

OFFICIAL STATEMENT

Dated December 16, 2025

Ratings
S&P: "A+"
S&P: "AA" (BAM Insured)
(See "BOND INSURANCE,"
"FINANCIAL GUARANTY
INSURANCE RISK FACTORS,"
and "Other Information –
Ratings" herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Holland & Knight LLP, Bond Counsel, as more fully described herein, under existing law and assuming continuing compliance by the City (hereinafter defined) with certain tax covenants the 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 (the "Code") and is not treated as an item of tax preference for purposes of computing the federal alternative minimum tax imposed on individuals under the Code; however, the interest on the Certificates is included in the "adjusted financial statement income" of certain corporations on which the federal alternative minimum tax is imposed under the Code. See "TAX MATTERS" herein for a discussion of the opinion of Bond Counsel.

\$28,720,000
CITY OF PORT ARTHUR, TEXAS
(Jefferson and Orange Counties, Texas)
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION,
SERIES 2025B

Dated Date: December 1, 2025

Due: August 15, as shown on page ii

PAYMENT TERMS . . . Interest on the \$28,720,000 City of Port Arthur, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2025B (the "Certificates") will accrue from the Delivery Date (defined below) and will be payable February 15 and August 15 of each year with the Certificates commencing August 15, 2026 until the earlier of maturity or prior redemption and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. 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" herein. The initial Paying Agent/Registrar is UMB Bank, N.A., Austin, Texas. See "The CERTIFICATES - Paying Agent/Registrar".

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the Constitution and general laws of the State of Texas, (the "State"), particularly Subchapter C of Chapter 271, Texas Government Code (the Certificate of Obligation Act of 1971), as amended, and constitute direct obligations of the City of Port Arthur, Texas (the "City"), payable from a continuing and direct annual ad valorem tax levied, within the limits prescribed by law, on all taxable property in the City as provided in the Ordinance (see "THE CERTIFICATES - Authority for Issuance"). The Certificates, when issued, will constitute valid and binding obligations of the City and will be payable from the proceeds of an annual ad valorem tax, levied within the limits prescribed by law, against all taxable property within the City and will be further payable from a limited junior and subordinate pledge of the Net Revenues (as defined in the Ordinance) of the City's Waterworks and Sewer System (the "System") in an amount not to exceed \$10,000. See "THE CERTIFICATES – Security and Source of Payment".

PURPOSE . . . Proceeds from the sale of the Certificates will be used for the construction of public works, more specifically, (i) the City's water and sewer system equipment and improvements, (ii) reimbursement of costs associated with capital projects for water and sewer systems equipment and improvements, and (iii) items related thereto, (iv) and for the payment of contractual obligations for professional services incurred in connection with the construction of such public works.

INSURANCE . . . The scheduled payment of principal of and interest on the Certificates when due will be guaranteed under a separate municipal bond insurance policy to be issued concurrently with the delivery of the Certificates by BAM See "BOND INSURANCE".



CUSIP PREFIX: 733488
MATURITY SCHEDULE & 9 DIGIT CUSIP
See Schedule on Page ii

LEGALITY . . . The Certificates are offered for delivery when, as and if issued and received by the underwriters listed below (the "Underwriters") and subject to the approving opinion of the Attorney General of Texas and the opinion of Holland & Knight LLP, Houston, Texas, Bond Counsel (see Appendix C, "Form of Bond Counsel's Opinion"). Certain other matters will be passed upon for the Underwriters by Bracewell LLP, Houston, Texas, as counsel to the Underwriters.

DELIVERY . . . It is expected that the Certificates will be available for delivery through DTC on or about Tuesday, December 23, 2025 (the "Delivery Date").

SIEBERT WILLIAMS SHANK

PNC CAPITAL MARKETS LLC

CITY OF PORT ARTHUR, TEXAS
(Jefferson and Orange Counties, Texas)
COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2025B

MATURITY SCHEDULE

CUSIP PREFIX: 733488⁽¹⁾

\$16,735,000 Serial Certificates

Due August 15	Principal	Interest Rate	Initial Yield	CUSIP Suffix ⁽¹⁾	Due August 15	Principal	Interest Rate	Initial Yield	CUSIP Suffix ⁽¹⁾
2026	-				2035	\$ 955,000	5.000%	3.280%	3N8
2027	\$ 650,000	5.000%	2.790%	3E8	2036	1,005,000	5.000%	3.390% ⁽²⁾	3P3
2028	680,000	5.000%	2.830%	3F5	2037	1,055,000	5.000%	3.500% ⁽²⁾	3Q1
2029	715,000	5.000%	2.860%	3G3	2038	1,110,000	5.000%	3.610% ⁽²⁾	3R9
2030	750,000	5.000%	2.900%	3H1	2039	1,165,000	5.000%	3.720% ⁽²⁾	3S7
2031	785,000	5.000%	2.960%	3J7	2040	1,220,000	5.000%	3.860% ⁽²⁾	3T5
2032	825,000	5.000%	3.050%	3K4	2041	1,280,000	5.000%	4.000% ⁽²⁾	3U2
2033	870,000	5.000%	3.150%	3L2	2042	1,345,000	5.000%	4.130% ⁽²⁾	3V0
2034	910,000	5.000%	3.190%	3M0	2043	1,415,000	5.000%	4.250% ⁽²⁾	3W8

\$11,985,000 Term Certificates

\$3,035,000 4.500% Term Certificate due August 15, 2045 Priced to Yield 4.660%⁽²⁾ - CUSIP Suffix: 3X6⁽¹⁾
\$8,950,000 5.000% Term Certificate due August 15, 2050 Priced to Yield 4.730%⁽²⁾ - CUSIP Suffix: 3Y4⁽¹⁾

(Interest Accrues from the Delivery Date)

- ⁽¹⁾ CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by FactSet Research Systems Inc. on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. None of the District, the Financial Advisor, or the Underwriters shall be responsible for the selection or the correctness of the CUSIP numbers shown herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Certificates as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Certificates.
- ⁽²⁾ The Certificates maturing on and after August 15, 2036 are subject to optional redemption prior to maturity in whole or in part on August 15, 2035 or on any date thereafter, at a price equal to the principal amount thereof, plus accrued interest from the most recent interest payment date to the date of redemption (see "THE CERTIFICATES – Optional Redemption"). In addition, the Certificates maturing on August 15, 2045 and August 15, 2050 (the "Term Certificates") will also be subject to mandatory sinking fund redemption (see "THE CERTIFICATES - Mandatory Sinking Fund Redemption").

USE OF INFORMATION IN THIS OFFICIAL STATEMENT

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

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

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

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

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

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

THE CERTIFICATES ARE EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH.

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. NEITHER THE CITY, ITS FINANCIAL ADVISOR NOR THE UNDERWRITERS MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING DTC OR ANY POTENTIAL BOND INSURER OR ITS MUNICIPAL BOND GUARANTY POLICY AS DESCRIBED HEREIN (OR INCORPORATED BY REFERENCE) UNDER THE CAPTIONS “BOND INSURANCE” AND “FINANCIAL GUARANTY INSURANCE RISKS”, AS SUCH INFORMATION WAS PROVIDED BY DTC AND THE BOND INSURER, RESPECTIVELY.

IN CONNECTION WITH THE OFFERING OF THE CERTIFICATES, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE 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 part of, this Official Statement for purposes of, and as that term is defined in, the Rule.

Build America Mutual Assurance Company (“BAM”) makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading “Bond Insurance” and “Appendix D - Specimen Municipal Bond Insurance Policy”

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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 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 Port Arthur (the "City") is a political subdivision and municipal corporation of the State of Texas (the "State"), located in Jefferson and Orange Counties, Texas. The City covers approximately 167 square miles. See "INTRODUCTION - DESCRIPTION OF THE CITY".
- THE CERTIFICATES.....** The Certificates are issued as \$28,720,000 Combination Tax and Revenue Certificates of Obligation, Series 2025B. The Certificates are issued as serial certificates maturing each year commencing August 15, 2027 through August 15, 2043 (inclusive), and term certificates maturing in 2045 and 2050. See "THE CERTIFICATES - DESCRIPTION OF THE CERTIFICATES".
- PAYMENT OF INTEREST** Interest on the Certificates accrues from their date of initial delivery (the "Delivery Date") to the Underwriters, and is payable August 15, 2026, and each February 15 and August 15 thereafter until the earlier of maturity or prior redemption. See "THE CERTIFICATES - DESCRIPTION OF THE CERTIFICATES" and "THE CERTIFICATES - OPTIONAL REDEMPTION".
- AUTHORITY FOR ISSUANCE ...** The Certificates are issued pursuant to the Constitution and general laws of the State of Texas, (the "State"), particularly Subchapter C of Chapter 271, Texas Government Code (the Certificate of Obligation Act of 1971), as amended, and constitute direct obligations of the City of Port Arthur, Texas (the "City"), payable from a continuing and direct annual ad valorem tax levied, within the limits prescribed by law, on all taxable property in the City as provided in the Ordinance (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 the levy and collection of a continuing and direct annual ad valorem tax, within the limits prescribed by law, on all taxable property located within the City. The Certificates will also be payable from the proceeds of an annual ad valorem tax, levied within the limits prescribed by law, against all taxable property within the City and will be further payable from a limited junior and subordinate pledge of the Net Revenues (as defined in the Ordinance) of the City's System in an amount not to exceed \$10,000. See "THE CERTIFICATES – SECURITY AND SOURCE OF PAYMENT".
- OPTIONAL REDEMPTION** The Certificates maturing on and after August 15, 2036 are subject to optional redemption prior to maturity in whole or in part on August 15, 2035 or on any date thereafter, at a price equal to the principal amount thereof, plus accrued interest from the most recent interest payment date to the date of redemption. See "THE CERTIFICATES - OPTIONAL REDEMPTION".
- MANDATORY SINKING FUND REDEMPTION.....** The Certificates maturing on August 15, 2045 and August 15, 2050 (the "Term Certificates") are subject to mandatory sinking fund redemption prior to maturity at the price of par plus accrued interest to the mandatory redemption date on August 15 in the respective years and principle amounts indicated in "THE CERTIFICATES - Mandatory Sinking Fund Redemption". See "THE CERTIFICATES - MANDATORY SINKING FUND REDEMPTION" herein.
- TAX EXEMPTION.....** In the opinion of Holland & Knight LLP, Bond Counsel, as more fully described herein, under existing law and assuming continuing compliance by the City (hereinafter defined) with certain tax covenants the 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 (the "Code") and is not treated as an item of tax preference for purposes of computing the federal alternative minimum tax imposed on individuals under the Code; however, the interest on the Certificates is included in the "adjusted financial statement income" of certain corporations on

which the federal alternative minimum tax is imposed under the Code. See "TAX MATTERS" herein for a discussion of the opinion of Bond Counsel.

USE OF PROCEEDS Proceeds from the sale of the Certificates will be used for the construction of public works, more specifically, (i) the City's water and sewer system equipment and improvements, (ii) reimbursement of costs associated with capital projects for water and sewer systems equipment and improvements, and (iii) items related thereto, (iv) and for the payment of contractual obligations for professional services incurred in connection with the construction of such public works.

MUNICIPAL BOND

INSURANCE The scheduled payment of principal of and interest on the Certificates when due will be guaranteed under a separate municipal bond insurance policy to be issued concurrently with the delivery of the Certificates by Build America Mutual Assurance Company ("BAM") See "BOND INSURANCE" and "FINANCIAL GUARANTY INSURANCE RISK FACTORS".

RATINGS The Certificates are rated "AA" by S&P Global Ratings ("S&P"), by virtue of a municipal bond insurance policy to be issued by Build America Mutual Assurance Company and the Certificates and the presently outstanding tax-supported debt of the City are rated "A+" by S&P, without regard to credit enhancement. Additionally, the City's General Obligation Refunding Bonds, Series 2019, Combination Tax and Revenue Certificates of Obligation, Series 2020A, Combination Tax and Revenue Certificates of Obligation, Series 2021, General Obligation Refunding Bonds, Series 2021 and Combination Tax and Revenue Certificates of Obligation, Series 2022 and are rated "AA" by S&P, with regard to credit enhancement. See "OTHER INFORMATION – Ratings".

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	Per Capita G.O. Tax Debt	Ratio Tax	
						Debt to Taxable Assessed Valuation	Percent Total Collection
2022	56,039	\$ 3,400,575,514	\$ 60,682	\$ 50,791,678	\$ 906	1.49%	97.85%
2023	56,705	3,843,937,827	67,788	64,325,000	1,134	1.67%	97.25%
2024	55,724	4,238,185,538	76,057	74,638,673	1,339	1.76%	93.05%
2025	54,548	4,474,358,650	82,026	82,156,692	1,506	1.84%	95.95% ⁽⁴⁾
2026	55,746	4,789,792,992	85,922	74,478,358 ⁽³⁾	1,336	1.55%	In Process of Collection

⁽¹⁾ Source: City officials.

⁽²⁾ As reported by the Jefferson County and Orange County appraisal districts on the City's annual report of property value; subject to change during the ensuing year.

⁽³⁾ Includes a portion of the Certificates. Excludes self-supporting debt.

NET ASSETS

	Fiscal Year Ended September 30,				
	2024	2023	2022	2021	2020
Beginning Net Assets	\$ 127,476,309	\$ 122,563,992	\$ 90,075,474	\$ 68,638,688 ⁽¹⁾	\$ 61,996,974
Total Revenues	119,464,956	111,132,366	105,728,146	108,112,145	97,640,591
Total Expenditures	106,511,781	115,054,802	84,682,205	92,974,107	88,979,086
Increase (Decrease) in Net Assets	\$ 140,429,484	\$ 118,641,556	\$ 111,121,415	\$ 83,776,726	\$ 70,658,479
Transfers	6,649,535	8,834,753	11,442,577	6,298,748	6,744,639
Adjustments to Net Assets	(1,414,970)	-	-	-	(8,764,230)
Ending Net Assets	\$ 145,664,049	\$ 127,476,309	\$ 122,563,992	\$ 90,075,474	\$ 68,638,888

⁽¹⁾ Restated.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	Fiscal Year Ended September 30,				
	2024	2023	2022	2021	2020
Beginning Balance	\$ 30,267,641	\$ 35,359,684	\$ 31,545,125	\$ 33,219,512	\$ 30,306,307
Total Revenues	79,267,034	72,364,329	78,497,827	74,292,435	68,933,714
Total Expenditures	71,528,857	70,340,154	68,171,974	65,892,672	62,108,297
Net Transfers	(12,343,129)	(7,116,218)	(6,511,294)	(10,074,150)	(3,912,212)
Net Funds Available	\$ 25,662,689	\$ 30,267,641	\$ 35,359,684	\$ 31,545,125	\$ 33,219,512
Prior Period Adjustment	-	-	-	-	-
Ending Balance	\$ 25,662,689	\$ 30,267,641	\$ 35,359,684	\$ 31,545,125	\$ 33,219,512

FOR ADDITIONAL INFORMATION REGARDING THE CITY, PLEASE CONTACT:

Ronald Burton City Manager City of Port Arthur 444 Fourth Street Port Arthur, Texas 77640 (409) 983-8101 ronald.burton@portarthurtx.gov	or	Lynda "Lyn" Boswell, M.A., ICMA-CM Director of Finance City of Port Arthur 444 Fourth Street Port Arthur, Texas 77640 (409) 983-8186 lynda.boswell@portarthurtx.gov	or	Anne Burger Entrekin Senior Managing Director Hilltop Securities Inc. 70 Northeast Loop 410, Suite 750 San Antonio, Texas 78216 (210) 308-2200 anne.burgerentrekin@hilltopsecurities.com
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CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>City Council</u>	<u>Positions</u>	<u>Term Expires</u>
Charlotte Moses ⁽¹⁾	Mayor	May 2028
Doneane Beckcom	Mayor Pro-Tem and Councilmember, District 3	May 2026
Willie Bae Lewis	Councilmember, District 1	May 2026
Tiffany L. Hamilton Everfield	Councilmember, District 2	May 2026
Harold L. Doucet, Sr.	Councilmember, District 4	May 2026
Thomas Kinlaw, III	Councilmember Position 5, At Large	May 2027
Donald Frank, Sr.	Councilmember Position 6, At Large	May 2027

(1) Mayor Moses was elected on June 7, 2025 and previously served as City Council Member from 2017 to 2023.

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service to the City</u>
Ronald Burton, CPM	City Manager	15 Years, 8 Months
Pamela Langford, CFM	Assistant City Manager	21 Years, 0 Months
Dr. Albert T. Thigpen, CAS, IPMA-SCP	Assistant City Manager	31 Years, 9 Months
Lynda "Lyn" Boswell, M.A., ICMA-CM	Director of Finance	2 Years, 0 Months
Roxann Pais Cotroneo	City Attorney	1 Year, 1 Month

CONSULTANTS AND ADVISORS

Auditors Patillo, Brown & Hill, LLP
Waco, Texas

Bond Counsel Holland & Knight LLP
Houston, Texas

Financial Advisor Hilltop Securities Inc.
San Antonio, Houston and Dallas, Texas

OFFICIAL STATEMENT
RELATING TO
\$28,720,000
CITY OF PORT ARTHUR, TEXAS
(Jefferson and Orange Counties, Texas)
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2025B

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$28,720,000 City of Port Arthur, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2025B (the "Certificates"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance authorizing the issuance of the Certificates (the "Ordinance", except as otherwise indicated herein).

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., Dallas, Houston and San Antonio, Texas.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the final Official Statement pertaining to the Certificates will be deposited with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access ("EMMA") system. See "CONTINUING DISCLOSURE OF INFORMATION" herein for a description of the City's undertaking to provide certain information on a continuing basis.

DESCRIPTION OF THE CITY . . . The City is a home rule municipality, duly organized and existing under the laws of the State of Texas (the "State"), including the City's Home Rule Charter. The City was incorporated in 1898, and first adopted its Home Rule Charter in 1963. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and six Councilmembers. The term of office is three years for the Mayor and six years for Councilmembers. 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), highways and streets, water and sanitary sewer utilities, health and social services, solid waste, culture-recreation, public transportation, public improvements, planning and zoning, and general administrative services. The 2020 Census population for the City was 56,039 and the estimated 2025 population is 54,548. The City covers approximately 167 square miles.

PLAN OF FINANCING

PURPOSE . . . Proceeds from the sale of the Certificates will be used for the construction of public works, more specifically, (i) the City's water and sewer system equipment and improvements, (ii) reimbursement of costs associated with capital projects for water and sewer systems equipment and improvements, and (iii) items related thereto, (iv) and for the payment of contractual obligations for professional services incurred in connection with the construction of such public works.

SOURCES AND USES OF CERTIFICATE PROCEEDS . . . The proceeds from the sale of the Certificates are expected to be expended as follows:

Sources:

Par Amount	\$ 28,720,000.00
Premium	1,742,133.00
Total Sources of Funds	<u>\$ 30,462,133.00</u>

Uses:

Deposit to Construction Fund	\$ 30,000,000.00
Costs of Issuance ⁽¹⁾	279,585.57
Underwriters' Discount	182,547.43
Total Uses of Funds	<u>\$ 30,462,133.00</u>

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

GENERAL 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. Due in part to its relatively flat topography and moist coastal climate, and partly due to the effects of subsidence, certain areas of the City are subject to periodic flooding and associated severe property damage as a result of rain events, tropical storms and hurricanes. The City and most of the municipalities located within the City participate in the National Flood Insurance Program administered by the Federal Emergency Management Agency ("FEMA"). Communities participating in the National Flood Insurance Program are required by FEMA to adopt restrictions on development in designated flood-prone areas. In exchange, the National Flood Insurance Program makes federally subsidized flood insurance available to property owners located in the participating communities. Given the ongoing effects of subsidence as well as increased development and urbanization within the City, FEMA periodically updates and revises its maps designating the areas of the City that are subject to special flood hazards. Properties that are currently located outside of a designated flood-prone area may suffer a reduction in value if they are placed within the boundaries of a special flood hazard area the next time FEMA updates and revises its flood maps.

Not all flood hazards are mapped on the FEMA flood maps, nor is every bayou or creek in the City studied. Flooding can occur from ponding or overland sheet flow when intense rainfall overwhelms the local street drainage system. The mapped floodplain is only an estimate of where flooding is predicted to occur from a bayou or creek, given a set of parameters including a hypothetical rainfall occurring over a watershed for an assumed amount of time. During an actual rain event, natural conditions can result in greater amounts of rainfall or runoff, resulting in flood levels deeper and wider than shown on the FEMA maps.

If flooding or another weather-related event were to significantly damage improvements within the City, the assessed value of property within the City could be reduced, which could result in a decrease in tax revenues and/or necessitate an increase in 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.

THE CERTIFICATES

DESCRIPTION OF THE CERTIFICATES . . . The Certificates are dated December 1, 2025 and mature on August 15 in each of the years and in the amounts shown on the inside cover page hereof. Interest will accrue from the "Delivery Date" to the Underwriters and will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on August 15 and February 15, commencing August 15, 2026 until the earlier of 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 ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Certificates will be made to the 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 "- BOOK-ENTRY-ONLY SYSTEM" herein.

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the Constitution and general laws of the State of Texas, (the "State"), particularly Subchapter C of Chapter 271, Texas Government Code (the Certificate of Obligation Act of 1971), as amended, the City's home-rule charter, and the Ordinance.

SECURITY AND SOURCE OF PAYMENT . . . All taxable property within the City is subject to an annual ad valorem tax levied, within the limits prescribed by law, by the City sufficient to provide for the payment of principal of and interest on all Certificates. The Certificates will be payable from (i) the proceeds of an annual ad valorem tax, levied within the limits prescribed by law, against all taxable property within the City and (ii) a limited junior and subordinate pledge of the Net Revenues of the City's System in an amount not to exceed \$10,000.

TAX RATE LIMITATION . . . All taxable property within the City is subject to the assessment, levy and collection by the City of an annual ad valorem tax sufficient to provide for the payment of the 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. The Home Rule Charter of the City adopts the constitutionally authorized maximum tax rate of \$2.50 per

\$100 Taxable Assessed Valuation. Administratively, the Attorney General of the State of Texas has adopted rules that will not permit the City to issue debt in an amount greater than that which at the time of issuance can be supported by a debt service tax of \$1.50 per \$100 of Taxable Assessed Valuation, generally based on a 90% collection rate.

OPTIONAL REDEMPTION . . . The Certificates maturing on and after August 15, 2036 are subject to optional redemption prior to maturity in whole or in part on August 15, 2035 or on any date thereafter, at a price equal to the principal amount thereof, plus accrued interest from the most recent interest payment date to the date of redemption.

The Certificates may be redeemed only in integral multiples of \$5,000. If a Certificate is subject to redemption and is in a denomination larger than \$5,000, a portion of such Certificate may be redeemed, but only in multiples of \$5,000. If less than all of the Certificates are redeemed within a stated maturity at any time, the City shall direct the Paying Agent/Registrar to select by lot the particular Certificates or portions thereof to be redeemed.

Not less than 30 days prior to a redemption date for the Certificates, 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, NOTWITHSTANDING THAT ANY CERTIFICATE OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON UCH CERTIFICATE OR PORTION THEREOF SHALL CEASE TO ACCRUE.

By the date fixed for redemption, due provision shall be made with the Paying Agent/Registrar for payment of the redemption price of the Certificates or portions thereof to be redeemed, plus accrued interest to the date fixed for redemption. When Certificates have been called for redemption in whole or in part and due provision has been made redeem the same, the Certificates or portions thereof shall no longer be regarded as outstanding except form the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the registered owners to collect interest which would have otherwise accrued after the redemption date on any Certificates or portion thereof called for redemption shall terminate on the date fixed for redemption.

So long as the Book-Entry-Only System is used for the Certificates, any notice of redemption will only be sent to DTC. Any failure by DTC to advise any DTC participants, or of any DTC participant or indirect participant to notify the beneficial owner of the Certificates, will not affect the validity of the redemption of the Certificates called for redemption or any other action premised on any such notice.

MANDATORY SINKING FUND REDEMPTION . . . The Certificates stated to mature on August 15, 2045 and August 15, 2050 are referred to herein as the "Term Certificates ". The Term Certificates are subject to mandatory sinking fund redemption prior to their stated maturities from money required to be deposited in the Certificates Fund for such purpose and shall be redeemed in part, by lot or other customary method, at the principal amount thereof plus accrued interest to the date of redemption in the following principal amounts on August 15 in each of the years as set forth below:

Term Certificate Stated to Mature on August 15, 2045		Term Certificate Stated to Mature on August 15, 2050	
Year	Principal Amount	Year	Principal Amount
2044	\$1,485,000	2046	\$1,620,000
2045 (Maturity)	1,550,000	2047	1,700,000
		2048	1,785,000
		2049	1,875,000
		2050 (Maturity)	1,970,000

The principal amount of the Term Certificates required to be redeemed pursuant to the operation of such mandatory redemption provisions shall be reduced, at the option of the City, by the principal amount of any Term Certificates of such stated maturity which, at least 50 days prior to the mandatory redemption date (1) shall have been defeased or acquired by the City and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the City with money in the Certificate Fund, or (3)

shall have been redeemed pursuant to the optional redemption provisions set forth above and not theretofore credited against a mandatory redemption requirement.

SELECTION OF CERTIFICATES FOR REDEMPTION . . . If less than all of the Certificates are to be redeemed, the City may select the maturities of Certificates to be redeemed. If less than all the Certificates of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) shall determine by lot the Certificates, or portions thereof, within such maturity to be redeemed. 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 Certificates (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

NOTICE OF REDEMPTION . . . Not less than 30 days prior to a redemption date for the Certificates, 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 at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

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

DEFEASANCE . . . In the Ordinance, the City reserves the right to defease the Certificates in any manner now or hereafter permitted by law.

BOOK- ENTRY-ONLY SYSTEM . . . This section describes how ownership of the Certificates is to be transferred and how the principal of, premium, if any, and interest on the Certificates are to be paid to and credited by DTC, New York, New York, while the Certificates are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City and the Underwriters believe the source of such information to be reliable but take no responsibility for the accuracy or completeness thereof.

The City and the Underwriters cannot and do 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, 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 certificates registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for the Certificates, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the

Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market 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 certificates 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"). Direct Participants and Indirect Participants are referred to herein as the "Participants". DTC has Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the 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 Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Certificates, except in the event that use of the book-entry system for the Certificates 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 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. 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 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 the notices be provided directly to them.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Certificates unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer 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 the Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest 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 or the Paying Agent/Registrar on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with certificates 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 City, or Paying Agent/Registrar, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of

DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Participants.

DTC may discontinue providing its services as securities depository with respect to the Certificates at any time by giving reasonable notice to the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor securities 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, Security certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

EFFECT OF TERMINATION OF BOOK-ENTRY-ONLY SYSTEM . . . In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the City, printed Certificates will be issued to the holders and the 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. Discontinuation of the DTC Book-Entry-Only System by the City may require consent of DTC Participants under its Operational Arrangements.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is UMB Bank, N.A., Austin, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City 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 of Texas or 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 . . . In the event the Book-Entry-Only System should be discontinued, 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. 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 designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Certificates issued in an exchange or transfer of Certificates will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Certificates to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New 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.

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 last business day of the preceding month.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the 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 Holder of a Certificate 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.

CERTIFICATE HOLDERS' REMEDIES . . . The Ordinance does not provide any remedies to a bondholder if the City defaults on the payment of the principal of or interest on the Certificates. If a bondholder of a Certificate does not receive payment of principal of or interest on the Certificates when due, the certificate holder may seek a writ of mandamus from a court of competent jurisdiction. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance under the Certificates or the Ordinance and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year.

The Ordinance does not provide for the appointment of a trustee to represent the interest of the certificate 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 accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the certificate holders. 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. Because it is unclear whether the Texas legislature has effectively waived the City's governmental immunity from a suit for money damages, bondholders 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 certificate holders 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.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 59 Tex. Sup. Ct. J. 524 (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.

Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or 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 with respect to the rights of the Certificate holders of the Certificates are subject to the applicable provisions of 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.

BOND INSURANCE

Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company ("BAM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an appendix to this Official Statement. The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products to issuers in the U.S. public finance markets. BAM will only insure municipal bonds, as defined in Section

6901 of the New York Insurance Law, which are most often issued by states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.bambonds.com.

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law. BAM's financial strength is rated "AA/Stable" by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"). An explanation of the significance of the rating and current reports may be obtained from S&P at <https://www.spglobal.com/en/>. The rating of BAM should be evaluated independently. The rating reflects S&P's current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Bonds on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the Policy), and BAM does not guarantee the market price or liquidity of the Bonds, nor does it guarantee that the rating on the Bonds will not be revised or withdrawn.

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of September 30, 2025 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$517.2 million, \$273.6 million and \$243.6 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM's most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM's website at www.bambonds.com, is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

BAM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted here from, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "BOND INSURANCE".

Additional Information Available from BAM

Credit Insights Videos. For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at <https://bambonds.com/insights/#video>. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Credit Profiles. Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM's website at <https://bambonds.com/credit-profiles>. BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Disclaimers. The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer of or the underwriter for the Bonds, and the issuer and underwriter assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Bonds, whether at the initial offering or otherwise

FINANCIAL GUARANTY INSURANCE RISK FACTORS

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

Under no circumstances does default of payment of principal and interest obligate acceleration of the obligations of the Insurer without its consent. The Insurer may direct and must consent to any remedies under the Ordinance and the Insurer's consent may be required in connection with amendments to the Ordinance.

In the event the Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Certificates are payable solely from the money received by the Paying Agent/Registrar pursuant to the Ordinance. In the event the Insurer becomes obligated to make payments with respect to the Certificates, no assurance is given that such event will not adversely affect the market price of the Certificates or the marketability (liquidity) for the Certificates.

The long-term ratings on the Certificates are dependent on the financial strength of the Insurer and its claims-paying ability. The Insurer's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Insurer and of the rating on the Certificates insured by the Insurer will not be subject to downgrade and such event could adversely affect the market price of the Certificates or the marketability (liquidity) for the Certificates. See description "OTHER INFORMATION – RATINGS" herein.

The obligations of the Insurer are general obligations of the Insurer and in an event of default by the Insurer, the remedies available to the Holders of Certificates may be limited by applicable bankruptcy law or other similar laws related to insolvency.

CLAIMS-PAYING ABILITY AND FINANCIAL STRENGTH OF MUNICIPAL BOND INSURERS . . . Moody's Investor Services, Inc., S&P Global Ratings, a division of Standard & Poor's Financial Services LLC, and Fitch Ratings (collectively, the "Rating Agencies") have, in the past, downgraded and/or placed on negative watch the claims-paying and financial strength of most providers of municipal bond insurance. Additional downgrades or negative changes in the rating outlook for all bond insurers are possible. In addition, past events in the credit markets have had substantial negative effects on the bond insurance business. These developments could be viewed as having a material adverse effect on the claims-paying ability of such bond insurers, including any bond insurer of the Certificates. Thus, when making an investment decision, potential investors should carefully consider the ability of the City to pay principal and interest on the Certificates and the claims-paying ability of any such bond insurer, particularly over the life of the Certificates.

Neither the City nor the Underwriters have made independent investigation into the claims paying ability of the Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Insurer is given.

AD VALOREM PROPERTY TAXATION

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

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

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 (the "10% Homestead Cap"). The 10% increase is cumulative, meaning the maximum increase is 10% times the number of years since the property was last appraised. See "TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT" for the reduction in taxable valuation attributable to the 10% Homestead Cap.

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.

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 ("Productivity Value"). The same land may not be qualified as both agricultural and open-space land. See "TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT" for the reduction in taxable valuation attributable to valuation by Productivity Value.

The appraisal values set by the Appraisal Districts are subject to review and change by the Appraisal Review Board. The appraisal rolls, as approved by the Appraisal Review Board, are used by taxing units, such as the City, in establishing their tax rolls and tax rates. See "AD VALOREM PROPERTY TAXATION – CITY'S RIGHTS IN THE EVENT OF TAX DELINQUENCIES."

STATE MANDATED HOMESTEAD EXEMPTIONS . . . 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. See "TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT" for the reduction in taxable valuation attributable to state-mandated homestead exemptions.

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 market value of all

homesteads (but not less than \$5,000) and (2) an additional exemption of the market 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. See "TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT" for the reduction in taxable valuation, if any, attributable to local option homestead exemptions. Cities, counties and school districts are prohibited from repealing or reducing an optional homestead exemption that was granted in tax year 2022 through December 31, 2027.

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. See "TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT" for the reduction in taxable valuation, if any, attributable to the freeze on taxes for the elderly and disabled.

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

FREEPORT 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. See "TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT" for the reduction in taxable valuation, if any, attributable to Goods-in-Transit or Freeport Property exemptions.

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

TEMPORARY EXEMPTION FOR QUALIFIED PROPERTY DAMAGED BY A DISASTER . . . The Property Tax Code entitles the owner of certain qualified (i) tangible personal property used for the production of income, (ii) improvements to real property, and (iii) manufactured homes located in an area declared by the governor to be a disaster area following a disaster and is at least 15 percent damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. 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 FINANCING ZONES . . . A city or county, by petition of the landowners or by action of its governing body, may create one or more tax increment financing 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, general 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 the TIRZ and are not available for the payment of other obligations of such taxing units. See "AD VALOREM PROPERTY TAXATION - CITY APPLICATION OF PROPERTY TAX CODE" for descriptions of any TIRZ created in the City.

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. See "AD VALOREM PROPERTY TAXATION – CITY APPLICATION OF PROPERTY TAX CODE" for descriptions of any of the City's tax abatement agreements.

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

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 \$25,000; the disabled are also granted an exemption of \$25,000.

The City has granted an additional exemption of 20% of the market value of residence homesteads; minimum exemption of \$5,000.

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

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

Ad valorem taxes are not levied by the City against the exempt value of residence homesteads for the payment of debt.

The City does not tax nonbusiness personal property; and taxes are collected for the City by the Tax Assessor-Collector in Jefferson County and by the Tax Assessor-Collector in Orange County.

The City does permit split payments, and discounts are not allowed.

The City does tax goods in transit.

The City does not tax freeport property.

The City does not collect the additional one-half cent sales tax for reduction of ad valorem taxes.

The City does have a Tax Increment Reinvestment Zone. See "PORT ARTHUR TAX INCREMENT REINVESTMENT ZONE NO. 1".

TAX ABATEMENT POLICY . . . The City has established a tax abatement program to encourage economic development. In order to be considered for tax abatement, a project must meet several criteria pertaining to property value enhancement and/or job creation. Abatements are granted effective with the January 1 valuation date immediately following the date of execution of the agreement.

The City offers abatements for a minimum of five and a maximum of ten years based upon the total capital investment of a project and/or the creation of jobs. The City currently has three active tax abatement agreements in effect for property within the City limits. Two agreements were instituted prior to the adoption of the standard Uniform Tax Abatement Policy Resolution #23-452. One agreement with an estimated property value of \$2,500,000 was executed in 2017 and will end in 2026. The second agreement, with an estimated property value of \$130,000,000, will end in 2027. Resolution 22-569, estimated property value of \$400,00, will end December 31, 2030.

PORT ARTHUR TAX INCREMENT REINVESTMENT ZONE NO.1

DESCRIPTION OF THE TIRZ . . . Port Arthur Tax Increment Reinvestment Zone No. 1 (the "TIRZ") was established by City Council in ordinance number 12-75 on November 9, 2012. Pursuant to Chapter 311 of the Texas Tax Code, the City may designate geographic areas within the City as a reinvestment zone if the area satisfies the requirements of certain sections of Chapter 311 of the Texas Tax Code. The TIRZ financing plan outlines the proposed use of ad valorem taxes for improvements in the reinvestment zone. The proposed improvements in the TIRZ are expected to significantly enhance the value of all the taxable real property in the zone and will be of general benefit to the City. The Board of Directors for the TIRZ consists of seven members of whom the City appoints three, and four members from each of Jefferson County, Port of Port Arthur, Sabine Neches Navigation District and Jefferson County Drainage District No. 7. The expiration date of the TIRZ is November 1, 2042.

Property taxes levied by taxing units participating in the TIRZ on captured appraised value above the base value are deposited into the tax increment fund. The base value is the value of all real property taxable by the taxing units participating in the TIRZ as of January 1, 2014.

The TIRZ is located in the general downtown area of Port Arthur. The City participation in the TIRZ is 100% of the City's tax rate. Tax increment attributable to the TIRZ will be dedicated to public improvements relating to the development of the TIRZ area for 30 years. The base value in the TIRZ was \$5,644,239, and the 2023 value in the TIRZ is \$12,133,891.

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TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2025/2026 Market Valuation Established by Jefferson County and Orange County Appraisal Districts (excluding totally exempt property)		\$ 5,774,088,128
Less Exemptions/Reductions at 100% Market Value:		
Abatement	\$ 32,410,122	
Over 65 Exemptions	101,666,431	
Disabled Persons Exemptions	13,735,493	
Homestead Exemptions	262,921,951	
Homestead Cap Adjustment	246,263,450	
Veteran Homestead Exemptions	36,694,065	
Freeport Exemption	162,700	
Solar	97,338	
Charity	1,433,089	
Low Income Housing	9,938,644	
Circuit Breaker	189,544,991	
Productivity Loss	59,592,062	
Pollution Control	29,834,800	984,295,136
2025/2026 Taxable Assessed Valuation		<u>\$ 4,789,792,992</u>
General Obligation Debt Payable from Ad Valorem Taxes (as of 10/01/25):		
General Obligation Bonds	\$ 7,220,000	
Certificates of Obligation	143,615,000	
Tax Notes	15,040,000	
The Certificates	28,720,000	194,595,000
Less: Self-Supporting Debt		<u>\$ 112,438,309</u>
Total General Obligation Debt Payable from Ad Valorem Taxes		<u>\$ 82,156,692</u>
Interest and Sinking Unaudited Fund Balance as of 10/01/2025		\$ 8,000,000
Ratio of Net General Obligation Debt to Taxable Assessed Valuation		1.72%

2025 Population Estimate - 54,548
Per Capita Taxable Assessed Valuation - \$87,809
Per Capita Funded Net Debt - \$1,506

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

Category	Taxable Appraised Value, Fiscal Year Ending September 30					
	2026		2025		2024	
	Amount	% of	Amount	% of	Amount	% of
		Total		Total		Total
Real, Residential, Single-Family	\$ 2,253,738,562	39.03%	\$ 2,200,467,536	38.11%	\$ 1,998,306,798	40.02%
Real, Residential, Multi-Family	325,704,038	5.64%	329,632,623	5.71%	308,278,448	6.17%
Real, Vacant Platted Lots/Tracts	128,866,235	2.23%	63,841,896	1.11%	57,246,678	1.15%
Real, Acreage (Land Only)	60,416,708	1.05%	44,570,768	0.77%	33,900,465	0.68%
Real, Farm and Ranch Improvements	85,916,724	1.49%	67,799,863	1.17%	46,360,298	0.93%
Real, Commercial and Industrial	1,463,207,475	25.34%	1,461,568,600	25.31%	1,404,521,809	28.13%
Real, Oil, Gas & Other Mineral Reserves	3,249,823	0.06%	3,206,215	0.06%	4,998,747	0.10%
Real and Intangible Personal, Utilities	712,278,811	12.34%	426,743,236	7.39%	388,331,565	7.78%
Tangible Personal, Business	719,120,433	12.45%	746,841,898	12.93%	732,585,034	14.67%
Tangible Personal, Other	631,096	0.01%	745,673	0.01%	487,549	0.01%
Residential Inventory	3,542,841	0.06%	2,525,594	0.04%	2,694,889	0.05%
Special Inventory	17,415,382	0.30%	16,945,459	0.29%	15,473,990	0.31%
Exempt Property	-	0.00%	-	0.00%	-	0.00%
Total Appraised Value Before Exemptions	\$ 5,774,088,128	100.00%	\$ 5,364,889,361	92.91%	\$ 4,993,186,270	100.00%
Less: Total Exemptions/Reductions	984,295,136		890,530,711		755,000,732	
Net Taxable Assessed Value	\$ 4,789,792,992		\$ 4,474,358,650		\$ 4,238,185,538	

Category	Taxable Appraised Value, Fiscal Year Ending			
	2023		2022	
	Amount	% of	Amount	% of
		Total		Total
Real, Residential, Single-Family	\$ 1,808,644,919	36.22%	\$ 1,658,579,357	36.16%
Real, Residential, Multi-Family	287,511,632	5.76%	275,884,588	6.02%
Real, Vacant Platted Lots/Tracts	57,315,025	1.15%	55,333,683	1.21%
Real, Acreage (Land Only)	31,820,959	0.64%	29,060,607	0.63%
Real, Farm and Ranch Improvements	44,648,176	0.89%	41,968,993	0.92%
Real, Commercial and Industrial	1,254,760,641	25.13%	1,128,963,382	24.61%
Real, Oil, Gas & Other Mineral Reserves	4,033,898	0.08%	2,151,426	0.05%
Real and Intangible Personal, Utilities	367,818,906	7.37%	321,761,278	7.02%
Tangible Personal, Business	712,248,933	14.26%	463,491,983	10.11%
Tangible Personal, Other	483,042	0.01%	556,301	0.01%
Residential Inventory	3,434,824	0.07%	4,332,573	0.09%
Special Inventory	13,798,196	0.28%	11,013,067	0.24%
Exempt Property	-	0.00%	-	0.00%
Total Appraised Value Before Exemptions	\$ 4,586,519,151	91.86%	\$ 3,993,097,238	87.06%
Less: Total Exemptions/Reductions	742,581,324		592,521,724	
Net Taxable Assessed Value	\$ 3,843,937,827		\$ 3,400,575,514	

NOTE: Valuations shown are certified taxable assessed values reported by the Appraisal Districts to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Jefferson Central Appraisal and Orange County Appraisal District updates records.

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 Year ⁽³⁾	Ratio of G.O. Tax Debt to Taxable Assessed Valuation	G.O. Tax Debt Per Capita
2022	56,039	\$ 3,400,575,514	\$ 60,682	\$ 50,791,678	1.49%	\$ 906
2023	56,705	3,843,937,827	67,788	64,325,000	1.67%	1,134
2024	55,724	4,238,185,538	76,057	74,638,673	1.76%	1,339
2025	54,548	4,474,358,650	82,026	82,156,692	1.84%	1,506
2026	55,746	4,789,792,992	85,922	74,478,358	1.55%	1,336

⁽¹⁾ Source: City officials.

⁽²⁾ As reported by the Jefferson Central Appraisal and Orange County Appraisal Districts; subject to change during the ensuing year.

⁽³⁾ Includes portion of the Certificates. Excludes self-supporting debt.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Assessed Value ⁽¹⁾	Total Tax Rate	General Fund ⁽²⁾	Interest and Sinking Fund ⁽²⁾	Tax Levy ⁽³⁾	% Current Collections	% Total Collections
2022	\$ 3,400,575,514	\$0.74072	\$0.49208	\$0.24863	\$ 24,428,274	94.80%	97.85%
2023	3,843,937,827	0.69154	0.43468	0.25685	25,238,300	90.18%	97.25%
2024	4,238,185,538	0.64864	0.39847	0.25017	27,493,110	93.05%	93.05%
2025	4,474,358,650	0.62627	0.37610	0.25017	28,021,655	92.53% ⁽⁴⁾	92.53% ⁽⁴⁾
2026	4,789,792,992	0.61572	0.36562	0.25010	29,491,905	In Process of Collection	

⁽¹⁾ As reported by the Jefferson Central and Orange County Appraisal Districts; subject to change during the ensuing year.

⁽²⁾ General Fund and Interest and Sinking Fund tax rate is based upon the taxable valuation of the City. Does not take into account the value of the Industrial Districts. See "TABLE 8 – INDUSTRIAL DISTRICT CONTRACTS."

⁽³⁾ The tax levy is adjusted for additions and corrections throughout the course of the year. The tax levy does not include Industrial District payments.

⁽⁴⁾ Collections as of September 30, 2025.

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TABLE 5 - TEN LARGEST TAXPAYERS⁽¹⁾

Name of Taxpayer	Nature of Property	2025/2026 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Enterprise Texas Pipeline	Oil & Gas Pipeline	\$ 156,139,524	3.26%
Motiva Enterprises	Oil & Gas Refinery	115,354,129	2.41%
Entergy Texas Inc.	Electric Utility/Power Plant	100,351,571	2.10%
GT Logistics, LLC	Logistics	82,463,378	1.72%
Port Arthur Terminal LLC	Oil & Gas Pipeline	71,692,941	1.50%
Premcor Refining Group Inc.	Oil & Gas Refinery	67,425,614	1.41%
MPT of Port Arthur LLC	Hospital	46,744,752	0.98%
IRG Willow LLC	Apartments	43,500,599	0.91%
GSSW 9th Avenue Station	Apartments	36,534,534	0.76%
Walmart Stores of Texas	Retail	35,330,930	0.74%
		<u>\$ 755,537,972</u>	<u>15.77%</u>

⁽¹⁾ Represents only the portion of the facilities located within the City limits and subject to taxation by the City.

GENERAL OBLIGATION DEBT LIMITATION . . . No general obligation debt limitation is imposed on the City under current State law or the City's Home Rule Charter. See "THE CERTIFICATES – Security and Source of Payment" and "TAX INFORMATION - TAX RATE LIMITATION".

TABLE 6 - TAX ADEQUACY

2026 Net Principal and Interest Requirements.....	\$ 11,303,596 ⁽¹⁾
\$0.2459 Tax Rate at 96% Collection Produces	\$ 11,306,977 ⁽²⁾
Maximum Net Principal and Interest Requirements (2026).....	\$ 11,303,596 ⁽¹⁾
\$0.2459 Tax Rate at 96% Collection Produces	\$ 11,306,977 ⁽²⁾
Average Net Principal and Interest Requirements (2026-2045).....	\$ 6,415,265 ⁽¹⁾
\$0.1396 Tax Rate at 96% Collection Produces	\$ 6,419,089 ⁽²⁾

⁽¹⁾ Includes a portion of the Certificates. Does not include self-supporting debt. Please see TABLE 11 - COMPUTATION OF SELF-SUPPORTING DEBT.

⁽²⁾ Tax levy is based on the taxable assessed value of the City and does not include Industrial District payments.

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TABLE 7 - 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 bonds ("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.

	2025/2026 Taxable Assessed Value	Total G.O. Debt as of 9/30/2025	Estimated % Applicable	City's Overlapping G.O. Debt as of 9/30/2025
City of Port Arthur	\$ 4,789,792,992	\$ 82,156,692 ⁽¹⁾	100.00%	\$ 82,156,692
Beaumont ISD	15,979,519,131	173,320,000	0.06%	103,992
Bridge City ISD	1,401,390,201	102,389,991	12.36%	12,655,403
Hamshire-Fannett ISD	910,494,806	48,560,474	0.00%	-
Jefferson County	32,860,089,401	12,005,000	10.73%	1,288,137
Jefferson County DD #7	14,720,364,571	10,755,000	22.47%	2,416,649
Nederland ISD	3,794,316,203	130,980,000	8.56%	11,211,888
Orange County	8,769,549,099	2,695,000	2.32%	62,524
Port Arthur ISD	7,047,167,126	422,720,000	42.02%	177,626,944
Port Neches-Groves ISD	3,693,052,068	171,175,000	7.63%	13,060,653
Port of Beaumont Navigation District	13,980,495,695	64,155,000	0.07%	44,909
Port of Port Arthur Navigation District	7,995,212,301	83,990,000	42.98%	36,098,902
Sabine Pass ISD	2,811,887,390	88,206,366	10.26%	9,049,973
Sabine Pass Port Authority	703,487,477	6,670,000	10.05%	670,335
Sabine-Neches Nav Dist	32,390,799,138	191,195,000	10.73%	20,515,224
Total Direct and Overlapping Funded Debt				<u>\$ 366,962,222</u>
Ratio of Direct and Overlapping Funded Debt to Taxable Assessed Valuation				7.66%
Per Capita Overlapping Funded Debt				\$ 6,583

⁽¹⁾ Includes a portion of the Certificates. Includes self-supporting debt. Please see TABLE 11 – COMPUTATION OF Self-Supporting Debt.

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TABLE 8 - INDUSTRIAL DISTRICT CONTRACTS

The City taxes property within its corporate limits but has no such power for property located outside its boundaries. From 2011 through September 30, 2019, the City has collected an aggregate of approximately \$224,809,657 in annual payments from certain corporations whose properties are located outside the City's boundaries but within the City's extra-territorial jurisdiction pursuant to contracts with such corporations for such payments. Essentially the corporations have agreed to make payments to the City in lieu of annexation and taxation. Pursuant to a Texas statute adopted in 1963 specifically enabling Texas cities to do so, in December 1975 the City Council authorized and caused the City to enter into separate contracts ("Industrial District Contracts") with corporations which provided that the City would not annex such corporate properties during the term of the contract unless the City determined that such annexation is reasonably necessary to promote and protect the general health, safety and welfare of the persons residing within the City (but that annexation would not be made for revenue purposes only). The City has contracts with the following corporations expiring as shown.

Firm	Expiration Date	for FY 2025
Air Products & Chemicals	December 30, 2027	\$ 535,931
Air Products LLC	December 31, 2032	106,196
BASF Corporation	December 30, 2027	914,057 ⁽¹⁾
BASF/Total	December 30, 2027	404,717 ⁽¹⁾
Chevron-Phillips Chemical	December 30, 2027	927,542 ⁽¹⁾
Chevron USA	December 30, 2027	533,544 ⁽¹⁾
Colonial Pipeline	December 31, 2026	25,000
Entergy Services LLC	December 31, 2031	1,456
Exxon Mobil Corporation	December 31, 2026	40,000
Golden Pass	December 31, 2028	1,887,452 ⁽⁵⁾
Golden Pass Expansion	December 30, 2031	1,834,034 ⁽³⁾
Motiva Chemicals	December 30, 2027	11,543,931 ⁽¹⁾
GT Logistics and GT Properties	December 30, 2028	542,850 ⁽⁵⁾
GT Logistics Expansion	December 31, 2031	9,664
Motiva, Inc.	December 31, 2029	762,335
OxBow Calcining	December 30, 2027	210,743 ⁽¹⁾
Praxair-Motiva	December 30, 2027	156,476 ⁽¹⁾
Praxair Valero	December 30, 2027	800,312 ⁽²⁾
Premcor , Inc.	December 30, 2027	4,173,735 ⁽¹⁾⁽⁴⁾
Sunoco Logistics	December 31, 2026	62,500
TOTAL Petrochemicals, Inc.	December 31, 2027	1,961,845 ⁽¹⁾
Veolia	December 30, 2029	124,935 ⁽⁶⁾
Total Expansion Side Cracker	December 31, 2028	1,192,119 ⁽³⁾
Premcor Expansion	December 30, 2026	932,451
		<u>\$ 29,683,827</u>

- (1) Payments are 82% of City property taxes that would have been paid if the facilities were located within City limits.
- (2) Payments are 70% of City property taxes that would have been paid if the facilities were located within City limits.
- (3) Payments are 25% of City property taxes that would have been paid if the facilities were located within City limits.
- (4) Premcor Corporation is doing business as Valero Refinery.
- (5) Payments are 81% of City property taxes that would have been paid if the facilities were located within City limits.
- (6) Payments are 95% of City property taxes that would have been paid if the facilities were located within City limits.

TABLE 8A - AD VALOREM TAX COMPARISON TO INDUSTRIAL DISTRICT CONTRACTS

Fiscal Year Ended 9/30	Gross Value of Industrial Districts	Receipts from Industrial District Contracts	Ad Valorem Tax Comparison		% of Actual Tax Levy
			Tax	Tax Rate	
			Year	Equivalent	
2022	\$ 5,588,981,693	\$ 33,222,436	2021	\$ 0.9770	136.00%
2023	5,580,250,362	28,830,038	2022	0.7500	114.23%
2024	8,231,217,126	30,659,394	2023	0.7234	111.52%
2025	8,487,983,395	31,589,052	2024	0.7060	112.73%
2026	9,050,748,906	29,683,827	2025	0.6197	100.65%

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DEBT INFORMATION

TABLE 9 – GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ended	Outstanding Debt Service ⁽¹⁾			The Certificates			Less:		% of
9/30	Principal	Interest	Total	Principal	Interest	Total	Self Supporting Debt Service	Net Debt Service	Principal Paid
2026	\$ 13,405,000	\$ 5,227,578	\$ 18,632,578	\$ -	\$ 915,643	\$ 915,643	\$ 8,244,626	\$ 11,303,596	
2027	10,615,000	4,926,921	15,541,921	650,000	1,420,825	2,070,825	9,415,111	8,197,635	
2028	10,660,000	4,573,765	15,233,765	680,000	1,388,325	2,068,325	9,408,001	7,894,089	
2029	9,595,000	4,243,691	13,838,691	715,000	1,354,325	2,069,325	9,190,053	6,717,963	
2030	9,925,000	3,927,608	13,852,608	750,000	1,318,575	2,068,575	9,196,270	6,724,913	30.46%
2031	9,645,000	3,606,891	13,251,891	785,000	1,281,075	2,066,075	9,192,979	6,124,988	
2032	9,955,000	3,289,678	13,244,678	825,000	1,241,825	2,066,825	9,188,416	6,123,088	
2033	7,800,000	2,963,182	10,763,182	870,000	1,200,575	2,070,575	6,711,270	6,122,488	
2034	8,050,000	2,717,532	10,767,532	910,000	1,157,075	2,067,075	6,706,245	6,128,363	
2035	8,305,000	2,460,503	10,765,503	955,000	1,111,575	2,066,575	6,701,840	6,130,238	54.23%
2036	8,570,000	2,191,087	10,761,087	1,005,000	1,063,825	2,068,825	6,711,799	6,118,113	
2037	8,855,000	1,910,876	10,765,876	1,055,000	1,013,575	2,068,575	6,710,313	6,124,138	
2038	8,460,000	1,633,486	10,093,486	1,110,000	960,825	2,070,825	6,712,823	5,451,488	
2039	8,730,000	1,356,725	10,086,725	1,165,000	905,325	2,070,325	6,713,887	5,443,163	
2040	9,015,000	1,073,897	10,088,897	1,220,000	847,075	2,067,075	6,710,859	5,445,113	81.48%
2041	9,310,000	777,572	10,087,572	1,280,000	786,075	2,066,075	6,706,334	5,447,313	
2042	7,640,000	506,563	8,146,563	1,345,000	722,075	2,067,075	6,088,163	4,125,475	
2043	3,875,000	274,106	4,149,106	1,415,000	654,825	2,069,825	2,736,075	3,482,856	
2044	2,330,000	116,350	2,446,350	1,485,000	584,075	2,069,075	2,069,075	2,446,350	
2045	1,135,000	28,375	1,163,375	1,550,000	517,250	2,067,250	2,067,250	1,163,375	100.00%
2046				1,620,000	447,500	2,067,500	2,067,500	-	
2047				1,700,000	366,500	2,066,500	2,066,500	-	
2048				1,785,000	281,500	2,066,500	2,066,500	-	
2049				1,875,000	192,250	2,067,250	2,067,250	-	
2050				1,970,000	98,500	2,068,500	2,068,500	-	
	<u>\$ 165,875,000</u>	<u>\$ 47,806,383</u>	<u>\$ 213,681,383</u>	<u>\$ 28,720,000</u>	<u>\$ 21,830,993</u>	<u>\$ 50,550,993</u>	<u>\$ 147,517,638</u>	<u>\$ 116,714,738</u>	

⁽¹⁾ Does not include lease/purchase obligations.

TABLE 10 - INTEREST AND SINKING FUND BUDGET PROJECTION

Tax Supported Net Debt Service Requirements, Fiscal Year Ending 9/30/2026		\$ 19,548,221
Estimated Lease Payments		
Interest and Sinking Fund, 9/30/2025	\$18,859,418	
Interest and Sinking Fund Tax Levy @ 96% Collections	11,507,152 ⁽¹⁾	
Budgeted Transfer from Economic Development Corporation	224,665	
Budgeted Transfer from Water and Sewer Fund	5,107,686	
Budgeted Transfer from Pleasure Island	153,125	
Budgeted Transfer from Solid Waste Fund	1,013,329	
Other	1,329,279	38,369,654
Estimated Balance, 9/30/2025		<u>\$ 18,821,433</u>

⁽¹⁾ The levy is based on the value of the City; does not include Industrial District values. See "TABLE 8 – INDUSTRIAL DISTRICT CONTRACTS."

TABLE 11 - COMPUTATION OF SELF-SUPPORTING DEBT

Gross Sales Tax Receipts from 4A Corporation (Audited 9/30/24)	\$ 7,738,393
Sales Tax Revenue Bond Requirements (9/30/24)	<u>-</u>
Balance Available for General Obligation Requirements	\$ 7,738,393
General Obligation Bond Requirements Supported by Inter-Local Agreement (9/30/25)	<u>218,798</u>
Balance	<u>\$ 7,519,595</u>
Percentage General Obligation Bonds Supported by Inter-Local Agreement Self-Supporting	100.00%
Net Available Revenues from the Waterworks and Wastewater System (Audited 9/30/24)	\$ 8,334,903
Waterworks and Wastewater Revenue Bond Requirements (Audited 9/30/24)	<u>-</u>
Balance Available for General Obligation Requirements	\$ 8,334,903
General Obligation Bond Requirements Supported by Waterworks and Wastewater System (9/30/25)	<u>3,359,455</u>
Balance	<u>\$ 4,975,449</u>
Percentage General Obligation Bonds Supported by Inter-Local Agreement Self-Supporting	100.00%

TABLE 12 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

Date of Authorization	Purpose	Amount Authorized	Amount Previously Issued	Authorized But Unissued
01/20/79	Water and Sewer	\$ 6,500,000	\$ 784,507	\$ 5,715,493 ⁽¹⁾
01/17/81	Water and Sewer	<u>24,670,000</u>	<u>-</u>	<u>24,670,000</u> ⁽¹⁾
Totals		<u>\$ 31,170,000</u>	<u>\$ 784,507</u>	<u>\$ 30,385,493</u>

⁽¹⁾ Such authorized but unissued debt may only be used for improvements within the previous boundaries of Park Central MUD, which was annexed effective September 30, 2001.

ISSUANCE OF ADDITIONAL GENERAL OBLIGATION DEBT . . . The City annually adopts a comprehensive five-year Capital Improvement Program ("CIP") as part of its budget process. Although the budget has not been formally adopted by the City Council, based on the projected budget CIP, the City expects to issue additional tax supported debt once a year for the next five years in the total approximate amount of \$75,000,000. While the City believes the current projected budget CIP reflects its current plan, the City reserves the right to modify the CIP bond funding as it deems in the best interest of the City.

TABLE 13 - OTHER OBLIGATIONS

The City has the following capital lease obligations outstanding as of September 30, 2024:

<u>Fiscal Year</u> <u>Ended 9/30</u>	<u>Governmental</u> <u>Activity</u>	<u>Business-type</u> <u>Activity</u>	<u>Total</u>
2025-2029	\$ 800,085	\$ 3,346,662	\$ 4,146,747
Total Payments	1,233,221	4,125,302	5,358,523
Less interest portion	(49,708)	(314,249)	(363,957)
Lease principal payable	<u>\$ 1,183,513</u>	<u>\$ 3,811,053</u>	<u>\$ 4,994,566</u>

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 pension plan. The City makes annual contributions to the plan equal to the amounts accrued for pension expense. (For more detailed information concerning the retirement plan, see APPENDIX B, "EXCERPTS FROM THE CITY'S ANNUAL FINANCIAL REPORT" – Note 11 – Employee Retirement Systems.

OTHER POST-EMPLOYMENT BENEFITS . . . In addition to pension benefits, the City makes available healthcare benefits to all employees who retire from the City and who are eligible to receive benefits from a City sponsored retirement program (Texas Municipal Retirement System or the Port Arthur Firemen's Relief and Retirement Fund) through a single-employer defined benefit healthcare plan. This Program provides lifetime health insurance for eligible retirees, their spouses and dependents through the City's group health insurance plan, which covers both active and retired participants. Benefit provisions are established by management. Employees retiring on or before December 31, 2010 are allowed to remain in the health insurance plan at approximately 30% of the expected under age 65 cost or approximately 75% of the expected over age 65 and over costs. These costs (a.k.a. retiree contribution rates) are calculated separately for retirees not eligible for Medicare (under age 65) and retirees eligible for Medicare (age 65 and over). Employees retiring on or after January 1, 2011 contribute a tiered percentage of the retiree contribution rates based upon their years of City service at retirement.

The percentage ranges from 50% for retirees with at least 30 years of City service to 100% for retirees with less than 20 years of City service. Employees hired on or after November 1, 2010 are required to contribute 100% of the retiree contribution rates upon retirement. Under the 2011 Plan, participants and their dependents at the time of termination are eligible for the City's medical plan (including prescription drugs) after termination of City employment if they had medical coverage in the City's group plan immediately prior to termination and meet the applicable Texas Municipal Retirement System (TMRS) or Firemen's Relief & Retirement Fund (FRRF) criteria to receive a monthly pension. Eligible retirees, disabled participants and spouses can continue coverage in the City's retiree benefits program for life. Eligible children can continue through age 26.

The City finances this program on a pay-as-you-go basis. As of September 30, 2024, the City had 116 retirees participating in the plan. The City had a net cost of \$3,266,903 during the fiscal year ended September 30, 2018. As of December 31, 2013, the Actuarial Accrued Liability of the Retiree Health Insurance Program was \$19,970,527. During fiscal year 2011, the City established an OPEB trust fund and has since contributed \$3,000,000 to that fund. (For more information regarding the plan see APPENDIX B, "EXCERPTS FROM THE CITY'S ANNUAL FINANCIAL REPORT" – Note V. Other Information C. Retiree Health Insurance Program and Exhibit 14 at the end of the notes.)

In 2016, the City made significant changes to its single-employer defined benefit health care plan. These changes included revisions to the assumptions underlying their actuarial valuations. Those changes significantly reduced the City's unfunded actuarial accrued liability (the "UAAL"). This UAAL reduction was primarily due to a plan change impacting Medicare eligible retirees. During fiscal year ended 2016, the City changed administrators and balanced the portfolio. Toward the end of fiscal year 2016, the City made another change, moving coverage to a Medicare Advantage Plan through Blue Cross Blue Shield. With these changes, the City's UAAL will be reduced from \$27 million to \$5 million and the annual required cost will be reduced from \$2.2 million to \$600,000, with coverage to retirees remaining substantially equal to or better than the previous plan at similar cost.

FINANCIAL INFORMATION

TABLE 14 - CHANGES IN NET ASSETS

	For Fiscal Year Ended September 30,				
	2024	2023	2022	2021	2020
Revenues					
Program Revenues:					
Charges for services	\$ 2,339,019	\$ 1,373,350	\$ 2,339,171	\$ 2,538,465	\$ 2,433,943
Operating grants	11,521,254	6,938,014	11,438,506	15,570,630	13,899,700
Capital grants	13,780,610	12,206,842	1,869,003	4,242,540	5,595
General Revenues:					
Ad valorem taxes	24,201,068	25,651,375	25,141,477	23,438,319	24,083,197
Industrial district payments	30,604,396	28,827,547	33,272,431	34,372,873	31,000,321
Franchise taxes	11,461,218	10,171,363	10,588,507	15,204,691	8,734,643
Sales tax	18,008,352	17,110,189	16,555,875	8,690,160	14,327,107
Other taxes	-	-	-	68,501	-
Investment earnings	4,635,323	6,287,481	855,811	1,376,889	855,112
Miscellaneous	2,913,716	2,566,205	3,667,365	2,609,077	2,300,973
Total Revenues	\$ 119,464,956	\$ 111,132,366	\$ 105,728,146	\$ 108,112,145	\$ 97,640,591
Expenses					
General government	\$ 20,936,668	\$ 20,810,975	\$ 17,225,213	\$ 21,592,478	\$ 14,261,996
Culture and recreation	8,957,108	9,789,671	6,817,065	6,682,451	6,124,273
Public safety	38,789,326	46,012,264	31,176,765	35,388,810	36,722,942
Community development	3,815,450	16,175,876	3,366,387	4,568,256	8,841,182
Health and welfare	6,081,187	5,994,823	4,694,658	5,404,677	5,397,477
Public transportation	3,053,362	3,464,996	10,636,973	7,396,959	2,873,955
Public works	22,364,247	10,615,687	8,911,480	10,448,831	13,444,809
Capital Projects	-	-	-	-	-
Interest on long-term debt	2,514,433	2,190,510	1,853,664	1,491,645	1,312,452
Total Expenses	\$ 106,511,781	\$ 115,054,802	\$ 84,682,205	\$ 92,974,107	\$ 88,979,086
Increases (decreases) in net					
assets before transfers	\$ 12,953,175	\$ (3,922,436)	\$ 21,045,941	\$ 15,138,038	\$ 8,661,505
Transfers	6,649,535	8,834,753	11,442,577	6,298,748	6,744,639
Increases in net assets	\$ 19,602,710	\$ 4,912,317	\$ 32,488,518	\$ 21,436,786	\$ 15,406,144
Net assets - beginning of year	127,476,309	122,563,992	90,075,474	68,638,688	61,996,974
Prior Period Adjustment	(1,414,970)	-	-	-	(8,764,230)
Net assets - end of year⁽¹⁾	\$ 145,664,049	\$ 127,476,309	\$ 122,563,992	\$ 90,075,474	\$ 68,638,888

⁽¹⁾ The City currently anticipates the ending fund balance for the fiscal year ending September 30, 2025 to be approximately \$155,000,000.

TABLE 14-A - GENERAL FUND REVENUES AND EXPENDITURES HISTORY

	For Fiscal Year Ended September 30,				
	2024	2023	2022	2021	2020
Revenues:					
Taxes	\$ 43,475,548	\$ 41,131,316	\$ 42,020,953	\$ 37,076,780	\$ 35,116,044
Industrial district payments	30,604,396	28,827,547	33,272,431	34,372,873	31,000,321
Licenses and permits	629,889	737,282	1,028,258	1,090,815	909,341
User fees	1,300,972	290,797	603,771	322,271	326,660
Fines and forfeitures	90	3,003	225,046	591,470	622,406
Intergovernmental	124,011	49,402	131,343	170,576	144,928
Interest revenue	1,344,304	1,049,983	224,452	57,067	361,321
Miscellaneous	1,787,824	274,999	991,573	610,583	452,693
Total revenues	<u>\$ 79,267,034</u>	<u>\$ 72,364,329</u>	<u>\$ 78,497,827</u>	<u>\$ 74,292,435</u>	<u>\$ 68,933,714</u>
Expenditures:					
General government	\$ 17,661,782	\$ 17,300,320	\$ 17,037,626	\$ 14,396,028	\$ 12,367,243
Culture and recreation	5,616,860	6,194,062	5,494,052	5,006,644	4,751,982
Public safety	36,615,733	36,376,696	35,158,606	33,589,366	32,675,581
Health and welfare	1,957,266	1,797,621	1,765,705	3,008,680	2,921,957
Public works	8,202,615	8,671,455	8,715,985	9,753,673	9,391,534
Capital outlay	1,474,601	-	-	138,281	-
Total expenditures	<u>\$ 71,528,857</u>	<u>\$ 70,340,154</u>	<u>\$ 68,171,974</u>	<u>\$ 65,892,672</u>	<u>\$ 62,108,297</u>
Excess (deficiency) of revenues over expenditures	7,738,177	2,024,175	10,325,853	8,399,763	6,825,417
Other financing sources (uses):					
Transfers in	\$ 2,970,872	\$ 2,925,572	5,300,314	\$ 5,973,081	\$ 7,048,995
Transfers out	(16,268,478)	(10,674,366)	(12,546,500)	(18,209,934)	(11,501,470)
Sale of Capital Assets	791,050	128,135	289,184	2,064,394	405,098
Insurance Recoveries	163,427	504,441	445,708	98,309	-
Proceeds of Debt Issuance	-	-	-	-	135,165
Total other financing sources (uses)	<u>\$ (12,343,129)</u>	<u>\$ (7,116,218)</u>	<u>\$ (6,511,294)</u>	<u>\$ (10,074,150)</u>	<u>\$ (3,912,212)</u>
Net change in fund balance	\$ (4,604,952)	\$ (5,092,043)	\$ 3,814,559	\$ (1,674,387)	\$ 2,913,205
Fund balance, beginning of year	\$ 30,267,641	\$ 35,359,684	\$ 31,545,125	\$ 33,219,512	\$ 30,306,307
Prior period adjustment	-	-	-	-	-
Fund balance, end of year	<u>\$ 25,662,689</u>	<u>\$ 30,267,641</u>	<u>\$ 35,359,684</u>	<u>\$ 31,545,125</u>	<u>\$ 33,219,512</u>

TABLE 15 - MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, VATCS, Tax Code, Chapter 321, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Certificates. 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.

Fiscal Year Ended 9/30	City's Sales and Use 1.000%	Street Repair and Maintenance 0.125%	Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
2021	\$ 13,231,135	\$ 378,331	\$ 13,609,466	57.36%	\$ 0.4543	\$ 255
2022	14,826,005	-	14,826,005	60.69%	0.4496	265
2023	15,118,453	-	15,118,453	59.90%	0.4142	267
2024	15,895,046	-	15,895,046	57.81%	0.3750	285
2025	15,610,259	-	15,610,259	55.71%	0.3489	286

The sales tax breakdown for the City is as follows:

Economic and Community Development	0.500%
County Sales and Use Tax	0.500%
City Sales and Use Tax	1.000%
State Sales and Use Tax	6.250%
Total	<u>8.250%</u>

FINANCIAL POLICIES

Basis of Accounting: The City policy is to adhere to the accounting principles set out by Statement No. 1 issued by the National Council on Governmental Accounting, as amended. See APPENDIX B – "EXCERPTS FROM THE CITY OF PORT ARTHUR, TEXAS ANNUAL FINANCIAL REPORT.")

General Fund Balance: The City Council's financial policies require the General Fund balance to be maintained at a level equal to 60 days of operating expenditures plus an emergency reserve of \$1.5 million.

Budgetary Procedures: The City policy is to begin the budgetary procedure at the department level in June of each year. The department heads submit their budget request to the Finance Director who assembles and prepares a budget requirement workbook for each department for submission to the City Manager. After the City Manager reviews and meets with department heads, the City Manager submits a proposed budget to the City Council on or before August 31 of each year. The Council holds public hearings, and a final budget must be prepared and adopted by September 30 of each year.

INVESTMENTS

The City invests its investable funds in investments authorized by Texas law in accordance with investment policies approved by the City Council of the City. Both state law and the City's investment policies are subject to change.

LEGAL INVESTMENTS . . . Available City funds are invested as authorized by Texas law and in accordance with investment policies approved by the City Council. Both state law and the City's investment policies are subject to change. Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas 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 is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (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) certificates of deposit that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (9) 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 (6) 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 (6) above, clauses (11) through (13) 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 of Texas; and (iv) the agreement to lend securities has a term of one year or less, (10) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (11) commercial paper with a stated maturity of 270 days or less that is rated at least 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 U.S. or state bank, (12) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, and (13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. 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 in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

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. 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.

INVESTMENT POLICIES . . . 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. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' 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, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and 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.

ADDITIONAL PROVISIONS . . . Under Texas law the City is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and recording any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers' with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (8) restrict its investment in mutual funds in the aggregate to no more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, and to invest no portion of bond proceeds, reserves and funds held for debt service, in mutual funds; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

TABLE 16 - CURRENT INVESTMENTS

As of June 30, 2025, the City's investable funds were invested in the following categories:

	Market Value
Bank Deposits	\$ 33,588
Texas Local Government Investment Pool (Tex Pool)	26,017,715
Texas Class	21,097,827
TEXSTAR	26,335,696
	<u>\$ 73,484,826</u>

TAX MATTERS

OPINION OF BOND COUNSEL . . . In the opinion of Bond Counsel, as more fully described below, under existing law and assuming continuing compliance by the City with certain tax covenants, the 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 (the "Code") and is not treated as an item of tax preference for purposes of computing the federal alternative minimum tax imposed on individuals under the Code; however, the interest on the Certificates is included in the "adjusted financial statement income" of certain corporations on which the federal alternative minimum tax is imposed under the Code.

The foregoing opinions of Bond Counsel are subject to the condition that the City complies with all requirements of the Code that must be satisfied subsequent to the issuance of the Certificates in order for interest on the Certificates to be excludable from gross income for federal income tax purposes. The City has covenanted to comply with such requirements.

The scope of the foregoing opinions of Bond Counsel is limited to matters addressed above and no opinion is expressed by Bond Counsel regarding other federal income tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Certificates. In rendering such opinions, Bond Counsel further assumes and relies upon (i) without undertaking to verify the same by independent investigation, the accuracy of the representations, statements of intention and reasonable expectation, and certifications of fact of the City with respect to

matters affecting the excludability of interest on the Certificates from gross income for federal income tax purposes under the Code; and (ii) continuing compliance by the City with the applicable requirements of the Code as to such tax matters and certain procedures, agreements and covenants that must be met subsequent to the issuance of the Certificates in order that interest on the Certificates be and remain excludable from gross income for federal income tax purposes.

Bond Counsel has not been engaged or retained to monitor post-issuance compliance. Failure of the City to comply with such requirements may cause the interest on the Certificates to not be excludable from gross income for federal income tax purposes retroactively to the date of issuance of the Certificates irrespective of the date on which such noncompliance occurs or is ascertained.

Bond Counsel's opinions set forth above are based upon current facts and circumstances, and upon existing law and interpretations thereof, as of the date such opinions are delivered and Bond Counsel assumes no affirmative obligation to update, revise or supplement such opinions to reflect any action thereafter taken or not taken or if such facts or circumstances, or laws or interpretations thereof, change after the date of such opinions, including, without limitation, changes that adversely affect the excludability of interest on the Certificates, even if such actions, inactions or changes come to Bond Counsel's attention. Further, such opinions are limited solely to the matters stated therein, and no opinion is to be implied or is intended beyond the opinions expressly stated therein. Moreover, the opinion of Bond Counsel is only an opinion and not a warranty or guaranty of the matters discussed or of a particular result, and is not binding on the Internal Revenue Service (the "IRS") or the courts.

Prospective purchasers of the Certificates should also be aware that ownership of the Certificates may result in adverse tax consequences under the laws of various states and local jurisdictions. Bond Counsel expresses no opinion regarding any state or local tax consequences of acquiring, carrying, owning or disposing of the Certificates. Prospective purchasers of the Certificates should consult their tax advisors as to any state and local tax consequences to them of owning the Certificates.

Reference is made to the proposed form of the opinion of Bond Counsel attached hereto as "Appendix C – Form of Bond Counsel Opinion" for the complete text thereof.

CERTAIN COLLATERAL FEDERAL INCOME TAX CONSEQUENCES . . . The following is a brief discussion of certain collateral federal income tax matters with respect to the Certificates. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner of any Certificates. Bond Counsel has not expressed an opinion regarding the collateral federal income tax consequences that may arise with respect to the Certificates.

Prospective purchasers of the Certificates should be aware that ownership of, receipt or accrual of interest on, or disposition of, tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S Corporations with "excess net passive income" and foreign corporations subject to the branch profits tax, individuals eligible to receive the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Certificates.

INFORMATION REPORTING AND BACKUP WITHHOLDING . . . Interest paid on tax-exempt obligations is subject to information reporting to the IRS in a manner similar to interest paid on taxable obligations. This reporting requirement does not affect the excludability of interest on the Certificates from gross income for federal income tax purposes. However, in conjunction with that information reporting requirement, the Code subjects certain non-corporate owners of Certificates, under certain circumstances, will be subject to "backup withholding" with respect to payments on the Certificates and proceeds from the sale of the Certificates. Any amounts so withheld would be refunded or allowed as a credit against the federal income tax of such owner of the Certificates. This withholding generally applies if the owner of the Certificates (i) fails to furnish the paying agent (or other person who would otherwise be required to withhold tax from such payments) such owner's social security number or other taxpayer identification number ("TIN"), (ii) furnishes the paying agent an incorrect TIN, (iii) fails to properly report interest, dividends, or other "reportable payments" as defined in the Code, or (iv) under certain circumstances, fails to provide the paying agent or such owner's securities broker with a certified statement, signed under penalty of perjury, that the TIN provided is correct and that such owner is not subject to backup withholding.

Prospective purchasers of the Certificates may also wish to consult with their tax advisors with respect to the need to furnish certain taxpayer information in order to avoid backup withholding and the procedures for obtaining exemptions.

ORIGINAL ISSUE PREMIUM . . . The Certificates maturing on August 15 in the years 2027 through and including 2043 and August 15 in the years 2046 through and including 2050 (collectively, the "Premium Certificate[s]") were offered and sold to the public at a price in excess of their stated redemption price (the principal amount) at maturity. That excess constitutes bond premium. For federal income tax purposes, bond premium is amortized over the period to maturity of a Premium Certificate, based on the yield to maturity of that Premium Certificate (or, in the case of a Premium Certificate callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on that Premium Certificate), compounded semiannually. No portion of that bond premium is deductible by the owner of a Premium Certificate. For purposes of determining the owner's gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Premium Certificate, the owner's tax basis in the Premium Certificate is reduced by the amount of bond premium that accrues during the period of ownership. As a result, an owner may realize taxable gain for federal income tax purposes from the sale or other disposition of a Premium Certificate for an amount equal to or less than the amount paid by the owner for that Premium Certificate. A purchaser of a Premium Certificate in the initial public offering at the price for that Premium Certificate who holds that Premium Certificate to maturity (or, in the case of a callable Premium Certificate, to its earlier call date that results in the lowest yield on that Premium Certificate) will realize no gain or loss upon the retirement of that Premium Certificate.

The federal income tax treatment of original issue premium under the Code, including the determination of the amount of amortizable bond premium that is allocable to each year, is complicated. Purchasers of Premium Certificates should consult their own tax advisors regarding the treatment of bond premium for federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange or other disposition of, Premium Certificates.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Certificates which are not purchased in the initial offering may be determined according to rules which differ from those described above.

ORIGINAL ISSUE DISCOUNT . . . The Certificates maturing on August 15 in the years 2044 through and including 2045 (collectively, the "Discount Certificate[s]") were sold at prices less than the stated principal amounts thereof. The difference between the principal amount of the Discount Certificates and the initial offering price to the public, excluding bond houses and brokers, at which price a substantial amount of such Discount Certificates of the same maturity was sold, is "original issue discount." Original issue discount represents interest which is excluded from gross income for federal income tax purposes to the same extent and subject to the same considerations discussed above as to stated interest on the Certificates. Such interest is taken into account for purposes of determining the alternative minimum tax liability, and other collateral tax consequences, although the owner of such Discount Certificates may not have received cash in such year. Original issue discount will accrue over the term of a Discount Certificate at a constant interest rate compounded on interest payment dates. A purchaser who acquires a Discount Certificate in the initial offering at a price equal to the initial offering price thereof will be treated as receiving an amount of interest excludable from gross income for federal income tax purposes equal to the original issue discount accruing during the period such purchaser holds such Discount Certificate and will increase its adjusted basis in such Discount Certificate by the amount of such accruing discount for purposes of determining taxable gain or loss on the sale or other disposition of such Discount Certificate.

Purchasers of Discount Certificates should consult their own tax advisors regarding the treatment for federal income tax purposes of interest accrued upon sale, redemption or the disposition of Discount Certificates, including various special rules relating thereto, and the state and local tax consequences, in connection with the acquisition, ownership, accrual of discount on, sale, exchange or other disposition of, Discount Certificates.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Discount Certificates which are not purchased in the initial offering may be determined according to rules which differ from those described above.

MISCELLANEOUS . . . Bond Counsel gives no assurance that any future legislation or clarifications or amendments to the Code, if enacted into law or that otherwise become effective, will not cause the interest on the Certificates to be subject, directly or indirectly, to federal income taxation or otherwise prevent the Certificate holders from realizing the full current benefit of the tax status of the interest on the Certificates. During recent years, legislative proposals have been introduced in Congress, and in some cases have been enacted, that have altered or could alter certain federal tax consequences of owning obligations similar to the Certificates. In some cases, these proposals have contained provisions that were to be applied on a retroactive basis. It is possible that legislation could be introduced that, if enacted, could change the federal tax consequences of owning the Certificates and, whether or not enacted, could adversely affect their market value. Prospective purchasers of the Certificates are encouraged to consult their own tax advisors regarding any pending or proposed federal legislation, as to which Bond Counsel expresses no view.

The federal income tax consequences from the purchase, ownership and redemption, sale or other disposition of Certificates which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. Purchasers of the Certificates at other than their original issuance at the respective prices indicated on the inside cover of this Official Statement should consult their own tax advisors regarding other tax considerations.

PURCHASE, OWNERSHIP, SALE OR DISPOSITION OF THE CERTIFICATES AND THE RECEIPT OR ACCRUAL OF THE INTEREST THEREON MAY HAVE ADVERSE FEDERAL TAX CONSEQUENCES FOR CERTAIN INDIVIDUAL AND CORPORATE CERTIFICATE HOLDERS, INCLUDING, BUT NOT LIMITED TO, THE CONSEQUENCES DESCRIBED ABOVE. PROSPECTIVE CERTIFICATE HOLDERS SHOULD CONSULT WITH THEIR TAX SPECIALISTS FOR INFORMATION IN THAT REGARD.

Reference is made to the proposed form of the opinion of Bond Counsel attached hereto as "APPENDIX C – Form of Bond Counsel’s Opinion" for the complete text thereof. See also "OTHER INFORMATION – Legal Opinions" herein.

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 (the "MSRB"). This information will be available free of charge from the MSRB via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

ANNUAL REPORTS . . . The City will provide certain updated financial information and operating data to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under the heading "FINANCIAL INFORMATION," "DEBT INFORMATION, and TAX MATTERS." The City will update and provide this information within 270 days after the end of each fiscal year ending in and after 2025.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB’s Internet Website or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time.

If audited financial statements are not available by the required time, the City will provide audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

The City’s current fiscal year end is September 30. Accordingly, it must provide updated information by June 27 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

EVENT NOTICES . . . The City will also provide timely notices of certain events to the MSRB. The City will provide notice in a timely manner not in excess of ten business days after the occurrence of the event 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 Paying Agent/Registrar or change in the name of the Paying Agent/Registrar, 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, any event described in (12) 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. (Neither the Certificates nor the Ordinance make any provision for debt service reserves, liquidity enhancement or credit enhancement, or the pledge of property other than certain ad valorem tax revenues to secure repayment of the Certificates). As used in this section, the term "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. The City intends the words used in the above clauses (15) and (16) and in the definition of Financial Obligation above to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "ANNUAL REPORTS."

AVAILABILITY OF INFORMATION . . . Effective July 1, 2009 (the "EMMA Effective Date"), the SEC implemented amendments to the Rule which approved the establishment by the MSRB of EMMA, which is now the sole national municipal securities information repository with respect to filings made in connection with undertakings made under the Rule after the EMMA Effective Date. Commencing with the EMMA Effective Date, all information and documentation filing required to be made by the City in accordance with its undertaking made for the Certificates will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB. The City will continue to make information filings, including material event notices, with the Texas state information repository (the "SID") so long as it is required to do so pursuant to the terms of any undertakings made under the Rule prior to the EMMA Effective Date.

LIMITATIONS AND AMENDMENTS . . . The City has agreed to update information and to provide notices of events only 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 bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from a 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.

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 underwriter to purchase or sell Certificates in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding 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 underwriter 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.

THE COMPLIANCE WITH PRIOR UNDERTAKINGS . . . In connection with prior transactions, the City has entered into undertakings pursuant to which it agreed to provide certain continuing disclosure information and notices of material events in accordance with event (15) described above.

In late 2021 the City entered into two "Financial Obligations" which required the City to file notices of material events. Although the City filed such notices on October 11, 2021 and January 19, 2022, respectively, they were not timely. In addition, the City has filed the related notices of failure to file such information pursuant to its prior continuing disclosure undertakings. See <https://emma.msrb.org/IssuerHomePage/Issuer?id=2414706A071CB81A7BB38CB32831BBD6&type=G>

The City has implemented certain administrative procedures to help ensure timely compliance with its obligations in the future.

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 have been rated "A+" by S&P Global Ratings, a division of Standard & Poor's Financial Services LLC ("S&P"), without regard to credit enhancement. Additionally, the City's General Obligation Refunding Bonds, Series 2019, Combination Tax and Revenue Certificates of Obligation, Series 2020A, Combination Tax and Revenue Certificates of Obligation, Series 2021, General Obligation Refunding Bonds, Series 2021, Combination Tax, and Revenue Certificates of Obligation, Series 2022, Combination Tax and Revenue Certificates of Obligation, Series 2023, Combination Tax and Revenue Certificates of Obligation, Series 2024 and Combination Tax and Revenue Certificates of Obligation, Series 2025 are rated "AA" by S&P, with regard to credit enhancement. An explanation of the significance of such rating may be obtained from the company furnishing the rating. The rating reflects only the view of such organization and the City makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Certificates.

LITIGATION

It is the opinion of the City Attorney and City Staff that there is no significant pending litigation against the City that would have a material adverse financial impact upon the City or its operations. A majority of the litigation and legal claims against the City are covered by the Texas Municipal League Intergovernmental Risk Pool.

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 OPINIONS

The City will furnish a complete transcript of proceedings had incident to the authorization and issuance of the Certificates, including the unqualified approving legal opinion of the Attorney General of Texas approving the Initial Bond and to the effect that the Certificates are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Certificates will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX MATTERS" herein. Bond Counsel was not requested to participate and did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under captions or subcaptions "PLAN OF FINANCING – PURPOSE," "PLAN OF FINANCING – SOURCES AND USES OF CERTIFICATE PROCEEDS," "THE CERTIFICATES" (except for the information under the subcaptions "BOOK-ENTRY-ONLY SYSTEM," "EFFECT OF TERMINATION OF BOOK-ENTRY-ONLY SYSTEM," "CERTIFICATE HOLDERS' REMEDIES," and "USE OF PROCEEDS," as to which no opinion is expressed), and "CONTINUING DISCLOSURE OF INFORMATION," and Bond Counsel is of the opinion that the statements and information contained therein fairly and accurately reflect the provisions of the Ordinance; further, Bond Counsel has reviewed the statements and information contained in this Official Statement under the captions "TAX MATTERS," and "OTHER INFORMATION – REGISTRATION AND QUALIFICATION OF THE CERTIFICATES FOR SALE," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," and "LEGAL OPINIONS," and Bond Counsel is of the opinion that the statements and information contained therein are correct as to matters of law. The legal fee to be paid to Bond Counsel for services rendered in connection with the issuance of the Certificates is contingent on the sale and delivery of the Certificates. The legal opinion will accompany the Certificates deposited with DTC or will be printed on the Certificates in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by Bracewell LLP, Houston, Texas, Counsel to the Underwriters.

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. 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. Hilltop Securities Inc., in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Certificates, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor to the City 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.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Certificates from the City, at an underwriting discount of \$182,547.43. The Underwriters 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 Underwriters 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 Underwriters.

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

PNC Capital Markets LLC and PNC Bank, National Association are both wholly-owned subsidiaries of the PNC Financial Services Group, Inc. PNC Capital Markets LLC is not a bank, and is a distinct legal entity from PNC Bank, National Association. PNC Bank, National Association has/may have other banking and financial relationships with the Issuer.

PNC Capital Markets LLC may offer to sell to its affiliate, PNC Wealth Management LLC ("PNCWM"), securities in PNCCM's inventory for resale to PNCWM's customers, including securities such as those to be offered by the City. PNCCM may share with PNCWM a portion of the fee or commission paid to PNCCM if any Bonds are sold to customer of PNCWM.

FORWARD-LOOKING STATEMENTS DISCLAIMER

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.

/s/ Charlotte M. Moses
Mayor
City of Port Arthur, Texas

ATTEST:

/s/ Ronald Burton, CPM
City Manager
City of Port Arthur, Texas

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APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

THE CITY

The City of Port Arthur (the "City") is located in Jefferson County and Orange County on the west shore of Sabine Lake directly adjacent to the Gulf of Mexico in the extreme southeast corner of the State of Texas. The land area of the City covers approximately 167 square miles. The City is located along the 40-foot-deep Sabine-Neches Ship Channel, which links Jefferson and Orange Counties with the Gulf of Mexico. The City is a component of the Beaumont-Port Arthur Metropolitan Statistical Area ("MSA") comprised of Jefferson, Hardin and Orange Counties.

ECONOMY

The economy of the MSA is based on petroleum refining of petrochemicals and other chemicals, the fabrication of steel and steel products, shipping activity, the manufacture of wood, pulp, food and feed products, agriculture, and health care services.

Port Arthur is the site for one of the world's largest steam crackers, representing a \$1.5 billion investment by BASF Corporation and Total Petrochemicals & Refining USA, Inc. The steam cracker transforms crude oil and natural gas into chemical building blocks for many consumer and industrial goods. The expansion of the Motiva Refinery in Port Arthur, Texas, is now complete making it the largest refinery in North America. The capacity has more than doubled to 600,000 barrels per day. ExxonMobil's Golden Pass Liquid Natural Gas project represents an investment of more than \$1 billion and provides the following benefits: a safe, reliable, long-term, competitive source of energy for area residents and industries; help for the Port Arthur area to attract new business and retain existing jobs in the face of declining natural gas supplies; and highly-skilled permanent jobs. The proposed Semptra Energy Port Arthur Liquid Natural Gas liquefaction project, to be located at a site previously permitted for a Liquid Natural Gas regasification terminal along the Sabine-Neches ship channel, would have at the start two natural gas liquefaction trains with a total export capability of about 10 million tons a year, or 517 billion cubic feet. The project also includes Liquid Natural Gas storage tanks and marine facilities for LNG ship berthing and loading.

POPULATION

	1960	1970	1980	1990	2000	2010	2020
	Official	Official	Official	Official	Official	Official	Official
	Census	Census	Census	Census	Census	Census	Census
City of Port Arthur	66,676	57,371	61,195	58,724	57,755	53,818	56,039
Jefferson County	245,659	246,402	250,928	239,397	252,051	252,273	256,526
Beaumont-Port Arthur MSA	306,016	347,568	375,497	361,226	385,090	388,745	397,565

SERVICES PROVIDED BY THE CITY

The City provides water, sanitary sewer, library and park services. The City also has the responsibility of maintaining its storm drainage facilities, bridges, streets and sidewalks, providing local law enforcement activities, fire protection, solid waste disposal services, building inspection and civil defense services, and maintaining preventative health services through numerous health facilities within the community.

MAJOR EMPLOYERS

The following are the major employers located within the City of Port Arthur:

<u>Name</u>	<u>Product</u>	<u>Number of Employees</u>
Port Arthur ISD	Education	1,340
Motiva Enterprises	Petrochemical Manufacturing	1,300
Huntsman Corp	Petrochemical Manufacturing	1,250
Christus St. Mary Hospital	Medical	900
Valero Refining	Petrochemical Manufacturing	825
City of Port Arthur	Municipal Government	675
Wal-Mart Supercenters	Retail	650
The Medical Center of Southeast Texas	Medical	562
Echo Maintenance	Petrochemical Maintenance	500
Total Petrochemicals	Petrochemical Manufacturing	500

Source: Municipal Advisory Council of Texas

The following are the major employers located within the Beaumont – Port Arthur MSA:

<u>1,000+ Employees</u>	<u>No. of Employees</u>
Baptist Hospitals of Southeast Texas	1,615
Christus Southeast Texas- St Elizabeth	1,578
Lamar University	1,320
Entergy Texas	1,100
 <u>500-999 Employees</u>	
Valero Port Arthur Oil Refinery	927
Vidor Independent School District	872
Medical Center of Southeast Texas	784
Texas Department of Criminal Justice Mark W Stiles Unit	750
Addiction Treatment & Recovery	635
Brock Enterprises Inc	600
Lamar University Health Center	576
En Global Engineering Inc	545

Source: Greater Port Arthur Chamber of Commerce

LABOR FORCE STATISTICS ⁽¹⁾

	August	Average Annual				
	2025	2024	2023	2022	2021	2020
<u>City of Port Arthur</u>						
Civilian Labor Force	22,786	22,395	21,490	20,966	21,465	21,966
Total Employment	20,711	20,485	19,585	19,148	18,635	18,493
Unemployment	2,075	1,910	1,905	1,818	2,830	3,473
Unemployment Rate	9.1%	8.5%	8.9%	8.7%	13.2%	15.8%
<u>Jefferson County</u>						
Civilian Labor Force	115,653	113,810	108,942	106,419	107,199	110,294
Total Employment	108,326	107,142	102,435	100,070	97,218	97,698
Unemployment	7,327	6,668	6,507	6,349	9,981	12,596
Unemployment Rate	6.3%	5.9%	6.0%	6.0%	9.3%	11.4%
<u>Orange County</u>						
Civilian Labor Force	42,616	41,954	40,162	39,062	38,628	39,180
Total Employment	40,411	39,979	38,217	37,037	35,534	35,377
Unemployment	2,205	1,975	1,945	2,025	3,094	3,803
Unemployment Rate	5.2%	4.7%	4.8%	5.2%	8.0%	9.7%
% Unemployed (Texas)	4.7%	4.1%	4.0%	3.9%	5.6%	7.7%
% Unemployed (U.S.)	4.5%	4.0%	3.6%	3.6%	5.3%	8.1%

⁽¹⁾ Source: Texas Workforce Commission, Labor Market Information.

APPENDIX B

EXCERPTS FROM THE
CITY OF PORT ARTHUR, TEXAS
ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2024

The information contained in this Appendix consists of excerpts from the City of Port Arthur, 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.



INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and
Members of the City Council
City of Port Arthur, Texas

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Port Arthur, Texas, as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise the City of Port Arthur, Texas' basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Port Arthur, Texas, 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 of Port Arthur, Texas 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 - Change of Accounting Principle

As discussed in the notes to the financial statements, in the year ending September 30, 2024, the City adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 100, *Accounting Changes and Error Corrections-an amendment of GASB Statement No. 62*. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

OFFICE LOCATIONS

TEXAS | Waco | Temple | Hillsboro | Houston
NEW MEXICO | Albuquerque

Auditor's Responsibility for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Port Arthur, Texas' 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 of Port Arthur, Texas' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension and OPEB information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules are 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

Management is responsible for the other information included in the annual comprehensive financial report (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 30, 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.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
June 30, 2025

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Port Arthur, Texas (City), we offer readers of the City's financial statement this narrative overview and analysis of the financial activities of the City for the year ended September 30, 2024. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal as noted in the table of contents of this report.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City of Port Arthur exceeded its liabilities and deferred inflows at the close of the fiscal year by \$267,313,113.
- The City's total net position increased by \$14,672,631 from operations during the current fiscal year, driven by \$170,979,056 in total revenues offset by expenses of \$156,306,425 and \$1,584,160 transferred to the EDC.
- As of the close of the fiscal year, the City of Port Arthur's governmental funds reported combined ending fund balance of \$120,001,111. 3.8% of this total amount or \$4,596,852 is unassigned and available for use within the City's policies.
- At the end of the current fiscal year, the unassigned fund balance in the general fund represented 122 days of the total general fund expenditures, which is \$10,579,486 in excess of the City's general fund balance policy requirement of 60 days plus \$1.5M for extraordinary events.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The Statement of Net Position presents information on all of the City's assets, deferred outflows, liabilities and deferred inflows with the difference between the four 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. That being said, the net position of the City increased \$14,672,631.

The Statement of Activities presents information showing how the City's net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, community development, public works, health and welfare, public transportation and culture and recreation. The business-type activities include the water and sewer, solid waste and Pleasure Island operations. The government-wide financial statements are found in the table of contents of this report.

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

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’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 on 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 fund statements of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains several individual governmental funds during the year. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, American rescue plan, capital projects, and transit system funds which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation titled total nonmajor funds. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements immediately following the notes to the financial statements and required supplementary information in the City’s Annual Comprehensive Financial Report.

Proprietary funds – The City maintains two types of proprietary funds (Enterprise and Internal Service Funds). Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for water and sewer, solid waste and Pleasure Island operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City’s various functions. The City uses internal service funds to account for general liability insurance, employee benefits, and equipment replacement activities. All internal service funds are combined into a single aggregated presentation on the proprietary fund financial statements. Individual fund data for the internal service funds are provided in the form of combining statements elsewhere in this report. The basic proprietary fund financial statements are noted in the table of contents of this report.

Fiduciary fund – The City maintains a fiduciary fund to account for assets held by the City in a trustee capacity for the City’s Other Postemployment Benefit (Health Insurance) Plan. The fiduciary fund financial statements are noted in the table of contents of this report.

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

Other information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City’s progress in funding its obligation to provide pension and other postemployment benefits to its employees. Required supplementary information can be found beginning immediately after the notes to the financial statements. See the notes to the financial statements for additional information concerning the City’s retirement systems and other postemployment benefits. The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information on pensions, other postemployment benefits, and budgetary comparisons. Such information is noted in the table of contents of this report.

GOVERNMENT – WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve, over time, as a useful indicator of the government’s financial position. In the case of the City of Port Arthur, Texas, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$267,313,113 as of September 30, 2024.

Statement of Net Position -

City of Port Arthur's Net Position Government-Wide

	Governmental Activities		Business-Type Activities		Total	
	2024	2023	2024	2023	2024	2023
Current and other assets	\$ 171,105,762	\$ 157,867,109	\$ 40,516,273	\$ 59,415,048	\$ 211,622,035	\$ 217,282,157
Capital assets	<u>137,364,304</u>	<u>124,361,056</u>	<u>183,976,489</u>	<u>172,007,199</u>	<u>321,340,793</u>	<u>296,368,255</u>
Total assets	<u>308,470,066</u>	<u>282,228,165</u>	<u>224,492,762</u>	<u>231,422,247</u>	<u>532,962,828</u>	<u>513,650,412</u>
Deferred outflows of resources	<u>21,029,367</u>	<u>31,955,204</u>	<u>3,795,291</u>	<u>5,703,705</u>	<u>24,824,658</u>	<u>37,658,909</u>
Current liabilities	28,174,891	29,063,141	10,602,951	9,332,736	38,777,842	38,395,877
Long-term liabilities	<u>149,274,854</u>	<u>153,567,776</u>	<u>89,606,799</u>	<u>94,795,512</u>	<u>238,881,653</u>	<u>248,363,288</u>
Total liabilities	<u>177,449,745</u>	<u>182,630,917</u>	<u>100,209,750</u>	<u>104,128,248</u>	<u>277,659,495</u>	<u>286,759,165</u>
Deferred inflows of resources	<u>6,385,639</u>	<u>4,076,143</u>	<u>6,429,239</u>	<u>6,418,561</u>	<u>12,814,878</u>	<u>10,494,704</u>
Net position:						
Net investment in capital assets	133,718,412	121,338,454	132,554,356	140,854,750	266,272,768	262,193,204
Restricted	32,638,516	27,649,931	-	-	32,638,516	27,649,931
Unrestricted	<u>(20,692,879)</u>	<u>(21,512,076)</u>	<u>(10,905,292)</u>	<u>(14,275,607)</u>	<u>(31,598,171)</u>	<u>(35,787,683)</u>
Total net position	<u>\$ 145,664,049</u>	<u>\$ 127,476,309</u>	<u>\$ 121,649,064</u>	<u>\$ 126,579,143</u>	<u>\$ 267,313,113</u>	<u>\$ 254,055,452</u>

The largest portion of the City's net position reflects investment in capital assets (e.g. land, building, equipment, improvements, and construction in progress), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

As of September 30, 2024, the City reports positive balances in the net investment in capital assets and restricted categories of net position, while the unrestricted category is negative for the government as a whole. The same was true for fiscal year 2023. Net position of \$32,638,516 is restricted for future debt service, community development programs, culture and recreation and public safety expenses.

The City's total unrestricted net position deficit increased by (\$4,189,512) in fiscal year 2024 as compared to the unrestricted net position deficit for the prior year.

The City's total net position increased by \$14,672,631 from operations during the current fiscal year.

Statement of Activities - The following table provides a summary of the City's operations for the year ended September 30, 2024.

City of Port Arthur's Changes in Net Position Government-Wide						
	Governmental Activities		Business-Type Activities		Total	
	2024	2023	2024	2023	2024	2023
Revenues:						
Program revenues:						
Charges for services	\$ 2,339,019	\$ 1,373,350	\$ 50,363,044	\$ 49,029,163	\$ 52,702,063	\$ 50,402,513
Operating grants & contributions	11,521,254	6,938,014	-	-	11,521,254	6,938,014
Capital grants & contributions	13,780,610	12,206,842	-	-	13,780,610	12,206,842
General revenues:						
Property taxes	24,201,068	25,651,375	-	-	24,201,068	25,651,375
Industrial district payments	30,604,396	28,827,547	-	-	30,604,396	28,827,547
Sales taxes	18,008,352	17,110,189	-	-	18,008,352	17,110,189
Franchise taxes	11,461,218	10,171,363	-	-	11,461,218	10,171,363
Investment earnings	4,635,323	6,287,481	1,013,597	2,807,562	5,648,920	9,095,043
Miscellaneous	2,121,042	1,319,685	137,459	344,582	2,258,501	1,664,267
Gain on sale of assets	792,674	1,246,520	-	-	792,674	1,246,520
Total revenues	119,464,956	111,132,366	51,514,100	52,181,307	170,979,056	163,313,673
Expenses:						
General government	20,936,668	20,810,975	-	-	20,936,668	20,810,975
Culture and recreation	8,957,108	9,789,671	-	-	8,957,108	9,789,671
Public safety	38,789,326	46,012,264	-	-	38,789,326	46,012,264
Community development	3,815,450	16,175,876	-	-	3,815,450	16,175,876
Health and welfare	6,081,187	5,994,823	-	-	6,081,187	5,994,823
Public transportation	3,053,362	3,464,996	-	-	3,053,362	3,464,996
Public works	22,364,247	10,615,687	-	-	22,364,247	10,615,687
Interest and other fees	2,514,433	2,190,510	-	-	2,514,433	2,190,510
Water and sewer	-	-	39,513,032	41,665,536	39,513,032	41,665,536
Solice waste	-	-	8,513,580	8,241,569	8,513,580	8,241,569
Pleasure Island	-	-	1,768,032	2,186,968	1,768,032	2,186,968
Total expenses	106,511,781	115,054,802	49,794,644	52,094,073	156,306,425	167,148,875
Increase in net position before transfers	12,953,175	(3,922,436)	1,719,456	87,234	14,672,631	(3,835,202)
Transfers	6,649,535	8,834,753	(6,649,535)	(8,834,753)	-	-
Change in net position	19,602,710	4,912,317	(4,930,079)	(8,747,519)	14,672,631	(3,835,202)
Net position - beginning of year, as previously reported	127,476,309	122,563,992	126,579,143	135,326,662	254,055,452	257,890,654
Adjustments - error corrections	(1,414,970)	-	-	-	(1,414,970)	-
Net position - end of year	\$ 145,664,049	\$ 127,476,309	\$ 121,649,064	\$ 126,579,143	\$ 267,313,113	\$ 254,055,452

For the year ended September 30, 2024, total revenues from governmental activities were \$119,464,956, compared with \$111,132,366 in the prior year. This \$8,332,590 increase is due to an increase in grants and contributions, industrial district payments, sales taxes and gain on disposal of assets.

Governmental expenses decreased \$8,543,021. This decrease is primarily due to decreased costs in community development of \$12,360,426 from Hurricane Laura and COVID-19, offset by an increase of \$125,693 related to general government expenses.

Business-type revenues decreased \$667,207 from the prior period due to decreases in charges for services and investment earnings.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds – The focus of the City of Port Arthur'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 government's net resources available for spending at the end of the fiscal year.

At the end of the 2024 fiscal year, the City of Port Arthur's governmental funds reported combined ending fund balances of \$120,001,111. Approximately 3.8% of this total amount or \$4,596,852 consists of unassigned fund balances. The remainder of the balance is to indicate that it is not available for new spending. The most significant amount is a \$85,032,621 restricted for capital improvements. The City's total fund balance increased by \$7,571,131 from operations during the current fiscal year.

The general fund is the primary operating fund of the City. At year end, unassigned fund balance of the general fund was \$23,837,654, while total fund balance was \$25,662,689. Fund balance of the general fund decreased \$4,604,952 during the year from operations.

The American Rescue Plan fund had revenue and expenditures of \$6,837,361. As the American rescue funds are expended on applicable projects the funding received in advance will be earned by the City.

The Capital Projects fund ended the year with a total fund balance of \$82,432,504, all of which is restricted for capital improvements. The capital projects fund balance increased \$13,644,727 during the year due to issuance of new debt.

The Debt Service fund ended the year with a total fund balance of \$18,686,789. The debt service fund balance increased \$513,723 during the year due to increased property tax and intergovernmental revenue and the issuance of a premium on new debt.

The Hazard Mitigation fund ended the year with a total fund balance deficit of (\$15,459,625). The hazard mitigation fund balance decreased \$10,795,931 during the year due to grant revenues not received within the availability period and therefore, deferred on the governmental funds balance sheet.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

The City Council approved budget amendments to the original appropriations. This change resulted in a decrease of 0.9% of the original operating appropriation. Total expenditures were under the amended budget by \$5,996,408. This positive variance from the amended budget was primarily the result of savings within the personnel expenses.

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

CAPITAL ASSETS

The City of Port Arthur’s investment in capital assets for its governmental and business-type activities as of September 30, 2024, amounts to \$321,340,793 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, equipment, improvements and infrastructure net of accumulated depreciation. Major capital assets during the current year included the following:

	Governmental Activities		Business-Type Activities		Total	
	2024	2023	2024	2023	2024	2023
Land and improvements	\$ 8,877,178	\$ 4,054,431	\$ 863,971	\$ 863,971	\$ 9,741,149	\$ 4,918,402
Construction in progress	41,970,221	32,463,467	42,656,254	31,827,479	84,626,475	64,290,946
Buildings and improvements	45,882,178	47,554,138	43,976,956	43,902,960	89,859,134	91,457,098
Machinery and equipment	77,841,328	79,431,610	30,404,270	30,265,019	108,245,598	109,696,629
Right to use vehicles	2,573,227	-	-	-	2,573,227	-
Infrastructure	322,783,486	314,262,613	228,877,798	220,218,306	551,661,284	534,480,919
Accumulated depreciation	(362,563,314)	(353,405,203)	(162,802,760)	(155,070,536)	(525,366,074)	(508,475,739)
TOTALS	\$ 137,364,304	\$ 124,361,056	\$ 183,976,489	\$ 172,007,199	\$ 321,340,793	\$ 296,368,255

More detailed information about the City’s capital assets can be found in the notes to the financial statements.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City of Port Arthur had total bonds and certificates of obligation outstanding of \$143,092,340. Of this amount, \$9,119,999 was general obligation debt and \$133,972,341 was certificate of obligation. Current Standard and Poor's underlying ratings of the City's obligations as of September 2024 was 'A+'. Long-term debt obligations of the City for fiscal years 2024 and 2023 follows:

	Governmental Activities		Business-Type Activities		Total	
	2024	2023	2024	2023	2024	2023
General obligation bonds	\$ 9,119,999	\$ 10,945,000	\$ -	\$ -	\$ 9,119,999	\$ 10,945,000
Certificates of obligation	62,185,000	48,155,000	71,787,341	74,414,470	133,972,341	122,569,470
Unamortized premium	7,960,353	6,752,444	1,628,012	1,628,012	9,588,365	8,380,456
Capital lease payable	<u>4,994,566</u>	<u>6,020,075</u>	<u>2,556,097</u>	<u>2,556,097</u>	<u>7,550,663</u>	<u>8,576,172</u>
TOTALS	<u>\$ 84,259,918</u>	<u>\$ 71,872,519</u>	<u>\$ 75,971,450</u>	<u>\$ 78,598,579</u>	<u>\$ 160,231,368</u>	<u>\$ 150,471,098</u>

More detailed information on long-term debt activity can be found in the Notes to the Basic Financial Statements.

ECONOMIC FACTORS AND THE NEXT YEAR'S BUDGETS AND RATES

Taxable property values for FY2024 grew 22.68% from the previous year. The property tax rate reflects a tax rate of \$0.649 per \$100 valuation which is a \$0.09 or 12% decrease from the previous year. Property tax revenue is estimated to be \$761 thousand above the previous year's budget due to the increase in values. Industrial district revenue increased by \$1.7 million from FY2024, primarily due to the increase in taxable value. Sales tax revenue remains strong and is expected to increase 5% over the previous year.

CONTACTING THE CITY'S FINANCIAL DEPARTMENT

This financial report is designed to provide a general overview of the City of Port Arthur's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the Office of the Director of Finance, P.O. Box 1089, Port Arthur, Texas 77641-1089.

**BASIC
FINANCIAL STATEMENTS**

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CITY OF PORT ARTHUR, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2024

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Port Arthur Section 4A Economic Development Corporation
ASSETS				
Cash and cash equivalents	\$ 133,965,660	\$ 4,487,740	\$ 138,453,400	\$ 11,691,938
Account receivable, net of allowances	29,213,908	7,372,894	36,586,802	1,334,487
Lease receivable	-	5,382,271	5,382,271	-
Due from other governments	9,276,684	-	9,276,684	728,261
Internal balances	(1,990,689)	1,990,689	-	-
Due from primary government	-	-	-	855,638
Inventories	362,767	1,298,230	1,660,997	-
Prepays	201,464	23,849	225,313	-
Restricted cash and cash equivalents	75,968	19,960,600	20,036,568	-
Capital assets:				
Non-depreciable	50,847,399	43,520,225	94,367,624	22,193,775
Depreciable	86,516,905	140,456,264	226,973,169	695,434
Total Assets	308,470,066	224,492,762	532,962,828	37,499,533
DEFERRED OUTFLOWS OF RESOURCES				
Related to OPEB	3,060,554	953,597	4,014,151	-
Related to pension	17,968,813	2,841,694	20,810,507	113,299
Total Deferred Outflows of Resources	21,029,367	3,795,291	24,824,658	113,299
LIABILITIES				
Accounts payable	14,833,906	7,697,182	22,531,088	262,764
Accrued liabilities	3,499,546	685,292	4,184,838	38,235
Accrued interest	442,001	94,301	536,302	-
Customer deposits	-	2,126,176	2,126,176	-
Due to component unit	855,638	-	855,638	-
Unearned revenue	8,543,800	-	8,543,800	-
Noncurrent liabilities:				
Due within one year	9,909,300	3,872,303	13,781,603	14,043
Due in more than one year	86,861,599	76,868,433	163,730,032	56,172
Net OPEB liability	8,561,925	2,602,066	11,163,991	-
Net pension liability	43,942,030	6,263,997	50,206,027	249,747
Total Liabilities	177,449,745	100,209,750	277,659,495	620,961
DEFERRED INFLOWS OF RESOURCES				
Related to leases	-	5,382,271	5,382,271	-
Related to OPEB	1,827,155	543,427	2,370,582	-
Related to pension	4,558,484	503,541	5,062,025	20,076
Total Deferred Inflows of Resources	6,385,639	6,429,239	12,814,878	20,076
NET POSITION				
Net investment in capital assets	133,718,412	132,554,356	266,272,768	23,041,629
Restricted for:				
Debt service	19,511,780	-	19,511,780	359,052
Community development programs	5,880,284	-	5,880,284	-
Culture and recreation	334,139	-	334,139	-
Public safety	6,912,313	-	6,912,313	-
Unrestricted	(20,692,879)	(10,905,292)	(31,598,171)	13,571,114
Total Net Position	\$ 145,664,049	\$ 121,649,064	\$ 267,313,113	\$ 36,971,795

The accompanying notes are an integral part of these financial statements.

CITY OF PORT ARTHUR, TEXAS

STATEMENT OF ACTIVITIES

FOR THE 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	\$ 20,936,668	\$ 898,494	\$ 49,057	\$ 5,842,651
Culture and recreation	8,957,108	205,756	279,871	-
Public safety	38,789,326	123,533	221,461	25,257
Community development	3,815,450	770,142	5,155,808	6,912,702
Health and welfare	6,081,187	185,523	3,043,100	-
Public transportation	3,053,362	155,571	2,771,957	1,000,000
Public works	22,364,247	-	-	-
Interest	2,514,433	-	-	-
Total Governmental Activities	<u>106,511,781</u>	<u>2,339,019</u>	<u>11,521,254</u>	<u>13,780,610</u>
Business-type activities:				
Water and sewer	39,513,032	38,345,144	-	-
Solid waste	8,513,580	11,055,518	-	-
Pleasure Island	1,768,032	962,382	-	-
Total Business-Type Activities	<u>49,794,644</u>	<u>50,363,044</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>156,306,425</u>	<u>52,702,063</u>	<u>11,521,254</u>	<u>13,780,610</u>
Component unit:				
Port Arthur Section 4A Economic Development Corporation	\$ 5,325,316	\$ -	\$ -	\$ 1,584,160
General revenues:				
Taxes:				
Property taxes				
Industrial district payments				
Sales				
Franchise fees				
Investment earnings				
Miscellaneous				
Gain on disposal of assets				
Transfers				
Total General Revenues and Transfers				
Change in Net Position				
Net position - beginning, as previously reported				
Adjustments				
Net position - beginning, as restated				
Net Position - Ending				

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Changes in Net Position			Component Unit
Primary Government			Port Arthur Section 4A Economic Development Corporation
Governmental Activities	Business-Type Activities	Total	
\$ (14,146,466)	\$ -	\$ (14,146,466)	\$ -
(8,471,481)	-	(8,471,481)	-
(38,419,075)	-	(38,419,075)	-
9,023,202	-	9,023,202	-
(2,852,564)	-	(2,852,564)	-
874,166	-	874,166	-
(22,364,247)	-	(22,364,247)	-
(2,514,433)	-	(2,514,433)	-
(78,870,898)	-	(78,870,898)	-
-	(1,167,888)	(1,167,888)	-
-	2,541,938	2,541,938	-
-	(805,650)	(805,650)	-
-	568,400	568,400	-
(78,870,898)	568,400	(78,302,498)	-
			(3,741,156)
24,201,068	-	24,201,068	-
30,604,396	-	30,604,396	-
18,008,352	-	18,008,352	7,818,973
11,461,218	-	11,461,218	-
4,635,323	1,013,597	5,648,920	533,570
2,121,042	137,459	2,258,501	829,382
792,674	-	792,674	-
6,649,535	(6,649,535)	-	-
98,473,608	(5,498,479)	92,975,129	9,181,925
19,602,710	(4,930,079)	14,672,631	5,440,769
127,476,309	126,579,143	254,055,452	31,531,026
(1,414,970)	-	(1,414,970)	-
126,061,339	126,579,143	252,640,482	31,531,026
\$ 145,664,049	\$ 121,649,064	\$ 267,313,113	\$ 36,971,795

CITY OF PORT ARTHUR, TEXAS

BALANCE SHEET
GOVERNMENTAL FUNDS

SEPTEMBER 30, 2024

	General Fund	American Rescue Plan	Capital Projects Fund
ASSETS			
Cash and cash equivalents	\$ 7,568,801	\$ 12,603,565	\$ 66,165,070
Receivables (net of allowances)			
Taxes	4,751,204	-	-
Accounts and other	2,810,920	-	19,700,000
Due from other governments	-	-	-
Due from other funds	17,946,501	-	-
Inventory	301,865	-	-
Prepaid items	201,464	-	-
Restricted cash and cash equivalents	-	-	75,968
Long-term interfund loan	1,321,706	-	-
Total Assets	<u>34,902,461</u>	<u>12,603,565</u>	<u>85,941,038</u>
LIABILITIES			
Accounts payable	3,231,976	1,900,931	3,485,948
Accrued liabilities	3,011,464	2,927	22,586
Unearned revenues	-	8,543,800	-
Due to other funds	122,668	-	-
Due to component unit	855,638	-	-
Total Liabilities	<u>7,221,746</u>	<u>10,447,658</u>	<u>3,508,534</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenues - property taxes	2,018,026	-	-
Unavailable revenues - other	-	-	-
Total Deferred Inflows of Resources	<u>2,018,026</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
Nonspendable for:			
Inventory	301,865	-	-
Prepaid items	201,464	-	-
Long-term interfund loan	1,321,706	-	-
Committed for:			
Capital improvements	-	2,155,907	-
Restricted for:			
Debt service	-	-	-
Capital improvements	-	-	82,432,504
Community development	-	-	-
Culture and recreation	-	-	-
Public safety	-	-	-
Unassigned	23,837,654	-	-
Total Fund Balances	<u>25,662,689</u>	<u>2,155,907</u>	<u>82,432,504</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 34,902,461</u>	<u>\$ 12,603,565</u>	<u>\$ 85,941,038</u>

The accompanying notes are an integral part
of these financial statements.

Debt Service Fund	Hazard Mitigation Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ 18,675,991	\$ -	\$ 10,414,513	\$ 115,427,940
1,277,790	-	-	6,028,994
-	-	341,464	22,852,384
-	7,571,394	1,705,290	9,276,684
-	-	122,668	18,069,169
-	-	60,902	362,767
-	-	-	201,464
-	-	-	75,968
-	-	-	1,321,706
<u>19,953,781</u>	<u>7,571,394</u>	<u>12,644,837</u>	<u>173,617,076</u>
-	4,855,562	465,548	13,939,965
-	-	462,569	3,499,546
-	-	-	8,543,800
-	13,854,798	4,091,703	18,069,169
-	-	-	855,638
<u>-</u>	<u>18,710,360</u>	<u>5,019,820</u>	<u>44,908,118</u>
1,266,992	-	-	3,285,018
-	4,320,659	1,102,170	5,422,829
<u>1,266,992</u>	<u>4,320,659</u>	<u>1,102,170</u>	<u>8,707,847</u>
-	-	-	301,865
-	-	-	201,464
-	-	-	1,321,706
-	-	-	2,155,907
18,686,789	-	-	18,686,789
-	-	2,600,117	85,032,621
-	-	5,880,284	5,880,284
-	-	334,139	334,139
-	-	1,489,484	1,489,484
-	(15,459,625)	(3,781,177)	4,596,852
<u>18,686,789</u>	<u>(15,459,625)</u>	<u>6,522,847</u>	<u>120,001,111</u>
\$ 19,953,781	\$ 7,571,394	\$ 12,644,837	\$ 173,617,076

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CITY OF PORT ARTHUR, TEXAS

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION**

SEPTEMBER 30, 2024

Total Fund Balances - Governmental Funds \$ 120,001,111

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. 123,684,096

Bonds payable and accrued compensated absences will not be liquidated with current financial resources and, therefore, have not been included in the fund financial statements. (82,319,513)

Interest payable on long-term debt is accrued in the government-wide financial statements, whereas in the fund financial statements, interest expenditures are reported when due. (442,001)

Premiums on bond issuances and deferred losses on bond refunding are recorded as other financing sources and uses when paid in the fund financial statements but are capitalized and amortized in the government-wide financial statements over the life of the bonds.
Premiums (7,960,353)

Receivables from grants, property taxes and fines and fees are not available soon enough to pay for the current period's expenditures and are, therefore, deferred in the fund financial statements. 8,707,847

Included in the items related to debt is the recognition of the City's net pension liability, total OPEB liability, and related deferred outflows and inflows of resources.
Net pension liability (43,942,030)
Deferred outflows related to pensions 17,968,813
Deferred inflows related to pensions (4,558,484)
Net OPEB liability (8,561,925)
Deferred outflows related to OPEB 3,060,554
Deferred inflows related to OPEB (1,827,155)

The City uses an internal service fund to charge the costs of its group health insurance to appropriate departments in other funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net position. 21,853,089

Net Position of Governmental Activities \$ 145,664,049

CITY OF PORT ARTHUR, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED SEPTEMBER 30, 2024

	General Fund	American Rescue Plan	Capital Projects Fund
REVENUES			
Property taxes	\$ 16,119,284	\$ -	\$ -
Industrial district payments	30,604,396	-	-
Franchise fees	11,461,218	-	-
Sales taxes	15,895,046	-	-
Licenses and permits	629,889	-	-
Charges for services	1,300,972	-	-
Fines and forfeitures	90	-	-
Intergovernmental	124,011	5,842,651	1,000,000
Investment earnings	1,344,304	994,710	1,774,164
Miscellaneous	1,787,824	-	-
Total Revenues	<u>79,267,034</u>	<u>6,837,361</u>	<u>2,774,164</u>
EXPENDITURES			
Current:			
General government	17,661,782	420,748	-
Culture and recreation	5,616,860	-	-
Public safety	36,615,733	-	-
Community development	-	-	-
Health and welfare	1,957,266	-	-
Public transportation	-	-	-
Public works	8,202,615	-	64,954
Capital outlay	1,474,601	5,421,903	12,670,483
Debt service:			
Principal	-	-	-
Interest and other	-	-	-
Bond issue costs	-	-	-
Total Expenditures	<u>71,528,857</u>	<u>5,842,651</u>	<u>12,735,437</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>7,738,177</u>	<u>994,710</u>	<u>(9,961,273)</u>
OTHER FINANCING SOURCES (USES)			
Bonds issued	-	-	18,245,000
Premium on issuance of debt	-	-	1,455,000
Proceeds from disposal of capital assets	791,050	-	-
Insurance recoveries	163,427	-	-
Transfers in	2,970,872	-	3,906,000
Transfers out	(16,268,478)	-	-
Total Other Financing Sources (Uses)	<u>(12,343,129)</u>	<u>-</u>	<u>23,606,000</u>
NET CHANGE IN FUND BALANCE	<u>(4,604,952)</u>	<u>994,710</u>	<u>13,644,727</u>
FUND BALANCES - BEGINNING, AS PREVIOUSLY PRESENTED	<u>30,267,641</u>	<u>1,161,197</u>	<u>68,787,777</u>
ADJUSTMENTS			
Formerly a nonmajor fund	-	-	-
Formerly a major fund	-	-	-
FUND BALANCES - BEGINNING, AS RESTATED	<u>30,267,641</u>	<u>1,161,197</u>	<u>68,787,777</u>
FUND BALANCES - ENDING	<u>\$ 25,662,689</u>	<u>\$ 2,155,907</u>	<u>\$ 82,432,504</u>

The accompanying notes are an integral part
of these financial statements.

Transit System Fund	Debt Service Fund	Hazard Mitigation Fund	Nonmajor Governmental Funds	Total Governmental Funds
	\$ 9,707,298	\$ -	\$ -	\$ 25,826,582
	-	-	-	30,604,396
	-	-	-	11,461,218
	-	-	2,113,306	18,008,352
	-	-	237,235	867,124
	-	-	174,152	1,475,124
	-	-	25,257	25,347
	217,748	3,418,785	9,479,874	20,083,069
	-	-	249,420	4,362,598
	-	-	333,218	2,121,042
	<u>9,925,046</u>	<u>3,418,785</u>	<u>12,612,462</u>	<u>114,834,852</u>
	-	-	497,622	18,580,152
	-	-	2,032,689	7,649,549
	-	-	193,745	36,809,478
	-	449	1,929,013	1,929,462
	-	-	3,459,633	5,416,899
	-	-	2,410,670	2,410,670
	-	-	-	8,267,569
	-	14,214,267	698,518	34,479,772
	6,347,320	-	-	6,347,320
	2,439,384	-	-	2,439,384
	<u>296,452</u>	<u>-</u>	<u>-</u>	<u>296,452</u>
	<u>9,083,156</u>	<u>14,214,716</u>	<u>11,221,890</u>	<u>124,626,707</u>
	<u>841,890</u>	<u>(10,795,931)</u>	<u>1,390,572</u>	<u>(9,791,855)</u>
	-	-	-	18,245,000
	294,302	-	-	1,749,302
	-	-	1,624	792,674
	-	-	13,748	177,175
	4,000	-	7,078,778	13,959,650
	<u>(626,469)</u>	<u>-</u>	<u>(665,868)</u>	<u>(17,560,815)</u>
	<u>(328,167)</u>	<u>-</u>	<u>6,428,282</u>	<u>17,362,986</u>
	513,723	(10,795,931)	7,818,854	7,571,131
<u>(2,845,715)</u>	<u>-</u>	<u>-</u>	<u>15,059,080</u>	<u>112,429,980</u>
	18,173,066	(4,663,694)	(13,509,372)	-
<u>2,845,715</u>	<u>-</u>	<u>-</u>	<u>(2,845,715)</u>	<u>-</u>
<u>-</u>	<u>18,173,066</u>	<u>(4,663,694)</u>	<u>(1,296,007)</u>	<u>112,429,980</u>
<u>\$ -</u>	<u>\$ 18,686,789</u>	<u>\$ (15,459,625)</u>	<u>\$ 6,522,847</u>	<u>\$ 120,001,111</u>

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CITY OF PORT ARTHUR, TEXAS

**RECONCILIATION OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED SEPTEMBER 30, 2024

Net Changes in Fund Balances - Governmental Funds	\$ 7,571,131
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the governmental activities statement of activities, that cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay	18,227,302
Depreciation expense	(5,669,150)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	
Grants	5,178,219
Property taxes	(1,625,514)
The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities.	
Issuance of long-term debt	(19,994,302)
Repayment of principal of long-term debt	6,347,320
Amortization of loss on refunding	541,393
Current year changes in certain long-term liabilities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Compensated absences	4,359,519
Net pension liability	146,695
Total OPEB liability	458,662
Interest payable on long-term debt is accrued in the government-wide financial statements, whereas in the fund financial statements, interest expenditures are reported when due.	
	(125,435)
The City uses an internal service fund to charge the costs of group health insurance to the appropriate departments in other funds. The change in net position of the internal service fund is reported with governmental activities.	
	<u>4,186,870</u>
Change in Net Position of Governmental Activities	<u>\$ 19,602,710</u>

CITY OF PORT ARTHUR, TEXAS

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

SEPTEMBER 30, 2024

	Business-Type Activities Enterprise Funds				Governmental Activities
	Nonmajor			Total	
	Water and Sewer Fund	Solid Waste Fund	Pleasure Island Fund	Enterprise Fund	Internal Service Fund
ASSETS					
Current assets:					
Cash and cash equivalents	\$ -	\$ 2,032,620	\$ 2,455,120	\$ 4,487,740	\$18,537,720
Accounts receivable, net of allowance	5,577,631	1,770,293	24,970	7,372,894	332,530
Lease receivable	-	-	5,382,271	5,382,271	-
Inventory	1,298,230	-	-	1,298,230	-
Prepays	12,410	-	11,439	23,849	-
Restricted cash and cash equivalents	19,960,600	-	-	19,960,600	-
Total Current Assets	26,848,871	3,802,913	7,873,800	38,525,584	18,870,250
Noncurrent assets:					
Capital assets:					
Land and improvements	362,844	501,127	-	863,971	-
Construction in progress	42,656,254	-	-	42,656,254	-
Infrastructure	220,663,185	-	8,214,613	228,877,798	-
Buildings	35,444,203	88,650	8,444,103	43,976,956	-
Machinery and equipment	22,654,496	7,181,982	567,792	30,404,270	41,569,311
Right to use vehicles	-	-	-	-	2,573,227
Less: accumulated depreciation	(147,532,141)	(6,781,577)	(8,489,042)	(162,802,760)	(30,462,330)
Total Noncurrent Assets	174,248,841	990,182	8,737,466	183,976,489	13,680,208
Total Assets	201,097,712	4,793,095	16,611,266	222,502,073	32,550,458
DEFERRED OUTFLOWS OF RESOURCES					
Deferred OPEB related outflows	695,598	257,999	-	953,597	-
Deferred pension related outflows	2,161,900	570,447	109,347	2,841,694	-
Total Deferred Outflows of Resources	2,857,498	828,446	109,347	3,795,291	-

The accompanying notes are an integral part
of these financial statements.

CITY OF PORT ARTHUR, TEXAS

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS**

SEPTEMBER 30, 2024

	Business-Type Activities Enterprise Funds			Governmental Activities
	Nonmajor		Total Enterprise Fund	Internal Service Fund
	Water and Sewer Fund	Solid Waste Fund	Pleasure Island Fund	
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 7,139,346	\$ 414,695	\$ 143,141	\$ 7,697,182
Accrued liabilities	508,775	152,311	24,206	685,292
Accrued interest	77,624	9,073	7,604	94,301
Customer deposits	2,087,941	38,235	-	2,126,176
Current portion of long-term liabilities:				
Compensated absences	263,641	72,410	21,252	357,303
Bonds payable	3,380,000	75,000	60,000	3,515,000
Financed purchases	-	-	-	-
Leases	-	-	-	-
Total Current Liabilities	<u>13,457,327</u>	<u>761,724</u>	<u>256,203</u>	<u>14,475,254</u>
Noncurrent liabilities:				
Compensated absences	1,054,564	289,639	85,007	1,429,210
Total OPEB liability	1,908,340	693,726	-	2,602,066
Net pension liability	4,765,516	1,257,446	241,035	6,263,997
Financed purchases	-	-	-	-
Accrued landfill closure costs	-	5,538,870	-	5,538,870
Claims and judgements	-	-	-	-
Bonds payable	65,625,099	2,319,642	1,955,612	69,900,353
Leases	-	-	-	-
Interfund loan payable	-	-	1,321,707	1,321,707
Total Noncurrent Liabilities	<u>73,353,519</u>	<u>10,099,323</u>	<u>3,603,361</u>	<u>87,056,203</u>
Total Liabilities	<u>86,810,846</u>	<u>10,861,047</u>	<u>3,859,564</u>	<u>101,531,457</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred lease related inflows	-	-	5,382,271	5,382,271
Deferred OPEB related inflows	400,450	142,977	-	543,427
Deferred pension related inflows	<u>383,083</u>	<u>101,082</u>	<u>19,376</u>	<u>503,541</u>
Total Deferred Inflows of Resources	<u>783,533</u>	<u>244,059</u>	<u>5,401,647</u>	<u>6,429,239</u>
NET POSITION				
Net investment in capital assets	125,204,342	628,160	6,721,854	132,554,356
Unrestricted	<u>(8,843,511)</u>	<u>(6,111,725)</u>	<u>737,548</u>	<u>(14,217,688)</u>
Total Net Position	<u>\$116,360,831</u>	<u>\$ (5,483,565)</u>	<u>\$ 7,459,402</u>	<u>\$25,165,484</u>
Reconciliation to the government-wide statement of activities:				
Adjustment for the net effect of the cumulative activity between the internal service funds and the enterprise funds				<u>3,312,396</u>
Change in net position for business-type activities				<u>\$121,649,064</u>

The accompanying notes are an integral part of these financial statements.

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CITY OF PORT ARTHUR, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2024

	Business-Type Activities Enterprise Funds			Governmental Activities	
	Nonmajor				
	Water and Sewer Fund	Solid Waste Fund	Pleasure Island Fund	Total Enterprise Fund	Internal Service Fund
OPERATING REVENUES					
Charges for services	\$ 38,345,144	\$ 11,055,518	\$ 962,382	\$ 50,363,044	\$12,016,998
Total Operating Revenues	<u>38,345,144</u>	<u>11,055,518</u>	<u>962,382</u>	<u>50,363,044</u>	<u>12,016,998</u>
OPERATING EXPENSES					
Personnel services	11,957,203	3,292,040	760,434	16,009,677	-
Supplies and materials	12,391,962	730,842	35,250	13,158,054	-
Contractual services	2,565,887	1,232,473	186,287	3,984,647	15,315,821
Repairs and maintenance	2,352,164	867,327	242,938	3,462,429	178,790
Other expenses	1,442,935	319,742	-	1,762,677	1,767,212
Depreciation	<u>6,508,041</u>	<u>839,462</u>	<u>384,721</u>	<u>7,732,224</u>	<u>3,629,980</u>
Total Operating Expenses	<u>37,218,192</u>	<u>7,281,886</u>	<u>1,609,630</u>	<u>46,109,708</u>	<u>20,891,803</u>
Operating Income (Loss)	<u>1,126,952</u>	<u>3,773,632</u>	<u>(647,248)</u>	<u>4,253,336</u>	<u>(8,874,805)</u>
NON-OPERATING REVENUES (EXPENSES)					
Intergovernmental revenue	-	-	-	-	12,000
Earnings on investments	673,249	73,071	267,277	1,013,597	272,725
Miscellaneous revenue (expense)	26,315	8,793	102,351	137,459	-
Insurance proceeds (expense)	346	193	162	701	-
Interest expense	<u>(816,228)</u>	<u>(75,839)</u>	<u>(72,765)</u>	<u>(964,832)</u>	<u>(194,555)</u>
Total Non-Operating Revenues (Expenses)	<u>(116,318)</u>	<u>6,218</u>	<u>297,025</u>	<u>186,925</u>	<u>90,170</u>
Gain (loss) before transfers	1,010,634	3,779,850	(350,223)	4,440,261	(8,784,635)
Transfers in	609,138	-	-	609,138	10,250,700
Transfers out	<u>(3,889,006)</u>	<u>(2,850,736)</u>	<u>(518,931)</u>	<u>(7,258,673)</u>	<u>-</u>
CHANGE IN NET POSITION	<u>(2,269,234)</u>	<u>929,114</u>	<u>(869,154)</u>	<u>(2,209,274)</u>	<u>1,466,065</u>
NET POSITION - BEGINNING, AS PREVIOUSLY REPORTED	<u>118,630,065</u>	<u>(6,412,679)</u>	<u>8,328,556</u>		<u>25,114,389</u>
ADJUSTMENTS:					
Error corrections	-	-	-		<u>(1,414,970)</u>
Total Adjustments	<u>-</u>	<u>-</u>	<u>-</u>		<u>(1,414,970)</u>
NET POSITION - BEGINNING, AS RESTATED	<u>118,630,065</u>	<u>(6,412,679)</u>	<u>8,328,556</u>		<u>23,699,419</u>
NET POSITION - END OF YEAR	<u>\$ 116,360,831</u>	<u>\$ (5,483,565)</u>	<u>\$ 7,459,402</u>		<u>\$25,165,484</u>

Reconciliation to the government-wide statement of activities:

Adjustment for the net effect of the current year activity between the internal service funds and the enterprise funds (2,720,805)

Change in net position for business-type activities \$ (4,930,079)

CITY OF PORT ARTHUR, TEXAS

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

FOR THE YEAR ENDED SEPTEMBER 30, 2024

	Business-Type Activities Enterprise Funds			Governmental Activities
	Nonmajor		Total Enterprise Fund	Internal Service Fund
	Water and Sewer Fund	Solid Waste Fund	Pleasure Island Fund	
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers and users	\$ 36,035,280	\$ 11,651,268	\$ 954,490	\$ 48,641,038
Cash received from interfund charges for services	-	-	-	11,874,344
Cash paid to employees for services	(12,457,720)	(3,422,917)	(666,894)	-
Cash paid to suppliers for goods and services	(17,946,624)	(2,757,536)	(362,893)	(17,603,581)
Net Cash Provided By Operating Activities	<u>5,630,936</u>	<u>5,470,815</u>	<u>(75,297)</u>	<u>11,026,454</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Transfers from other funds	609,138	-	-	609,138
Transfers to other funds	(3,889,006)	(2,850,736)	(518,931)	(7,258,673)
Payments on interfund loan payable	(2,887,421)	(2,752,793)	-	(5,640,214)
Other receipts	<u>26,315</u>	<u>-</u>	<u>102,351</u>	<u>128,666</u>
Net Cash Used in Non-Capital Financing Activities	<u>(6,140,974)</u>	<u>(5,603,529)</u>	<u>(416,580)</u>	<u>(12,161,083)</u>
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES				
Insurance reimbursements	-	81,864	-	81,864
Acquisition and construction of capital assets	(19,487,906)	(73,807)	(139,100)	(19,700,813)
Proceeds from new debt	-	-	-	-
Interest paid on long-term debt	(911,596)	(100,865)	(84,500)	(1,096,961)
Principal paid on long-term debt	<u>(2,365,000)</u>	<u>(70,000)</u>	<u>(60,000)</u>	<u>(2,495,000)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(22,764,502)</u>	<u>(162,808)</u>	<u>(283,600)</u>	<u>(23,210,910)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and investment earnings	<u>673,249</u>	<u>-</u>	<u>267,277</u>	<u>940,526</u>
Net Cash Provided By (Used in) Investing Activities	<u>673,249</u>	<u>-</u>	<u>267,277</u>	<u>940,526</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(22,601,291)	(295,522)	(508,200)	(23,405,013)
Cash and cash equivalents at beginning of year:				
Cash and cash equivalents	-	2,328,142	2,963,320	5,291,462
Restricted cash and cash equivalents	<u>42,561,891</u>	<u>-</u>	<u>-</u>	<u>42,561,891</u>
	42,561,891	2,328,142	2,963,320	47,853,353
Cash and cash equivalents at end of year				
Cash and cash equivalents	-	2,032,620	2,455,120	4,487,740
Restricted cash and cash equivalents	<u>19,960,600</u>	<u>-</u>	<u>-</u>	<u>19,960,600</u>
	<u>\$ 19,960,600</u>	<u>\$ 2,032,620</u>	<u>\$ 2,455,120</u>	<u>\$ 24,448,340</u>
				<u>\$ 18,537,720</u>

The accompanying notes are an integral part
of these financial statements.

CITY OF PORT ARTHUR, TEXAS

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

FOR THE YEAR ENDED SEPTEMBER 30, 2024

	Business-Type Activities Enterprise Funds				Governmental Activities
	Nonmajor			Total Enterprise Fund	Internal Service Fund
	Water and Sewer Fund	Solid Waste Fund	Pleasure Island Fund		
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating income (loss)	\$ 1,126,952	\$ 3,773,632	\$ (647,248)	\$ 4,253,336	\$ (8,874,805)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	6,508,041	839,462	384,721	7,732,224	3,629,980
Decrease (increase) in accounts receivable	(2,327,049)	598,250	344,881	(1,383,918)	(144,729)
Decrease (increase) in inventory	(202,911)	-	-	(202,911)	-
Decrease (increase) in deferred pension outflows	1,684,046	447,597	3,769	2,135,412	-
Decrease (increase) in deferred OPEB outflows	(164,203)	(62,795)	-	(226,998)	-
Increase (decrease) in accounts payable	1,009,235	73,106	101,582	1,183,923	(41,093)
Increase (decrease) in accrued liabilities	43,797	32,233	(4,423)	71,607	-
Increase (decrease) in claims and judgements	-	-	-	-	(298,590)
Increase (decrease) in customer deposits	17,185	(2,500)	-	14,685	-
Increase (decrease) in compensated absences	(116,112)	(35,622)	44,237	(107,497)	-
Increase (decrease) in accrued landfill closure costs	-	319,742	-	319,742	-
Increase (decrease) in net pension liability	(2,389,934)	(636,644)	30,581	(2,995,997)	-
Increase (decrease) in total OPEB liability	162,684	59,484	-	222,168	-
Increase (decrease) in deferred lease inflows	-	-	(352,773)	(352,773)	-
Increase (decrease) in deferred OPEB inflows	(103,878)	(36,212)	-	(140,090)	-
Increase (decrease) in deferred pension inflows	383,083	101,082	19,376	503,541	-
Net cash provided by operating activities	\$ 5,630,936	\$ 5,470,815	\$ (75,297)	\$ 11,026,454	\$ (5,729,237)

CITY OF PORT ARTHUR, TEXAS
STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2023

	<u>Retiree Health OPEB Trust Fund</u>
ASSETS	
Investments	\$ 4,609,322
Total assets	<u>4,609,322</u>
NET POSITION	
Restricted for other postemployment benefits	<u>4,609,322</u>
Total net position	<u>\$ 4,609,322</u>

CITY OF PORT ARTHUR, TEXAS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED DECEMBER 31, 2023

	<u>Retiree Health OPEB Trust Fund</u>
ADDITIONS	
Contributions:	
Employer	\$ 131,023
Investment earnings:	
Interest, dividends, and other	<u>583,565</u>
Total additions	<u>714,588</u>
DEDUCTIONS	
Benefit payments	131,023
Administrative expenses	<u>24,730</u>
Total deductions	<u>155,753</u>
NET INCREASE (DECREASE) IN FIDUCIARY NET POSITION	558,835
NET POSITION, BEGINNING	<u>4,050,487</u>
NET POSITION, ENDING	<u>\$ 4,609,322</u>

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CITY OF PORT ARTHUR, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2024

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The City of Port Arthur, Texas (City) was incorporated under the laws of the State of Texas, May 30, 1898, and has operated under a Council-Manager form of government since March 8, 1932. As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Port Arthur (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationships with the City. The discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Discretely Presented Component Unit - *The Port Arthur Section 4A Economic Development Corporation (EDC)*, an entity legally separate from the City, is governed by a seven-member board of directors appointed by the City Council. The EDC is funded by a one-half cent additional sales tax dedicated to economic development activities, which was approved by voters November 7, 1995 and implemented April 1, 1996. The budget, financial reports, and bonds of the EDC must be approved by the City Council.

The notes to the financial statements include disclosures pertaining to the City as the primary government and also, the EDC as a component unit. There is not a separately issued financial statement.

A. Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. *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. The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

B. Basis of Presentation – Government-wide Financial Statements

While government-wide and fund financial statements are presented separately, 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 charges between the City's business-type and governmental funds and interfund loans. Goods and services provided by the City's internal service funds are charged as direct costs to the enterprise funds that received those goods and services. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

C. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the City's funds. 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 major governmental funds:

The **General Fund** is used to account for and report all financial resources not accounted for and reported in other funds. The general fund is always considered a major fund for reporting purposes.

The **American Rescue Plan Fund** is used to account for the resources related to the coronavirus state and local fiscal recovery funds program authorized by the American Rescue Plan Act.

The **Capital Projects Fund** is used to account for proceeds from long-term debt used to make various infrastructure improvements throughout the City that are not related to the Water and Sewer enterprise fund.

The **Debt Service Fund** is used to account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds, including certificates of obligation. The primary source of revenue for debt service is property taxes.

The **Hazard Mitigation Fund** is used to account for funds received to assist local communities in implementing long-term hazard mitigation measures following a major disaster (Hurricane Harvey). To date, the City has the following drainage projects: El Vista Subdivision, Port Acres Drainage, Lake Arthur Detention and Babe Zaharias Golf Course.

The City reports the following major proprietary funds:

The **Water and Sewer Fund** is used to account for the activities of the water and sewer utility of the City. This fund operates the water treatment and distribution functions, along with the wastewater collection and treatment.

The **Solid Waste Fund** is used to account for the activities of the solid waste function of the City. This fund operates the municipal landfill, along with the collection of residential and commercial garbage, trash and green waste.

The *Enterprise Funds* are used to account for the operations that provide water and wastewater utility services to the public, solid waste disposal operations, and Pleasure Island 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.

Additionally, the City maintains *internal service funds* used to account for general liability insurance, equipment replacement and employee benefit costs. These costs are reimbursed, on a user cost basis, by departments. The internal service funds predominantly serve the governmental funds and are reported accordingly. These funds are presented, in a summary form, as part of the proprietary fund financial statements. Since the principal users of the internal services are the City's governmental activities, financial activities of the internal service funds are presented in the governmental activities column when presented at the government-wide level. The costs of these services are allocated to the appropriate function/program (general government, public safety, public works, etc.) in the statement of activities. Goods and services provided by the internal service funds include employee health benefits, fleet replacement and high technology replacement.

The City maintains a *fiduciary fund* to account for assets held by the City in a trustee capacity for the City's Other Postemployment Benefit (Health Insurance) Plan. The City utilizes a trust to hold required contributions for OPEBs. Plan trustees must act in accordance with the specific purposes and terms of the OPEB plan. The accompanying statement of fiduciary net position and statement of changes in fiduciary net position are presented as of and for the year ended December 31, 2023, the Plan's year-end, in accordance with GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (GASB 74).

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.

D. 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, proprietary and fiduciary 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. Measurable means that the amount of the transaction can be determined and available means 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 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 financed purchases are reported as other financing sources.

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

1. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, money market mutual funds, balances in privately managed public funds investment pools and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the Proprietary Fund Types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

The City pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the City's investments.

The City pools excess cash of the various individual funds to purchase these investments. These pooled investments are reported in the combined balance sheet as investments in each fund based on each fund's share of the pooled investments. Interest income is allocated to each respective individual fund, monthly, based on their respective share of investments in the pooled investments. The City's local government investment pools are recorded at net asset value which approximates fair value.

2. Investments

Investments consist of United States (U.S.) Government and Agency securities, certificates of deposits, and repurchase agreements. The City reports all investments at fair value based on quoted market prices at year-end date.

The City categorizes fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: level 1 inputs are quoted prices in active markets for identical assets; level 2 inputs are significant other observable inputs; level 3 inputs are significant unobservable inputs. The City did not hold any investments at September 30, 2024.

3. Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Estimated unbilled revenues from the water and sewer and solid waste funds are recognized at the end of each fiscal year on a pro rata basis. The estimated amount is based on billings during the month following the close of the fiscal year.

4. Inventories and Prepaid Items

Inventories are valued at cost using the weighted average cost method. Payments made to vendors for services that will benefit future periods are recorded as prepaid items. The cost of such inventories and prepaid items are recorded as expenditures/expenses when consumed rather than when purchased.

5. Restricted Assets

The Enterprise Funds have restricted certain cash and cash equivalents for customer deposits, reserve and emergency expenditures, cash restricted for other purposes, and revenue bond debt service. Because of certain bond covenants, the Enterprise Fund is required to maintain prescribed amounts of resources that can be used only to service outstanding debt. The proceeds from debt are restricted for use on capital projects.

6. Capital Assets

Capital assets, which include land and improvements, construction in progress, buildings and improvements, machinery and equipment, and infrastructure (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 \$5,000, and an estimated useful life in excess of two years.

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. 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 improvements and construction in progress are not depreciated. Buildings and improvements, machinery and equipment, and infrastructure of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Use Lives (Years)</u>
Infrastructure	20 - 75
Buildings and improvements	15 - 75
Machinery and equipment	3 - 15
Right-to-use - vehicles	5

7. Compensated Absences

The City's employees earn vacation, compensatory time, holiday, and sick leave, which may be accumulated, subject to certain restrictions, until paid on termination. Employees may accumulate vacation, in excess of that earned in the current year, only with the approval of the City Manager. Upon termination, employees are paid for all unused vacation and compensatory time that has been accumulated. Accumulated vacation and compensatory time is expected to be liquidated with expendable available financial resources, and is reported as expenditure and a liability in the governmental or proprietary fund that will pay for it only when those absences have matured (i.e., unused reimbursable leave still outstanding following an employee's resignation or retirement). Civil service employees (police officers and firefighters) are paid for all accrued holiday time at the time of termination.

The limits for sick leave accumulation vary by hire date and position classification. Civil service employees (police officers and firefighters) may accumulate sick leave without limit. For fire employees hired on or before March 7, 1990, the limit is 140 days. Remaining sick leave is paid at 50% of total value. For fire employees hired after March 7, 1990, the limit is 90 days. Remaining sick leave is paid at 50% of total value. For police employees hired on or before May 31, 1989, the limit is 1,500 hours. Remaining sick leave is paid at 50% of total value. For police employees hired on or after June 1, 1989, the limit is 1,120 hours. Remaining sick leave is paid at 50% of total value. For police employees hired on or after October 1, 2011, the limit is 720 hours.

Non-civil service employees accumulate sick leave up to their limit, which is based upon their hire date. For employees hired on or before May 31, 1989, and completed 5 years of service, the limit is 1,120 hours. For employees hired on or after June 1, 1989, and completed 5 years of service, the limit is 720 hours. For employees hired on or after January 1, 1996, and completed 5 years of service, the accumulated sick leave will be paid at 50% of their unused, accumulated balance. After ten (10) years of service, these employees will be paid 100% of their unused, accumulated balance, up to a maximum of 480 hours.

Accumulated sick leave, attributable to governmental funds, that is not expected to be liquidated with available financial resources are reported as long-term liabilities on the statement of net position. No expenditure is reported in the fund financial statements for these amounts. Those amounts attributable to proprietary funds are recorded as expenses and liabilities in those funds as the benefits accrue to the employee.

8. Deferred Inflows/Outflows of Resources

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has the following items that qualify for reporting in this category.

- Deferred charges on refunding – 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.
- Pension and OPEB contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.
- Difference in expected and actual pension and OPEB experience - This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Changes in actuarial assumptions and other inputs – This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has the following types of items that qualify for reporting in this category.

- Unavailable revenue is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- Difference in projected and actual investment earnings on pension and OPEB assets – This difference is deferred and amortized over a closed five-year period.
- Difference in expected and actual pension and OPEB experience - This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Changes in actuarial assumptions and other inputs – This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

9. Long-Term Obligations

In the 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 amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bonds consist of general obligation and certificates of obligation bonds. These transactions are reported within the Governmental and Business-Type Activities columns of the government-wide statement of net position. Bond issuance costs are reported as expenditures/expenses.

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 financial 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.

10. Leases

The City has entered into lease agreements as both lessee and lessor. 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, if available. 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 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 or lease asset.

Lessee

The City is a lessee for noncancellable leases of equipment and vehicles. The City recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements. 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 its useful life. 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 in an arrangement allowing the use of the dock. In both the government-wide financial statements and the governmental fund financial statements, the County initially measures a lease receivable and a deferred inflow of resources for the present value of payments expected to be made during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments made. The deferred inflow of resources is recognized as revenue on a systematic basis over the life of the lease.

11. Pensions

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

12. Other Post-Employment Benefits (OPEB)

Supplemental Death Benefits Fund. For purposes of measuring the total Texas Municipal Retirement System Supplemental Death Benefit Fund (TMRS SDBF) OPEB liability, related deferred outflows and inflows of resources, and expense, City specific information about its total TMRS SDBF liability and additions to/deductions from the City's total TMRS SDBF liability have been determined on the same basis as they are reported by TMRS. The TMRS SDBF expense and deferred (inflows)/outflows of resources related to TMRS SDBF, primarily result from changes in the components of the total TMRS SDBF liability. Most changes in the total TMRS SDBF liability will be included in TMRS SDBF expense in the period of the change. For example, changes in the total TMRS SDBF liability resulting from current-period service cost, interest on the TOL, and changes of benefit terms are required to be included in TMRS SDBF expense immediately. Changes in the total TMRS SDBF liability that have not been included in TMRS SDBF expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to TMRS SDBF.

Retiree Health Insurance. For purposes of measuring the total OPEB liability, OPEB related deferred outflows and inflows of resources, and OPEB expense, benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Contributions are not required but are measured as payments by the City for benefits due and payable that are not reimbursed by plan assets. Information regarding the City's total OPEB liability is obtained from a report prepared by a consulting actuary, Gabriel Roeder Smith & Company.

13. 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.

14. 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. The City will typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

15. Fund Balance Policies

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

- Nonspendable fund balance - includes amounts that are not in spendable form or are legally or contractually required to be maintained intact.
- Restricted fund balance - includes amounts that have external constraints imposed upon the use of the resources by creditors, grantors, contributors, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance - includes amounts that can be used only for the specific purposes pursuant to constraints imposed 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 approval of a resolution prior to the end of the fiscal year, commit fund balance. Once approved, the limitation imposed by the resolution remains in place until a similar action is taken (the approval of another resolution) to remove or revise the limitation.
- Assigned fund balance - includes amounts that are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. This includes the remaining positive fund balances of all governmental funds except for the General Fund. Balances for encumbrances, other than those committed by City Council, fall into this category. Intent can be established by City Council or delegated to the City Manager. The City Council has authorized the City Manager to assign fund balance. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.
- Unassigned fund balance - includes amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

It is the City's policy to maintain the General Fund unassigned fund balance equivalent to no less than two months of normal recurring costs, based on current year budgeted expenditures plus \$1.5 million for extraordinary events. The City's unassigned fund balance at year end was approximately four months plus \$1.5 million.

16. 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 and liabilities and deferred outflows and inflows of resources, and the 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.

17. Change in Accounting Principle

GASB Statement No. 100, Accounting Changes and Error Corrections, - an amendment of GASB Statement No. 62 - was adopted for the fiscal year ended September 30, 2024. The primary objective of this Statement is to enhance 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. As a result of this new accounting standard, the City was required to report changes within the financial reporting entity in more detail; see note disclosure on page 60 for additional information.

F. Revenues and Expenditures/Expenses

1. Program Revenues

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

2. Property Taxes

The City's property taxes are levied annually, October 1, on the basis of assessed values as of January 1 of that calendar year, which are certified by the Jefferson County Appraisal District. Taxes are applicable to the fiscal year in which they are levied. They become delinquent on February 1 of the subsequent calendar year at which time the applicable property is subject to lien, and penalties and interest are assessed.

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

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

II. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES

A. Cash, Cash Equivalents and Investments

The Texas Public Funds Investment Act (PFIA), as prescribed in Chapter 2256 of the Texas Government Code, regulates deposits and investment transactions of the City.

In accordance with applicable statutes, the City has a depository contract with an area bank (depository) providing for interest rates to be earned on deposited funds and for banking charges the City incurs for banking services received. The City may place funds with the depository in interest and non-interest bearing accounts. State law provides that collateral pledged as security for bank deposits must have a market value of not less than the amount of the deposits and must consist of: (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas; and/or (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent. City policy requires the collateralization level to be at least 102% of market value of principal and accrued interest.

The Council has adopted a written investment policy regarding the investment of City funds as required by the PFIA. The investments of the City are in compliance with the City's investment policy. The City's investment policy is more restrictive than the PFIA requires. It is the City's policy to restrict its direct investments in obligations of the United States of America, its agencies and instrumentalities, fully FDIC insured certificates of deposit, fully collateralized repurchase agreements, money market mutual funds and local government investment pools. The maximum maturity allowed is three years from date of purchase.

The City's cash and investments are classified as: Cash and cash equivalents, and restricted cash and cash equivalents. The cash and cash equivalents include cash on hand, deposits with financial institutions, money market mutual funds, and short-term investments in privately managed public funds investment pool accounts (TexPool, TexasClass and TexSTAR). The restricted cash and cash equivalents are assets restricted for specific use. The restricted cash and cash equivalents include cash with financial institutions, money market mutual funds, TexPool, TexSTAR, and TexasClass. However, each fund's balance of cash and investments is maintained in the books of the City.

For the purposes of managing cash and investments, the funds of the discretely presented component unit are pooled with those of the City. At year end, 100% of the bank balance was covered by federal depository insurance or by collateral held by the City's agent in the City's name at September 30, 2024. At year end, the City's cash and cash equivalent balances, including funds of the discretely presented component unit, were as follows:

	Primary Government
Investment pools:	
TexSTAR	\$ 25,148,168
TexPool	54,701,845
Texas CLASS	<u>59,137,387</u>
Total	<u><u>\$ 138,987,400</u></u>

TexSTAR

TexSTAR is duly chartered by the State of Texas Interlocal Cooperation Act, is administered by Hilltop Securities, Inc. and J.P. Morgan Investment Management, Inc. (JPMIM), and managed by JPMIM, who provides custody and investment management.

The primary objectives of TexSTAR are, in order of priority, preservation and protection of principal, maintenance of sufficient liquidity to meet Participants' needs, and yield. The portfolio will maintain a dollar-weighted average maturity that does not exceed 60 days and seeks to maintain a net asset value of \$1.00 per share. TexSTAR may invest in securities including: obligations of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; other obligations which are unconditionally guaranteed or insured by the U.S.; fully collateralized repurchase agreements with a defined termination date and unconditionally guaranteed or insured by the U.S. or its agencies and instrumentalities; and SEC-registered no-load money-market fund which meet the requirements of the Public Funds Investment Act. The investment pool has a redemption notice period of one day and no maximum transaction amounts. The investment pools' authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities market, general banking moratorium or national or state emergency that affects the pools' liquidity.

TexPool

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

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

Texas CLASS

Texas CLASS was created in accordance with the requirements contained in section 2256.016 of the Public Funds Investment Act (PFIA). The Texas CLASS Trust Agreement is an agreement of indefinite term regarding the investment, reinvestment, and withdrawal of local government funds. The parties to the Trust Agreement are Texas local government entities that choose to participate in the Trust (the Participants), Public Trust Advisors, LLC (Public Trust) as Program Administrator, and UMB Bank, N.A. as Custodian.

Texas CLASS Government 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 Government portfolio consists of U.S. Government securities; collateralized repurchase and reverse repurchase agreements; and AAA rated money market mutual funds.

Interest Rate Risk

At year-end, the City had the following cash equivalents subject to interest rate risk disclosure, under U.S. generally accepted accounting principles:

	Reported Value	Weighted Average Maturity (days)
Investment pools:		
TexSTAR	\$ 25,148,168	24
TexPool	54,701,845	26
Texas CLASS	59,137,387	101
Total	<u>\$ 138,987,400</u>	

The City measures interest rate risk using the weighted average maturity method for the portfolio. The City's investment policy specifies a targeted maximum weighted average maturity allowed, based on the stated maturity date, for the portfolio is 365 days. To the extent possible, the City attempts to match investments with anticipated cash flow requirements. The settlement date is considered the date of purchase.

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. The City's investment policy requires funds on deposit at the depository bank to be collateralized by securities, to the extent the deposits exceed FDIC coverage. Uninsured financial institution deposits and repurchase agreement investments marketable security collateral must be maintained at a minimum 102% of deposit or investment value, plus any accrued interest. As of September 30, 2024, the combined values of pledged securities and FDIC coverage exceeded bank balances for the City.

Custodial credit risk - investments

For an investment, this is the risk that, in the event of the failure of counterparty, the government 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 limits this risk by contracting with a third party custodian for securities. This bank holds the securities in the City's name which are evidenced by safekeeping receipts of the institution.

Concentration of credit risk

The risk is the risk of loss attributed to the magnitude of a City's investment in a single issuer. The City's investment policy limits investments from a specific issuer, and by investing in instruments of varying maturities. The City's investment policy allows investments by type based on the following diversification requirements:

Investment Type	Maximum Investment %
U.S. treasury securities	90%
Agencies and instrumentalities	70% (30% in any 1 agency)
Certificates of deposit	50% (25% in any 1 institution)
Repurchase agreements	50%
Money market mutual funds	50% (not to exceed 10% of fund asset)
Authorized pools	100% (80% in any 1 pool)

At September 30, 2024, the City's entire portfolio comprised of balances in authorized investment pools meeting the maximum investment proportion of 100% outlined in the City investment policy.

	Reported Value	Percentage of Total Portfolio
Investment pools:		
TexSTAR	\$ 25,148,168	18%
TexPool	54,701,845	39%
Texas CLASS	59,137,387	43%
Total	<u>\$ 138,987,400</u>	<u>100%</u>

Restricted Cash and Cash Equivalents

The funds below report restricted cash and cash equivalents for the following purposes:

Restricted Purpose	Water and Sewer Fund	Capital Projects
Water and wastewater improvement projects	\$ 31,193,485	\$ -
Information technology ERP project	-	75,968
	<u>\$ 31,193,485</u>	<u>\$ 75,968</u>

B. Receivables

Amounts are aggregated into a single accounts receivable (net of allowances for doubtful accounts) line for various funds and aggregated columns. Below is the detail of receivables at September 30, 2024:

	Governmental Activities		
	General Fund	Nonmajor Funds	Internal Service Fund
Receivables:			
Property taxes	\$ 3,381,582	\$ 2,115,491	\$ -
Customers	518,576	-	-
Sales and other taxes	2,703,887	-	-
Other	<u>2,810,920</u>	<u>341,464</u>	<u>332,530</u>
Gross receivables	9,414,965	2,456,955	332,530
Less: allowance for uncollectible accounts	<u>(1,852,841)</u>	<u>(837,701)</u>	<u>-</u>
Net receivables	<u>\$ 7,562,124</u>	<u>\$ 1,619,254</u>	<u>\$ 332,530</u>
	Business-type Activities		Discretely Presented Component Unit
	Water and Sewer Fund	Solid Waste Fund	
Receivables:			
Customers	\$ 17,669,457	\$ 5,180,818	\$ -
Sales and other taxes	-	-	1,334,487
Gross receivables	17,669,457	5,180,818	1,334,487
Less: allowance for uncollectible accounts	<u>(12,091,826)</u>	<u>(3,410,525)</u>	<u>-</u>
Net receivables	<u>\$ 5,577,631</u>	<u>\$ 1,770,293</u>	<u>\$ 1,334,487</u>

C. Capital Assets

Capital asset activity of the primary government for the year ended September 30, 2024 was as follows:

	Beginning Balance	Additions	Reclassifications/ Retirements	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land and improvements	\$ 8,877,178	\$ -	\$ -	\$ 8,877,178
Construction in progress	32,463,467	18,140,096	(8,633,342)	41,970,221
Total capital assets not being depreciated	41,340,645	18,140,096	(8,633,342)	50,847,399
Capital assets being depreciated:				
Infrastructure	314,105,110	8,678,376	-	322,783,486
Buildings and improvements	45,882,178	-	-	45,882,178
Machinery and equipment	74,814,118	3,168,229	(141,019)	77,841,328
Right to use vehicles	1,624,208	949,019	-	2,573,227
Total assets being depreciated	436,425,614	12,795,624	(141,019)	449,080,219
Less accumulated depreciation for:				
Infrastructure	(272,601,581)	(2,245,835)	-	(274,847,416)
Buildings and improvements	(28,566,228)	(1,464,328)	-	(30,030,556)
Machinery and equipment	(51,985,432)	(4,952,963)	141,019	(56,797,376)
Right to use vehicles	(251,962)	(636,004)	-	(887,966)
Total accumulated depreciation	(353,405,203)	(9,299,130)	141,019	(362,563,314)
Total capital assets being depreciated, net	83,020,411	3,496,494	-	86,516,905
Governmental activities capital assets, net	<u>\$ 124,361,056</u>	<u>\$ 21,636,590</u>	<u>\$ (8,633,342)</u>	<u>\$ 137,364,304</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land and improvements	\$ 863,971	\$ -	\$ -	\$ 863,971
Construction in progress	31,827,479	19,192,039	(8,363,264)	42,656,254
Total capital assets, not being depreciated	32,691,450	19,192,039	(8,363,264)	43,520,225
Capital assets being depreciated:				
Infrastructure	220,218,306	8,659,492	-	228,877,798
Buildings and improvements	43,902,960	74,011	(16)	43,976,955
Machinery and equipment	30,256,019	148,251	-	30,404,270
Total assets being depreciated	294,377,285	8,881,754	(16)	303,259,023
Less accumulated depreciation for:				
Infrastructure	(106,444,163)	(5,302,916)	-	(111,747,079)
Buildings and improvements	(34,250,790)	(1,131,500)	-	(35,382,290)
Machinery and equipment	(14,375,582)	(1,297,808)	-	(15,673,390)
Total accumulated depreciation	(155,070,535)	(7,732,224)	-	(162,802,759)
Total capital assets being depreciated, net	139,306,750	1,149,530	(16)	140,456,264
Business-type activities capital assets, net	<u>\$ 171,998,200</u>	<u>\$ 20,341,569</u>	<u>\$ (8,363,280)</u>	<u>\$ 183,976,489</u>

The following is a summary of changes in capital assets for the Discretely Presented Component Unit for the year ended September 30, 2024:

	Beginning Balance	Additions	Reclassifications/ Retirements	Ending Balance
Discretely presented component unit:				
Capital assets, not being depreciated:				
Land and improvements	\$ 5,611,865	\$ -	\$ -	\$ 5,611,865
Construction in progress	14,997,750	1,584,160	-	16,581,910
Total capital assets, not being depreciated	20,609,615	1,584,160	-	22,193,775
Capital assets being depreciated:				
Infrastructure	24,725	-	-	24,725
Buildings and improvements	810,098	-	-	810,098
Machinery and equipment	675,552	5,190	-	680,742
Total assets being depreciated	1,510,375	5,190	-	1,515,565
Less accumulated depreciation for:				
Infrastructure	(2,266)	(21,097)	-	(23,363)
Buildings and improvements	(408,410)	(36,758)	-	(445,168)
Machinery and equipment	(257,035)	(94,565)	-	(351,600)
Total accumulated depreciation	(667,711)	(152,420)	-	(820,131)
Total capital assets being depreciated, net	842,664	(147,230)	-	695,434
Discretely presented component unit capital assets, net	<u>\$ 21,452,279</u>	<u>\$ 1,436,930</u>	<u>\$ -</u>	<u>\$ 22,889,209</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 986,385
Public safety	531,315
Public works	2,593,418
Community services	172,990
Culture and recreation	453,096
Health and welfare	187,126
Public transportation	744,820
Depreciation charged in internal service funds	3,629,980
Total	<u>\$ 9,299,130</u>
Business-type activities:	
Water and sewer	\$ 6,508,041
Solid waste	839,462
Pleasure island commission	384,721
Total	<u>\$ 7,732,224</u>
Total Depreciation	<u>\$ 17,031,354</u>

Construction Commitments

The primary government has active construction projects as of September 30, 2024. Remaining commitments under related construction contracts at year end were as follows:

Project Description	Contract	Total In Progress	Remaining Commitment
Streets projects	\$ 29,647,761	\$ 19,675,568	\$ 9,972,193
Water and sewer improvements	49,679,493	40,353,552	9,325,941
City facilities, including dept. club	59,049,091	40,862,145	18,186,946
Downtown revitalization projects	1,729,951	1,456,471	273,480
Drainage projects	37,567,409	36,349,908	1,217,501
	<u>\$ 177,673,705</u>	<u>\$ 138,697,644</u>	<u>\$ 38,976,061</u>

The remaining commitments above will be primarily financed through completion of construction with the resources of the water and sewer fund, the capital projects funds, supplemented by the general fund and issuance of debt, as needed.

D. Long-Term Liabilities

Changes in long-term liabilities for the year ending September 30, 2024 are as follows:

	Beginning Balance	Issued	Refunded/ Retired	Ending Balance	Amount Due Within One Year
Governmental activities:					
General obligation bonds	\$ 7,545,000	\$ -	\$ (1,180,000)	\$ 6,365,000	\$ 1,240,000
Certificates of obligation	48,155,000	18,245,000	(4,215,000)	62,185,000	4,305,000
General obligation bonds-private placement	3,400,000	-	(645,001)	2,754,999	660,000
Unamortized premiums	6,752,444	1,749,302	(541,393)	7,960,353	-
Financed purchases	6,020,075	-	(1,025,509)	4,994,566	1,078,963
Leases	1,414,923	949,019	(545,464)	1,818,478	614,603
Compensated absences	14,413,190	6,702,538	(11,062,057)	10,053,671	2,010,734
Long-term risk liability	937,422	3,776,820	(4,075,410)	638,832	-
Total governmental	<u>\$ 88,638,054</u>	<u>\$ 31,422,679</u>	<u>\$ (23,289,834)</u>	<u>\$ 96,770,899</u>	<u>\$ 9,909,300</u>
Business-type activities:					
Certificates of obligation	\$ 8,520,000	\$ -	\$ (270,000)	\$ 8,250,000	\$ 265,000
Certificates of obligation-private placement	65,550,000	-	(2,225,000)	63,325,000	3,250,000
Unamortized premiums	1,972,482	-	(132,129)	1,840,353	-
Compensated absences	1,894,010	1,954,304	(2,061,801)	1,786,513	357,303
Landfill post-closure liability	5,219,128	319,742	-	5,538,870	-
Total business-type	<u>\$ 83,155,620</u>	<u>\$ 2,274,046</u>	<u>\$ (4,688,930)</u>	<u>\$ 80,740,736</u>	<u>\$ 3,872,303</u>
Discretely Presented Component Unit:					
Sales tax revenue refunding bonds-private placement	\$ 540,000	\$ -	\$ (540,000)	\$ -	\$ -
Compensated absences	56,257	139,649	(125,691)	70,215	14,043
Total Discretely Presented Component Unit	<u>\$ 596,257</u>	<u>\$ 139,649</u>	<u>\$ (665,691)</u>	<u>\$ 70,215</u>	<u>\$ 14,043</u>

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. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Long-term debt at year end was comprised of the following debt issues:

	Original Issue	Maturity	Interest Rates	Balance
<u>Governmental Activities</u>				
General Obligation Bonds				
2019 Series, Refunding	\$ 9,120,000	2030	3.0% - 5.0%	\$ 5,500,000
2021 Series, Refunding	1,530,000	2041	4.0% - 5.0%	865,000
Certificates of Obligation				
2020A, Combination Tax & Revenue	8,900,000	2037	3.0% - 5.0%	6,835,000
2021, Combination Tax & Revenue	19,685,000	2041	4.0% - 5.0%	16,130,000
2022, Combination Tax & Revenue	9,565,000	2042	4.0% - 5.0%	7,980,000
2023, Combination Tax & Revenue	15,955,000	2043	4.0% - 5.0%	12,995,000
2024, Combination Tax & Revenue	18,245,000	2044	4.0% - 5.0%	18,245,000
Private Placement Obligations				
2017 Series GO Refunding	9,645,000	2028	2.75%	<u>2,754,999</u>
Total Governmental Long-Term Obligations				<u>\$ 71,304,999</u>
	Original Issue	Maturity	Interest Rates	Balance
<u>Business-type Activities</u>				
Certificates of Obligation				
2023, Combination Tax & Revenue	\$ 8,520,000	2043	4.0% - 5.0%	\$ 8,250,000
Private Placement Obligations				
2015A Combination Tax & Revenue CO	2,740,000	2026	0.26% - 1.50%	215,000
2015B Combination Tax & Revenue CO	4,965,000	2033	0.21% - 1.45%	730,000
2020B Combination Tax & Revenue CO	56,310,000	2022	0.03% - 1.09%	54,755,000
2021 Combination Tax & Revenue CO	8,395,000	2041	4.0% - 5.0%	<u>7,625,000</u>
Total Business-Type Long-Term Obligations				<u>\$ 71,575,000</u>

The City issues general obligation bonds and certificates of obligation to provide funds for the acquisition and construction of major capital facilities for both the governmental and business-type activities. General obligation bonds are direct obligation and pledge the full faith and credit of the City. The City issues sales tax revenue bonds to fund economic development activity out of the EDC. This debt is payable by economic sales tax collections. The City has bonded debt of \$142,879,999 outstanding for the primary government.

During the fiscal year, the city issued Combination Tax and Revenue Certificates of Obligation, Series 2024 in the amount of \$18,245,000 which were recorded entirely in Governmental Activities. Proceeds from the sale of the certificates will be used for the construction of public works projects related to streets, a fire station, and a variety of other municipal projects. The certificates carry an interest rate between 4% - 5% and will mature in fiscal year 2044.

The annual requirements to amortize debt outstanding at year end for Governmental Activities were as follows:

Governmental Activities:

Year Ended September 30,	General Obligation Bonds			Certificates of Obligation		
	Principal	Interest	Total	Principal	Interest	Total
2025	\$ 1,240,000	\$ 275,650	\$ 1,515,650	\$ 4,305,000	\$ 2,026,439	\$ 6,331,439
2026	1,360,000	210,650	1,570,650	2,345,000	1,935,750	4,280,750
2027	1,420,000	141,150	1,561,150	2,465,000	1,846,125	4,311,125
2028	1,185,000	76,025	1,261,025	2,595,000	1,752,000	4,347,000
2029	565,000	35,100	600,100	2,710,000	1,655,200	4,365,200
2030-2034	595,000	11,900	606,900	15,680,000	6,750,250	22,430,250
2035-2039	-	-	-	18,265,000	3,797,775	22,062,775
2040-2044	-	-	-	13,820,000	977,775	14,797,775
Total	<u>\$ 6,365,000</u>	<u>\$ 750,475</u>	<u>\$ 7,115,475</u>	<u>\$62,185,000</u>	<u>\$20,741,314</u>	<u>\$82,926,314</u>

Year Ended September 30,	Private Placement Debt General Obligation Bonds		
	Principal	Interest	Total
2025	\$ 660,000	\$ 66,688	\$ 726,688
2026	680,000	48,263	728,263
2027	700,000	29,288	729,288
2028	714,999	9,831	724,830
Total	<u>\$ 2,754,999</u>	<u>\$ 154,070</u>	<u>\$ 2,909,069</u>

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.

The annual requirements to amortize debt outstanding at year end for Business-Type Activities were as follows:

Business-Type Activities:

Year Ended September 30,	Certificates of Obligation			Private Placement Debt Certificates of Obligation		
	Principal	Interest	Total	Principal	Interest	Total
2025	\$ 265,000	\$ 394,025	\$ 659,025	\$ 3,250,000	\$ 737,588	\$ 3,987,588
2026	285,000	380,275	665,275	3,270,000	709,330	3,979,330
2027	295,000	365,775	660,775	3,295,000	682,629	3,977,629
2028	310,000	350,650	660,650	3,325,000	653,369	3,978,369
2029	325,000	334,775	659,775	3,360,000	621,684	3,981,684
2030-2034	1,905,000	1,403,875	3,308,875	17,345,000	2,556,506	19,901,506
2035-2039	2,440,000	864,750	3,304,750	18,425,000	1,475,787	19,900,787
2040-2044	2,425,000	231,300	2,656,300	11,055,000	260,081	11,315,081
Total	<u>\$ 8,250,000</u>	<u>\$ 4,325,425</u>	<u>\$12,575,425</u>	<u>\$63,325,000</u>	<u>\$ 7,696,974</u>	<u>\$71,021,974</u>

Defeased Bonds

The City has defeased certain outstanding bonds by placing proceeds of new bonds in irrevocable escrow accounts to provide for all future debt service payments on the old bonds. Accordingly, the escrow account assets and the defeased liabilities are not included in the City's financial statements. At September 30, 2024, the City had no outstanding bonds considered defeased.

Federal Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or not performed correctly, a substantial liability to the City could result. As of September 30, 2024, there is no arbitrage liability.

Financed Purchases

The City has entered into financing agreements for the acquisition of vehicles and equipment. Interest rates range from 1% to 3% and will mature between fiscal years 2027 and 2029.

The annual requirements to amortize debt outstanding at year end for Governmental Activities were as follows:

Year Ended September 30,	Principal	Interest	Total
2025	\$ 1,078,963	\$ 132,794	\$ 1,211,757
2026	1,123,847	102,631	1,226,478
2027	1,127,722	71,513	1,199,235
2028	807,367	40,895	848,262
2029	856,667	16,123	872,790
Total	<u>\$ 4,994,566</u>	<u>\$ 363,956</u>	<u>\$ 5,358,522</u>

Leases

The City has entered into 61 lease agreements for the acquisition of Enterprise Fleet Management vehicles. Interest rates range from 1% to 3% and the agreements will mature between fiscal years 2027 and 2028.

The annual requirements to amortize debt outstanding at year end for Governmental Activities were as follows:

Year Ended September 30,	Principal	Interest	Total
2025	\$ 614,603	\$ 27,368	\$ 641,971
2026	620,128	10,004	630,132
2027	531,311	2,167	533,478
2028	52,436	377	52,813
Total	<u>\$ 1,818,478</u>	<u>\$ 39,916</u>	<u>\$ 1,858,394</u>

E. Interfund Receivables and Payables

Interfund receivables and payables of the various funds at September 30, 2024 were as follows:

Due From	Due To	Amount	Purpose
Current receivables			
General Fund	Nonmajor Governmental	\$ 14,680,668	Short term loan grant program
Nonmajor Governmental	General Fund	\$ 122,668	Short term loan grant program
General Fund	Transit Fund	<u>3,265,833</u>	Short term loan grant program
		<u>18,069,169</u>	
Long-term interfund loan			
General Fund	Nonmajor Proprietary Fund	<u>1,321,706</u>	Operating loan
		<u>\$ 19,390,875</u>	

F. Interfund Transfers

Transfers between funds during the year were as follows:

Transfer From	Transfer To	Amount	Purpose
General Fund	Capital Projects	\$ 3,467,000	Capital improvements
General Fund	Transit	673,350	Grant matching funds
General Fund	Nonmajor Governmental	6,405,428	Grant matching funds, capital improvements, and City portion of TIRZ taxes
General Fund	Internal Service Fund	5,722,700	Capital equipment, user fees and general liability insurance payment
Transit	Internal Service Fund	159,000	General liability insurance payment
Nonmajor Governmental	General Fund	174,568	Civic center operation costs, reimbursement of prior year costs
Nonmajor Governmental	Internal Service Fund	332,300	Insurance and debt service
Water and Sewer Fund	General Fund	2,504,637	Administrative and collection costs
Water and Sewer Fund	Internal Service Fund	1,384,369	Capital equipment, user fees and general liability insurance payment
Solid Waste Fund	General Fund	291,667	Debt service payments
Solid Waste Fund	Internal Service Fund	2,148,000	Capital equipment, user fees and general liability insurance payment
Solid Waste Fund	Debt Service Fund	1,069	Debt service payments
Solid Waste Fund	Water and Sewer Fund	410,000	Billing services for garbage
Nonmajor Proprietary Fund	Capital Projects	439,000	Capital improvements
Nonmajor Proprietary Fund	Debt Service Fund	2,931	Debt service payments
Nonmajor Proprietary Fund	Internal Service Fund	77,000	General liability insurance payment
Debt Service Fund	Internal Service Fund	427,331	Debt service payments
Debt Service Fund	Water and Sewer Fund	199,138	Debt service payments
		<u>\$ 24,819,488</u>	

III. OTHER INFORMATION

A. Employee Retirement Systems

Plan Descriptions and Provisions.

TMRS

The City participates as one of 888 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available annual comprehensive financial report (ACFR) that can be obtained at www.tmr.com.

All eligible employees of the City not covered by the FRRF are required to participate in TMRS.

FRRF

The Port Arthur Firemen's Relief and Retirement Fund (FRRF) is established effective October 28, 1941, under the authority of the Texas Local Fire Fighter's Retirement Act (TLFFRA). The fund is administered by a Board of Trustees. The Board is made up of three members elected from and by fund members, two representatives of the City of Port Arthur, Texas, and two citizen members. All fire fighters of the City of Port Arthur, Texas, are members of the FRRF. Detailed information about the pension plan's fiduciary net position is available in a separately issued financial report. That report can be obtained by contacting the Port Arthur Fireman's and Relief Fund Board of Trustees, P.O. Box 9759, Longview, Texas 75608.

The following table summarizes the participants in each plan:

	Texas Municipal Retirement System (TMRS)	Port Arthur Firemen's Retirement and Relief Fund (FRRF)
Inactive employees or beneficiaries currently receiving benefits	560	95
Inactive employees entitled to but not yet receiving benefits	226	0
Active employees	567	106
Total	1353	201

Benefits Provided.

TMRS

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 benefit is calculated as if the sum of the employee's contributions, with interest, and the city financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven actuarially equivalent payments options. Members may also choose to receive apportion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

On the date the plan began, the City granted monetary credits for service rendered before the plan began of theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are 200% of the employee's accumulated contributions.

A summary of plan provisions for the City are as follows:

	2024	2023
Employee deposit rate	5.00%	5.00%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	10	10
Service requirement eligibility (expressed as age/years of service)	60/10, 0/20	60/10, 0/20
Updated service credit	100% repeating, transfers	100% repeating, transfers
Annuity increase (to retirees)	70% of CPI repeating	70% of CPI repeating

FRRF

The FRRF provides retirement, death, disability, and termination benefits. A member is eligible for service retirement upon completion of 20 years of service and attainment of age 50. A member who retires under the service retirement provisions of the fund will receive a monthly benefit equal to the sum of 2.70% of the member's average monthly salary multiplied by the number of years of service not in excess of 20 years, and \$125.00 per month for each year of service in excess of 20.

Service retirement benefits are payable for the member's lifetime. In the event the member's death precedes that of his spouse, two-thirds of the member's pension will be continued to the spouse for her lifetime.

In lieu of the monthly service retirement benefit described above, a member who has both attained age 53 and completed 20 years of service may elect to receive his benefits under the DROP program (described below).

Early Retirement Benefits

A member is eligible for early retirement upon completion of 20 years of service. The member who retires under the early retirement provisions of the fund will receive a monthly benefit equal to the product of (a) and (b), where:

- Equals the service retirement benefit that the member has accrued as of his early retirement date, and;

- b) Equals the factor from the table, below, based on the member's age at date of early retirement.

<u>Early Retirement Age</u>	<u>Reduction Factors Percentage</u>
38	36.92%
39	40.01%
40	43.38%
41	47.04%
42	51.04%
43	55.39%
44	60.15%
45	65.36%
46	71.06%
47	77.30%
48	84.16%
49	91.70%

Early retirement benefits are payable for the member's lifetime. In the event the member's death precedes that of his spouse, two-thirds of the member's pension will be continued to the member's spouse for such spouse's lifetime.

Disability Benefits

An active member who becomes disabled as defined in the plan will receive a monthly disability benefit. However, if the member is eligible for a service retirement benefit, he will receive the service retirement benefit to which he is entitled instead of a disability benefit.

Disability benefits are payable in the same form as service retirement benefits. However, disability benefits stop if a member recovers to the point he no longer meets the definition of disability under the fund.

Amount of Disability Benefit

The benefit payable to members who retire with non-job related injuries or illnesses, who have less than one year of service will equal the minimum disability benefit required under the Texas Local Fire Fighters' Retirement Act.

The amount of disability benefit payable to all other members who retire under the disability provisions of the fund will equal the greatest of (a), (b), or (c) below, based on the member's average monthly salary on the date he terminated service due to disability:

- a) Equals 54 percent of his average monthly salary;
- b) Equals the member's early retirement benefit, provided the member is otherwise entitled to such benefit; and
- c) Equals the member's normal service retirement benefit, provided the member is otherwise entitled to such benefit.

A member's disability benefit will commence 60 days following the date on which his regular salary, including vacation, sick leave, and any extended sick leave benefits have lapsed. Upon commencement of disability benefits, a member will receive a lump sum payment equal to the two disability checks that were missed during the 60-day waiting period.

Death Benefits

If a member dies while in active service, the member's spouse will receive an immediate monthly benefit, payable for as long as she is living and does not remarry. In order for a member's spouse to be eligible for the fund's death benefit, such spouse must have been married to the member prior to the earlier of the member's date of retirement or his date of termination of service and must be married to the member at the time of the member's death.

Amount of the Spouse's Death Benefit

The amount of monthly benefit payable to the deceased member's spouse will equal the sum of (a) two thirds of the standard retirement benefit, based on the member's average monthly salary as of the date of his death, plus (b) two thirds of any additional service benefit to which the deceased member was entitled as of the date of his death.

Amount of the Spouse's Death Benefit upon Remarriage

The benefit payable upon remarriage to the widow of a deceased member depends on the number of years of service the member had completed as of his date of death. If the member had not completed 10 years of service as of his date of death, no further payments will be made to the member's spouse if she remarries. If the member had completed at least 10 years of service but had not completed 20 years of service as of his date of death and the member's widow remarries prior to the date that the member would have reached his normal retirement date, the monthly widow's benefit will stop. A monthly benefit equal to two-thirds of the member's vested termination benefit as of his date of death will resume on the date the member would have reached his normal retirement date. If the member had completed at least 20 years of service as of his date of death but not reached normal retirement date, the benefit payable to his widow after her remarriage will equal two-thirds of the early retirement benefit to which the member was entitled at his date of death.

If the member had reached his normal retirement date as of the date of his death, the benefit payable to his widow will continue unchanged if his widow remarries.

Orphan's Benefit

In addition to the above spouse's benefit, each unmarried child of the member will receive a monthly benefit of \$227. Orphan benefits continue until the child reaches age 18. However, benefits are continued until age 22 for a child who is a full-time student. Orphan benefits are continued for life to disabled children.

Maximum Family Benefit

The total of all benefits paid as a result of the death of an active fund member may not exceed the disability or retirement benefit such member had earned as of the date of his death. The total of all benefits paid as a result of the death of a retired member may not exceed the retirement benefit the member was receiving as of the date of his death. Benefits are reduced pro rata, if necessary, in order to satisfy these limitations.

Termination Benefits

Members with at Least Ten Years of Service

A fund member who terminates employment after completing at least 10 years of service, but prior to the date he becomes eligible for service retirement, will be entitled to receive a monthly benefit starting on the date he would have both attained age 50 and completed 20 years of service had he remained in active service with the fire department. Such member's monthly benefit will equal the monthly service retirement benefit he had accrued on the date he separated from service with the fire department.

A fund member who terminates employment prior to completing ten years of service will be entitled to the return of the excess of his contributions to the fund over the amount of any benefits he has received from the fund. Such refund will not include any interest on the member's contributions.

Cash out Benefit

A fund member who retires or whose service is terminated may elect, at the time of his retirement, to receive the return of the excess of the sum of (a) his contributions to the fund plus (b) the contributions made by the City of Port Arthur on his behalf on or before May 10, 1992, over the amount of any benefits he has received from the fund. Such refund will be in lieu of the retirement, disability, or termination benefit that the member would otherwise be entitled to receive under the fund. Such refund will not include any interest on the member's or the City's contributions.

The Deferred Retirement Option Plan (DROP)

A member is eligible to elect the DROP benefit if he retires after both completing 20 years of service and attaining age 53. The monthly retirement benefit of a member who elects the DROP will be calculated as if the member had retired on the later of (i) the date he was first eligible to elect the DROP or (ii) the date which is 36 months prior this actual retirement date. This date is referred to as the member's DROP eligibility date.

Amount of Monthly Retirement Income to DROP Participants

The amount of monthly retirement income that is payable to a member who retires after electing the DROP will equal the monthly service retirement benefit that the member had earned under the fund as of his DROP eligibility date. The benefit formula used, however, will be the service retirement formula in effect on the member's date of retirement.

Upon retirement, the member will receive—in addition to his monthly retirement benefit—a DROP payment equal to the sum of: a) the amount of monthly contributions that the member has made to the fund since his DROP eligibility date, plus b) the total of the monthly retirement benefits the member would have received between the time he entered the DROP and the time he retired under the plan.

The spouse of an active member who dies while eligible for the DROP benefit may elect to receive the DROP benefit to which the deceased member was entitled and two-thirds of the reduced monthly retirement benefit which the deceased member would have received had such member retired under the DROP on his date of death.

Contributions.

TMRS

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, 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 consulting actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The required contribution rate for the City was 14.32% in calendar year 2023 and 15.12% in calendar year 2024. The City's contributions to TMRS for the year ended September 30, 2024, were \$6,916,990.00, and were equal to the required contributions.

FRRF

Firefighters contribute to the fund at a rate of 13.5% of pay. The City made contributions of 13.96% and 14.32% in calendar years 2022 and 2023 respectively.

Long-Term Expected Rate of Return.

TMRS

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

TMRS

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global equity	35.00%	6.70%
Core fixed income	6.00%	4.70%
Non-core fixed income	20.00%	8.00%
Real return	12.00%	8.00%
Real estate	12.00%	7.60%
Absolute return	5.00%	6.40%
Private equity	<u>10.00%</u>	11.60%
Total	100.0%	

FRRF

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Equities		
Large cap domestic	15.90%	6.04%
Mid cap domestic	13.80%	6.08%
Small cap domestic	13.90%	6.06%
International developed	12.00%	6.48%
Emerging markets	4.00%	7.24%
Real estate	5.00%	4.06%
Fixed income	33.80%	2.13%
Cash	<u>1.60%</u>	0.00%
Total	100.0%	
Weighted average		4.76%

Discount Rate.

TMRS

The discount rate used to measure the Total Pension Liability for TMRS was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in the statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Actuarial Assumptions.

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

	TMRS	FRRF
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level percentage of payroll, closed	Level percentage of payroll, open
Remaining amortization period	22 years (longest amortization ladder)	
Asset valuation method	10 year smoothed market; 12% soft corridor	
Inflation	2.50%	2.75%
Salary increases	3.50% to 11.85% including inflation	2.75% plus promotion, step and longevity increases that vary by service
Investment rate of return	6.75%	7.25%, net of investment-related expenses, including inflation
Retirement age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2023 valuation pursuant to an experience study of the period 2022.	Experience-based table of rates that are specific to the FRRF.
Mortality	Post-retirement: 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). Pre-retirement: PUB(1) mortality tables, with 110% of the Public Safety table used for males and the 100% of the General Employee table used for females. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence).	PubS-2010 (public safety) total dataset tables for employees and for retirees (sex distinct), projected for mortality improvement generationally using the projection scale MP-2019
Other information	There were no benefit changes during the year.	There were no benefit changes during the year.

Changes in the Net Pension Liability.

	TMRS			FRRF			Total
	Increase (Decrease)			Increase (Decrease)			
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)	Net Pension Liability
Balance at 12/31/2022	\$ 243,258,510	\$ 201,167,623	\$ 42,090,887	\$ 74,756,101	\$ 48,657,512	\$ 26,098,589	\$ 68,189,476
Changes for the year:							
Service cost	5,581,508	-	5,581,508	1,544,222	-	1,544,222	7,125,730
Interest	16,137,230	-	16,137,230	5,379,013	-	5,379,013	21,516,243
Difference between expected and actual experience	(1,157,838)	-	(1,157,838)	(1,499,979)	-	(1,499,979)	(2,657,817)
Change in assumptions	(1,942,005)	-	(1,942,005)	-	1,535,519	(1,535,519)	(3,477,524)
Contributions - employer	-	6,299,637	(6,299,637)	-	1,554,821	(1,554,821)	(7,854,458)
Contributions - employee	-	2,272,601	(2,272,601)	-	-	-	(2,272,601)
Net investment income	-	23,246,381	(23,246,381)	-	7,198,471	(7,198,471)	(30,444,852)
Benefit payments, including refunds of employee contributions	(13,958,393)	(13,958,393)	-	(4,214,092)	(4,214,092)	-	-
Administrative expense	-	(148,120)	148,120	-	(108,480)	108,480	256,600
Other changes	-	(1,035)	1,035	73,942	-	73,942	74,977
Net changes	4,660,502	17,711,071	(13,050,569)	1,283,106	5,966,239	(4,683,133)	(17,733,702)
Balance at 12/31/2023	<u>\$ 247,919,012</u>	<u>\$ 218,878,694</u>	<u>\$ 29,040,318</u>	<u>\$ 76,039,207</u>	<u>\$ 54,623,751</u>	<u>\$ 21,415,456</u>	<u>\$ 50,455,774</u>

Sensitivity of the Net Pension Liability.

The following presents the net pension liability of the City, calculated using the current single rate assumption for each plan as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
TMRS	\$ 59,302,701	\$ 28,790,571	\$ 3,784,921
FRRF	\$ 30,102,433	\$ 21,415,456	\$ 14,110,604

Pension Plan Fiduciary Net Position.

Detailed information about the TMRS pension plan's fiduciary net position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

Detailed information about the FRRF pension plan fiduciary net position is available in a separately issued financial reports that can be obtained by contacting the Plan administrator at PO Box 1089, Port Arthur, TX 77641, www.portarthurfirerension.com or (409) 983-8734.

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

For the year ended September 30, 2024, the City recognized pension expense of \$5,439,371 for TMRS and \$2,404,936 for FRRF.

At September 30, 2024, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>TMRS</u>		<u>TMRS</u>	
	<u>Primary Government</u>		<u>Component Unit</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 2,582,493	\$ 864,453	\$ 22,402	\$ 7,499
Changes in actuarial assumptions	-	1,449,919	-	12,577
Difference between projected and actual investment earnings	5,548,740	-	48,133	-
Contributions subsequent to the measurement date	<u>4,929,753</u>	<u>-</u>	<u>42,764</u>	<u>-</u>
Total	<u>\$ 13,060,986</u>	<u>\$ 2,314,372</u>	<u>\$ 113,299</u>	<u>\$ 20,076</u>

	<u>FRRF</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 4,327,431	\$ -
Changes in actuarial assumptions	1,780,692	599,001
Difference between projected and actual investment earnings	393,416	2,148,652
Contributions subsequent to the measurement date	<u>1,247,982</u>	<u>-</u>
Total	<u>\$ 7,749,521</u>	<u>\$ 2,747,653</u>

	Totals	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 6,932,326	\$ 871,952
Changes in actuarial assumptions	1,780,692	2,061,497
Difference between projected and actual investment earnings	5,990,289	2,148,652
Contributions subsequent to the measurement date	6,220,499	-
Total	<u>\$ 20,923,806</u>	<u>\$ 5,082,101</u>

\$6,220,499 is 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 net pension liability 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:

For the Year Ended September 30,	TMRS Primary Government	TMRS Component Unit	FRRF
2025	\$ 2,159,901	\$ 18,736	\$ 1,419,096
2026	1,968,084	17,072	1,690,222
2027	3,643,700	31,608	1,825,984
2028	(1,954,824)	(16,957)	(1,017,158)
2029	-	-	37,356
Thereafter	-	-	(201,614)

B. Other Post-Employment Benefits

TMRS Supplemental Death Benefits Fund

Plan Description. The City voluntarily participates in a single-employer other postemployment benefit (OPEB) plan administered by TMRS. The Plan is a group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). The Plan is established and administered in accordance with the TMRS Act identically to the City's pension plan. SDBF includes coverage for both active and retired members, and assets are commingled for the payment of such benefits. Therefore, the Plan does not qualify as an OPEB Trust in accordance with paragraph 4 of GASB Statement No. 75.

Benefits Provided. The SDBF provides group-term life insurance to City employees who are active members in TMRS, including or not including retirees. The City Council opted into this program via an ordinance, and 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.

Payments from this fund are similar to group-term life insurance benefits, and are paid to the designated beneficiaries upon the receipt of an approved application for payment. 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 other employment benefit and is a fixed amount of \$7,500.

Membership in the plan at December 31, 2023, the valuation and measurement date, consisted of:

Inactive employees or beneficiaries currently receiving benefit	405
Inactive employees entitled to but not yet receiving benefits	26
Active employees	567
Total	<u>998</u>

Contributions. The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation, which was 0.45% for 2024 and 0.46% for 2023, of which 0.19% and 0.21%, respectively, represented the retiree-only portion for each year, as a percentage of annual covered payroll. 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 prefund retiree term life insurance during employees' entire careers. The City's contributions to the SDBF for the year ended September 30, 2024 were \$90,681 representing contributions for both active and retiree coverage, which equaled the required contributions each year.

Total OPEB Liability. The Total OPEB Liability in the December 31, 2023 actuarial valuation was determined using the following actuarial assumptions and inputs:

Measurement year ended December 31,	2023
Inflation rate	2.50%
Discount rate	3.77%
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 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 set forward 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.

Changes in assumptions reflect the annual change in the municipal bond rate. 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, 2023.

Discount Rate. The SDBF program is treated as an unfunded OPEB plan because the SDBF trust covers both actives and retirees and the assets are not segregated for these groups. As such, a single discount rate of 3.77% was used to measure the total OPEB liability. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The source of the municipal bond rate was fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of December 31, 2023.

Discount Rate Sensitivity Analysis. The following schedule shows the impact of the total OPEB liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.77%) in measuring the total OPEB liability.

	1% Decrease in Discount Rate (2.77%)	Discount Rate (3.77%)	1% Increase in Discount Rate (4.77%)
Total SDB OPEB Liability	\$ 2,772,484	\$ 2,364,422	\$ 2,040,273

Changes in the Total OPEB Liability. Total City's Total OPEB Liability (TOL), based on the above actuarial factors, as of December 31, 2023, the measurement and actuarial valuation date, was calculated as follows:

	Total OPEB Liability
Balance at 12/31/2022	\$ 2,194,404
Changes for the year:	
Service cost	59,088
Interest	88,137
Difference between expected and actual experience	(3,600)
Changes of assumptions or other inputs	121,842
Benefit payments, including refunds of employee contributions	<u>(95,449)</u>
Net changes	<u>170,018</u>
Balance at 12/31/2023	<u>\$ 2,364,422</u>

Changes in assumptions and other inputs reflect a change in the discount rate from 4.05% to 3.77%.

OPEB Expense and Deferred Inflows and Outflows of Resources Related to OPEB. For the year ended September 30, 2024, the City recognized OPEB expense of \$70,678. Also, as of September 30, 2024, the City reported deferred outflows and inflows of resources related to the TMRS OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 71,980	\$ 113,393
Changes in actuarial assumptions	255,950	620,248
Contributions subsequent to the measurement date	<u>64,402</u>	<u>-</u>
Total	<u>\$ 392,332</u>	<u>\$ 733,641</u>

\$64,402 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 year ending September 30, 2025. Other amounts reported as deferred outflows and inflows of resources related to the TMRS OPEB will be recognized in OPEB expense in future periods as follows:

For the Year Ended September 30,	
2025	\$ (92,873)
2026	(132,998)
2027	(144,842)
2028	(42,318)
2029	7,320

Retiree Health Other Post-Employment Benefit Plan

Program Description . In addition to pension benefits, the City makes available healthcare benefits to all employees who retire from the City and who are eligible to receive benefits from a City sponsored retirement program (Texas Municipal Retirement System or the Port Arthur Firemen's Relief and Retirement Fund) through a single-employer defined benefit healthcare plan. This Program provides lifetime health insurance for eligible retirees, their spouses and dependents through the City's group health insurance plan, which covers both active and retired participants. Benefit provisions are established by management.

Employees retiring on or before December 31, 2010 are allowed to remain in the health insurance plan at approximately 30% of the expected under age 65 cost or approximately 75% of the expected over age 65 and over costs. These costs (a.k.a. retiree contribution rates) are calculated separately for retirees not eligible for Medicare (under age 65) and retirees eligible for Medicare (age 65 and over). Employees retiring on or after January 1, 2011 contribute a tiered percentage of the retiree contribution rates based upon their years of City service at retirement. The percentage ranges from 50% for retirees with at least 30 years of City service to 100% for retirees with less than 20 years of City service. Employees hired on or after November 1, 2010 are required to contribute 100% of the retiree contribution rates upon retirement. The City's group health insurance plan does not issue a stand-alone financial report.

Funding Policy. The gross premium rates effective November 1, 2014 were \$956 per month for retirees under the age of 65 and \$491 per month for those 65 and older.

Current retirees age 65 and older contribute \$188 per month effective November 1, 2014 or approximately 75% of the expected cost. Current retirees under the age of 65 contribute \$238 per month effective November 1, 2014 or approximately 30% of their expected cost.

Those who retire on or after January 1, 2011 contribute a percentage ranging approximately from 50% to 100% of their expected costs. Effective November 1, 2014, the expected cost was \$260 per month for retirees age 65 and over and ranged from \$439 to \$875 per month for retirees under age 65. Retirees hired on or after November 1, 2010 contribute \$875 per month.

Costs for retiree spouses and dependents are also similarly subsidized, in part, by the City. For fiscal year 2014, the City financed this program on a pay-as-you-go basis. As of September 30, 2024 the City had 224 retirees participating in this plan. General funds have been used in prior years to liquidate the net other postemployment benefit obligation. Actuarial valuations on an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

At December 31, 2023, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	116
Active employees	<u>224</u>
Total	<u><u>340</u></u>

Net OPEB Liability. The net OPEB liability of \$8,799,569 was measured as of December 31, 2023, and the Total OPEB liability used to calculate net OPEB liability was determined by an actuarial valuation as of December 31, 2023.

Actuarial assumptions and methods. The net 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, unless otherwise specified:

Valuation date	December 31, 2023
Actuarial cost method	Individual entry age normal
Discount rate	6.50% as of December 31, 2023
Inflation	2.50%
Salary increases	TMRS: 3.60% to 11.85%, including inflation FRRF: 2.75% to 7.89%, including inflation
Demographic assumptions	TMRS: Based on the experience study covering the four-year period ending December 31, 2022 as conducted for the Texas Municipal Retirement System (TMRS) FRRF: Based on the December 31, 2023 pension actuarial valuation report.
Mortality	TMRS: For healthy retirees, the gender-distinct 2019 Municipal Retirees of Texas mortality tables are used. The rates are projected on a fully generational basis using the ultimate mortality improvement rates in the MP tables published through 2019 to account for future mortality improvements. FRRF: The PubS-2010 for employees and retirees, projected for mortality improvement generationally using the projection scale MP-2019, with separate
Healthcare trend rates	Pre-65: Initial rates of 7.10% declining to ultimate rates of 4.25% after 14 years. Post-65: Initial rates of 5.00% declining to ultimate rates of 4.25% after 8 years.
Participation rates	In addition to the rates below, 90% of members retiring after the age of 65 (regardless of service) are assumed to participate in the City's Medicare Advantage plan. For members retiring with coverage prior to age 65, 10% are assumed to discontinue coverage at age 65.

Years of Service	Participation Assumption	Spousal Coverage
<20	0%	0%
20 - 24	30%	0%
25 -29	45%	10%
30+	60%	35%

Single Discount Rate. Projected benefit payments are required to be discounted to their actuarial present values using a Single Discount Rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the plan's fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met). For the purpose of this valuation, the expected rate of return on OPEB plan investments is 6.50%; the municipal bond rate is 2.00% (based on the daily rate closest to but not later than the measurement date of the Fidelity "20-Year Municipal GO AA Index"); and the resulting Single Discount Rate is 6.50%.

Changes in the Net OPEB Liability.

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
Balance at 12/31/2022	\$ 12,072,055	\$ 4,050,487	\$ 8,021,568
Changes for the year:			
Service cost	184,084	-	184,084
Interest	794,925	-	794,925
Difference between expected and actual experience	(534,847)	-	(534,847)
Change in assumptions	761,651	-	761,651
Contributions - employer	-	(131,023)	131,023
Net investment income	-	583,565	(583,565)
Benefit payments	131,023	131,023	-
Administrative expense	-	(24,730)	24,730
Net changes	<u>1,336,836</u>	<u>558,835</u>	<u>778,001</u>
Balance at 12/31/2023	<u>\$ 13,408,891</u>	<u>\$ 4,609,322</u>	<u>\$ 8,799,569</u>

Sensitivity of the net OPEB liability to changes in discount rates. The following presents the plan's net OPEB liability, calculated using a discount rate of 6.50%, as well as what the plan's net 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 (5.50%)	Discount Rate (6.50%)	1% Increase in Discount Rate (7.50%)
Total OPEB liability - retiree health	\$ 10,116,934	\$ 8,799,569	\$ 7,660,727

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the plan's net OPEB liability, calculated using the assumed trend rates as well as what the plan's net 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
Total OPEB liability - retiree health	\$ 7,636,373	\$ 8,799,569	\$ 10,166,354

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. For the year ended September 30, 2024, the City recognized OPEB expense of \$450,931. At September 30, 2024, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 589,018	\$ 1,636,941
Changes in actuarial assumptions	722,398	-
Difference between projected and actual investment earnings	210,215	-
Contributions subsequent to the measurement date	<u>2,100,188</u>	<u>-</u>
Total	<u>\$ 3,621,819</u>	<u>\$ 1,636,941</u>

The \$2,100,188 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ending September 30, 2025.

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to OPEB, excluding contributions subsequent to the measurement date, will be recognized in OPEB expense as follows:

For the Year Ended September 30,	
2025	\$ (205,799)
2026	(63,263)
2027	184,415
2028	(30,663)

C. **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 maintains a limited risk management program. Claims in excess of the self-insured retention amounts are covered through third-party limited-coverage insurance policies. The City also maintains a limited risk management program for workers' compensation. Premiums are paid into the Employee Benefit Fund and the General Liability Fund by all other funds and are available to pay claims, claim reserves and administrative costs, and insurance premiums. These inter-fund premiums are recorded as revenue in the Employee Benefit Fund and the General Liability Fund as they are Internal Service Funds. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

	General Liability	Workers' Compensation	Total
Estimated liability at 9/30/2023	\$ 313,653	\$ 623,769	\$ 937,422
Fiscal year 2024 claims incurred	3,400,001	376,819	3,776,820
Fiscal year 2024 claims paid	<u>(3,484,425)</u>	<u>(590,985)</u>	<u>(4,075,410)</u>
Estimated liability at 9/30/2024	<u>\$ 229,229</u>	<u>\$ 409,603</u>	<u>\$ 638,832</u>

Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly claims are reevaluated periodically to consider the effects of inflation, recent claims trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. An excess coverage insurance policy covers claims in excess of \$300,000. Settlements have not exceeded coverages for each of the past three fiscal years.

D. **Contingent Liabilities**

The City is defendant in various lawsuits arising in the ordinary course of its municipal and enterprise activities. In the opinion of City management, the outcome of all pending litigation will not materially affect the financial position of the City. Amounts received or receivable from grantor 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 amount, if any, 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.

E. Tax Abatements

The City enters into economic development agreements to provide financial incentives for the purposes of stimulating the local economic development and business and commercial activity in the City. These agreements are authorized under Chapter 380 of the Texas Local Government Code. The City has entered into one (1) Chapter 380 agreement that calls for rebates of all increases in property taxes on the improvement of the assessed values for 8 years. Also, The City has entered into two (2) Chapter 380 agreements that call for reimbursement of 100% of the City sales tax over a ten year period. The City abated a total of \$8,061 under these agreements during fiscal year 2024.

The City enters into industrial agreements to collect payments in lieu of taxes with companies located outside the city limits in our Extra Territorial Jurisdiction or ETJ. These agreements are made under the authority of Section 42.044 of the Texas Local Government Code. The agreements range from 2 - 14 years whereby they make payments based on a range of the appraised value. In return, the companies provide economic benefits for the City's ETJ per the terms of the agreement. For fiscal year 2024, the City abated property taxes of \$4.99 million.

F. Landfill Closure and Post-closure Care Costs

State and federal laws and regulations require that the City place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and post-closure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and post-closure care costs is based on the amount of the landfill used during the year.

The estimated liability for landfill closure and post-closure care cost has a balance of \$5,538,870 as of September 30, 2024, which is based on 36.58% usage (filled) of the landfill. It is estimated that an additional \$9,634,600 will be recognized as closure and post-closure care expenses between the date of the balance sheet and the date the landfill is expected to be filled to capacity (2035). The estimated total cost of the landfill closure and post-closure care is \$15,191,326 based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of September 30, 2024. However, the actual cost of closure and post-closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. The City was required by state and federal laws and regulations to meet financial assurance regulations by April 9, 1997, with updates annually. The City met these requirements and is in full compliance with the financial assurance requirement.

G. Deficit Fund Balance/Net Position

The Transit System, FEMA, and Hazard Mitigation Grant special revenue funds had deficit fund balances of \$3,257,604, \$523,573, and \$15,459,625 respectively. The City will eliminate these deficits through federal grant receipts in the next fiscal year. If there are not sufficient grant receipts to reimburse expenses incurred in these funds, then the General Fund will be responsible for them.

The Solid Waste proprietary fund had a deficit net position of \$5,483,565. The City will focus on addressing the current deficit through income adjustments and best management practices which will help improve overall operations and performance outcomes. There are plans to increase revenues through changes to the existing rate structure for residential and commercial garbage/debris collection, as well as changes to the fee structure method at the Landfill from charging customers on a scale rate versus a volume rate. Increased revenues along with conservative spending will eliminate the deficit net position over time.

H. Accounting Changes and Error Corrections

In accordance with GASB 100, accounting changes and error corrections for the year are reported as follows:

Error Corrections. For Fiscal Year 2024, the City reported one error correction:

- 1) Leases previously not adopted and recognized per the GASB 87 guidance in prior periods were corrected as part of an adjustment to beginning net position in the Equipment Replacement Internal Service Fund. A beginning lease liability balance of \$1,414,923 for fiscal year 2024 was recognized as part of this error correction.

Changes within the Financial Reporting Entity. For Fiscal Year 2024, the City reported changes in its financial reporting entity:

- 2) The Transit System fund was previously reported as a major governmental fund and is now reported as a non-major fund. The change in classification is required based on quantitative factors.
- 3) The Debt Service fund and the Hazard Mitigation special revenue fund were previously reported as non-major governmental funds and are now reported as major funds. The change in classification is required based on quantitative factors.
- 4) The CDBG Disaster Recovery Program was previously a non-major governmental fund and combined with the Hazard Mitigation special revenue fund for qualitative reasons as expenditures for both grant programs are part of the same capital projects.

The effect of the restatements of net position and fund balance due to the changes described above is shown below:

	Reporting Units Affected by Restatements of Beginning Balances					
	Government-Wide	Governmental Funds				
	Governmental Activities	CDBG Disaster Recovery Fund	Debt Service Fund	Transit System Fund	Hazard Mitigation Fund	Nonmajor Governmental
Beginning Fund Balance or Net						
Position, as previously reported	\$ 127,476,309	\$ -	\$ -	\$ (2,845,715)	\$ -	\$ 15,059,080
Change from major to nonmajor fund	-	-	-	2,845,715	-	(2,845,715)
Change from nonmajor to major fund	-	(765,760)	18,173,066		(3,897,934)	(13,509,372)
Error correction (1)	(1,414,923)	-	-	-	-	-
Beginning Fund Balance or Net						
Position, as restated	<u>\$ 126,061,386</u>	<u>\$ (765,760)</u>	<u>\$ 18,173,066</u>	<u>\$ -</u>	<u>\$ (3,897,934)</u>	<u>\$ (1,296,007)</u>

I. New Accounting Standards

Significant new accounting standards issued by the Governmental Accounting Standards Board (GASB) not yet implemented by the City include the following:

GASB Statement No. 101, *Compensated Absences* – The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This Statement will become effective for reporting periods beginning after December 15, 2023, and the impact has not yet been determined.

GASB Statement No. 102, *Certain Risk Disclosures* – The objective of this Statement is to provide users of government financial statements with information about risks related to a government's vulnerabilities due to certain concentrations or constraints that is essential to their analyses for making decisions or assessing accountability. This Statement will become effective for reporting periods beginning after June 15, 2024, and the impact has not yet been determined.

GASB Statement No. 103, *Financial Reporting Model Improvements* – The objective of this Statement is to improve 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. This Statement will become effective for reporting periods beginning after June 15, 2025, and the impact has not yet been determined.

GASB Statement No. 104, *Disclosure of Certain Capital Assets* – The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be presented separately in the note disclosures, including right-to-use assets related to leases, Subscription-Based Information Technology Arrangements, and public-private or public-public partnerships. Other intangible assets are also required to be presented separately by major class. Additional disclosures have also been required for capital assets held for sale. This Statement will become effective for reporting periods beginning after June 15, 2025, and the impact has not yet been determined.

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**REQUIRED
SUPPLEMENTARY INFORMATION**

CITY OF PORT ARTHUR, TEXAS

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND**

FOR THE YEAR ENDED SEPTEMBER 30, 2024

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 16,326,500	\$ 16,326,500	\$ 16,119,284	\$ (207,216)
Industrial district payments	30,000,000	30,000,000	30,604,396	604,396
Franchise fees	10,680,000	10,680,000	11,461,218	781,218
Sales taxes	15,063,000	15,063,000	15,895,046	832,046
Licenses and permits	837,950	837,950	629,889	(208,061)
Charges for services	541,850	541,850	1,300,972	759,122
Fines and forfeitures	516,100	516,100	90	(516,010)
Intergovernmental	19,313	(59,695)	124,011	183,706
Investment earnings	2,237,600	2,237,600	1,344,304	(893,296)
Miscellaneous	317,000	389,000	1,787,824	1,398,824
Total Revenues	<u>76,539,313</u>	<u>76,532,305</u>	<u>79,267,034</u>	<u>2,734,729</u>
EXPENDITURES				
General government:				
Administration	2,531,854	2,726,854	2,352,396	374,458
City attorney	1,600,699	1,600,699	1,511,005	89,694
City secretary	1,677,437	1,677,437	1,694,550	(17,113)
Development services	7,412,246	7,412,247	6,498,635	913,612
Finance	2,997,907	3,117,907	2,787,561	330,346
Human resources	938,747	938,747	733,967	204,780
Information technology	2,637,812	2,637,812	2,083,668	554,144
Total General Government	<u>19,796,702</u>	<u>20,111,703</u>	<u>17,661,782</u>	<u>2,449,921</u>
Culture and recreation:				
Library	1,460,854	1,460,854	1,389,429	71,425
Parks and recreation	3,755,365	3,770,365	3,097,213	673,152
Civic center	1,486,677	1,424,722	1,130,218	294,504
Total Culture and Recreation	<u>6,702,896</u>	<u>6,655,941</u>	<u>5,616,860</u>	<u>1,039,081</u>
Public safety:				
Fire	15,847,587	16,165,627	16,572,102	(406,475)
Police	21,146,069	21,157,599	20,043,631	1,113,968
Total Public Safety	<u>36,993,656</u>	<u>37,323,226</u>	<u>36,615,733</u>	<u>707,493</u>
Health and welfare:				
Health and welfare	1,879,486	1,900,759	1,957,266	(56,507)
Total Health and Welfare	<u>1,879,486</u>	<u>1,900,759</u>	<u>1,957,266</u>	<u>(56,507)</u>
Public works:				
Public works	9,611,372	9,632,877	8,202,615	1,430,262
Total Public Works	<u>9,611,372</u>	<u>9,632,877</u>	<u>8,202,615</u>	<u>1,430,262</u>
Capital outlay	1,879,486	1,900,759	1,474,601	426,158
Total Expenditures	<u>76,863,598</u>	<u>77,525,265</u>	<u>71,528,857</u>	<u>5,996,408</u>
Excess of revenues over expenditures	(324,285)	(992,960)	7,738,177	8,731,137
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	106,000	106,000	791,050	685,050
Insurance proceeds	-	13,152	163,427	150,275
Transfers in	2,916,304	2,916,304	2,970,872	54,568
Transfers out	(10,497,750)	(10,439,709)	(16,268,478)	(5,828,769)
Total Other Financing Sources (Uses)	<u>(7,475,446)</u>	<u>(7,404,253)</u>	<u>(12,343,129)</u>	<u>(4,938,876)</u>
NET CHANGE IN FUND BALANCE	<u>(7,799,731)</u>	<u>(8,397,213)</u>	<u>(4,604,952)</u>	<u>3,792,261</u>
FUND BALANCE - BEGINNING	<u>30,267,641</u>	<u>30,267,641</u>	<u>30,267,641</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 22,467,910</u>	<u>\$ 21,870,428</u>	<u>\$ 25,662,689</u>	<u>\$ 3,792,261</u>

CITY OF PORT ARTHUR, TEXAS

NOTES TO BUDGETARY SCHEDULES

SEPTEMBER 30, 2024

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the following governmental fund types of the primary government: the General Fund, the Transit System Fund, the Debt Service Fund, the Library Special Fund, the Golf Course Fund, Municipal Court Technology Fund, the Police Special Fund, the Disaster Recovery Housing Fund, the Hotel Occupancy Tax Fund, Street Maintenance Fund, Gaming Fund, and Tax Increment Reinvestments Zone. The Capital Projects Fund is budgeted on a project basis, rather than an annual basis. The remaining governmental type funds are not budgeted. Budgets for the Enterprise Funds and the Internal Service Funds are adopted on a basis not consistent with GAAP because the budget presents capital outlays as expenditures and there is no provision for depreciation expense. All operating funds of Port Arthur Section 4A Economic Development Corporation have annual budgets adopted on a basis consistent with GAAP.

On or before August 31 of each year the City Manager presents the City Council with a proposed budget for the ensuing fiscal year. The Council holds public hearings and a final budget must be prepared and adopted by September 30. Budgets are appropriated by fund and department. The legal level of control is the department level. The City Council made no significant supplemental budgetary appropriations during the 2024 fiscal year. The City's department heads may make transfers of appropriations within department line items with the City Manager's approval. Transfers between departments require the approval of the City Council.

CITY OF PORT ARTHUR, TEXAS

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM**

FOR THE YEAR ENDED SEPTEMBER 30, 2024

Measurement Date December 31,	2023	2022	2021	2020
Total pension liability				
Service cost	\$ 5,581,508	\$ 5,241,604	\$ 4,949,812	\$ 5,075,984
Interest on total pension liability	16,137,230	15,375,920	14,683,422	14,111,349
Difference between expected and actual experience	(1,157,838)	3,566,144	2,491,207	476,840
Change of assumptions	(1,942,005)	-	-	-
Benefit payments/refunds of contributions	<u>(13,958,393)</u>	<u>(12,191,524)</u>	<u>(11,830,682)</u>	<u>(10,421,203)</u>
Net Change in Total Pension Liability	4,660,502	11,992,144	10,293,759	9,242,970
Total Pension Liability, Beginning	<u>243,258,510</u>	<u>231,266,366</u>	<u>220,972,607</u>	<u>211,729,637</u>
Total Pension Liability, Ending (a)	<u>\$ 247,919,012</u>	<u>\$ 243,258,510</u>	<u>\$ 231,266,366</u>	<u>\$ 220,972,607</u>
Plan fiduciary net position				
Contributions - employer	\$ 6,299,637	\$ 5,836,292	\$ 5,619,988	\$ 5,709,509
Contributions - employee	2,272,601	2,137,685	2,018,683	2,077,684
Net investment income	23,246,381	(16,151,353)	26,027,846	14,278,074
Benefit payments/refunds of contributions	(13,958,393)	(12,191,524)	(11,830,682)	(10,421,203)
Administrative expenses	(148,120)	(139,920)	(120,514)	(92,460)
Other	<u>(1,037)</u>	<u>166,968</u>	<u>826</u>	<u>(3,608)</u>
Net Change in Fiduciary Position	17,711,069	(20,341,852)	21,716,147	11,547,996
Fiduciary Net Position, Beginning	<u>201,167,625</u>	<u>221,509,477</u>	<u>199,793,330</u>	<u>188,245,334</u>
Fiduciary Net Position, Ending (b)	<u>218,878,694</u>	<u>201,167,625</u>	<u>221,509,477</u>	<u>199,793,330</u>
Net pension liability = (a)-(b)	<u>\$ 29,040,318</u>	<u>\$ 42,090,885</u>	<u>\$ 9,756,889</u>	<u>\$ 21,179,277</u>
Fiduciary Net Position as a Percentage of Total Pension Liability	88.29%	82.70%	95.78%	90.42%
Covered Payroll	\$ 45,452,023	\$ 42,753,707	\$ 40,373,669	\$ 41,538,329
Net Pension Liability as a Percentage of Covered Payroll	63.89%	98.45%	24.17%	50.99%

2019	2018	2017	2016	2015	2014
\$ 4,475,825 13,508,310	\$ 4,203,779 12,975,268	\$ 4,140,755 12,496,121	\$ 3,832,803 12,094,723	\$ 3,639,841 12,183,981	\$ 3,333,511 11,730,055
638,239 246,869 <u>(10,049,617)</u>	392,483 - <u>(9,571,648)</u>	465,297 - <u>(10,498,757)</u>	490,657 - <u>(10,752,313)</u>	(1,521,771) 185,596 <u>(8,167,518)</u>	(893,480) - <u>(7,509,671)</u>
8,819,626	7,999,882	6,603,416	5,665,870	6,320,129	6,660,415
<u>202,910,011</u>	<u>194,910,129</u>	<u>188,306,713</u>	<u>182,640,843</u>	<u>176,320,714</u>	<u>169,660,299</u>
<u>\$ 211,729,637</u>	<u>\$ 202,910,011</u>	<u>\$ 194,910,129</u>	<u>\$ 188,306,713</u>	<u>\$ 182,640,843</u>	<u>\$ 176,320,714</u>
\$ 5,151,463 1,866,483 25,619,140 (10,049,617) (144,841) <u>(4,352)</u>	\$ 4,923,938 1,750,116 (5,210,673) (9,571,648) (100,745) <u>(5,264)</u>	\$ 4,715,154 1,729,867 21,687,979 (10,498,757) (112,412) <u>(5,697)</u>	\$ 4,376,189 1,607,719 10,216,426 (10,752,313) (121,605) <u>-</u>	\$ 4,505,501 1,586,679 226,017 (8,167,518) (144,466) <u>-</u>	\$ 4,490,591 1,526,337 8,373,560 (7,509,671) (87,430) <u>(7,188)</u>
22,438,276	(8,214,276)	17,516,134	5,326,416	(1,993,787)	6,786,199
<u>165,807,058</u>	<u>174,021,334</u>	<u>156,505,200</u>	<u>151,178,784</u>	<u>153,172,571</u>	<u>146,386,372</u>
<u>188,245,334</u>	<u>165,807,058</u>	<u>174,021,334</u>	<u>156,505,200</u>	<u>151,178,784</u>	<u>153,172,571</u>
<u>\$ 23,484,303</u>	<u>\$ 37,102,953</u>	<u>\$ 20,888,795</u>	<u>\$ 31,801,513</u>	<u>\$ 31,462,059</u>	<u>\$ 23,148,143</u>
88.91%	81.71%	89.28%	83.11%	82.77%	86.87%
\$ 37,329,653	\$ 35,002,325	\$ 34,592,775	\$ 32,154,219	\$ 31,733,576	\$ 30,517,749
62.91%	106.00%	60.38%	98.90%	99.14%	75.85%

CITY OF PORT ARTHUR, TEXAS

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FIREMAN'S RETIREMENT AND RELIEF FUND**

FOR THE YEAR ENDED SEPTEMBER 30, 2024

Measurement Date December 31,	2023	2022	2021	2020
Total pension liability				
Service cost	\$ 1,544,222	\$ 1,502,892	\$ 1,358,902	\$ 1,319,322
Interest on total pension liability	5,379,013	5,190,339	5,025,963	4,927,332
Difference between expected and actual experience	(1,499,979)	-	418,613	-
Change of assumptions	-	-	1,797,510	-
Benefit payments/refunds of contributions	<u>(4,140,150)</u>	<u>(4,050,255)</u>	<u>(4,438,973)</u>	<u>(5,347,971)</u>
Net Change in Total Pension Liability	1,283,106	2,642,976	4,162,015	898,683
Total Pension Liability, Beginning	<u>74,756,101</u>	<u>72,113,125</u>	<u>67,951,110</u>	<u>67,052,427</u>
Total Pension Liability, Ending (a)	<u>\$ 76,039,207</u>	<u>\$ 74,756,101</u>	<u>\$ 72,113,125</u>	<u>\$ 67,951,110</u>
Plan fiduciary net position				
Contributions - employer	\$ 1,535,519	\$ 1,430,034	\$ 1,427,262	\$ 1,598,510
Contributions - employee	1,554,821	1,418,115	1,353,092	1,542,522
Net investment income	7,198,471	(9,922,915)	6,056,575	6,054,747
Benefit payments/refunds of contributions	(4,214,092)	(4,050,255)	(4,594,351)	(5,347,971)
Administrative expenses	<u>(108,480)</u>	<u>(59,160)</u>	<u>(103,775)</u>	<u>(56,747)</u>
Net Change in Fiduciary Position	5,966,239	(11,184,181)	4,138,803	3,791,061
Fiduciary Net Position, Beginning	<u>48,657,512</u>	<u>59,841,693</u>	<u>55,702,890</u>	<u>51,911,829</u>
Fiduciary Net Position, Ending (b)	<u>54,623,751</u>	<u>48,657,512</u>	<u>59,841,693</u>	<u>55,702,890</u>
Net pension liability = (a)-(b)	<u>\$ 21,415,456</u>	<u>\$ 26,098,589</u>	<u>\$ 12,271,432</u>	<u>\$ 12,248,220</u>
Fiduciary Net Position as a Percentage of Total Pension Liability	71.84%	65.09%	82.98%	81.97%
Covered Payroll	\$ 10,722,898	\$ 10,243,797	\$ 10,002,400	\$ 11,426,089
Net Pension Liability as a Percentage of Covered Payroll	199.72%	254.77%	122.68%	107.20%

2019	2018	2017	2016	2015	2014
\$ 1,604,333	\$ 1,550,080	\$ 1,328,109	\$ 1,277,028	\$ 1,227,912	\$ 1,135,274
5,040,983	4,880,344	4,726,407	4,570,090	4,538,278	4,361,915
(1,819,353)	-	608,357	-	(1,688,498)	-
(1,329,486)	-	3,106,451	-	319,715	-
<u>(4,105,648)</u>	<u>(4,579,981)</u>	<u>(3,420,300)</u>	<u>(4,468,162)</u>	<u>(3,629,578)</u>	<u>(3,141,024)</u>
(609,171)	1,850,443	6,349,024	1,378,956	767,829	2,356,165
<u>67,661,598</u>	<u>65,811,155</u>	<u>59,462,131</u>	<u>58,083,175</u>	<u>57,315,346</u>	<u>54,959,181</u>
<u>\$ 67,052,427</u>	<u>\$ 67,661,598</u>	<u>\$ 65,811,155</u>	<u>\$ 59,462,131</u>	<u>\$ 58,083,175</u>	<u>\$ 57,315,346</u>
\$ 1,337,739	\$ 1,312,042	\$ 1,305,185	\$ 1,144,440	\$ 1,191,115	\$ 1,196,979
1,285,373	1,216,925	1,220,809	1,129,526	1,071,786	1,040,193
8,708,854	(3,027,141)	6,708,286	2,891,821	(189,839)	3,101,018
(4,105,648)	(4,579,981)	(3,420,300)	(4,468,162)	(3,629,578)	(3,141,024)
<u>(81,634)</u>	<u>(45,303)</u>	<u>(59,039)</u>	<u>(31,893)</u>	<u>(59,741)</u>	<u>(45,014)</u>
7,144,684	(5,123,458)	5,754,941	665,732	(1,616,257)	2,152,152
<u>44,767,145</u>	<u>49,890,603</u>	<u>44,135,662</u>	<u>43,469,930</u>	<u>45,086,187</u>	<u>42,934,035</u>
<u>51,911,829</u>	<u>44,767,145</u>	<u>49,890,603</u>	<u>44,135,662</u>	<u>43,469,930</u>	<u>45,086,187</u>
<u>\$ 15,140,598</u>	<u>\$ 22,894,453</u>	<u>\$ 15,920,552</u>	<u>\$ 15,326,469</u>	<u>\$ 14,613,245</u>	<u>\$ 12,229,159</u>
77.42%	66.16%	75.81%	74.22%	74.84%	78.66%
\$ 9,521,281	\$ 9,194,408	\$ 9,410,130	\$ 8,257,143	\$ 8,243,010	\$ 8,006,548
159.02%	249.00%	169.19%	185.61%	177.28%	152.74%

CITY OF PORT ARTHUR, TEXAS

SCHEDULE OF EMPLOYER CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM

FOR THE YEAR ENDED SEPTEMBER 30, 2024

Fiscal Year Ended September 30,	2024	2023	2022	2021
Actuarially determined contribution	\$ 6,764,458	\$ 6,223,880	\$ 5,723,340	\$ 5,573,847
Contributions in relation to the actuarially determined contribution	<u>6,764,458</u>	<u>6,223,880</u>	<u>5,723,340</u>	<u>5,573,847</u>
Contribution deficiency (excess)	-	-	-	-
Covered payroll	46,409,378	45,089,411	41,709,619	40,183,472
Contributions as a percentage of covered payroll	14.58%	13.80%	13.72%	13.87%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date:

Actuarially determined contribution rates are calculated as of December 31st and become effective on January 1st, 13 months and a day later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	22 years (longest amortization ladder)
Asset valuation method	10 years smoothed market; 12% soft corridor
Inflation	2.50%
Salary increases	3.50% to 11.85% including inflation
Investment rate of return	6.75%
Retirement age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2023 valuation pursuant to an experience study of the period 2019-2022.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.
Other information	There were no benefit changes during the year.

2020	2019	2018	2017	2016	2015
\$ 5,411,236	\$ 5,213,199	\$ 4,823,114	\$ 4,643,439	\$ 4,599,064	\$ 4,481,542
<u>5,411,236</u>	<u>5,213,199</u>	<u>4,823,114</u>	<u>4,643,439</u>	<u>4,599,064</u>	<u>4,481,542</u>
-	-	-	-	-	-
39,343,928	36,971,985	34,558,338	34,078,521	33,419,760	31,264,119
13.75%	14.10%	13.96%	13.63%	13.76%	14.33%

CITY OF PORT ARTHUR, TEXAS

SCHEDULE OF EMPLOYER CONTRIBUTIONS
FIREMAN'S RETIREMENT AND RELIEF FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2024

Fiscal Year Ended September 30,	2024	2023	2022	2021
Actuarially determined contribution	\$ 1,679,632	\$ 1,500,959	\$ 1,416,371	\$ 1,441,868
Contributions in relation to the actuarially determined contribution	<u>1,679,632</u>	<u>1,500,959</u>	<u>1,416,371</u>	<u>1,441,868</u>
Contribution deficiency (excess)	-	-	-	-
Covered payroll	10,722,898	10,243,797	10,002,400	10,175,424
Contributions as a percentage of covered payroll	15.66%	14.65%	14.16%	14.17%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date:

Actuarially determined contribution rates are calculated as of December 31st and become effective on January 1st, 13 months and a day later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	19 years
Asset valuation method	5 year smoothed market; 20% fair value corridor
Inflation	2.75%
Salary increases	2.75% plus promotion, step and longevity increases that vary by service
Investment rate of return	7.25%, net of investment-related expenses, including inflation
Retirement age	Experience-based table of rates that are specific to the FRRF
Mortality	PubS-2010 (public safety) total dataset tables for employees and for retirees (sex distinct), projected for mortality improvement generationally using the projection scale MP-2019
Other information	There were no benefit changes during the year.

2020	2019	2018	2017	2016	2015
\$ 1,510,658	\$ 1,326,889	\$ 1,301,784	\$ 1,283,320	\$ 1,159,491	\$ 1,144,180
<u>1,510,658</u>	<u>1,326,889</u>	<u>1,301,784</u>	<u>1,283,320</u>	<u>1,159,491</u>	<u>1,144,180</u>
-	-	-	-	-	-
10,752,013	9,444,050	9,392,383	9,248,611	8,273,696	7,847,599
14.05%	14.05%	13.86%	13.88%	14.01%	14.58%

CITY OF PORT ARTHUR, TEXAS

**SCHEDULE OF CHANGES IN TOTAL OTHER POST-EMPLOYMENT BENEFIT LIABILITY
AND RELATED RATIOS
SUPPLEMENTAL DEATH BENEFITS FUND**

FOR THE YEAR ENDED SEPTEMBER 30, 2024

Measurement Date December 31,	2023	2022	2021	2020
Total OPEB liability				
Service cost	\$ 59,088	\$ 123,986	\$ 109,009	\$ 87,230
Interest on total OPEB liability	88,137	54,955	59,389	71,411
Differences in actuarial experience	(3,600)	114,321	(157,546)	(108,570)
Change of assumptions	121,842	(985,097)	77,777	366,622
Benefit payments	<u>(95,449)</u>	<u>(76,957)</u>	<u>(80,747)</u>	<u>(29,077)</u>
Net change in total OPEB liability	170,018	(768,792)	7,882	387,616
Total OPEB liability, beginning	<u>2,194,404</u>	<u>2,963,196</u>	<u>2,955,314</u>	<u>2,567,698</u>
Total OPEB liability, ending (a)	<u>\$ 2,364,422</u>	<u>\$ 2,194,404</u>	<u>\$ 2,963,196</u>	<u>\$ 2,955,314</u>
Covered-employee payroll	\$ 45,452,023	\$ 42,753,707	\$ 40,373,669	\$ 41,538,329
Total OPEB liability as a percentage of covered-employee payroll	5.20%	5.13%	7.34%	7.11%

Note: 10 years of data is required to be provided in this schedule. As of year-end, all years are not available. Additional years will be added in the future as the information becomes available.

NOTES TO SCHEDULE

Valuation Date:

Actuarially determined contribution rates are calculated as of December 31st and become effective on January 1st, 13 months and a day later.

Methods and Assumptions Used to Determine Contribution Rates:

Inflation	2.50%
Salary increases	3.50% to 11.85% including inflation
Discount rate	3.77%
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates - service retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality rates - disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year 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 Scale UMP to account for future mortality improvements subject to the floor.
Other information	The actuarial assumptions used in the December 31, 2023 valuation were based on the results of an actuarial experience study for the period December 31, 2019 to December 31, 2022.

2019	2018	2017
\$ 59,727	\$ 59,504	\$ 51,889
84,031	75,670	76,133
(176,781)	15,111	-
378,674	(144,444)	167,992
<u>(26,131)</u>	<u>(28,002)</u>	<u>(27,674)</u>
319,520	(22,161)	268,340
<u>2,248,178</u>	<u>2,270,339</u>	<u>2,001,999</u>
<u>\$ 2,567,698</u>	<u>\$ 2,248,178</u>	<u>\$ 2,270,339</u>
\$ 37,329,653	\$ 35,002,325	\$ 34,592,775
6.88%	6.42%	6.56%

CITY OF PORT ARTHUR, TEXAS

**SCHEDULE OF CHANGES IN CITY RETIREE HEALTH OTHER POST-EMPLOYMENT BENEFIT
LIABILITY AND RELATED RATIOS**

FOR THE YEAR ENDED SEPTEMBER 30, 2024

Measurement Date December 31,	2023	2022	2021	2020
Total OPEB liability				
Service cost	\$ 184,084	\$ 129,127	\$ 144,667	\$ 246,403
Interest on total OPEB liability	794,925	719,313	964,959	928,396
Change of benefit terms	-	-	-	-
Difference in actuarial experience	(534,847)	1,218,662	(3,572,789)	304,837
Change of assumptions	761,651	-	6,072	-
Benefit payments	<u>131,023</u>	<u>(1,993,671)</u>	<u>(634,940)</u>	<u>(1,097,600)</u>
Net change in total OPEB liability	1,336,836	73,431	(3,092,031)	382,036
Total OPEB liability, beginning	<u>12,072,055</u>	<u>11,998,624</u>	<u>15,090,655</u>	<u>14,708,619</u>
Total OPEB liability, ending (a)	<u>\$ 13,408,891</u>	<u>\$ 12,072,055</u>	<u>\$ 11,998,624</u>	<u>\$ 15,090,655</u>
Plan fiduciary net position				
Contributions - employer	\$ (131,023)	\$ 1,993,671	\$ 634,940	\$ 1,097,600
Net investment income	583,565	(707,946)	539,641	442,495
Administrative expenses	(24,730)	(25,127)	(26,859)	(22,174)
Benefit payments	131,023	(1,993,671)	(634,940)	(1,097,600)
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in total OPEB liability	<u>558,835</u>	<u>(733,073)</u>	<u>512,782</u>	<u>420,321</u>
Fiduciary Net Position, Beginning	<u>4,050,487</u>	<u>4,783,560</u>	<u>4,270,778</u>	<u>3,850,457</u>
Fiduciary Net Position, Ending (b)	<u>4,609,322</u>	<u>4,050,487</u>	<u>4,783,560</u>	<u>4,270,778</u>
Net OPEB liability = (a)-(b)	<u>\$ 8,799,569</u>	<u>\$ 8,021,568</u>	<u>\$ 7,215,064</u>	<u>\$ 10,819,877</u>
Covered payroll	\$ 18,492,312	\$ 17,391,509	\$ 17,171,791	\$ 20,800,061
Fiduciary net position as a percentage of total OPEB liability	34.38%	33.55%	39.87%	28.30%
Net OPEB liability as a percentage of covered payroll	47.59%	46.12%	42.02%	52.02%

Note: 10 years of data is required to be provided in this schedule. As of year-end, all years are not available. Additional years will be added in the future as the information becomes available.

2019	2018	2017
\$ 178,983	\$ 151,894	\$ 151,894
585,138	494,056	503,247
4,275,922	-	-
792,683	1,737,800	-
528,643	-	-
<u>(1,130,775)</u>	<u>(861,283)</u>	<u>(731,801)</u>
5,230,594	1,522,467	(76,660)
<u>9,478,025</u>	<u>7,955,558</u>	<u>8,032,218</u>
<u>\$ 14,708,619</u>	<u>\$ 9,478,025</u>	<u>\$ 7,955,558</u>
\$ 1,130,775	\$ 861,283	\$ 1,331,801
632,494	(164,971)	404,639
(20,837)	(19,989)	(18,594)
(1,130,775)	(861,283)	(731,801)
-	(600,000)	-
<u>611,657</u>	<u>(784,960)</u>	<u>986,045</u>
<u>3,238,800</u>	<u>4,023,760</u>	<u>3,037,715</u>
<u>3,850,457</u>	<u>3,238,800</u>	<u>4,023,760</u>
<u>\$ 10,858,162</u>	<u>\$ 6,239,225</u>	<u>\$ 3,931,798</u>
\$ 26,822,207	\$ 23,151,876	\$ 23,182,377
26.18%	34.17%	50.58%
40.48%	26.95%	16.96%

CITY OF PORT ARTHUR, TEXAS

SCHEDULE OF CHANGES IN CITY RETIREE HEALTH OTHER POST-EMPLOYMENT BENEFIT LIABILITY AND RELATED RATIOS

FOR THE YEAR ENDED SEPTEMBER 30, 2024

NOTES TO SCHEDULE

Valuation Date: December 31, 2021

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method Method Individual Entry Age Normal
Discount rate 6.50% as of December 31, 2022
Inflation 2.50%
Salary increases TMRS: 3.50% to 11.50%, including inflation
 FRRF: 2.75% to 7.89%, including inflation
Demographic assumptions TMRS: Based on the experience study covering the four-year period ending
 December 31, 2018 as conducted for the Texas Municipal Retirement System
 (TMRS)
 FRRF: Based on the December 31, 2021 pension actuarial valuation report.

Mortality TMRS: For healthy retirees, the gender-distinct 2019 Municipal Retirees of Texas
 mortality tables are used. The rates are projected on a fully generational basis
 using the ultimate mortality improvement rates in the MP tables published
 through 2019 to account for future mortality improvements.
 FRRF: The PubS-2010 for employees and retirees, projected for mortality
 improvement generationally using the projection scale MP-2019, with separate
 rates for males and females.

Participation rates In addition to the rates below, 90% of members retiring after the age of 65
 (regardless of service) are assumed to participate in the City's Medicare
 Advantage plan. For members retiring with coverage prior to age 65, 10% are
 assumed to discontinue coverage at age 65.

Years of Service	Years of Service	Participation Assumption	Participation Assumption	Spousal Coverage
< 20	< 20	0%	0%	0%
20 - 24	20 - 24	30%	30%	0%
25 - 29	25 - 29	45%	45%	10%
30 +	30 +	60%	60%	355

Health care trend rates Pre-65: Initial rates of 7.00% declining to ultimate rates of 4.15% after 13
 years.
 Post-65: Initial rates of 5.50% declining to ultimate rates of 4.15% after 12
 years.

SUPPLEMENTARY INFORMATION

Combining Statements and Individual Fund Schedules - Nonmajor Governmental Funds

Health Grants Fund – Accounts for grants received from the State of Texas to provide health care services.

Library Special Fund -Accounts for donations received by the City's public library. These revenues are set aside for the library's use.

Library Grant Fund - Accounts for various State and local grants received by the Public Library.

Golf Course Fund - Accounts for funds derived from the operation of the Babe Zaharias public golf course. These funds are designated for improvements to this golf course, and for operations at the Palms on Pleasure Island Course.

Municipal Court Technology Fund - Accounts for funds received from a portion of municipal court fines dedicated, by State law, to technology acquisition for the court.

CDBG Fund - Accounts for revenues received from the Federal Community Development Block Grant program.

CDBG – GLO Fund - Accounts for funds received to cover infrastructure projects for Hurricane Ike disaster recovery.

HOME Grant Fund - Accounts for grants received from the federal government, passed through the State of Texas, under the HOME program.

TCEQ SEP Fund - Accounts for funds received from industry for Supplemental Environmental Projects (SEP) through the Texas Commission of Environmental Quality (TCEQ).

Brown Field Grant Fund - Accounts for funds received for Brown Field inventories, planning, environmental assessments, and community outreach.

Job Training Fund - Accounts for funds received from the National Institute of Environmental Health, Katrina and Rita Brown Field Minority Worker Training Program.

Revolving Loan Fund - Accounts for the proceeds from repayments of loans made from Community Development Block Grant Funds and City Revolving Loan Fund contributions. These funds are restricted for additional loans to stimulate job development by the small business sector of the City's economy.

FEMA Fund - Accounts for disaster recovery grants received from the Federal Emergency Management Administration (FEMA) for City incurred costs relating to Hurricanes Ike and Harvey.

Literacy Support Fund - Accounts for donations received by the Port Arthur Literacy Support Program.

Police Special Fund - Accounts for assets seized by the City's police department as the result of drug enforcement arrests. These assets are forfeited to the City to be used to fund specific types of expenditures for the police department.

Law Enforcement Grants Fund - Accounts for federal funds received under the Local Law Enforcement Block Grant.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

Holland & Knight

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Holland & Knight LLP | www.hklaw.com

December 23, 2025

Ladies and Gentlemen:

WE HAVE ACTED as bond counsel for the CITY OF PORT ARTHUR, TEXAS (the “City”), in connection with an issue of Certificates described as follows:

City of Port Arthur, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2025B (the “Certificates”), in the principal amount of \$28,720,000, issuable in fully registered form only, in denominations, dated the date, bearing interest, maturing in the years and amounts, and transferable and exchangeable as set out in the Certificates and in the Ordinance (“Ordinance”) adopted on December 16, 2025 by the City Council of City of Port Arthur, Texas authorizing their issuance.

WE HAVE ACTED as 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 status of the interest on the Certificates under federal income tax law. In such capacity we have examined relevant provisions of the Constitution and laws of the State of Texas; a transcript of certain certified proceedings pertaining to the issuance of the Certificates; certain certifications and representations concerning the use of proceeds of the Certificates, the use of other funds of the City, and other material facts within the knowledge and control of the City, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Certificates, including executed Certificates. We have also examined such applicable provisions of the Internal Revenue Code of 1986, as amended (the “Code”), court decisions, Treasury Regulations, and published rulings of the Internal Revenue Service (the “Service”) as we have deemed relevant. We have not been requested to examine, and have not investigated or verified, any original proceedings, records, data, or other material, but have relied upon the transcript of certified proceedings. 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. Capitalized terms used herein, unless otherwise defined, have the meaning set forth in the Ordinance.

BASED ON SUCH EXAMINATION, it is our opinion that:

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 in effect; the Certificates are valid and legally binding Certificates of the City in accordance with the terms and conditions thereof, except to the extent that the enforcement of the rights and remedies of the owners thereof may be limited by laws relating to bankruptcy, insolvency, reorganization, or moratorium or other similar laws affecting the rights of creditors, or the exercise of judicial discretion in accordance with general principles of equity; the Certificates have been authorized in accordance with law; the Certificates and any additional Certificates hereafter issued on a parity therewith are payable from and are secured solely by a pledge of the proceeds of an annual ad valorem tax levied, within the limits prescribed by law, against all taxable property within the boundaries of the City.

IT IS FURTHER OUR OPINION that, under existing law:

The interest on the Certificates (which is defined to include any original issue discount properly allocable to the holder thereof) is excludable from gross income for federal income tax purposes. Moreover, such interest will not be treated as an item of tax preference in computing the federal alternative minimum tax imposed on individuals; however, interest on the Certificates is included in the “adjusted financial statement income” of certain corporations on which the federal alternative minimum tax is imposed under the Code.

The opinions expressed in the preceding paragraph are conditioned upon compliance by the City with its covenants relating to certain arbitrage rebate and other tax requirements contained in Section 103 and Part IV of Subchapter B of Chapter 1 of Subtitle A of the Code (including, without limitation, its covenants

not to use any proceeds of the Certificates in a manner that would cause the Certificates to be classified as private activity Certificates under Sections 141(a) and 141(d) of the Code and to comply with the requirements contained in Section 148 of the Code), to the extent necessary to preserve the exclusion of interest on the Certificates from gross income for federal income tax purposes. Failure of the City to comply with such requirements could cause the interest on the Certificates to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Certificates. Other provisions of the Code may give rise to adverse federal income tax consequences to particular bondholders. The scope of this opinion is limited to matters addressed above and no opinion is expressed hereby regarding other federal income tax consequences that may arise due to ownership of the Certificates. We express no opinion regarding any state tax consequences of acquiring, carrying, owning or disposing of the Certificates. Owners of the Certificates should consult their tax advisors regarding any state tax consequences of owning the Certificates.

In providing such opinions, we have relied on representations of the City, the City's Financial Advisor and the Underwriter with respect to matters solely within the knowledge of the City, the City's Financial Advisor, and the Underwriter, respectively, which we have not independently verified. In addition, we have assumed for purposes of this opinion continuing compliance with the covenants in the Ordinance pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Certificates for federal income tax purposes. We have further relied upon the Report regarding the mathematical accuracy of certain computations. In the event that such representations or the Report are determined to be inaccurate or incomplete or the City fails to comply with the foregoing covenants in the Ordinance, interest on the Certificates could become includable in gross income from the date of the original delivery of the Certificates, regardless of the date on which the event causing such inclusion occurs.

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

Yours very truly,

APPENDIX D

SPECIMAN MUNICIPAL BOND INSURANCE POLICY



MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

BONDS: \$ _____ in aggregate principal
amount of [NAME OF TRANSACTION]
[and maturing on]

Effective Date: _____

Risk Premium: \$ _____
Member Surplus Contribution: \$ _____
Total Insurance Payment: \$ _____

BUILD AMERICA MUTUAL ASSURANCE COMPANY ("BAM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

BAM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee, the Paying Agent, the Member and the Issuer specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee, the Paying Agent, the Member or the Issuer (a) copies of all notices required to be delivered to BAM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to BAM and shall not be deemed received until received by both and (b) all payments required to be made by BAM under this Policy may be made directly by BAM or by the Insurer's Fiscal Agent on behalf of BAM. The Insurer's Fiscal Agent is the agent of BAM only, and the Insurer's Fiscal Agent shall in no event be liable to the Trustee, Paying Agent or any Owner for any act of the Insurer's Fiscal Agent or any failure of BAM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, BAM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

200 Liberty Street, 27th floor
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN