

PRELIMINARY OFFICIAL STATEMENT

Dated August 18, 2025

Ratings:
Moody's: "Aa2"
S&P: "AA"
(See "OTHER INFORMATION -
Ratings" herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, under existing law, interest on the Certificates (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.



\$80,500,000*
CITY OF BAYTOWN, TEXAS
(Harris and Chambers Counties, Texas)
COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2025

Dated Date: September 1, 2025

Due: February 1, as shown on page 2

Interest Accrual Date: Delivery Date (defined below)

Interest on the \$80,500,000* City of Baytown, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2025 (the "Certificates") will accrue from the Delivery Date. The Certificates will be payable February 1 and August 1 of each year commencing February 1, 2026 until maturity or prior redemption and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Certificates 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 Certificates may be acquired in denominations of \$5,000 or integral multiples in excess thereof. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Certificates 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 Certificates (see "THE CERTIFICATES - BOOK-ENTRY-ONLY SYSTEM"). The initial Paying Agent/Registrar is BOKF, N.A., Dallas, Texas (see "THE CERTIFICATES - PAYING AGENT/REGISTRAR").

The Certificates are issued pursuant to the Constitution and general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code, Chapter 1371, Texas Government Code, and the home-rule charter of the City, and an ordinance adopted by the City on May 8, 2025 authorizing the issuance of the Certificates (the "Ordinance") and constitute direct obligations of the City, payable from a combination of (i) a continuing, direct, annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge of a subordinate lien on the net revenues of the waterworks and sanitary sewer system of the City, in an amount not to exceed \$1,000 as provided in the Ordinance. In the Ordinance, the governing body of the City delegated to certain officials of the City the authority to complete the sale of the Certificates through the execution of a pricing certificate for the Certificates (see "THE CERTIFICATES - AUTHORITY FOR ISSUANCE").

Proceeds from the sale of the Certificates will be used for all or any part of the costs associated with (i) the design, construction, acquisition, equipment and improvement of a fire station, (ii) the design, construction, acquisition, equipment and improvement of the City's waterworks and sanitary sewer system, including lift station improvements, wastewater treatment plant improvements, water meter replacements, and water and sewer line replacements and rehabilitation, and (iii) the cost of professional services incurred in connection thereto.

See Maturity Schedule on Page 2

The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 1, 2035, in whole or from time to time in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 1, 2034, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE CERTIFICATES - OPTIONAL REDEMPTION"). In addition to being subject to optional redemption, if in connection with the pricing of the Certificates two or more consecutive serial maturities set forth in the Maturity Schedule on page 2 hereof are combined to create one or more term Certificates (the "Term Certificates"), each such Term Certificate shall be subject to mandatory sinking fund redemption as provided herein (see "THE CERTIFICATES - MANDATORY SINKING FUND REDEMPTION").

The Certificates are offered for delivery when, as and if issued and received by the initial purchaser (the "Purchaser") 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 legal matters will be passed upon for the City by Bracewell LLP, Houston, TX as Special Disclosure Counsel to the City. It is expected that the Certificates will be available for delivery through DTC on or about September 23, 2025 (the "Delivery Date").

BIDS DUE TUESDAY, AUGUST 26, 2025, 10:15 A.M. CDT

* Preliminary, subject to change.

MATURITY SCHEDULE

\$80,500,000*

COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2025

Principal Amount*	Maturity February 1 ⁽¹⁾	Interest Rate	Initial Yield ⁽²⁾	CUSIP ⁽³⁾	Principal Amount*	Maturity February 1 ⁽¹⁾	Interest Rate	Initial Yield ⁽²⁾	CUSIP ⁽³⁾
\$ 4,610,000	2026				\$ 3,320,000	2039 ⁽⁴⁾			
1,820,000	2027				3,485,000	2040 ⁽⁴⁾			
1,915,000	2028				3,665,000	2041 ⁽⁴⁾			
2,015,000	2029				3,850,000	2042 ⁽⁴⁾			
2,115,000	2030				4,050,000	2043 ⁽⁴⁾			
2,225,000	2031				4,260,000	2044 ⁽⁴⁾			
2,335,000	2032				4,475,000	2045 ⁽⁴⁾			
2,455,000	2033				3,540,000	2046 ⁽⁴⁾			
2,580,000	2034				3,720,000	2047 ⁽⁴⁾			
2,715,000	2035 ⁽⁴⁾				3,910,000	2048 ⁽⁴⁾			
2,855,000	2036 ⁽⁴⁾				4,110,000	2049 ⁽⁴⁾			
3,000,000	2037 ⁽⁴⁾				4,320,000	2050 ⁽⁴⁾			
3,155,000	2038 ⁽⁴⁾								

- (1) If in connection with the pricing of the Certificates two or more consecutive maturities are combined to create one or more term certificates (the "Term Certificates"), such Term Certificates shall be subject to mandatory sinking fund redemption as provided herein (see "THE CERTIFICATES – MANDATORY SINKING FUND REDEMPTION").
- (2) The initial reoffering prices or yields on the Certificates are furnished by the Purchaser and represent the initial offering prices or yields to the public, which may be changed by the Purchaser at any time.
- (3) CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Certificates. Neither the City, the Financial Advisor nor the Purchaser shall be responsible for the selection or correctness of the CUSIP numbers set forth herein. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by FactSet Research System Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services.
- (4) The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 1, 2035, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on February 1, 2034, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE CERTIFICATES – OPTIONAL REDEMPTION").

*Preliminary, subject to change.

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USE OF INFORMATION IN THE OFFICIAL STATEMENT

For purposes of compliance with the United States Securities and Exchange Commission's (the "SEC") Rule 15c2-12, as amended (the "Rule"), this document constitutes an Official Statement of the City with respect to the Certificates that has or will be "deemed final" by the City 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, maturity schedule, 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, salesman or other person has been authorized by the City or the Purchaser of the Certificates to give any information, or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City.

Certain information set forth herein has been obtained from the City and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Financial Advisor or the Purchaser. Any information and expressions of opinion herein contained 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 City or other matters described herein since the date hereof. See "Continuing Disclosure of Information" for a description of the City's undertaking to provide certain information on a continuing basis.

Neither the City, the Purchaser nor the Financial Advisor make any representation or warranty with respect to the information contained in this Official Statement regarding the Depository Trust Company ("DTC") or its book-entry-only system, as such information has been provided by DTC.

The Certificates are exempt from registration with the SEC and consequently have not been registered therewith. The registration, qualification, or exemption of the Certificates in accordance with applicable securities law provisions of the jurisdiction in which the Certificates have been registered, qualified or exempted should not be regarded as a recommendation thereof.

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

THE CERTIFICATES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

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 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.

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

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 a part of, this offering document for any purposes.

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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 Certificates (defined below) 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 CITY	The City of Baytown, Texas (the "City") is a municipal corporation and home rule city of the State of Texas (the "State"), located in Harris and Chambers Counties, Texas. The City covers approximately 53 square miles (see "INTRODUCTION – DESCRIPTION OF CITY").
THE CERTIFICATES	The \$80,500,000* City of Baytown, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2025 (the "Certificates") are issued as serial certificates maturing February 1, 2026 through February 1, 2050, inclusive, unless the Purchaser of the Certificates designates two or more consecutive maturities as one or more term Certificates (see "THE CERTIFICATES – DESCRIPTION OF THE CERTIFICATES").
PAYMENT OF INTEREST	Interest on the Certificates accrues from the date of delivery to the Purchaser and is payable on February 1, 2026 and each February 1 and August 1 thereafter until maturity or prior redemption (see "THE CERTIFICATES – DESCRIPTION OF THE CERTIFICATES").
AUTHORITY FOR ISSUANCE	The Certificates are being issued pursuant to the constitution and general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government Code ("Chapter 271"), as amended, Chapter 1371, Texas Government Code, as amended, the home-rule charter of the City and an ordinance adopted by the City Council of the City on May 8, 2025, which delegated to certain officials of the City the authority to complete the sale of the certificates through the execution of a pricing certificate (the ordinance and the pricing certificate are collectively referred to as the "Ordinance") (see "The CERTIFICATES – AUTHORITY FOR ISSUANCE OF THE CERTIFICATES").
SECURITY FOR THE CERTIFICATES	The Certificates constitute direct obligations of the City, payable from a combination of (i) a continuing, direct, annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge of a subordinate lien on the net revenues of the City's waterworks and sewer system in an amount not to exceed \$1,000, as provided in the Ordinance (see "THE CERTIFICATES – SECURITY AND SOURCE OF PAYMENT" and "– TAX RATE LIMITATION").
REDEMPTION	The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 1, 2035, in whole or from time to time in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 1, 2034, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE CERTIFICATES – OPTIONAL REDEMPTION"). In addition to being subject to optional redemption, if in connection with the pricing of the Certificates two or more consecutive serial maturities set forth in the Maturity Schedule on page 2 hereof are combined to create one or more term Certificates (the "Term Certificates"), each such Term Certificate shall be subject to mandatory sinking fund redemption as provided herein (see "THE CERTIFICATES – MANDATORY SINKING FUND REDEMPTION").
TAX EXEMPTION	In the opinion of Bond Counsel, under existing law, interest on the Certificates (i) is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, 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.
USE OF PROCEEDS	Proceeds from the sale of the Certificates will be used for all or any part of the costs associated with (i) the design, construction, acquisition, equipment and improvement of a fire station, (ii) the design, construction, acquisition, equipment and improvement of the City's waterworks and sanitary sewer system, including lift station improvements, wastewater treatment plant improvements, water meter replacements, and water and sewer line replacements and rehabilitation, and (iii) the cost of professional services incurred in connection thereto.
RATINGS	The Certificates and presently outstanding tax supported debt of the City are rated "Aa2" by Moody's Investors Service, Inc. ("Moody's") and "AA" by S&P Global Ratings ("S&P"), a division of S&P Global Inc. (See "OTHER INFORMATION - RATINGS").

*Preliminary, subject to change.

BOOK-ENTRY-ONLY

SYSTEM The definitive Certificates 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 Certificates may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Certificates will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Certificates 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 Certificates (see "THE CERTIFICATES – BOOK-ENTRY-ONLY SYSTEM").

PAYMENT RECORD The City has never defaulted in payment of its general obligation tax debt.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated City Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Per Capita Taxable Assessed Valuation	General Obligation (G.O.) Tax Debt ⁽³⁾	Per Capita G.O. Tax Debt	Ratio G.O. Tax Debt to		Receipt from Industrial District Agreements
						Taxable Assessed Valuation	Percent Of Total Tax Collections	
2021	94,081	\$ 4,862,798,021	\$ 51,687	\$ 102,901,503	\$ 1,094	2.12%	99.30%	\$ 65,470,755
2022	84,324	5,211,686,781	62,266	90,663,000	1,075	1.74%	98.46%	66,118,684
2023	83,902	6,006,654,613	71,591	103,106,200	1,229	1.72%	99.09%	67,030,403
2024	85,083	6,391,393,292	75,120	105,655,995	1,242	1.65%	98.31%	65,858,168
2025	85,627	6,229,053,723 ⁽⁴⁾	72,746	116,813,187 ⁽⁵⁾	1,364 ⁽⁵⁾	1.88% ⁽⁵⁾	96.77% ⁽⁶⁾	68,102,350 ⁽⁷⁾

- (1) Provided by the City. For the fiscal year ended September 30, 2021, the reported population estimate includes the City's extraterritorial jurisdiction. For the fiscal years ended September 2022 through 2025 the estimate includes only the population within the City limits.
- (2) Certified Values as reported by the Chambers County Appraisal District and Harris Central Appraisal District, subject to adjustments throughout the year.
- (3) Net of self-supporting debt. See "TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT" and the accompanying footnotes; and "TABLE 11 – COMPUTATION OF SELF-SUPPORTING DEBT."
- (4) For tax year 2025 (fiscal year 2026), the City has received certified net taxable assessed values from Chambers County Appraisal District in the amount of \$589,000,332 and a certified estimate of net taxable assessed values from Harris Central Appraisal District in the amount of \$6,479,157,110. The aggregate estimated net taxable value for the City for tax year 2025 (fiscal year 2026) from the Appraisal District is \$7,068,157,442. The certified estimate of net taxable assessed values from the Harris Central Appraisal District is subject to revision, which may be downward until certified.
- (5) Preliminary, subject to change; does not include the portion of the Certificates the City intends to treat as self-supporting.
- (6) As of June 30, 2025.
- (7) See "TABLE 5 – INDUSTRIAL DISTRICT CONTRACTS" and the accompanying text for a discussion of the City's industrial district contracts and payments made to the City under such contracts and Chapter 212 Agreements (as defined herein) in lieu of ad valorem taxes.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	For Fiscal Year Ended September 30				
	2024	2023	2022	2021	2020
Beginning Balance	\$ 25,999,515	\$ 41,921,695	\$ 48,375,076	\$ 36,996,862	\$ 27,609,406
Total Revenue	134,983,008	131,363,016	127,022,161	119,596,865	114,306,942
Total Expenditures	129,679,666	122,259,053	111,380,768	101,761,924	95,727,938
Other Financing Sources (Uses)	(869,933)	(25,026,143) ⁽¹⁾	(22,094,774) ⁽¹⁾	(6,456,727) ⁽¹⁾	(9,191,549) ⁽²⁾
Ending Fund Balance	<u>\$ 30,432,924</u>	<u>\$ 25,999,515</u>	<u>\$ 41,921,695</u>	<u>\$ 48,375,076</u>	<u>\$ 36,996,862</u>

- (1) Transfers Out are primarily related to expenditures for capital projects identified in the City's capital improvement plan.
- (2) Transfers Out are primarily related to expenditures for capital projects in the City's capital improvement plan, but also include expenses related to the City's Aquatics Center as a result of the COVID-19 pandemic.

CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

City Council	Length of Service	Term Expires	Occupation
Charles Johnson Mayor	6 Months	November 2027	Real Estate
Laura Alvarado Council Member, District 1	9 Years	November 2025	Program Manager
Sarah Graham Council Member, District 2	2.5 Year	November 2025	Educator
Ken Griffith Council Member, District 3	2.5 Year	November 2025	Security Site Manager
James Franco Council Member, District 4	1.5 Years	November 2026	Company Owner
Jacob Powell Council Member, District 5	4 Years	November 2026	Engineer
Mike Lester Council Member, District 6	4 Years	November 2026	Retired

SELECTED ADMINISTRATIVE STAFF

Name	Position	Length of Service to City
Jason Reynolds	City Manager	3 Years
Carol Flynt	Assistant City Manager	33 Years
Brant Gary	Assistant City Manager	2 Years
Scott Lemond	City Attorney	3 Year
Teresa McKenzie	Director of Finance	3.5 Years
Frank Simoneaux	Director of Public Works/Engineering	9.5 Years

CONSULTANTS AND ADVISORS

Auditor..... Weaver and Tidwell
The Woodlands, Texas

Bond Counsel and Special Disclosure Counsel Bracewell LLP
Houston, Texas

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

For additional information regarding the City, please contact:

Ms. Teresa McKenzie Director of Finance City of Baytown 2401 Market Street Baytown, Texas 77520 (281) 420-6535 Phone	or	Mr. Joe Morrow Managing Director Hilltop Securities Inc. 700 Milam Street, Suite 1200 Houston, Texas 77002 (713) 654-8690 Phone
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PRELIMINARY OFFICIAL STATEMENT
RELATING TO
\$80,500,000*
COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2025

INTRODUCTION

This Official Statement, which includes the cover page and Appendices hereto, provides certain information regarding the issuance by the City of Baytown, Texas (the "City") of its \$80,500,000* Combination Tax and Revenue Certificates of Obligation, Series 2025 (the "Certificates"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance (as defined herein) adopted by the City Council of the City of Baytown, Texas (the "City Council") authorizing the issuance of the Certificates.

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

There follows in this Official Statement descriptions of the Certificates and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Financial Advisor, Hilltop Securities Inc., Houston, Texas.

DESCRIPTION OF THE CITY

The City is a political subdivision and municipal corporation of the State of Texas (the "State"), duly organized and existing under the constitution and laws of the State and the City's home rule charter (the "City Charter"). The City was incorporated in 1948 and first adopted the City Charter in 1948. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and six Councilmembers who serve staggered three-year terms. The Mayor's term does not expire concurrently with any City Council terms. Terms for City Council Districts One, Two and Three expire concurrently and terms for City Council Districts Four, Five and Six expire concurrently in successive years. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are public safety (police and fire protection), streets, water and sanitary sewer utilities, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services. The 2020 census population for the City was 83,701. The 2025 estimated population for the City is 85,627. The City covers approximately 53 square miles.

PLAN OF FINANCING

PURPOSES

Proceeds from the sale of the Certificates will be used for all or any part of the costs associated with (i) the design, construction, acquisition, equipment and improvement of a fire station, (ii) the design, construction, acquisition, equipment and improvement of the City's waterworks and sanitary sewer system, including lift station improvements, wastewater treatment plant improvements, water meter replacements, and water and sewer line replacements and rehabilitation, and (iii) the cost of professional services incurred in connection thereto.

SOURCES AND USES OF PROCEEDS

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

Sources of Funds	
Par Amount	
[Net] Premium	
Total Sources of Funds	<u>\$ -</u>
Uses of Funds	
Deposit to Project Fund	
Costs of Issuance ⁽¹⁾	
Underwriter's Discount	
Total Uses of Funds	<u>\$ -</u>

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

* Preliminary, subject to change.

THE CERTIFICATES

DESCRIPTION OF THE CERTIFICATES

The Certificates are dated September 1, 2025 (the "Dated Date") and mature on February 1 in each of the years and in the amounts shown on page 2 hereof. Interest on the Certificates will accrue from the date of delivery to the Purchaser (the "Purchaser") and will be computed on the basis of a 360-day year of twelve 30-day months. Interest on the Certificates will be payable on February 1 and August 1 of each year, commencing February 1, 2026 until maturity or prior redemption. The definitive Certificates 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 Certificates will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar, initially BOKF, N.A., Dallas, Texas, 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 Certificates (see "BOOK-ENTRY-ONLY SYSTEM").

AUTHORITY FOR ISSUANCE OF THE CERTIFICATES

The Certificates are being issued pursuant to the Constitution and general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government Code ("Chapter 271"), as amended, Chapter 1371, Texas Government Code, as amended, the home-rule charter of the City and an ordinance adopted by the City Council on May 8, 2025, which delegated to certain officials of the City the authority to complete the sale of the certificates through the execution of a pricing certificate (the ordinance and the pricing certificate are collectively referred to as the "Ordinance").

SECURITY AND SOURCE OF PAYMENT

The Certificates are direct obligations of the City, payable from and secured by (i) a continuing, direct, annual ad valorem tax levied, within the limits prescribed by law, on all taxable property in the City, and (ii) a limited pledge of a subordinate lien on the net revenues of the City's waterworks and sewer system in an amount not to exceed \$1,000, as provided in the Ordinance.

TAX RATE LIMITATION

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt, within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 Taxable Assessed Valuation for all City purposes. Administratively, the Attorney General of the State will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all general obligation debt service, as calculated at the time of issuance. Furthermore, Article VIII of the City Charter limits the City's ad valorem tax rate for maintenance and operations of the City to six-tenths of one percent (0.6%). Any levy of taxes to pay principal or interest on any tax bonds or other tax-supported debt of the City, such as the Certificates, is not subject to this City Charter limitation.

OPTIONAL REDEMPTION

The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 1, 2035, in whole or from time to time in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 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 Certificates are to be redeemed, the City shall determine the maturity or maturities and the amounts thereof (or mandatory sinking fund payment within a maturity with respect to Term Certificates (as defined below), if any) to be redeemed and shall direct the Paying Agent/Registrar to call by lot, or other customary method that results in random selection, the Certificates, or portions thereof, within such maturity or maturities and in such principal amounts for redemption. If a Certificate (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Certificate (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 provision, if the principal amounts for two or more consecutive maturities designated at the election of the Purchaser in the serial maturity schedule shown on page 2 hereof are combined to create term certificates (the "Term Certificates"), each such Term Certificate shall be subject to mandatory sinking fund redemption commencing on February 1 of the maturity that was combined to form such Term Certificate and continuing on February 1 in each year thereafter until the stated maturity date of that Term Certificate, and the amount required to be redeemed in any year shall be equal to the principal amount for such year set forth in the applicable Maturity Schedule shown on page 2 of this Official Statement. Term Certificates to be redeemed in any year by mandatory sinking fund redemption shall be redeemed at par and shall be selected by lot or other random selection

* Preliminary, subject to change.

method from the Term Certificates then subject to redemption. The City, at its option, may credit against any mandatory sinking fund redemption requirement Term Certificates of the maturity then subject to redemption which at least 45 days prior to the mandatory sinking fund redemption date have been acquired by the City and delivered to the Paying Agent/Registrar for cancellation or have been redeemed pursuant to the optional redemption provisions of the Ordinance and not theretofore applied as a credit against any mandatory sinking fund redemption requirement.

NOTICE OF REDEMPTION

Not less than 30 days prior to a redemption date for the Certificates, the Paying Agent/Registrar, at the direction of the City, shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Certificates 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 CERTIFICATES CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY CERTIFICATE OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH CERTIFICATE OR PORTION THEREOF SHALL CEASE TO ACCRUE.

The City reserves the right, in the case of an optional redemption, to give notice of its election or direction to redeem Certificates conditioned upon the occurrence of subsequent events. Such notice may state (i) 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 (ii) that the City retains the right to rescind such notice at any time on or prior to the scheduled redemption date if the City delivers a certificate of the City 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 Certificate subject to conditional redemption where such redemption has been rescinded shall remain outstanding, and the rescission of such redemption shall not constitute an event of default. Further, in the case of a conditional redemption, the failure of the City to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an event of default.

The Paying Agent/Registrar and the City, so long as a Book-Entry-Only System is used for the Certificate, will send any notice of redemption or other notices with respect to the Certificate 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 Certificate called for redemption or any other action premised on any such notice. Redemption of portions of the Certificate by the City will reduce the outstanding principal amount of such Certificate held by DTC.

In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Certificate 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 Certificate from the beneficial owners.

Neither the City 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 Certificate or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Certificate for redemption. See "THE CERTIFICATES – BOOK-ENTRY-ONLY SYSTEM."

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Certificates is to be transferred and how the principal of and interest on the Certificates are to be paid to and credited by DTC while the Certificates 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 City believe the source of such information to be reliable but take no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Certificates, 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 Certificates), 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 Certificates. The Certificates 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 Certificates, 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 certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has an S&P Global Ratings rating of "AA+." The DTC Rules applicable to its Participants are on file with the SEC. More information about DTC can be found at www.dtcc.com.

Purchases of Certificates 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 Certificate ("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 Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Certificates, except in the event that use of the book-entry system described herein is discontinued.

To facilitate subsequent transfers, all Certificates 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 Certificates 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 Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates 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 Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates 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 Certificates shall be sent to DTC. If less than all of the Certificates 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 Certificates unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City 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 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Certificates 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 City 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 City, 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 City 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 Certificates at any time by giving reasonable notice to the City and the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Certificates 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 Certificates 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 Certificates, 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 City or the Purchaser.

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

PAYING AGENT/REGISTRAR

The initial Paying Agent/Registrar for the Certificates is BOKF, N.A., Dallas, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City also covenants to maintain and provide a Paying Agent/Registrar at all times until the Certificates 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 Certificates. Upon any change in the Paying Agent/Registrar for the Certificates, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Certificates 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

Certificates may be assigned by the execution of an assignment form on the respective Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Certificates will be delivered by the Paying Agent/Registrar, in lieu of the Certificates being transferred or exchanged, at the principal payment office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. New Certificates 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 principal amount as the Certificates 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 Certificates. In the event the Book-Entry-Only System should be discontinued, printed certificates will be delivered to the Holders and thereafter, the Certificates 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.

RECORD DATE FOR INTEREST PAYMENT

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

DEFEASANCE

The City reserves the right to defease the Certificates in any manner now or hereafter allowed by law.

REMEDIES OF HOLDERS OF THE CERTIFICATES

The Ordinance does not provide for the appointment of a trustee to represent the interests of the Holders of the Certificates upon any failure of the City to perform in accordance with the terms of the Ordinance or upon any other condition and, in the event of any such failure to perform, the registered owners would be responsible for the initiation and cost of any legal action to enforce performance of the Ordinance. Furthermore, the Ordinance does not establish specific events of default with respect to the Certificates and, under State law, there is no right to the acceleration of maturity of the Certificates upon the failure of the City to observe any covenant under the Ordinance. A registered owner of the Certificates could seek a judgment against the City if a default occurred in the payment of principal of or interest on any such Certificate; however, such judgment could not be satisfied by execution against any property of the City and a suit for monetary damages could be vulnerable to the defense of governmental immunity. A registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the City to levy, assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Certificates

as it becomes due or perform other material terms and covenants contained in the Ordinance. However, the enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis.

The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of governmental immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Chapter 1371, Texas Government Code, which pertains to the issuance of public securities by issuers such as the City, permits the City to waive governmental immunity in the proceedings authorizing the issuance of the Certificates. Notwithstanding its reliance upon the provisions of Chapter 1371 in connection with the issuance of the Certificates, the City has not waived the governmental immunity with respect thereto. Because it is unclear whether the Texas legislature has effectively waived the City's governmental immunity from a suit for money damages outside of Chapter 1371, registered owners may not be able to bring such a suit against the City for breach of the Certificates or covenants in the Ordinance. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates.

In *Tooke*, the Court noted the enactment in 2005 of sections 271.151-160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities in certain circumstances." The Local Government Immunity Waiver Act covers municipalities and relates to contracts entered into by municipalities for providing goods or services to municipalities. The City is not aware of any Texas court construing the Local Government Immunity Waiver Act in the context of whether contractual undertakings by local governments that relate to their borrowing powers are contracts covered by the Local Government Immunity Waiver Act.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) that governmental immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. In *Wasson*, the Court recognized that the distinction between governmental and proprietary functions is not clear. Therefore, in considering municipal breach of contract cases, it is incumbent on the courts to determine whether a function is proprietary or governmental based upon the common law and statutory guidance. Issues related to the applicability of governmental immunity as they relate to the issuance of municipal debt have not been adjudicated. Each situation will be evaluated based on the facts and circumstances surrounding the contract in question.

In its decision, the Court held that since the Local Government Immunity Waiver Act waives governmental immunity in certain breach of contract claims without addressing whether the waiver applies to a governmental function or a proprietary function of a city, the Court could not reasonably read the Local Government Immunity Waiver Act to evidence legislative intent to restrict the waiver of immunity when a city performs a proprietary function. The Court remanded the case so that the appellate court could rule on whether the contract at issue was proprietary or governmental. *Wasson Interests, Ltd. v. City of Jacksonville*, 559 S.W.3d 142 (Tex. 2018). On remand, the appellate court found for the City of Jacksonville by holding the contract claim arose from the City's performance of a governmental function, and thus the claim was barred by immunity. After granting Wasson's petition for review of the appellate decision, the Court held that to determine if the City was engaged in a proprietary or governmental function, the focus of the inquiry is on the nature of the contract at the time of execution, not the nature of the breach at the time of the breach.

The City is also eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Certificate holders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court), and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Certificates are qualified with respect to the customary rights of debtors relative to their creditors, including rights afforded to creditors under the Bankruptcy Code.

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AD VALOREM TAX PROCEDURES

The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. Reference is made to Title 1 of the Texas Tax Code, as amended (the "Property Tax Code"), for identification of property subject to ad valorem taxation, property exempt or which may be exempted from ad valorem taxation if claimed, the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes. See "– 2025 Legislative Session" for information on legislation affecting ad valorem taxation exemptions.

2025 LEGISLATIVE SESSION

The regular session of the 89th Texas Legislature convened on January 14, 2025 and concluded on June 2, 2025 (the "89th Regular Session"). The Texas Legislature (the "Legislature") meets in regular session in odd numbered years for 140 days. When the Legislature is not in session, the Governor may call one or more special sessions, at the Governor's discretion, each lasting no more than 30 days, and for which the Governor sets the agenda.

The Governor has called a special session which began on July 21, 2025. The initial agenda, which may be supplemented at any time, for the special session includes the following items: (i) cutting property taxes and imposing spending limits on entities authorized to impose property taxes, (ii) flood warning systems, (iii) flood emergency communications, (iv) relief funding for Texas Hill Country floods, (v) natural disaster preparation and recovery, (vi) eliminating the STAAR test, (vii) protecting children from THC, (viii) regulating hemp-derived products, (ix) protecting unborn children, (x) banning taxpayer-funded lobbying, (xi) protecting human trafficking victims, (xii) police personnel records, (xiii) protecting sex-segregated spaces, (xiv) attorney general election powers, (xv) congressional redistricting, (xvi) title theft and deed fraud, (xvii) water project incentives for developers, and (xviii) the State judicial department. The Governor has also identified several bills that were vetoed or filed without signature that will be placed on the upcoming special session agenda for further consideration. Additional special sessions may be called by the Governor. The City can make no representations or predictions regarding the ultimate scope of legislation that may be considered in any special session or the potential impact of such legislation at this time. The Governor has indicated that he intends to call an additional special session if the legislature does not pass congressional redistricting.

During the 89th Regular Session, the Legislature adopted a general appropriations act and legislation affecting ad valorem taxation procedures and the procedures of issuing debt affecting cities among other legislation affecting cities. Adopted legislation affecting ad valorem taxation procedures includes legislation that (i) changes the procedure for the adoption of and imposes limits on the amount of an M&O tax increase that may be adopted in response to declared disasters, (ii) makes technical modifications to the tax rate setting process, and (iii) makes intangible personal property exempt from ad valorem taxation. The City is reviewing the impact of the legislation approved during the 89th Regular Session and cannot make any representations regarding the full impact of the legislation approved during the 89th Regular Session at this time.

VALUATION OF TAXABLE PROPERTY

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

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

Effective January 1, 2024, an appraisal district is prohibited from increasing the appraised value of real property during the 2024 tax year on certain non-homestead properties (the "Subjected Property") whose appraised values are not more than \$5,000,000 (the "maximum property value") to an amount not to exceed the lesser of: (1) the market value of the Subjected Property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of: (a) 20 percent of the appraised value of the Subjected Property for the preceding tax year; (b) the appraised value of the Subjected Property for the preceding tax year; and (c) the market value of all new improvements to the Subjected Property. After the 2024 tax year, through December 31, 2026 (unless extended by the Legislature), the maximum property value may be increased or decreased by the product of the preceding state fiscal year's increase or decrease in the consumer price index, as applicable, to the maximum property value. At such time, the value limitation provisions for non-homestead properties will expire unless extended by the State legislature. For the 2025 tax year, the maximum property value was increased to \$5,160,000.

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

The appraisal values set by the Appraisal Districts are subject to review and change by the applicable Appraisal Review Board. The appraisal rolls, as approved by the applicable Appraisal Review Board, are used by taxing units, such as the City, in establishing their tax rolls and tax rates (see "— ISSUER AND TAXPAYER REMEDIES").

STATE MANDATED HOMESTEAD EXEMPTIONS FOR VETERANS

State law grants, with respect to each taxing unit in the State, various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action, and surviving spouses of first responders killed or fatally wounded in the line of duty.

LOCAL OPTION HOMESTEAD EXEMPTIONS

The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the appraised value of all homesteads (but not less than \$5,000) and (2) an additional exemption of the appraised value of the homesteads of persons 65 years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable.

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

LOCAL OPTION FREEZE FOR THE ELDERLY AND DISABLED

The governing body of a county, municipality or junior college district may, at its option, provide for a freeze on the total amount of ad valorem taxes levied on the homesteads of persons 65 years of age or older or of disabled persons above the amount of tax imposed in the year such residence qualified for such exemption. Also, upon voter initiative, an election may be held to determine by majority vote whether to establish such a freeze on ad valorem taxes. Once the freeze is established, the total amount of taxes imposed on such homesteads cannot be increased except for certain improvements, and such freeze cannot be repealed or rescinded. House Bill 9, approved by the 89th Texas Legislature, increases the exemption for tangible personal property used in the "production of income" from the current \$2,500 to \$125,000. This legislation is effective September 1, 2025, but is contingent on the passage of a Constitutional amendment at the November 2025 State-wide Constitutional election.

PERSONAL PROPERTY

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

FREEPORT EXEMPTIONS

Certain goods detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication ("Freeport Property") are exempt from ad valorem taxation unless a taxing unit took official action to tax Freeport Property before April 1, 1990 and has not subsequently taken official action to exempt Freeport Property. Decisions to continue to tax Freeport Property may be reversed in the future; decisions to exempt Freeport Property are not subject to reversal. Certain goods, principally inventory, that are stored for the purposes of assembling, storing, manufacturing, processing or fabricating the goods in a location that is not owned by the owner of the goods and are transferred from that location to another location within 175 days ("Goods-in-Transit"), are exempt from ad valorem taxation unless a taxing unit takes official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax Goods-in-Transit beginning the following tax year. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include special inventories such as motor vehicles or boats in a dealer's retail inventory. A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property.

OTHER EXEMPT PROPERTY

Other major categories of exempt property include property owned by the State or its political subdivisions if used for public purposes, property exempt by federal law, property used for pollution control, farm products owned by producers, property of nonprofit corporations used for scientific research or educational activities benefitting a college or university, designated historic sites, solar and wind-powered energy devices, and certain classes of intangible personal property. Beginning with the 2026 tax year, all intangible personal property is exempt from state taxation.

TEMPORARY EXEMPTION FOR QUALIFIED PROPERTY DAMAGED BY A DISASTER

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

TAX INCREMENT REINVESTMENT ZONES

A city or county, by petition of the landowners or by action of its governing body, may create one or more tax increment reinvestment zones ("TIRZ") within its boundaries, and other overlapping taxing units may agree to contribute taxes levied against the "Incremental Value" in the TIRZ to finance or pay for project costs, as defined in Chapter 311, Texas Government Code, generally located within the TIRZ. At the time of the creation of the TIRZ, a "base value" for the real property in the TIRZ is established and the difference between any increase in the assessed valuation of taxable real property in the TIRZ in excess of the base value is known as the "Incremental Value", and during the existence of the TIRZ, all or a portion of the taxes levied by each participating taxing unit against the Incremental Value in the TIRZ are restricted to paying project and financing costs within or benefitting the TIRZ and are not available for the payment of other obligations of such taxing units. See "- BAYTOWN REINVESTMENT ZONE NUMBER ONE" and "- BAYTOWN REINVESTMENT ZONE NUMBER TWO."

TAX ABATEMENT AGREEMENTS

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

For a discussion of how the various exemptions described above are applied by the City, see "- CITY APPLICATION OF TAX CODE" herein.

ISSUER AND TAXPAYER REMEDIES

Under certain circumstances, the City and its taxpayers may appeal the determinations of the Appraisal Districts by timely initiating a protest with the applicable Appraisal Review Board. Additionally, taxing units such as the City may bring suit against an Appraisal District to compel compliance with the Property Tax Code.

Owners of certain property with a taxable value in excess of the current year "minimum eligibility amount", as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of appraisal district directly to a three-member special panel of the appraisal review board that is appointed by the Chairman of the appraisal review board and consists of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at \$61,349,201 for the 2025 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the City and provides for taxpayer referenda that could result in the repeal of certain tax increases. See "- PUBLIC HEARING AND MAINTENANCE AND OPERATIONS TAX RATE LIMITATIONS." The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

PUBLIC HEARING AND MAINTENANCE AND OPERATIONS TAX RATE LIMITATIONS

The following terms as used in this section have the meanings provided below:

"adjusted" means lost values are not included in the calculation of the prior year's taxes and new values are not included in the current year's taxable values.

"de minimis rate" means the maintenance and operations tax rate that will produce the prior year's total maintenance and operations tax levy (adjusted) from the current year's values (adjusted), plus the rate that produces an additional \$500,000 in tax revenue when applied to the current year's taxable value, plus the debt service tax rate.

"no-new-revenue tax rate" means the combined maintenance and operations tax rate and debt service tax rate that will produce the prior year's total tax levy (adjusted) from the current year's total taxable values (adjusted).

"special taxing unit" means a city for which the maintenance and operations tax rate proposed for the current tax year is 2.5 cents or less per \$100 of taxable value.

"unused increment rate" means the greater of zero and the rate expressed in dollars per \$100 of taxable value calculated by dividing (i) the cumulative difference of the foregone revenue amount, calculated using the difference between a city's voter-approval tax rate and its actual tax rate for each of the preceding three tax years, by (ii) the "current total value" as defined in Section 26.012 of the Property Tax Code, and which may be applied to a city's tax rate when calculating the voter-approval tax rate.

"voter-approval tax rate" means the maintenance and operations tax rate that will produce the prior year's total maintenance and operations tax levy (adjusted) from the current year's values (adjusted) multiplied by 1.035, plus the debt service tax rate, plus the "unused increment rate."

The City's tax rate consists of two components: (1) a rate for funding of maintenance and operations expenditures in the current year (the "maintenance and operations tax rate"), and (2) a rate for funding debt service in the current year (the "debt service tax rate"). Under State law, the assessor for the City must submit an appraisal roll showing the total appraised, assessed, and taxable values of all property in the City to the City Council by August 1 or as soon as practicable thereafter.

A city must annually calculate its "voter-approval tax rate" and "no-new-revenue tax rate" (as such terms are defined above) in accordance with forms prescribed by the State Comptroller and provide notice of such rates to each owner of taxable property within the city and the county tax assessor-collector for each county in which all or part of the city is located. A city must adopt a tax rate before the later of September 30 or the 60th day after receipt of the certified appraisal roll, except that a tax rate that exceeds the voter-approval tax rate must be adopted not later than the 71st day before the next occurring November uniform election date. If a city fails to timely adopt a tax rate, the tax rate is statutorily set as the lower of the no-new-revenue tax rate for the current tax year or the tax rate adopted by the city for the preceding tax year.

As described below, the Property Tax Code provides that if a city adopts a tax rate that exceeds its voter-approval tax rate or, in certain cases, its "de minimis rate", an election must be held to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

A city may not adopt a tax rate that exceeds the lower of the voter-approval tax rate or the no-new-revenue tax rate until each appraisal district in which such city participates has delivered notice to each taxpayer of the estimated total amount of property taxes owed and the city has held a public hearing on the proposed tax increase.

For cities with a population of 30,000 or more as of the most recent federal decennial census, if the adopted tax rate for any tax year exceeds the voter-approval tax rate, that city must conduct an election on the next occurring November uniform election date to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

For cities with a population less than 30,000 as of the most recent federal decennial census, if the adopted tax rate for any tax year exceeds the greater of (i) the voter-approval tax rate or (ii) the de minimis rate, the city must conduct an election on the next occurring November uniform election date to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate. However, for any tax year during which a city has a population of less than 30,000 as of the most recent federal decennial census and does not qualify as a special taxing unit, if a city's adopted tax rate is equal to or less than the de minimis rate but greater than both (a) the no-new-revenue tax rate, multiplied by 1.08, plus the debt service tax rate or (b) the city's voter-approval tax rate, then a valid petition signed by at least three percent of the registered voters in the city would require that an election be held to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

Any city located at least partly within an area declared a disaster area by the Governor of the State or the President of the United States during the current year may calculate its "voter-approval tax rate" using a 1.08 multiplier, instead of 1.035, until the earlier of (i) the second tax year in which such city's total taxable appraised value exceeds the taxable appraised value on January 1 of the year the disaster occurred, or (ii) the third tax year after the tax year in which the disaster occurred.

State law provides cities and counties in the State the option of assessing a maximum one-half percent (1/2%) sales and use tax on retail sales of taxable items for the purpose of reducing its ad valorem taxes, if approved by a majority of the voters in a local option election. If the additional sales and use tax for ad valorem tax reduction is approved and levied, the no-new-revenue tax rate and voter-approval tax rate must be reduced by the amount of the estimated sales tax revenues to be generated in the current tax year.

The calculations of the no-new-revenue tax rate and voter-approval tax rate do not limit or impact the City's ability to set a debt service tax rate in each year sufficient to pay debt service on all of the City's tax-supported debt obligations, including the Certificates. During the 2021 legislative session, the Texas Legislature adopted House Bill 1869. House Bill 1869 treats the ad valorem taxes levied to pay debt service on certain non-voted debt approved after September 1, 2021 as part of the maintenance and operations tax rate calculations. The result is that the tax levied on such non-voted debt will be subject to the maintenance and operations tax limitations described in this section. The Certificates are not subject to the limitations imposed by House Bill 1869.

During the 89th Regular Session, the Legislature adopted Senate Bill 1851 ("SB 1851"), which will become effective in connection with the adoption of an ad valorem tax rate for tax year 2026 and thereafter. Under SB 1851, if the Texas Attorney General determines that a city has (a) not had its records and accounts audited and an annual financial statement prepared based on the audit or (b) failed to file its financial statements and auditor's opinion on such financial statements with the city secretary or city clerk before the 180th day after the city's fiscal year end, the city may not adopt an ad valorem tax rate that exceeds the city's no-new-revenue tax rate for (i) the tax year that begins on or after the date for the Attorney General's determination or (ii) a subsequent tax year that begins before the date the city has had an annual audit completed and financial statements prepared or filed the financial statement and auditor's opinion on such financial statement with the city secretary or city clerk, as applicable.

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

Article VIII of the City Charter limits the City's ad valorem tax rate for maintenance and operations purposes to six-tenths of one percent. Taxes levied to pay principal and interest on tax bonds and other tax-supported debt of the City, such as the Certificates, is not subject to this City Charter limitation.

LEVY AND COLLECTION OF TAXES

The City is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the City. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers. Furthermore, the City may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances. The Property Tax Code permits taxpayers owning homes or certain businesses located in a disaster area and damaged as a direct result of the declared disaster to pay taxes imposed in the year following the disaster in four equal installments without penalty or interest, commencing on February 1 and ending on August 1.

DEBT TAX RATE LIMITATIONS

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax supported debt, within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 of Taxable Assessed Valuation. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all debt service on ad valorem tax-supported debt, as calculated at the time of issuance.

PENALTIES AND INTEREST

As of January 1 of each year, the City has a lien granted by statute for unpaid taxes on real property, which shall be levied for that tax year. In the event a taxpayer fails to make timely payment owing to the City on real property, a penalty of 6% of the unpaid taxes is incurred in the first month of delinquency and 1% is added monthly until July 1 when the penalty becomes 12%. In addition, interest on delinquent taxes accrues at the rate of 1% per month until paid. If an account is delinquent in July, the City may also impose an additional penalty to defray costs of collection by an attorney, not to exceed 20% of the total amount due.

THE CITY'S RIGHTS IN THE EVENT OF TAX DELINQUENCIES

Taxes levied by the City are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all State and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each local taxing unit, including the City, having power to tax the property. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes. At any time after taxes on property become delinquent, the City may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the City must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within two (2) years after the purchaser's deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases, post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

CITY APPLICATION OF TAX CODE

The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$50,000; the disabled are also granted an exemption of \$50,000. On November 11, 2004, the City enacted a tax cap for residential homesteads of citizens over the age of 65 and disabled citizens pursuant to Section 1-b, Article VIII of the Texas Constitution. The City has granted an additional exemption of 20% of the market value of residence homesteads; minimum exemption of \$5,000.

The City does not offer a freeport exemption or a goods-in-transit exemption.

See "TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL CERTIFICATE DEBT" for a listing of the amounts of the exemptions described above.

The City participates in two TIRZs. See "– BAYTOWN REINVESTMENT ZONE NUMBER ONE" and "– BAYTOWN REINVESTMENT ZONE NUMBER TWO."

The City has created three Industrial Districts (hereinafter defined) and has entered into contracts with the industries located in the Industrial Districts. The City receives payments from each industry located in the Industrial Districts in lieu of ad valorem taxes. See "TABLE 5 - INDUSTRIAL DISTRICT CONTRACTS" for a listing of the Industrial Districts and revenues from the Industrial District contracts described above.

TAX ABATEMENT POLICY

The City has established a tax abatement program to encourage economic development. To be considered for tax abatement, a project must meet several criteria pertaining to job creation and property value enhancement and promote development. Abatements are granted effective on the January 1 valuation date immediately following the date of execution of the agreement. The guidelines provide criteria for eligibility, abatement schedules, and the application process.

The City Council approved the following revisions to the policy on June 12, 2025.

To be eligible, a project must meet specific economic criteria:

- A minimum investment of \$7,500,000 is required.
- The project must either retain or create at least five jobs. Up to 50% of these jobs can be remote or contract workers if they are physically tied to the Baytown facility.
- The improvement must be expected to increase the appraised value of the property by at least \$7,500,000 after the abatement period ends.
- The project must have no serious negative effect on the jurisdictions and must not primarily transfer employment from one part of the City to another.

The City offers three different abatement structures based on the project's valuation and estimated job creation:

Standard Five-Year Abatement: For a minimum investment of \$7,500,000, the abatement schedule is:

- Year 1: 100%
- Year 2: 80%
- Year 3: 70%
- Year 4: 60%
- Year 5: 50%
- Year 6: 0%

Seven-Year Abatement: For projects exceeding \$15,000,000 and creating more than 25 employees, the abatement percentages are higher and extend for a longer period.

Ten-Year Abatement: For projects over \$50,000,000 and creating more than 75 employees, the abatement schedule is extended to ten years, with 100% abatement in the first two years.

The City currently has four active tax abatement agreement within the city limits, which were approved prior to the new tax abatement guidelines and criteria.

- Emperor Cryo, LLC estimated value 11 million
- Robin Monomers, LLC estimated value 108 million
- Port 10 Logistics LLC estimated value 14.5 million
- Port 10 Intermodal LLC estimated value 24 million

BAYTOWN REINVESTMENT ZONE NUMBER ONE

The City of Baytown, Texas, established Tax Increment Reinvestment Zone Number One ("TIRZ No. 1") to promote the development and redevelopment of a specific area within its city limits and extraterritorial jurisdiction. TIRZ No. 1 aims to facilitate development by financing public infrastructure, amenities, improvements, and other projects that benefit the area. TIRZ No. 1's Project and Financing Plan (PFP) outlines the proposed use of ad valorem taxes for improvements in the reinvestment zone. The proposed improvements in TIRZ No. 1 are expected to significantly enhance the value of all the taxable real property in TIRZ No. 1 and will be of general benefit to the City. The Board of Directors for TIRZ No. 1 consists of nine members, eight appointed by the City and one appointed by Harris County. Goose Creek Consolidated Independent School District and Lee College are not participating taxing entities in TIRZ No. 1.

TIRZ No. 1 was originally created on August 9, 2001, and is set to terminate on December 31, 2044.

Since its inception in 2001, TIRZ No. 1 has undergone multiple amendments and boundary enlargements to support various development projects.

TIRZ No. 1 was initially established with an area of approximately 350 acres to finance public facilities and infrastructure needed for commercial and residential growth.

TIRZ No. 1 boundaries were expanded over the years to include additional properties, such as a 45-acre tract adjacent to John Martin Road in 2004, a chemical plant property east of Sjolander Road in 2012, and an 833-acre tract in 2020. The most recent amendment, the Eighth Amended Project Plan, added approximately 125.28 acres, which is the former San Jacinto Mall area, into TIRZ No. 1.

The funding for the projects comes from a portion of the ad valorem tax increment generated by the new development in the zone. These funds are deposited into a dedicated tax increment fund. The City contributes 100% of its incremental tax revenue from properties within TIRZ No. 1, with the exception of a 60% contribution from property in the 2017 Annexation located in Chambers County.

Harris County contributes 75% of its incremental tax revenue, with a cap of \$40,100,000 for specific projects and not to exceed \$0.30 per \$100 of assessed value. The City is seeking to extend Harris County's participation through 2044. If Harris County does not extend, participation will expire December 31, 2030.

Chambers County contributed 60% of its incremental tax revenue from the property in the 2017 Annexation, with an allocation cap of \$4,000,000 for Kilgore Parkway improvements. Chambers County's participation will last until the project costs are paid, the property is annexed into the city, or the term expires in 2044.

The plan projects that the total development, including the 2023 Annexation, will generate approximately \$206,475,888 in incremental real property taxes during the term of TIRZ No. 1. This is estimated to result in a total TIRZ contribution of \$186,645,244 towards project costs, with \$19,830,643 in excess incremental revenues retained by the jurisdictions.

Based on records available to the City, as of June 2025, the TIRZ No. 1 had the following certified values:

- Certified Value: \$507,025,569
- Certified Taxable Value: \$448,891,897
- Base Value for Zone: \$63,528,367
- Increment Value: \$385,363,530
- City Total Tax Increment Levy: \$2,699,163.24
- Collection Rate: 96.4%

BAYTOWN REINVESTMENT ZONE NUMBER TWO

Baytown Reinvestment Zone Number Two ("TIRZ No. 2") was established by the City Council in ordinance number 15,635 on December 14, 2023. The purpose of TIRZ No. 2 is to promote development in the southern portion of the City and on Bayland Island. TIRZ No. 2 contains approximately 3,925 acres. To date, TIRZ No. 2 has not generated an increment levy.

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HISTORIC COLLECTIONS

	Tax
	Increment
Tax Year	Collections ⁽¹⁾
2020	\$ 2,343,886
2021	2,320,868
2022	2,324,842
2023	2,458,219
2024	2,404,503

(1) Tax Increment Collections represents the City's portion of the TIRZ revenues.

PUBLIC IMPROVEMENT DISTRICTS

The City is currently engaged with several developers regarding new residential and commercial development in the City. In connection with such development the City has or will create one or more public improvement districts (PIDs) in order to facilitate the construction and financing of public infrastructure. It is expected that the City will issue PID bonds secured by special assessments on the property within such PIDs in order to finance such public infrastructure. The timing of the development and the issuance of assessment bonds will depend on a number of factors outside of the City's control.

CHAPTER 380 ECONOMIC DEVELOPMENT AGREEMENTS

Chapter 380 of the Texas Local Government Code authorizes the City to establish programs to promote state or local economic development and to stimulate commercial activity in the City. In connection with such programs, the City has entered into agreements that provide property owners with incentive payments based on incremental growth in property values and/or sales tax receipts, as well as certain sales tax abatement agreements. See "APPENDIX B – EXCERPTS FROM THE CITY'S ANNUAL FINANCIAL REPORT – IV OTHER INFORMATION – Note F. Tax Abatements - Chapter 380 Economic Development Agreements".

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TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

Fiscal Year 2025 (Tax Year 2024) Market Valuation Established by Harris Central Appraisal District and Chambers County Appraisal District		\$ 7,505,184,997
Less Exemptions/Reductions at 100% Market Value:		
Less \$500 Income Real Property	\$	344,195
Homestead Cap Loss		51,482,253
Circuit Breaker Limitation		2,969,790
Disabled		59,072,972
Disabled Veteran		32,557,605
Sole Proprietorship Vehicle		8,896,525
Abatement		48,121,755
Homestead Exemption		519,150,873
Local Discount		53,373,420
Over 65		483,954,914
Pollution Control		8,680,506
Solar/Wind		3,640,500
Agricultural Deferral		956,420
Disaster		202,725
Real Exempt		2,726,821
2025 Taxable Assessed Valuation		<u>1,276,131,274</u> <u>6,229,053,723</u> ⁽¹⁾
Fiscal Year 2026 (Tax Year 2025) Estimated Net Taxable Valuation Established by Harris Central Appraisal District and Chambers County Appraisal District		\$ 6,858,910,885 ⁽²⁾
Debt Payable from Ad Valorem Taxes (as of June 1, 2025)		
General Obligation Bonds	\$	53,790,000
Combination Tax and Revenue Certificates of Obligation		146,100,000
The Certificates		<u>80,500,000</u> ⁽³⁾
Funded Debt Payable from Ad Valorem Taxes		\$ 280,390,000
Less: Self-Supporting Debt (as of June 1, 2025) ⁽⁴⁾		
Water and Sewer System General Obligation Debt	\$	122,047,014 ⁽⁵⁾
Municipal Development District General Obligation Debt		5,752,764
Tax Increment Reinvestment Zone General Obligation Debt		17,775,000
Aquatics General Obligation Debt		542,036
Fire Control Prevention and Emergency Services District General Obligation Debt		2,180,000
Stormwater		<u>15,280,000</u>
Net Funded Debt Payable from Ad Valorem Taxes		\$ 116,813,187
Interest and Sinking Fund (as of 09/30/2024)		\$ 811,532
Ratio Total Funded Debt to Fiscal Year 2025 Taxable Assessed Valuation		4.50%
Ratio Total Funded Debt to Estimated Fiscal Year 2026 Taxable Assessed Valuation		4.09%
Ratio Net Funded Debt to Fiscal Year 2025 Taxable Assessed Valuation		1.88%
Ratio Net Funded Debt to Estimated Fiscal Year 2026 Taxable Assessed Valuation		1.70%

Estimated 2025 Population - 85,627
Per Capita Taxable Assessed Valuation - \$72,746
Per Capita Total Funded Debt - \$3,275
Per Capita Net Funded Debt - \$1,364

- (1) Does not include assessed valuation for property under an IDA or covered by a Chapter 212 Agreement. See "TABLE 5 – INDUSTRIAL DISTRICT CONTRACTS" for revenues from the IDAs and Chapter 212 Agreements.
- (2) For tax year 2025 (fiscal year 2026), the City has received certified net taxable assessed values from Chambers County Appraisal District in the amount of \$524,685,243 and a certified estimate of net taxable assessed values from Harris Central Appraisal District in the amount of \$6,334,225,642. The aggregate estimated net taxable value for the City for tax year 2025 (fiscal year 2026) from the Appraisal Districts is \$6,858,910,885. The certified estimate of net taxable assessed values from the Harris Central Appraisal District is subject to revision, which may be downward, until certified.
- (3) Preliminary, subject to change.
- (4) General obligation debt for which repayment is provided from revenues of other revenue systems and sources. It is the City's current policy to pay such self-supporting debt from such revenue sources. Such policy is subject to change in the future. In the event the City changes this policy or such revenues are not sufficient to pay debt service on such obligations, the City will be required to levy an ad valorem tax to pay such debt service. See "TABLE 11 – COMPUTATION OF SELF-SUPPORTING DEBT".
- (5) Includes a portion of the Certificates. Preliminary, subject to change.

TABLE 2 – TAXABLE ASSESSED VALUATIONS BY CATEGORY

Category	Taxable Assessed Value, Fiscal Year Ending September 30,					
	2025		2024		2023	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 3,961,230,246	52.78%	\$ 4,091,362,534	58.62%	\$ 3,472,899,830	49.76%
Real, Residential, Multi-Family	631,771,644	8.42%	821,957,472	11.78%	736,656,960	10.55%
Real, Vacant Lots/Tracts	193,623,968	2.58%	208,601,466	2.99%	196,396,655	2.81%
Real, Acreage (Land Only)	50,602,964	0.67%	121,118,372	1.74%	61,671,211	0.88%
Real, Farm & Ranch Improvements	22,969,033	0.31%	23,405,176	0.34%	79,244,208	1.14%
Real, Commercial	1,592,916,608	21.22%	1,411,247,721	20.22%	1,510,276,240	21.64%
Real, Industrial	244,043,288	3.25%	220,848,158	3.16%	195,783,138	2.81%
Real, Oil, Gas & Other Mineral Reserves	-	0.00%	9,410,750	0.13%	6,347,926	0.09%
Real and Tangible Personal, Utilities	203,987,667	2.72%	158,057,584	2.26%	139,793,151	2.00%
Tangible Personal, Commercial	312,523,098	4.16%	250,299,004	3.59%	423,269,083	6.06%
Tangible Personal, Industrial	217,568,740	2.90%	102,349,565	1.47%	85,312,598	1.22%
Tangible Personal, Mobile Home	25,705,225	0.34%	25,585,227	0.37%	18,449,161	0.26%
Real Property Inventory	6,235,081	0.08%	3,821,390	0.05%	12,305,500	0.18%
Special Inventory	42,007,435	0.56%	41,866,997	0.60%	41,023,432	0.59%
Total Appraised Value Before Exemptions	\$ 7,505,184,997	100.00%	\$ 7,489,931,416	107.31%	\$ 6,979,429,093	100.00%
Adjustments	-		-		2,170,884	
Less: Total Exemptions/Reductions	(1,276,131,274)		(1,098,538,124)		(974,945,364)	
Taxable Assessed Value	<u>\$ 6,229,053,723</u> ⁽¹⁾⁽²⁾		<u>\$ 6,391,393,292</u>		<u>\$ 6,006,654,613</u>	

Category	Taxable Assessed Value, Fiscal Year Ending September 30,			
	2022		2021	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 2,991,203,750	49.54%	\$ 2,775,260,218	48.94%
Real, Residential, Multi-Family	684,064,264	11.33%	662,296,967	11.68%
Real, Vacant Lots/Tracts	158,998,378	2.63%	161,451,737	2.85%
Real, Acreage (Land Only)	40,352,798	0.67%	41,188,206	0.73%
Real, Farm & Ranch Improvements	10,125,662	0.17%	14,349,424	0.25%
Real, Commercial	1,315,780,021	21.79%	1,226,670,440	21.63%
Real, Industrial	194,332,682	3.22%	188,498,381	3.32%
Real, Oil, Gas & Other Mineral Reserves	4,048,919	0.07%	3,650,290	0.06%
Real and Tangible Personal, Utilities	143,293,850	2.37%	130,230,713	2.30%
Tangible Personal, Commercial	334,662,980	5.54%	321,598,615	5.67%
Tangible Personal, Industrial	91,028,282	1.51%	80,780,098	1.42%
Tangible Personal, Mobile Home	17,621,844	0.29%	15,803,345	0.28%
Real Property Inventory	17,855,114	0.30%	14,888,716	0.26%
Special Inventory	35,150,570	0.58%	34,238,582	0.60%
Total Appraised Value Before Exemptions	\$ 6,038,519,114	100.00%	\$ 5,670,905,732	100.00%
Adjustments	-		-	
Less: Total Exemptions/Reductions	(826,832,333)		(808,107,711)	
Taxable Assessed Value	<u>\$ 5,211,686,781</u>		<u>\$ 4,862,798,021</u>	

(1) For tax year 2025 (fiscal year 2026), the City has received certified net taxable assessed values from Chambers County Appraisal District in the amount of \$524,685,243 and a certified estimate of net taxable assessed values from Harris Central Appraisal District in the amount of \$6,334,225,642. The aggregate estimated net taxable value for the City for tax year 2025 (fiscal year 2026) from the Appraisal Districts is \$6,858,910,885. The certified estimate of net taxable assessed values from the Harris Central Appraisal District is subject to revision, which may be downward, until certified.

(2) Does not include assessed valuation for property under an IDA or covered by a Chapter 212 Agreement. See "TABLE 5 – INDUSTRIAL DISTRICT CONTRACTS" for revenues from the IDAs and Chapter 212 Agreements.

NOTE: Valuations shown are certified taxable assessed values reported by the Harris Central Appraisal District and Chambers County Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change over time as contested values are resolved and the Appraisal District updates records.

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TABLE 3 – VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	G.O. Tax Debt Outstanding at End of Fiscal Year ⁽³⁾	Ratio of G.O. Tax Debt to Taxable Assessed Valuation ⁽³⁾	G.O. Tax Debt Per Capita ⁽³⁾
2021	94,081	\$ 4,862,798,021	\$ 51,687	\$ 102,901,503	2.12%	\$ 1,094
2022	84,324	5,211,686,781	60,940	90,663,000	1.74%	1,075
2023	83,902	6,006,654,613	71,591	103,106,200	1.72%	1,229
2024	85,083	6,391,393,292	75,120	105,655,992	1.65%	1,242
2025	85,627	6,229,053,723 ⁽⁴⁾	72,746	116,813,187 ⁽⁵⁾	1.88% ⁽⁵⁾	1,364 ⁽⁵⁾

- (1) Source: The City. For the fiscal year ended September 30, 2021, the reported population estimate includes the City's extraterritorial jurisdiction. For the fiscal years ended September 30, 2022 through 2025 the estimate includes only the population within the City limits.
- (2) Certified Values as reported by the Chambers County Appraisal District and Harris Central Appraisal District. Values are subject to change throughout the year.
- (3) Net of self-supporting debt. See "TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT" and the accompanying footnotes; and "TABLE 11 – COMPUTATION OF SELF-SUPPORTING DEBT."
- (4) For tax year 2025 (fiscal year 2026), the City has received certified net taxable assessed values from Chambers County Appraisal District in the amount of \$589,000,332 and a certified estimate of net taxable assessed values from Harris Central Appraisal District in the amount of \$6,479,157,110. The aggregate estimated net taxable value for the City for tax year 2025 (fiscal year 2026) from the Appraisal Districts is \$7,068,157,442. The certified estimate of net taxable assessed values from the Harris Central Appraisal District is subject to revision, which may be downward, until certified.
- (5) Projected, does not include self-supporting debt. Preliminary, subject to change.

TABLE 4 – TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	General Fund	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2021	\$ 0.79515	\$ 0.48400	\$ 0.31115	\$ 37,433,434	97.29%	99.30%
2022	0.78500	0.48931	0.29569	39,195,452	96.97%	98.46%
2023	0.75000	0.48312	0.26688	42,976,069	96.18%	99.09%
2024	0.72000	0.45905	0.26095	46,599,082	97.36%	98.31%
2025	0.70042	0.43689	0.26353	46,718,241	96.18% ⁽¹⁾	96.77% ⁽¹⁾

- (1) Collections as of June 30, 2025.

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TABLE 5 – INDUSTRIAL DISTRICT CONTRACTS

The City has created within its extraterritorial jurisdiction, but outside of the City limits, three industrial districts ("Industrial Districts") and has entered into industrial district agreements ("IDAs") with the companies listed below within such Industrial Districts. The IDAs specify payments to be made to the City in lieu of ad valorem taxes and provide a limited immunity from annexation during the term of the agreement, not to exceed fifteen years. Payments for IDAs are collected in arrears. This means that payments for calendar year 2024 are collected in calendar year 2025. As a result of the timing of payments under the IDAs, the City is currently negotiating renewals of IDAs that expired in 2024, with a goal of concluding renewal negotiations in the fall of 2025. The City has annexed a portion of each company located within the Industrial Districts and has entered into contracts with each such company. In addition to the IDAs, the City has also entered into agreements with certain entities under Chapter 212 of the Texas Local Government Code ("Chapter 212 Agreements"). See "- LOCAL GOVERNMENT CODE CHAPTER 212 AGREEMENTS," below for additional information regarding the City's Chapter 212 Agreements.

Under the City's current IDA structure, payments by IDA participants are generally calculated as follows:

$$\begin{array}{ccccccc} \text{Agreed Base Value of Property} & & & \text{City} & & & \\ \text{within the Industrial District}^{(1)} & \times & \text{Property Tax} & \times & \text{Rate}^{(2)} & & 0.66\% \end{array}$$

⁽¹⁾ The Agreed Base Value of Property within the Industrial District is based on an estimated value of the property and expected capital investment during the term of the Agreement.

⁽²⁾ The City's Tax Rate per \$100 of assessed valuation is currently \$0.70042.

For companies engaged in warehousing and/or logistics operations, the IDA payment calculation has an additional component, which captures half the value of situs inventory and business personal property of occupants each year of the IDA (contracts including such payments are identified in the table of contracts below).

<u>Industrial District I</u>	<u>Agreement Expiration</u>
Monument Chemical LLC	12/31/2025
Air Products, LLC	12/31/2025
Eco Services Operations, LLC (formerly Solvay USA, Rhodia, Inc.)	12/31/2038
<u>Industrial District II</u>	<u>Agreement Expiration</u>
CenterPoint Energy Jordan Substation	12/31/2027
Chemicals Incorporated	12/31/2026
Chevron Phillips Chemical Company LP	12/31/2035
Energy Transfer GC NGL Fractionators, LLC (#5)	12/31/2038
Energy Transfer GC NGL Fractionators, LLC (#6)	12/31/2025
Energy Transfer GC NGL Fractionators, LLC (#7)	12/31/2026
Energy Transfer GC NGL Fractionators, LLC (#8)	12/31/2026
Energy Transfer GC NGL Fractionators, LLC	12/31/2026
Heritage - Crystal Clean, LLC	12/31/2027
Praxair, Inc.	12/31/2026

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Industrial District III**Agreement Expiration**

4000 Cedar Blvd, LLC	12/31/2028
Air Products	12/31/2029
Americold Realty Estate, LLC	12/31/2038
Ameriport Building 1, LLC	12/31/2025
Ameriport Building 2, LLC	12/31/2024 ⁽¹⁾
Ameriport Building 3, LLC	12/31/2027
Ameriport Building 4, LLC	12/31/2029
Ameriport Building 5, LLC	12/31/2038
Ameriport Building 6, LLC	12/31/2038
Ameriport Building 7, LLC	12/31/2025
Ameriport Building 8, LLC	12/31/2025
Ameriport Building 9, LLC	12/31/2026
Ameriport Building 10, LLC	12/31/2026
Ameriport Building 11, LLC	12/31/2025
Ameriport Building 12, LLC	12/31/2026
Ameriport Building 14, LLC	12/31/2029
Ameriport Building 19, LLC	12/31/2038
AX PBJ, LP	10/31/2026
Baytown Energy Center, L.P.	12/31/2027
Baytown Grand Parkway	12/31/2038
BGFP Houston Industrial, LLC	12/31/2038
Blue Tide Environmental Baytown, LLC	12/31/2038
Borusan Mannesmann Pipe U.S., Inc.	12/31/2026
Borusan Mannesmann Pipe U.S.	12/31/2038
Cedar Crossing Investors, LLC	10/31/2026
Centerpoint Cedar Crossing, LLC (EXEL)	12/31/2026
CenterPoint Energy Houston Electric, LLC	12/31/2025
Chambers County Logistics Terminal, L.P.	12/31/2027
Chambers County Logistics Terminal, L.P. (3 Warehouses)	12/31/2029
Chambers County Logistics Terminal, L.P., CLT #3	12/31/2026
Chambers County Logistics Terminal, L.P. Bldg. #4	12/31/2038
Chambers County Logistics Terminal, L.P. Bldg. #8	12/31/2024 ⁽¹⁾
Chambers County Logistics Terminal, L.P.	12/31/2038
Covestro, LLC	12/31/2026
Cryogenic Vessel Alternatives, Inc.	12/31/2024 ⁽¹⁾
Duna USA, Inc.	12/31/2025
Energy Transfer GC NGL Fractionators, LLC (#4)	12/31/2029
Exeter 5335 Cedar Point, L.P.	12/31/2027
Family WTS, LLC	10/31/2026
FlexSteel Pipeline Technologies, Inc.	12/31/2027
Floor and Décor Outlets of America, Inc.	12/31/2027
Fromus LLC	12/31/2027
Hexion, Inc.	12/31/2024 ⁽¹⁾
HMT, LLC	12/31/2025
Home Depot U.S.A., Inc.	12/31/2028 ⁽²⁾
Hunt Southwest - Cedar Port I, LLC	12/31/2027
Hunting Energy Services, Inc.	12/31/2024 ⁽¹⁾
John Cockerill Hydrogen, LLC	12/31/2038
JR Intermodal Resources	12/31/2024 ⁽¹⁾
JSW Steel (USA), Inc.	12/31/2028 ⁽³⁾
LANXESS Corporation	12/31/2026
LS Energy Properties/LS Energy Fabrication	12/31/2024 ⁽¹⁾

(1) The City is in the process of renewing these IDAs.

(2) Logistical agreement includes additional percentage of the value of inventory and business personal property.

(3) The City has annexed the property covered by this agreement into the City, but the City is pursuing a new IDA.

National Oilwell Varco	12/31/2038
Niagra Bottling, LLC	12/31/2027
NNN OPP IV Owner II, LLC	12/31/2027
NRG Cedar Bayou Dev Co. & Odyssey Energy Cedar Bayou 4, LLC	12/31/2027
NRG Texas Power, LLC	12/31/2070
NRG Texas Power, LP	12/31/2025
NSN Properties LLC	12/31/2025
P9 Kilgore Grand Parkway Propco, LP	12/31/2038
Plastics Express	12/31/2027
Pure Salt Baytown, LLC	12/31/2025
Rail Logix Ameriport, LLC	12/31/2024 ⁽¹⁾
Ravago Americas, LLC	12/31/2038
Rubialas Consulting, Inc.	12/31/2024 ⁽¹⁾
Samson Controls, Inc.	12/31/2038
Samson Controls, Inc. & Samson Products, Inc.	12/31/2027
SBR Cedar Port 2 Owner, LP	12/31/2038
Security Truck Services	12/31/2026
Suez WTS Services USA	12/31/2028 ⁽²⁾
Sumika Semiconductors Texas Inc	12/31/2040
Sumner Baytown Buildings LLC	12/31/2025
Syntech Cedar Point	12/31/2025
Taylor - Warton America	12/31/2025
Tenaris Bay City, Inc.	12/31/2027
Texas Material Group	12/31/2038
TGS Cedar Port Partners, L.P.	12/31/2027
TGS Cedar Port 4407 Grand Parkway	12/31/2038
TGS Cedar Port 6363	12/31/2038
TGS Cedar Port 6944 Nita Way	12/31/2038
TGS Cedar Port 7505 Fisher Road	12/31/2038
TGS Cedar Port 7575 Sutton Road	12/31/2038
Tinca Material Texas LLC	12/31/2046
Trinity Bay Equipment Holdings, LLC	12/31/2028 ⁽³⁾
United Salt Baytown, LLC	12/31/2027
Vinmar Properties, Ltd.	12/31/2024 ⁽¹⁾
Wal-Mart Stores East, Inc.	12/31/2024 ⁽¹⁾⁽⁴⁾
West Texas Drum Company LTD	12/31/2025
WPT 4762 Borusan Road, LP	12/31/2038
WPT 4830 Borusan Road, LP	12/31/2038

(1) The City is in the process of renewing these IDAs.

(2) Logistical agreement includes additional percentage of the value of inventory and business personal property.

(3) The City has annexed the property covered by this agreement into the City, but the City is pursuing a new IDA.

(4) Due to the increase in the value of the subject property since the execution of its initial IDA, the City is in the process of negotiating a 45-year Chapter 212 Agreement with Wal-Mart Stores East, Inc., the term of which would begin in tax year 2025.

Revenue from the IDAs is summarized and compared to ad valorem taxation in the following table:

Fiscal year Ended 9/30	Receipts from Industrial District Agreements ⁽¹⁾	Ad Valorem Tax Comparisons		% of Actual	
		Equivalent Tax Year	Tax Rate Equivalent	Tax Levy	Tax Levy
2021	\$ 65,470,755	2020	\$ 1.346	174.90%	\$ 37,433,434
2022	66,118,684	2021	1.269	168.69%	39,195,452
2023	67,030,403	2022	1.236	155.97%	42,976,069
2024	65,858,168	2023	1.030	141.33%	46,599,082
2025	68,102,350	2024	1.093	145.77%	46,718,241 ⁽²⁾

(1) Includes amounts received by the City under IDAs and Chapter 212 Agreements. See "- Local Government Code Chapter 212 Agreements," below.

(2) Information as of July 29, 2025, based on information provided by the City.

LOCAL GOVERNMENT CODE CHAPTER 212 AGREEMENTS

Effective as of September 24, 2019, the City entered into an agreement (the "Enterprise 212 Agreement") with Enterprise Products Operating, LLC ("Enterprise") pursuant to Chapter 212 of the Texas Local Government Code. The agreement guarantees the extraterritorial status of the land subject to the Enterprise 212 Agreement in exchange for certain payments to be made by Enterprise during the 35 year term of the Enterprise 212 Agreement. The existing IDAs between the City and Enterprise were terminated with the implementation of the Enterprise 212 Agreement, but the City does not anticipate a reduction in the amount of revenue it would have received from Enterprise on the parcels previously subject to IDAs. Starting in calendar year 2020 the City began receiving annual contractual payments in lieu of taxation for the term of the Enterprise 212 Agreement. Such payments are based on the assessed value of the land and improvements that are subject to the Enterprise 212 Agreement. In the calendar years 2020 through 2028 an adjustment will be made to the amount of the annual contractual payments to adjust for an initial \$66 million in payments received by the City from Enterprise in calendar years 2019 and 2020. Thereafter the annual contractual payments will continue to be made without adjustment. The value of the annual contractual payments under the Enterprise 212 Agreement will depend upon the type and pace of development undertaken by Enterprise. In the fiscal year ended September 30, 2025, the total payments under this agreement amount to approximately \$10,038,573.24. See "TABLE 5 – INDUSTRIAL DISTRICT CONTRACTS" for information related to the City's IDAs.

In December 2022, the City approved a Chapter 212 Agreement with ExxonMobil (the "Exxon 212 Agreement") beginning January 1, 2023 and extending through December 31, 2057. As part of the Exxon 212 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. Additionally, ExxonMobil is obligated to make annual base payments under the Exxon 212 Agreement in the annual amount of \$20,500,000 through 2057. The Exxon 212 Agreement provides for an increase in payments for certain added value beginning in 2027 if such added value materializes. The City will not annex the property through calendar year 2057 and in exchange will receive annual contractual payments as defined in the Agreement.

The City has recently approved two additional Chapter 212 Agreements, which are outlined below. The Chapter 212 Agreements are associated with new development and are intended to facilitate growth that may not otherwise occur. As these are agreements associated with new development, they will result in additional revenue to the City. Chapter 212 Agreements are generally reserved for new large-scale projects when the value of the property in the new development will exceed \$250 million in taxable value.

Effective June 25, 2025, the City entered into a Chapter 212 agreement (the "NRG Texas 212 Agreement") with NRG Texas Power LLC ("NRG Texas"). In return for certain payments from NRG Texas, the NRG Texas 212 Agreement guarantees that the land subject to the NRG Texas 212 Agreement (the "NRG Land") will not be annexed by the City through December 31, 2070, unless the NRG Texas 212 Agreement is earlier terminated pursuant to its terms. As part of the NRG Texas 212 Agreement, NRG Texas will make a one-time payment of \$2,300,000 for tax year 2025 by December 31, 2025. For tax years 2036 through 2070, NRG Texas will annually submit an industrial district payment to the City equal to the greater of (i) \$2,300,000 or (ii) an amount equal to the taxable value of the NRG Land for such tax year multiplied by the effective tax rate for such tax year multiplied by the applicable payment rate of 0.66 (as described in the NRG Texas 212 Agreement). NRG Texas is required to maintain a minimum taxable value of the NRG Land of at least \$516,369,000 during the term of the NRG Texas 212 Agreement. Under no circumstances shall the industrial district payment made under the NRG Texas 212 Agreement in a tax year exceed the taxable value for such tax year multiplied by the effective tax rate.

On February 8, 2024, the City approved a Chapter 212 Agreement (the "Tinci 212 Agreement") with Tinci Materials Texas LLC ("Tinci"). In return for certain payments from Tinci, the Tinci 212 Agreement guarantees that the land subject to the Tinci 212 Agreement (the "Tinci Land") will not be annexed by the City through December 31, 2046, unless the Tinci 212 Agreement is earlier terminated pursuant to its terms. For each tax year during the term of the Tinci 212 Agreement, beginning in tax year 2027, Tinci agrees to make an annual payment equal to the taxable value of the Tinci Land multiplied by the tax rate for such tax year multiplied by the payment rates established under the terms of the Tinci 212 Agreement. The payment rates range from 0% to 73.5% over the term of the Tinci 212 Agreement.

EFFECT OF REDUCTIONS IN THE CITY'S TAX RATE ON IDA REVENUES AND PROPOSED UPDATES TO IDA AGREEMENT POLICIES

A significant portion of the City's revenues is derived from IDAs and Chapter 212 Agreements. See "TABLE 13 – GENERAL FUND REVENUES AND EXPENDITURES HISTORY" for a summary of the City's sources of revenues. The City's property tax rate is a critical component in the calculation of the payments due to the City under the IDAs. As a result, reductions in the City's property tax rate negatively affect the amount of revenues produced by the IDAs. Over the past few years, the City has experienced a series of reductions in its property tax rate. These reductions have been precipitated by a change in State law that has placed downward pressure on property tax rates and a focus by City Council on reducing the maintenance and operations tax rate. See "TABLE 4 – TAX RATE, LEVY AND COLLECTION HISTORY" and "AD VALOREM TAX PROCEDURE – PUBLIC HEARING AND MAINTENANCE AND OPERATIONS TAX RATE LIMITATIONS." Notwithstanding continued growth in assessed valuations within the industrial districts, the reductions in the City's tax rate have led to a flattening or reduction of the total revenues produced from the City's IDAs and Chapter 212 Agreements. If assessed valuation growth within the industrial districts were to cease or grow at a slower rate, the City could experience material reductions in such revenues.

The City recently revised the City's IDA Agreement Policy, to become effective June 26, 2026. Under the new policy, the base value for payment calculations is defined as the fair market value of all land and tangible property—real, personal, or mixed—within the Industrial District, as determined by the applicable county appraisal district. The Added Value Industrial District Payment Rate, which previously allowed for an additional discount, was removed to prevent businesses from receiving reductions solely based on increased property valuations rather than new investment. To further incentivize significant investment, the revised policy allows the City Council to consider entering into a Chapter 212 Agreement for planned improvements exceeding \$250 million. Additionally, language was added requiring any company with an executed IDA to voluntarily petition for annexation and enter into a comparable economic development or City service agreement should legislative changes restrict the City's authority to create industrial districts under Chapter 42 of the Texas Local Government Code. While the payment rate remains at 66% of the City's ad valorem tax rate, the situs inventory value is no longer subject to an additional 50% discount and is now calculated using the same formula: $\text{City Tax Rate} \times 0.66 \times \text{Situs Inventory Value} / 100$. As a result, the City anticipates increased revenue related to inventory valuation in future renewals and new agreements.

To promote additional investment and expansion of facilities, a tiered discount structure was also introduced for qualifying investments: a 15% discount for added value between \$10 million and \$50 million, a 20% discount for \$50 million to \$100 million, and a discretionary discount for investments exceeding \$100 million.

TABLE 6 – TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2024/25 Assessed Valuation	% of Total Taxable Assessed Valuation
Centerpoint Energy	Utility	\$ 101,674,687	1.63%
Raven Butene-1 LLC	Oil and Gas	89,167,415	1.43%
Jindal Saw USA LLC	Manufacturer	73,903,039	1.19%
Passco Sapphire Bay Dist.	Investments	58,282,016	0.94%
ExxonMobil Corp	Oil and Gas	49,748,453	0.80%
619 Rollingbrook Street LP	Investments	44,373,830	0.71%
Eastpoint Baytown Owner LLC	Investments	43,560,756	0.70%
Abby Baytown LP	Assisted Living	43,432,784	0.70%
Port 10 Logistics LLC	Transportation	42,225,729	0.68%
HEB Grocery Co LP	Grocer	38,378,253	0.62%
		<u>\$ 584,746,962</u>	<u>9.39%</u>

Source: Chambers County and Harris Central Appraisal Districts.

TABLE 7 – TAX ADEQUACY

2025 Principal and Interest Requirements on Net Funded Debt	\$ 14,378,924 ⁽¹⁾
\$0.2356 Tax Rate at 98% Collection Produces	\$ 14,382,138
Average Annual Principal and Interest Requirements on Net Funded Debt, 2025 - 2050	\$ 6,586,564 ⁽¹⁾
\$0.1079 Tax Rate at 98% Collection Produces	\$ 6,586,726
Maximum Annual Principal and Interest Requirements on Net Funded Debt, 2026	\$ 17,127,924 ⁽¹⁾
\$0.2806 Tax Rate at 98% Collection Produces	\$ 17,129,150

(1) Net of self-supporting debt; includes a portion of the Certificates. Preliminary, subject to change. See "Table 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT" and the accompanying footnotes and "TABLE 11 – COMPUTATION OF SELF-SUPPORTING DEBT," for a description of self-supporting debt.

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TABLE 8 – ESTIMATED OVERLAPPING DEBT

Expenditures of the various taxing entities within the territory of the City are paid out of ad valorem taxes levied by such entities on properties within the City. Such entities are independent of the City and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax debt ("Tax Debt") was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional bonds since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the City.

Taxing Jurisdiction	2024/25 Taxable Assessed Value	2024/25 Tax Rate	Total G.O. Debt as of 7/31/2025	Estimated % Applicable	City's Estimated Overlapping G.O. Debt as as of 7/31/2025
City of Baytown	\$ 6,229,053,723 ⁽¹⁾	\$0.70042	\$ 280,390,000 ⁽²⁾	100.00%	\$ 280,390,000 ⁽²⁾
Chambers County	17,746,911,714	0.41600	169,280,000	1.98%	3,351,744
Deer Park Independent School District	13,386,026,484	1.12100	352,335,000	0.57%	2,008,310
Goose Creek Consolidated Independent School District	20,401,027,598	1.07300	573,205,572	34.87%	199,876,783
Harris County	661,276,330,491	0.38500	2,424,019,039 ⁽³⁾	0.94%	22,785,779
Harris County Department of Ed.	665,603,203,278	0.00500	28,960,000	0.94%	272,224
Harris County Flood Control District	647,701,068,713	0.04900	968,445,000	0.94%	9,103,383
Harris County Hospital District	652,006,524,098	0.14640	867,820,000	0.94%	8,157,508
Harris Co MUD No. 213B	119,737,119	0.73000	13,210,000	100.00%	13,210,000
Harris County MUD No. 459	252,676,897	0.53500	21,215,000	100.00%	21,215,000
Harris County MUD No. 473	173,756,193	0.80000	9,990,000	100.00%	9,990,000
Harris County MUD No. 528	33,705,592	0.68000	2,100,000	100.00%	2,100,000
Lee College District	19,464,868,505	0.19500	26,025,000	34.87%	9,074,918
Port of Houston Authority	647,935,487,000	0.00600	406,509,397	0.94%	3,821,188
San Jacinto Community College District	88,114,513,890	0.15500	505,569,308	0.17%	859,468
Total Direct and Overlapping Funded Debt					\$ 586,216,304 ⁽²⁾
Less Self-Supporting Debt of the City					163,576,813 ⁽⁴⁾
Tax-Supported Direct and Overlapping Funded Debt					\$ 422,639,491 ⁽⁴⁾
Ratio of Tax-Supported Direct and Overlapping Funded Debt to Taxable Assessed Valuation					6.78% ⁽⁴⁾
Per Capita Tax-Supported and Overlapping Funded Debt					\$ 6,846 ⁽⁴⁾

(1) Does not include assessed valuation for property under an IDA or a Chapter 212 Agreement. See "TABLE 5 – INDUSTRIAL DISTRICT CONTRACTS" for revenues from the IDAs and Chapter 212 Agreements. Certified values from the Chambers County and Harris Central Appraisal Districts.

(2) Includes self-supporting debt and the Certificates. Preliminary, subject to change. See "TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT" and the accompanying footnotes and "TABLE 11 – COMPUTATION OF SELF-SUPPORTING DEBT."

(3) Excludes self-supporting toll road debt.

(4) Includes a portion of the Certificates. Preliminary, subject to change.

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DEBT INFORMATION

TABLE 9 – PRO FORMA GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ended 9/30	Outstanding Debt Service		The Certificates ⁽¹⁾		Total Outstanding Debt Service	Less: Self-Supporting Aquatic Debt Service ⁽³⁾	Less: Self-Supporting Stormwater Debt Service	Less: Self-Supporting TIRZ Debt Service	Less: Self-Supporting MDD Debt Service	Less: Self-Supporting FCPESD Debt Service	Less: Self-Supporting Water & Sewer Debt Service ⁽⁴⁾	Total Funded Debt Service Requirements	% of Principal Retired
	Principal	Interest	Principal	Interest ⁽²⁾									
2025	\$ 20,395,000	\$ 8,971,906	\$ -	\$ -	\$ 29,366,906	\$ 70,960	\$ 1,245,750	\$ 1,970,856	\$ 1,706,958	\$ 780,375	\$ 9,213,083	\$ 14,378,924	
2026	19,840,000	8,072,256	4,610,000	3,328,361	35,850,617	71,054	1,246,625	1,969,981	1,592,596	781,750	13,060,687	17,127,924	
2027	18,250,000	7,227,447	1,820,000	3,749,000	31,046,447	70,846	1,246,250	1,968,781	905,675	786,250	12,303,332	13,765,313	
2028	15,865,000	6,516,391	1,915,000	3,655,625	27,952,016	71,163	1,244,625	1,972,509	835,223	779,000	11,874,149	11,175,346	
2029	12,330,000	5,925,794	2,015,000	3,557,375	23,828,169	70,918	1,246,625	1,602,750	846,923	-	9,809,521	10,251,432	32.26%
2030	12,865,000	5,383,484	2,115,000	3,454,125	23,817,609	70,998	1,247,125	1,604,731	838,097	-	9,806,785	10,249,873	
2031	12,740,000	4,861,866	2,225,000	3,345,625	23,172,491	70,926	1,246,125	1,604,400	447,502	-	9,808,639	9,994,898	
2032	12,365,000	4,347,388	2,335,000	3,231,625	22,279,013	71,118	1,243,625	1,604,925	450,012	-	9,671,859	9,237,474	
2033	12,060,000	3,831,625	2,455,000	3,111,875	21,458,500	71,130	1,244,500	1,601,725	448,423	-	9,402,836	8,689,885	
2034	10,510,000	3,354,431	2,580,000	2,986,000	19,430,431	70,960	1,248,500	1,601,950	111,627	-	8,728,584	7,668,810	56.28%
2035	9,305,000	2,939,059	2,715,000	2,853,625	17,812,684	-	1,245,625	1,600,525	54,573	-	7,850,860	7,061,101	
2036	8,435,000	2,565,419	2,855,000	2,714,375	16,569,794	-	1,245,875	1,602,325	-	-	7,469,631	6,251,963	
2037	7,710,000	2,235,263	3,000,000	2,568,000	15,513,263	-	1,244,125	553,250	-	-	7,468,250	6,247,638	
2038	8,035,000	1,924,241	3,155,000	2,414,125	15,528,366	-	1,245,250	553,750	-	-	7,473,875	6,255,491	
2039	8,350,000	1,598,216	3,320,000	2,252,250	15,520,466	-	1,244,125	553,250	-	-	7,474,031	6,249,059	75.19%
2040	7,390,000	1,278,594	3,485,000	2,082,125	14,235,719	-	1,245,625	556,625	-	-	6,180,550	6,252,919	
2041	5,055,000	1,004,647	3,665,000	1,903,375	11,628,022	-	1,244,625	553,875	-	-	5,746,100	4,083,422	
2042	5,305,000	756,616	3,850,000	1,715,500	11,627,116	-	1,246,000	555,000	-	-	5,743,975	4,082,141	
2043	3,685,000	537,475	4,050,000	1,518,000	9,790,475	-	1,244,625	554,875	-	-	5,742,350	2,248,625	
2044	3,875,000	348,475	4,260,000	1,310,250	9,793,725	-	1,245,375	553,500	-	-	5,740,725	2,254,125	90.03%
2045	1,085,000	228,544	4,475,000	1,091,875	6,880,419	-	-	-	-	-	5,742,669	1,137,750	
2046	1,135,000	181,369	3,540,000	891,500	5,747,869	-	-	-	-	-	5,747,869	-	
2047	1,180,000	132,175	3,720,000	710,000	5,742,175	-	-	-	-	-	5,742,175	-	
2048	1,235,000	80,856	3,910,000	519,250	5,745,106	-	-	-	-	-	5,745,106	-	
2049	1,285,000	27,306	4,110,000	318,750	5,741,056	-	-	-	-	-	5,741,056	-	98.56%
2050	-	-	4,320,000	108,000	4,428,000	-	-	-	-	-	4,428,000	-	100.00%
	<u>\$ 220,285,000</u>	<u>\$ 74,330,841</u>	<u>\$ 80,500,000</u>	<u>\$ 55,390,611</u>	<u>\$ 430,506,452</u>	<u>\$ 710,074</u>	<u>\$ 24,911,000</u>	<u>\$ 25,139,584</u>	<u>\$ 8,237,609</u>	<u>\$ 3,127,375</u>	<u>\$ 203,716,698</u>	<u>\$ 164,664,111</u>	

(1) Preliminary, subject to change.

(2) Interest has been calculated at an assumed rate for the purposes of illustration. Preliminary, subject to change.

(3) The Aquatics System did not produce revenues sufficient to pay self-supporting debt service in fiscal years 2023 and 2024. The City has hired a consultant to run the operations of the Aquatics System and will be reevaluating performance of the Aquatics System at the end of summer 2025.

(4) Includes a portion of the Certificates. Preliminary, subject to change. See "TABLE 11 – COMPUTATION OF SELF-SUPPORTED DEBT" for additional information on self-supporting debt.

TABLE 10 – INTEREST AND SINKING FUND BUDGET PROJECTION⁽¹⁾

Budgeted Tax-Supported Debt Service Requirements, Fiscal Year Ending 9/30/25		\$ 15,093,920
Budgeted Interest and Sinking Fund Balance as of 9/30/2024.	\$ 1,731,685	
Budgeted Interest and Sinking Fund Tax Levy	16,005,403	
Budgeted Operating Transfers In	9,129,360	
Budgeted Delinquent Prior Year Taxes	246,683	
Budgeted Investment Income	<u>50,000</u>	<u>27,163,131</u>
Estimated Balance, September 30, 2025		\$12,069,211

(1) Information is from the Adopted 2024-2025 Budget.

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TABLE 11 – COMPUTATION OF SELF-SUPPORTING DEBT

Waterworks and Sanitary Sewer System

Revenue Available for Debt Service from Waterworks and Sanitary Sewer System, Fiscal Year Ended 9/30/2024	\$ 31,217,530 ⁽¹⁾
Less: Revenue Bonds Requirements, Fiscal Year Ended 9/30/2025	-
Balance Available for Other Purposes	\$ 31,217,530
Waterworks and Sanitary Sewer System General Obligation Bond Requirements, Fiscal Year Ended 9/30/2025	9,213,083 ⁽²⁾
Balance	\$ 22,004,447
Percentage of Waterworks and Sanitary Sewer System General Obligation Bonds, Self-Supporting	100.00%

Tax Increment Reinvestment Zone Number One

Revenue Available for Debt Service from Tax Increment Reinvestment Zone Revenue (TIRZ), for Fiscal Year Ended 9/30/2024	\$ 3,265,517 ⁽¹⁾⁽³⁾
TIRZ General Obligation Bond Requirements, Fiscal Year Ended 9/30/2025	1,970,856
Balance	\$ 1,294,661
Percentage of TIRZ General Obligation Bonds, Self-Supporting	100.00%

Municipal Development District

Revenue Available for Debt Service from Municipal Development District, Fiscal Year Ended 9/30/2024	\$ 10,961,413 ⁽¹⁾⁽⁴⁾
MDD Series 2021C Bond Requirements, Fiscal Year Ended 9/30/2025	1,402,400
Net Revenue Available for GO Sales Tax Debt	9,559,013
Municipal Development District General Obligation Bond Requirements, Fiscal Year Ended 9/30/2025	1,706,958
Balance	\$ 7,852,055
Percentage of Municipal Development District General Obligation Bonds, Self-Supporting	100.00%

MDD Series 2021A Bond and MDD Series 2021B Bond Hotel Revenue Bond Requirements, Fiscal Year Ended 9/30/2025	1,356,725 ⁽⁵⁾
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Fire Control Prevention & Emergency Services District

Revenue Available for Debt Service from Fire Control Prevention & Emergency Services District, Fiscal Year Ended 9/30/2024	\$ 2,676,098 ⁽¹⁾
Fire Control Prevention & Emergency Services District General Obligation Bond Requirements, Fiscal Year Ended 9/30/2025	780,375
Balance	\$ 1,895,723
Percentage of Fire Control Prevention and Emergency Services District General Obligation Bonds, Self-Supporting	100.00%

Aquatics System

Revenue Available for Debt Service from Aquatics System, Fiscal Year Ended 9/30/2024	\$ (100,561) ⁽¹⁾⁽⁶⁾
Aquatics System General Obligation Bond Requirements, Fiscal Year Ended 9/30/2025	70,960
Balance	\$ (171,521)
Percentage of Aquatic System General Obligation Bonds, Self-Supporting	0.00%

Stormwater System

Revenue Available for Debt Service from Stormwater System, Fiscal Year Ended 9/30/2024	\$ 2,299,071 ⁽¹⁾
Stormwater System General Obligation Bond Requirements, Fiscal Year Ended 9/30/2025	1,245,750
Balance	\$ 1,053,321
Percentage of Stormwater System General Obligation Bonds, Self-Supporting	100.00%

- (1) The revenue sources shown in this table are not pledged to the payment of the self-supporting debt. It is the City's policy to pay such debt from these sources. There is no assurance that the use of these sources to make these payments will continue in the future. If payments were not paid from such sources, the difference would be paid with ad valorem taxes.
- (2) Includes a portion of the Certificates. Preliminary, subject to change.
- (3) Includes \$595,938 representing the Harris County portion of TIRZ revenues.
- (4) Includes \$401,024 of interest earnings in addition to MDD Sales Tax Receipts.
- (5) Included solely for purposes of illustration. Represents the debt service on MDD Series 2021A Bonds and 2021B Bonds (as defined herein), which are hotel revenue bonds issued for the hotel and convention center project. The MDD sales tax is not pledged to the Series 2021A Bonds or Series 2021B Bonds. The MDD is only obligated to make payments from MDD sales tax revenues on the MDD Series 2021C Bonds (as defined herein). Though MDD revenues are not pledged to pay debt service on the Series 2021A Bonds or Series 2021B Bonds, the MDD has budgeted \$1.9 million in fiscal year 2026 to pay debt service on the Series 2021A Bonds and Series 2021B Bonds to cover hotel revenue shortfalls. There is no assurance that the MDD will continue to make these payments in the future. See "FINANCIAL INFORMATION- MUNICIPAL DEVELOPMENT DISTRICT – BAYTOWN MUNICIPAL DEVELOPMENT DISTRICT – BAYTOWN CONVENTION CENTER HOTEL" for additional information regarding the MDD Bonds and the hotel and convention center project.
- (6) The Aquatics System did not produce revenues sufficient to pay its self-supported debt service in Fiscal Years 2023 and 2024. The City has hired a consultant to run the operations of the Aquatics System and will be reevaluating performance of the Aquatics System at the end of summer 2025.

TABLE 12 – AUTHORIZED BUT UNISSUED GENERAL OBLIGATION DEBT

The City does not have any authorized but unissued general obligation debt.

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT

The City does not anticipate the issuance of additional tax-supported new money debt in the next 12 months, but the City makes no assurances as to the timing or amount of any potential issuance. The City is considering calling a bond election for approximately \$150,000,000 in new voted authorization to be held on November 4, 2025. The final determination as to whether to call an election and the final scope and projects to be included will be determined by the City Council.

PENSION FUND

The City provides pension benefits for all of its full-time employees through the Texas Municipal Retirement System ("TMRS"), a State-wide administered nontraditional, joint contribution, hybrid defined benefit pension plan. Benefit provisions are adopted by the City Council, within the options available in the state statutes governing TMRS. The contribution rate for the City is determined annually by an actuary, using the Entry Age Normal Actuarial Cost Method. The City makes annual contributions in accordance with the actuarially calculated contributions. For the Fiscal Year ended September 30, 2024, the City's contributions to TMRS were \$15,678,040, which were equal to the required contributions. In addition to contributions by the City, employees are required to contribute seven percent of employee gross earnings. For additional information on the plan, including benefits, contributions and actuarial assumptions, see "APPENDIX B – EXCERPTS FROM THE CITY'S ANNUAL FINANCIAL REPORT – IV OTHER INFORMATION – D Pension Plan".

OTHER POST-EMPLOYMENT BENEFITS

In addition to pension benefits, the City provides certain other post-employment healthcare benefits for eligible retired employees and their dependents through a single employer defined benefit other post-employment benefit plan. The City has elected to subsidize premiums for the plan and funding is currently offered on a pay-as-you-go basis. The costs of these benefits are recognized as expenditures on a modified accrual basis when the underlying claims are paid. Commencing in fiscal year 2009, the City implemented GASB Statement No. 45 "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions." The City no longer offers subsidized retiree insurance coverage for any employee who starts employment with the City of Baytown after January 1, 2010. For more detailed information concerning the post-employment healthcare plan, see "APPENDIX B – EXCERPTS FROM THE CITY'S ANNUAL FINANCIAL REPORT – IV OTHER INFORMATION – Other Post Employment Benefits".

The City also participates in the cost-sharing multiple-employer defined benefits group term life insurance plan operated by TMRS known as the Supplemental Death Benefit Fund (SDBF). The City elected by ordinance to provide group term life insurance coverage to both current and retired employees. The City 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. For more detailed information on the supplemental death benefit, see "APPENDIX B – EXCERPTS FROM THE CITY'S ANNUAL FINANCIAL REPORT -IV OTHER INFORMATION – Other Post Employment Benefits".

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FINANCIAL INFORMATION

TABLE 13 – GENERAL FUND REVENUES AND EXPENDITURE HISTORY

Revenues:	For Fiscal Year Ended September 30,				
	2024 ⁽¹⁾	2023 ⁽¹⁾	2022 ⁽¹⁾	2021 ⁽¹⁾	2020
Taxes and Fees	\$ 119,783,144	\$ 118,315,525	\$ 114,043,876	\$ 110,126,421	\$ -
Property Taxes	-	-	-	-	18,663,375
Sales & Use Taxes	-	-	-	-	15,089,370
Franchise Taxes	-	-	-	-	4,372,062
Industrial District Payments ⁽²⁾	-	-	-	-	65,647,768
Licenses & Permits	2,429,748	2,082,869	2,227,669	2,746,436	2,653,882
Charges for Services	4,339,510	3,054,313	2,730,856	2,356,345	2,047,014
Fines & Forfeitures	1,552,262	1,472,787	1,608,346	1,691,962	1,629,434
Intergovernmental Receipts	2,690,374	2,805,297	2,514,472	1,801,325	1,984,652
Interest Income	2,509,206	2,608,461	(757,423)	214,182	1,079,374
Miscellaneous	1,678,764	1,023,764	4,654,365	660,194	1,140,011
Total	\$ 134,983,008	\$ 131,363,016	\$ 127,022,161	\$ 119,596,865	\$ 114,306,942
Expenditures:					
General Government	\$ 33,244,113	\$ 29,905,390	\$ 29,322,794	\$ 24,426,499	\$ 23,561,822
Public Safety	71,311,736	67,632,829 ⁽³⁾	59,142,235	57,000,646	50,950,523
Public Works	6,347,732	6,781,931	6,317,471	5,950,244	5,986,493
Public Health	4,851,675	4,728,776	4,362,515	3,790,467	3,593,885
Parks, Recreation & Culture	12,378,690	11,972,925	10,095,798	9,985,591	9,204,349
Capital Outlay	1,395,479	1,237,202	1,867,470	245,653	2,068,042
Debt Service	150,241	-	272,485	362,824	362,824
Total	\$ 129,679,666	\$ 122,259,053	\$ 111,380,768	\$ 101,761,924	\$ 95,727,938
Other Financing Sources (Uses):					
Issuance of Leases	\$ 524,362	\$ -	\$ -	\$ -	\$ -
Transfers-in	5,562,963	2,557,413	1,709,496	3,256,686	4,796,339
Transfers-out	(6,957,258)	(27,583,556) ⁽⁴⁾	(23,804,270) ⁽⁴⁾	(9,713,413) ⁽⁴⁾	(13,987,888) ⁽⁵⁾
	\$ (869,933)	\$ (25,026,143)	\$ (22,094,774)	\$ (6,456,727)	\$ (9,191,549)
Change in Fund Balance:	\$ 4,433,409	\$ (15,922,180)	\$ (6,453,381)	\$ 11,378,214	\$ 9,387,455
Beginning Fund Balance	\$ 25,999,515	\$ 41,921,695	\$ 48,375,076	\$ 36,996,862	\$ 27,609,406
Ending Fund Balance	\$ 30,432,924	\$ 25,999,515	\$ 41,921,695	\$ 48,375,076	\$ 36,996,862

- (1) Beginning in the fiscal year ended September 30, 2020, the City changed its outside audit firm. The change in auditors resulted in a change in the presentation of revenues in the audited financial statements. For additional information related to property taxes, see "TABLE 4 – TAX RATE, LEVY AND COLLECTION HISTORY." For additional information regarding sales and use taxes, see "TABLE 14 – MUNICIPAL SALES TAX HISTORY." For additional information regarding industrial district payments, see "TABLE 5 – INDUSTRIAL DISTRICT CONTRACTS."
- (2) Industrial District Payments include payments under IDAs and payments received under Chapter 212 Agreements. See "TABLE 5 – INDUSTRIAL DISTRICT CONTRACTS" and the accompanying text for a discussion of the City's historical receipts from IDAs and Chapter 212 Agreements.
- (3) Increase is due to filling multiple vacancies in the Public Safety Department.
- (4) Transfers Out are primarily related to expenditures for capital projects in the City's capital improvement plan.
- (5) Transfers Out are primarily related to expenditures for capital projects in the City's capital improvement plan, but also includes expenses related to the City's Aquatics Center as a result of the COVID-19 Pandemic.

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TABLE 14 – MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, Texas Tax Code, Chapter 321, which grants the City the power to impose and levy up to 2% Local Sales and Use Tax within the City. One percent (1%) of the proceeds are credited to the General Fund and are not pledged to the payment of the Certificates. Of the remaining one percent (1%), the City voters approved a one-half of one percent (1/2%) Municipal Development District tax on May 5, 2001 for the purpose of financing economic development projects. The voters of the City reauthorized a one-fourth of one percent (1/4%) street maintenance sales tax for an additional four years at the November 2, 2021 election. On November 16, 2020 City voters voted to reauthorize a sales and use tax of 1/8 of one percent (1/8%) for each of the Baytown Crime Control and Prevention District and the Baytown Fire Control, Prevention, and Emergency Medical Services District for a five-year term. The taxes must be reauthorized by the voters for the City to continue collecting them following the end of the existing term and reauthorization elections are scheduled to be held on November 4, 2025. If the reauthorization election is not approved by the voters, the accompanying sales tax would be terminated as a revenue source. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly. Listed below are historical gross sales tax revenues for each of the sales taxes listed herein.

Fiscal Year			Municipal	Crime Control	Fire Control, Prevention, and Emergency		% of
Ended 9/30	General Fund	Street Maintenance	Development District	Prevention District	Medical Services District	Total	Ad Valorem Tax Levy
2020	\$ 16,387,675	\$ 4,096,919	\$ 6,856,399	\$ 1,961,959	\$ 1,919,117	\$ 31,222,069	90.45%
2021	19,153,520	4,788,380	8,028,954	2,246,811	2,263,349	36,481,014	97.46%
2022	20,752,556	5,188,253	8,310,984	2,433,611	2,467,881	39,153,285	94.16%
2023	21,946,333	5,486,583	8,655,232	2,555,230	2,575,574	41,218,952	86.49%
2024	22,009,521	5,502,380	8,732,995	2,492,750	2,513,449	41,251,095	88.05%

Note: The information has been updated to consistently reflect the gross sales tax revenues received in each category without reference to sales tax rebates provided through agreements entered into under Chapter 380 of the Texas Local Government Code.

Source: The City.

The City has entered into a series of agreements under Chapter 380 of the Texas Local Government Code pursuant to which it provides sales tax rebates in order to incentivize the development of retail businesses within the City. The City provided sales tax rebates totaling \$1,229,002 for fiscal year ending September 30, 2024

The sales tax breakdown for the City is as follows:

City Sales & Use Tax	1¢
Street Maintenance Sales Tax	1/4¢
Municipal Development District	1/2¢
Crime Control and Prevention District	1/8¢
Fire Control, Prevention and Emergency Medical Services District	1/8¢
State Sales & Use Tax	6 1/4¢
Total	8 1/4¢

MUNICIPAL DEVELOPMENT DISTRICT

The Baytown Municipal Development District (the "MDD") is a municipal development district created and organized by the City pursuant to Chapter 377, Texas Local Government Code to accomplish certain governmental purposes of the City. On May 5, 2001, the citizens of the City approved the creation of the MDD and the imposition of a sales and use tax at a rate of one-half of one percent for the purpose of financing economic development projects beneficial to the City and the MDD. Among other things, the MDD is authorized to issue bonds and use the proceeds derived from the sale of such bonds to finance the construction, development and equipment of development projects devoted to public use and found to be in furtherance of the MDD's public purposes.

The boundaries of the MDD include the portion of the City that is in Harris County and exclude the portion of the City that is in Chambers County. City Council appoints all of the members of the Board of Directors of the MDD and approves any debt issued by the MDD.

Baytown Municipal Development District – Baytown Convention Center Hotel. In 2021, the MDD issued three series of bonds to finance the development and construction of the Baytown Convention Center Hotel (the "Hotel"), which is a hotel featuring 208 guestrooms, a restaurant, a 24-hour fitness center, a pool, and a convention center featuring approximately 18,000 square feet of meeting

space. The MDD conveyed the convention center facilities to the City, and the City leased the convention center facilities to the MDD for MDD use, operation and maintenance. The three series of bonds were the (i) \$18,055,000 First-Lien Hotel Revenue Bonds (Baytown Convention Center Hotel), Series 2021A (the "MDD Series 2021A Bonds"), (ii) the \$14,030,000 Second-Lien Hotel Revenue Bonds (Baytown Convention Center Hotel), Series 2021B (the "MDD Series 2021B Bonds"), and (iii) the \$30,680,000 Combination Limited Sales Tax Revenue and Third-Lien Revenue Bonds (Baytown Convention Center Hotel), Series 2021C (the "MDD Series 2021C Bonds," and collectively with the MDD Series 2021A Bonds and the MDD Series 2021B Bonds, the "MDD Bonds"). The MDD Series 2021A Bonds are secured by a first lien on certain revenues and assets of the Hotel held in the trust estate and the MDD Series 2021B Bonds are secured by a second lien on certain revenues and assets of the Hotel held in the trust estate. The MDD Series 2021C Bonds are secured by a combination of a third lien on revenues and assets of the Hotel held in the trust estate and MDD sales taxes.

MDD sales tax revenues are not pledged to the payment of the MDD Series 2021A Bonds and the MDD Series 2021B Bonds. However, if Hotel revenues continue to be insufficient to pay debt service on the MDD Series 2021A Bonds and the MDD Series 2021B Bonds in the future, the Board of Directors of the MDD could choose to contribute MDD sales tax revenues to the payment of the debt service on the MDD Series 2021A Bonds and the MDD Series 2021B Bonds. Any such decision would be subject to the approval of the MDD Board of Directors from time to time, and no representation is being made that the MDD Board of Directors will take such action. If the MDD were to contribute MDD sales tax revenues for such purpose, it could have the effect of reducing the amount of MDD sales tax revenues available to support City projects and to pay debt service on City obligations that are treated as self-supporting from the payment of MDD sales tax revenues. See "TABLE 11 - COMPUTATION OF SELF-SUPPORTING DEBT" for information regarding the MDD sales tax revenues, the amount of debt service of the City treated as self-supporting from MDD sales tax revenues during Fiscal Year 2024, and the MDD sales tax revenues that would be needed to cover the debt service on all three series of MDD Bonds during Fiscal Year 2024. If MDD sales tax revenues were unavailable to the City to pay debt service on obligations currently treated as self-supporting from such source, the City would need to make up any difference with ad valorem taxes.

Taxes and revenues of the City are not pledged to the payment of the MDD Bonds, and the City is not obligated to pay debt service on any of the MDD Bonds. However, the MDD has budgeted \$1.9 million in fiscal year 2026 to cover hotel revenue shortfalls to pay debt service on the MDD Series 2021A Bonds and the MDD Series 2021B Bonds.

CAPITAL IMPROVEMENT PROGRAM

General Capital Improvement Program Fund (CIPF) – The Capital Improvement Program Fund is used to provide funding for various projects and is often funded with a transfer from the General Fund as well as contributed capital for specific projects. The major budget allocations for the (2025-2026) budget year were for the Garth Road Reconstruction (\$41,681,674) and Cedar Bayou Lynchburg Widening (\$4,000,000). Other projects include Market Street Revitalization, Oak Leaf Street Reconstruction, Fire Station No. 2 Replacement, Thompson Area Park, the Baker Road Railroad Crossing Safety Improvements, and other parks and facility renovations. The City is considering calling a bond election for approximately \$150,000,000 in new voted authorization to be held on November 4, 2025. The final determination as to whether to call a bond election and the final scope and projects to be included, which may include one or more of the capital improvement initiatives discussed herein, will be determined by the City Council.

Utility Capital Improvements – Another capital improvement initiative seen as critical to the growth and development of the City is utility infrastructure. Ongoing and future projects detailed in the utility capital improvement program represent over \$42,000,000 million in improvements. Projects in this category include development and redevelopment of wastewater treatment plants and lift stations: water and sewer line rehabilitation: line extensions: new and rehabilitation of existing water towers: and water well replacement. Additional ongoing projects primarily funded by grants will also improve the City's utility infrastructure include the hardening of lift stations and other water and sewer facilities throughout the City.

Street Maintenance Improvements – Funded by a dedicated sales tax. which was reauthorized on November 2, 2021, the Street Maintenance Fund provides a critical program to address the maintenance of city streets in sub-standard condition. Ongoing and future projects detailed in this document represent over \$3,070,000 in improvement. Represented in the current program is additional funding for Asphalt Mill and Overlay, Crack Seal Crew, Concrete Street Repair. Street Striping and Slurry Seal.

FINANCIAL POLICIES

GASB 34 . . . The City is a Phase II City which required GASB 34 implementation for the fiscal year ending September 30, 2003. The City has implemented GASB 34.

Basis of Accounting . . . The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate.

General Fund . . . The General Fund is the principal fund of the City. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid general operating costs, fixed charges and capital improvement costs that are not paid through other funds.

Special Revenue Funds . . . The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. These funds include grants

from the Department of Housing and Urban Development (Community Development Block Grant), the Texas Criminal Justice Division, the Department of Transportation, Texas State Library, and miscellaneous other sources.

Debt Service Fund . . . The Debt Service Fund is used to account for the payment of principal and interest on general long-term liabilities paid primarily by taxes levied by the City.

Capital Projects Funds . . . The Capital Projects Funds are used to account for the acquisition of capital facilities being financed from bond proceeds, contributed capital or transfers from other funds, other than those recorded in the Enterprise Funds, Internal Service Funds or Trust Funds.

Budgetary Procedures . . . 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. Public hearings are conducted prior to the adoption of the budget in order to obtain taxpayer comments. The budget is legally enacted by the City Council through passage of an ordinance prior to the beginning of the fiscal year. The City Manager is authorized to transfer budgeted amounts within departments at any time and City Council may, within the last three months of the fiscal year, transfer between departments. However, any revisions that modify the total expenditures of any budgeted fund must be approved by the City Council. Budgeted amounts are as revised by the City Manager, or as amended by the City Council. At the request of the City Manager, the Council may by resolution transfer any unencumbered appropriation balance or portion thereof from one office, department or agency to another.

INVESTMENTS

The City may invest its investable funds (including bond proceeds and money pledged to the payment of or as security for bonds or other indebtedness issued by the City or obligations under a lease, installment sale, or other agreement of the City) in investments authorized by State law in accordance with investment policies approved by the City Council. Both State law and the City's investment policies are subject to change.

Legal Investments . . . Under State law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the City selects from a list the City Council or a designated investment committee of the City adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the City selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the City's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the City appoints as the City's custodian of the banking deposits issued for the City's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the SEC and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of Chapter 2256, Texas Government Code (the "Public Funds Investment Act"), that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, and are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for City deposits, or (ii) certificates of deposits where (a) the funds are invested by the City through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the City as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the City, (b) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the City appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d), Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit; (10) fully collateralized repurchase agreements as defined in the Public Funds Investment Act, that have a defined termination date, are secured by a combination of cash and obligations described in clauses (1) or (13) in this paragraph, require the securities being purchased by the City or cash held by the City to be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for

termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less; (12) certain bankers' acceptances with stated maturity of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated not less than "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (13) commercial paper with a stated maturity of 365 days or less that is rated not less than "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (14) no-load money market mutual funds registered with and regulated by the SEC that provide the City with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with federal SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and (15) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and have either (a) a duration of one year or more and invest exclusively in obligations described in under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract.

A political subdivision such as the City may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, other than the prohibited obligations described below, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAAm" or an equivalent by at least one nationally recognized rating service if the governing body of the City authorizes such investment in the particular pool by order, ordinance, or resolution and the investment pool complies with the requirements of Section 2256.016, Texas Government Code. The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution. The City is specifically prohibited from investing in (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years, and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Additional Provisions . . . Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, and the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment.

Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield. Under Texas law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value and the ending market value and fully accrued interest during the reporting period of each pooled fund group, (4) the book value and market value of each separately listed asset at the end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest City funds without express written authority from the City Council.

TABLE 15 – CURRENT INVESTMENTS⁽¹⁾

As of May 31, 2025, the City's investable funds were invested in the following categories:

Type of Investments	Book Value	Market Value
Agency Bond	\$ 14,983,413	\$ 14,823,255
TexPool	244,973,261	244,973,261
Treasury Note	32,707,520	32,719,072
TexStar	72,560,890	72,560,890
Total	\$ 365,225,084	\$ 365,076,478

Source: The City.

(1) Unaudited.

THE SYSTEM

WATERWORKS AND SANITARY SEWER SYSTEM USED TO PAY GENERAL OBLIGATION DEBT SERVICE

The City's waterworks and sanitary sewer system (the "System") has no direct System revenue debt outstanding. However, the City currently pays debt service on other obligations from revenues of the System. The Baytown Area Water Authority Water Supply Contract Revenue and Refunding Bonds, Series 2012; Water Supply Contract Revenue Bonds, Series 2018, Water Supply Contract Revenue Bonds, Series 2019 and Water Supply Revenue Bonds, Series 2024 represent the currently outstanding debt of the Baytown Area Water Authority (BAWA). BAWA is currently in the process of approving the issuance of approximately \$69 million of additional debt to the Texas Water Development Board under its financial assistance programs for the next stage of the East Surface Water Treatment Plant. Under a contract with the City, the BAWA debt is paid from gross operating revenues of the System, and payments related to such bonds are treated as operating expenses of the System.

The City also has certain outstanding ad valorem tax obligations, a portion of the proceeds of which were used for System improvements or for the purpose of refinancing obligations incurred for System improvements that are currently being paid from surplus net revenues of the System as listed below:

Issue	System Debt Due in 2025 Fiscal Year
Combination Tax and Revenue Certificates of Obligation, Series 2014	\$ 760,346
General Obligation and Refunding Bonds, Series 2014	350,155
General Obligation and Refunding Bonds, Series 2015	1,349,731
General Obligation and Refunding Bonds, Series 2016	2,626,753
Combination Tax and Revenue Certificates of Obligation, Series 2019	1,290,919
General Obligation Refunding Bonds, Series 2019A	145,800
Combination Tax and Revenue Certificates of Obligation, Series 2020	436,875
General Obligation Refunding Bonds, Series 2020	266,525
General Obligation Refunding Bonds, Series 2021A	672,130
Combination Tax and Revenue Certificates of Obligation, Series 2024	1,313,850
Total System Debt Due in 2025 Fiscal Year	\$ 9,213,083

The debt service described in this table is general obligation debt for which repayment is provided from revenues of the System (see "TABLE 16 – CONDENSED STATEMENT OF OPERATIONS."). It is the City's current policy to provide these payments from such sources. There is no assurance that the use of System revenues to make these payments will continue in the future. If payments are not made from System revenues in the future, the difference will be paid for with ad valorem taxes.

WATER SYSTEM

BAWA is a political subdivision that was created in 1973 to serve the Baytown area with a stable and reliable source of treated surface water and to reduce the area's reliance on groundwater.

BAWA provides the City with its entire domestic and commercial supply of water. The water treated by BAWA originates from the Trinity River and is conveyed to BAWA via the Coastal Water Authority (CWA) canal system. CWA's Trinity River water conveyance system is operated under a contract with the City of Houston.

BAWA, 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 May 2025 (the "Houston Contract"). Under the Houston Contract, BAWA 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, 2055. The raw water provided under the Houston Contract is delivered to BAWA. The Houston Contract establishes an obligation of the City of Houston to provide water to BAWA up to an average of 32 million gallons per day (MGD). BAWA may reserve additional quantities of untreated water by providing 30 days' notice to the City of Houston. If BAWA 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.

BAWA 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 BAWA. For fiscal year 2024, BAWA sold an average of 15.97 MGD to its customers. BAWA has contracted with the City for personnel to operate the facilities of BAWA, including the water treatment plants. BAWA reimburses the City for the actual costs of the employees' salaries and benefits and the materials used by BAWA in operating and maintaining the water treatment facilities.

BAWA operates two surface water treatment plants. BAWA'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 BAWA'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. BAWA's East Surface Water Treatment Plant, which is the newer of the two plants, was constructed on the CWA Barbers Hill Canal and has an initial capacity of 6 MGD (with expansion capacity up to 24 MGD in four phases). The East Surface Water Treatment Plant has been financed through the issuance of bonds secured by contract payments from the City. BAWA is currently in the process of financing, through the Texas Water Development Board SWIFT Fund, the next stage of expansion of the East Surface Water Treatment Plant under its contract with the City. BAWA has the capability to expand its total surface water treatment plant capacity to 59.9 MGD in the future. During the fiscal year ended September 30, 2024, the average daily water usage from BAWA's plants was approximately 15.97 MGD.

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 and 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. On May 14, 2025, the EPA issued a press release stating that it plans to issue a proposed rule this fall and finalize the rule in the spring of 2026 that would extend the compliance date from 2029 to 2031.

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 the 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.

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. See "OTHER INFORMATION - LITIGATION" for a description of certain ongoing litigation affecting the wastewater system.

TABLE 16 – CONDENSED STATEMENT OF WATER AND SANITARY SEWER SYSTEM OPERATIONS

	For Fiscal Year Ended September 30,				
	2024	2023	2022	2021	2020
Revenue:					
Charges for Service	\$ 51,353,841	\$ 47,729,025	\$ 40,996,385	\$ 39,113,079	\$ 40,008,357
Service Charges and Other	8,552,259	8,380,209	9,280,152	8,031,423	6,043,474
Intergovernmental	7,238,296	1,881,496	1,526,388	3,253,158	1,363,365
Interest Income	4,418,763	3,140,823	580,648	66,528	513,840
Total Revenue	\$ 71,563,159	\$ 61,131,553	\$ 52,383,573	\$ 50,464,188	\$ 47,929,036
Expenses (Other Than Depreciation):					
Personnel Costs	\$ 11,281,391	\$ 12,443,303	\$ 10,608,959	\$ 10,906,565	\$ 11,291,063
Supplies	19,660,964	17,659,023	14,617,927	13,410,364	13,306,622
Maintenance	4,059,702	2,833,299	2,191,022	2,221,983	1,876,530
Services	3,782,409	2,769,721	2,856,440	3,814,445	2,942,680
Miscellaneous	-	-	-	-	-
Transfers Out ⁽¹⁾	1,561,163	1,561,163	868,814	1,965,586	1,153,962
Total Expenses	\$ 40,345,629	\$ 37,266,509	\$ 31,143,162	\$ 32,318,943	\$ 30,570,857
Net Revenue Available for Debt Service	\$ 31,217,530	\$ 23,865,044	\$ 22,109,225	\$ 20,110,831	\$ 18,512,141
Water Customers	22,953	22,767	22,552	24,067	23,810
Sewer Customers	22,299	22,223	22,166	23,613	22,344

Source: For the fiscal years ended September 30, 2020 – September 30, 2024, the City's audited financial statements.

(1) In the past, this table did not include funds transferred to General Fund for administrative services reimbursements. On a going forward basis, the City intends to include such transfers in this table.

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 Certificates should consult its own tax advisor as to the tax consequences of the acquisition, ownership and disposition of the Certificates.

TAX EXEMPTION

In the opinion of Bracewell LLP, Bond Counsel, under existing law, interest on the Certificates (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 Certificates, 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 City 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 Certificates from gross income for federal income tax purposes and, in addition, will rely on representations by the City, and other parties involved with the issuance of the Certificates with respect to matters solely within the knowledge of the City and such parties, respectively, which Bond Counsel has not independently verified. If the City fails to comply with the covenants in the Ordinance or if the foregoing representations are determined to be inaccurate or incomplete, interest on the Certificates could become includable in gross income from the date of delivery of the Certificates, regardless of the date on which the event causing such inclusion occurs.

Bond Counsel will express no opinion as to the amount or timing of interest on the Certificates or, except as stated above, any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Certificates. 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 Certificates 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 Certificates. If an audit is commenced, in accordance with its current published procedures, the Service is likely to treat the City as the taxpayer and the owners may not have a right to participate in such audit. Public awareness of any future audit of the Certificates could adversely affect the value and liquidity of the Certificates regardless of the ultimate outcome of the audit.

ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS

Collateral Tax Consequences . . . Prospective purchasers of the Certificates 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 Certificates should consult their own tax advisors as to the tax consequences of the acquisition, ownership and disposition of the Certificates.

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 Certificates, is included in a corporation's "adjusted financial statement income," ownership of the Certificates 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 Certificates.

Because the first interest payment on the Certificates will be made more than one year after the issue date, the Certificates may be treated as issued at an "original issue discount" under current Regulations. Although the interest on the Certificates will be excludable from gross income as discussed above, the interest on the Certificates may be considered "original issue discount" for federal tax purposes. As a result, special tax accounting rules for "original issue discount" may require a portion of certain interest payments to be taken into account for the tax year or years prior to the tax year during which the interest payment is received for purposes of any alternative minimum tax consequences for corporations and any collateral federal income tax consequences for certain purchasers (referred to in the preceding paragraph of this section). In addition, this treatment may also give rise to taxable "market discount" to secondary market purchasers of the Certificates. Prospective purchasers should consult their tax advisors regarding the application of the "market discount" rules to the Certificates. For a discussion of the tax accounting treatment of "original issue discount" on the Certificates in the hands of the Purchaser that acquire Certificates at their issue price, see the discussion below under "ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS – TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT CERTIFICATES."

Prospective purchasers of the Certificates 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 Certificates, received or accrued during the year.

Tax Accounting Treatment of Original Issue Premium Certificates . . . If the issue price of a maturity of the Certificates exceeds the stated redemption price payable at maturity of such Certificate, such Certificate (a "Premium Certificate") is considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Premium Certificate 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 Certificate 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 Certificate 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 Certificate that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Certificate) is determined using the yield to maturity on the Premium Certificate based on the initial offering price of such Premium Certificate.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Certificates 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 Certificates 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 Certificate 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 Certificates.

Tax Accounting Treatment of Original Issue Discount Certificates . . . If the issue price of a maturity of the Certificates is less than the stated redemption price payable at maturity of such Certificate (an "OID Certificate"), the difference between (i) the amount payable at the maturity of such OID Certificate, and (ii) the initial offering price to the public of such OID Certificate constitutes original issue discount with respect to such OID Certificate in the hands of any owner who has purchased such OID Certificate in the initial public offering of the Certificates. 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 OID Certificate equal to that portion of the amount of such original issue discount allocable to the period that such OID Certificate 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 Certificates under the caption "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 OID Certificate prior to stated maturity, however, the amount realized by such owner in excess of the basis of such OID Certificate in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such OID Certificate was held by such initial owner) is includable in gross income.

The foregoing discussion assumes that (i) the respective Purchaser has purchased the Certificates for contemporaneous sale to the public and (ii) all of the OID Certificates 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 City nor Bond Counsel has made any investigation or offers any comfort that the OID Certificates will be offered and sold in accordance with such assumptions.

Under existing law, the original issue discount on each OID Certificate 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 Certificates and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such OID Certificates 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 OID Certificate.

The federal income tax consequences of the purchase, ownership, and redemption, sale or other disposition of OID Certificates 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 OID Certificates 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 OID Certificates and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such OID Certificates.

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 Certificates from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Certificates. Prospective purchasers of the Certificates should consult with their own tax advisors with respect to any recently-enacted, proposed, pending or future legislation.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board ("MSRB"). Information will be available free of charge via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

ANNUAL REPORTS

The City shall provide annually to the MSRB, (i) within six (6) months after the end of each Fiscal Year of the City ending in and after 2025, financial information and operating data with respect to the City of the general type included in the Official Statement under Tables 1 through 7 and Tables 9 through 16, and including financial statements of the City if audited financial statements of the City are

then available, and (ii) if not provided as part such financial information and operating data, audited financial statements of the City, when and if available. Any financial statements so to be provided shall be (i) prepared in accordance with the accounting principles described in the rules to the financial statements for the most recently concluded Fiscal Year, or such other accounting principles as the City may be required to employ, from time to time, by State law or regulation, and (ii) audited, if the City commissions an audit of such statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the City shall file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such financial statements becomes available.

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 City commissions an audit and the audit is completed by the required time.

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.

NOTICES OF CERTAIN EVENTS

The City will also provide the following to the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of ten (10) business days after the occurrence of the event, notice of any of the following events with respect to the Certificates: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates; (7) modifications to rights of holders of the Certificates, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material, (15) incurrence of a financial obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City, 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 City, any of which reflect financial difficulties.

For these purposes, (A) any event described in (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, 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 City, (B) as used in (15) and (16), "financial obligation" means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) guarantee of a debt obligation or any such derivative instrument; provided that "financial obligation" shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule, and (C) the City intends the words used in paragraphs (15) and (16) and the definition of financial obligation to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018 (the "2018 Release"), and any further written guidance provided by the SEC or its staff with respect to the amendments to the Rule effected by the 2018 Release.

The City will notify the MSRB through EMMA, in a timely manner, of any failure by the City to provide the required annual financial information described above under "- ANNUAL REPORTS" in accordance with the Ordinance by the time required.

LIMITATIONS AND AMENDMENTS

The City shall be obligated to update information and provide notices of events for so long as, but only for so long as, the City remains an "obligated person" with respect to the Certificates within the meaning of the Rule, except that the City in any event will give notice of any redemption calls and any defeasances that cause the City to be no longer an "obligated person." The City has undertaken to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Certificates at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Certificates may seek a writ of mandamus to compel the City to comply with its agreement.

No default by the City in observing or performing its obligations under its undertaking shall constitute a breach of or default under the Ordinance for purposes of any other provisions of the Ordinance.

The City may amend its continuing disclosure agreement 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 City, if (i) the agreement, as amended, would have permitted an Purchaser to purchase or sell Certificates 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 Certificates consent to the amendment or (b) any person unaffiliated with 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 Certificates. 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 Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an Purchaser from lawfully purchasing or selling Certificates in the primary offering of the Certificates.

If the City so amends the agreement, it has 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, 2024, the City filed unaudited financial information and operating data by the required date. The City did not file audited financial information until June 23, 2025. 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.

RISKS FROM WEATHER EVENTS

The City is located near the Texas Gulf Coast. Land located in this area is susceptible to high winds, heavy rain and flooding caused by rain events, hurricanes, tropical storms, and other tropical disturbances. If a weather-related event were to significantly damage all or part of the improvements within the City, the assessed value of property within the City could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase the City's tax rate. Further, there can be no assurance that a casualty loss to taxable property within the City will be covered by insurance (or property owners will choose to carry flood insurance), any insurance company will fulfill its obligations to provide insurance proceeds or that insurance proceeds will be used to rebuild or repair damaged improvements within the City. Even if insurance proceeds are available and improvements are rebuilt, there could be a period of time in which assessed values within the City would be adversely affected.

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, and adverse conditions in the oil and gas industry and spillover effects into other industries could adversely impact the businesses of ad valorem property taxpayers and the property values in the City, resulting in a reduction in property tax revenue. The area in and around the City includes a heavy concentration of petroleum refineries and chemical plants that are a source of employment for City residents. The Certificates are secured by an ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Certificates.

CYBERSECURITY

The City, like other cities in the State, utilizes technology in conducting its operations. As a user of technology, the City potentially faces cybersecurity threats (e.g., hacking, phishing, viruses, malware and ransomware) on its technology systems. Accordingly, the City may be the target of a cyber-attack on its technology systems that could result in adverse consequences to the City. The City employs a multi-layered approach to combating cybersecurity threats. While the City deploys layered technologies and requires employees to receive cybersecurity training, as required by State law, among other efforts, cybersecurity breaches could cause material disruptions to the City's finances or operations. The costs of remedying such breaches or protecting against future cyber-attacks could be substantial and there is no assurance that these costs will be covered by insurance. Further, cybersecurity breaches could expose the City to litigation and other legal risks, which could cause the City to incur other costs related to such legal claims or proceedings.

OTHER INFORMATION

RATINGS

The Certificates and presently outstanding tax supported debt of the City are rated "Aa2" by Moody's and "AA" by S&P without regard to credit enhancement. 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 City makes no representation as to the appropriateness of the ratings. A credit rating is not a recommendation to buy, hold or sell securities. 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 Certificates.

CITY UTILITY SYSTEM LITIGATION

In 2013, the City entered into a 10-year formal agreement with the Texas Commission on Environmental Quality ("TCEQ") to complete substantial work to improve the performance of the sanitary sewer system under 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 ("SSOs") that are prohibited by the Clean Water Act ("CWA").

Prior to the end of the initial 10-year agreement, the City began working on a plan to continue its improvements to the sanitary sewer system under a new agreement with the State. 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 under the CWA. 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 alleged violations of the CWA including SSOs. Bayou City Waterkeeper has intervened in the lawsuit as permitted by the Clean Water Act. Negotiations with the United States and the State of Texas 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 the United States District Court for the Southern District of Texas. The parties jointly requested a stay in the litigation pending settlement discussions, which the Judge granted, administratively closing the matter. The Court has continued to extend the stay with the parties reporting the status of negotiations periodically. On April 2, 2025, the Court entered an order extending the stay through September 30, 2025 and the parties will next report to the Court on the status of negotiations no later than September 30, 2025. The City believes it is likely that the current negotiations will continue into 2026 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 CERTIFICATES FOR SALE

The sale of the Certificates 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 Certificates have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Certificates been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Certificates under the securities laws of any jurisdiction in which the Certificates may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Certificates 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 Certificates 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 Certificates 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 Certificates be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency. See "OTHER INFORMATION – RATINGS" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Certificates 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 Certificates 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 City has been made of the laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

LEGAL MATTERS

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

Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained 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 CERTIFICATES" (excluding the information under the subcaption "BOOK-ENTRY-ONLY SYSTEM," "SECURITY AND SOURCE OF PAYMENT," and "REMEDIES OF HOLDERS OF THE CERTIFICATES" as to which no opinion is expressed) 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

Ordinance; 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 "OTHER INFORMATION – REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE" and such firm is of the opinion that the information contained under such captions and subcaptions is an accurate description of the laws and legal issues addressed therein. Certain legal matters will be passed upon for the City by Bracewell LLP, Houston, Texas in its capacity as Special Disclosure Counsel for the City.

The legal opinions to be delivered concurrently with the delivery of the Certificates 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 from time to time in matters unrelated to the issuance of the Certificates.

Bracewell LLP has been engaged by and only represents the City in connection with the issuance of the Certificates. The fees of Bracewell LLP are contingent upon the sale and delivery of the Certificates.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

The financial data and other information contained herein have been obtained from City 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.

FINANCIAL ADVISOR

Hilltop Securities Inc. ("HilltopSecurities") is employed as Financial Advisor to the City in connection with the issuance of the Certificates. The Financial Advisor's fee for services rendered with respect to the sale of the Certificates is contingent upon the issuance and delivery of the Certificates. HilltopSecurities, in its capacity as Financial Advisor, has not verified and 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 Certificates, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the City 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.

AUDITED FINANCIAL STATEMENTS

Weaver and Tidwell, L.L.P., the City's independent auditor (the "Auditor") has not reviewed, commented on, or approved, and is not associated with, this Official Statement. The report of the Auditor relating to City's financial statements for the fiscal year ended September 30, 2024 is included in this Official Statement in Appendix B; however, the Auditor has not performed any procedures on such financial statements since the date of such report, and has not performed any procedures on any other financial information of 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. In connection with the City's audited financial statements for the fiscal year ended September 30, 2024, the auditor identified a material weakness in internal control related to procedures for the reconciliation of accounts included in the City's financial statements. In response to such findings, the City has implemented a corrective action plan, including the implementation of a standard procedural checklist for account reconciliations.

FORWARD-LOOKING STATEMENTS

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

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all

of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

UNDERWRITING

The Purchaser has agreed, subject to certain conditions, to purchase the Certificates from the City, at a purchase price of \$ _____ representing the par amount of the Certificates, plus premium of \$ _____, and less an underwriting discount of \$ _____. The Purchaser of the Certificates will be obligated to purchase all of the Certificates if any Certificates are purchased. The Certificates to be offered to the public may be offered and sold to certain dealers (including the Purchaser of the Certificates and other dealers depositing Certificates into investment trusts) at prices lower than the public offering prices of such Certificates and such public offering prices may be changed, from time to time, by the Purchaser of the Certificates.

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

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

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

MISCELLANEOUS

The Ordinance authorizing the issuance of the Certificates also approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its further use in the reoffering of the Certificates by the Purchaser.

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APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

GENERAL INFORMATION

The City of Baytown, Texas (the "City") is the third largest city in the Houston Metropolitan Area. The City is located in Harris County and Chambers County and is 20 miles east of downtown Houston, within 35 minutes of Houston Hobby Airport and 55 minutes of Houston George Bush Intercontinental Airport.

Houston is readily accessible via Interstate 10, a major thoroughfare running through the north side of the City. The City encompasses an area of approximately 53 square miles with an estimated population of 94,081. It is surrounded by six bays and the Houston Ship Channel, which has led not only to the development of a booming petrochemical industry, but also a variety of recreational activities centered on the area's waterways.

HARRIS COUNTY AND CHAMBERS COUNTY CHARACTERISTICS

Harris County is a southeast Texas county and a major component of the Houston Primary Metropolitan Statistical Area. The economy is based on petrochemicals, tourism, shipping, refining, chemicals, space exploration, manufacturing and education. Harris County is ranked as the 6th largest manufacturing county in the country. The Texas Almanac designates cattle, rice and forest products as principal sources of agricultural income.

Chambers County is located on the Upper Texas Gulf Coast, bordered on the east by Jefferson County (Beaumont - Port Arthur), on the west by Harris County (Houston), on the north by Liberty County and on the south and southwest by Galveston County. The oil and gas industry can be seen throughout Chambers County. Numerous petrochemical plants in the area produce the products that are the basis for a host of everyday products. Chambers County is home to a broad spectrum of agricultural opportunities, including ranching, rice, and soybean farming. The commercial fishing industry of Galveston and Trinity Bays also play an important part in Chambers County's economy.

INDUSTRY

The City has created, within its extraterritorial jurisdiction (ETJ), three Industrial Districts. The City has entered into contracts with each industry within these Districts which specify payments to be made to the City in lieu of ad valorem taxes in exchange for the City not annexing the industry during the seven-year term of the contract. See "TAX INFORMATION - TABLE 5 – INDUSTRIAL DISTRICT CONTRACTS" for additional information on the City's industrial district contracts and the revenue derived therefrom. The current, total assessed value of all properties under industrial district agreements with the City of Baytown is approximately \$9.76 billion.

The ExxonMobil Baytown Complex is one of the largest integrated and most technologically advanced petroleum and petrochemical complexes in the world. Founded in 1919, ExxonMobil's Baytown, Texas complex is located on approximately 3,400 acres along the Houston Ship Channel. The Baytown complex is comprised of three manufacturing sites (a refinery, a chemical plant and an olefins plant), the chemical company's technology and engineering complex and a regional downstream engineering office. The Baytown complex is staffed by approximately 3,785 ExxonMobil employees and 2,800 contract personnel, who manage the businesses and operate and maintain the manufacturing facilities on a 24-hour, year-round basis.

Additionally, ExxonMobil constructed a multibillion-dollar ethane cracker at its Baytown complex that was completed in 2018.

Covestro LLC (formerly Bayer Material Science), a subsidiary of Bayer AG, is one of the leading producers of high-performance polymers in North America and is part of the global Covestro business enterprise. Covestro manufactures high-tech polymer materials and develops innovative solutions for products used in many areas of daily life. The main segments served are the automotive, electrical and electronics, construction and sports and leisure industries.

Covestro LLC, is distinguished by steady expansion. Strategically positioned along Cedar Bayou for barge access, the Baytown plant is located on 1,688 acres, of which more than 35% is developed and employs approximately 1,800 people, including permanent contractors. Covestro is a Bayer Group company.

Another major petrochemical partner in the community is the Chevron Phillips Chemical Company LLC (Chevron Phillips Chemical). Along with its affiliates, Chevron Phillips Chemical is one of the world's top producers of olefins and polyolefins and a leading supplier of aromatics, alpha olefins, styrenics, specialty chemicals, piping and proprietary plastics. The company is owned equally by Chevron Corporation and ConocoPhillips. Chevron Phillips Chemical's Cedar Bayou Chemical Plant is the largest of the company's domestic manufacturing facilities with approximately 970 employees and approximately 530 contract employees. Chevron Phillips Chemical Company, LP has completed its new ethylene unit at its Baytown facility with a reported value of over \$3.5 billion.

Enterprise Products, LLC recently completed a propane dehydronation (PDH) facility within the northern portion of the City's extraterritorial jurisdiction valued at \$1.2 billion. See TAX INFORMATION – LOCAL GOVERNMENT CODE CHAPTER 212 AGREEMENT.

Enterprise Products Operating LLC ("EPO") is a leading North American provider of midstream energy services to producers and consumers of natural gas, natural gas liquids ("NGLs"), crude oil, refined products and petrochemicals. EPO's diversified midstream energy asset network links producers of natural gas, NGLs and crude oil from some of the largest supply basins in the United States, Canada and the Gulf of Mexico with domestic consumers and international markets.

Cedar Crossing Business Park is located in Baytown's Chambers County extraterritorial jurisdiction, with infrastructure designed to address the requirements for a wide range of commercial and industrial uses. It also provides two advantages critical to manufacturing and distribution; it is close to hundreds of existing manufacturers, distributors and potential customers and is relatively isolated from potential conflicting land uses. The Texas Department of Economic Development has identified Cedar Crossing as the prime industrial site in the Texas Gulf Coast region. As a planned industrial park, its primary uses are industrial, manufacturing warehousing and distribution. Amenities include water, rail and highway transportation, on-site feedstock pipeline and abundant surface water for process operations. Top-tier companies Home Depot (a 750,000 square foot regional distribution warehouse) and Wal-Mart (a 4 million square-foot distribution center on a 296-acre site employing approximately 600 people) are two of the nationally known corporations that have distribution facilities located in the business park. Other significant tenants include Exel Logistics, National Oilwell Varco, Jindal Steel Works USA, TMK-Ipsco, Samson Controls and Borusan Mannesmann. The most recent additions are two 500,000 square foot warehouses owned by PIRET Holdings, and a world-class, rail-served packaging and distribution complex owned by Ravago Americas, LLC.

AmeriPort Industrial Park, located in Baytown's ETJ and Industrial District No. 3, has also seen growth. In addition to tenants such as Flexsteel Pipe, Delta Chemicals, Hunting Energy Services and INOXCVA, Nation Property Holdings has increased warehouse and distribution center space by over 1.1 million square feet, with more warehouse development planned. Chambers County Logistics Terminal (CCLT), located in Industrial District No. 3, is a 550 acre, world-class logistics operation, encompassing 7-8 million square feet of build-to-suit high standard warehousing (in process). CCLT incorporates a large-scale packaging and distribution apparatus with integrated rail and a hopper car loading station with planned silos. CCLT is owned and operated by Katoen Natie, a multinational company operating 150 logistics platforms in 28 countries. Final estimated job creation at the CCLT site is approximately 400-500 new jobs over a ten year period, and approximately \$450 million in capital investment.

TRANSPORTATION

A wide range of transportation sources, including rail, air, water and highways, are available to companies located in the Baytown/West Chambers County area. Rail service is provided by the Union Pacific railroad.

Two major airports, George Bush Intercontinental Airport and William P. Hobby Airport, serve the Houston region, both located within 30 miles of the City. Both provide passenger and cargo service throughout the United States and international markets. In addition, every major overnight delivery service in the United States serves the Houston region on a daily basis.

The Port of Houston and Houston Ship Channel, which is adjacent to Baytown, is one of the United States' busiest seaports. The Houston Ship Channel stretches 50 miles from the Gulf of Mexico just east of Galveston Island to the Turning Basin six miles from downtown Houston. The waterway is generally 40 feet deep and 400 feet wide. Vessels of 80,000-100,000 deadweight tons routinely navigate the channel.

The City of Baytown recently adopted a Mobility Plan which prioritized infrastructure spending through 2035 to keep Baytown growing at the pace of development in the region. The plan addresses mobility for both people and freight and includes recommendations for mass transit, shallow and deep water port facilities, and expansions of rail and heavy haul roads. The Mobility Plan is an important update to the Comprehensive Plan which will keep Baytown connected to commerce in the Houston region.

EDUCATION ⁽¹⁾

Goose Creek Consolidated Independent School District (the "District"), accredited since 1921, has 16 elementary schools, 5 junior schools, 3 high schools, one special education school, one alternative school, two instructional support centers, one media center, and one vocational center. In addition, an Early College High School is provided through a partnership between the District and the local Junior College District, Lee College. The District encompasses a 134-square mile area and has nearly 24,000 students. The City also has several thriving private schools.

Located in the City since 1934, Lee College is a public co-educational, two-year community college offering liberal arts, technical and continuing education. The 40-acre campus, comprised of ten major buildings and several small facilities, serves in excess of 9,000 students per year.

(1) Source: Baytown Chamber of Commerce.

EMPLOYMENT**City of Baytown**

Principal Employers	2024
	Number of Employees
Goose Creek CISD	3,825
Exxon Mobil-Baytown Complex	3,785
Houston Methodist Hospital	1,970
Covestro	1,450
City of Baytown	1,133
Chevron Phillips	990
Wal-Mart Distribution Center	600
Borusan Mannesman	502
Lee College	500
JSW Steel	420
	<u>15,175</u>

Source: City staff.

* The City of Baytown employment typically increases during summer.

POPULATION

	1980 Official Census	1990 Official Census	2000 Official Census	2010 Official Census	2020 Official Census
City of Baytown	56,917	63,850	66,430	71,802	83,701
City of Houston	1,595,138	1,630,553	1,953,631	2,099,451	2,304,580
Harris County	2,409,544	2,818,199	3,400,578	4,092,459	4,731,145
Chambers County	18,538	20,088	26,031	35,096	46,571

LABOR STATISTICS

	July 2025	Average Annual				
		2024	2023	2022	2021	2020
<u>City of Baytown</u>						
Civilian Labor Force	41,087	40,433	35,169	33,981	34,148	34,598
Employed	38,096	37,715	32,300	31,301	30,023	28,949
Unemployed	2,991	2,718	2,869	2,680	4,125	5,649
Percent Unemployed	7.28%	6.72%	8.16%	7.89%	12.08%	16.33%
<u>Houston-The Woodlands-Pasadena MSA</u>						
Civilian Labor Force	3,880,174	3,835,585	3,621,778	3,509,559	3,442,136	3,404,809
Employed	3,705,916	3,668,691	3,469,061	3,361,919	3,224,425	3,109,509
Unemployed	174,258	166,894	152,717	147,640	217,711	295,300
Percent Unemployed	4.49%	4.35%	4.22%	4.21%	6.32%	8.67%
<u>Harris County</u>						
Civilian Labor Force	2,525,442	2,497,420	2,414,902	2,339,651	2,295,634	2,277,130
Employed	2,410,865	2,386,885	2,312,228	2,240,795	2,149,355	2,072,308
Unemployed	114,577	110,535	102,674	98,856	146,279	204,822
Percent Unemployed	4.54%	4.43%	4.25%	4.23%	6.37%	8.99%

Source: Texas Workforce Commission.

APPENDIX B

EXCERPTS FROM THE
CITY OF BAYTOWN, TEXAS
ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2024

The information contained in this Appendix consists of excerpts from the City of Baytown, Texas Annual Financial Report for the Year Ended September 30, 2024, 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.

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Independent Auditor's Report

To the Honorable Mayor
and City Council
City of Baytown, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the 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 (City), as of and for the year ended September 30, 2024, 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 accompanying 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, 2024, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the 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.

Emphasis of Matter

As discussed in Notes 1.H and 4.H to the basic financial statements, during the year ended September 30, 2024, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 100, *Accounting Changes and Error Corrections*. Beginning net position has been restated in the proprietary fund financial statements as a result of the implementation of this statement. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The City's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the 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.

Weaver and Tidwell, L.L.P.

The Honorable Mayor
and City Council
City of Baytown, Texas

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 and the Required Supplementary Information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Honorable Mayor
and City Council
City of Baytown, Texas

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 supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part 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 GAAS. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information Included in the Annual Comprehensive Financial Report (ACFR)

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2025 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

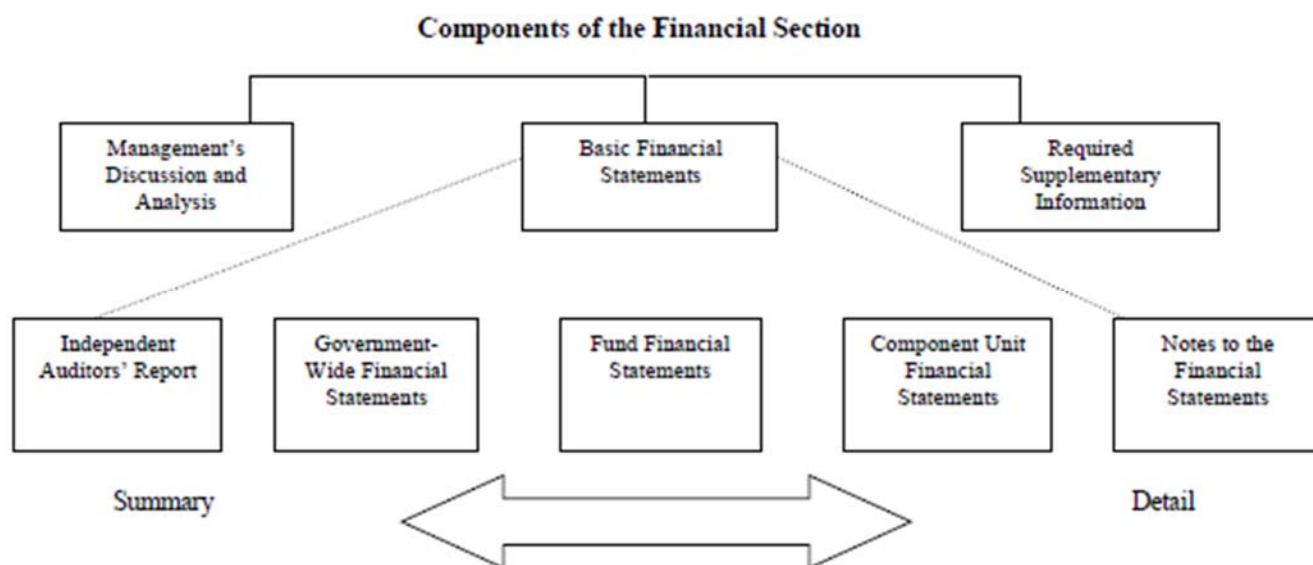
WEAVER AND TIDWELL, L.L.P.

The Woodlands, Texas
June 12, 2025



(Unaudited)

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, 2024. 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.



Overview of the Financial Statements

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 Financial 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 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 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 \$585,440,381 as of September 30, 2024, in the primary government. The largest portion of the City's net position, \$529,491,921, 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.

Statement of Net Position. The following table reflects the condensed Statement of Net Position:

City of Baytown, Texas Net Position						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2024	2023	2024	2023	2024	2023
Current and other assets	\$ 194,356,735	\$ 194,734,774	\$ 119,456,755	\$ 82,606,990	\$ 313,813,490	\$ 277,341,764
Capital assets	412,772,749	412,050,245	278,455,662	249,407,985	691,228,411	661,458,230
Total assets	607,129,484	606,785,019	397,912,417	332,014,975	1,005,041,901	938,799,994
Deferred outflows	33,026,534	50,979,870	4,786,113	6,979,390	37,812,647	57,959,260
Total deferred outflows of resources	33,026,534	50,979,870	4,786,113	6,979,390	37,812,647	57,959,260
Long-term liabilities outstanding	285,767,014	294,911,161	110,061,600	73,339,790	395,828,614	368,250,951
Other liabilities	20,289,311	30,798,585	24,826,719	24,339,805	45,116,030	55,138,390
Total liabilities	306,056,325	325,709,746	134,888,319	97,679,595	440,944,644	423,389,341
Deferred inflows	14,454,488	19,722,021	2,015,035	5,835,619	16,469,523	25,557,640
Total deferred inflows of resources	14,454,488	19,722,021	2,015,035	5,835,619	16,469,523	25,557,640
Net position:						
Net investment in capital assets	314,129,798	312,834,010	215,362,123	200,954,695	529,491,921	513,788,705
Restricted	33,635,654	29,502,852	-	11,033,635	33,635,654	40,536,487
Unrestricted (deficit)	(28,120,247)	(30,003,740)	50,433,053	23,490,821	22,312,806	(6,512,919)
Total net position	\$ 319,645,205	\$ 312,333,122	\$ 265,795,176	\$ 235,479,151	\$ 585,440,381	\$ 547,812,273

A portion of the primary government's net position, \$33,635,654, represents resources that are subject to external restriction on how they may be used.

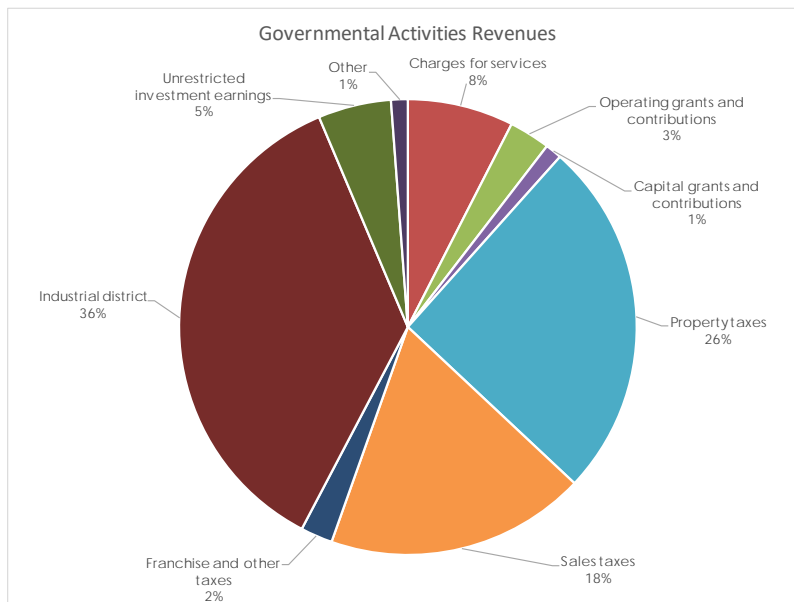
The City's total net position increased by \$37,628,108 during the current fiscal year, an increase of 7 percent in comparison to the prior year. Deferred outflows of resources decreased significantly compared to the prior year due to a decrease in projected and actual earnings for the pension plan. Deferred inflows of resources decreased significantly compared to the prior year due to a decrease in changes in actuarial assumptions and the difference between expected and actual experience for other postemployment benefits. Capital assets increased by a net of \$29,770,181 due to current year capital additions. Current and other assets increased by \$36,471,726 largely due to unspent proceeds from the certificates of obligations issued in May 2024. Total liabilities increased by \$17,555,303 primarily due to the issuance of the new debt net of current year principal payments. Other liabilities decreased mainly due to a decrease in construction payables due at fiscal year end.

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

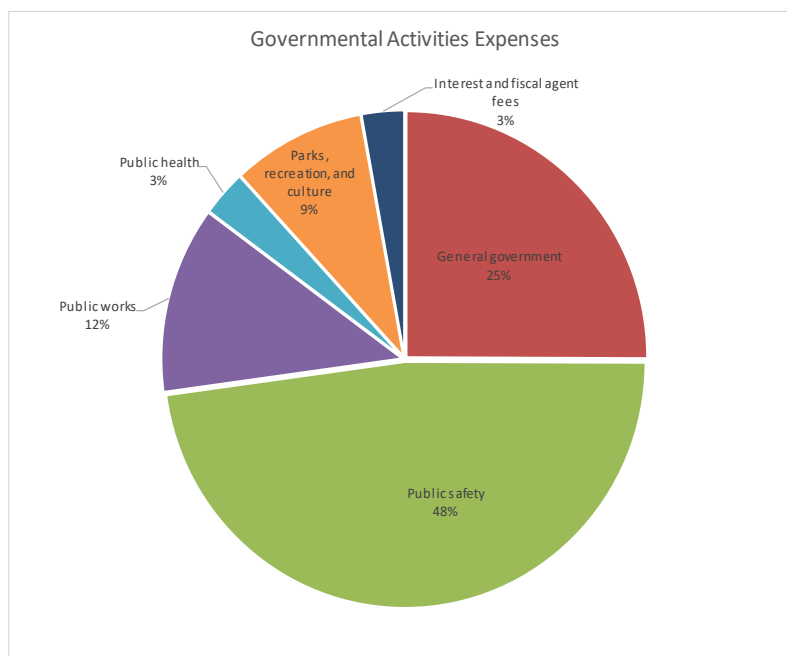
City of Baytown, Texas Change in Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2024	2023	2024	2023	2024	2023
Revenues:						
Program revenues:						
Charges for services	\$ 13,703,763	\$ 7,255,023	\$ 74,256,137	\$ 71,142,737	\$ 87,959,900	\$ 78,397,760
Operating grants and contributions	5,333,374	6,746,460	7,238,296	1,351,768	12,571,670	8,098,228
Capital grants and contributions	2,140,283	31,321,260	6,942,371	3,987,449	9,082,654	35,308,709
General revenues:						
Property taxes	46,598,100	43,619,406	-	-	46,598,100	43,619,406
Sales taxes	33,675,244	33,096,797	-	-	33,675,244	33,096,797
Franchise and other taxes	4,138,320	4,669,231	-	-	4,138,320	4,669,231
Industrial district	65,858,168	67,030,403	-	-	65,858,168	67,030,403
Unrestricted investment earnings	9,442,027	9,097,642	4,673,131	3,140,823	14,115,158	12,238,465
Other	2,172,496	1,530,117	-	-	2,172,496	1,530,117
Total revenues	183,061,775	204,366,339	93,109,935	79,622,777	276,171,710	283,989,116
Expenses:						
General government	42,953,203	39,663,698	-	-	42,953,203	39,663,698
Public safety	81,904,895	78,350,694	-	-	81,904,895	78,350,694
Public works	21,059,182	16,481,571	-	-	21,059,182	16,481,571
Public health	5,235,057	5,134,804	-	-	5,235,057	5,134,804
Parks, recreation, and culture	15,385,808	16,974,203	-	-	15,385,808	16,974,203
Interest and fiscal agent fees	4,909,342	4,909,383	-	-	4,909,342	4,909,383
Water and sewer	-	-	51,425,059	45,763,321	51,425,059	45,763,321
Sanitation	-	-	8,312,642	8,321,776	8,312,642	8,321,776
Bayland Island development	-	-	212,288	212,606	212,288	212,606
Aquatics	-	-	4,392,698	4,973,048	4,392,698	4,973,048
Storm water utility	-	-	2,753,428	2,221,863	2,753,428	2,221,863
Total expenses	171,447,487	161,514,353	67,096,115	61,492,614	238,543,602	223,006,967
Change in net position before transfers	11,614,288	42,851,986	26,013,820	18,130,163	37,628,108	60,982,149
Transfers	(4,302,205)	665,621	4,302,205	(665,621)	-	-
Change in net position	7,312,083	43,517,607	30,316,025	17,464,542	37,628,108	60,982,149
Net position - beginning	312,333,122	268,815,515	235,479,151	218,014,609	547,812,273	486,830,124
Net position - ending	\$ 319,645,205	\$ 312,333,122	\$ 265,795,176	\$ 235,479,151	\$ 585,440,381	\$ 547,812,273

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

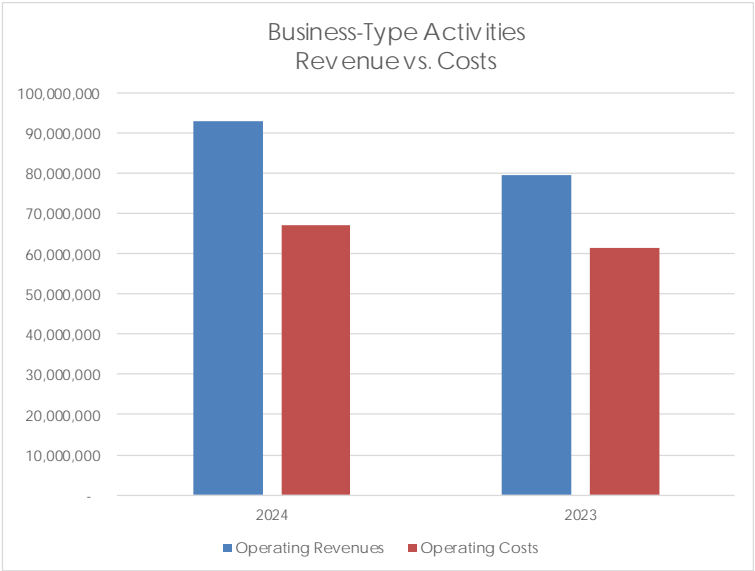


For the year ended September 30, 2024, revenues from governmental activities totaled \$183,061,775. Industrial district payments are the City's largest revenue sources at \$65,858,168 or 36 percent. Capital grants and contributions decreased by \$29,180,977 or 93 percent largely due to the conveyance of a convention center to the City from the Municipal Development District (MDD) in the prior year. Property taxes increased by \$2,978,694 compared to the prior year due to an increase in the assessed value of properties within the City. Sales taxes increased by \$578,447 due to an increase in economic activity within the City. Unrestricted investment earnings increased by \$344,385 primarily due to favorable market conditions.



For the year ended September 30, 2024, expenses for governmental activities totaled \$171,447,487. This represents an increase of \$9,933,134 from last year, primarily due to a budgeted increase in payroll-related expenses.

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



Total business-type activities revenues increased \$13,487,158 or 17 percent, primarily due to an increase in charges for services and operating grants and contributions. 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. The increase in operating grants and contributions is primarily due to utilizing state and local fiscal recovery funds in the current year. Expenses had a net increase of \$5,603,501 or 9 percent, primarily due to an increase in payroll-related expenses and water and sewer supplies. After transfers from governmental activities, total net position increased by \$30,316,025 or 13 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 \$151,237,773. Of the total governmental fund balance, \$387,455 is nonspendable, and \$122,383,154 is restricted for various purposes. The remaining balance of \$28,467,164 is unassigned.

There was a net increase in the combined fund balance of \$7,971,943 from the prior year. This increase in fund balance is in large part due to the increase in fund balance within the TIRZ No. 1 nonmajor governmental fund as a result of current year certificates of obligation proceeds received.

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 \$30,045,469, while total fund balance reached \$30,432,924. 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 23 percent of total general fund expenditures. The general fund had an increase in fund balance of \$4,433,409 primarily due to an increase in ambulance revenues and property taxes.

The debt service fund has a total fund balance of \$811,532 at the end of the current 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 decreased due to the assumption of bonds and certificates payable from the governmental activities to the water and sewer fund in the current year.

The capital projects fund had a total fund balance of \$88,825,277. The capital projects fund had a decrease in fund balance of \$5,743,491, which was primarily the 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 \$8,922,966. Actual general fund revenues exceeded original and amended budgeted revenues by \$7,461,875. This net positive variance includes the positive variance of \$2,292,158 for taxes which is primarily due to additional property tax and sales tax revenues, \$1,884,915 for charges for services due to additional ambulance revenue, and \$1,208,415 for investment earnings as a result of favorable market conditions. This variance also includes a positive variance of \$906,401 for intergovernmental revenue due to an increase in grant revenue and \$1,190,540 for miscellaneous revenue due to proceeds received from a settlement.

Total expenditures were greater than budgeted amounts by a net \$5,364,587 for the fiscal year. This is largely due to an increase in payroll expenditures for public safety departments.

Capital Assets

At the end of fiscal year 2024, the City has invested \$412,772,749 of governmental activities and \$278,455,662 of business-type activities in a variety of capital assets and infrastructure (net of accumulated depreciation/amortization).

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

- The City invested \$9 million in construction in progress for the fiscal year 2024 for business-type activities for water and sewer improvements.
- The City invested \$24 million in construction in progress for the fiscal year 2024 for governmental activities for various street and building improvements.
- The City also received developer contributions of \$6.9 million for business-type activities and \$0.6 million for governmental activities related to the Bay Creek Section 1 annexation during the fiscal year 2024.
- The City conveyed fixed assets to the water and sewer fund for \$17 million and to the storm water utility fund for \$4 million during the fiscal year 2024.

More detailed information about the City's capital assets is presented in Note 3.D. to the financial statements.

Long-term Debt

At the end of the current year, the City's governmental activities had total bonds and certificates of obligation outstanding of \$134,742,651. Of this amount, \$42,757,651 was general obligation debt and \$91,985,000 was certificates of obligation. Business-type activities had total refunding bonds and certificates of obligation outstanding of \$85,542,349 at year end. During the year, the City had a net increase in long-term debt of \$35,674,998.

More detailed information about the City's long-term liabilities is presented in Note 3.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

For fiscal year 2025, the City Council approved a \$284 million budget for Baytown's major operating funds, including the general fund, debt service, hotel/motel tax, aquatics, water and sewer, water and sewer debt service, sanitation, stormwater utility, and garage and warehouse operations. This balanced budget demonstrates the City's ongoing commitment to responsible fiscal stewardship while responding to the evolving needs of Baytown's residents. Notably, the fiscal year 2025 budget includes a property tax rate reduction, from \$0.72000 per \$100 of assessed valuation in fiscal year 2024 to \$0.70042 per \$100 in fiscal year 2025, reflecting the City's efforts to deliver tax relief while maintaining high-quality municipal services and supporting critical investments in the community.

The fiscal year 2025 budget is the third year of Baytown's five-year strategic plan. Key priorities for this budget include continued property tax relief, robust funding for critical infrastructure, expanded economic development initiatives, and the enhancement of recreation and outdoor amenities. The City remains committed to environmental stewardship and fostering a vibrant, connected community, while maintaining the flexibility to respond to emerging needs. Every allocation within the fiscal year 2025 budget is aligned with the City Council's vision and long-term goals, ensuring sustainable growth and resilience for Baytown.

Baytown's long-term vision remains deeply rooted in community engagement and collaboration. Since the city-wide strategic plan was relaunched in 2021, the Strategic Planning Advisory Committee (SPAC), comprised of residents, business leaders, and stakeholders, has ensured that the City's guiding document reflects shared values and aspirations. This five-year, community-driven strategic plan provides a clear framework for policy and decision-making, charting a course for continued growth and vitality. Through robust public participation and prudent resource management, Baytown is well-positioned to meet the challenges and opportunities of fiscal year 2025 and beyond.

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, 2024

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash, cash equivalents and investments	\$ 167,401,996	\$ 115,171,769	\$ 282,573,765
Receivables, net of allowance	16,037,694	12,863,394	28,901,088
Lease receivables	412,709	-	412,709
Due from component unit	166,504	-	166,504
Internal balances	8,578,408	(8,578,408)	-
Inventories	1,076,969	-	1,076,969
Prepaid Items	682,455	-	682,455
Restricted assets:			
Restricted cash and cash equivalents	-	-	-
Capital assets - nondepreciable	115,130,097	32,003,737	147,133,834
Capital assets - depreciable, net	297,642,652	246,451,925	544,094,577
Total assets	607,129,484	397,912,417	1,005,041,901
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding bonds	117,915	314,911	432,826
Pensions	29,316,516	3,983,156	33,299,672
Other postemployment benefits	3,592,103	488,046	4,080,149
Total deferred outflows of resources	33,026,534	4,786,113	37,812,647
Total assets and deferred outflows of resources	640,156,018	402,698,530	1,042,854,548
LIABILITIES			
Accounts payable	13,029,752	5,332,921	18,362,673
Accrued liabilities	6,061,478	278,569	6,340,047
Accrued interest payable	959,264	607,667	1,566,931
Deposits payable	20,988	3,207,472	3,228,460
Due to primary government	-	-	-
Unearned revenue	217,829	14,961,971	15,179,800
Retainage payable	-	438,119	438,119
Noncurrent liabilities:			
Due within one year	31,312,244	8,580,423	39,892,667
Due in more than one year	254,454,770	101,481,177	355,935,947
Total liabilities	306,056,325	134,888,319	440,944,644
DEFERRED INFLOWS OF RESOURCES			
Deferred gain on refunding bonds	152,150	109,876	262,026
Pensions	2,015,033	273,777	2,288,810
Other postemployment benefits	12,007,229	1,631,382	13,638,611
Leases	280,076	-	280,076
Total deferred inflows of resources	14,454,488	2,015,035	16,469,523
Total liabilities and deferred inflows of resources	320,510,813	136,903,354	457,414,167
NET POSITION			
Net investment in capital assets	314,129,798	215,362,123	529,491,921
Restricted for			
Debt service	889,309	-	889,309
Special projects	32,746,345	-	32,746,345
Unrestricted (deficit)	(28,120,247)	50,433,053	22,312,806
TOTAL NET POSITION (DEFICIT)	\$ 319,645,205	\$ 265,795,176	\$ 585,440,381

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

Component Units	
Municipal Development District	Baytown Area Water Authority
\$ 1,201,297	\$ 16,452,691
1,782,387	204,806
-	-
-	-
-	-
46,980	-
80,782	-
7,128,984	28,828,142
-	3,847,798
46,174,404	94,639,518
56,414,834	143,972,955
-	-
-	-
-	-
-	-
56,414,834	143,972,955
1,590,362	4,028,329
3,348	-
1,379,563	942,496
-	-
166,504	-
-	-
-	-
-	3,045,000
71,689,793	59,733,975
74,829,570	67,749,800
-	-
-	-
-	-
-	-
-	-
74,829,570	67,749,800
1,655,332	58,955,612
-	3,973,426
-	-
(20,070,068)	13,294,117
\$ (18,414,736)	\$ 76,223,155

City of Baytown, Texas
Statement of Activities
For the Fiscal Year Ended September 30, 2024

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental activities				
General government	\$ 42,953,203	\$ 1,130,528	\$ 2,365,336	\$ -
Public safety	81,904,895	9,945,166	2,776,505	-
Public works	21,059,182	2,193,127	121,533	2,140,283
Public health	5,235,057	215,645	-	-
Parks, recreation, and culture	15,385,808	219,297	70,000	-
Interest and fiscal agent fees	4,909,342	-	-	-
Total governmental activities	171,447,487	13,703,763	5,333,374	2,140,283
Business-type activities				
Water and sewer	51,425,059	59,906,100	7,238,296	6,942,371
Storm water utility	2,753,428	4,153,295	-	-
Aquatics	4,392,698	3,271,206	-	-
Sanitation	8,312,642	6,872,857	-	-
Bayland Island development	212,288	52,679	-	-
Total business-type activities	67,096,115	74,256,137	7,238,296	6,942,371
Total primary government	\$ 238,543,602	\$ 87,959,900	\$ 12,571,670	\$ 9,082,654
COMPONENT UNIT				
Municipal Development District	16,292,472	8,061,690	-	-
Baytown Area Water Authority	17,051,488	20,165,789	100,000	-
	\$ 33,343,960	\$ 28,227,479	\$ 100,000	\$ -
GENERAL REVENUES				
Taxes:				
Property taxes				
Sales and hotel/motel taxes				
Franchise fees				
Industrial district payments				
Investment income				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position, beginning of year				
NET POSITION, end of year				

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

Net (Expense) Revenue and Changes in Net Position				
Primary Government			Component Unit	
Governmental Activities	Business-type Activities	Total	Municipal Development District	Baytown Area Water Authority
\$ (39,457,339)	\$ -	\$ (39,457,339)	\$ -	\$ -
(69,183,224)	-	(69,183,224)	-	-
(16,604,239)	-	(16,604,239)	-	-
(5,019,412)	-	(5,019,412)	-	-
(15,096,511)	-	(15,096,511)	-	-
(4,909,342)	-	(4,909,342)	-	-
(150,270,067)	-	(150,270,067)	-	-
-	22,661,708	22,661,708	-	-
-	1,399,867	1,399,867	-	-
-	(1,121,492)	(1,121,492)	-	-
-	(1,439,785)	(1,439,785)	-	-
-	(159,609)	(159,609)	-	-
-	21,340,689	21,340,689	-	-
\$ (150,270,067)	\$ 21,340,689	\$ (128,929,378)	\$ -	\$ -
-	-	-	(8,230,782)	-
-	-	-	-	3,214,301
\$ -	\$ -	\$ -	\$ (8,230,782)	\$ 3,214,301
46,598,100	-	46,598,100	-	-
33,675,244	-	33,675,244	8,573,156	-
4,138,320	-	4,138,320	-	-
65,858,168	-	65,858,168	-	-
9,442,027	4,673,131	14,115,158	401,024	883,121
2,172,496	-	2,172,496	1,987,233	-
(4,302,205)	4,302,205	-	-	-
157,582,150	8,975,336	166,557,486	10,961,413	883,121
7,312,083	30,316,025	37,628,108	2,730,631	4,097,422
312,333,122	235,479,151	547,812,273	(21,145,367)	72,125,733
\$ 319,645,205	\$ 265,795,176	\$ 585,440,381	\$ (18,414,736)	\$ 76,223,155

City of Baytown, Texas

Balance Sheet - Governmental Funds

September 30, 2024

	General Fund	Debt Service Fund	Capital Projects Fund
ASSETS			
Cash, cash equivalents and investments	\$ 17,681,862	\$ 811,532	\$ 96,174,650
Receivables, net of allowance	8,790,000	1,037,041	242,817
Lease receivables	412,709	-	-
Due from component unit	166,504	-	-
Due from other funds	11,165,844	-	-
Advances to other funds	2,000,000	-	-
Prepaid Items	387,455	-	-
TOTAL ASSETS	\$ 40,604,374	\$ 1,848,573	\$ 96,417,467
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 1,634,686	\$ -	\$ 7,440,129
Accrued liabilities	4,107,017	-	-
Deposits payable	20,988	-	-
Due to other funds	-	-	-
Unearned revenue	217,829	-	-
Total liabilities	5,980,520	-	7,440,129
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	1,734,445	1,037,041	-
Unavailable revenue - grants	-	-	152,061
Unavailable revenue - leases	280,076	-	-
Unavailable revenue - other	2,176,409	-	-
Total deferred inflows of resources	4,190,930	1,037,041	152,061
FUND BALANCES			
Nonspendable:			
Prepaid items	387,455	-	-
Restricted:			
Debt service	-	811,532	-
Capital projects	-	-	88,825,277
Special projects	-	-	-
Unassigned (deficit)	30,045,469	-	-
Total fund balances	30,432,924	811,532	88,825,277
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES			
TOTAL LIABILITIES AND FUND BALANCES	\$ 40,604,374	\$ 1,848,573	\$ 96,417,467

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

Nonmajor Governmental Funds	Total Governmental Funds
\$ 33,801,246	\$ 148,469,290
5,967,836	16,037,694
-	412,709
-	166,504
-	11,165,844
-	2,000,000
-	387,455
<u>\$ 39,769,082</u>	<u>\$ 178,639,496</u>
\$ 3,773,713	\$ 12,848,528
63,519	4,170,536
-	20,988
2,890,764	2,890,764
-	217,829
<u>6,727,996</u>	<u>20,148,645</u>
-	2,771,486
1,873,046	2,025,107
-	280,076
-	2,176,409
<u>1,873,046</u>	<u>7,253,078</u>
-	387,455
-	811,532
-	88,825,277
32,746,345	32,746,345
(1,578,305)	28,467,164
<u>31,168,040</u>	<u>151,237,773</u>
<u>\$ 39,769,082</u>	<u>\$ 178,639,496</u>



City of Baytown, Texas

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position September 30, 2024

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 151,237,773
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Amounts reported for governmental activities in the statement of net position are different because:

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

Capital assets, cost	\$ 622,468,547	
Capital assets, accumulated depreciation	<u>(209,852,256)</u>	412,616,291

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.	6,973,002
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Deferred charges/gains on issuance of refunding bonds is not recorded in the fund financial statements but is recorded as deferred inflows/outflow of resources on the statement of net position.	(34,235)
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Long-term liabilities are not due and payable in the current period, and therefore are not reported in the fund financial statements. The components of long-term liabilities are:

Bonds payable, par	\$ (134,742,651)	
Bonds payable, premiums	(13,745,382)	
Leases payable	(2,013,456)	
Accrued interest payable	(959,264)	
Compensated absences payable	(17,122,470)	
Arbitrage liability	(1,220,676)	
Net pension liability	(68,423,541)	
Total OPEB liability	<u>(46,906,754)</u>	(285,134,194)

The deferred outflows and inflows of resources related to the net pension liability and the total OPEB liability are recognized on the statement of net position:

Deferred outflows - pensions	\$ 28,955,962	
Deferred outflows - OPEB	3,547,924	
Deferred inflows - pensions	(1,990,251)	
Deferred inflows - OPEB	<u>(11,859,554)</u>	18,654,081

Internal service funds are used by management to charge the cost of certain activities, such as fleet management and health benefits, to individual funds.

A portion of the assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.	<u>15,332,487</u>
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TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	<u>\$ 319,645,205</u>
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City of Baytown, Texas

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds For the Fiscal Year Ended September 30, 2024

	General Fund	Debt Service Fund	Capital Projects Fund
REVENUES			
Taxes and fees	\$ 119,783,144	\$ 15,807,547	\$ -
Licenses and permits	2,429,748	-	-
Charges for services	4,339,510	-	-
Fines and forfeitures	1,552,262	-	-
Intergovernmental	2,690,374	1,694,798	317,492
Investment earnings	2,509,206	25,649	4,863,817
Other	1,678,764	-	-
Total revenues	134,983,008	17,527,994	5,181,309
EXPENDITURES			
Current:			
General government	33,244,113	-	747,079
Public safety	71,311,736	-	-
Public works	6,347,732	-	1,645,138
Public health	4,851,675	-	-
Parks, recreation, and culture	12,378,690	-	-
Debt service:			
Principal	133,822	12,872,487	-
Interest and fiscal charges	16,419	4,606,099	-
Issuance costs	-	-	162,973
Capital outlay	1,395,479	-	34,360,190
Total expenditures	129,679,666	17,478,586	36,915,380
Excess (deficiency) of revenues over (under) expenditures	5,303,342	49,408	(31,734,071)
OTHER FINANCING SOURCES (USES)			
Issuance of certificates of obligation	-	-	14,055,000
Premium on issuance of debt	-	-	1,109,155
Issuance of leases	524,362	-	-
Transfers in	5,562,963	1,200,000	11,300,787
Transfers out	(6,957,258)	(437,876)	(474,362)
Total other financing sources (uses)	(869,933)	762,124	25,990,580
Net change in fund balances	4,433,409	811,532	(5,743,491)
Fund balances, beginning of year	25,999,515	-	94,568,768
FUND BALANCES, END OF YEAR	\$ 30,432,924	\$ 811,532	\$ 88,825,277

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

Nonmajor Governmental Funds	Total Governmental Funds
\$ 14,976,371	\$ 150,567,062
-	2,429,748
351,902	4,691,412
216,777	1,769,039
4,072,300	8,774,964
1,082,851	8,481,523
496,820	2,175,584
21,197,021	178,889,332
5,587,559	39,578,751
3,028,206	74,339,942
6,130,216	14,123,086
-	4,851,675
1,239,907	13,618,597
1,638,538	14,644,847
600,652	5,223,170
79,502	242,475
6,700,061	42,455,730
25,004,641	209,078,273
(3,807,620)	(30,188,941)
7,025,000	21,080,000
554,502	1,663,657
1,174,125	1,698,487
4,336,286	22,400,036
(811,800)	(8,681,296)
12,278,113	38,160,884
8,470,493	7,971,943
22,697,547	143,265,830
\$ 31,168,040	\$ 151,237,773



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 Fiscal Year Ended September 30, 2024

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ 7,971,943**

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

Governmental funds report capital outlays 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. This is the amount of capital asset additions recorded in the current period. 39,110,139

Depreciation expense on capital assets is reported in the statement of activities, but does not require the use of current financial resources. Therefore, depreciation/amortization expense is not reported as expenditures in the governmental funds. (16,637,866)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, transfers, non-cash capital asset contributions) is not reported in the governmental funds. (21,761,325)

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

Unavailable revenues - property taxes	\$ (297,230)	
Unavailable revenues - EMS	2,176,409	
Unavailable revenues - grants	749,630	
	2,628,809	2,628,809

The issuance of long term debt provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond and other debt principal is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the statement of net position. Also, governmental funds report the effect of bond premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences in the treatment of long-term debt and related items was:

Proceeds from issuance of bonds	\$ (21,080,000)	
Premiums on bonds issued	(1,663,657)	
Issuance of leases	(1,698,487)	
Principal paid on leases	297,360	
Amortization of premium on bonds payable	2,284,866	
Amortization of deferred gain on refunding	17,525	
Amortization of deferred loss on refunding	(512,212)	
Accrued interest payable increased	(13,200)	
Principal paid on bonds and other debt	14,347,487	
	(8,020,318)	(8,020,318)

The effect of various transactions between the governmental activities and business-type activities involving the transfer and assumption of long-term debt, unamortized premiums, deferred gain on refunding, and deferred charge on refunding not reported in the governmental funds:

	Transferred	Assumed	
Long-term debt	\$ 10,401,806	\$ (2,594,836)	
Unamortized premiums	1,562,939	(209,900)	
Deferred gain on refunding	72,460	(3,150,253)	
Deferred charge on refunding	-	(54,078)	
	6,028,138		6,028,138

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 the governmental funds. The following long-term liabilities (increased) / decreased:

Compensated absences	\$ (897,566)	
Arbitrage liability	(1,220,676)	
Net pension liability	11,559,786	
Total OPEB liability	(2,164,478)	7,277,066

Some deferred outflows and deferred inflows reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as revenues or expenditures in the governmental funds. The following deferred outflows and deferred inflows of resources changed:

Deferred outflows of resources - pensions	\$ (11,263,614)	
Deferred outflows of resources - OPEB	(2,848,359)	
Deferred inflows of resources - pensions	(1,986,556)	
Deferred inflows of resources - OPEB	6,972,580	
	(9,125,949)	(9,125,949)

An internal service fund is used by management to charge the cost of certain activities, such as fleet management and health benefits, to individual funds. A portion of the change in the net position of the internal service funds is included in governmental activities in the statement of activities.

(158,554)

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES **\$ 7,312,083**

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

City of Baytown, Texas
Statement of Net Position
Proprietary Funds
September 30, 2024

	Business-type Activities	
	Water and Sewer	Storm Water Utility
ASSETS		
Current assets:		
Cash, cash equivalents and investments	\$ 104,556,357	\$ 9,078,188
Receivables, net of allowance	11,235,770	477,829
Inventories	-	-
Prepaid Items	-	-
Total current assets	115,792,127	9,556,017
Noncurrent assets:		
Capital assets:		
Capital assets - nondepreciable	27,847,263	4,156,474
Capital assets - depreciable, net	227,494,357	379,643
Net capital assets	255,341,620	4,536,117
Total noncurrent assets	255,341,620	4,536,117
Total assets	371,133,747	14,092,134
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding bonds	314,911	-
Pensions	3,233,960	336,810
Other postemployment benefits	396,253	41,266
Total deferred outflows of resources	3,945,124	378,076
Total assets and deferred outflows of resources	375,078,871	14,470,210
LIABILITIES		
Current liabilities		
Accounts payable	\$ 4,604,787	\$ 5,467
Accrued liabilities	208,536	31,326
Accrued interest payable	476,417	131,250
Deposits payable	3,203,801	-
Due to other funds	1,802,113	2,017,512
Unearned revenue	14,961,971	-
Retainage payable	438,119	-
Compensated absences, current	906,537	295,357
Bonds, notes and loans payable, current	6,493,361	470,000
Total OPEB liability, current	218,943	22,802
Advances from other funds	-	-
Total current liabilities	33,314,585	2,973,714
Noncurrent liabilities		
Compensated absences	100,728	32,817
Net pension liability	7,641,914	795,888
Net OPEB liability	5,019,866	522,796
Arbitrage liability	306,628	80,938
Bonds, notes and loans payable	68,288,264	16,506,921
Total noncurrent liabilities	81,357,400	17,939,360
Total liabilities	114,671,985	20,913,074
DEFERRED INFLOWS OF RESOURCES		
Deferred gain on refunding bonds	109,876	-
Pensions	222,282	23,150
Other postemployment benefits	1,324,542	137,943
Total deferred inflows of resources	1,656,700	161,093
Total liabilities and deferred inflows of resources	116,328,685	21,074,167
NET POSITION		
Net investment in capital assets (deficit)	204,779,323	(7,385,975)
Unrestricted (deficit)	53,970,863	782,018
TOTAL NET POSITION (DEFICIT)	\$ 258,750,186	\$ (6,603,957)

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

Business-type Activities		Governmental Activities
Total Nonmajor Enterprise Funds	Total Enterprise Funds	Total Internal Service Funds
\$ 1,537,224	\$ 115,171,769	\$ 18,932,706
1,149,795	12,863,394	-
-	-	1,076,969
-	-	295,000
2,687,019	128,035,163	20,304,675
-	32,003,737	-
18,577,925	246,451,925	156,458
18,577,925	278,455,662	156,458
18,577,925	278,455,662	156,458
21,264,944	406,490,825	20,461,133
-	314,911	-
412,386	3,983,156	360,554
50,527	488,046	44,179
462,913	4,786,113	404,733
21,727,857	411,276,938	20,865,866
\$ 722,667	\$ 5,332,921	\$ 181,224
38,707	278,569	1,890,942
-	607,667	-
3,671	3,207,472	-
2,758,783	6,578,408	1,696,672
-	14,961,971	-
-	438,119	-
95,569	1,297,463	140,404
49,936	7,013,297	-
27,918	269,663	24,460
2,000,000	2,000,000	-
5,697,251	41,985,550	3,933,702
10,618	144,163	15,600
974,476	9,412,278	851,999
640,109	6,182,771	559,621
-	387,566	-
559,214	85,354,399	-
2,184,417	101,481,177	1,427,220
7,881,668	143,466,727	5,360,922
-	109,876	-
28,345	273,777	24,782
168,897	1,631,382	147,675
197,242	2,015,035	172,457
8,078,910	145,481,762	5,533,379
17,968,775	215,362,123	156,458
(4,319,828)	50,433,053	15,176,029
\$ 13,648,947	\$ 265,795,176	\$ 15,332,487

City of Baytown, Texas

Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds For the Fiscal Year Ended September 30, 2024

	Business-type Activities	
	Water and Sewer	Storm Water Utility
OPERATING REVENUES		
Water and sewer sales	\$ 51,353,841	\$ -
Service charges and other services	8,552,259	4,153,295
Solid waste collection	-	-
Other revenue	-	-
Total operating revenues	59,906,100	4,153,295
OPERATING EXPENSES		
Personnel costs	11,281,391	1,612,841
Supplies	19,660,964	82,307
Maintenance	4,059,702	248,498
Services	3,782,409	158,931
Claim payments and fees	-	-
Miscellaneous	-	-
Depreciation	10,412,230	167,336
Total operating expenses	49,196,696	2,269,913
Operating income (loss)	10,709,404	1,883,382
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	4,418,763	248,353
Intergovernmental	7,238,296	-
Interest and fiscal charges	(2,001,892)	(301,323)
Issuance costs	(226,471)	(182,192)
Total nonoperating revenues (expenses)	9,428,696	(235,162)
Income before transfers and capital contributions	20,138,100	1,648,220
Capital contributions	18,371,842	4,156,474
Transfers in	3,596,030	-
Transfers out	(4,110,816)	(9,865,787)
Change in net position	37,995,156	(4,061,093)
Net position, beginning of year	220,755,030	-
Changes within reporting entity (major to nonmajor funds)	-	-
Changes within reporting entity (nonmajor to major funds)	-	(2,542,864)
Net position, beginning of year - restated	220,755,030	(2,542,864)
NET POSITION, END OF YEAR	\$ 258,750,186	\$ (6,603,957)

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

Business-type Activities				Governmental Activities
Aquatics	Sanitation	Total Nonmajor Enterprise Funds	Total Enterprise Funds	Total Internal Service Funds
\$ -	\$ -	\$ -	\$ 51,353,841	\$ -
-	-	3,323,885	16,029,439	19,783,545
-	-	6,862,741	6,862,741	-
-	-	10,116	10,116	1,418,190
-	-	10,196,742	74,256,137	21,201,735
-	-	3,036,899	15,931,131	1,191,271
-	-	523,463	20,266,734	2,116,002
-	-	185,287	4,493,487	25,267
-	-	7,387,664	11,329,004	45,977
-	-	-	-	16,472,550
-	-	461,519	461,519	-
-	-	1,297,985	11,877,551	34,726
-	-	12,892,817	64,359,426	19,885,793
-	-	(2,696,075)	9,896,711	1,315,942
-	-	6,015	4,673,131	960,504
-	-	-	7,238,296	-
-	-	(24,811)	(2,328,026)	-
-	-	-	(408,663)	-
-	-	(18,796)	9,174,738	960,504
-	-	(2,714,871)	19,071,449	2,276,446
-	-	-	22,528,316	-
-	-	65,625	3,661,655	625,000
-	-	(968,792)	(14,945,395)	(3,060,000)
-	-	(3,618,038)	30,316,025	(158,554)
14,792,910	(1,313,893)	1,245,104	235,479,151	15,491,041
(14,792,910)	1,313,893	13,479,017	-	-
-	-	2,542,864	-	-
-	-	17,266,985	235,479,151	15,491,041
\$ -	\$ -	\$ 13,648,947	\$ 265,795,176	\$ 15,332,487

City of Baytown, Texas
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended September 30, 2024

	Business-type Activities				Governmental Activities
	Water and Sewer	Storm Water Utility	Total Nonmajor Enterprise Funds	Total Enterprise Funds	Total Internal Service Funds
OPERATING ACTIVITIES					
Receipts from customers and users	\$ 54,741,310	\$ 4,023,716	\$ 12,060,798	\$ 70,825,824	\$ 2,757,843
Receipts from interfund charges for central services	-	-	-	-	2,061,648
Receipts from interfund charges for risk management services	-	-	-	-	16,382,244
Payments to suppliers and service providers	(25,309,444)	(700,345)	(7,214,908)	(33,224,697)	(18,594,949)
Payments to employees for salaries and benefits	(12,515,545)	(1,333,343)	(3,320,841)	(17,169,729)	(1,290,899)
Net cash provided by operating activities	16,916,321	1,990,028	1,525,049	20,431,398	1,315,887
NONCAPITAL FINANCING ACTIVITIES					
Intergovernmental non-capital grants	1,519,164	-	-	1,519,164	-
Transfers from other funds	3,596,030	-	65,625	3,661,655	565,000
Transfers to other funds	(4,110,816)	(9,865,787)	(310,000)	(14,286,603)	(3,000,000)
Net cash provided by (used for) noncapital financing activities	1,004,378	(9,865,787)	(244,375)	(9,105,784)	(2,435,000)
CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition and construction of capital assets	(13,300,132)	-	-	(13,300,132)	(46,282)
Principal paid on long-term debt	(6,124,711)	-	(47,802)	(6,172,513)	-
Interest paid on long-term debt	(2,455,274)	(287,192)	(22,980)	(2,765,446)	-
Intergovernmental capital grants	5,719,132	-	-	5,719,132	-
Proceeds from issuance of debt	20,097,326	16,992,786	-	37,090,112	-
Net cash provided by (used for) capital and related financing activities	3,936,341	16,705,594	(70,782)	20,571,153	(46,282)
INVESTING ACTIVITIES					
Investment earnings	4,418,763	248,353	6,015	4,673,131	960,504
Net cash provided by investing activities	4,418,763	248,353	6,015	4,673,131	960,504
Net change in cash and cash equivalents	26,275,803	9,078,188	1,215,907	36,569,898	(204,891)
Cash and cash equivalents, beginning of year	78,280,554	-	321,317	78,601,871	19,137,597
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 104,556,357	\$ 9,078,188	\$ 1,537,224	\$ 115,171,769	\$ 18,932,706

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

City of Baytown, Texas
Statement of Cash Flows - Continued
Proprietary Funds
For the Fiscal Year Ended September 30, 2024

	Business-type Activities				Governmental Activities
	Water and Sewer	Storm Water Utility	Total Nonmajor Enterprise Funds	Total Enterprise Funds	Total Internal Service Funds
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating income (loss)	\$ 10,709,404	\$ 1,883,382	\$ (2,696,075)	\$ 9,896,711	\$ 1,315,942
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	10,412,230	167,336	1,297,985	11,877,551	34,726
(Increase) decrease in assets and deferred outflows					
Accounts receivable	(5,051,737)	(129,579)	1,864,056	(3,317,260)	-
Prepaid items	-	-	-	-	(30,000)
Inventory	-	-	-	-	(267,310)
Deferred outflows of resources - pension and OPEB	1,459,759	312,745	258,274	2,030,778	181,153
Increase (decrease) in liabilities and deferred inflows					
Accounts payable	446,873	(210,609)	107,745	344,009	(26,995)
Accrued liabilities	9,111	5,471	7,772	22,354	(622,797)
Retainage payable	(55,355)	-	-	(55,355)	-
Deposits payable	(604,752)	-	-	(604,752)	-
Due to other funds	1,802,113	-	1,485,280	3,287,393	1,013,673
Advances from other funds	-	-	(250,000)	(250,000)	-
Compensated absences	94,746	225,662	(4,075)	316,333	24,865
Net pension and OPEB liability	(2,295,236)	(151,886)	(433,359)	(2,880,481)	(244,367)
Unearned revenue	491,699	-	-	491,699	-
Deferred inflows of resources - pension and OPEB	(502,534)	(112,494)	(112,554)	(727,582)	(63,003)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 16,916,321	\$ 1,990,028	\$ 1,525,049	\$ 20,431,398	\$ 1,315,887
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital asset contributions from governmental activities	\$ 17,457,609	\$ 4,156,474	\$ -	\$ -	\$ -
Capital asset contributions from developers	6,942,371	-	-	-	-
Net transfers/assumption of bonded debt	(5,369,346)	-	(658,792)	-	-

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



City of Baytown, Texas

Notes to the Basic Financial Statements

Note 1. 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.

Blended Component Units

1. *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 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.

City of Baytown, Texas

Notes to the Basic Financial Statements

2. 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.

3. 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.

4. 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.

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

City of Baytown, Texas

Notes to the Basic Financial Statements

6. 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.

Discretely Presented Component Units

1. 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.

2. 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 the Basic Financial Statements

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 continuing basis will be financed or recovered primarily through user charges. The water and sewer fund and the storm water utility fund are considered major funds for reporting purposes. The nonmajor funds include the aquatics, sanitation, and Bayland Island funds.

City of Baytown, Texas

Notes to the Basic Financial Statements

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 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.

City of Baytown, Texas

Notes to the Basic Financial Statements

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

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 cash equivalents."

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

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

City of Baytown, Texas
Notes to the Basic Financial Statements

Restricted Assets

Certain resources of BAWA and MDD 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.

Capital Assets

Capital assets, which include property, plant, equipment, construction in progress, right-to-use assets, 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. 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.

Land and construction in progress are not depreciated. Property, plant, equipment, right-to-use assets, and infrastructure assets of the primary government, as well as the component units, are depreciated/amortized 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
Right-to-use assets	Shorter of lease term or useful life

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 the Basic Financial Statements

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, grants, and other. These amounts are deferred and recognized as inflows of resources in the period that the amounts becomes available.

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.

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 the Basic Financial Statements

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.

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 \$50,000 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 as revenue over the life of the lease term.

City of Baytown, Texas

Notes to the Basic Financial Statements

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.

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.

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.

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 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.

City of Baytown, Texas

Notes to the Basic Financial Statements

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.

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.

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.

G. Revenues and Expenditures/Expenses

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.

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.

City of Baytown, Texas

Notes to the Basic Financial Statements

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.

H. Implementation of New Accounting Standards

Governmental Accounting Standards Board (GASB) pronouncements which have been implemented:

GASB Statement No. 99, *Omnibus 2022* (GASB 99), enhances comparability in accounting and financial reporting and improves consistency of authoritative literature by addressing 1) practice issues that have been identified during implementation and application of certain GASB statements and 2) accounting and financial reporting for financial guarantees. The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance. The requirements related to leases were implemented in the City's fiscal year 2022 financial statements in conjunction with GASB 87. The requirements related to PPPs and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. These requirements for GASB 99 were implemented in the City's fiscal year 2023 financial statements in conjunction with GASB 94 and GASB 96 as described previously. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter. These requirements for GASB 99 were implemented in the City's fiscal year 2024 financial statements. There was no impact to the City's financial statements upon implementation.

GASB Statement No. 100, *Accounting Changes and Error Corrections* (GASB 100), enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This statement 1) defines accounting changes and corrections of errors; 2) prescribes the accounting and financial reporting for each type of accounting change and error corrections; and 3) clarifies required note disclosures. The requirements of this statement are effective for reporting periods beginning after June 15, 2023, with earlier application encouraged. GASB 100 was implemented in the City's fiscal year 2024 financial statements with changes within the reporting entity as described in Note 4.H.

I. Upcoming Accounting Pronouncements

The following GASB pronouncements will become effective in future reporting periods. City management has not determined their impact:

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

City of Baytown, Texas

Notes to the Basic Financial Statements

GASB Statement No. 102, *Certain Risk Disclosures* (GASB 102), improves financial reporting by providing users of financial statements with essential information regarding certain concentrations of constraints and related events that have occurred or have begun to occur that make a government vulnerable to a substantial impact. The requirements of this statement are effective for reporting periods beginning after June 15, 2024, with earlier application encouraged. GASB 102 will be implemented in the City's fiscal year 2025 financial statements and the impact has not yet been determined.

GASB Statement No. 103, *Financial Reporting Model Improvements* (GASB 103), improves key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This statement also addresses certain application issues. The requirements of this statement are effective for reporting periods beginning after June 15, 2025, with earlier application encouraged. GASB 103 will be implemented in the City's fiscal year 2026 financial statements and the impact has not yet been determined.

GASB Statement No. 104, *Disclosure of Certain Capital Assets* (GASB 104), establishes requirements for certain types of capital assets to be disclosed separately in the capital assets note disclosures. It also establishes requirements for capital assets held for sale, including additional disclosures for those capital assets. The requirements of this statement are effective for reporting periods beginning after June 15, 2025, with earlier application encouraged. GASB 104 will be implemented in the City's fiscal year 2026 financial statements and the impact has not yet been determined.

Note 2. Stewardship, Compliance, and Accountability

A. 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.

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, 2024, the City Manager approved various budget revisions within departments.

City of Baytown, Texas

Notes to the Basic Financial Statements

Deficit Fund Balance/Net Position

The Storm Water Utility Fund reported a deficit net position of \$6,603,957 due to transfers out for capital projects that will be conveyed back upon completion. The Sanitation Fund reported a deficit in net position of \$2,753,678 due to an increase in contract fees for garbage collection. The Central Services fund reported deficit net position of \$1,807,684 due to continued operating losses. The Emergency Management Fund, Community Development Block Grant Fund, and Police Grant Fund reported deficit fund balances of \$699,827, \$165,169, and \$634,564, respectively, due to deferral of revenue related to federal grant reimbursements that have not been collected. The Bayview Heights PID Fund reported negative fund balances of \$26,310 due to administrative expenses in the prior year related to the creation of the PID. The Bay Creek PID Fund reported negative fund balance of \$52,435 due to current year excess expenditures over revenues. The MDD reported a deficit net position of \$18,414,736 due to the conveyance of the convention center to the City in the prior year.

Expenditures in Excess of Appropriations

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

General fund:		
City facilities	\$	1,308,073
Police		2,419,276
Fire		776,986
Public works administration		23,783
Principal		133,823
Interest and fiscal charges		16,419

Note 3. Detailed Notes on all Funds

A. Deposits and Investments

As of September 30, 2024, the City and its component units had the following investments:

Investment Type	Value	Weighted Average Maturity (Days)	Credit Risk
Cash deposits and on hand	\$ 23,813,575		
Cash equivalents:			
External investment pools:			
TexPool	173,223,552	26	AAAm
TexSTAR	77,661,533	26	AAAm
Texas CLASS	23,909,033	83	AAAm
Total cash and cash equivalents, including restricted	\$ 298,607,693		
Investments:			
Commerical paper	\$ 4,949,705	76	A-1+
U.S. government and agencies	12,798,744	481	AAA
U.S. Treasury notes	19,828,737	133	AAA - A-1+
Total investments	\$ 37,577,186		
Portfolio weighted average maturity		242	

City of Baytown, Texas
Notes to the Basic Financial Statements

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:

- 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, 2024, the City had the following recurring fair value measurements:

Investment Type	September 30, 2024	Fair Value Assets (Level 2)
Investments by fair value level:		
U.S. Government Agency Bonds/Notes:		
Federal Home Loan Bank	\$ 5,037,215	\$ 5,037,215
Federal Home Loan Mortgage Corp	3,000,369	3,000,369
Federal Farm Credit Banks Funding Corporation	4,761,160	4,761,160
Treasury Notes	19,828,737	19,828,737
Commercial paper	4,949,705	4,949,705
Total	\$ 37,577,186	\$ 37,577,186

U.S. Government agency bonds and notes, commercial paper and collateralized mortgage obligations included in Level 2 of the fair value hierarchy are valued using a market approach based on a matrix pricing technique, whereby valuation is determined in reference to benchmark prices and interest rates.

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.

City of Baytown, Texas

Notes to the Basic Financial Statements

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.

As of September 30, 2024, 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, 2024 consist of a variety of bonds and discount notes issued by the Federal Home Loan Bank, Federal Farm Credit Banks Funding Corporation, 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, 2024, the fair value of pledged securities and FDIC coverage was less than the bank balance by \$4,041,126.

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.

City of Baytown, Texas

Notes to the Basic Financial Statements

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 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.

Texas CLASS

Texas CLASS is an external investment pool measured at fair value, i.e. net asset value. The investment pool's strategy is to seek preservation of principal, liquidity and current income through investment in a diversified portfolio of short term marketable securities. There are no unfunded commitments related to the investment pool. Texas CLASS has a redemption notice period of one day and may redeem daily. The investment pool's authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities market, general banking moratorium or national or state emergency that affects the pool's liquidity. The Texas CLASS portfolio consists of U.S. Government securities; collateralized repurchase and reverse repurchase agreements; AAA rated money market mutual funds; and commercial paper.

B. Receivables

The following comprise receivable balances at year end:

Governmental Funds

	General	Debt Service Service	Capital Projects	Nonmajor Governmental	Total Funds
Taxes	\$ 6,410,076	\$ 1,345,516	\$ -	\$ 2,399,180	\$ 10,154,772
Accounts	5,575,518	-	182,700	114,417	5,872,635
Intergovernmental	-	-	-	132,531.00	132,531
Interest	48,972	-	60,117	-	109,089
Grants	96,206	-	-	3,321,708	3,417,914
Less allowance	(3,340,772)	(308,475)	-	-	(3,649,247)
Totals	\$ 8,790,000	\$ 1,037,041	\$ 242,817	\$ 5,967,836	\$ 16,037,694

City of Baytown, Texas

Notes to the Basic Financial Statements

Proprietary Funds

	Water and Sewer	Stormwater	Nonmajor Enterprise	Total Funds
Accounts	\$ 7,898,834	\$ 477,829	\$ 1,149,795	\$ 9,526,458
Interest	12,865	-	-	12,865
Grants	4,538,056	-	-	4,538,056
Less allowance	(1,213,985)	-	-	(1,213,985)
Totals	\$ 11,235,770	\$ 477,829	\$ 1,149,795	\$ 12,863,394

C. Leases Receivable

The City has entered into a lease agreement (the "Agreement") 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 Agreement expires May 20, 2028. As of September 30, 2024, the value of the leases receivable is \$412,709 for governmental activities. The interest rate on the lease receivable is 4.5%. The lease revenue that was recorded with charges for services for fiscal year 2024 was \$184,854 for which equals the amounts that were amortized for deferred inflows of resources for leases in the current year.

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 September 30,	Governmental Activities			Amortization of Deferred Inflows
	Principal	Interest	Total	
2025	\$ 108,575	\$ 16,351	\$ 124,926	\$ 76,967
2026	113,563	11,363	124,926	76,967
2027	118,780	6,146	124,926	76,967
2028	71,791	1,081	72,872	49,175
Total	\$ 412,709	\$ 34,941	\$ 447,650	\$ 280,076

City of Baytown, Texas
Notes to the Basic Financial Statements

D. Capital Assets

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	\$ 19,725,039	\$ 14,384	\$ -	\$ 19,739,423
Construction in progress	93,527,815	23,848,172	(21,985,313)	95,390,674
Total capital assets not being depreciated/amortized	113,252,854	23,862,556	(21,985,313)	115,130,097
Capital assets being depreciated/amortized:				
Buildings	135,129,857	671,784	7,000	135,808,641
Improvements other than buildings	34,239,174	753,640	(2,691,024)	32,301,790
Machinery and equipment	77,795,698	6,336,991	(790,872)	83,341,817
Infrastructure	245,881,356	5,832,963	2,821,909	254,536,228
Right-to-use asset	682,600	1,698,487	-	2,381,087
Total capital assets being depreciated/amortized	493,728,685	15,293,865	(652,987)	508,369,563
Less accumulated depreciation/amortization for:				
Buildings	(38,443,489)	(3,607,583)	-	(42,051,072)
Improvements other than buildings	(9,758,178)	(970,418)	130,440	(10,598,156)
Machinery and equipment	(55,064,732)	(5,853,893)	746,535	(60,172,090)
Infrastructure	(91,637,212)	(5,955,321)	-	(97,592,533)
Right-to-use asset	(27,683)	(285,377)	-	(313,060)
Total accumulated depreciation/amortization	(194,931,294)	(16,672,592)	876,975	(210,726,911)
Total capital assets, net	298,797,391	(1,378,727)	223,988	297,642,652
Governmental activities capital assets, net	\$ 412,050,245	\$ 22,483,829	\$ (21,761,325)	\$ 412,772,749

* Includes current year transfers between governmental and business-type activities, see Note 3.F.

Depreciation/amortization was charged to governmental functions as follows:

General government	\$ 3,425,761
Public safety	3,905,299
Public works	7,007,242
Public health	424,145
Parks, recreation and culture	1,875,419
Capital assets held by the City's internal service funds are charged to various functions based on their usage of the assets	34,726
Total governmental activities depreciation/amortization expense	\$ 16,672,592

City of Baytown, Texas

Notes to the Basic Financial Statements

Construction Commitments – Governmental Activities

The City has active governmental activities construction projects as of September 30, 2024. The projects include the following:

Project Description	Authorized Contract	Contract Expenditures	Remaining Commitment
100 Block Town Square	\$ 200,000	\$ 44,918	\$ 155,082
Allen and Edgebrook Street Reconstruction	10,302,764	9,580,219	722,545
Bluebill Bay and Angelfish Cove Improvements	244,411	110,395	134,016
Disk Golf Course	811,000	106,337	704,663
Environmental Health	3,650,000	11,385	3,638,615
Facilities Improvements	1,550,000	346,934	1,203,066
Fire Boat Storage	600,000	137,071	462,929
FS #2 Replacement	1,700,000	415,453	1,284,547
Garth Road Improvements	20,436,051	12,153,187	8,282,864
HC FTA Sidewalk City Port	1,685,335	1,146,441	538,894
I-10 Intersection Improvement	3,366,362	285,060	3,081,302
Lakewood Dog Park	220,000	73,116	146,884
Market Street Revitalization	1,075,358	934,605	140,753
Mosquito Control	170,000	10,415	159,585
New Castle Park	133,758	4,573	129,185
North Alexander Traffic	850,000	461,731	388,269
Park Operations Center	2,152,631	1,878,050	274,581
Public Safety Building	71,500,000	67,816,627	3,683,373
Savell Drive	3,429,680	3,325,992	103,688
Sidewalk Plan	200,000	173,865	26,135
Street Recon Design	5,000,000	517,732	4,482,268
Thompson Park	140,000	69,388	70,612
Wayne Gray Sports Complex Improvements	2,125,008	851,252	1,273,756
Total	\$ 131,542,358	\$ 100,454,746	\$ 31,087,612

City of Baytown, Texas

Notes to the Basic Financial Statements

Business-Type Activities

The following is a summary of changes in capital assets for business-type activities for the year ended September 30, 2024:

	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	18,858,979	9,027,292	2,218,498	30,104,769
Total capital assets not being depreciated	20,757,947	9,027,292	2,218,498	32,003,737
Capital assets being depreciated:				
Buildings and systems	65,080,695	-	-	65,080,695
Improvements other than buildings	312,537,110	13,102,448	14,373,847	340,013,405
Machinery and equipment	14,758,512	94,636	(255,220)	14,597,928
Infrastructure	-	-	2,238,017	2,238,017
Total capital assets being depreciated	392,376,317	13,197,084	16,356,644	421,930,045
Less accumulated depreciation for:				
Buildings and systems	(60,343,401)	(1,321,385)	-	(61,664,786)
Improvements other than buildings	(92,390,828)	(9,501,637)	(129,510)	(102,021,975)
Machinery and equipment	(10,992,050)	(942,628)	255,220	(11,679,458)
Infrastructure	-	(111,901)	-	(111,901)
Total accumulated depreciation	(163,726,279)	(11,877,551)	125,710	(175,478,120)
Total capital assets, net	228,650,038	1,319,533	16,482,354	246,451,925
Business-type activities capital assets, net	\$ 249,407,985	\$ 10,346,825	\$ 18,700,852	\$ 278,455,662

* Includes current year transfers between governmental and business-type activities, see Note 3.F.

Depreciation was charged to business-type functions as follows:

Water and sewer	\$ 10,412,230
Sanitation	94,185
Bayland island	212,288
Storm water	167,336
Aquatics	991,512
Total business-type activities depreciation expense	\$ 11,877,551

City of Baytown, Texas

Notes to the Basic Financial Statements

Construction Commitments – Business-Type Activities

The City has active business-type activities construction projects as of September 30, 2024. The projects include the following:

Project Description	Authorized Contract	Contract Expenditures	Remaining Commitment
Abbe Lift Station	\$ 1,100,000	\$ 170,535	\$ 929,465
Baker Road Lift Station	5,045,082	4,770,759	274,323
Central District WWTP Equipment	1,001,837	1,837	1,000,000
Chambers Commons	7,638,306	6,226,866	1,411,440
Connally Annexation Utility	2,735,683	2,687,391	48,292
East District WWTP Phase II	4,833,717	3,190,662	1,643,055
East District WWTP Phase I	11,479,392	3,557,653	7,921,739
I-10 Lift station	2,363,217	1,826,811	536,406
Lanie Lift Station Upgrades	1,314,791	661,214	653,577
Robert E Lee High School Drainage	1,826,970	1,696,973	129,997
South Main Storm Sewer	2,260,000	493,725	1,766,275
Texas Ave Drainage Improvement	1,374,403	791,901	582,502
Texas Ave Lift Station	990,000	355,738	634,262
West District WWTP Building Upgrades	340,823	262,711	78,112
WWTP & LS Scada Upgrades	4,366,634	1,784,345	2,582,289
WWTP Upgrade	900,000	635,252	264,748
Total	\$ 49,570,855	\$ 29,114,373	\$ 20,456,482

City of Baytown, Texas

Notes to the Basic Financial Statements

Discretely Presented Component Units

The following is a summary of changes in capital assets for BAWA for the year ended September 30, 2024:

	Beginning Balance	Increases	(Decreased)	Ending Balance
Capital assets not being depreciated:				
Land	\$ 2,877,960	\$ -	\$ -	\$ 2,877,960
Construction in progress	6,009,060	969,838	(6,009,060)	969,838
Total capital assets not being depreciated	8,887,020	969,838	(6,009,060)	3,847,798
Capital assets being depreciated:				
Buildings	59,216,042	-	-	59,216,042
Improvements other than buildings	58,914,226	6,011,236	-	64,925,462
Machinery and equipment	7,163,544	98,492	(20,879)	7,241,157
Total capital assets being depreciated	125,293,812	6,109,728	(20,879)	131,382,661
Total capital assets	134,180,832	7,079,566	(6,029,939)	135,230,459
Less accumulated depreciation for:				
Buildings	(3,626,894)	(1,204,237)	-	(4,831,131)
Improvements other than buildings	(24,390,769)	(1,732,806)	-	(26,123,575)
Machinery and equipment	(5,365,294)	(444,022)	20,879	(5,788,437)
Total accumulated depreciation	(33,382,957)	(3,381,065)	20,879	(36,743,143)
Total capital assets being depreciated, net	91,910,855	2,728,663	-	94,639,518
Discretely presented component unit capital assets, net	\$ 100,797,875	\$ 3,698,501	\$ (6,009,060)	\$ 98,487,316

The following is a summary of changes in capital assets for MDD for the year ended September 30, 2024:

	Beginning Balance	Increases	(Decreases)	Ending Balance
Capital assets being depreciated:				
Buildings	\$ 46,906,233	\$ -	\$ -	\$ 46,906,233
Total capital assets being depreciated	46,906,233	-	-	46,906,233
Less accumulated depreciation for:				
Buildings	-	(731,829)	-	(731,829)
Total accumulated depreciation	-	(731,829)	-	(731,829)
Total capital assets being depreciated, net	46,906,233	(731,829)	-	46,174,404
Discretely presented component unit capital assets, net	\$ 46,906,233	\$ (731,829)	\$ -	\$ 46,174,404

City of Baytown, Texas
Notes to the Basic Financial Statements

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, 2024. In general, the City uses the general, debt service, fire control, prevention, and EMS district, and TIRZ No. 1 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	\$ 52,927,108	\$ 2,594,836	\$ (12,764,293)	\$ 42,757,651	\$ 7,451,703
Certificates of obligation	82,890,000	21,080,000	(11,985,000)	91,985,000	5,930,000
Plus deferred amounts:					
For premiums	15,719,631	1,873,557	(3,847,806)	13,745,382	-
Leases	612,329	1,698,487	(297,360)	2,013,456	395,101
Total bonds, notes and other payables	152,149,068	27,246,880	(28,894,459)	150,501,489	13,776,804
Other liabilities:					
Arbitrage liability	-	1,220,676	-	1,220,676	-
Net pension liability	81,088,838	44,372,192	(56,185,490)	69,275,540	-
Total OPEB liability	45,317,212	4,272,678	(2,099,055)	47,490,835	1,984,813
Compensated absences	16,356,043	11,594,040	(10,671,609)	17,278,474	15,550,627
Total other liabilities	142,762,093	61,459,586	(68,956,154)	135,265,525	17,535,440
Total governmental activities	\$ 294,911,161	\$ 88,706,466	\$ (97,850,613)	\$ 285,767,014	\$ 31,312,244

* Includes current year transfers between governmental and business-type activities, see Note 3.F.

	Beginning Balance	Additions*	Reductions*	Ending Balance	Amounts Due Within One Year
Business-type activities:					
Bonds, notes, and other payables:					
General obligation bonds	\$ 25,357,894	\$ 4,961,806	\$ (7,257,351)	\$ 23,062,349	\$ 4,578,297
Certificates of obligation	23,435,000	40,555,000	(1,510,000)	62,480,000	2,435,000
Plus deferred amounts:					
For premium	4,676,410	3,538,051	(1,389,114)	6,825,347	-
Total bonds, notes and other payables	53,469,304	49,054,857	(10,156,465)	92,367,696	7,013,297
Other Liabilities:					
Arbitrage liability	-	387,566	-	387,566	-
Net pension liability	11,851,567	5,928,939	(8,368,228)	9,412,278	-
Total OPEB liability	6,893,626	492,416	(933,608)	6,452,434	269,663
Compensated absences	1,125,293	1,507,153	(1,190,820)	1,441,626	1,297,463
Total other liabilities	19,870,486	8,316,074	(10,492,656)	17,693,904	1,567,126
Total business-type activities	\$ 73,339,790	\$ 57,370,931	\$ (20,649,121)	\$ 110,061,600	\$ 8,580,423

* Includes current year transfers between governmental and business-type activities. See Note 3.F.

City of Baytown, Texas

Notes to the Basic Financial Statements

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Discretely presented component units:					
Revenue bonds:					
BAWA	\$ 38,580,000	\$ 21,525,000	\$ (2,005,000)	\$ 58,100,000	\$ 3,045,000
MDD	62,765,000	-	-	62,765,000	-
Total revenue bonds	101,345,000	21,525,000	(2,005,000)	120,865,000	3,045,000
Less deferred amounts:					
For premiums:					
BAWA	2,557,554	2,404,401	(282,980)	4,678,975	-
MDD	9,286,765	-	(361,972)	8,924,793	-
Total premiums	11,844,319	2,404,401	(644,952)	13,603,768	-
Total discretely presented component units	\$ 113,189,319	\$ 23,929,401	\$ (2,649,952)	\$ 134,468,768	\$ 3,045,000

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, \$1,592,084 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 was 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 are managed, and operated by Hyatt Corporation ("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.

City of Baytown, Texas

Notes to the Basic Financial Statements

Certificates of Obligation, Series 2024

During the current year, the City issued Combination Tax and Revenue Certificates of Obligation, Series 2024 (the "Certificates") in the amount of \$56,195,000. Proceeds from the sale of the Certificates will be used for all or any part of the costs associated with (i) the design, construction, improvement and equipment of drainage and detention facilities; (ii) the design, construction, improvement and equipment of the City's waterworks and sanitary sewer system, including lift station improvements, wastewater treatment plant improvements, water meter replacements, and water and sewer line replacements and rehabilitation; (iii) the design, construction, improvement and equipment of City streets, sidewalks, and related infrastructure; (iv) the design, construction, renovation and equipment of improvements to existing City buildings and facilities housing governmental functions of the City; (v) the cost of professional services incurred in connection therewith. The Certificates will mature during fiscal year 2044 and have an interest rate ranging from 4% to 5%.

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
Governmental activities:					
General obligation bonds:					
Refunding, Series 2014	2.00-4.00	2034	\$ 26,883,194	\$ 18,977,220	\$ 7,905,974
Refunding, Series 2015	2.00-5.00	2035	12,026,710	6,655,096	5,371,614
Refunding, Series 2016	2.00-5.00	2028	10,040,450	5,387,057	4,653,393
Refunding, Series 2019	3.00-5.00	2030	5,965,000	2,455,000	3,510,000
Refunding, Series 2019A	3.00-5.00	2031	8,545,000	3,965,000	4,580,000
Refunding, Series 2020	3.00-5.00	2032	14,215,000	7,570,000	6,645,000
Refunding, Series 2021A	4.00-5.00	2033	11,781,670	1,690,000	10,091,670
Total general obligation bonds			89,457,024	46,699,373	42,757,651
Certificates of obligation:					
Series 2015	2.00-5.00	2035	6,600,000	2,450,000	4,150,000
Series 2016	2.00-5.00	2036	17,635,000	5,600,000	12,035,000
Series 2017	4.00-5.00	2027	18,010,000	11,770,000	6,240,000
Series 2019A	3.00-4.00	2024	6,925,000	6,925,000	-
Series 2020	3.00-5.00	2040	30,860,000	4,915,000	25,945,000
Series 2022	4.13-5.00	2042	24,270,000	1,735,000	22,535,000
Series 2024	4.25-5.00	2044	21,080,000	-	21,080,000
Total certificates of obligation			125,380,000	33,395,000	91,985,000
Leases:					
Copiers	0.69	2027	524,362	72,184	452,178
EKG Monitors and Defibrillators	2.45	2033	682,600	131,909	550,691
Camera equipment	2.57	2030	1,174,125	163,538	1,010,587
Total leases			2,381,087	367,631	2,013,456
Total governmental activities			\$ 217,218,111	\$ 80,462,004	\$ 136,756,107

City of Baytown, Texas
Notes to the Basic Financial Statements

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
Business-type activities:					
General obligation bond:					
General obligation and refunding series, 2014	2.00-4.00	2034	\$ 1,636,806	\$ 292,780	\$ 1,344,026
General obligation and refunding series, 2015	2.00-5.00	2035	13,283,290	8,119,904	5,163,386
General obligation and refunding series, 2016	2.00-5.00	2028	25,489,550	16,632,943	8,856,607
General obligation and refunding series, 2019A	3.00-5.00	2031	985,000	100,000	885,000
General obligation and refunding series, 2020	3.00-5.00	2032	2,340,000	510,000	1,830,000
General obligation and refunding series, 2021A	4.00-5.00	2033	5,813,330	830,000	4,983,330
Total general obligation bonds			49,547,976	26,485,627	23,062,349
Certificates of obligation:					
Certificates of obligation, series 2014	2.00-4.00	2034	11,715,000	4,780,000	6,935,000
Certificates of obligation, series 2019	3.00-5.00	2039	18,440,000	3,235,000	15,205,000
Certificates of obligation, series 2020	3.00-5.00	2040	5,440,000	215,000	5,225,000
Certificates of obligation, series 2024	4.25-5.00	2049	35,115,000	-	35,115,000
Total certificates of obligation			70,710,000	8,230,000	62,480,000
Total bonded debt			\$ 120,257,976	\$ 34,715,627	\$ 85,542,349

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	\$ 5,485,000	\$ 2,830,000
Series 2018	4.00-5.00	2038	22,040,000	2,340,000	19,700,000
Series 2019	3.00-4.00	2038	17,315,000	3,270,000	14,045,000
Series 2024	5.00	2040	21,525,000	-	21,525,000
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			131,960,000	11,095,000	120,865,000
Total bonded debt			\$ 131,960,000	\$ 11,095,000	\$ 120,865,000

City of Baytown, Texas

Notes to the Basic Financial Statements

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

Fiscal Year Ending September 30,	Governmental Activities		Business-Type Activities		Total Primary Government
	Principal	Interest	Principal	Interest	
2025	\$ 13,381,703	\$ 5,455,410	\$ 7,013,297	\$ 3,516,496	\$ 25,139,056
2026	13,104,398	4,858,975	6,735,602	3,213,281	23,686,368
2027	11,981,875	4,306,393	6,268,125	2,921,053	21,239,537
2028	9,773,357	3,849,095	6,091,643	2,667,295	18,156,292
2029	8,091,159	3,469,695	4,238,841	2,456,099	65,565,532
2030-2034	38,150,098	12,304,984	22,389,902	9,473,810	35,874,037
2035-2039	25,595,061	5,685,364	16,239,939	5,576,833	13,823,922
2040-2044	14,665,000	1,333,981	10,645,000	2,591,825	13,823,922
2045-2049	-	-	5,920,000	650,250	13,823,922
Totals	\$ 134,742,651	\$ 41,263,897	\$ 85,542,349	\$ 33,066,942	\$ 231,132,588

Fiscal Year Ending September 30,	Discretely Presented Component Units				
	MDD		BAWA		Total
	Principal	Interest	Principal	Interest	
2025	\$ -	\$ 2,759,125	\$ 3,045,000	\$ 2,414,283	\$ 6,241,794
2026	1,025,000	2,739,263	3,030,000	2,380,219	7,198,482
2027	1,070,000	2,698,575	3,120,000	2,242,769	7,152,844
2028	1,440,000	2,648,013	3,210,000	2,100,900	7,420,413
2029	1,525,000	2,586,838	3,350,000	1,954,588	37,343,538
2030-2034	8,905,000	11,875,200	19,110,000	7,415,613	37,758,950
2034-2039	11,720,000	9,492,175	21,355,000	3,023,050	22,778,500
2040-2044	15,320,000	6,373,425	1,880,000	94,000	19,587,000
2045-2049	15,510,000	2,926,050	-	-	9,752,550
2050-2051	6,250,000	274,100	-	-	9,752,550
Totals	\$ 62,765,000	\$ 44,372,763	\$ 58,100,000	\$ 21,625,422	\$ 164,986,621

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.

City of Baytown, Texas

Notes to the Basic Financial Statements

Leases

The City has entered into a lease agreement as lessee for various types of equipment. As of September 30, 2024, the value of the lease liability was \$2,013,456. The City is required to make principal and interest payments at its incremental borrowing rate or the interest rate stated or implied within the lease. 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 \$2,381,087 with accumulated amortization of \$313,060. The future principal and interest payments as of September 30, 2024 for governmental activities were as follows:

Fiscal Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2025	\$ 395,101	\$ 42,181	\$ 437,282
2026	401,928	35,353	437,281
2027	335,223	28,458	363,681
2028	238,337	22,303	260,640
2029	244,408	16,232	260,640
2030-2032	398,459	15,461	413,920
Total	\$ 2,013,456	\$ 159,988	\$ 2,173,444

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. As of September 30, 2024, the City reported an arbitrage liability of \$1,608,242.

City of Baytown, Texas
Notes to the Basic Financial Statements

F. Interfund Transactions

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

Transfers in	Transfers out	Amount
General	Water and sewer	\$ 1,561,163
General	Internal service	3,000,000
General	Nonmajor governmental	751,800
General	Nonmajor enterprise	250,000
Debt service	General	1,200,000
Capital projects	General	2,820,000
Capital projects	Water and sewer	460,000
Capital projects	Storm water utility	7,900,787
Capital projects	Nonmajor governmental	60,000
Capital projects	Internal service	60,000
Water and sewer	Debt service	437,876
Water and sewer	Capital projects	474,362
Water and sewer	Storm water utility	1,965,000
Water and sewer	Nonmajor enterprise	718,792
Internal service	Water and sewer	550,000
Internal service	General	75,000
Nonmajor governmental	General	2,796,633
Nonmajor governmental	Water and sewer	1,539,653
Nonmajor enterprise	General	65,625
Total		\$ 26,686,691

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 from the debt service fund to the water and sewer fund are for the finance of debt service payments for certain certificates of obligation. Transfers to the general, water and sewer, nonmajor enterprise and internal service funds are to finance various expenditures in accordance with budget authorizations.

Transfers in the government-wide statement of activities during the year include:

- the contribution of \$21,614,083 of net capital assets from governmental activities to business-type activities;
- the assumption of \$2,594,836 of bonds payable, \$209,900 of unamortized bond premium, and \$3,150,253 of deferred gain on bond refunding from business-type activities to governmental activities;
- the assumption of \$5,440,000 of certificates of obligation payable, \$4,961,806 of bonds payable, \$1,562,939 of unamortized bond premium, \$72,460 of deferred gain on bond refunding, and \$54,078 of deferred charge on bond refunding from governmental activities to business-type activities.

City of Baytown, Texas

Notes to the Basic Financial Statements

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	\$ 2,890,764
General	Internal service	1,696,672
General	Nonmajor enterprise	2,758,783
General	Storm water utility	2,017,512
General	Water and sewer	1,802,113
Total		\$ 11,165,844

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	\$ 2,000,000

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.

Note 4. 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 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 \$1 million, less any amounts reimbursed on the individual stop-loss insurance. Medical claims liabilities have been recorded at \$1,699,000 as of September 30, 2024.

The City maintains third-party coverage for workers' compensation claims that exceed \$500,000 per individual claim. Workers' compensation claims and judgments at year end have been recorded at \$166,204. 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.

City of Baytown, Texas

Notes to the Basic Financial Statements

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

	2024	2023
Reconciliation of changes in aggregate liabilities for claims and judgements:		
Unpaid claims, beginning of year	\$ 2,492,106	\$ 2,416,560
Plus incurred claims (including IBNR)	11,853,427	13,795,634
Less: claim payments	(12,480,329)	(13,720,088)
Unpaid claims, end of year	\$ 1,865,204	\$ 2,492,106

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 28.6 million gallons per day per month through calendar year 2040. 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.

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 in settlement negotiations regarding potential improvements to its wastewater collection and treatment system. The likelihood of the outcome and financial impact on the City associated with funding such improvements are currently unknown as negotiations are still ongoing. Resolution of the suit may involve a substantial investment by the City.

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 on 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 934 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.

City of Baytown, Texas

Notes to the Basic Financial Statements

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

1. 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. 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.

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:

	2024	2023
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 retirement eligibility (expressed as age/years 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

2. Employees Covered by Benefit Terms

At the December 31, 2023 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	566
Inactive employees entitled to but not yet receiving benefits	508
Active employees	930
Total	2,004

3. 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 17.56% and 18.62% in calendar years 2023 and 2024, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2024 were \$15,388,229, which were equal to the required contributions.

4. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2023, and the Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date.

City of Baytown, Texas

Notes to the Basic Financial Statements

5. Actuarial Assumptions

The TPL in the December 31, 2023 actuarial valuation was determined using the following actuarial assumptions:

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

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. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by the most recent Scale MP-2021 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 MP-2021 to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2018 to December 31, 2022. The assumptions were adopted in 2023 and first used in the December 31, 2023, actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) 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 actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2018 to December 31, 2022. The assumptions were adopted in 2023 and first used in the December 31, 2023, actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) 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.

Asset Class	Target Allocation	Long-term Expected Real Rate of Return (Arithmetic)
Global equity	35%	7.7%
Core fixed income	6%	4.9%
Non-core fixed income	20%	8.7%
Other public and private markets	12%	8.1%
Real estate	12%	5.8%
Hedge funds	5%	6.9%
Private equity	10%	11.8%
Total	100%	

City of Baytown, Texas

Notes to the Basic Financial Statements

6. 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.

7. Changes in the NPL

	Increase (Decrease)		
	Total Pension Liability (A)	Plan Fiduciary Net Position (B)	Net Pension Liability (A) - (B)
Balance at December 31, 2022	\$ 446,452,074	\$ 353,511,669	\$ 92,940,405
Changes for the year:			
Service cost	13,973,957.00	-	13,973,957.00
Interest	30,000,844	-	30,000,844.00
Difference between expected and actual experience	5,329,758	-	5,329,758.00
Changes of assumptions	(2,912,464)	-	(2,912,464.00)
Contributions - employer	-	14,282,339	(14,282,339.00)
Contributions - employee	-	5,693,419	(5,693,419.00)
Net investment income	-	40,931,036	(40,931,036.00)
Benefit payments, including of employee contributions	(17,964,208)	(17,964,208)	-
Administrative expense	-	(260,292)	260,292.00
Other changes	-	(1,820)	1,820.00
Net changes	28,427,887	42,680,474	(14,252,587)
Balance at December 31, 2023	\$ 474,879,961	\$ 396,192,143	\$ 78,687,818

8. 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 to (5.75%)	Current Single Discount Rate Assumption (6.75%)	1% Increase to (7.75%)
City's net pension liability	\$ 147,016,321	\$ 78,687,818	\$ 22,581,825

9. 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.

City of Baytown, Texas

Notes to the Basic Financial Statements

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

For the fiscal year ended September 30, 2024, the City recognized pension expense of \$16,421,264.

At September 30, 2024, 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	\$ 11,745,081	\$ -
Changes in actuarial assumptions	-	2,288,810
Differences between projected and actual investment earnings	9,571,349	-
Contributions subsequent to the measurement date	11,983,242	-
Totals	\$ 33,299,672	\$ 2,288,810

\$11,983,242 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, 2025. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending September 30,	Pension Expense
2025	\$ 6,180,779
2026	6,561,143
2027	9,352,689
2028	(3,066,991)
Totals	\$ 19,027,620

E. Other Postemployment Benefits

TMRS - Supplemental Death Benefits

1. 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.

City of Baytown, Texas
Notes to the Basic Financial Statements

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 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.

2. 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, 2023 is summarized below:

Inactive employees or beneficiaries currently receiving benefits	417
Inactive employees entitled to but not yet receiving benefits	133
Active employees	930
	<hr/>
Total	1,480
	<hr/>

3. Total OPEB Liability

The City’s total OPEB liability of \$2,542,452 was measured as of December 31, 2023 and was determined by an actuarial valuation as of that date.

4. Actuarial Assumptions and Other Inputs

The total OPEB liability in the December 31, 2023 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	3.60% to 11.85% including inflation
Discount rate*	3.77%
Retirees' share of benefit - related costs	Zero
Administrative costs	All administrative expense 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. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence).
Mortality rates - disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year setforward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% 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 the most recent Scale MP-2021 (with immediate convergence) 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, 2023.

The actuarial assumptions used in the December 31, 2023 valuation were based on the results of an actuarial experience study for the period ending December 31, 2022.

City of Baytown, Texas
Notes to the Basic Financial Statements

5. Changes in the Total OPEB Liability

	Total OPEB Liability
Beginning balance	\$ 2,336,646
Changes for the year:	
Service cost	81,150
Interest	94,798
Difference between expected and actual experience	(23,148)
Changes in assumptions	126,041
Benefit payments*	(73,035)
Net changes	205,806
Ending balance	\$ 2,542,452

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

The discount rate decreased from 4.05% as of December 31, 2022 to 3.77% as of December 31, 2023. There were 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.

6. 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:

	1% Decrease in Discount Rate (2.77%)	Discount Rate (3.77%)	1% Increase in Discount Rate (4.77%)
City's Total OPEB Liability	\$ 3,040,761	\$ 2,542,452	\$ 2,152,029

City of Baytown, Texas

Notes to the Basic Financial Statements

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

For the year ended September 30, 2024, the City recognized OPEB expense of \$86,763. The City reported deferred outflows/inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 19,352	\$ 200,475
Changes in actuarial assumptions	419,439	834,173
Contributions subsequent to the measurement date	160,892	-
Total	\$ 599,683	\$ 1,034,648

\$160,892 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.

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
2025	\$ (111,360)
2026	(115,603)
2027	(145,104)
2028	(176,055)
2029	(51,694)
Thereafter	3,959
Total	\$ (595,857)

Postemployment Healthcare Plan

1. 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.

City of Baytown, Texas
Notes to the Basic Financial Statements

Participation in the Plan as of December 31, 2023 is summarized below:

Inactive employees or beneficiaries currently receiving benefits	278
Active employees	247
	<hr/>
Total	525
	<hr/>

2. 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.

3. Total OPEB Liability

The City’s total OPEB liability of \$51,400,817 was measured as of December 31, 2023 and was determined by an actuarial valuation as of that date.

4. Actuarial Assumptions and Other Inputs

The total OPEB liability in the December 31, 2023 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	3.60% to 11.85% including inflation
Discount rate*	3.77%
Actuarial cost method	Individual entry - age normal
Demographic assumptions	Based on the 2023 experience study conducted for the TMRS.
Mortality	For healthy retirees, the gender - distinct 2019 Municipal Retirees of Texas Mortality Tables are used, with male rates multiplied by 103% and female rates multiplied by 105%. The rates are projected on a fully generational basis using the ultimate mortality improvement rates in the MP-2021 table to account for future mortality improvements.
Healthcare trends rates	Pre-65: Initial rate of 7.00% declining to the ultimate rate of 4.25% after 15 years. Post-65: Initial rate of 6.10% declining to the 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 before 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 changed from 4.05% as of December 31, 2022 to 3.77% as of December 31, 2023. Additionally, the demographic and salary increase assumptions were updated to reflect the 2023 TMRS Experience Study.

City of Baytown, Texas
Notes to the Basic Financial Statements

5. Changes in the Total OPEB Liability

	Total OPEB Liability
Beginning balance	\$ 49,874,192
Changes for the year:	
Service cost	1,064,789
Interest	1,997,294
Difference between expected and actual experience	(106,673)
Changes of assumptions	752,607
Benefit payments	(2,181,392)
Net changes	1,526,625
Ending balance	\$ 51,400,817

Changes in benefit terms were related to the benefits provided to Medicare retirees. Changes of assumptions reflect a change in the discount rate from 4.05% as of December 31, 2022 to 3.77% as of December 31, 2023, the removal of excise tax load, and revised TMRS demographic and salary increase assumptions.

6. 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 3.77%, 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 (2.77%)	Discount Rate (3.77%)	1% Increase in Discount Rate (4.77%)
City's Total OPEB Liability	\$ 55,575,209	\$ 51,400,817	\$ 47,571,172

7. 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	\$ 46,194,633	\$ 51,400,817	\$ 57,431,782

City of Baytown, Texas
Notes to the Basic Financial Statements

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

For the year ended September 30, 2024, the City recognized OPEB income of \$1,042,291. 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	\$ 581	\$ 7,143,168
Changes in actuarial assumptions	2,272,829	5,460,795
Contributions subsequent to the measurement date	1,207,056	-
Total	\$ 3,480,466	\$ 12,603,963

\$1,207,056 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.

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
2025	\$ (5,377,351)
2026	(5,112,251)
2027	159,049
Total	\$ (10,330,553)

Aggregate Total OPEB Expenses/Expenditures

The City recognized aggregate total OPEB income of \$955,528 during the fiscal year ending September 30, 2024 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:

City of Baytown, Texas

Notes to the Basic Financial Statements

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, 2024, the total amount of taxes abated were \$459,517 for the City and \$159,839 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 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, 2024, the total amount of taxes abated was \$200,026 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.

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 the Basic Financial Statements

H. Changes in Reporting Entity

For fiscal year 2024, the City reported the following changes in its reporting entity for the movement of funds between major and nonmajor classifications.

	Net Position As Previously Reported	Change in Reporting Entity From Major Fund	Change in Reporting Entity To Major Fund	Net Position As Restated
Enterprise Funds				
Major Funds:				
Aquatics	\$ 14,792,910	\$ (14,792,910)	\$ -	\$ -
Sanitation	(1,313,893)	1,313,893	-	-
Storm Water Utility	-	-	(2,542,864)	(2,542,864)
Nonmajor Funds	1,245,104	13,479,017	2,542,864	17,266,985
Total enterprise funds	\$ 14,724,121	\$ -	\$ -	\$ 14,724,121

I. Subsequent Events

In May 2025, BAWA submitted a financial application to the Texas Water Development Board for a \$69,000,000 low interest loan under its State Water Implementation Fund for Texas (SWIFT) program. Additionally, the City of Baytown authorized the publication of notice of intention to issue certificates of obligation in a maximum aggregate principal amount not to exceed \$83,000,000.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

BRACEWELL

[CLOSING DATE]

\$_[_____]

CITY OF BAYTOWN, TEXAS

(Harris and Chambers Counties, Texas)

COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2025

We have represented the City of Baytown, Texas (the “City”), as its bond counsel in connection with an issue of certificates of obligation described below:

CITY OF BAYTOWN, TEXAS, COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2025, dated September 1, 2025, in the aggregate principal amount of \$_[_____] (the “Certificates”).

The Certificates mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Certificates and in the ordinance adopted by the City Council of the City authorizing their issuance (the “Certificate Ordinance”) and the pricing certificate executed pursuant thereto (the “Pricing Certificate,” and together with the Certificate Ordinance, the “Ordinance”).

We have represented the City as its bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas, and with respect to the excludability of interest on the Certificates 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 City or the disclosure thereof in connection with the sale of the Certificates. Our role in connection with the City’s Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein. Capitalized terms used herein and not otherwise defined are used with the meanings assigned to such terms in the Ordinance.

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

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

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

1. The transcript of certified proceedings evidences complete legal authority for the issuance of the Certificates in full compliance with the Constitution and laws of the State of Texas presently effective and that therefore the Certificates constitute valid and legally binding obligations of the City.
2. A continuing ad valorem tax upon all taxable property within the City of Baytown, Texas, necessary to pay the interest on and principal of the Certificates, has been levied and pledged irrevocably for such purposes, within the limits prescribed by law. In addition, the Certificates are further secured by a limited pledge of a subordinate lien on the Net Revenues of the City's waterworks and sanitary sewer system in an amount not to exceed \$1,000, as provided in the Ordinance.
3. Interest on the Certificates 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 Certificates is not an item of tax preference 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 certain corporations.

The rights of the owners of the Certificates are subject to the applicable provisions of the federal bankruptcy laws and any 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 Certificates 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 Certificates. 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 City and other parties upon which we have relied are determined to be inaccurate or incomplete or the City fails to comply with the covenants of the Ordinance, interest on the Certificates could become includable in gross income for federal income tax purposes from the date of the original delivery of the Certificates, regardless of the date on which the event causing such inclusion occurs.

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.

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