and in the resolution adopted by the Board of Directors of the Authority authorizing their issuance (the “Bond Resolution”).

We have acted as bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the constitution and laws of the State of Texas and with respect to the excludability of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Authority or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the Authority’s Preliminary Official Statement and Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

In our capacity as bond counsel, we have participated in the preparation of and have examined a transcript of proceedings pertaining to the authorization and issuance of the Bonds, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Authority and the City of Baytown, Texas (the “City”); customary certificates of officers, agents, and representatives of the Authority, the City and other public officials; and other certified showings relating to the authorization and issuance of the Bonds. We have also analyzed such laws, regulations, guidance, documents and other materials as we have deemed necessary to render the opinions herein. Moreover, we have examined executed Bond No. I-1 of this issue.

In providing the opinions set forth herein, we have relied on representations and certifications of the Authority, the Authority’s financial advisor, the City and other parties involved with the issuance of the Bonds with respect to matters solely within the knowledge of such parties, which we have not independently verified. In addition, we have assumed for purposes of this opinion continuing compliance with the covenants of the Resolution, including but not limited to, covenants relating to the tax-exempt status of the Bonds.

Based on such examination, and in reliance of such representations, certifications and assumptions, it is our opinion that:

Bracewell LLP

T: +1.713.223.2300 F: +1.800.404.3970
711 Louisiana Street, Suite 2300, Houston, Texas 77002-2770
bracewell.com

AUSTIN CONNECTICUT DALLAS DUBAI HOUSTON LONDON NEW YORK SAN ANTONIO SEATTLE WASHINGTON, DC

(1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective and, therefore, the Bonds constitute valid and legally binding obligations of the Authority.

(2) The Bonds are special obligations of the Authority, which, together with the Authority's outstanding Water Supply Contract Revenue and Refunding Bonds, Series 2012 (City of Baytown Project), Water Supply Contract Revenue Bonds, Series 2018 (City of Baytown Project) and Water Supply Contract Revenue Bonds, Series 2019 (City of Baytown Project) (collectively, the "Outstanding Bonds"), are payable both as to principal and interest from, and are equally and ratably secured by a pledge of and first lien on the Pledged Revenues (as defined in the Bond Resolution).

(3) Interest on the Bonds is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended. In addition, interest on the Bonds is not a specific preference item for purposes of the alternative minimum tax on individuals, but we observe that such interest is taken into account in computing the alternative minimum tax on corporations.

The Authority has reserved the right to issue additional bonds and refunding bonds which may be on parity with and of equal dignity in all respects with the Bonds and the Outstanding Bonds, subject to the restrictions contained in the Bond Resolution.

The rights of the owners of the Bonds are subject to applicable provisions of the federal bankruptcy laws and other similar laws affecting the rights of creditors of political subdivisions generally and may be limited by general principles of equity which permit the exercise of judicial discretion.

We express no opinion as to the amount or timing of interest on the Bonds or, except as stated above, any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or the acquisition, ownership, or disposition of the Bonds. This opinion is specifically limited to the laws of the State of Texas and, to the extent applicable, the laws of the United States of America. Further, in the event that the representations of the Authority, the City and other parties upon which we have relied are determined to be inaccurate or incomplete or the Authority fails to comply with the covenants of the Order, interest on the Bonds could become includable in gross income for federal income tax purposes from the date of the original delivery of the Bonds, regardless of the date on which the event causing such

Our opinions are based on existing law and our knowledge of facts as to the date hereof and may be affected by certain actions that may be taken or omitted on a later date. We assume no duty to update or supplement our opinions, and this opinion letter may not be relied upon in connection with any changes to the law or facts, or actions taken or omitted, after the date hereof.

THIS PAGE LEFT BLANK INTENTIONALLY

Municipal Advisory Services
Provided By

